

Midland Bank

Member HSBC Group

MIDLAND BANK PLC

*(A company incorporated with limited liability in England with registered number 14259)
as Issuer and Guarantor*

MIDLAND INTERNATIONAL FINANCIAL SERVICES B.V.

(A company incorporated with limited liability in The Netherlands having its statutory seat in Amsterdam and registered with the Commercial Register of the Amsterdam Chamber of Commerce with registered number 33144 849) as Issuer

MIDLAND AUSTRALIA FINANCIAL SERVICES LIMITED

*(A company incorporated with limited liability in the State of New South Wales A.C.N. 002940472)
as Issuer*

U.S.\$5,000,000,000 DEBT ISSUANCE PROGRAMME

On 23 June 1994 Midland Bank plc established a Debt Issuance Programme (the "Programme"). This Information Memorandum supersedes any previous information memorandum. Any Notes (as defined below) issued under the Programme on or after the date of this Information Memorandum are issued subject to the provisions described herein. This does not affect any Notes already in issue.

Application has been made to the London Stock Exchange Limited (the "London Stock Exchange") for notes (the "Notes") issued during the period of twelve months after the date of this document under the Programme described in this document to be admitted to the Official List. This document comprises listing particulars issued in compliance with the listing rules made under Section 142 of the Financial Services Act 1986 for the purpose of giving information with regard to the issue during the period of twelve months after the date of this document of Notes under the Programme. A copy of this document has been delivered for registration to the Registrar of Companies in England and Wales in accordance with Section 149 of the Financial Services Act 1986. Application will be made, in certain circumstances (as described herein), to list Notes issued under the Programme on the Paris Bourse.

For the sole purpose of listing Notes on the Paris Bourse, the Information Memorandum has been submitted to the clearance procedures of the *Commission des Opérations de Bourse* (the "COB") and has been registered by the COB under registration no. P.97-222 on 26 June 1997.

Notes issued by Midland International Financial Services B.V. and Midland Australia Financial Services Limited will be guaranteed by Midland Bank plc.

Programme Arranger and Dealer
French Franc Arranger and Dealer

HSBC Markets

Deutsche Mark Arranger and Dealer

HSBC Trinkaus

Trinkaus & Burkhardt KGaA

27 June 1997



Midland International Financial Services B.V. ("MIFS"), Midland Australia Financial Services Limited ("MAFS") and Midland Bank plc (the "Bank") accept responsibility for the information contained in this document. To the best of the knowledge and belief of MIFS, MAFS and the Bank, which have taken all reasonable care to ensure that such is the case, the information contained in this Information Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Information Memorandum is to be read and construed with any amendment or supplement hereto (this document, as amended or supplemented, the "Information Memorandum"), with any pricing supplement (each a "Pricing Supplement") and with all documents incorporated by reference provided always that any such amendment or supplement and any such documents incorporated by reference shall not form part of the listing particulars contained in this document. Any such document incorporated by reference has not been submitted to the clearance procedure of the COB.

The dealers named under "Subscription and Sale" below (the "Dealers", which expression shall include any additional dealers appointed under the Programme from time to time) and The Law Debenture Trust Corporation p.l.c. (the "Trustee", which expression shall include any successor to The Law Debenture Trust Corporation p.l.c. as trustee under the trust deed dated 23 June 1994 between the Bank, MIFS and the Trustee (such Trust Deed as modified and/or restated from time to time, the "Trust Deed")) have not separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility is accepted by the Dealers or the Trustee as to the accuracy or completeness of this Information Memorandum or any document incorporated by reference herein or any further information supplied in connection with any Notes. The Dealers and the Trustee accept no liability in relation to this Information Memorandum or any documents incorporated by reference herein or their distribution or with regard to any other information supplied by or on behalf of MIFS, MAFS or the Bank.

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Information Memorandum or any documents incorporated by reference herein and, if given or made, such information or representation must not be relied upon as having been authorised by MIFS, MAFS, the Bank, the Trustee or any of the Dealers.

Neither this Information Memorandum nor any documents incorporated by reference herein are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by MIFS, MAFS, the Bank, the Trustee or any of the Dealers that any recipient of this Information Memorandum or any other financial statement should purchase any of the Notes. Each investor contemplating purchasing Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of MIFS, MAFS and the Bank. No part of this Information Memorandum nor any documents incorporated by reference herein constitute an offer or invitation by or on behalf of MIFS, MAFS, the Bank, the Trustee or the Dealers or any of them to any person to subscribe for or to purchase any of the Notes.

Neither the delivery of this Information Memorandum or any documents incorporated by reference herein or any Pricing Supplement nor the offering, sale or delivery of any Notes shall, in any circumstances, create any implication that there has been no change in the affairs of MIFS, MAFS or the Bank since the date hereof, or that the information contained in the Information Memorandum is correct at any time subsequent to the date hereof or that any other written information delivered in connection herewith or therewith is correct as of any time subsequent to the date indicated in such document. The Dealers and the Trustee expressly do not undertake to review the financial condition or affairs of MIFS, MAFS, the Bank or its subsidiary undertakings during the life of the Programme. Investors should review, inter alia, the most recent financial statements of MIFS, MAFS and the Bank when evaluating the Notes.

The distribution of this Information Memorandum and any document incorporated by reference herein and the offer or sale of the Notes may be restricted by law in certain jurisdictions. Persons into whose possession this Information Memorandum or any document incorporated by reference herein or any Notes come must inform themselves about, and observe, any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this Information Memorandum or any document incorporated herein by reference, see "Subscription and Sale" below. The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, and include Notes in bearer form that are subject to United States tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States to, or for the account or benefit of, U.S. persons (as defined in "Subscription and Sale" on page 100).

In this Information Memorandum and in relation to any Notes, references to the "relevant Issuer" are to whichever of MIFS, MAFS or the Bank is the issuer of such Notes, references to the "relevant Dealers" are to whichever of the Dealers enters into an agreement for the issue of such Notes in accordance with the procedure set out in "Description of the Programme and Issue Procedure" below and references to the "relevant Pricing Supplement" are to the Pricing Supplement relating to such Notes.

All references in this Information Memorandum to "£", pounds, "Pounds Sterling" and "Sterling" are to the lawful currency of the United Kingdom, all references to "\$" "dollars", "US\$", "U. S.\$" "U.S.D" and "U.S. dollars" are to the lawful currency of the United States of America, all references to "NLG", "Dfl" and "Dutch guilders" are to the lawful currency of the Kingdom of The Netherlands, all references to "A\$", "AUD" and "Australian Dollars" are to the lawful currency of Australia, all references to "JPY" and "Japanese Yen" are to the lawful currency of Japan, all references to "Deutsche Marks", "DM" and "DEM" are to the lawful currency of the Federal Republic of Germany and all references to "French Francs" and "FRF" are to the lawful currency of the Republic of France.

In connection with any Notes, the Dealer which is specified as the Stabilisation Agent in the relevant Pricing Supplement may over-allot or effect transactions which stabilise or maintain the market price of the Notes at a level which might not otherwise prevail. Such stabilising, if commenced, may be discontinued at any time. All such transactions will be carried out in accordance with applicable laws and regulations.

TABLE OF CONTENTS

	<i>Page</i>
Documents Incorporated by Reference	3
Summary of the Terms and Conditions of the Notes.....	4
Description of the Programme and Issue Procedure.....	10
Summary of Provisions relating to Notes while in Global Form	12
Terms and Conditions of the Notes.....	14
Use of Proceeds	32
Midland Bank plc and its Subsidiary Undertakings and Recent Developments	33
Directors of Midland Bank plc	38
Consolidated Capitalisation of Midland Bank plc	39
Financial Statements of Midland Bank plc	40
Midland International Financial Services B.V.	79
Capitalisation of Midland International Financial Services B.V.	80
Financial Statements of Midland International Financial Services B.V.....	81
Midland Australia Financial Services Limited	88
Capitalisation of Midland Australia Financial Services Limited	89
Financial Statements of Midland Australia Financial Services Limited.....	90
United Kingdom Taxation	95
Dutch Taxation	98
Australian Taxation	99
Subscription and Sale	100
General Information	105

DOCUMENTS INCORPORATED BY REFERENCE

The following documents shall be deemed to be incorporated in, and to form part of, this Information Memorandum:—

- (1) the most recent Annual Report and Accounts and Statement of Interim Results of the Bank published from time to time by it, the most recent Directors' Report and Accounts of MIFS published from time to time by it and the most recent Annual Report and Accounts of MAFS; and
- (2) all amendments and supplements to this Information Memorandum prepared from time to time by the Bank, MIFS and MAFS,

save that (i) any statement contained herein or in any Annual Report and Accounts or Statement of Interim Results of the Bank, any Directors' Report and Accounts of MIFS or Annual Report and Accounts of MAFS shall be deemed to be modified or superseded for the purpose of this Information Memorandum to the extent that a statement contained in any subsequently published Annual Report and Accounts, Statement of Interim Results or Directors' Report and Accounts or Annual Report and Accounts expressly or impliedly modifies or supersedes such earlier statement provided that any modifying or superseding statement does not form part of the listing particulars as contained in this document and (ii) any documents incorporated by reference do not form part of the listing particulars as contained in this document, in each case given in compliance with the listing rules made under Section 142 of the Financial Services Act 1986.

Any document incorporated or deemed to be incorporated by reference herein has not been submitted to the clearance procedures of the COB.

The Bank will provide a copy of any or all of the documents incorporated herein by reference, without charge, to any person holding a copy of this Information Memorandum at the request of such person either in person or in writing at the Bank's registered office. So long as any Notes are listed on the Paris Bourse, copies of any or all of the documents incorporated herein by reference will be available from the address in Paris specified for such purpose in the Pricing Supplement relating to such Notes.

SUMMARY OF THE TERMS AND CONDITIONS OF THE NOTES

The following summary is qualified in its entirety by the remainder of this Information Memorandum:—

Issuers:	Midland Bank plc Midland International Financial Services B.V. ("MIFS") Midland Australia Financial Services Limited ("MAFS")
Guarantor of Notes issued by MIFS and MAFS:	Midland Bank plc
Arranger:	Other than in respect of Notes denominated in Deutsche Marks, HSBC Markets Limited. HSBC Markets Limited is Appointed Representative of Midland Bank plc. In respect of Notes denominated in Deutsche Marks ("Deutsche Mark Notes"), Trinkaus & Burkhardt KGaA.
Dealers:	Midland Bank plc, Trinkaus & Burkhardt KGaA and any other dealer appointed from time to time by the relevant Issuer either generally in respect of the Programme or in relation to a particular Tranche (as defined below) of Notes. At the date hereof, (i) only credit institutions domiciled in Germany (which expression includes German branches of foreign banks) may act as dealers with respect to issues of Deutsche Mark Notes (except in the case of an issue of Deutsche Mark Notes on a syndicated basis, which will be lead managed by a credit institution domiciled in Germany) and (ii) only a credit establishment or investment institution established in a member state of the European Union which is authorised to lead manage eurobond issues by the competent authority of its home state may (a) act as a dealer in respect of issues of Notes denominated or payable in French Francs, or linked, directly or indirectly, to French Francs ("French Franc Notes") and (b) act as lead manager of issues of French Franc Notes issued on a syndicated basis.
Trustee:	The Law Debenture Trust Corporation p.l.c.
Principal Paying Agent:	Midland Bank plc
Agent Bank:	Midland Bank plc
Registrar:	Midland Bank plc
London Listing Agent:	Midland Bank plc
Size:	The Notes will be issued on a continuous basis with an initial maximum principal amount of U.S.\$5,000,000,000 or its equivalent in other currencies (calculated as specified herein) outstanding at any one time (subject to increase in accordance with the provisions of the Dealer Agreement).
Currencies:	Notes may be denominated in any currency or currencies as may be set out in the relevant Pricing Supplement including, without limitation, Australian Dollars, Deutsche Marks, European Currency Units, French Francs, Hong Kong Dollars, Italian Lire, Japanese Yen, Pounds Sterling, Swiss Francs and United States dollars, subject to all applicable consents being obtained and to compliance with all applicable legal and/or regulatory requirements. Payments in respect of Notes may, subject in each case to compliance as aforesaid, be made in and/or linked to any currency or currencies other than the currency in which such Notes are denominated.

French Franc Notes will comply with the rules and regulations relating to the *marché de l'euro franc* from time to time of the *Comité des Emissions* ("Euro French Franc Regulations").

As at the date hereof, French Franc Notes, principal or interest in respect of which is linked to a benchmark or an index and which are to be listed on the Paris Bourse must be issued in compliance with the *Principes Généraux établis par la COB et le CBV relatifs à l'émission en France ou sur le marché international et à l'admission à la cote officielle de warrants et d'obligations complexes*—the general guidelines established by the COB and the *Conseil des Bourses de Valeurs* (the "CBV") (or any successor to the CBV) for the issue in France or on the international market of warrants and structured bonds and their admission to the official list of the Paris Bourse. ("*Principes Généraux*").

Maturities:	<p>No minimum or maximum maturity subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory requirements.</p> <p>As at the date hereof, Deutsche Mark Notes may not have an original maturity of less than two years and French Franc Notes may not have an original maturity of less than one year. These limits may be subject to change as a result of legal or regulatory changes.</p>
Issue Price:	Notes may be issued at par or at a premium or a discount to par and either on a fully or partly paid basis.
Interest:	Notes may bear interest on a fixed rate basis ("Fixed Rate Notes"), a floating rate basis ("Floating Rate Notes"), a variable basis ("Variable Coupon Amount Notes") or may be non-interest bearing ("Zero Coupon Notes").
Fixed Rate Notes:	<p>Interest on Fixed Rate Notes will be payable in arrear on such date or dates in each year as may be set out in the relevant Pricing Supplement.</p> <p>Interest on Fixed Rate Notes will be calculated on the basis of a 360 day year consisting of 12 months of 30 days and, in the case of an incomplete month, the actual number of days elapsed or on such other basis as may be set out in the relevant Pricing Supplement.</p>
Floating Rate Notes:	<p>Floating Rate Notes will bear interest calculated by reference to LIBOR or such other benchmark as may be set out in the relevant Pricing Supplement.</p> <p>The margin over or under LIBOR or such other benchmark will be set out in the relevant Pricing Supplement.</p> <p>Except as otherwise set out in the relevant Pricing Supplement, interest on Floating Rate Notes will be payable in arrear on the Interest Payment Dates specified in the relevant Pricing Supplement; Interest Periods will be of a duration of one, two, three, six or twelve months or such other duration as may be set out in the relevant Pricing Supplement.</p> <p>The basis on which interest shall be calculated on Floating Rate Notes will be as set out in the relevant Pricing Supplement.</p> <p>Floating Rate Notes may, if so set out in the relevant Pricing Supplement, bear interest at a minimum rate and/or a maximum rate.</p>

Variable Coupon Amount Notes:	The Pricing Supplement relating to an issue of Variable Coupon Amount Notes will set out the basis for calculating the amounts of interest payable in respect of such Notes, which may be by reference to a stock or commodity index, a currency exchange rate or any other index or formula or as otherwise set out in the relevant Pricing Supplement.
Zero Coupon Notes:	Zero Coupon Notes may be offered and sold at a discount to their principal amount and will not bear interest.
Dual Currency Notes:	Payments in respect of dual currency Notes ("Dual Currency Notes") will be made in such currencies, and based on such rates of exchange, as set out in the relevant Pricing Supplement.
Other Notes:	Terms applicable to any other type of Note which the relevant Issuer may issue under the Programme will be set out in the relevant Pricing Supplement. The term "Note" when used herein includes debt instruments, by whatever name called, issued by any Issuer under the Programme.
Issuance in Series:	<p>Notes will be issued in series (each, a "Series"). Each Series may comprise one or more tranches (each, a "Tranche") issued on different issue dates. The Notes of each Series will all be subject to identical terms except that (i) the issue date and the amount of the first payment of interest may be different in respect of different Tranches and (ii) a Series may comprise Notes in bearer form ("Bearer Notes") and Notes in registered form ("Registered Notes") and Notes in more than one denomination. The Notes of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Bearer Notes and Registered Notes and may comprise Notes of different denominations.</p> <p>In relation to French Franc Notes which are listed on the Paris Bourse, the minimum aggregate principal amount of any Tranche of such Notes which is not a private placement shall be FRF 300,000,000. As at the date hereof, issues of French Franc Notes placed on a firm basis with a small number of pre-determined non-resident investors will be construed as "private placements" under the Euro French Franc Regulations.</p>
Redemption:	Notes may be redeemable at par or at such other redemption amount (detailed in a formula or otherwise) as may be set out in the relevant Pricing Supplement or may have no stated maturity date.
Early Redemption:	<p>If so set out in the relevant Pricing Supplement relating to any Series of Notes, such Notes may be redeemed prior to their stated maturity at the option of the relevant Issuer (other than for taxation reasons) and/or the Holders of such Notes subject to all applicable legal and/or regulatory requirements (including, in the case of Notes that are part of the regulatory capital of the Bank, the consent of the Bank of England). All Notes will be redeemable prior to their stated maturity for taxation reasons. The amount payable on redemption may be fixed or variable, as set out in the relevant Pricing Supplement.</p> <p>As at the date hereof, French Franc Notes may not be redeemed (other than for taxation reasons or upon enforcement) prior to one year from their date of issue and Notes denominated in Deutsche Marks may not be redeemed (other than for taxation reasons or upon enforcement) prior to two years from their date of issue.</p>

Form of Notes:

Notes may be Bearer Notes or Registered Notes. Notes in bearer form will be issued in accordance with the provisions of United States Treasury Regulation 1.163-5(c)(2)(i)(D) ("Tefra D") unless the relevant Pricing Supplement provides that such Notes will be issued in accordance with the provisions of the United States Treasury Regulation 1.163-5(c)(2)(i)(C) ("Tefra C") or as such Pricing Supplement may otherwise provide. Except as otherwise provided in the relevant Pricing Supplement, in respect of each Tranche of Notes, the Issuer will deliver a temporary global Note (a "Temporary Global Note"), which will be deposited on or before the relevant issue date thereof with a depositary or a common depositary for Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System ("Euroclear") and/or Cedel Bank, société anonyme ("Cedel Bank") and/or (in the case of Notes listed on the Paris Bourse) Sicovam S.A. and the *Intermédiaires Financiers habilités* authorised to maintain accounts therein (together, "Sicovam") and/or any other relevant clearing system or depositary approved by the Trustee (such approval not to be unreasonably withheld or delayed). Each Temporary Global Note will be exchangeable for a permanent global Note (a "Permanent Global Note") or, if so set out in the relevant Pricing Supplement, for Notes in definitive bearer form and/or (in the case of a Series comprising both Bearer Notes and Registered Notes and if so specified in the relevant Pricing Supplement) registered form in accordance with its terms. Each Permanent Global Note will be exchangeable for Notes in definitive bearer form and/or (in the case of a Series comprising Registered Notes or both Bearer Notes and Registered Notes and if so specified in the relevant Pricing Supplement) registered form in accordance with its terms. Notes in definitive bearer form will, if interest-bearing, either have interest coupons ("Coupons") attached and, if appropriate, a talon (a "Talon") for further Coupons or have a grid for recording the payment of interest endorsed thereon and will, if the principal thereof is repayable by instalments, have a grid for recording the payment of principal endorsed thereon.

The following legend will appear on all Permanent Global Notes with maturities of greater than one year and all Definitive Notes:

"Any United States person who holds this obligation will be subject to limitations under the United States income tax laws including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code."

Denominations:

Notes will be issued in such denominations as are set out in the relevant Pricing Supplement subject to compliance with all applicable legal and/or regulatory requirements.

Payments in respect of Global Notes:

For so long as any Note is represented by a Global Note, payments of principal and interest in respect thereof will be made through Euroclear and/or Cedel Bank and/or such other clearing system or depositary as is set out in the relevant Pricing Supplement.

Payments in respect of Registered Notes:

Registered Notes will be issued without Coupons or Talons. Payments of principal and interest will be made to the registered Holder (or the first named thereof in the case of joint Holders) of a Registered Note.

Taxation:	<p>Unless otherwise set out in the relevant Pricing Supplement, payments of principal and interest in respect of Notes will be made without deduction for or on account of United Kingdom (in the case of payments by the Bank), Dutch (in the case of payments by MIFS) or Australian (in the case of payments by MAFS) withholding taxes, except as may be required by law, in which case additional amounts will be paid subject as mentioned in the "Terms and Conditions of the Notes".</p>
Status of Notes other than Subordinated Notes and Undated Subordinated Notes:	<p>The Notes of each Series (other than Subordinated Notes and Undated Subordinated Notes) will constitute direct, unsecured obligations of the relevant Issuer and will, at their date of issue, rank <i>pari passu</i> without any preference amongst themselves and with all other unsecured and unsubordinated obligations of the relevant Issuer other than obligations preferred by law.</p>
Status of Subordinated Notes:	<p>The Notes of each Series of Subordinated Notes will constitute direct and unsecured obligations of the Bank and will rank <i>pari passu</i> without any preference amongst themselves. The rights of holders of Subordinated Notes will, in the event of the winding up of the Bank, be subordinated in right of payment to the claims of depositors and all other creditors of the Bank other than claimants in respect of Subordinated Indebtedness (as defined in the Trust Deed) in the manner provided in the Trust Deed.</p> <p>In certain circumstances, payments of principal and interest in respect of Subordinated Notes may be deferred.</p>
Status of Undated Subordinated Notes:	<p>The Notes of each Series of Undated Subordinated Notes will constitute direct and unsecured obligations of the Bank and will rank <i>pari passu</i> without any preference amongst themselves. The rights of holders of Undated Subordinated Notes will, in the event of the winding up of the Bank, be subordinated in right of payment to the claims of Prior Creditors (as defined in the Trust Deed) of the Bank in the manner provided in the Trust Deed. In the event of the winding up of the Bank, Undated Subordinated Notes will be treated as if at the close of business on the business day preceding the commencement of the winding up of the Bank the principal amount payable in respect of such Notes together with Arrears of Interest and accrued interest had been converted into preference shares of £1 each in the capital of the Bank.</p> <p>The Bank's obligation to make any payment of principal or interest in respect of Undated Subordinated Notes is conditional upon the Bank being able to make such payment and remain solvent (as defined in the Trust Deed) immediately thereafter.</p> <p>In certain circumstances payments of interest in respect of Undated Subordinated Notes may be deferred.</p>
Guarantee and status of the Guarantee:	<p>Notes issued by either MIFS or MAFS will be guaranteed as to payment of principal and interest by the Bank (the "Guarantee"). Such Guarantee will be given on a subordinated basis (Notes so guaranteed being "Subordinated Guaranteed Notes") or on a senior basis (Notes so guaranteed being "Senior Guaranteed Notes"), as indicated in the relevant Pricing Supplement. The Guarantee is contained in the Trust Deed.</p> <p>In relation to Senior Guaranteed Notes, claims in respect of the Guarantee will, at the date of issue of the relevant Notes, rank <i>pari passu</i> with all other unsecured and unsubordinated obligations of the Guarantor other than obligations preferred by law.</p>

In relation to Subordinated Guaranteed Notes, claims in respect of the Guarantee will, in the event of the winding up of the Bank, be subordinated in right of payment to the claims of depositors and all other creditors of the Bank other than claimants in respect of Subordinated Indebtedness (as defined in the Trust Deed) in the manner provided in the Trust Deed.

In certain circumstances, payments of principal and interest in respect of Subordinated Guaranteed Notes may be deferred.

Listing:

Each Series of Notes may be admitted to the Official List of the London Stock Exchange or listed on such other stock exchange or exchanges as may be agreed between the relevant Issuer and the relevant Dealer and set out in the relevant Pricing Supplement ("Listed Notes") or may be unlisted ("Unlisted Notes").

The Euro French Franc Regulations recommend the listing of French Franc Notes on the Paris Bourse where (i) such French Franc Notes are, or are intended to be, listed on any other stock exchange, or (ii) such French Franc Notes are, or are intended to be, distributed as a public offer in the Republic of France (within the meaning of the Euro French Franc Regulations).

Terms and Conditions:

A Pricing Supplement will be prepared in respect of each Tranche of Notes. A copy of such Pricing Supplement will, in the case of Notes listed on the London Stock Exchange, be delivered to the London Stock Exchange on or before the date of issue of such Notes. A copy of such Pricing Supplement will, in the case of Notes listed on the Paris Bourse, be delivered to the COB on or before the date of issue of such Notes. The terms and conditions applicable to each Tranche will be those set out herein under "Terms and Conditions of the Notes" as supplemented, modified or replaced by the relevant Pricing Supplement.

Clearing Systems:

Euroclear, Cedel Bank and/or (in the case of Notes listed on the Paris Bourse) Sicovam and/or, in relation to any Notes, any other clearing system as may be set out in the relevant Pricing Supplement and approved by the Trustee.

Selling Restrictions:

There are restrictions on the sale of Notes and the distribution of offering material in certain jurisdictions including the United States, the United Kingdom, Australia, the Republic of France, Japan, The Netherlands and the Federal Republic of Germany — see "Subscription and Sale" below. Further restrictions, including restrictions on transfer, may be required in connection with any particular Tranche of Notes and will be set out in the documentation relating to such Tranche.

Governing Law:

The Trust Deed, the Notes, the Coupons (if any), the Talons (if any) and all related contractual documentation will be governed by, and construed in accordance with, English law.

DESCRIPTION OF THE PROGRAMME AND ISSUE PROCEDURE

Notes may be issued from time to time if so agreed between an Issuer and any of the Dealers. Where such an agreement is reached, the relevant Issuer and the relevant Dealer(s) shall, prior to the time of issue of the Notes to which such agreement relates, agree upon the following details (the "Details") in respect of such Notes which shall prevail in the event of conflict with the provisions of the Trust Deed:—

- (1) The aggregate principal amount of the Tranche of Notes to be issued.
- (2) If the relevant Dealer is acting on an agency basis, whether or not such issue is to be underwritten.
- (3) The currency in which such Notes are to be denominated.
- (4) The denomination of such Notes.
- (5) In the case of Notes issued by the Bank, whether or not such Notes are to be Subordinated Notes or Undated Subordinated Notes.
- (6) In the case of Notes issued by either MIFS or MAFS whether such Notes are to be Subordinated Guaranteed Notes or Senior Guaranteed Notes.
- (7) Whether such Notes are to be Listed Notes or Unlisted Notes and, if Listed Notes, on which stock exchange(s) they are to be listed.
- (8) The price (which, unless otherwise set out in the relevant Pricing Supplement, will be expressed as a percentage of the principal amount of such Notes) at which such Notes will be issued (the "Issue Price").
- (9) Whether the Issue Price of such Notes or the interest or redemption amounts payable in respect of the Notes are to be calculated by reference to an index, a currency exchange rate or any other benchmark or formula and, if so, the details of any such index, exchange rate, benchmark or formula and who is to effect the relevant calculation and any fall back provisions if such calculation is not made.
- (10) In the case of Dual Currency Notes, the exchange rate(s) or basis of calculating the exchange rate(s) to be used in determining the amount of principal and/or interest payable in the specified currency/currencies.
- (11) Any other terms with regard to Issue Price, interest and redemption amount applicable thereto.
- (12) The date on which such Notes will be issued (the "Issue Date").
- (13) In the case of Notes other than Floating Rate Notes, the date (if any) on which such Notes will be redeemed (the "Maturity Date") or whether such Notes are to be undated.
- (14) In the case of Floating Rate Notes, the month (the "Redemption Month") and year (if any) of the Interest Payment Date (as defined below) on which the Notes (unless previously redeemed or purchased and cancelled) will be redeemed or whether such Notes are to be undated.
- (15) The rate or rates, if any, at which such Notes will bear interest (the "Rate of Interest").
- (16) In the case of interest-bearing Notes, the date from which such Notes will bear interest (the "Interest Commencement Date").
- (17) In the case of Fixed Rate Notes, the date or dates in each year on which interest will be payable in respect of such Fixed Rate Notes.
- (18) In the case of Floating Rate Notes and, to the extent applicable, in the case of Variable Coupon Amount Notes:—
 - (a) the date or dates on which interest will be payable in respect of such Notes (each an "Interest Payment Date");
 - (b) the number of months between the Interest Commencement Date and the first Interest Payment Date and between successive Interest Payment Dates thereafter (each an "Interest Period");

- (c) the reference rate (and the source thereof) by reference to which the Rate of Interest in respect of any Interest Period is to be determined, whether LIBOR or any other benchmark and the day (the "Interest Determination Date") on which the reference rate is to be determined in relation to an Interest Period;
 - (d) the margin, if any, (expressed as a percentage per annum) over or under the reference rate referred to above by reference to which the Rate of Interest is to be determined which will be set out in the relevant Pricing Supplement;
 - (e) in the event that the reference rate in (c) cannot be determined, the alternative Rate of Interest applicable;
 - (f) the minimum interest rate, if any, at which such Notes will bear interest; and
 - (g) the maximum interest rate, if any, at which such Notes will bear interest.
- (19) In the case of Fixed Rate Notes and Floating Rate Notes, the basis on which interest shall be calculated, i.e. an actual/360, actual/365, actual/366, 360/360 or other year basis, but, in the case of Fixed Rate Notes only and unless otherwise agreed between the relevant Issuer and the relevant Dealer, such basis shall be a 360 day year consisting of 12 months of 30 days each;
- (20) In the case of Zero Coupon Notes the rate of discount, if any, applicable thereto.
- (21) In the case of Zero Coupon Notes redeemable pursuant to Condition 6(g), the basis of the calculation of the redemption amount.
- (21A) In the case of Subordinated Notes, Undated Subordinated Notes and Subordinated Guaranteed Notes, whether payments of principal and/or interest in respect thereof is to be subject to deferral in accordance with the provisions of Condition 2.
- (22) Whether or not such Notes are to be redeemable prior to their stated maturity at the option of the Issuer (other than for taxation reasons) and/or the holders of the Notes, and, if so, the date(s) upon which redemption may occur and the redemption amount(s) for the Notes and the other terms for such redemption. All Notes are to be redeemable for taxation reasons.
- (23) Whether such Notes are to be Bearer Notes or Registered Notes.
- (24) Who is to bear the costs involved in preparing and delivering Definitive Notes as well as any other expenses in connection with the issue of the relevant Notes.
- (25) Whether or not such Notes are to be fungible with any other Tranche of Notes previously issued or to be issued on the basis that no subsequently issued Tranche of Notes is to be fungible with them.
- (26) Whether or not such Notes are to be delivered to Euroclear, Cedel Bank, Sicovam or other clearing system or depository.
- (27) Any other terms of such Notes which are not otherwise provided for in the Trust Deed or the Conditions or which are inconsistent with any terms so provided for.

On or prior to the Issue Date of a Series of Notes or a Tranche thereof, the relevant Issuer shall prepare or cause to be prepared a Pricing Supplement recording the Details of such Series or Tranche thereof and containing such other information relating to such Issuer or such Series of Notes or Tranche thereof (comprising, if appropriate, supplementary listing particulars required by the Financial Services Act 1986) as may be agreed between the relevant Issuer, (where appropriate) the Guarantor and the relevant Dealer(s).

Notes may not be issued under the Programme in an amount which would result in the aggregate principal amount of Notes outstanding on the Issue Date of the Notes so issued (and immediately after the issue thereof) exceeding U.S.\$5,000,000,000 or its equivalent in other currencies (subject to increase in accordance with the provisions of the Dealer Agreement). For this purpose, the U.S. dollar equivalent of Notes denominated in a currency other than U.S. dollars shall be determined on the basis of the spot rate for the sale of U.S. dollars against the purchase of such other currency in the London foreign exchange market quoted by the Bank (or if the Bank is not quoting such rates, such other financial institution as may be agreed between the Bank and the Trustee) at or about 11.00 a.m. on the second London business day prior to the Issue Date. In this paragraph "London business day" means a day on which banks and foreign exchange markets are open for business in London.

SUMMARY OF PROVISIONS RELATING TO NOTES WHILE IN GLOBAL FORM

Each Series or Tranche of a Series may at issue be represented by one or more Temporary Global Notes, which will be deposited on the Issue Date with a common depository for Euroclear and/or Cedel Bank and/or (in the case of Notes listed on the Paris Bourse), Sicovam and/or such other clearing system or depository as may be approved by the Trustee (such approval not to be unreasonably withheld or delayed) set out in the relevant Pricing Supplement.

Interests in a Temporary Global Note will be exchangeable (i) not earlier than forty days after the date of issue of the Notes (the "**Exchange Date**") and upon certification as to non-U.S. beneficial ownership (as described below) for interests in a Permanent Global Note in bearer form and in substantially the form (subject to completion and amendment and as supplemented or varied in accordance with the relevant Pricing Supplement) scheduled to the Trust Deed or (ii) if so set out in the relevant Pricing Supplement, for Notes in definitive bearer form ("**Definitive Notes**") and in substantially the form (subject to completion and amendment and as supplemented or varied in accordance with the relevant Pricing Supplement) scheduled to the Trust Deed and/or (iii) (in the case of a Series comprising Registered Notes or both Bearer Notes and Registered Notes and if so set out in the relevant Pricing Supplement) for Registered Notes in substantially the form (subject to completion and amendment and as supplemented or varied in accordance with the relevant Pricing Supplement) scheduled to the Trust Deed.

The forms of Global Note will contain provisions applicable to the Notes represented thereby, some of which may modify the effect of the Conditions of the Notes. Certain of these are summarised in this section.

For so long as a Series of Notes (or any part thereof) is represented by a Global Note, each person who has for the time being a particular principal amount of the Notes of such Series so represented credited to his securities account in the records of Euroclear or Cedel Bank or Sicovam or such other clearing system or depository as set out in the relevant pricing Supplement shall be treated as the Noteholder in respect of that principal amount of the relevant Series for all purposes other than for the purposes of payment of principal and interest on such Notes, the right to which shall be vested, as against the Issuer and the Guarantor, solely in the bearer of the relevant Global Note in accordance with and subject to its terms and the terms of the Trust Deed (and the expressions "**Noteholder**" and "**Holder**" of the Notes and related expressions shall be construed accordingly). Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear, Cedel Bank, Sicovam or of such other clearing system or depository, as the case may be.

Principal and interest (if any) payable with respect to a Temporary Global Note or a Permanent Global Note will be paid to Euroclear and/or Cedel Bank and/or (in the case of Notes listed on the Paris Bourse) Sicovam and/or such other clearing system or depository as set out in the relevant Pricing Supplement with respect to that portion of such Global Note which is held for its account (subject, in the case of a Temporary Global Note, to the certifications as provided therein). Each of Euroclear and/or Cedel Bank and/or (in the case of Notes listed on the Paris Bourse) Sicovam and/or such other clearing system or depository will in such circumstances credit the principal or, as the case may be, interest in respect of such Global Note to the persons credited in its records with an interest in such Global Note. In the case of payments by MAFS, such credit will be made to an account outside Australia of the relevant accountholder.

For so long as a Series of Notes or any Tranche thereof is represented in its entirety by a Global Note and such Global Note is held on behalf of a clearing system or depository, notices to Noteholders of that Series or Tranche may be given by delivery of the relevant notice to that clearing system or depository for communication by it to entitled accountholders in substitution for publication as required by the Conditions of the Notes, subject to any applicable stock exchange requirements in the case of Listed Notes. Any such notice shall be deemed to have been given to such accountholders on the seventh day after the day on which the said notice was given to the relevant clearing system or depository.

An exchange of a Temporary Global Note for Definitive Notes or, as the case may be, a Permanent Global Note will be made only on or after the Exchange Date (as set out in the relevant Pricing Supplement) and provided certification as to the beneficial ownership thereof as required by the U.S. Treasury regulations (in substantially the form set out in the Temporary Global Note or in such other form as is customarily issued in such circumstances by the relevant clearing system or depository) has been received. An exchange for Registered Notes will be made at any time without any requirement for certification.

The bearer of any Temporary Global Note shall not (unless, upon due presentation of such Temporary Global Note for exchange (in whole or in part) for a Permanent Global Note or for delivery of Definitive Notes and/or Registered Notes, such exchange or delivery is improperly withheld or refused and such withholding or refusal is continuing at the relevant payment date) be entitled to receive any payment in respect of the Notes represented by such Temporary Global Note which falls due on or after the Exchange Date or be entitled to exercise any option on a date after the Exchange Date.

If any date on which a payment of interest is due on the Notes of a Tranche occurs whilst any of the Notes of that Tranche are represented by a Temporary Global Note, the related interest payment will be made on the Temporary Global Note only to the extent that certification as to the beneficial ownership thereof as required by the U.S. Treasury regulations (in substantially the form set out in the Temporary Global Note or in such other form as is customarily issued in such circumstances by the relevant clearing system or depositary) has been received by Euroclear or Cedel Bank or (in the case of Notes listed on the Paris Bourse) Sicovam or any other relevant clearing system or depositary. Payments of amounts due in respect of a Permanent Global Note will be made through any of Euroclear or Cedel Bank or (in the case of Notes listed on the Paris Bourse) Sicovam or any other relevant clearing system or depositary without any requirement for certification.

Interests in a Permanent Global Note will be exchanged, at the cost and expense of the relevant Issuer, by the relevant Issuer in whole (but not, subject to (b) below, in part only), (a) at the option of the holder of such Permanent Global Note, for Definitive Notes and/or (in the case of a Series comprising Registered Notes or both Bearer Notes and Registered Notes and if so set out in the relevant Pricing Supplement) Registered Notes, (i) if the Notes of the relevant Series become immediately repayable in accordance with Condition 9, or (ii) if any of Euroclear or Cedel Bank or (in the case of Notes listed on the Paris Bourse) Sicovam or any other relevant clearing system or depositary is closed for business for a continuous period of fourteen days (other than by reason of public holidays) or announces an intention to cease business permanently or in fact does so, or (b) at the option of the relevant Issuer if such Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction which would not be suffered were the Notes in definitive form or, as the case may be, in registered form (and, in the case of partly paid Notes, the Issuer may elect to effect such exchange in part only).

TERMS AND CONDITIONS OF THE NOTES

The following (disregarding the italicised note bene at the end of Conditions 2(b), 2(d) and 9(b)) is the text of the terms and conditions applicable to the Notes, which, subject to completion and amendment and as supplemented or varied in accordance with the provisions of the relevant Pricing Supplement(s), will be incorporated by reference into each Global Note and which will be endorsed on the Notes in definitive form (if any) issued in exchange for Global Notes representing each Tranche, details of the relevant Tranche being as set out in the relevant Pricing Supplement. The Pricing Supplement(s) in relation to any Tranche may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with such terms and conditions, replace or modify the following terms and conditions for the purpose of such Tranche.

The Note is one of a Series of Notes (the **"Notes"**) issued pursuant to the debt issuance programme (the **"Programme"**) established by Midland Bank plc (the **"Bank"**), Midland International Financial Services B.V. (**"MIFS"**) and Midland Australia Financial Services Limited (**"MAFS"**) and is constituted by and issued subject to and with the benefit of a Trust Deed dated 23rd June, 1994 (such Trust Deed as modified and/or restated from time to time, the **"Trust Deed"**) made between the Bank, MIFS and The Law Debenture Trust Corporation p.l.c. (the **"Trustee"** which expression shall wherever the context so admits include its successors) and has the benefit of an Agency Agreement dated 23rd June, 1994 (such Agreement as modified and/or restated from time to time, the **"Agency Agreement"**) made between the Bank, MIFS, the Principal Paying Agent (the **"Principal Paying Agent"** which expression shall wherever the context so admits include its successors as such, and, together with any successor or additional paying agent appointed in respect of any Notes, the **"Paying Agents"**), the Registrar (the **"Registrar"** which expression shall wherever the context so admits include any successor or additional person appointed as such in respect of any Notes), the Agent Bank (the **"Agent Bank"** which expression shall wherever the context so admits include any successor or additional person appointed as such in respect of any Notes) each named therein and the Trustee. The initial Principal Paying Agent, the initial Registrar and the initial Agent Bank are named below. The Trustee shall exercise the duties, power, trusts, authorities and discretions vested in it by the Trust Deed separately in relation to each Series of Notes in accordance with the provisions of the Trust Deed. Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the principal office for the time being of the Trustee and at the specified office of each of the Principal Paying Agent and the other Paying Agents (if any) appointed from time to time pursuant to the terms of the Agency Agreement. The Holders (as defined below) for the time being of Notes (the **"Noteholders"**) and of any coupons (**"Coupons"**) or talons (**"Talons"**) (the **"Couponholders"**) are entitled to the benefit of, are bound by, and will be deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them.

References in these terms and conditions (the **"Conditions"**) to **"Notes"** shall, where the context so requires include the temporary global Notes, the permanent global Notes, in the case of Notes issued by the Bank, subordinated Notes (**"Subordinated Notes"**), undated subordinated Notes (**"Undated Subordinated Notes"**) and Notes which are not subordinated, in the case of Notes issued by either MIFS or MAFS, subordinated guaranteed Notes or senior guaranteed Notes and such other Notes as may from time to time be issued under the Programme, as the case may be, and the term **"Notes"** includes debt instruments, by whatever name called, issued under the Programme. References to **"Issuers"** means the Bank, MIFS and MAFS in their respective capacities as issuer of Notes under the Programme and **"Issuer"** means one of them specified as the issuer of the relevant Series (as defined below) of Notes in the applicable Pricing Supplement (as defined below). All notes will be issued in series (each, a **"Series"**) and each Series may comprise one or more tranches (each, a **"Tranche"**) of Notes. Each Tranche will be the subject of a pricing supplement (each, a **"Pricing Supplement"**), a copy of which will be attached to or incorporated by reference in each Note of such Tranche. Subject as set out in the relevant Pricing Supplement, all Notes issued on the same date, denominated in the same currency, having the same maturity date, bearing interest, if any, on the same basis and issued on identical terms will constitute one Tranche of Notes.

1. Form, Denomination and Title

(a) Form

Notes are issued in bearer form (**"Bearer Notes"**) and/or in registered form (**"Registered Notes"**) as set out in the relevant Pricing Supplement. Bearer Notes issued in definitive form are referred to as **"Definitive Notes"**. Definitive Notes will be serially numbered.

Interest-bearing Definitive Notes will, if so specified in the relevant Pricing Supplement, have attached thereto at the time of their initial delivery Coupons, presentation of which will be a prerequisite to the payment of interest in certain circumstances specified below. Interest-bearing Definitive Notes will also, if so specified in the relevant Pricing Supplement, have attached thereto at the time of their initial delivery, a Talon for further coupons and the expression "**Coupons**" shall, where the context so permits, include Talons.

Notes the principal amount of which is repayable by instalments ("**Instalment Notes**") which are Definitive Notes will have endorsed thereon a grid for recording the repayment of principal or will, if so specified in the relevant Pricing Supplement, have attached thereto at the time of their initial delivery, payment receipts ("**Receipts**") in respect of the instalments of principal.

Notes may be issued on a partly paid basis ("**Partly Paid Notes**") if so specified in the relevant Pricing Supplement and any further or alternative terms applicable thereto shall be as set out in the relevant Pricing Supplement.

(b) Denomination

Bearer Notes will be in the denomination(s) (each of which denomination must be integrally divisible by each smaller denomination) set out in the relevant Pricing Supplement. Bearer Notes of one denomination will not be exchangeable after their initial delivery for Notes of any other denomination. Registered Notes will be in the denomination(s) and multiples set out in the relevant Pricing Supplement.

(c) Title

Title to Registered Notes passes by registration in the register which is kept by the Registrar. References herein to the "**Holders**" of Bearer Notes or of Coupons are to the bearers of such Bearer Notes or such Coupons and references herein to the "**Holders**" of Registered Notes are to the persons in whose names such Registered Notes are so registered in the register.

To the extent permitted by law the Bank, MIFS, MAFS, the Principal Paying Agent, any other Paying Agents, the Agent Bank and the Registrar may deem and treat the Holder of any Bearer Note or of any Coupon and the person in whose name any Registered Note is registered (and, if more than one, the first named thereof) as the absolute owner thereof (whether or not such Note shall be overdue) and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof for the purpose of receiving payment thereof on account thereof and for other purposes.

2. Status and Guarantee

(a) Claims in respect of Notes and the Guarantee

The Notes of each Series (other than Subordinated Notes and Undated Subordinated Notes) constitute direct, unsecured obligations of the Issuer, ranking *pari passu* without any preference among themselves and, at their date of issue, ranking *pari passu* with all other unsecured and unsubordinated obligations of such Issuer other than any such obligations preferred by law.

The Notes of each Series of Subordinated Notes constitute direct, unsecured obligations of the Bank ranking *pari passu* without any preference among themselves. The rights of Holders of Subordinated Notes will, in the event of the winding up of the Bank, be subordinated in right of payment to the claims of depositors and all other creditors of the Bank other than claimants in respect of Subordinated Indebtedness (as defined in the Trust Deed) in the manner provided in the Trust Deed.

The Notes of each Series of Undated Subordinated Notes constitute direct, unsecured obligations of the Bank ranking *pari passu* without any preference among themselves. The rights of Holders of Undated Subordinated Notes will, in the event of the winding up of the Bank, be subordinated in right of payment to the claims of Prior Creditors (as defined in the Trust Deed) of the Bank. In the event of the winding up of the Bank in England, such Notes shall be treated as if at the close of business on the business day in London preceding the commencement of the winding up of the Bank the principal amount payable in respect of the Notes together with Arrears of Interest and accrued interest had been converted into Preference Shares, where appropriate, at the rate of exchange ruling on such preceding business day according to the terms set out in Condition 9.

"**Preference Shares**" means preference shares of £1 each in the capital of the Bank having a preferential right to a return of assets and to participate in the profits of the Bank in the winding up

over the rights of the holders of all issued shares for the time being in the capital of the Bank and having such other rights and privileges and being subject to the restrictions set out in the Trust Deed.

Notes issued by either MIFS or MAFS are guaranteed as to payment of principal and interest by the Bank (in its capacity as guarantor, the "**Guarantor**") upon the terms contained in the Trust Deed (the "**Guarantee**"). Such Guarantee is given on a subordinated basis (Notes so guaranteed being "**Subordinated Guaranteed Notes**") or on a senior basis (Notes so guaranteed being "**Senior Guaranteed Notes**") as specified in the relevant Pricing Supplement.

In relation to each Series of Senior Guaranteed Notes, claims in respect of the Guarantee rank, at the date of issue of such Notes, *pari passu* with all other unsecured and unsubordinated obligations of the Bank other than any such obligations preferred by law.

The rights of Holders of each Series of Subordinated Guaranteed Notes under the terms of the Guarantee will, in the event of the winding up of the Bank, be subordinated in right of payment to the claims of depositors and all other creditors of the Bank other than claimants in respect of Subordinated Indebtedness (as defined in the Trust Deed) in the manner provided in the Trust Deed.

Claims in respect of any Notes or Coupons may not be set off, or be the subject of a counterclaim, by the Holder against or in respect of any obligations of his to an Issuer, the Guarantor, the Trustee or any other person.

(b) Undated Subordinated Notes: Condition of Payment

The Bank's obligation to make any payment of interest and, where applicable, any repayment of principal in respect of any Undated Subordinated Notes is conditional upon the Bank being able to make such payment and remain Solvent (as defined in the Trust Deed) immediately thereafter.

NB: If the Bank would not otherwise be Solvent (including liabilities to creditors other than senior creditors) principal and interest on the Undated Subordinated Notes may be used to absorb further losses.

(c) Undated Subordinated Notes: Deferral of Interest

Where during the twelve months preceding a date on which interest is due to be paid in respect of any Series of Undated Subordinated Notes no dividend has been declared or paid on any class of share capital of the Bank, such due date shall be referred to as an "**Optional Interest Payment Date**".

The Bank may if it so elects, but shall not be obliged to, pay on any Optional Interest Payment Date the interest that is due to be paid on such date in respect of the relevant Undated Subordinated Notes and any failure to pay shall not constitute a default by the Bank for any purpose. Any interest not paid on an Optional Interest Payment Date shall (except to the extent such interest shall subsequently have been paid) constitute "**Arrears of Interest**".

In relation to any Series of Undated Subordinated Notes, Arrears of Interest may, prior to the commencement of the winding up of the Bank, be paid in whole or in part upon the expiration of not less than seven days notice to such effect given to the Holders of the Notes of such Series in accordance with Condition 13, but payment in respect of interest periods during which Arrears of Interest have accrued shall be made taking the earliest interest period first. Arrears of Interest shall otherwise only become payable, subject to Condition 2(b), on (i) the due date for repayment of the Notes to which such Arrears of Interest relate or (ii) the date on which any declaration or payment of any dividend on any class of share capital of the Bank is made. If notice is given by the Bank of its intention to pay any Arrears of Interest, the Bank shall be obliged, subject to Condition 2(b), to do so upon the expiration of such notice. Arrears of Interest shall not themselves bear interest.

The Bank shall give notice in accordance with Condition 13:

- (i) not more than 14 days nor less than 7 days prior to any Optional Interest Payment Date on which it elects not to make any payment of interest, of such election; and
- (ii) of any date on which Arrears of Interest shall have become payable.

(d) Subordinated Notes and Subordinated Guaranteed Notes: Deferral of Payments

In the case of Subordinated Notes and Subordinated Guaranteed Notes in relation to which this Condition 2(d) is specified in the relevant Pricing Supplement as applying, the Bank shall be entitled, by notice in writing to the Trustee (a "**Deferral Notice**"), to defer the due date for payment

of any repayment of principal or payment of interest in respect of such Notes, and, accordingly, on the giving of such Notice the due date for payment of the relevant repayment or payment (the **"Deferred Payment"**) shall be so deferred and the Issuer shall not be obliged to make payment thereof on the date the same would otherwise have become due and payable, and such deferral of payment shall not constitute a default by the Issuer or, where applicable, the Guarantor for any purpose. The Bank may not give a Deferral Notice except in circumstances where the Bank of England has required or requested the Bank to defer payment of the relevant Deferred Payment. Interest will accrue on principal deferred as aforesaid in accordance with the provisions of these Conditions and the Trust Deed, save that such interest shall only become due and payable at such time as the principal in respect of which it has accrued becomes due and payable under the following sentence. Promptly upon being satisfied that the Bank of England will not object to the payment of the whole or any part of any Deferred Payment, the Bank shall give to the Trustee written notice thereof (the **"Payment Notice"**) and the relevant Deferred Payment (or the appropriate part of it) and any accrued interest as aforesaid shall become due and payable on the seventh day after the date of such notice to the Trustee. The Bank shall promptly give notice to the Holders of the relevant Series of Notes in accordance with Condition 13 of any Deferral Notice or Payment Notice.

NB: In the case of Notes which constitute Tier 3 capital, the Bank of England requires to be notified by a bank if its allowable capital falls below its target capital requirement and the Bank of England may require deferral of payment of principal and interest in respect of such Notes in such circumstances.

3. Interest on Fixed Rate Notes

Notes bearing interest at a fixed rate (each a **"Fixed Rate Note"**) will bear interest on the principal amount of each Note as at its date of issue (less, in the case of any Instalment Note, any principal amount on which interest shall have ceased to accrue in accordance with the following paragraph) at the fixed rate or rates per annum specified in the relevant Pricing Supplement as the rates of interest (each a **"Rate of Interest"**) from the date specified in the relevant Pricing Supplement as the interest commencement date (the **"Interest Commencement Date"**). Interest will be payable in arrear on the date or dates in each year specified in the relevant Pricing Supplement (each a **"Fixed Interest Payment Date"**) and on the date specified in the relevant Pricing Supplement as the date on which such Notes are to be redeemed (the **"Maturity Date"**). The first payment of interest will be made on the first Fixed Interest Payment Date following the Interest Commencement Date.

Interest will cease to accrue on each Fixed Rate Note on the due date for redemption thereof (or, in the case of an Instalment Note, in respect of each instalment of principal, on the due date for payment of the relevant Instalment Amount, as defined in Condition 6) unless, upon due presentation thereof or, in the case of a Registered Note, upon such due date, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue (as well after as before any judgment) up to and including the date on which, upon further presentation thereof, payment in full of the principal amount due in respect of such Fixed Rate Note is made or (if earlier) the date upon which notice is duly given to the Holder of such Fixed Rate Note that sufficient funds for payment of the principal amount due in respect of it, together with accrued interest, have been received by the Principal Paying Agent or the Trustee.

Unless otherwise set out in the relevant Pricing Supplement, interest in respect of Fixed Rate Notes will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

Zero Coupon Notes

If any amount in respect of any Note which is non-interest bearing (a **"Zero Coupon Note"**) is not paid when due, interest shall accrue on the overdue amount at a rate determined in accordance with the provisions of the relevant Pricing Supplement.

4. Interest on Floating Rate Notes

(a) Accrual of Interest

Notes bearing interest at a floating rate (each a **"Floating Rate Note"**) bear interest on the principal amount of each Note as at its date of issue (less, in the case of any Instalment Note, any principal amount on which interest shall have ceased to accrue in accordance with the following paragraph) from the Interest Commencement Date specified in the relevant Pricing Supplement.

Interest will cease to accrue on each Floating Rate Note on the due date for redemption thereof (or, in the case of an Instalment Note, in respect of each instalment of principal, on the due date for payment of the relevant Instalment Amount) unless, upon due presentation thereof or, in the case of a Registered Note, upon such due date, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue (as well after as before any judgment) up to and including the date on which, upon further presentation thereof, payment in full or the principal amount due in respect of such Note is made or (if earlier) the date upon which notice is duly given to the Holder of such Note that sufficient funds for payment of the principal amount due in respect of it, together with accrued interest, have been received by the Principal Paying Agent or the Trustee.

In respect of Floating Rate Notes, the basis on which interest is calculated is as set out in the relevant Pricing Supplement.

(b) Interest Payment Dates and Interest Periods

Interest on each Floating Rate Note will be payable in arrear on such dates as are specified in the relevant Pricing Supplement for such purpose and on the due date for redemption of such Note (each, an **"Interest Payment Date"**) provided that, unless otherwise set out in the relevant Pricing Supplement, if any Interest Payment Date would otherwise fall on a day which is not a business day, it shall be postponed to the next business day unless it would thereby fall in the next calendar month, in which event the Interest Payment Date shall be the immediately preceding business day. The first payment of interest will be made on the first Interest Payment Date following the Interest Commencement Date.

The period from (and including) the Interest Commencement Date up to (but excluding) the first Interest Payment Date and each period thereafter from (and including) an Interest Payment Date to (but excluding) the next Interest Payment Date is referred to herein as an **"Interest Period"** and the expression **"business day"**, as used in this Condition 4(b), shall mean a day on which commercial banks and foreign exchange markets are open for business in the place(s) specified for this purpose in the relevant Pricing Supplement and, in the case of Notes denominated in, or in respect of which interest is payable in, ECU, a day which is an ECU Settlement Day (as defined in the ISDA Definitions (as such term is defined in Condition 8(c)) but disregarding for this purpose, paragraph (b) of such definition) or, in the case of Notes denominated in, or in respect of which interest is payable in, a currency other than ECU, a day on which commercial banks and foreign exchange markets are open for business in the principal financial centre or centres of the country of such currency.

(c) Rate of Interest

The rate at which Floating Rate Notes will bear interest (the **"Rate of Interest"**) shall be determined by the Agent Bank on the basis of the following provisions:

- (i) the Rate of Interest in respect of an Interest Period shall, subject as provided below, be (a) the Relevant Rate of the Benchmark (where such Relevant Rate is a composite quotation or interest rate per annum or is customarily supplied by one entity) or the arithmetic mean rounded upwards, if necessary, to the nearest 0.00001 per cent. of the Relevant Rates of the Benchmark for the Interest Period which appear on the appropriate page of the Reuters Screen, Telerate (as defined below) or such other information vending service as may be set out in the relevant Pricing Supplement as at 11.00 a.m. (London time) or such other time as may be specified in the relevant Pricing Supplement on the Interest Determination Date (as defined below) in paragraph (b) plus or minus (as appropriate) the percentage rate per annum (if any) over or under the Relevant Rate of the Benchmark by which the Rate of Interest is to be determined as set out in the relevant Pricing Supplement (the **"Margin"**), all as determined by the Agent Bank;
- (ii) if the Reuters Screen, Telerate or such other information vending service as may be set out in the relevant Pricing Supplement does not contain an appropriate page in respect of the specified currency, or if fewer than two of the Relevant Rates appear at such time, or if the rates which appear as at such time do not apply to a period of a duration equal to the relevant Interest Period, the Rate of Interest for such Interest Period shall be calculated as set out in the relevant Pricing Supplement;
- (iii) In this Condition 4(c) and in Condition 4(d) below only:
 - (a) the **"Benchmark"** means LIBOR or such other benchmark as may be set out in the relevant Pricing Supplement;

(b) **"Relevant Rate"** means:

(A) an offered rate in the case of a Note the Benchmark for which relates to an offered rate; or

(B) a bid rate in the case of a Note the Benchmark for which relates to a bid rate; or

(C) the mean of an offered and bid rate in the case of a Note the Benchmark for which relates to the mean of an offered and bid rate,

as set out in the relevant Pricing Supplement;

(c) the expression **"Interest Determination Date"** means the day determined by the Agent Bank to be customary for fixing the Benchmark rate applicable to deposits in the relevant currency for the relevant Interest Period being a day on which commercial banks and foreign exchange markets are open for business in the principal financial centre or centres of the country of such currency or, in the case of ECU, a business day for ECU as defined by the ECU Banking Association and, unless otherwise specified in the relevant Pricing Supplement, in London; and

(d) the expression **"the appropriate page of the Reuters Screen, Telerate"** means such page, whatever its designation, on which the Benchmark rates for deposits in the relevant currency of prime banks are for the time being displayed on the Reuters Monitor Money Rates Services or the Dow Jones Telerate Service.

(d) Determination of Rate of Interest and Calculation of Interest Amount

The Agent Bank will, as soon as practicable after 11.00 a.m. (London time) or such other time as may be set out in the relevant Pricing Supplement on each Interest Determination Date, determine the Rate of Interest and calculate the amount of interest payable in respect of each denomination of the relevant Floating Rate Notes (the **"Interest Amount"**) for the relevant Interest Period.

The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the principal amount (or, in the case of a Partly Paid Note, the principal amount paid up in respect thereof) of the relevant Note of each denomination, multiplying the product by the day count fraction set out in the relevant Pricing Supplement and rounding the resulting figure to the nearest applicable sub-unit of the currency in which such Note is denominated or, as the case may be, in which such interest is payable (one half of any such sub-unit being rounded upwards).

(e) Notification of Rate of Interest and Interest Amount

The Agent Bank will cause the Rate of Interest, the Interest Amount for each Interest Period and in respect of Floating Rate Notes, the relevant Interest Payment Date to be notified to the Issuer, (where appropriate) the Guarantor, the Principal Paying Agent, (in the case of listed Notes) the stock exchange on which such Notes are for the time being listed and, for as long as such Notes are represented by Global Notes, to Euroclear and/or Cedel Bank and/or such other clearing system or depositary as may be set out in the relevant Pricing Supplement as soon as possible after the determination thereof but in any event no later than the fourth business day thereafter. In respect of Floating Rate Notes which are Definitive Notes, the Agent Bank will give notice to the Noteholders of the Rate of Interest, the Interest Amount and the relevant Interest Payment Date in accordance with the provisions of Condition 13. The Interest Amount and the Interest Payment Date so notified in respect of any Notes may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which such Notes are for the time being listed.

(f) Determination or Calculation by the Trustee

If the Agent Bank does not at any time for any reason determine the Rate of Interest or calculate the Interest Amount, the Trustee shall do so and such determination or calculation shall be deemed to have been made by the Agent Bank. In doing so, the Trustee shall apply the foregoing provisions of this Condition 4, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

(g) Certificates, etc. to be Final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purpose of the provisions of this Condition 4 whether by the Agent Bank or the Trustee shall (in the absence of manifest error) be binding on the Issuer,

(where appropriate) the Guarantor, the Trustee, the Paying Agents, (where appropriate) the Registrar and the Holders of Notes and of the Coupons appertaining thereto. No Holder of Notes or of the Coupons appertaining thereto shall be entitled to proceed against the Agent Bank, the Trustee, the Paying Agents, the Registrar or any of them in connection with the exercise or non-exercise by them of their powers, duties and discretions hereunder.

5. Variable Coupon Amount Notes

In the case of Notes which bear interest at a variable rate or rates ("**Variable Coupon Amount Notes**"), the dates on which interest shall be payable and the method of calculation of the interest payable on each such date shall be as set out in the relevant Pricing Supplement.

6. Redemption and Purchase

(a) Final Redemption

Unless previously redeemed or purchased and cancelled and subject as otherwise set out in the relevant Pricing Supplement, Notes will be redeemed at their principal amount or such other redemption amount as may be set out in or determined in accordance with the relevant Pricing Supplement (or, in the case of Instalment Notes, in such number of instalments and in such amounts ("**Instalment Amounts**") as may be specified in, or determined in accordance with the provisions of, the relevant Pricing Supplement) on the Maturity Date specified in the relevant Pricing Supplement. In the case of Notes specified in the relevant Pricing Supplement as being undated, such Notes shall have no Maturity Date and shall be redeemed only in accordance with this Condition 6 or Condition 9.

(b) Redemption for Taxation Reasons

If the Issuer or, where applicable, the Guarantor satisfies the Trustee immediately prior to the giving of the notice referred to below that:

- (i) on a subsequent date for the payment of interest on any Series of Notes the Issuer, or, where applicable, the Guarantor would be required to pay any additional amounts in accordance with the provisions of Condition 7; or
- (ii) if the Issuer, or, where applicable, the Guarantor were to seek to redeem the Notes (for which purpose no regard shall be had as to whether or not the Issuer or the Guarantor would otherwise be entitled to redeem such Notes), the Issuer or the Guarantor would (notwithstanding its having made such endeavours as the Trustee shall consider reasonable) be required to pay any additional amounts in accordance with the provisions of Condition 7,

the Issuer or the Guarantor may, having given not less than 30 nor more than 45 days' notice (ending, in the case of Floating Rate Notes, on an Interest Payment Date) to the Noteholders in respect of such Series of Notes, redeem all, but not some only, of the Notes, at their principal amount or such other redemption amount as may be set out in the relevant Pricing Supplement together with interest accrued and unpaid, if any, to the date fixed for redemption provided that no such notice of redemption shall be given earlier than 90 days (or in the case of Floating Rate Notes or Variable Coupon Amount Notes a number of days which is equal to the aggregate of the number of days in the then current Interest Period plus 60 days provided that such aggregate number of days shall not be greater than 90 days) prior to the earliest date on which the Issuer or the Guarantor would be obliged to pay such additional amounts were a payment in respect of the Notes or the Guarantee, as the case may be, then due.

The Issuer may exercise such option in respect of any Note notwithstanding the prior exercise by the Holder thereof of its option to require the redemption of such Note under paragraph (d) below, if the due date for redemption under this paragraph (b) would occur prior to that under paragraph (d) but not otherwise and, in such circumstances, the exercise of the option under paragraph (d) shall be rendered ineffective.

Subject only to the obligation of the Issuer or the Guarantor to use such endeavours as aforesaid, it shall be sufficient, to establish the circumstances required to be established pursuant to this Condition 6(b), if the Issuer or the Guarantor shall deliver to the Trustee a certificate of an independent legal adviser or accountant satisfactory to the Trustee to the effect either that such a circumstance does exist or that, upon a change in or amendment to the laws (including any regulations pursuant thereto), or in the interpretation or administration thereof, of The Netherlands, Australia or the United Kingdom (as the case may be), which at the date of such

certificate is proposed and in the opinion of such legal adviser or accountant is reasonably expected to become effective on or prior to the date on which the relevant payment of principal or interest in respect of the Notes would otherwise be made, becoming so effective, such circumstances would exist.

(c) Redemption at the Option of the Issuer

Where so set out in the relevant Pricing Supplement, Notes shall be redeemable at the option of the Issuer. In such case, the Issuer may at any time (in the case of Fixed Rate Notes or Zero Coupon Notes), on any Interest Payment Date (in the case of Floating Rate Notes or Variable Coupon Amount Notes) or otherwise as set out in the relevant Pricing Supplement, on giving (in accordance with Condition 13) not less than 30 nor more than 60 days' notice (or such other period as set out in the relevant Pricing Supplement) to the Noteholders (such notice being irrevocable) specifying the date fixed for such redemption, and, on the date so fixed, redeem all of such Notes (or if so specified in the relevant Pricing Supplement and subject as therein specified, some only of the Notes) at their principal amount or such other amount as set out in the relevant Pricing Supplement together with interest accrued thereon to the date fixed for redemption.

If the Notes of a Series are to be redeemed in part only on any date in accordance with this paragraph (c):

- in the case of Bearer Notes (other than a temporary global Note or permanent global Note), the Notes to be redeemed shall be drawn by lot in such European city as the Principal Paying Agent may specify, or identified in such other manner or in such other place as the Principal Paying Agent and the Trustee may approve and deem appropriate and fair; and
- in the case of Registered Notes, the Notes shall be redeemed (so far as may be practicable) *pro rata* to their principal amounts, provided always that the amount redeemed in respect of each Note shall be equal to the minimum denomination thereof or an appropriate multiple thereof,

subject always to compliance with all applicable laws and the requirements of any stock exchange on which the relevant Notes may be listed.

In the case of the redemption of part only of a Registered Note, a new Registered Note in respect of the unredeemed balance shall be issued in accordance with Condition 12 which shall apply as in the case of a transfer of Registered Notes as if such new Registered Note were in respect of the untransferred balance.

(d) Redemption at the Option of the Noteholders

Where so set out in the relevant Pricing Supplement, Notes shall be redeemable at the option of the Noteholders. In such case, upon any Noteholder giving to the Issuer notice of redemption (such a notice being irrevocable) the Issuer will, in accordance with the provisions set out in the relevant Pricing Supplement, redeem in whole (but not in part) the Note(s) specified in such notice at their principal amount or such other amount as may be set out in or determined in accordance with the relevant Pricing Supplement together with interest accrued thereon to the date fixed for redemption.

In order to give such notice, the Holder must, not less than 45 days before the date for redemption as set out in the relevant Pricing Supplement (or such other period as may be set out in the Pricing Supplement), deposit the relevant Note (together, in the case of an interest-bearing Definitive Note, with any unmatured Coupons appertaining thereto) with, in the case of a Bearer Note, any Paying Agent, or, in the case of a Registered Note, the Registrar together with a duly completed redemption notice in the form which is available from the specified office of any of the Paying Agents or, as the case may be, the Registrar. The Holder of a Note may not exercise such option in respect of any Note which is the subject of an exercise by the Issuer of its option to redeem such Note under Condition 6(b) or (c).

(e) Purchases

The Bank or any holding or subsidiary company of it or any subsidiary of any such holding company, MIFS or MAFS may at any time purchase Notes at any price in the open market or otherwise and may resell the same.

(f) Cancellation

All Notes redeemed pursuant to paragraph (a), (b), (c) or (d) of this Condition 6 shall, and all Notes purchased pursuant to paragraph (e) of this Condition 6 may, at the option of the Issuer, be cancelled forthwith (together with, in the case of Definitive Notes, all unmatured Coupons and unexchanged Talons attached thereto or surrendered therewith) by the Paying Agent through which they are redeemed or by the Principal Paying Agent to which they are surrendered. All Notes redeemed or purchased and cancelled as aforesaid may not be re-issued or resold.

(g) Zero Coupon Notes

Where Zero Coupon Notes are redeemed by the Issuer prior to the Maturity Date set out in the relevant Pricing Supplement, they shall be redeemed (unless otherwise set out in the relevant Pricing Supplement) at a redemption amount determined in accordance with the provisions set out in the relevant Pricing Supplement.

(h) Other Notes

Where other Notes are redeemed by the Issuer, the amount payable on such redemption in respect of principal only, principal and interest or interest only shall be determined in accordance with the provisions set out in the relevant Pricing Supplement.

7. Taxation

Except as otherwise set out in the relevant Pricing Supplement, all payments of principal and interest in respect of the Notes will be made without withholding or deduction for or on account of any taxes, duties, assessments or governmental charges of whatever nature, present or future, as are imposed or levied by or on behalf of (in the case of payments by the Bank) the United Kingdom (or any authority or political subdivision therein or thereof having power to tax) or (in the case of payments by MIFS) The Netherlands (or any authority or political subdivision therein or thereof having power to tax) or (in the case of payments by MAFS) Australia (or any authority or political subdivision therein or thereof having power to tax) unless the Bank, MIFS or, as the case may be, MAFS, is required by law to withhold or deduct any such taxes, duties, assessments or governmental charges.

In that event, the Bank, MIFS or, as the case may be, MAFS, will pay such additional amounts as may be necessary in order that the net amounts receivable by the Noteholders or Couponholders, as the case may be, after such withholding or deduction shall equal the respective amounts of principal and interest which would have been receivable in respect of the Notes and/or, as the case may be, Coupons, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note or Coupon:

- (a) to, or to a third party on behalf of, a Holder of a Note or Coupon who is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection with the United Kingdom (in the case of payments by the Bank), The Netherlands (in the case of payments by MIFS) or, as the case may be, Australia (in the case of payments by MAFS) other than the mere holding of such Note or Coupon; or
- (b) unless it is proved, in the case of Bearer Notes, to the satisfaction of the Principal Paying Agent or the Paying Agent to whom the same is presented, or, in the case of Registered Notes, to the satisfaction of the Registrar, that the Holder is unable to avoid such withholding or deduction by satisfying any statutory requirement or by making a declaration of non-residence or other similar claim for exemption to the relevant tax authorities; or
- (c) more than 30 days after the Relevant Date except, in the case of Bearer Notes, to the extent that the Holder thereof would have been entitled to such additional amounts on presenting the same for payment on the last day of such period of 30 days; or
- (d) in the case of Registered Notes, unless the Holder, immediately upon becoming the Holder, (i) is eligible for the benefits of a tax treaty with the jurisdiction of the Issuer that provides for a complete exemption from withholding taxes on payments under the Notes, or (ii) is otherwise entitled to a complete exemption from withholding taxes on payments under the Notes; or
- (e) to, or to a third party on behalf of a Holder that is not the sole beneficial owner of the Note or any Coupon, or a portion of either, or that is a fiduciary or partnership, but only to the extent that a beneficiary or settlor with respect to the fiduciary, a beneficial owner or member of the partnership would not have been entitled to the payment of an additional amount had the

beneficiary, settlor, beneficial owner or member received directly its beneficial or distributive share of the payment.

As used herein the “**Relevant Date**” means the date on which such payment first becomes due but, in the case of Bearer Notes, if the full amount of the money payable has not been received by the Principal Paying Agent or the Trustee on or prior to such due date, it means the date on which, the full amount of such money having been so received, notice to that effect shall have been duly given to the relevant Noteholders in accordance with Condition 13.

Any reference in these Conditions to principal or interest or both in respect of the relevant Notes shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable under this Condition 7 or pursuant to any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed;
- (ii) the principal amount payable on the relevant Notes on the Maturity Date specified in the relevant Pricing Supplement;
- (iii) the principal amount payable on redemption of the relevant Notes prior to such Maturity Date; and
- (iv) any premium and any other amounts which may be payable under or in respect of the relevant Notes.

8. Payments

(a) Bearer Notes

Payments of principal and interest (if any) in respect of Bearer Notes will (subject as provided below) be made against presentation and (save in the case of partial payment or payment of an Instalment Amount (other than the final Instalment Amount)) surrender of the relevant Note or, in the case of payments of interest, surrender of the relevant Coupon at the specified office of any Paying Agent outside the United States (subject to the next paragraph).

Payments of amounts due in respect of interest on Bearer Notes and exchanges of Talons for Coupon sheets will not be made at the specified office of any Paying Agent in the United States (as defined in the United States Internal Revenue Code and Regulations thereunder) unless (a) payment in full of amounts due in respect of interest on such Notes when due or, as the case may be, the exchange of Talons at all the specified offices of the Paying Agents outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions and (b) such payment or exchange is permitted by applicable United States law, in which case the Issuer shall forthwith appoint a further Paying Agent with a specified office in New York City.

If the due date for payment of any amount due in respect of any Bearer Note is not both a Relevant Financial Centre Day and a local banking day (each as defined below), then the Holder thereof will not be entitled to payment thereof until the next day which is such a day and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is a subsequent failure to pay in accordance with these Conditions in which event interest shall continue to accrue as provided in Condition 3 or, if appropriate, Condition 4.

Payment of Instalment Amounts (other than the final Instalment Amount) in respect of an Instalment Note which is a Definitive Note with Receipts will be made against presentation of the Note together with the relevant Receipt and surrender of such Receipt.

The Receipts are not and shall not in any circumstances be deemed to be documents of title and if separated from the Note to which they appertain will not represent any obligation of the Issuer. Accordingly, the presentation of a Note without the relative Receipt or the presentation of a Receipt without the Note to which it appertains shall not entitle the Holder to any payment in respect of the relevant Instalment Amount.

Upon the due date for redemption of any Definitive Note other than a Fixed Rate Note all unmatured Coupons and Talons (if any) relating to such Definitive Note (whether or not attached) shall become void and no payment shall be made in respect of them.

Definitive Notes which are Fixed Rate Notes should be presented for payment with all unmatured Coupons appertaining thereto, failing which the face value of any missing unmatured Coupon (or, in the case of payment not being made in full, that portion of the amount of such missing

unmatured Coupon which the sum of principal so paid bears to the total amount of principal due) will be deducted from the sum due for payment. Any amount of principal so deducted will be paid in the manner mentioned above against surrender of the relevant missing Coupon within a period of ten years from the Relevant Date (as defined in Condition 7) for the payment of such principal, whether or not such Coupon has become void pursuant to Condition 10 or, if later, five years from the date on which such Coupon would have become due.

Notwithstanding the above, if any Definitive Notes should be issued with a Maturity Date and an interest rate or rates such that, on the presentation for payment of any such Definitive Note without any unmaturing Coupons attached thereto or surrendered therewith, the amount required to be deducted would be greater than the amount otherwise due for payment, then, upon the due date for redemption, such unmaturing Coupons (whether or not attached) shall become void (and no payment shall be made in respect thereof) as shall be required so that the amount required to be deducted would not be greater than the amount otherwise due for payment. Where the application of the foregoing sentence requires some but not all of the unmaturing Coupons relating to a Definitive Note to become void, the relevant Paying Agent shall determine which unmaturing Coupons are to become void, and shall select for such purpose Coupons maturing on later dates in preference to Coupons maturing on earlier dates.

Upon any Definitive Notes which are Fixed Rate Notes becoming due and repayable prior to their Maturity Date, all unmaturing Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

In relation to Definitive Notes initially delivered with Talons attached thereto, on or after the due date for the payment of interest on which the final Coupon comprised in any Coupon sheet matures, the Talon comprised in the Coupon sheet may be surrendered at the specified office of any Paying Agent outside (save as provided above) the United States in exchange for a further Coupon sheet (including any appropriate further Talon), subject to the provisions of Condition 10 below. Each Talon shall, for the purpose of these Conditions, be deemed to mature on the due date for the payment of interest on which the final Coupon comprised in the relative Coupon sheet matures.

If (otherwise than by reason of the application of the above) the due date for redemption of any Bearer Note is not the due date for the payment of a Coupon appertaining thereto, interest accrued in respect of such Note from (and including) the last preceding due date for the payment of a Coupon (or from the Issue Date or the Interest Commencement Date, as the case may be) will be paid only against surrender of such Bearer Note and all unmaturing Coupons appertaining thereto.

(b) Registered Notes

Payment of the amount due on final redemption (together with accrued interest) (the "**Redemption Amount**") in respect of Registered Notes will be made against presentation and, save in the case of partial payment of the Redemption Amount, surrender of the relevant Registered Notes at the specified office of the Registrar. If the due date for payment of the Redemption Amount of any Registered Note is not both a Relevant Financial Centre Day and a local banking day (each as defined below), then the Holder thereof will not be entitled to payment thereof until the next day which is such a day and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is a subsequent failure to pay in accordance with these Conditions in which event interest shall continue to accrue as provided in Condition 3 or, as appropriate, Condition 4.

Payment of amounts (whether principal, interest or otherwise) due (other than the Redemption Amount) in respect of Registered Notes will be paid to the Holder thereof (or, in the case of joint Holders, the first-named) as appearing in the register kept by the Registrar at the close of business (local time in the place of the specified office of the Registrar) on the fifteenth day prior to the due date for such payment (the "**Record Date**").

Payment will be made in the currency in which such amount is due either by cheque posted to the Noteholder's registered address (or, in the case of joint Holders, the first-named) not later than the relevant due date for payment unless prior to the relevant Record Date the Holder thereof (or, in the case of joint Holders, the first named) has applied to the Registrar and the Registrar has acknowledged such application for payment to be made to a designated account denominated in the relevant currency, in each case as specified in paragraph (c) below.

(c) General Provisions

The following provisions apply to both Bearer Notes and Registered Notes. Payments of amounts due (whether principal, interest or otherwise) in respect of Notes will be made in the currency in which such amount is due either (a) by cheque (in the case of payment in Japanese Yen to a non-resident of Japan, drawn on an authorised foreign exchange bank) which, in the case of payments by MAFS, will be mailed to an address, or delivered, outside Australia, or (b) at the option of the payee, by transfer to an account denominated in the relevant currency specified by the payee (in the case of payment in Japanese Yen to a non-resident of Japan, a non-resident account with an authorised foreign exchange bank specified by the payee), which account in the case of payments by MAFS, will be with a bank outside Australia.

Payments of principal, interest and other amounts (if any) in respect of Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment but without prejudice to the provisions of Condition 7.

For the purposes of these Conditions:

- (i) **"Relevant Financial Centre Day"** means, a day on which commercial banks and foreign exchange markets are open for business and settle payments in the case of Notes payable in a currency other than ECU, in the principal financial centre or centres for the currency in which payment falls to be made and in any other place set out in the Pricing Supplement and, in the case of Notes payable in ECU, a day which is an ECU Settlement Day (as defined in the ISDA Definitions but disregarding, for this purpose, paragraph (b) of such definition);
- (ii) **"local banking day"** means a day (other than a Saturday or Sunday) on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in the city in which the Paying Agent or the Registrar to which the relevant Note or Coupon is presented for payment is located; and
- (iii) **"ISDA Definitions"** means the 1991 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series as published by the International Swaps and Derivatives Association, Inc. (formerly the International Swap Dealers Association, Inc.)).

Without prejudice to the generality of the foregoing, the Bank reserves the right to require any person receiving payment of principal or, as the case may be, payment of interest with respect to any Note or Coupon to provide a Paying Agent with such certification or information as may be required to enable the Bank to comply with the requirements of the United States Federal Income Tax laws.

(d) Value of the ECU

The following provisions of this Condition 8 are applicable in relation to Notes denominated in ECU or Notes having the ECU as a currency by reference to which any amount falls to be determined or in which any payment falls to be made.

For the purposes of these Conditions and subject as provided below, the ECU in which the Notes are denominated is the same as the ECU that is from time to time used as the unit of account of the European Communities. Changes to the ECU may be made by the European Communities in which event the ECU will change accordingly.

(e) Payments in a Component Currency of ECU

Subject as set out below, in the event that the ECU is used neither as the unit of account of the European Communities nor as the currency of the European Union, then with effect from the ECU Conversion Date, any obligation under the terms of any Notes to make a payment in ECU will be replaced by an obligation on the part of the Issuer to make payment in the Selected Currency in the Equivalent Amount.

For the purposes of these Terms and Conditions:

- (i) **"Component Amount"** means, in respect of a Component Currency, the number of units (including decimals) of that currency represented in the ECU on the ECU Conversion Date;
- (ii) **"Component Currency"** means any currency that, on the ECU Conversion Date, is a component currency of the ECU;

- (iii) **"ECU Conversion Date"** means the last day of which the ECU was used as the unit of account of the European Communities;
- (iv) **"Equivalent Amount"** means, in respect of a Selected Currency, an amount determined by the Principal Paying Agent by adding the results obtained by converting the Component Amount of each Component Currency into United States dollars at the Market Exchange Rate for converting that Component Currency into United States dollars and then converting the sum of those United States dollar amounts (unless the Selected Currency is the United States dollar) into the Selected Currency as the Market Exchange Rate for converting United States dollars into the Selected Currency;
- (v) **"Market Exchange Rate"** means, in respect of any Component Currency or the United States dollar, the arithmetic mean of the middle spot delivery quotations for that currency for cable transfers quoted at approximately 2.30 p.m. (London time) on the Valuation Date by three leading foreign exchange dealers, selected by the Principal Paying Agent, in the Relevant Financial Centre for the relevant Component Currency or, as the case may be, the United States dollar; in the event that quotations are not available for a currency as of the Valuation Date from any of the banks selected by the Principal Paying Agent for this purpose because foreign exchange markets are closed in the country of issue of the currency or for any other reason, the most recent direct quotations for the currency obtained by, or on behalf of, the Principal Paying Agent shall be used in computing the Equivalent Amount of the Selected Currency on the Valuation Date if those rates were prevailing in the country of issue not more than two Banking Days before the Valuation Date; if the only rates available for such purpose are as of a date more than two Banking Days before the Valuation Date, the Principal Paying Agent shall convert the Component Amount into United States dollars or that amount into the Selected Currency on the basis of cross rates derived from the arithmetic mean of the middle spot delivery quotations for such currencies prevailing at approximately 2.30 p.m. (London time) on the Valuation Date, as obtained by the Principal Paying Agent from one or more major banks, in a country other than the country of issue of such currency; for the purpose of determining a Market Exchange Rate, quotations will be obtained from the market in which a non-resident issuer of securities denominated in that currency would purchase that currency in order to make payment for the securities;
- (vi) **"Selected Currency"** means a currency selected by the Trustee from among the Component Currencies and the United States dollar;
- (vii) **"Valuation Date"** means, in respect of any payment deemed to be payable in Selected Currency, the day that is four Banking Days preceding the due date of the applicable payment.

For the purposes of this Condition 8(e) and any other provision of these Terms and Conditions notwithstanding, **"Banking Day"** means a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in London and in the principal financial centre or centres for the relevant Component Currency.

The determination by the Principal Paying Agent of all rates and amounts for the purposes of this Condition 8(e) shall, in the absence of manifest error, be final and binding on the Issuer and the Holders of Notes and Coupons. The Principal Paying Agent will notify the Issuer, the Paying Agents or, as the case may be, the Registrar of the Selected Currency and of all rates and amounts determined by it for the purposes of this Condition 8(e) (from whose respective specified offices such information will be available).

From the start of the third stage of European monetary union, all payments which under the terms of any Notes are to be made in ECU will be made in Euro in the equivalent amount determined at the rate then established in accordance with the Treaty establishing the European Communities, as amended by the Treaty on European Union; and this Condition 8(e) will not result in an obligation to make a payment in ECU being replaced by an obligation to make a payment in a Selected Currency in such circumstances.

9. Enforcement

(a) In the case of any Series of Notes other than Subordinated Notes, Subordinated Guaranteed Notes and Undated Subordinated Notes, if default is made for a period of 14 days or more in the repayment of any principal due on the Notes of such Series or any of them or in the payment of

any interest due in respect of the Notes of such Series or any of them, then the Trustee may at its discretion, and if so requested by the Holders of at least one-fifth in principal amount of such Notes then outstanding or if so directed by an Extraordinary Resolution of the Holders of such Notes (subject in each case to being indemnified to its satisfaction) shall, give written notice to the Issuer and, where applicable, the Guarantor that the Notes of such Series are immediately due and repayable, whereupon the principal amount of such Notes or such other amount as set out in the relevant Pricing Supplement shall become immediately due and repayable together with interest accrued to (but excluding) the date of actual repayment;

Provided that it shall not be such a default to withhold or refuse any such payment (1) in order to comply with any fiscal or other law or regulation or with the order of any court of competent jurisdiction, in each case applicable to such payment or (2) in cases of doubt as to the validity or applicability of any such law, regulation or order, in accordance with advice given at any time during the said period of 14 days by independent legal advisers acceptable to the Trustee as to such validity or applicability.

(b) In the case of any Series of Subordinated Notes, Subordinated Guaranteed Notes or Undated Subordinated Notes:

- (i) subject to Conditions 2(c) and 2(d), if default is made for a period of 7 days or more in the repayment of any principal due on the Notes of such Series or any of them or for a period of 14 days or more in the payment of any interest due in respect of the Notes of such Series or any of them, then the Trustee may, in order to enforce payment, at its discretion and without further notice (1) in the case of a Series of Subordinated Guaranteed Notes, in order to enforce the obligations of the Guarantor, institute proceedings for the winding up of the Guarantor in England and (2) in the case of a Series of Subordinated Notes or Undated Subordinated Notes, institute proceedings for the winding-up of the Bank in England,

Provided that it shall not be such a default to withhold or refuse any such payment (1) in order to comply with any fiscal or other law or regulation or with the order of any court of competent jurisdiction, in each case applicable to such payment or (2) in cases of doubt as to the validity or applicability of any such law, regulation or order, in accordance with advice given at any time during the said period of 7 or 14 days, as the case may be, by independent legal advisers acceptable to the Trustee as to such validity or applicability;

- (ii) the Trustee may at its discretion and without further notice institute such proceedings against MIFS or MAFS, as the case may be, as it may think fit (other than proceedings for the winding-up of MIFS or MAFS, as the case may be, or any insolvency proceedings in relation to MIFS or MAFS, as the case may be) to enforce any obligation, condition or provision binding on MIFS or MAFS, as the case may be, under the Trust Deed in relation to such Series of Subordinated Guaranteed Notes or under such Subordinated Guaranteed Notes or the Coupons appertaining thereto (other than any obligation for the payment of any principal or interest in respect of such Notes or Coupons) provided that none of the Guarantor, MIFS or MAFS, as the case may be, shall by virtue of the institution of any such proceedings be obliged to pay any sum or sums (whether in respect of principal or interest or other sums in respect of the relevant Notes or the Coupons appertaining thereto or by way of damages in respect of any breach of any such obligation, condition or provision or otherwise howsoever);
- (iii) the Trustee may at its discretion and without further notice institute such proceedings against the Bank as it may think fit and may, subject as hereinafter provided, institute proceedings for the winding up of the Bank in England to enforce any obligation, condition or provisions binding on the Bank under the Trust Deed in relation to such Series of Subordinated Notes, Subordinated Guaranteed Notes or Undated Subordinated Notes or under such Notes or the Coupons appertaining thereto (other than any obligation for the payment of any principal or interest in respect of such Notes or Coupons) provided that the Bank shall not by virtue of the institution of any such proceedings other than proceedings for the winding up of the Bank be obliged to pay any sum or sums (whether in respect of principal or interest or other sums in respect of the relevant Notes or the Coupons appertaining thereto or by way of damages in respect of any breach of any such obligation, condition or provision or otherwise howsoever). The Trustee may only institute proceedings for the winding up of the Bank to enforce the

obligations above referred to in this paragraph if a default by the Bank thereunder is not remedied to the satisfaction of the Trustee within 60 days (or such longer period as the Trustee may permit) after notice of such default has been given to the Bank by the Trustee requiring such default to be remedied.

NB: The restriction on the payment of damages would have the effect of limiting the remedies available to the Trustee in the event of a breach of certain covenants by MIFS, MAFS or the Bank.

(c) In the case of any Series of Notes, in the event of an order being made or an effective resolution being passed for the winding up of the Bank in England (otherwise than in connection with a scheme of reconstruction or amalgamation the terms of which shall previously have been approved in writing by the Trustee or by an Extraordinary Resolution of the Holders of the relevant Series of Notes) the Trustee may declare the Notes of the relevant Series to be due and redeemable immediately (and such Notes shall thereby become so due and redeemable) at their principal amount together with accrued interest as provided in the Trust Deed and the relevant Pricing Supplement (or, in the case of Undated Subordinated Notes, at the amount calculated pursuant to Condition 9(cc) below) or at such other amount, or at such amount calculated in accordance with such other formula, as is set out in the relevant Pricing Supplement.

(cc) In the event of the winding up of the Bank in England, each Series of Undated Subordinated Notes then outstanding shall be treated as if at the close of business on the business day in London preceding the commencement of the winding up of the Bank the principal payable in respect of such Notes and accrued interest had been converted into Preference Shares credited as fully paid according to the following formula:

$$N = \frac{P}{R}$$

where

N = the number of Preference Shares into which each such Note is deemed to be converted, rounded down to the nearest whole number;

P = the principal amount of such Note and, in respect of such Note, all Arrears of Interest and accrued interest; and

R = the equivalent in the currency in which the principal amount of such Note is denominated of one pound sterling as determined as at 11.00 a.m. on such preceding business day in London by the Trustee by reference to market rates;

whereupon, the entitlement of the Holders of such Undated Subordinated Notes in respect of the principal repayable and interest payable in respect of such Notes shall be in lieu of the repayments and payments hereinbefore provided (and subject to Condition 2), to be paid only such sums as would have been payable in respect of such Preference Shares exclusive of any tax credit given in relation to dividends payable thereon.

(d) The Trustee shall not in any event be bound to take any of the actions referred to in Condition 9(b) sub-clauses (i), (ii) and (iii) or Condition 9(c) above in respect of any Series of Notes unless (i) it shall have been so requested in writing by the Holders of at least one-fifth of the principal amount of the Notes of the relevant Series then outstanding or it shall have been so directed by an Extraordinary Resolution of the Holders of the Notes of the relevant Series and (ii) it shall have been indemnified to its satisfaction.

(e) No remedy against MIFS, MAFS or the Bank other than as specifically provided by this Condition 9 or the Trust Deed shall be available to the Trustee, the Noteholders or Couponholders in respect of any Series of Notes whether for the recovery of amounts owing in respect of such Notes or the Coupons appertaining thereto or under the Trust Deed or in respect of any breach by MIFS, MAFS or the Bank of any obligation, condition or provision under the Trust Deed or such Notes or Coupons or otherwise, and no Noteholder or Couponholder shall be entitled to proceed directly against MIFS, MAFS or the Bank unless the Trustee, having become bound to proceed, fails to do so within a reasonable period and such failure shall be continuing in which case any such Holder may, upon giving an indemnity satisfactory to the Trustee, in the name of the Trustee (but not otherwise), himself institute proceedings against MIFS, MAFS or the Bank for the relevant remedy to the same extent (but not further or otherwise) that the Trustee would have been entitled to do so.

10. Prescription

Notes and Coupons will become void unless presented for payment within a period of ten years and five years, respectively, from the Relevant Date (as defined in Condition 7) in respect thereof. Any monies paid by the Issuer or the Guarantor to the Principal Paying Agent or the Trustee for the payment of the principal or interest in respect of any Notes or Coupons and remaining unclaimed when such Notes or Coupons become void will then revert to the Issuer or the Guarantor and all liability of the Principal Paying Agent or the Trustee with respect thereto will thereupon cease.

There shall not be included in any Coupon sheet issued in exchange for a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition 10 or Condition 8.

11. Paying Agents, Agent Bank and Registrar

The Agency Agreement contains provisions indemnifying the Principal Paying Agent, the Paying Agents (if any), the Agent Bank and the Registrar and absolving them from responsibility in connection with certain matters. The Agency Agreement may be amended by the parties thereto in relation to any Series of Notes if in the opinion of the Issuer, where applicable, the Guarantor and the Trustee, the amendment will not materially adversely affect the interests of the relevant Noteholders.

The Issuer and, where applicable, the Guarantor reserve the right at any time to vary or terminate the appointment of the Principal Paying Agent, any Paying Agent, the Agent Bank or the Registrar and to appoint additional or other Paying Agents or a substitute Agent Bank or a substitute Registrar, provided that they will, so long as any Notes are outstanding, maintain (i) an Agent Bank, (ii) a Paying Agent having a specified office in a city approved by the Trustee (such approval not to be unreasonably withheld or delayed) in Europe which, so long as any Notes are listed on the London Stock Exchange Limited and/or the Paris Bourse and/or any other stock exchange, shall be London and/or Paris and/or such other place as may be required by such other stock exchange and (iii) in the case of any Registered Notes, a Registrar with a specified office in England. Notice of all changes in the identities or specified offices of any Paying Agent, Agent Bank or Registrar will be given by the Issuer to Noteholders in accordance with Condition 13.

12. Replacement, Exchange and Transfer

Should any Note or Coupon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office (in the case of a Bearer Note or Coupon) of the Principal Paying Agent or such other Paying Agent or office as the Trustee may approve or (in the case of Registered Notes) of the Registrar upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

Upon the terms and subject to the conditions set out in the Agency Agreement and the relevant Pricing Supplement, a Registered Note may be exchanged for a Registered Note or Notes of equal aggregate principal amount in such different authorised denominations as may be requested by the Noteholder by surrender of such Registered Note at the specified office of the Registrar, together with a written request for the exchange.

Upon the terms and subject to the conditions set out in the Agency Agreement, a Registered Note may be transferred in whole or in part only (provided that such part is, or is an appropriate multiple of, the minimum denomination set out in the Pricing Supplement) by the Holder or Holders surrendering the Registered Note for registration of transfer at the office of the Registrar, duly endorsed by, or accompanied by a written instrument to transfer in form satisfactory to the Issuer and the Registrar duly executed by, the Holder or Holders thereof or his or their attorney duly authorised in writing. A new Registered Note will be issued to the transferee and, in the case of a transfer of part only of a Registered Note, a new Registered Note in respect of the balance not transferred will be issued to the transferor.

If so set out in the relevant Pricing Supplement, the Holder of Bearer Notes may exchange the same for the same aggregate principal amount of Registered Notes upon the terms and subject to the conditions set forth in the Agency Agreement. In order to exchange a Bearer Note for a Registered Note, the Holder thereof shall surrender such Bearer Note at the specified office outside the United States of the Principal Paying Agent or of the Registrar together with a written request for the exchange. Each Bearer Note so surrendered must be accompanied by all unmatured Coupons appertaining thereto other than the Coupon in respect of the next payment of interest falling due after the exchange date (as defined below) where the exchange date would, but

for the provisions of this paragraph, occur between the Record Date (as defined in Condition 8(b)) for such payment of interest and the date on which such payment of interest falls due.

Each new Registered Note to be issued upon the transfer of a Registered Note or the exchange of a Bearer Note for a Registered Note will, within three Relevant Banking Days of the transfer date or, as the case may be, the exchange date be available for delivery at the specified office of the Registrar or, at the option of the Holder requesting such exchange or transfer be mailed (by uninsured post at the risk of the Holder(s) entitled thereto) to such address(es) as may be specified by such Holder. As used herein:

- (i) **"Relevant Banking Day"** means a day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in the place where the specified office of the Registrar is located and, in the case only of an exchange of a Bearer Note for a Registered Note where such request for exchange is made to the Principal Paying Agent, in the place where the specified office of the Principal Paying Agent is located;
- (ii) the **"exchange date"** shall be the Relevant Banking Day following the day on which the relevant Bearer Note shall have been surrendered for exchange in accordance with the foregoing provision; and
- (iii) the **"transfer date"** shall be the Relevant Banking Day following the day on which the relevant Registered Note shall have been surrendered for transfer in accordance with the foregoing provisions.

The costs and expenses of effecting any exchange or registration of transfer pursuant to the foregoing provisions, except for the expenses of delivery by other than regular mail or insurance charges that may be imposed in relation thereto, shall be borne by the Issuer.

The Registrar shall not be required to register the transfer of or exchange Registered Notes for a period of 15 days preceding the due date for any payment of principal of or interest in respect of such Notes.

13. Notices

(a) All notices to the Holders of Notes or the Coupons appertaining thereto will be valid if published in one leading daily newspaper (i) with general circulation in London (which is expected to be the *Financial Times*) and (ii) in the case of any Notes which are listed on the Paris Bourse (so long as such Notes are listed on the Paris Bourse and that exchange so requires), in a daily newspaper having general circulation in Paris (which is expected to be *Les Echos* or *La Tribune*) or, in the case of (i), if such publication is not practicable, if published in a leading English language daily newspaper having general circulation in Europe or, in the case of (ii), if such publication is not practicable, if published in a leading French language daily newspaper having general circulation in the Republic of France). Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the date of the first such publication (or, if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers).

Holders of any Coupons appertaining to Bearer Notes will be deemed for all purposes to have notice of the contents of any notice given to the Holders of such Bearer Notes in accordance herewith.

Notwithstanding the foregoing, any notices to Holders of Registered Notes will be deemed to have been validly given if mailed to their registered addresses (as advised by the Registrar) or to that of the first named of them in the case of joint Holders.

(b) Notices given by any Noteholder shall be in writing and given by lodging the same, together with the relative Note or Notes, with the Principal Paying Agent or other Paying Agent (if any) at its specified office.

14. Modification of Terms, Waiver and Substitution

The Trust Deed contains provisions for convening meetings of the Holders of the Notes of any Series to consider any matter affecting their interests, including, subject to the agreement of the Issuer and, where applicable, the Guarantor, the modification by Extraordinary Resolution of the terms and conditions of such Notes or the provisions of the Trust Deed with respect to such Notes except, *inter alia*, certain terms concerning the amount and currency and the postponement of the

due date of payment of the Notes and the Coupons appertaining thereto or interest or other amount payable in respect thereof, the modification of which may only be effected if passed at a meeting the quorum at which is persons holding or representing a clear majority, or at any adjourned such meeting not less than one third, in principal amount of the Notes of such Series for the time being outstanding.

An Extraordinary Resolution passed at any meeting of the Holders of the Notes of any Series will be binding on all Holders of Notes of that Series, whether or not they are present at the meeting, and on the Holders of Coupons appertaining to the Notes of that Series.

Subject to certain exceptions, the Trustee may agree, without the consent of the Holders of Notes of any Series or the Holders of the Coupons appertaining thereto (if any) to:

- (i) any modification of any of the provisions of the Trust Deed; and
- (ii) any waiver or authorisation of any breach or proposed breach of any of the provisions of the Trust Deed,

which, in either case, is not in the opinion of the Trustee materially prejudicial to the interests of the Holders of Notes of that Series. Any such notification, waiver or authorisation shall be binding on the Holders of Notes of that Series and the Holders of the Coupons appertaining thereto and, unless the Trustee agrees otherwise, shall be notified to the Holders of Notes of that Series as soon as practicable thereafter.

Subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Holders of Notes of any Series or the Holders of the Coupons appertaining thereto (if any), the Trustee may also agree to the substitution of the Bank (on a subordinated basis in the case of Subordinated Guaranteed Notes) in place of MIFS or MAFS, as the case may be (where the relevant Notes are Notes in respect of which MIFS or MAFS, as the case may be, is the Issuer) as principal debtor under such Notes or, subject to such Notes and the Coupons appertaining thereto being or, where appropriate, remaining irrevocably guaranteed by the Bank (on a subordinated basis in the case of Subordinated Notes, Subordinated Guaranteed Notes or Undated Subordinated Notes), to the substitution of a subsidiary or holding company of the Bank or any subsidiary of any such holding company in place of the Issuer as principal debtor under such Notes, or to the substitution of a subsidiary or holding company of the Bank or any subsidiary of any such holding company in place of the Guarantor as guarantor under such Notes, and in each case the Coupons appertaining thereto (if any) and the Trust Deed insofar as it relates to such Notes.

In connection with the exercise of its powers, trusts, authorities or discretions (including, but not limited to those in relation to any proposed modification, waiver, authorisation, or substitution as aforesaid) the Trustee shall have regard to the interests of the Holders of the Notes of the relevant Series as a class and in particular, but without limitation, shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders resulting from the individual Noteholders or Couponholders being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from MIFS, MAFS or the Bank any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders.

15. Further Issues

The Issuer shall be at liberty from time to time without the consent of the Holders of Notes of any Series or Holders of the Coupons appertaining thereto (if any) to create and issue further notes ranking equally in all respects (or in all respects save as specified in the relevant Pricing Supplement) with the Notes of such Series so that the same shall be consolidated and form a single series with such Notes for the time being outstanding.

16. Governing Law

The Trust Deed, the Notes and the Coupons (if any) are governed by, and shall be construed in accordance with, English law.

The Bank, MIFS and MAFS irrevocably agree that the High Court of Justice in London shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in conjunction with any Notes, Coupons or the Trust Deed (respectively,

"Proceedings" and **"Disputes"**). The Bank, MIFS and MAFS irrevocably waive any objection which they might now or hereafter have to such court being nominated as the forum to hear and determine any Proceedings and to settle any Disputes and agree not to claim that any such Court is not a convenient or appropriate forum.

In the Trust Deed, MIFS and MAFS have irrevocably submitted (for the exclusive benefit of the Trustee and the Holders of Notes and Coupons) to the jurisdiction of the High Court of Justice in London in respect of any such claim, and each has irrevocably agreed that any legal process or any demand or any notice may be made or served on it by the same being posted in a prepaid registered or recorded delivery letter addressed to it at the registered office for the time being in England of the Bank (or at such other address as MIFS or MAFS, as the case may be, may have notified in writing to the Trustee and as the Trustee shall from time to time have approved) and marked for the attention of the Secretary of the Bank (or such official of the Bank as MIFS or MAFS, as the case may be, may have notified in writing to the Trustee and as the Trustee shall from time to time have approved) and that any such legal process, demand or notice shall be deemed to have been duly made or served on it at the expiration of seventy-two hours after the time of posting as aforesaid. Further, each of MIFS and MAFS has agreed to abide and be bound by a final and conclusive judgement of such court in any action brought against it in respect of any such claim as aforesaid.

Nothing herein shall affect the right of the Trustee or the Holders of Notes or Coupons to serve process in any other manner permitted by law or the right to take proceedings in any other jurisdiction.

In the case of a substitution under Condition 14, the Trustee may agree, without the consent of the Holders of the Notes of any Series or of the Coupons appertaining thereto, to a change of the law governing the Notes of any Series or the Coupons appertaining thereto and/or the Trust Deed insofar as it relates to such Series of Notes provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Holders of the Notes of such Series, but the Trustee shall, in giving such agreement, have regard to the interests of the Holders of the Notes of such Series as a class and in particular, but without limitation, shall not have regard to the consequences of such change for individual Noteholders or Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory, and the Trustee shall not be entitled to require, nor shall any Holders of the Notes of any Series or of the Coupons appertaining thereto be entitled to claim, from MIFS, MAFS or the Bank any indemnification or payment in respect of any tax consequences of any such substitution upon individual Holders of the Notes of any Series or of the Coupons appertaining thereto.

USE OF PROCEEDS

The net proceeds of the issue of each Series of Notes issued by the Bank or MIFS will be used in the conduct of the business of the Bank and its subsidiary undertakings. The net proceeds of the issue of each Series of Notes issued by MAFS will, to the extent required by section 128F of the Income Tax Assessment Act 1936 (as amended) of Australia, be used in the conduct of the Australian business of the Bank and its subsidiary undertakings.

MIDLAND BANK PLC AND ITS SUBSIDIARY UNDERTAKINGS ("MIDLAND") AND RECENT DEVELOPMENTS

Principal activities, objects and principal place of business

The principal objectives of the Bank (which are set out in Clause 4 of its Memorandum of Association) are to carry on in any part of the world the business of banking of all kinds and to transact and do all matters and things incidental thereto. The Bank is engaged principally in the provision of a comprehensive range of banking, financial and related services. The Bank's principal place of business in the United Kingdom is 27/32 Poultry, London, EC2P 2BX.

The Bank is incorporated in England and the entire issued ordinary share capital and the one preferred ordinary share of the Bank are owned by HSBC Holdings plc ("HSBC"). HSBC and its subsidiary undertakings (the "HSBC Group") is one of the largest banking and financial services organisations in the world with over 5,000 offices in 78 countries and territories. Its total assets at 31 December 1996 were £236.6 billion.

The Bank is one of the principal UK clearing banks. At 31 December 1996, Midland's total assets were £96.2 billion and on the basis of total assets Midland ranked fifth amongst such banking groups in the United Kingdom.

Business Operations

Midland groups its activities into two core business segments, Commercial Banking and, through its subsidiary undertaking Forward Trust Group Limited, Asset Finance. Detailed segmental information by geographic region, and by class of business is shown in Note 36 of the Notes to the Accounts.

Commercial Banking

Commercial Banking comprises UK Banking, HSBC MIDLAND, International Banking and Less Developed Countries ("LDC") Debt Management.

UK Banking

The Bank's network of approximately 1,700 branches in the United Kingdom provides banking and related financial services to the personal and business markets. The main services provided are:

- **Current Accounts**—The key customer relationship continues to be the provision of current account facilities. At 31 December 1996, UK Banking was operating approximately 4.6 million personal current accounts and 0.6 million business current accounts.

During the third quarter of 1996, the Bank's share of the small business market was approximately 14 per cent. During 1996 its share of the key formative market of business start-ups increased from 14.2 per cent. to 15.7 per cent., the single largest increase of market share in this sector.

- **Loans**—The Bank provides a full range of lending services for personal and business customers.

The Bank is actively increasing its domestic house mortgage portfolio, providing a range of fixed and variable rate mortgages and equity release loans. In a market showing strong signs of recovery, the Bank's mortgage book grew by three times the national average in 1996 and its total portfolio stood at £9.3 billion at 31 December 1996.

- **Savings Accounts and Investments**—In addition to current accounts, the Bank offers a range of term and notice savings accounts and a flexible range of accounts linked to money market rates, which are available both for the personal and small business markets.
- **Personal Financial Services**—The Bank sells life, pensions, investments and general insurance products and, under the terms of the UK Financial Services Act 1986, acts as "company representative" for the sale of regulated products, sourced from Midland Life Limited and Midland Unit Trust Management Limited.

The Bank has a dedicated sales force of approximately 650 financial planning managers based in the retail branch network. In addition, the Bank has approximately 700 financial planning officers, who sell mortgages together with the supporting insurance products. During 1996, the Bank successfully completed the integration of its financial planning managers into the retail branch network.

Sales of life, pensions and investment products in 1996 were 46 per cent. above 1995 levels, measured in terms of commission earned. In 1996, Midland had a 1.3 per cent. share of the personal annual premium life assurance market, and a 1.9 per cent. share of the personal lump sum investment market (Life and Unit Trust). Midland is a market leader in critical illness protection products. Funds under management of Midland Life amounted to £1.9bn at 31 December 1996 (£1.6bn in 1995). Funds under management of Midland Unit Trust Management amounted to £1.8bn at 31 December 1996 (£1.5bn in 1995).

- **Cards**—The Bank issues credit cards under both the MasterCard and VISA payment schemes. A full range of card products is offered to customers including mass, "gold", co-branded, affinity and private label cards. For business customers, the Bank provides business, corporate and purchasing cards.

As a founder member of the SWITCH debit card scheme, the Bank has been at the forefront of the development of the UK debit card market.

Besides issuing cards, the Bank is a major merchant acquirer for both credit card and debit card transactions.

In 1995, the Bank commenced a pilot programme with National Westminster Bank Plc and British Telecommunications plc to evaluate Mondex, a "smart card" electronic cash payment system. Further evaluation will be undertaken in 1997 prior to extending the scheme nationwide.

- **Clearing Services**—The Bank is one of the principal UK clearing banks for both paper and electronic clearing.
- **ATMs**—The Bank has a comprehensive self service automated teller machine ("ATM") network, consisting of approximately 2,100 machines sited at Midland branches and approximately a further 400 at non-branch sites such as supermarkets and underground stations. These, together with reciprocal arrangements with other banks, form part of a UK network of in excess of approximately 12,000 ATMs available to Midland's customers.
- **Direct Banking**—Through First Direct, a division of the Bank, a full personal banking service is provided via the telephone, 24 hours a day, 365 days a year, largely autonomously from the branch network. It primarily targets customers who seek a fast, convenient and competitively-priced service.

First Direct is the market leader in person to person, 24 hour banking in the United Kingdom, and plans further growth in 1997. It has achieved competitive advantage through high service quality and competitive pricing. As at 31 December 1996, First Direct had approximately 654,000 cheque account customers, of which over 75 per cent. were new to the Bank.

With effect from 1 January 1997, the loan portfolio and business of Forward Trust Personal Finance Limited was transferred from Forward Trust Group Limited to First Direct. This business has been re-named First Direct Business to Business and will develop customer relationships both through the acquisition of new customers and by offering its 420,000 established customers a wider range of products and services.

- **Private Banking**—The Bank provides broadly-based investment management and independent financial advisory services to more affluent personal customers. This service is available from 30 offices alongside retail bank branches, providing a local service to clients.
- **Stockbroking**—Midland Stockbrokers provides an execution-only share dealing service to retail investors via the retail branch network and directly by telephone. It also supports the share dealing requirements of external intermediaries.
- **Custody Services**—Midland Securities Services provides comprehensive custody services to a wide range of clients. As well as providing domestic custody in the UK market, Midland Security Services is the global custodian for the HSBC Group, making it one of the largest custodians in the world.
- **Trade Services**—HSBC Trade Services is the name under which Midland provides a full range of trade and international banking services, including documentary credits, bills

and short-term structured trade finance. By highlighting Midland's membership of the HSBC Group, this name emphasises the breadth of quality, experience and information technology support that is available worldwide to Midland's customers.

- **Corporate Banking**—Midland Corporate Banking has responsibility for the relationship management of the Bank's largest UK and international corporate and institutional clients. Relationships are managed through a number of specialist industry groups and close co-operation is maintained with all areas of Midland and the wider HSBC Group in order to provide customers with the broadest possible range of commercial and investment banking products and services. The Bank's retail branches handle the account maintenance requirements of the corporate customers managed by Midland Corporate Banking. The Bank, through Midland Corporate Banking, is a leading correspondent bank in London. The additional coverage and relationships of the HSBC Group have strengthened this position.

The branch network is divided into five geographic divisions, each headed by a general manager.

A major investment programme was initiated in 1995 and completed in 1996 to upgrade the image of the Bank's branches to a consistent standard. This programme has provided a professional yet friendly environment which better meets the needs of customers.

Cheques and credits paid in through the retail banking network are processed through thirteen District Service Centres. A three year programme, commenced in 1994, is underway, whereby back office processes are either automated or removed from the branches to an extended District Service Centre network. This includes expanding the use of the District Service Centres to carry out additional processing and creating Customer Service Centres to handle customers' telephone calls directly. These Customer Service Centres aim to complement and strengthen the relationship between the Bank's branches and customers and a Welsh language service is available for those customers who prefer it. A Business Telephone Banking Service has recently been introduced, specifically tailored to the needs of Midland business customers.

Midland continues to pursue a strategy of differentiating itself from its competitors by the achievement of a more reliable and higher quality level of service and regularly monitors the views of its customers in this regard. Progress in this direction enables Midland to offer a service guarantee for personal customers opening their accounts with the Bank under which the Bank pays customers £10 each time guaranteed standards are not met. The intention is to ensure high service standards are maintained as well as to encourage new customers to open their accounts with the Bank.

Charges have been a major source of dissatisfaction both in the personal and in the small business markets. The Bank has further simplified its charges in the personal market through the launch of the new Midland Bank Account announced in January 1997. Under the new terms there will be no monthly service charge for authorised borrowing, there will be a £50 "buffer zone" for those who accidentally overdraw and all customers will receive credit interest. The tariff for small businesses has remained unchanged since December 1990.

The Bank continues its drive to cut costs and improve customer service by investing in new technology, transaction processing facilities and enhanced self service equipment. Over 200 branches have self service lobbies providing 24 hour access and, as technology has automated and streamlined certain processing activities in the branches, more space has been made available in front of counters to provide customers with better facilities.

HSBC MIDLAND

HSBC MIDLAND comprises the treasury operations of the Bank in London, New York and Tokyo, together with smaller treasury operations in Stockholm, Paris and Milan.

HSBC MIDLAND's activities include a full range of foreign exchange, money market and capital markets operations. Interest rate, bond and equity derivative products are also delivered to its customer base. A 24 hour currency option dealing service as well as a computerised spot and forward foreign exchange order service is available from London. Additionally, a number of corporate clients have the facility to deal direct through the Bank's FX-Direct foreign exchange dealing system. Nine UK metropolitan-based regional treasury centres provide direct access to treasury services for customers on a local basis.

In the foreign exchange markets, HSBC MIDLAND is placed in the top three firms internationally. It is also well established in the interest rate markets. In capital markets, HSBC MIDLAND's

business is conducted in the name of HSBC Markets, a vehicle under which a number of the operating arms of the HSBC Group have been brought together. HSBC MIDLAND continues to retain its position as a leading new debt issuance house in the international capital markets.

Midland is also prominent in the UK government bond market through its market-making subsidiary undertaking, HSBC Greenwell. HSBC Futures provides comprehensive coverage of the London International Financial Futures Exchange and has achieved a prominent position in terms of market share globally. It is also represented on most of the leading overseas financial futures exchanges.

In New York and Tokyo, HSBC MIDLAND provides the same range of products as London. The foreign exchange market-making and deal processing that was previously carried out in New York is now conducted from London.

International Banking

Midland's overseas operations offer extensive geographic coverage, primarily in Europe and the Americas, coupled with a wide range of commercial banking services including loans, deposits, payments, treasury and capital markets, trade services and private banking.

The overseas network, which works closely with the other parts of the HSBC Group, consists of branches, subsidiary undertakings and representative offices in over 25 countries.

The Bank has branches in Australia, France, Greece, Guernsey, the Isle of Man, Italy, Japan, Jersey, Malta, Panama, Spain, Sweden and the United States. The Bank opened a full branch in the Czech Republic in April 1997. The treasury business in the United States and the branch in Japan, together with the smaller treasury operations in France, Italy and Sweden, form an integral part of HSBC MIDLAND.

The Bank has representative offices in Argentina, Brazil, Chile, Colombia, Hong Kong, Ireland, Mexico, Russia, Singapore, Taiwan and Venezuela.

Midland also operates through the following overseas subsidiary undertakings: in Armenia - Midland Armenia Bank JSC; in Austria - Trinkaus & Burkhardt Vermoegensverwaltung AG; in Cayman, Midland Bank Trust Corporation (Cayman) Limited; in Germany - Trinkaus & Burkhardt KGaA; in Guernsey - Midland Bank International Finance Corporation Limited; in Ireland - Midland International Financial Services (Ireland) Limited; in the Isle of Man - Midland Bank Trust Corporation (Isle of Man) Limited; in Jersey - Midland Bank International Finance Corporation Limited; in Luxembourg - Trinkaus & Burkhardt (International) SA; in Switzerland - Guyerzeller Bank AG and Trinkaus & Burkhardt (Schweiz) AG; and in Turkey - Midland Bank AS.

In addition, Midland has minority shareholdings in the following banks: in Argentina - Banco Roberts SA and in the United Kingdom - British Arab Commercial Bank Limited. On 24 June 1997, the Directors of the Bank approved the transfer of Midland's minority shareholding in Banco Roberts SA to another company in the HSBC Group.

Midland's operations in the Channel Islands, the Isle of Man and the Cayman Islands, which were formerly located within UK Banking as part of Offshore Services, were transferred to International Banking during the course of 1996.

Business with emerging markets (principally in Latin America), which is generally short-term trade and/or capital markets related, is managed centrally in London; the representative offices in the relevant countries are used to identify profitable business opportunities.

LDC Debt Management

Long-term exposure includes Brady bonds issued as a result of debt restructuring by Argentina, Brazil, and Mexico and loans to certain other countries where debt negotiations are taking place. A portfolio of equity investments is held, arising from conversion of debt. Long-term debt exposures and debt: equity investments in Latin America continue to be reduced.

Asset Finance

Through Forward Trust Group Limited and its subsidiary undertakings ("Forward Trust"), Midland is one of the principal suppliers in the United Kingdom of instalment finance, leasing and factoring products, mainly to business customers, following the transfer of Forward Trust Personal Finance Limited to First Direct in January 1997. Forward Trust is self-contained operationally, but works closely with UK Banking to provide comprehensive financial packages for a wide variety of customer requirements.

Forward Trust Business Finance Limited operates through specialist divisions, each focused on a specific market. The divisions are organised to finance commercial vehicles, plant and equipment, information technology and materials handling equipment. In addition, a specialised finance division arranges large and complex leases. In Northern Ireland a full range of products is offered through a branch network.

Swan National Motor Finance Limited offers a comprehensive range of motor finance products and related services to corporate customers and the motor trade, with a separate division responsible for consumers and small businesses.

Griffin Credit Services Limited (formerly Griffin Factors Limited) offers factoring, invoice discounting and receivables management services to business customers and recovery services for personal and corporate debt.

Forward Trust Personal Finance Limited was part of Forward Trust until 31 December 1996. It offers personal loans at point of sale through retailers of consumer goods and also provides personal loans direct to consumers and to customers of building societies. With effect from 1 January 1997, the loan portfolio and business of Forward Trust Personal Finance Limited was transferred from Forward Trust Group Limited to First Direct.

Eversholt Holdings Limited, which was acquired on 19 February 1997, provides, through its subsidiary undertaking, Eversholt Leasing Limited, passenger rolling stock under operating leases to train operators in the United Kingdom.

Recent Developments

On 1 January 1997, HSBC Securities Ltd was transferred to HSBC Investment Bank plc at net asset value.

On 2 January 1997, Midland Bank SA was transferred to HSBC Holdings BV at net asset value.

On 5 February 1997, the Bank issued 2,000,000 series 1 second US dollar preference shares and 2,000,000 series 2 second US dollar preference shares. Net proceeds of the issue were US\$48,750,000.

On 19 February 1997, Forward Trust Limited, a wholly-owned subsidiary undertaking, acquired the issued share capital of Eversholt Holdings Limited for consideration of £726.5 million, including the repayment of net debt of £273.1 million. Eversholt Holdings Limited, through its subsidiary undertaking, Eversholt Leasing Limited, provides passenger rolling stock under operating leases to train operators in the United Kingdom. The acquisition forms part of a strategy to develop and expand Forward Trust's asset finance and operating lease business.

On 23 April 1997, the Bank issued £150 million Undated Subordinated Step-Up Coupon Notes under the terms of the Programme. Net proceeds of the issue were £148.3 million.

On 7 May 1997, Midland, in conjunction with BT, British Sky Broadcasting Group and Matsushita Electric, announced the formation of British Interactive Broadcasting Limited ("BIB"), an independent company created to deliver digital interactive services to television viewers in the United Kingdom. Midland will own 20 per cent. of BIB and will provide funding of £53 million, equivalent to its 20 per cent. share, to establish the technological infrastructure for those services and to provide subsidies on digital satellite set top boxes capable of receiving BIB's services. This development will enable Midland to be at the forefront in the provision of TV banking services and the development of electronic commerce in the United Kingdom.

On 9 June 1997, the Bank issued US\$50 million Subordinated Step-Up Coupon Callable Floating Rate Notes due 2007 under the terms of the Programme. The notes are redeemable in June 2002. Net proceeds of the issue were US\$49.8 million.

On 23 June 1997, the Bank issued £150 million Subordinated Step-Up Coupon Floating Rate Notes due 2007 under the terms of the Programme. The notes are redeemable in June 2002. Net proceeds of the issue were £149.3 million.

Midland International Financial Services B.V. has given notice of the early redemption of the DM300 million Guaranteed Floating Rate Notes, such notes to be redeemed on 30 June 1997.

DIRECTORS OF MIDLAND BANK PLC

The Directors of the Bank, their functions and their principal outside activities (if any) of significance to Midland, are as follows:

Name	Function within Midland	Principal Outside Activity
Sir William Purves, CBE, DSO	Chairman	Group Chairman, HSBC Holdings plc
J.R.H. Bond	Deputy Chairman	Group Chief Executive, HSBC Holdings plc
K.R. Whitson*	Chief Executive	
R.M.J. Orgill*	Deputy Chief Executive	
B.H. Asher	Director	Chairman, HSBC Investment Bank Holdings plc
D.W. Baker*	Director	
J.F. Devaney	Director	Executive Chairman, Eastern Group PLC
R. Emerson	Director	Director of Taxation and Treasury, Glaxo Wellcome plc
Sir Archibald Forster	Director	Director, Engen Limited (RSA)
S.K. Green	Director	General Manager and Group Treasurer, HSBC Holdings plc
A.J. Hales	Director	Chief Executive, Allied Domecq PLC
H.H. Jacobi	Director	Chairman of the Managing Partners, Trinkaus & Burkhardt KGaA**
Sir Wilfrid Newton, CBE	Director	Chairman, Raglan Properties plc
A.C. Reed	Director	Divisional Director, Financial Control, Marks & Spencer plc
H.A. Rose	Director	Finance and Strategy Director, Rover Group Limited

* denotes executive director

** a subsidiary undertaking of the Bank

The business address for all the Directors of the Bank is 27/32 Poultry, London EC2P 2BX.

CONSOLIDATED CAPITALISATION OF MIDLAND BANK PLC

The following table shows the unaudited authorised and issued share capital of the Bank and Consolidated Loan Capital of Midland as at 31 March 1997:

	Authorised £m	Authorised U.S.\$m	Issued and fully paid £m
Ordinary Share Capital			
Ordinary shares (of nominal value £1 each)	1,000	–	797
			<u>Proceeds of Issue £m</u>
Preference Share Capital			
Sterling preference shares (of nominal value £1 each)	150	–	–
U.S. Dollar preference shares (of nominal value U.S.\$0.01 each).....	–	2	521
			<u>Amount outstanding £m</u>
Consolidated Loan Capital			
Perpetual subordinated loan capital of Midland Bank plc			
Undated Floating Rate Primary Capital Notes (U.S.\$750 million)			461
Undated Floating Rate Primary Capital Notes (U.S.\$500 million)			307
Undated Floating Rate Primary Capital Notes (Series 3) (U.S.\$300 million)			185
9¼% Step-up Undated Subordinated Notes			150
			<u>1,103</u>
Subordinated loan capital of Midland Bank plc			
Subordinated Floating Rate Notes 2001			250
8¾% Subordinated Notes 2004 (U.S.\$400 million)			244
9% Subordinated Notes 2005			200
7.625% Subordinated Notes 2006 (U.S.\$500 million)			307
14% Subordinated Unsecured Loan Stock 2002/2007			100
6.95% Subordinated Notes 2011 (U.S.\$300 million)			184
7.65% Subordinated Notes 2025 (U.S.\$300 million)			183
			<u>1,468</u>
Subordinated loan capital of subsidiary undertakings			
Guaranteed Floating Rate Notes 1986/1998 (DM 300 million)			110
9.25% Notes 1991/1998 (Lux FR 500 million)			9
7.55% Guaranteed Loan 1998 (Yen 6.3 billion)			31
7.25% Guaranteed Loan 1999 (Yen 3.0 billion)			15
7.41% Guaranteed Loan 1999 (Yen 10.0 billion)			50
Guaranteed Floating Rate Notes 1999 (U.S.\$200 million)			123
7¾% Dual Currency Guaranteed Bonds 1999 (Yen 5.0 billion)			25
Guaranteed Floating Rate Notes 1989/1999 (DM 200 million)			73
6.99% Guaranteed Loan 1999 (Yen 5.0 billion)			25
Borrowings at fixed and variable rates repayable 2000/2009 (DM 419 million)			153
Guaranteed Floating Rate Unsecured Loan Stock/Notes 2001			2
12¾% Guaranteed Notes 2003 (U.S.\$150 million)			92
			<u>708</u>
Total Consolidated Loan Capital			<u><u>3,279</u></u>

Notes:

- (1) The ordinary share capital and the one preferred ordinary share of Midland Bank plc are beneficially owned by HSBC.
- (2) On 23 April 1997, Midland Bank plc issued £150 million Undated Subordinated Step-Up Coupon Notes.
- (3) On 9 June 1997, Midland Bank plc issued U.S.\$50 million Subordinated Step-Up Coupon Callable Floating Rate Notes due 2007.
- (4) On 23 June 1997, Midland Bank plc issued £150 million Subordinated Step-Up Coupon Floating Rate Notes due 2007.
- (5) Midland International Financial Services B.V. has given notice of the early redemption of the DM300 million Guaranteed Floating Rate Notes 1986/1998, such notes to be redeemed on 30 June 1997.

Save as disclosed above, there has been no material change in the share capital of the Bank or the Consolidated Loan Capital of Midland since 31 March 1997.

FINANCIAL STATEMENTS OF MIDLAND BANK PLC

The accounts of Midland Bank plc and its subsidiary undertakings for the year ended 31 December 1996 and the related report of KPMG Audit Plc and the statement of Directors' Responsibilities therein contained on pages 41 to 78 are reproduced from the Midland Bank plc Annual Report and Accounts 1996 (the "Accounts"). Accordingly, cross references made in pages 41 to 78 are to the page numbers of the Accounts (including certain pages not reproduced herein).

Statement of Directors' Responsibilities in Relation to Financial Statements

The following statement, which should be read in conjunction with the Auditor's statement of its responsibilities set out in its report below, 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 Bank and its subsidiary undertakings 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. Since the Directors are satisfied that Midland and the Bank have the resources to continue in business for the foreseeable future, the financial statements continue to be prepared on the going concern basis.

The Directors consider that in preparing the financial statements (on pages 32 to 68), the Bank 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 Bank keeps accounting records which disclose with reasonable accuracy the financial position of the Bank 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 Midland and to prevent and detect fraud and other irregularities.

On behalf of the Board

I B Marshall, Secretary, 3 March 1997

Report of the Auditors to the Members of Midland Bank plc

We have audited the financial statements on pages 32 to 68.

Respective Responsibilities of Directors and Auditors

As described above, the Bank'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 preparation of the financial statements and of whether the accounting policies are appropriate to the Midland Bank Group'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 affairs of the Bank and of the Midland Bank Group as at 31 December 1996 and of the profit of the Midland Bank Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London, 3 March 1997

Consolidated Profit and Loss Account

For the Year Ended 31 December 1996

	Note	1996 £m	1995 £m
Interest receivable			
- interest receivable and similar income arising from debt securities		964	749
- other interest receivable and similar income		4,151	4,225
Interest payable		(3,064)	(3,067)
Net interest income		2,051	1,907
Dividend income	3	3	9
Fees and commissions receivable		1,391	1,242
Fees and commissions payable		(234)	(200)
Dealing profits		234	222
Other operating income		193	192
Other income		1,587	1,465
Operating income		3,638	3,372
Administrative expenses	4	(2,064)	(2,056)
Depreciation and amortisation		(200)	(195)
Operating expenses		(2,264)	(2,251)
Operating profit before provisions		1,374	1,121
Provisions			
- provisions for bad and doubtful debts	13	(172)	(198)
- provisions for contingent liabilities and commitments	27	(3)	-
Amounts written off fixed asset investments		(40)	(1)
Operating profit		1,159	922
Profit on disposal of fixed assets and investments		92	54
Income from associated undertakings		21	22
Profit on ordinary activities before tax	5	1,272	998
Tax on profit on ordinary activities	6	(408)	(361)
Profit on ordinary activities after tax		864	637
Minority interests		(15)	(27)
Profit for the financial year attributable to shareholders		849	610
Dividends (including amounts attributable to non-equity shareholders)	8	(537)	(472)
Retained profit for the financial year transferred to reserves	30	312	138
Earnings per ordinary share	9	101.9p	73.8p

All items dealt with in arriving at profit for the financial year relate to continuing operations.

Consolidated Balance Sheet

At 31 December 1996

	Note	1996 £m	1995 £m
Assets			
Cash and balances at central banks		599	487
Items in the course of collection from other banks		1,964	2,064
Treasury bills and other eligible bills	10	1,649	4,614
Loans and advances to banks	11	14,944	12,381
Loans and advances to customers	12	45,352	42,548
Debt securities	16	16,851	13,586
Equity shares	17	299	451
Interests in associated undertakings	18	122	91
Other participating interests	19	4	83
Tangible fixed assets	21	1,516	1,429
Other assets	22	11,852	14,518
Prepayments and accrued income		1,069	1,375
Total assets	31	96,221	93,627
Liabilities			
Deposits by banks	23	12,401	15,152
Customer accounts	24	53,917	49,617
Items in the course of transmission to other banks		1,336	1,157
Debt securities in issue	25	3,065	2,036
Other liabilities	26	16,672	17,744
Accruals and deferred income		997	1,286
Provisions for liabilities and charges	27		
- deferred taxation		234	137
- other provisions for liabilities and charges		281	247
Subordinated liabilities	28		
- undated loan capital		1,061	999
- dated loan capital		2,142	1,832
Minority interests		155	181
Shareholders' funds (including non-equity interests)			
Called up share capital	29	797	797
Share premium account	30	1,931	1,452
Revaluation reserves	30	6	(31)
Profit and loss account	30	1,226	1,021
		3,960	3,239
Total liabilities	31	96,221	93,627
Memorandum Items			
Contingent liabilities	32		
- acceptances and endorsements		764	772
- guarantees and assets pledged as collateral security		7,523	6,607
- other contingent liabilities		130	130
		8,417	7,509
Commitments	32	32,145	29,033
W Purves Chairman K R Whitson Chief Executive and Director R M J Orgill Deputy Chief Executive and Director I B Marshall Secretary			

Balance Sheet

At 31 December 1996

	Note	1996 £m	1995 £m
Assets			
Cash and balances at central banks		586	424
Items in the course of collection from other banks		1,964	2,057
Treasury bills and other eligible bills	10	1,638	4,403
Loans and advances to banks	11	15,645	12,779
Loans and advances to customers	12	39,331	35,752
Debt securities	16	13,953	10,450
Equity shares	17	20	71
Interests in associated undertakings	18	70	45
Other participating interests	19	2	6
Shares in group undertakings	20	1,033	1,142
Tangible fixed assets	21	899	882
Other assets	22	8,629	11,973
Prepayments and accrued income		879	1,039
Total assets	31	84,649	81,023
Liabilities			
Deposits by banks	23	12,908	14,053
Customer accounts	24	48,350	44,147
Items in the course of transmission to other banks		1,336	1,157
Debt securities in issue	25	2,436	1,260
Other liabilities	26	11,760	13,632
Accruals and deferred income		660	717
Provisions for liabilities and charges	27		
- other provisions for liabilities and charges		206	188
Subordinated liabilities	28		
- undated loan capital		1,061	999
- dated loan capital		1,972	1,631
Shareholders' funds (including non-equity interests)			
Called up share capital	29	797	797
Share premium account	30	1,931	1,452
Revaluation reserves	30	170	213
Profit and loss account	30	1,062	777
		3,960	3,239
Total liabilities	31	84,649	81,023
Memorandum items			
Contingent liabilities	32		
- acceptances and endorsements		632	606
- guarantees and assets pledged as collateral security		8,956	7,555
- other contingent liabilities		130	130
		9,718	8,291
Commitments	32	30,907	27,628

W Purves
K R Whitson
R M J Orgill
I B Marshall

Chairman
Chief Executive and Director
Deputy Chief Executive and Director
Secretary

Statement of Total Consolidated Recognised Gains and Losses

For the Year Ended 31 December 1996

	1996 £m	1995 £m
Profit for the financial year attributable to shareholders	849	610
Surplus/(deficit) on revaluation of freehold and long leasehold premises	22	(26)
Exchange and other movements	(132)	44
Total recognised gains and losses for the year	739	628

Reconciliation of Movements in Consolidated Shareholders' Funds

For the Year Ended 31 December 1996

	1996 £m	1995 £m
Profit for the financial year attributable to shareholders	849	610
Dividends	(537)	(472)
	312	138
Other recognised gains and losses relating to the year	(110)	18
New share capital subscribed	524	233
Goodwill on acquisition of subsidiary and associated undertakings	(5)	(8)
Net addition to shareholders' funds	721	381
Shareholders' funds at 1 January	3,239	2,858
Shareholders' funds at 31 December	3,960	3,239
Shareholders' funds are analysed as follows:		
Equity interests	3,491	2,850
Non-equity interests	469	389
	3,960	3,239

Non-equity interests in shareholders' funds comprise proceeds of the issue of US\$ non-cumulative preference shares (Note 29), including share premium and after deducting unamortised issue costs.

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

Notes to the Accounts

1 Basis of preparation

- a The accounts have been prepared under the historical cost convention, as modified by the revaluation of certain investments and land and buildings, and in accordance with applicable accounting standards.

The consolidated accounts are prepared in accordance with the special provisions of Part VII, Chapter II of the Companies Act 1985 ('the Act') relating to banking groups.

As permitted by Section 230 of the Act, no profit and loss account is presented for the Bank.

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.

Midland complies with the requirements of Financial Reporting Standard 8 'Related Party Disclosures' which is effective for transactions between Midland and its related parties during 1996. No disclosure is presented of transactions between Midland and entities that are part of the HSBC Group in accordance with the exemptions granted to qualifying subsidiary undertakings under Financial Reporting Standard 8 'Related Party Disclosures'.

The accounting policies used in the preparation of these accounts are consistent with previous years.

A review of the classification of costs in respect of payments and securities transactions and administrative charges, has resulted in the reclassification of amounts previously included in 'Administrative expenses' to 'Fees and commissions payable'. This presentation reflects the nature of these costs more appropriately. The 1995 comparative data have been restated by £56 million accordingly.

- b Midland's consolidated accounts comprise the accounts of Midland Bank plc ('the Bank') and its subsidiary undertakings (together 'Midland'). Accounts of subsidiary undertakings are made up to 31 December, except in the case of Midland Life Limited which has a year end of 31 August and for which, therefore, Midland uses interim accounts drawn up to 31 December annually.

The consolidated accounts include the attributable share of the results and reserves of associated undertakings, based on accounts made up to dates not earlier than six months prior to 31 December.

All significant intra-group transactions have been eliminated on consolidation.

2 Principal accounting policies

a Income recognition

Interest income is recognised in the profit and loss account as it accrues, except in the case of doubtful debts (Note 2b).

Fee income is accounted for in the period when receivable, except where the fee is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases the fee is recognised on an appropriate basis over the relevant period.

b Loans and advances and doubtful debts

Specific provision is made for doubtful debts as and when they are so considered and, in addition, amounts have been set aside as general provisions for doubtful debts. The specific element relates to individual banking relationships; the general element relates to other exposures not separately identified but known from experience to exist in any portfolio of banking relationships. When there is no longer any realistic prospect of recovery, the outstanding debt is written off.

Specific provisions are made against loans to borrowers in developing countries. The level of such provisions is reviewed against exposure on a country by country basis and adjusted when the economic, political or regional circumstances of a country change, assessed by a scoring system consistent with Bank of England guidelines.

Interest on doubtful debts is credited to a suspense account which is netted in the balance sheet against the relevant balances.

Assets acquired in exchange for advances in order to achieve an orderly realisation continue to be reported as advances. The asset acquired is recorded at the carrying value of the advance disposed of at the date of the exchange, and provisions are based on any subsequent deterioration in its value.

Midland's mortgage origination activities are supported by a range of incentive arrangements, principally discounted rates for the first year and to a lesser extent, cashbacks. The costs of these incentives are charged to profit as they arise.

2 *Principal accounting policies (continued)*

c *Debt securities and equity shares*

Debt securities and equity shares intended to be held on a continuing basis are disclosed as investment securities and are included in the balance sheet at cost less provision for any permanent diminution in value.

Where dated investment securities have been purchased at a premium or discount, these premiums and discounts are amortised through the profit and loss account over the period from the date of purchase to the date of maturity. If the date of maturity is at the borrower's option within a specified range of years, the maturity date which gives the most conservative result is adopted. These securities are included in the balance sheet at cost adjusted for the amortisation of premiums and discounts arising on acquisition. The amortisation of premiums and discounts is included in 'Interest receivable'. Any profit or loss on realisation of these securities is recognised in the profit and loss account as it arises and included in 'Profit on disposal of fixed assets and investments'.

Debt securities held for the purpose of hedging are valued on the same basis as the liabilities which are being hedged. Other debt securities and equity shares are included in the balance sheet at market value. Changes in the market value of such assets are recognised in the profit and loss account as 'Dealing profits' as they arise.

Where securities are sold subject to a commitment to repurchase them at a predetermined price, they remain on the balance sheet and a liability is recorded in respect of the consideration received. Conversely, securities purchased under analogous commitments to resell are not recognised on the balance sheet and the consideration paid is recorded in 'Loans and advances to customers' or 'Loans and advances to banks'.

d *Subsidiary and associated undertakings and other participating interests*

The Bank's investments in subsidiary undertakings are stated at attributable net asset values with the exception of Midland's interest in long-term assurance business as explained in Note 2g below. Changes in net tangible assets of subsidiary undertakings are accounted for as movements in the revaluation reserve.

Interests in associated undertakings are stated at Midland's attributable share of the net tangible assets of the relevant undertakings.

Other participating interests are investments in the shares of undertakings which are held on a long-term basis for the purpose of securing a contribution to Midland's business, other than subsidiary or associated undertakings. Other participating interests are stated at cost less any permanent diminution in value.

Goodwill arising on the acquisition of subsidiary or associated undertakings, being the excess of the cost of acquisition over the fair value of Midland's share of separable net assets acquired, is charged against reserves in the year of acquisition. At the date of disposal of subsidiary or associated undertakings, goodwill is reinstated in reserves and included in the calculation of the profit on disposal of the undertaking.

e *Tangible fixed assets*

Land and buildings are stated at valuation or cost less depreciation calculated to write off the assets over their estimated useful lives as follows:

- freehold land and land held on leases with more than 50 years to expiry are not depreciated.
- land held on leases with 50 years or less to expiry is depreciated over the unexpired terms of the leases.
- buildings and improvements thereto are depreciated on cost or valuation at the greater of 2% per annum on the straight line basis or over the unexpired terms of the leases.

Equipment, fixtures and fittings are stated at cost less depreciation calculated on the straight line basis to write off the assets over their estimated useful lives, which are generally between 5 and 20 years. Certain capital expenditure incurred for the purpose of adapting premises for business use is included in 'Equipment, fixtures and fittings' and depreciated over 10 years.

Provision is made for costs associated with the disposal of premises for which there is no further business use.

f *Finance and operating leases*

Assets leased to customers under agreements which transfer substantially all the risks and rewards associated with ownership, other than legal title, are classified as finance leases.

Amounts receivable under finance leases, and hire purchase contracts which are in the nature of finance leases, are included under 'Loans and advances to banks' or 'Loans and advances to customers'. Leasing balances are stated in the balance sheet after deduction of unearned charges and provision for reduced future rentals.

Income from such leasing contracts is credited to the profit and loss account so as to give a constant rate of return on the net cash invested over each period, after taking account of the effects of taxation.

Notes to the Accounts (continued)

2 Principal accounting policies (continued)

f Finance and operating leases (continued)

Where Midland is a lessee under finance leases, the leased assets are capitalised and included in 'Equipment, fixtures and fittings' and the corresponding liability to the lessor is included in 'Other liabilities'. Finance charges payable are recognised over the periods of the leases, based on the interest rates implicit in the leases.

All other leases are classified as operating leases and, where Midland is the lessor, are included in 'Tangible fixed assets'. Rentals payable and receivable under operating leases are accounted for on the straight line basis over the periods of the leases and are included in 'Administrative expenses' and 'Other operating income' respectively.

g Long-term assurance business

The value placed on Midland's interest in long-term assurance business represents a prudent valuation of the future earnings expected to emerge from business currently in force, together with the surplus retained in the long-term assurance funds and the net shareholder assets of Midland Life Limited. This value is determined annually in consultation with independent actuaries and is included in 'Other assets'.

Changes in the value placed on Midland's interest in long-term assurance business are calculated actuarially on a post-tax basis and reported in the profit and loss account as part of 'Other operating income' after adjusting for the appropriate rate of taxation.

Long-term assurance assets and liabilities attributable to policyholders are recognised in Midland's accounts.

h 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. Deferred tax assets are recognised when recovery is anticipated in the near future without replacement by equivalent assets.

i Pension and other post-retirement benefits

Midland operates a number of pension and other post-retirement benefit schemes throughout the world and the major schemes are of the defined benefit type.

For UK defined benefit pension schemes annual contributions are made, on the advice of qualified actuaries, for funding of retirement benefits in order to build up reserves for each scheme member during the employee's working life and used to pay a pension to the employee or dependant after retirement. The costs of providing these benefits are charged to the profit and loss account on a regular basis.

Arrangements for staff retirement benefits in overseas locations vary from country to country and are made in accordance with local regulations and custom. The pension cost of the major overseas schemes is assessed in accordance with the advice of qualified actuaries so as to recognise the cost of pensions on a systematic basis over employees' service lives.

The cost of providing post-retirement health-care benefits, which is assessed in accordance with the advice of qualified actuaries, is recognised on a systematic basis over employees' service lives. At 1 January 1993, there was an accumulated obligation in respect of these benefits relating to current and retired employees. This is being charged in the profit and loss account in equal instalments over 20 years.

j Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the year-end. The results of overseas branches and subsidiary and associated undertakings are translated into sterling at the average rates of exchange for the year.

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 for 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.

k Off-balance-sheet financial instruments

Off-balance-sheet financial instruments arise from futures, forward, swap and option transactions undertaken by Midland in the foreign exchange, interest rate and equity markets.

Accounting for these instruments is dependent upon whether the transactions are undertaken for trading or non-trading purposes. Trading transactions include transactions undertaken for market-making, to service customers' needs and for proprietary purposes, as well as any related hedges. Non-trading transactions are those which are held for hedging purposes as part of Midland's risk management strategy against assets, liabilities, positions or cash flows measured on an accruals basis.

2 *Principal accounting policies (continued)*

k *Off-balance-sheet financial instruments (continued)*

Transactions undertaken for trading purposes are marked-to-market value and the net present value of any gain or loss arising is recognised in the profit and loss account as 'Dealing profits', after appropriate deferrals for unearned credit margin and future servicing costs.

Non-trading transactions are accounted for on an equivalent basis to the underlying assets, liabilities or net positions. Any profit or loss arising is recognised on the same basis as that arising from the related assets, liabilities or positions.

Assets, including gains, resulting from off-balance-sheet interest rate and exchange rate contracts which are marked to market are included in 'Other assets'. Liabilities, including losses, resulting from such contracts, are included in 'Other liabilities'.

3 *Dividend income*

	1996 £m	1995 £m
Income from equity shares	3	6
Income from participating interests other than associated undertakings	—	3
	<u>3</u>	<u>9</u>

4 *Administrative expenses*

	1996 £m	1995 £m
Staff costs		
- wages and salaries	1,033	1,007
- social security costs	84	86
- other pension costs	139	126
- other staff costs	130	175
	<u>1,386</u>	<u>1,394</u>
Other administrative expenses		
- premises and equipment (excluding depreciation)	283	287
- other administrative expenses	395	375
	<u>678</u>	<u>662</u>
	<u>2,064</u>	<u>2,056</u>

The average number of persons employed by Midland during the year was made up as follows:

	1996	1995
Commercial Banking	46,839	48,278
Forward Trust Group	2,546	2,450
	<u>49,385</u>	<u>50,728</u>

b *Retirement benefits*

Within Midland, the principal pension scheme is the Midland Bank Pension Scheme (the 'Principal Scheme'), the assets of which are held in a separate trust fund, which covers 93.7% of UK employees. The Principal Scheme is a funded defined benefit scheme, although a defined contribution section was established on 1 July 1996 for new employees.

Actuarial valuations of the assets and liabilities of the Principal Scheme are carried out triennially by professionally qualified actuaries to determine the financial position of the Principal Scheme and to enable the Bank to determine the level of contributions to be made to the Principal Scheme.

The latest valuation of the Principal Scheme was made at 31 December 1993 and was performed by P Lofthouse, Fellow of the Institute of Actuaries, of Watson Wyatt Partners (formerly R Watson & Sons). At that date the value of the Principal Scheme's assets was £3,685 million. The actuarial value of the assets represented 99.5% of the benefits accrued to members, after allowing for expected future increases in earnings, and the resulting deficit amounted to £18 million. On the basis of the actuary's recommendations, contributions were increased from 14.0% to 16.1% of pensionable salaries with effect from 1 January 1994, to remain at that percentage at least until the next actuarial valuation due as at 31 December 1996 and currently in progress. Based upon the method and assumptions adopted at the 1993 valuation, preliminary indications are that there is unlikely to be a deficit within the Principal Scheme.

Notes to the Accounts (continued)

4 Administrative expenses (continued)

b Retirement benefits (continued)

The actuarial method used in this valuation was the projected unit method and the main assumptions used were a long-term investment return of 9.2% per annum, salary increases of 6.3% per annum, equity dividend increases and rental growth of 4.5% per annum, and post-retirement pension increases of 4.0% per annum.

Other Midland pension schemes in the United Kingdom are constituted and funded similarly to the Principal Scheme. The total pension cost for the year ended 31 December 1996 was £139 million (1995 £126 million), which includes £104 million (1995 £106 million) for the Bank in respect of the Principal Scheme.

Midland also provides post-retirement health-care benefits for certain pensioners and employees, together with their dependent relatives. An actuarial assessment of the liabilities of the scheme, which is unfunded, is carried out on a regular basis by qualified actuaries. The liabilities are evaluated by discounting to a net present value, the expected future claims.

The charge relating to post-retirement health-care benefits was £17 million (1995 £21 million).

The latest actuarial assessment as at 31 December 1996 estimated the present value of the post-retirement benefit obligation to be £135 million (1995 £149 million) for Midland and £128 million (1995 £142 million) for the Bank, of which £61 million (1995 £47 million) has been provided for Midland and £57 million (1995 £45 million) has been provided for the Bank. The main financial assumptions used at 31 December 1996 are price inflation of 4.5% per annum, health-care claims costs escalation of 8% per annum, and a discount rate of 8% per annum.

c Directors' emoluments

The aggregate emoluments of the Directors of the Bank, computed in accordance with Part 1 of Schedule 6 of the Act were:

	1996 £'000	1995 £'000
Fees	187	163
Salaries and other emoluments	1,956	1,824
Discretionary bonuses	153	135
Pension contributions	327	652
	<u>2,623</u>	<u>2,774</u>

The emoluments of all UK Directors, excluding pension contributions, were in the following bands:

£	1996	1995	£	1996	1995
0 - 5,000	4	7	35,001 - 40,000	1	1
5,001 - 10,000	1	-	320,001 - 325,000	-	1
10,001 - 15,000	1	-	365,001 - 370,000	1	-
15,001 - 20,000	5	3	380,001 - 385,000	-	1
20,001 - 25,000	2	3	410,001 - 415,000	1	-
30,001 - 35,000	1	-			

The Chairman received no emoluments (1995 nil).

	1996 £'000	1995 £'000
Emoluments of the highest paid UK Director		
- salary and other emoluments	338	307
- discretionary bonus	75	75
- pension contributions	49	47
	<u>462</u>	<u>429</u>

4 *Administrative expenses (continued)*

c *Directors' emoluments (continued)*

In addition, pensions and other amounts paid under retirement benefit arrangements in respect of past services of £462,944 (1995 £410,424) were paid. At 31 December 1996, 'Provisions for liabilities and charges' (Note 27b) include £1,496,000 in respect of an unfunded pension obligation to a former Director (1995 £1,508,000).

Discretionary bonuses for Directors are based on a combination of individual and corporate performance and are determined by the Group Remuneration Committee of HSBC Holdings plc.

Details of individual Directors' remuneration are disclosed in the 'Report of the Directors' on page 19.

d *Auditor's remuneration*

Auditor's remuneration amounted to £2.5 million (1995 £2.5 million), including £1.1 million (1995 £1.0 million) which relates to the Bank. £1.3 million (1995 £0.9 million) was paid to the Bank's Auditor and its associates for non-audit work as analysed below:

	1996 £'000	1995 £'000
Regulatory and accounting work	580	477
Tax services	110	203
Consultancy services	423	8
Other	184	206
	<u>1,297</u>	<u>894</u>

5 *Profit on ordinary activities before tax*

Profit on ordinary activities before tax is stated after:

	1996 £m	1995 £m
a <i>Income</i>		
Aggregate rentals receivable, including capital repayments, under		
- finance leases	221	258
- hire purchase contracts	560	574
- operating leases	107	97
Increase in the value of long-term assurance business	72	72
Income from listed investments	830	664
Profits less losses on debt securities and equities dealing	32	34
Profits less losses on disposal of investment securities	94	50
	1996	1995
b <i>Charges</i>	£m	£m
Charges incurred with respect to subordinated liabilities	224	189
Finance charges in respect of finance leases and		
similar hire purchase contracts	7	9
Hire of plant and machinery	21	15
Rentals payable on premises held under operating leases	86	96

c *Profit on disposal of fixed assets and investments*

During the year, Midland sold its remaining 5.3% shareholding in 3i Group plc. The profit arising on sale was £76 million, in respect of which no tax charge arises because of previously unrecognised capital losses carried forward from prior years.

Profit on disposal of other fixed assets and investments attracted a tax charge of nil (1995 £8 million).

Notes to the Accounts (continued)

6 Tax on profit on ordinary activities

The charge/(credit) for taxation comprises:	1996 £m	1995 £m
United Kingdom corporation tax charge	357	312
Relief for overseas taxation	(13)	(13)
	<u>344</u>	<u>299</u>
Advance corporation tax written back	(12)	–
United Kingdom corporation tax - prior year	(24)	(43)
	<u>308</u>	<u>256</u>
Overseas taxation	43	48
Deferred taxation (Note 27)	52	51
	<u>403</u>	<u>355</u>
Associated undertakings	5	6
	<u>408</u>	<u>361</u>

Midland provides for UK corporation tax at 33% (1995 33%).

The UK tax charge includes £24 million (1995 £25 million) in respect of tax attributable to the increase in the value of long-term assurance business attributable to shareholders and franked investment income.

7 Profit of the Bank

The profit of the Bank for the year attributable to ordinary shareholders is £783 million (1995 £446 million).

8 Dividends

	1996 £m	1995 £m
Equity		
Ordinary dividends		
- paid	200	300
- proposed	300	150
	<u>500</u>	<u>450</u>
Non-equity		
Preference dividends	34	20
Other finance costs	3	2
	<u>537</u>	<u>472</u>

Non-cumulative dividends of US\$1.42 and US\$0.355 per share per annum are payable on the Series A1 and the Series A2 US\$ preference shares respectively in quarterly instalments.

Non-cumulative dividends of US\$1.64 and US\$0.41 per share per annum are payable on the Series B1 and the Series B2 US\$ preference shares respectively in quarterly instalments.

Non-cumulative dividends of US\$1.46 and US\$0.365 per share per annum are payable on the Series C1 and the Series C2 US\$ preference shares respectively in quarterly instalments.

Non-cumulative dividends of US\$1.528 and US\$0.382 per share per annum are payable on the Series D1 and the Series D2 US\$ preference shares respectively in quarterly instalments.

9 Earnings per ordinary share

Earnings per ordinary share is calculated by dividing the profit for the financial year attributable to equity shareholders, after deducting preference dividends and finance costs, of £812 million (1995 £588 million) by the weighted average number of ordinary shares in issue in 1996 of 797 million (1995 797 million).

10 Treasury bills and other eligible bills

	Midland		Bank	
	1996 £m	1995 £m	1996 £m	1995 £m
Treasury bills and similar securities	549	3,638	539	3,606
Other eligible bills	1,100	976	1,099	797
	<u>1,649</u>	<u>4,614</u>	<u>1,638</u>	<u>4,403</u>

None of the treasury and other eligible bills have been accounted for as investment securities.

11 Loans and advances to banks

	Midland		Bank	
	1996 £m	1995 £m	1996 £m	1995 £m
Repayable on demand or at short notice	5,004	2,923	3,775	1,699
Remaining maturity				
- 3 months or less but not repayable on demand or at short notice	7,888	6,612	9,731	7,871
- 1 year or less but over 3 months	1,436	2,251	1,506	2,522
- 5 years or less but over 1 year	314	327	368	478
- over 5 years	333	315	280	234
Specific bad and doubtful debt provisions (Note 13)	(31)	(47)	(15)	(25)
	<u>14,944</u>	<u>12,381</u>	<u>15,645</u>	<u>12,779</u>
Amounts include:				
Subordinated	-	-	73	87
Due from subsidiary undertakings				
- subordinated			73	87
- unsubordinated			3,375	3,246
			<u>3,448</u>	<u>3,333</u>
Due from fellow subsidiary undertakings				
- unsubordinated	746	723	610	688
Due from associated undertakings				
- unsubordinated	10	-	10	-

Notes to the Accounts (continued)

12 Loans and advances to customers

	Midland		Bank	
	1996 £m	1995 £m	1996 £m	1995 £m
Repayable on demand or at short notice	9,565	6,765	9,068	6,050
Remaining maturity				
- 3 months or less but not repayable on demand or at short notice	6,621	7,472	5,008	5,996
- 1 year or less but over 3 months	4,315	5,754	3,178	4,747
- 5 years or less but over 1 year	11,882	10,596	9,833	7,992
- over 5 years	14,216	13,344	13,316	12,116
General and specific bad and doubtful debt provisions (Note 13)	(1,247)	(1,383)	(1,072)	(1,149)
	<u>45,352</u>	<u>42,548</u>	<u>39,331</u>	<u>35,752</u>
Amounts include:				
Subordinated (excluding equity shares)	<u>-</u>	<u>-</u>	<u>-</u>	<u>5</u>
Due from subsidiary undertakings				
- subordinated			-	5
- unsubordinated			893	955
			<u>893</u>	<u>960</u>
Due from fellow subsidiary undertakings				
- unsubordinated	<u>958</u>	<u>597</u>	<u>936</u>	<u>574</u>
Due from parent undertaking				
- unsubordinated	<u>-</u>	<u>264</u>	<u>-</u>	<u>249</u>
Due from associated undertakings				
- unsubordinated	<u>30</u>	<u>-</u>	<u>22</u>	<u>-</u>
Due from other participating interests				
- unsubordinated	<u>3</u>	<u>-</u>	<u>3</u>	<u>-</u>

Included within loans and advances to customers are equity shares with a book value of £64 million (1995 £92 million) acquired in exchange for advances with an original face value of £144 million (1995 £252 million).

13 Provisions for bad and doubtful debts

a Movements on provisions for bad and doubtful debts

	Specific 1996 £m	General 1996 £m	Total 1996 £m	Specific 1995 £m	General 1995 £m	Total 1995 £m
Midland						
At 1 January	1,162	268	1,430	1,221	230	1,451
Effect of foreign exchange rate and other movements	(57)	(2)	(59)	18	3	21
Charge/(release) for the year	151	21	172	163	35	198
Amounts written off	(316)	—	(316)	(279)	—	(279)
Recoveries of amounts written off in previous years	51	—	51	39	—	39
At 31 December	991	287	1,278	1,162	268	1,430
Bank						
At 1 January	953	221	1,174	990	179	1,169
Effect of foreign exchange rate and other movements	(28)	(1)	(29)	5	1	6
Charge/(release) for the year	134	31	165	150	41	191
Amounts written off	(250)	—	(250)	(221)	—	(221)
Recoveries of amounts written off in previous years	27	—	27	29	—	29
At 31 December	836	251	1,087	953	221	1,174

	Midland		Bank	
	1996 £m	1995 £m	1996 £m	1995 £m
Included in:				
Loans and advances to banks (Note 11)	31	47	15	25
Loans and advances to customers (Note 12)	1,247	1,383	1,072	1,149
	1,278	1,430	1,087	1,174

b Movements on suspended interest account

	Midland		Bank	
	1996 £m	1995 £m	1996 £m	1995 £m
At 1 January	152	159	131	141
Effect of foreign exchange rate and other movements	(6)	2	(4)	1
Interest suspended in the year	39	63	35	57
Suspended interest recovered	(52)	(46)	(50)	(46)
Amounts written off	(10)	(26)	1	(22)
At 31 December	123	152	113	131

Notes to the Accounts (continued)

13 Provisions for bad and doubtful debts (continued)

c Non-performing loans

	Midland		Bank	
	1996	1995	1996	1995
	£m	£m	£m	£m
Loans on which interest has been suspended (net of suspended interest)	960	1,235	856	1,118
Provisions	(587)	(656)	(556)	(575)
	<u>373</u>	<u>579</u>	<u>300</u>	<u>543</u>
Other non-performing loans	834	1,102	627	801
Provisions	(404)	(506)	(280)	(356)
	<u>430</u>	<u>596</u>	<u>347</u>	<u>445</u>
Total non-performing loans	<u>803</u>	<u>1,175</u>	<u>647</u>	<u>988</u>

14 Less developed countries provisionable exposure

	Midland	
	1996	1995
	£m	£m
Total less developed countries exposures to banks and customers (net of provisions in respect of commercial risk)	803	1,006
Total accrued interest	26	42
	<u>829</u>	<u>1,048</u>
Less developed countries risk provisions	(193)	(270)
Suspended interest	(26)	(42)
Net exposure to less developed countries	<u>610</u>	<u>736</u>

Less developed countries provisionable exposure includes the holding of par and discount bonds issued as a result of debt restructuring by Argentina, Brazil, Mexico and Venezuela. The principal amount of these bonds is secured by US treasury instruments and as at 31 December 1996 the gross carrying value was £702 million (1995 £812 million).

15 Concentrations of exposure

The following industry concentrations, gross of specific provisions, are in excess of 10% of total gross advances to customers:

	1996	1995
	£m	£m
Consumer		
Residential mortgages	9,844	9,266
Other advances to individuals	5,311	4,781
Commercial		
Commercial, industrial and international trade	14,416	13,492

The analysis of concentration of exposure is based on the categories used by Midland to manage the associated risks; refinements in this process have resulted in minor reclassifications to 1995 comparatives.

16 Debt securities

	Midland				Bank			
	Book value 1996 £m	Market value 1996 £m	Book value 1995 £m	Market value 1995 £m	Book value 1996 £m	Market value 1996 £m	Book value 1995 £m	Market value 1995 £m
Issued by public bodies								
Investment securities								
- government securities	4,865	4,912	3,953	4,015	4,795	4,841	3,841	3,901
- other public sector securities	290	304	294	305	142	145	128	129
	<u>5,155</u>	<u>5,216</u>	<u>4,247</u>	<u>4,320</u>	<u>4,937</u>	<u>4,986</u>	<u>3,969</u>	<u>4,030</u>
Other securities								
- government securities	3,211		3,089		2,267		2,034	
- other public sector securities	103		289		89		159	
	<u>3,314</u>		<u>3,378</u>		<u>2,356</u>		<u>2,193</u>	
Issued by other bodies								
Investment securities	1,665	1,710	1,206	1,240	1,212	1,221	731	747
Other securities								
- bank and building society certificates of deposit	3,122		1,681		3,098		1,542	
- other debt securities	3,595		3,074		2,350		2,015	
	<u>6,717</u>		<u>4,755</u>		<u>5,448</u>		<u>3,557</u>	
	<u>16,851</u>		<u>13,586</u>		<u>13,953</u>		<u>10,450</u>	
Due within one year	5,073		3,380		4,950		3,062	
Due one year and over	11,778		10,206		9,003		7,388	
	<u>16,851</u>		<u>13,586</u>		<u>13,953</u>		<u>10,450</u>	
Amounts include:								
Subordinated debt securities	138		88		136		88	
Unamortised net (discounts)/ premiums on investment securities	(28)		(27)		19		(5)	
Investment securities								
- listed on a recognised UK exchange	3,560	3,566	2,316	2,331	3,419	3,425	2,197	2,212
- listed elsewhere	2,186	2,270	2,143	2,216	1,661	1,698	1,514	1,557
- unlisted	1,074	1,090	994	1,013	1,069	1,084	989	1,008
	<u>6,820</u>	<u>6,926</u>	<u>5,453</u>	<u>5,560</u>	<u>6,149</u>	<u>6,207</u>	<u>4,700</u>	<u>4,777</u>
Other securities								
- listed on a recognised UK exchange	1,755		1,621		941		749	
- listed elsewhere	4,051		3,897		2,674		2,565	
- unlisted	4,225		2,615		4,189		2,436	
	<u>10,031</u>		<u>8,133</u>		<u>7,804</u>		<u>5,750</u>	
	<u>16,851</u>		<u>13,586</u>		<u>13,953</u>		<u>10,450</u>	

Notes to the Accounts (continued)

16 Debt securities (continued)

Investment securities:

	Cost £m	Provisions £m	Book value £m
Midland			
At 1 January 1996	5,454	(1)	5,453
Exchange and other movements	(478)	—	(478)
Acquisitions	3,236	—	3,236
Disposals and amounts repaid	(1,355)	—	(1,355)
Provisions made	—	(1)	(1)
Amortisation of discounts and premiums	(35)	—	(35)
At 31 December 1996	6,822	(2)	6,820
Bank			
At 1 January 1996	4,700	—	4,700
Exchange and other movements	(373)	—	(373)
Acquisitions	3,133	—	3,133
Disposals and amounts repaid	(1,273)	—	(1,273)
Amortisation of discounts and premiums	(38)	—	(38)
At 31 December 1996	6,149	—	6,149

For the purposes of determining market value, listed investments are valued at middle market prices and unlisted investments at Directors' valuation.

Where securities are carried at market value, and the market value is higher than cost, the difference between cost and market value is not disclosed as it cannot be determined without unreasonable expense.

The above market valuations do not take into account transactions entered into to hedge the value of Midland's investment securities. If these transactions were included, the market valuation of investment securities would be £6,886 million for Midland (1995 £5,518 million) and £6,167 million (1995 £4,735 million) for the Bank.

17 Equity shares

	Midland				Bank			
	Book value 1996 £m	Market value 1996 £m	Book value 1995 £m	Market value 1995 £m	Book value 1996 £m	Market value 1996 £m	Book value 1995 £m	Market value 1995 £m
Investment securities								
- listed on a recognised UK exchange	4	3	47	128	1	—	47	128
- listed elsewhere	100	111	79	87	2	2	2	2
- unlisted	38	40	49	49	16	22	17	17
	142	154	175	264	19	24	66	147
Other securities								
- listed other than on a recognised UK exchange	142		266		—		1	
- unlisted	15		10		1		4	
	157		276		1		5	
	299		451		20		71	

17 Equity shares (continued)

Investment securities:	Cost £m	Provisions £m	Book value £m
Midland			
At 1 January 1996	183	(8)	175
Exchange and other movements	(17)	1	(16)
Acquisitions	45	—	45
Disposals	(92)	—	(92)
Transfers from other participating interests (Note 19)	43	(12)	31
Provisions made	—	(1)	(1)
At 31 December 1996	162	(20)	142
Bank			
At 1 January 1996	67	(1)	66
Acquisitions	3	—	3
Disposals	(51)	—	(51)
Transfers from other participating interests (Note 19)	2	—	2
Provisions made	—	(1)	(1)
At 31 December 1996	21	(2)	19

For the purposes of determining market value, listed investments are valued at middle market prices and unlisted investments at Directors' valuation.

Where securities are carried at market value, and the market value is higher than cost, the difference between cost and market value is not disclosed as it cannot be determined without unreasonable expense.

18 Interests in associated undertakings

a Movements in associated undertakings

	Midland £m		Bank £m	
At 1 January 1996	91		45	
Exchange and other movements	(7)		(1)	
Additions	39		26	
Write off of goodwill on acquisition	(2)		—	
Retained profits	1		—	
At 31 December 1996	122		70	

	Midland		Bank	
	1996 £m	1995 £m	1996 £m	1995 £m
Shares in banks	108	80	62	38
Other	14	11	8	7
	122	91	70	45

None of the above associated undertakings are listed.

On the historical cost basis, the Bank's interests in associated undertakings would have been included as follows:

	1996 £m	1995 £m
Cost	83	58
Provisions	(23)	(23)
	60	35

Notes to the Accounts (continued)

18 Interests in associated undertakings (continued)

b Principal associated undertakings at 31 December 1996

	Accounts made up to	Country of incorporation/ registration and operations	Principal activity	Midland's interest in equity capital	Issued equity capital
Banco Roberts S.A.	30.6.96	Argentina	Banking	29.9%*	Argentinian Pesos 140m
British Arab Commercial Bank Limited (formerly UBAF Bank Limited)	31.12.96	England	Banking	41.5%	US\$81m £32m fully paid, £5m nil paid
Mondex UK Limited	31.12.96	England	Electronic cash	50%	-†

* Held indirectly

† Issued equity capital is less than £1 million.

The associated undertakings above have no loan capital, except for British Arab Commercial Bank Limited which has issued US\$44.5 million of subordinated unsecured loan stock in which the Bank has a 34.7% interest.

19 Other participating interests

	Midland		Bank	
	1996 £m	1995 £m	1996 £m	1995 £m
Listed other than on a recognised UK exchange	-	53	-	-
Unlisted	4	30	2	6
	<u>4</u>	<u>83</u>	<u>2</u>	<u>6</u>
Market value of listed securities	-	42	-	-
Other participating interests in banks	-	40	-	-
	<u>-</u>	<u>40</u>	<u>-</u>	<u>-</u>
		Cost	Provisions	Book Value
		£m	£m	£m
Midland				
At 1 January 1996		100	(17)	83
Exchange movements		(9)	1	(8)
Additions		2	-	2
Disposals		(29)	28	(1)
Transfers to equity shares (Note 17)		(43)	12	(31)
Reclassifications		(3)	-	(3)
Provisions made		-	(38)	(38)
At 31 December 1996		<u>18</u>	<u>(14)</u>	<u>4</u>
Bank				
At 1 January 1996		21	(15)	6
Exchange movements		(2)	1	(1)
Additions		2	-	2
Transfers to equity shares (Note 17)		(2)	-	(2)
Reclassifications		(3)	-	(3)
At 31 December 1996		<u>16</u>	<u>(14)</u>	<u>2</u>

20 Shares in group undertakings

a Movements on the Bank's interest in shares in group undertakings

	£m
At 1 January 1996	1,142
Acquisitions	36
Capital loan reclassified	8
Capital repayments by subsidiary undertakings	(85)
Provisions	(10)
Revaluation	(58)
At 31 December 1996	1,033

The above amount represents the direct interests of the Bank in its subsidiary undertakings. None of these interests is listed. Interests in subsidiary undertakings include £34 million (1995 nil) representing interests in banks.

On the historical cost basis, the Bank's interests in subsidiary undertakings would have been included as follows:

	1996 £m	1995 £m
Cost	917	1,036
Provisions	(47)	(116)
	870	920

b Principal subsidiary undertakings at 31 December 1996

	Country of registration/ incorporation and operation	Percentage of equity capital held by Midland Bank plc
		Direct Indirect
Forward Trust Limited	England	100%
Griffin Credit Services Limited (formerly Griffin Factors Limited)	England	100%
Guyerseller Bank AG	Switzerland	75%
HSBC Greenwell	England	100%
Midland Bank SA	France	100%
Midland Bank Trust Company Limited	England	100%
Midland Bank International Finance Corporation Limited	Jersey	100%
Midland Life Limited	England	
£1 ordinary A shares		100%
£1 ordinary B shares		100%
£1 ordinary C shares		100%
£1 ordinary D shares+		100%
Swan National Leasing Limited	England	100%
Trinkaus & Burkhardt KGaA#	Germany	73%

+ Non-equity shares

Partnership limited by shares

Details of all subsidiary undertakings will be annexed to the next Annual Return of the Bank. All of the above subsidiary undertakings are engaged in the business of banking or other financial services.

All of the above make their accounts up to 31 December except Midland Life Limited, whose accounts are made up to 31 August to avoid undue delay in the publication of Midland's accounts.

On 2 January 1997, Midland transferred Midland Bank SA to HSBC Holdings BV, a fellow subsidiary undertaking of HSBC Holdings plc, at net asset value.

Notes to the Accounts (continued)

21 Tangible fixed assets

	Freehold land and buildings	Long leasehold land and buildings	Short leasehold land and buildings	Equipment, fixtures and fittings	Equipment on operating leases	Total
	£m	£m	£m	£m	£m	£m
<i>a Movements on tangible fixed assets</i>						
Midland						
Cost or valuation						
At 1 January 1996	624	74	212	927	386	2,223
Exchange and other movements	(17)	(1)	(1)	(7)	(1)	(27)
Additions	17	2	10	109	269	407
Disposals	(19)	(1)	(5)	(88)	(151)	(264)
Reclassification	25	(25)	—	—	—	—
Transfer of accumulated depreciation on revaluation	(14)	(2)	—	—	—	(16)
Surplus on revaluation	19	2	—	—	—	21
At 31 December 1996	635	49	216	941	503	2,344
Accumulated depreciation						
At 1 January 1996	—	—	(143)	(540)	(111)	(794)
Exchange and other movements	—	—	1	5	1	7
Disposals	—	—	4	78	61	143
Transfer of accumulated depreciation arising on revaluation	14	2	—	—	—	16
Charge for the year	(14)	(2)	(10)	(95)	(79)	(200)
At 31 December 1996	—	—	(148)	(552)	(128)	(828)
Net book value						
At 31 December 1996	635	49	68	389	375	1,516
At 31 December 1995	624	74	69	387	275	1,429
Bank						
Cost or valuation						
At 1 January 1996	416	64	181	824	—	1,485
Exchange and other movements	(1)	—	(1)	(2)	—	(4)
Additions	15	2	8	103	—	128
Disposals	(17)	(1)	(4)	(81)	—	(103)
Reclassification	25	(25)	—	—	—	—
Transfer of accumulated depreciation on revaluation	(11)	(2)	—	—	—	(13)
Surplus on revaluation	16	2	—	—	—	18
At 31 December 1996	443	40	184	844	—	1,511
Accumulated depreciation						
At 1 January 1996	—	—	(119)	(484)	—	(603)
Exchange and other movements	—	—	—	1	—	1
Disposals	—	—	4	72	—	76
Transfer of accumulated depreciation arising on revaluation	11	2	—	—	—	13
Charge for the year	(11)	(2)	(6)	(80)	—	(99)
At 31 December 1996	—	—	(121)	(491)	—	(612)
Net book value						
At 31 December 1996	443	40	63	353	—	899
At 31 December 1995	416	64	62	340	—	882

21 Tangible fixed assets (continued)

b Assets held under finance leases

The net book amount of equipment, fixtures and fittings included assets held under finance leases of £8 million (1995 £27 million) for Midland and £45 million (1995 £27 million) for the Bank, on which the depreciation charge was £7 million (1995 £13 million) for Midland and £13 million (1995 £13 million) for the Bank.

c Valuations

Cost or valuation of freehold and long leasehold land and buildings at 31 December comprises:

	Midland		Bank	
	1996	1995	1996	1995
	£m	£m	£m	£m
At valuation	<u>684</u>	<u>698</u>	<u>483</u>	<u>480</u>

On the historical cost basis, freehold and long leasehold land and buildings would have been included as follows:

	Midland		Bank	
	1996	1995	1996	1995
	£m	£m	£m	£m
Cost	717	738	449	473
Accumulated depreciation	(45)	(43)	(39)	(42)
Provision for permanent diminution in value	(146)	(132)	(70)	(67)
Net book value	<u>526</u>	<u>563</u>	<u>340</u>	<u>364</u>

Midland has changed the frequency with which its properties are revalued from a triennial to an annual basis. Accordingly, in November 1996, Midland's freehold and long leasehold properties were revalued on an existing use basis or, in the case of a few specialised properties, at depreciated replacement cost. The properties were revalued either by professional external valuers or by professionally qualified staff.

As a result of the valuation, the net book value of land and buildings increased by £21 million (Bank £18 million). A surplus of £22 million, after attributing a deficit of £1 million to minority interests, (Bank £18 million) was credited to reserves at 31 December 1996.

Diminutions in the value of some properties which were previously considered to be temporary and included in the revaluation reserve at 31 December 1995 are now considered to be permanent. Deficits in respect of these properties totalling £16 million have been transferred from the revaluation reserve to the profit and loss account reserve at 31 December 1996.

d Land and buildings occupied for own activities

	Midland		Bank	
	1996	1995	1996	1995
	£m	£m	£m	£m
Net book value	<u>703</u>	<u>675</u>	<u>540</u>	<u>525</u>

Land and buildings with a net book value of £38 million (1995 £77 million) are occupied by other members of the HSBC Group.

Notes to the Accounts (continued)

22 Other assets

	Midland		Bank	
	1996	1995	1996	1995
	£m	£m	£m	£m
Bullion	114	150	114	150
Assets, including gains, resulting from off-balance-sheet interest rate and exchange rate contracts which are marked-to-market	8,426	11,407	7,725	10,969
Deferred taxation (Note 27)	—	—	39	52
Long-term assurance net assets attributable to policyholders	1,892	1,534	—	—
Other	1,420	1,427	751	802
	<u>11,852</u>	<u>14,518</u>	<u>8,629</u>	<u>11,973</u>
Assets, including gains, resulting from off-balance-sheet interest rate and exchange rate contracts which are marked-to-market include unsubordinated amounts due from:				
Subsidiary undertakings			107	87
Fellow subsidiary undertakings	<u>346</u>	<u>1,153</u>	<u>341</u>	<u>1,151</u>

'Other' includes the surplus retained in long-term assurance funds and the net present value of policies in force. These assets form part of the total value of Midland's interest in long-term assurance business as follows:

	Midland	
	1996	1995
	£m	£m
Net tangible assets of Midland Life Limited and Midland Life International Limited	52	78
Surplus retained in long-term assurance funds and net present value of policies in force	176	139
Total long-term assurance business attributable to shareholders	<u>228</u>	<u>217</u>

The increase in the value of long-term assurance business attributable to shareholders which is included in the consolidated profit and loss account amounts to £72 million (1995 £72 million) before tax and £48 million (1995 £49 million) after tax.

The value of policies in force is calculated by discounting future profits that are expected to emerge from in-force business at a discount rate that includes a risk margin. Projections of profit are based on prudent assumptions relating to long-term economic conditions, future mortality, persistency and levels of expenses, and are reviewed regularly in consultation with independent actuaries. The risk margin is designed to reflect uncertainties in expected profits.

22 Other assets (continued)

The net tangible assets, including long-term assurance assets and liabilities attributable to policyholders, and the results of Midland Life Limited and Midland Life International Limited, are recognised in Midland's accounts.

The composition of the net tangible assets relating to long-term assurance is analysed as follows:

	1996 £m	1995 £m
Loans and advances to banks	245	238
Debt securities	799	730
Equity shares	533	503
Other assets	850	610
Prepayments and accrued income	12	22
Other liabilities	(547)	(569)
Long-term assurance net assets attributable to policyholders	<u>1,892</u>	<u>1,534</u>

23 Deposits by banks

	Midland		Bank	
	1996 £m	1995 £m	1996 £m	1995 £m
Repayable on demand	3,943	4,045	3,488	2,992
With agreed maturity dates or periods of notice by remaining maturity				
- 3 months or less but not repayable on demand	7,626	9,578	8,227	9,462
- 1 year or less but over 3 months	778	1,057	1,020	1,110
- 5 years or less but over 1 year	23	187	166	270
- over 5 years	31	285	7	219
	<u>12,401</u>	<u>15,152</u>	<u>12,908</u>	<u>14,053</u>
Amounts include:				
Due to subsidiary undertakings			2,693	2,605
Due to fellow subsidiary undertakings	<u>879</u>	<u>808</u>	<u>689</u>	<u>763</u>

24 Customer accounts

	Midland		Bank	
	1996 £m	1995 £m	1996 £m	1995 £m
Repayable on demand	37,654	34,551	32,408	29,149
With agreed maturity dates or periods of notice by remaining maturity				
- 3 months or less but not repayable on demand	13,946	11,793	13,153	11,666
- 1 year or less but over 3 months	1,305	1,881	1,630	1,998
- 5 years or less but over 1 year	839	827	937	796
- over 5 years	173	565	222	538
	<u>53,917</u>	<u>49,617</u>	<u>48,350</u>	<u>44,147</u>
Amounts include:				
Due to associated undertakings	<u>18</u>	<u>-</u>	<u>18</u>	<u>-</u>
Due to subsidiary undertakings			670	823
Due to fellow subsidiary undertakings	<u>507</u>	<u>307</u>	<u>389</u>	<u>200</u>
Due to parent undertaking	<u>2,016</u>	<u>1,873</u>	<u>2,016</u>	<u>1,813</u>

Notes to the Accounts (continued)

25 Debt securities in issue

	Midland		Bank	
	1996 £m	1995 £m	1996 £m	1995 £m
Bonds and medium-term notes, by remaining maturity				
- within 1 year	29	111	—	—
- between 1 and 2 years	51	35	—	—
- between 2 and 5 years	182	189	—	—
- over 5 years	175	251	—	—
	<u>437</u>	<u>586</u>	<u>—</u>	<u>—</u>
Other debt securities in issue, by remaining maturity				
- 3 months or less	1,423	894	1,383	851
- 1 year or less but over 3 months	691	249	570	233
- 5 years or less but over 1 year	456	297	425	166
- over 5 years	58	10	58	10
	<u>2,628</u>	<u>1,450</u>	<u>2,436</u>	<u>1,260</u>
	<u>3,065</u>	<u>2,036</u>	<u>2,436</u>	<u>1,260</u>

26 Other liabilities

	Midland		Bank	
	1996 £m	1995 £m	1996 £m	1995 £m
Short positions in securities				
Treasury bills and other eligible bills	604	176	604	176
Debt securities				
- government securities	2,498	1,494	1,056	588
- other public sector securities	23	62	23	62
- other debt securities	156	207	148	202
Equity shares	113	450	—	—
	<u>3,394</u>	<u>2,389</u>	<u>1,831</u>	<u>1,028</u>
Liabilities, including losses, resulting from off-balance-sheet interest rate and exchange rate contracts which are marked-to-market	8,626	11,986	7,958	11,375
Current taxation	486	420	291	262
Obligations under finance leases	29	59	45	16
Dividend	300	150	300	150
Long-term assurance liabilities attributable to policyholders (Note 22)	1,892	1,534	—	—
Other	1,945	1,206	1,335	801
	<u>16,672</u>	<u>17,744</u>	<u>11,760</u>	<u>13,632</u>

26 Other liabilities (continued)

	Midland		Bank	
	1996 £m	1995 £m	1996 £m	1995 £m
Liabilities, including losses, resulting from off-balance-sheet interest rate and exchange rate contracts which are marked-to-market include amounts due to:				
Subsidiary undertakings			106	100
Fellow subsidiary undertakings	379	1,016	373	1,011
Obligations under finance leases fall due as follows:				
Within 1 year	19	33	19	7
1 to 5 years	17	35	51	12
	36	68	70	19
Less future finance charges	(7)	(9)	(25)	(3)
	29	59	45	16

27 Provisions for liabilities and charges

a Deferred taxation provisions

	Midland £m		Bank £m	
At 1 January 1996			137	(52)
Exchange and other movements			45	(1)
Charge/(credit) to profit and loss account			52	14
At 31 December 1996			234	(39)
Included in 'Provisions for liabilities and charges'			234	—
Included in 'Other assets' (Note 22)			—	(39)
			234	(39)
	Unprovided deferred tax/ (relief) 1996 £m	Provided in accounts 1996 £m	Unprovided deferred tax/ (relief) 1995 £m	Provided in accounts 1995 £m
Midland				
Short-term timing differences	(41)	15	(23)	24
Accelerated capital allowances	(8)	(1)	(7)	(4)
Leasing transactions	63	253	63	209
Advance corporation tax	—	(1)	(12)	(80)
Other items	(27)	(32)	(28)	(12)
	(13)	234	(7)	137
Bank				
Short-term timing differences	(37)	(22)	(23)	(27)
Accelerated capital allowances	(8)	—	(7)	—
Other items	(16)	(17)	(16)	(25)
	(61)	(39)	(46)	(52)

Notes to the Accounts (continued)

27 Provisions for liabilities and charges (continued)

a Deferred taxation provisions (continued)

Deferred tax assets recognised by the Bank are mainly in respect of temporarily disallowable items which are expected to be recovered in the near future without replacement by equivalent assets.

It is not considered necessary to provide for taxation on capital gains which might arise on the disposal of subsidiary or associated undertakings at their balance sheet amounts, or for taxation on capital gains which might arise on the disposal of premises, as it is anticipated that any liability will be covered by capital losses or other reliefs; nor is it considered necessary to provide for any liability to UK taxation on overseas earnings which are not expected to be remitted.

b Movements on other provisions for liabilities and charges

	Provisions for pensions and other post-retirement obligations £m	Provisions for contingent liabilities and commitments £m	Premises- related provisions £m	Other provisions £m	Total £m
Midland					
At 1 January 1996	99	45	84	19	247
Exchange and other movements	(9)	(15)	23	—	(1)
Charge to profit and loss account	38	3	18	—	59
Provisions utilised	(4)	—	(18)	(2)	(24)
At 31 December 1996	124	33	107	17	281
Bank					
At 1 January 1996	47	45	77	19	188
Exchange and other movements	—	—	23	—	23
Charge/(credit) to profit and loss account	17	(15)	16	—	18
Provisions utilised	(3)	—	(18)	(2)	(23)
At 31 December 1996	61	30	98	17	206

28 Subordinated liabilities

Dated loan capital is repayable as follows:

	Midland		Bank	
	1996 £m	1995 £m	1996 £m	1995 £m
Within 1 year	2	2	—	—
1 to 2 years	155	—	146	—
2 to 5 years	632	575	560	537
Over 5 years	1,353	1,255	1,266	1,094
	2,142	1,832	1,972	1,631

28 Subordinated liabilities (continued)

Dated loan capital totalling £544 million (1995 £634 million) issued by subsidiary undertakings under the Bank's subordinated guarantee was previously included in 'Customer accounts-Due to subsidiary undertakings'. These amounts have been reclassified to subordinated liabilities on the basis that they have been on-lent to the Bank on a subordinated basis and this treatment more accurately reflects the nature and terms of the liability.

Subordinated borrowings of £100 million or more were as follows:

	1996	1995
	£m	£m
Bank		
£250m Subordinated Floating Rate Notes 2001	250	250
£100m 14% Subordinated Unsecured Loan Stock 2002/07	100	100
£200m 9% Subordinated Notes 2005	200	200
£150m 9.25% Step-up Undated Subordinated Notes#	150	-
US\$750m Undated Floating Rate Primary Capital Notes	441	483
US\$500m Undated Floating Rate Primary Capital Notes	294	322
US\$300m Undated Floating Rate Primary Capital Notes	176	193
US\$300m 7.65% Subordinated Notes 2025	175	192
US\$400m 8.625% Subordinated Notes 2004	233	255
US\$300m 6.95% Subordinated Notes 2011#	176	-
US\$500m 7.625% Subordinated Notes 2006#	294	-
DM300m Guaranteed Floating Rate Notes 1986/98*	114	135
US\$200m Guaranteed Floating Rate Notes 1999*	118	129
Other subordinated liabilities less than £100m*	312	371
	3,033	2,630
Subsidiary undertakings		
Other subordinated liabilities less than £100m	170	201
	3,203	2,831

#The proceeds of the issue of 9.25% Step-up Undated Subordinated Notes, 6.95% Subordinated Notes 2011 and 7.625% Subordinated Notes 2006 were used to support the development of Midland and to strengthen further Midland's capital base.

*Issued by subsidiary undertakings under the Bank's subordinated guarantee and on-lent to the Bank on a subordinated basis.

Interest rates on floating rate borrowings, including those shown above, are related to Interbank Offered Rates; on the remaining subordinated loan capital, interest is payable at fixed rates up to 14%.

Dated loan capital, including that shown above, is repayable at par at maturity; some may be repaid early at the option of the borrowers, subject to the prior consent of the Bank of England. The US\$300 million 7.65% Subordinated Notes 2025 are repayable in May 2007 at par at the option of the holders.

The dated loan capital of the Bank, including that shown above, represents unsecured obligations of the Bank which rank pari passu between themselves and the subordinated guarantees given by the Bank in respect of dated loan capital issued by subsidiary undertakings under the Bank's subordinated guarantee and on-lent to the Bank on a subordinated basis. Claims in respect of principal and interest on such debt are subordinated to the claims of all creditors of the Bank, other than claims of any creditors in respect of subordinated debt ranking pari passu or junior to claims in respect of dated loan capital.

The Undated Floating Rate Primary Capital Notes have characteristics which render them similar in certain circumstances to preferred shares. These borrowings are unsecured obligations of the Bank. Claims in respect of principal and interest are subordinated to the claims of all creditors of the Bank, other than claims of any creditors in respect of subordinated indebtedness ranking pari passu or junior to claims in respect of undated loan capital.

Notes to the Accounts (continued)

29 Called up share capital

	Non-cumulative preference shares of £1 each £m	Non-cumulative preference shares of US\$ 0.01 each £m	Ordinary shares of £1 each £m	Total £m
At 31 December 1995 and 1996				
Authorised share capital	150	1	1,000	1,151
Issued, allotted and fully paid share capital	—	—	797	797

The issued, allotted and fully paid share capital of the Bank comprises 796,903,203 ordinary shares of nominal value £1 each, 20,000,000 Series A, 14,000,000 Series B, 16,000,000 Series C and 16,000,000 Series D US\$ non-cumulative preference shares of nominal value US\$ 0.01 each and one preferred ordinary share of nominal value £1. On 31 May 1996 and on 23 December 1996 the Bank issued one ordinary share of nominal value £1 to HSBC Holdings plc each at a premium of £199,999,999.

On 24 July 1996, the Bank issued 16,000,000 Series D non-cumulative preference shares which comprise 8,000,000 Series D1 and 8,000,000 Series D2 non-cumulative preference shares of nominal value US\$0.01 each, at a premium of US\$19.99 and US\$4.99 per share, respectively. The issue was made in order to support the development of Midland and to strengthen further Midland's capital base.

In the event of a winding up, US\$ preference shareholders would receive, in priority to the ordinary shareholders of the Bank, repayment of US\$20 per share, in the case of the Series A1, Series B1, Series C1 and Series D1 preference shares, and US\$5 per share, in the case of the Series A2, Series B2, Series C2 and Series D2 preference shares, plus an amount equal to any dividends declared but unpaid in respect of the previous dividend for the period and any accrued and unpaid dividends for the period to the date of the commencement of the winding up. With the exception of the above, the preference shares do not carry any right to participate in the surplus of assets on a winding up.

Holders of the Series A1, Series A2, Series B1, Series B2, Series C1, Series C2, Series D1 and Series D2 preference shares are not entitled to vote at general meetings of the shareholders, except in certain limited circumstances, such as the variation of the rights attaching to those shares, or in the event of reduction of the preference share capital. In addition, the Series A1, Series B1, Series C1 and Series D1 preference shareholders are entitled to vote at general meetings of the shareholders if any resolution is proposed for a winding up or sale of the whole business of the Bank, or in the event of a failure to pay in full the dividend payable on Series A1, Series B1, Series C1 or Series D1 preference shares for the most recent quarterly dividend period.

The Series A1 and A2 preference shares are redeemable at the option of the Bank, on or after 5 October 1998, at a redemption price of US\$20 per Series A1 and US\$5 per Series A2 preference share. A special dividend is payable for redemptions of Series A2 preference shares between 5 October 1998 and 4 October 2003 inclusive. The dividend amounts to US\$1.109 per Series A2 preference share between 5 October 1998 and 4 October 1999, and thereafter decreases for share redemptions made up to 4 October 2003.

The Series B1 and B2 preference shares are redeemable at the option of the Bank, on or after 24 February 2000, at a redemption price of US\$20 per Series B1 and US\$5 per Series B2 preference share. A special dividend is payable for redemptions of Series B2 preference shares between 24 February 2000 and 23 February 2005 inclusive. The dividend amounts to US\$1.281 per Series B2 preference share between 24 February 2000 and 23 February 2001, and thereafter decreases for share redemptions made up to 23 February 2005.

The Series C1 and C2 preference shares are redeemable at the option of the Bank, on or after 27 October 2000, at a redemption price of US\$20 per Series C1 and US\$5 per Series C2 preference share. A special dividend is payable for redemptions of Series C2 preference shares between 27 October 2000 and 26 October 2005 inclusive. The dividend amounts to US\$1.141 per Series C2 preference share between 27 October 2000 and 26 October 2001, and thereafter decreases for share redemptions up to 26 October 2005.

The Series D1 and D2 preference shares are redeemable at the option of the Bank, on or after 24 July 2001, at a redemption price of US\$20 per Series D1 and US\$5 per Series D2 preference share.

30 Reserves

	Midland £m	Bank £m	Associated undertakings £m
Share premium account			
At 1 January 1996	1,452	1,452	—
Exchange movement	(45)	(45)	—
New share capital subscribed	524	524	—
At 31 December 1996	1,931	1,931	—
Revaluation reserves			
At 1 January 1996	(31)	213	—
Exchange and other movements	(1)	—	—
Revaluation of interests in subsidiary and associated undertakings	—	(58)	—
Surplus on revaluation of freehold and long leasehold premises	22	18	—
Permanent property revaluation deficits transferred to profit and loss account	16	2	—
Realisation of revaluation reserve	—	(5)	—
At 31 December 1996	6	170	—
Profit and loss account			
At 1 January 1996	1,021	777	16
Exchange and other movements	(86)	(1)	(3)
Retained profit for the year	312	283	1
Goodwill written off on acquisition	(5)	—	—
Permanent property revaluation deficits transferred from revaluation reserves	(16)	(2)	—
Realisation of revaluation reserve	—	5	—
At 31 December 1996	1,226	1,062	14

The cumulative amount of goodwill written off in Midland's reserves is £90 million (1995 £85 million).

The reserves of the Bank include distributable reserves of £1,057 million (1995 £775 million).

Some of Midland's banking subsidiary undertakings operate under local regulatory jurisdictions which could potentially restrict the amount of reserves which can be remitted to the Bank in order to maintain local regulatory capital ratios.

Notes to the Accounts (continued)

31 Analysis of total assets and liabilities

a Assets and liabilities denominated in foreign currency

	Midland		Bank	
	1996	1995	1996	1995
	£m	£m	£m	£m
Denominated in:				
Sterling	58,313	50,947	54,444	48,223
Currencies other than sterling	37,908	42,680	30,205	32,800
Total assets	<u>96,221</u>	<u>93,627</u>	<u>84,649</u>	<u>81,023</u>
Sterling	59,277	51,374	54,705	48,328
Currencies other than sterling	36,944	42,253	29,944	32,695
Total liabilities	<u>96,221</u>	<u>93,627</u>	<u>84,649</u>	<u>81,023</u>

b Assets subject to sale and repurchase transactions

	Midland		Bank	
	1996	1995	1996	1995
	£m	£m	£m	£m
Total assets subject to sale and repurchase transactions	<u>2,542</u>	<u>2,049</u>	<u>1,956</u>	<u>1,565</u>

c Assets leased to customers

Amounts relating to assets leased to customers are included under the following balance sheet headings:

	Midland	
	1996	1995
	£m	£m
Finance leases		
- loans and advances to banks	30	—
- loans and advances to customers	1,716	1,510
Hire purchase agreements		
- loans and advances to customers	777	695
Tangible fixed assets		
- equipment on operating leases	374	275
	<u>2,897</u>	<u>2,480</u>

The cost of assets acquired during 1996 for letting under finance leases and hire purchase contracts by Midland amounted to £714 million (1995 £406 million) and £642 million (1995 £551 million), respectively.

31 Analysis of total assets and liabilities (continued)

d Assets charged as security for liabilities

Midland has pledged assets as security for liabilities included under the following headings:

	Amount of liability secured	
	1996	1995
	£m	£m
Deposits by banks	422	1,355
Customer accounts	—	4
Debt securities in issue	40	40
	<u>462</u>	<u>1,399</u>

The amount of assets pledged to secure these liabilities was £6,281 million (1995 £6,790 million).

32 Memorandum items and foreign exchange and interest rate contracts

a Contingent liabilities and commitments

Midland

	Contract amount 1996 £m	Credit equivalent amount 1996 £m	Risk- weighted amount 1996 £m	Contract amount 1995 £m	Credit equivalent amount 1995 £m	Risk- weighted amount 1995 £m
<i>Contingent liabilities</i>						
Acceptances and endorsements	764	764	764	772	771	762
Guarantees and assets pledged as collateral security						
- guarantees and irrevocable letters of credit	7,523	6,122	3,739	6,607	5,269	3,275
Other contingent liabilities	130	—	—	130	—	—
	<u>8,417</u>	<u>6,886</u>	<u>4,503</u>	<u>7,509</u>	<u>6,040</u>	<u>4,037</u>
<i>Commitments</i>						
Documentary credits and short-term trade-related transactions	1,031	375	190	708	262	143
Forward asset purchases and forward forward deposits placed	304	304	262	399	399	317
Undrawn note issuance and revolving underwriting facilities	19	9	9	73	37	37
Undrawn formal standby facilities, credit lines and other commitments to lend						
- over 1 year	9,582	4,791	3,855	9,393	4,697	3,579
- 1 year or less	21,209	—	—	18,460	—	—
	<u>32,145</u>	<u>5,479</u>	<u>4,316</u>	<u>29,033</u>	<u>5,395</u>	<u>4,076</u>
					1996 £m	1995 £m
Incurred on behalf of parent and fellow subsidiary undertakings (contract amount)						
- contingent liabilities					<u>54</u>	<u>95</u>

Notes to the Accounts (continued)

32 Memorandum items and foreign exchange and interest rate contracts (continued)

a Contingent liabilities and commitments (continued)

Bank

	Contract amount 1996 £m	Credit equivalent amount 1996 £m	Risk- weighted amount 1996 £m	Contract amount 1995 £m	Credit equivalent amount 1995 £m	Risk- weighted amount 1995 £m
<i>Contingent liabilities</i>						
Acceptances and endorsements	632	632	632	606	605	605
Guarantees and assets pledged as collateral security						
- guarantees and irrevocable letters of credit	8,956	6,039	3,527	7,555	5,086	3,008
Other contingent liabilities	130	—	—	130	—	—
	<u>9,718</u>	<u>6,671</u>	<u>4,159</u>	<u>8,291</u>	<u>5,691</u>	<u>3,613</u>
<i>Commitments</i>						
Documentary credits and short-term trade-related transactions	815	332	159	514	225	115
Forward asset purchases and forward deposits placed	19	19	4	88	88	22
Undrawn note issuance and revolving underwriting facilities	19	9	9	73	37	37
Undrawn formal standby facilities, credit lines and other commitments to lend						
- over 1 year	10,510	5,255	3,780	10,292	5,146	3,473
- 1 year or less	19,544	—	—	16,661	—	—
	<u>30,907</u>	<u>5,615</u>	<u>3,952</u>	<u>27,628</u>	<u>5,496</u>	<u>3,647</u>
					1996 £m	1995 £m
Incurred on behalf of subsidiary undertakings (contract amount)						
- contingent liabilities					<u>1,738</u>	<u>1,367</u>
Incurred on behalf of parent and fellow subsidiary undertakings (contract amount)						
- contingent liabilities					<u>61</u>	<u>102</u>

The preceding tables give the nominal principal amounts, credit equivalent amounts and risk-weighted amounts of off-balance-sheet transactions. The credit equivalent amounts are calculated for the purposes of deriving the risk-weighted amounts. These are assessed in accordance with the Bank of England's guidelines which implement the Basle agreement on capital adequacy and depend on the status of the counterparty and the maturity characteristics.

32 Memorandum items and foreign exchange and interest rate contracts (continued)

a Contingent liabilities and commitments (continued)

Contingent liabilities and commitments are credit-related instruments which include acceptances, letters of credit, guarantees and commitments to extend credit. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. Since a significant portion of guarantees and commitments are expected to expire without being drawn upon, the total of the contract amounts is not representative of future liquidity requirements.

b Exchange rate and interest rate contracts

	Contract amount 1996 £m	Replacement cost 1996 £m	Contract amount 1995 £m	Replacement cost 1995 £m
Midland				
Exchange rate contracts	307,636	4,211	293,421	4,065
Interest rate contracts	462,466	4,275	595,060	7,478
	<u>770,102</u>	<u>8,486</u>	<u>888,481</u>	<u>11,453</u>
Bank				
Exchange rate contracts	292,802	4,026	282,491	3,882
Interest rate contracts	432,039	3,766	565,500	7,259
	<u>724,841</u>	<u>7,792</u>	<u>847,991</u>	<u>11,141</u>

Off-balance-sheet financial instruments arise from futures, forward, swap and option transactions undertaken by Midland in the foreign exchange, interest rate and equity markets.

Included in the above table there are £307,596 million (Midland) and £292,771 million (Bank) contract amount of exchange rate contracts and £449,431 million (Midland) and £420,597 million (Bank) contract amount of interest rate contracts which were made for trading purposes. The remaining exchange and interest rate contracts were made for non-trading purposes. In 1995, £290,591 million (Midland) and £279,984 million (Bank) contract amount of exchange rate contracts and £580,819 million (Midland) and £522,714 million (Bank) contract amount of interest rate contracts were made for trading purposes, while the remaining exchange and interest rate contracts were made for non-trading purposes.

The notional or contractual amounts of these instruments indicate the volume of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

Replacement cost of contracts represents the mark-to-market assets on all contracts with a positive value.

Replacement cost is a close approximation of the credit risk for these contracts as at the balance sheet date. Credit risk is measured internally as the sum of the positive mark-to-market value and an estimate for the future fluctuation risk, using a future risk factor.

c Contingent liabilities and commitments - geographical analysis

The following geographical analysis of contract amounts is based on the location of the office recording the transaction:

Midland	United Kingdom £m	Continental Europe £m	United States £m	Rest of the World £m	Total £m
1996					
Contingent liabilities	6,433	1,324	629	31	8,417
Commitments	27,710	2,673	1,399	363	32,145
1995					
Contingent liabilities	5,444	1,337	648	80	7,509
Commitments	24,033	3,418	1,361	221	29,033

33 Litigation

The Bank and certain subsidiary undertakings are named in and are defending a number of legal actions in various jurisdictions arising in the ordinary course of business. No material adverse impact on Midland's financial position is expected to arise from these proceedings.

Notes to the Accounts (continued)

34 Capital commitments

	Midland		Bank	
	1996	1995	1996	1995
	£m	£m	£m	£m
Expenditure contracted for	<u>26</u>	<u>29</u>	<u>26</u>	<u>29</u>

35 Operating lease commitments

At the year-end annual commitments under non-cancellable operating leases were:

	Midland		Bank	
	1996	1995	1996	1995
	£m	£m	£m	£m
Leasehold land and buildings				
Operating leases which expire				
- within 1 year	3	1	2	1
- 1 to 5 years	10	7	8	7
- over 5 years	51	69	48	66
	<u>64</u>	<u>77</u>	<u>58</u>	<u>74</u>

36 Segmental analysis

a By geographic region

In the analysis set out below, net assets include an appropriate amount of shareholders' funds, based on the proportion of risk-weighted assets in each segment. The allocation of earnings reflects the benefit of shareholders' funds to the extent that these are actually allocated to businesses in the segment by way of intra-Midland capital and funding structures.

Geographical information has been classified by the location of the principal operations of the subsidiary undertaking, or in the case of the Bank, by the location of the branch responsible for reporting the results or for advancing the fees.

1996	United Kingdom £m	Continental Europe £m	United States £m	Rest of the World £m	Total £m
Gross income					
Interest receivable	4,328	539	111	137	5,115
Dividend income	1	1	—	1	3
Fees and commissions receivable	1,229	144	14	4	1,391
Dealing profits	155	55	14	10	234
Other operating income	202	(8)	—	(1)	193
Total gross income	<u>5,915</u>	<u>731</u>	<u>139</u>	<u>151</u>	<u>6,936</u>
 Profit on ordinary activities					
before tax	1,173	66	22	11	1,272
Net assets	3,334	314	133	179	3,960
Total assets	80,330	9,646	2,222	4,023	96,221

36 Segmental analysis (continued)

a By geographic region (continued)

1995	United Kingdom £m	Continental Europe £m	United States £m	Rest of the World £m	Total £m
Gross income					
Interest receivable	3,964	723	111	176	4,974
Dividend income	7	2	—	—	9
Fees and commissions receivable	1,093	139	7	3	1,242
Dealing profits	126	66	16	14	222
Other operating income	186	7	—	(1)	192
Total gross income	<u>5,376</u>	<u>937</u>	<u>134</u>	<u>192</u>	<u>6,639</u>
Profit on ordinary activities					
before tax	866	91	35	6	998
Net assets	2,567	391	119	162	3,239
Total assets	72,075	13,284	3,047	5,221	93,627

b By class of business

	Commercial Banking £m	Forward Trust Group £m	Total £m
1996			
Profit on ordinary activities			
before tax	1,175	97	1,272
Net assets	3,616	344	3,960
Total assets	91,260	4,961	96,221
1995			
Profit on ordinary activities			
before tax	907	91	998
Net assets	2,926	313	3,239
Total assets	89,259	4,368	93,627

As Midland is not required to disclose turnover, no segmental analysis of turnover is included.

37 Subsequent event

On 19 February 1997, Forward Trust Limited, a wholly-owned subsidiary undertaking, acquired the issued share capital of Eversholt Holdings Limited for consideration of £726.5 million, including the repayment of net debt of £273.1 million. Eversholt Holdings Limited, through its subsidiary undertaking, Eversholt Leasing Limited, provides passenger rolling stock under operating leases to train operators in the United Kingdom. The acquisition forms part of a strategy to develop and expand Forward Trust's asset finance and operating lease business.

Notes to the Accounts (continued)

38 Transactions, arrangements and agreements involving Directors, Officers and related parties

a Directors and Officers

Particulars of transactions, arrangements and agreements entered into by subsidiary undertakings of the Bank with Directors and connected persons and companies controlled by them and with officers of the Bank disclosed pursuant to section 232 of the Companies Act 1985 are as follows:

	1996		1995	
	Number	£'000	Number	£'000
Directors and connected persons and companies controlled by them:				
Loans and credit card transactions (including £27,000 in credit card transactions (1995 £19,000))	12	533	13	100
Officers:				
Loans and credit card transactions (including £42,000 in credit card transactions (1995 £33,000))	14	1,523	22	586

Other than the loans, quasi-loans and guarantees set out above, there were no transactions, arrangements or agreements with Midland Bank plc or its subsidiary undertakings in which the Bank's Directors (including connected persons) had a material interest.

b Transactions with other related parties of Midland

Pension funds

The Midland Bank Pension Scheme had deposits of £99 million with the Bank.

39 Approval of accounts

These accounts were approved by the Board of Directors on 3 March 1997.

40 Ultimate parent company

The ultimate parent company of Midland Bank plc is HSBC Holdings plc, which is incorporated and registered in England.

HSBC Holdings plc is the only undertaking for which consolidated accounts which include the consolidated accounts of Midland are drawn up.

HSBC Holdings plc is Midland's direct and ultimate controlling party as defined under Financial Reporting Standard 8 'Related Party Disclosures'.

Copies of the 1996 Annual Report and Accounts of HSBC Holdings plc can be obtained, when issued, from its registered office at 10 Lower Thames Street, London EC3R 6AE.

MIDLAND INTERNATIONAL FINANCIAL SERVICES B.V.

Incorporation, Duration and Registered Office

MIFS was incorporated with limited liability in The Netherlands as a "*besloten vennootschap met beperkte aansprakelijkheid*" for an indefinite period by notarial deed executed on 31 December 1975. Its registered office is in Amsterdam. MIFS is registered with the Commercial Register of the Amsterdam Chamber of Commerce under number 33144 849.

Objects of MIFS

The principal object for which MIFS is established is the participation in and in any other manner taking interests in other companies and enterprises, as well as the financing of other companies and enterprises, all the foregoing in the widest possible sense. MIFS has no subsidiary undertaking.

Share Capital

The authorised share capital of MIFS is NLG 2,000,000 divided into 20,000 shares, each with a nominal value of NLG 100. All these shares have been issued at par and are wholly owned by Midland Bank International Financial Services Limited which is in turn wholly owned by Midland Bank plc.

General Meetings

The Annual General Meeting of Shareholders shall be held within six months from the end of each financial year. Extraordinary General Meetings of Shareholders shall be convened by the Management whenever the Management or one or more Shareholders, representing not less than one third of MIFS' issued and outstanding capital, shall deem such meeting to be advisable. Each share entitles the holder thereof to one vote.

Management

MIFS is managed by one or more Managing Directors. The Managing Directors are appointed and may be suspended or dismissed by the General Meeting of Shareholders.

Each Managing Director represents and may fully commit MIFS in law as well as in fact.

The Managing Directors of MIFS, who are also Directors, are at present:—

Name	Principal Outside Activity
Derek C. Thomas, Amsterdam, The Netherlands	Managing Director, HSBC Holdings BV
Michael C. Anderson, Amsterdam, The Netherlands	Financial Director, HSBC Holdings BV
Willem J. de Graaf, Amsterdam, The Netherlands	Accountant, HSBC Holdings BV

The business address for the above Managing Directors is Hoogoorddreef 9, 3rd Floor, 1101 BA Amsterdam.

Financial Year

MIFS' financial year commences on 1 January and ends on 31 December each year.

Distribution of Profits

The profits of MIFS are at the entire disposal of the General Meeting of Shareholders.

In each financial period since incorporation, MIFS has made profits, substantially all of which have been distributed by way of dividend.

CAPITALISATION OF MIDLAND INTERNATIONAL FINANCIAL SERVICES B.V.

The following table shows the capitalisation and long-term debt of MIFS as at the close of business on 31 March 1997:

Share Capital (authorised, issued and fully paid)		NLGm
Ordinary shares (of nominal value NLG 100 each)		2
		<hr/>
		NLGm
Long-term debt		
Original currency		Swapped currency
USD	200,000,000 Guaranteed Floating Rate Notes 1999	— 378
JPY	6,335,000,000 7.55% Guaranteed Loan 1998	USD50,000,000 95
DEM	300,000,000 Guaranteed Floating Rate Notes 1986/1998	— 337
JPY	5,000,000,000 7.75% Dual Currency Guaranteed Bonds 1999	GBP22,222,222 68
DEM	200,000,000 Guaranteed Floating Rate Notes 1989/1999	— 225
JPY	10,000,000,000 7.41% Guaranteed Loan 1989/1999	USD80,400,000 152
JPY	5,000,000,000 6.99% Guaranteed Loan 1989/1999	USD33,857,000 64
JPY	3,041,521,000 7.25% Guaranteed Loan 1999	USD25,000,000 47
Total long-term debt		<hr/> 1,366* <hr/>

(1) Midland International Financial Services B.V. has given notice of the early redemption of the DEM300,000,000 Guaranteed Floating Rate Notes 1986/1998, such notes to be redeemed on 30 June 1997.

* Long-term debt which is swapped into a currency other than the original currency of denomination is recorded as a liability in the resultant currency of denomination under the swap agreement. The NLG equivalents relate to the resultant currencies into which the original currencies are swapped.

Save as disclosed above, there has been no material change in the capitalisation and long-term debt of MIFS since 31 March 1997.

FINANCIAL STATEMENTS OF MIDLAND INTERNATIONAL FINANCIAL SERVICES B.V.

The accounts of Midland International Financial Services B.V. for the year-end 31 December 1996 and the related report of KPMG Accountants N.V. on pages 81 to 87 are reproduced from Midland International Financial Services B.V.'s Financial Statements for the year ended 31 December 1996. References therein to the "Company" are to MIFS and cross references made in pages 81 to 87 are to the notes of the Financial Statements (including certain pages not reproduced herein).

Balance Sheet as at 31 December 1996 (after proposed appropriation of results and with comparative figures for 1995)

	Notes	1996	1995
<i>(in thousands of Dutch guilders)</i>			
Assets			
<i>Financial fixed assets</i>			
Loans to group company	4	1,304,639	1,239,285
Fixed assets		1,304,639	1,239,285
<i>Receivables</i>			
Amounts due from group company		17,963	18,581
Income tax receivable		183	78
Sundry receivables		28	11
		18,174	18,670
<i>Cash</i>		411	244
Current assets		18,585	18,914
		<u>1,323,224</u>	<u>1,258,199</u>
Shareholders' equity and liabilities			
Shareholders' equity	5	2,052	2,040
Long-term debt	6	1,304,639	1,239,285
Accrued interest on bonds and notes		16,256	16,598
Accrued expenses		277	276
Current liabilities		16,533	16,874
		<u>1,323,224</u>	<u>1,258,199</u>

The accompanying notes form part of these financial statements.

Amsterdam, 25 February 1997

The Board of Directors:

D.C. Thomas M.C. Anderson W.J. de Graaf

MIDLAND INTERNATIONAL FINANCIAL SERVICES B.V., AMSTERDAM

Profit and Loss Account for the year ended 31 December 1996

(with comparative figures for 1995)

	Notes	1996	1995
<i>(in thousands of Dutch guilders)</i>			
Interest income			
Loan interest from group company		63,362	83,539
Other interest from group company		122	214
Other interest income		14	27
		<u>63,498</u>	<u>83,780</u>
Expenses			
Interest on long-term debt		62,123	82,125
General and administrative expenses		111	202
		<u>62,234</u>	<u>82,327</u>
Profit before taxation		1,264	1,453
Taxation	7	(502)	(477)
Profit for the year	5	<u>762</u>	<u>976</u>

The accompanying notes form part of these financial statements.

Amsterdam, 25 February 1997

The Board of Directors:

D.C. Thomas M.C. Anderson W.J. de Graaf

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MIDLAND INTERNATIONAL FINANCIAL SERVICES B.V., AMSTERDAM

Notes to the financial statements for the year ended 31 December 1996.

1. Group affiliation and principal activity

The Company, incorporated in the Netherlands with limited liability, is a wholly owned subsidiary of Midland Bank International Financial Services Limited, United Kingdom, which is ultimately owned by HSBC Holdings plc, London, United Kingdom.

The principal activity of the Company is to act as a finance company.

2. Basis of presentation

The accompanying financial statements have been prepared in accordance with the principles of accounting generally accepted in the Netherlands and are in compliance with the provisions of the Netherlands Civil Code, Book 2, Part 9. All assets and liabilities are shown at their historic cost values, less provisions where applicable.

3. Significant accounting policies

The accounting policies adopted for items which are judged material in determining the results for the year and in stating the financial position are as follows:

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Dutch guilders at the closing rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are converted at the approximate rates in effect on the dates of the respective transactions.

Exchange gains or losses are reflected in the profit and loss account currently.

Long-term debt

Long-term debt which is swapped into a currency other than the original currency of denomination is recorded as a liability in the resultant currency of denomination under the swap agreement. Such swap contracts generally mature in accordance with the terms of the related borrowings.

Interest income and expenses

Interest revenues and expenses are recorded on an accruals basis.

4. Loans to group company

The loans to Midland Bank plc are denominated in the same currencies and have been granted on the same terms as the liability in respect of the bonds and notes. All redemptions, purchases and cancellations of outstanding long-term debt instruments are reflected simultaneously in the loan balances. Certain borrowings have been swapped into other currencies and on-lent to Midland Bank plc in the swapped currency.

On the loans there is a margin of between 1/16% and 1/8% in favour of the Company over the interest percentages.

Movements during the year in the loans can be presented as follows:

	1996	1995
<i>(in thousands of Dutch guilders)</i>		
Balance as at 1 January	1,239,285	1,520,399
Loans repaid	—	(223,850)
Translation adjustment	65,354	(57,264)
Balance as at 31 December	<u>1,304,639</u>	<u>1,239,285</u>

The average interest rate earned during the year is 5.4% (1995: 6.1%).

5. Shareholders' equity

The authorised, issued and fully paid share capital comprises 20,000 shares of NLG 100 each. Movements in shareholders' equity are summarised below (with proposed appropriation of results):

	Share capital	Accumulated profits	Total
<i>(in thousands of Dutch guilders)</i>			
Balance as at 1 January 1996	2,000	40	2,040
Profit for the year	—	762	762
Dividend paid	—	(750)	(750)
Balance as at 31 December 1996	<u>2,000</u>	<u>52</u>	<u>2,052</u>

6. Long-term debt

	31 Dec 1996	31 Dec 1995
<i>(in thousands of Dutch guilders)</i>		
USD 200,000,000 Guaranteed Floating Rate Notes 1999	348,149	320,788
JPY 6,335,000,000 7.55% Guaranteed Loan 1998	87,038	80,197
DEM 300,000,000 Guaranteed Floating Rate Notes 1986/1998	336,735	335,775
JPY 5,000,000,000 7.75% Dual Currency Guaranteed Bonds 1999	65,815	55,316
DEM 200,000,000 Guaranteed Floating Rate Notes 1989/1999	224,490	223,850
JPY 10,000,000,000 7.41% Guaranteed Loan 1989/1999	139,956	128,957
JPY 5,000,000,000 6.99% Guaranteed Loan 1989/1999	58,937	54,304
JPY 3,041,521,000 7.25% Guaranteed Loan 1999	43,519	40,098
	<u>1,304,639</u>	<u>1,239,285</u>

The average interest rate paid during the year is 5.3% (1995: 6.0%).

The Company swapped the following borrowings into other currencies at interest rates linked to London Interbank Offered rates:

Original currency	Swapped currency
JPY 6,335,000,000 7.55% Guaranteed Loan 1998	USD 50,000,000
JPY 5,000,000,000 7.75% Dual Currency Guaranteed Bonds 1999	GBP 22,222,222
JPY 10,000,000,000 7.41% Guaranteed Loan 1989/1999	USD 80,400,000
JPY 5,000,000,000 6.99% Guaranteed Loan 1989/1999	USD 33,857,000
JPY 3,041,521,000 7.25% Guaranteed Loan 1999	USD 25,000,000

All swapped currency borrowings mature in accordance with the terms of the original agreements.

Movements during the year in the long-term debt instruments are as follows:

	1996	1995
<i>(in thousands of Dutch guilders)</i>		
Balance as at 1 January	1,239,285	1,520,399
Redemptions	—	(223,850)
Translation adjustments	65,354	(57,264)
Balance as at 31 December	<u>1,304,639</u>	<u>1,239,285</u>

The long-term debt instruments are guaranteed by Midland Bank plc and are unsecured obligations of the Company.

Mandatory redemption

Unless previously redeemed or purchased and cancelled, the long-term debt instruments will be redeemed at their principal amounts as follows:

- the Guaranteed Floating Rate Notes 1999 on the interest payment date falling in March 1999;
- the 7.55% Guaranteed Loan 1998 on 30 November 1998;
- the Guaranteed Floating Rate Notes 1986/1998 on the interest payment date falling in June 1998;
- the 7.75% Dual Currency Guaranteed Bonds 1999 on 29 March 1999;
- the Guaranteed Floating Rate Notes 1989/1999 on the interest payment date falling in July 1999;
- the 7.41% Guaranteed Loan 1989/1999 on 25 January 1999;
- the 6.99% Guaranteed Loan 1989/1999 on 30 November 1999;
- the 7.25% Guaranteed Loan 1999 on 12 January 1999.

Optional redemption

The Company may redeem the following Guaranteed Floating Rate Notes at their principal amounts on any interest payment date falling in or after the months listed below:

- USD 200,000,000 1999, March 1985 (in total or in part).
- DEM 300,000,000 1986/1998, June 1991 (in total only).

Redemption for tax reasons

The Company has undertaken to reimburse bond and note holders in certain circumstances for any taxes or duties required under any future legislation in the Netherlands or in the United Kingdom to be deducted on the payment of principal or interest.

In the event that such reimbursements become necessary, the Company may redeem the bonds or notes by giving appropriate notice to the trustees for the bond and note holders.

7. Taxation

Taxation has been provided at standard rates in accordance with the terms of a tax ruling granted by the Dutch authorities.

8. Directors

The Company has 3 directors (1995: 3), none of whom received any remuneration in 1996 (1995: NLG nil). The Company has no supervisory directors.

9. Employees

The Company employs no personnel.

MIDLAND INTERNATIONAL SERVICES B.V., AMSTERDAM

Supplementary data

1. Statutory rules as to appropriation of profits

According to Article 12 of the Company's Articles of Association, profits are at the disposition of the General Meeting of Shareholders.

2. Proposed appropriation of results

Interim dividends have been proposed by the Board of Directors and paid during the year for a total of NLG 750,000. The Board of Directors has resolved to propose to the Annual General Meeting of Shareholders the distribution of a dividend equal to the amount of the interim dividends paid in the year.

3. Auditor's report

The auditor's report is set out on the following page.

REPORT OF THE AUDITOR

Introduction

We have audited the accompanying financial statements for the year ended 31 December 1996 of Midland International Financial Services B.V., Amsterdam. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 1996 and of the result for the year then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9, Book 2 of the Netherlands Civil Code.

Amstelveen, 25 February 1997.

KPMG Accountants N.V.

MIDLAND AUSTRALIA FINANCIAL SERVICES LIMITED

Incorporation, Duration and Registered Office

MAFS was incorporated with limited liability in Australia as a proprietary company for an indefinite period on 29 May 1985 as Jadmas Pty Limited. On 22 May 1995 by special resolution MAFS resolved to convert to a public limited company and changed its name to Midland Australia Financial Services Limited. The resolutions took effect on 13 June 1995. The registered office of MAFS is Level 10, 1 O'Connell Street, Sydney, Australia. MAFS is registered under the Corporations Laws of New South Wales with Australian Company Number 002 940 472. On 14 June 1995 MAFS became a wholly owned subsidiary of Midland Australia Limited. On 20 June 1997, the entire share capital of MAFS was transferred to Midland Bank plc.

Objects of MAFS

The principal objects of MAFS are the raising of debt capital outside Australia for on-lending by way of loans, sub-participation or deposits to the Sydney branch of Midland Bank plc and its subsidiaries, Midland Australia Limited and Midland Montagu Australia Limited, to fund the banking business of Midland Bank plc in Australia. There are no formal objectives in MAFS's Memorandum of Association by which it is bound and it has all the powers of a natural person.

Share Capital

The authorised share capital of MAFS is AUD 1,000,000 divided into one million (1,000,000) shares of one Australian dollar (AUD 1.00) each. The issued share capital is two shares issued at par held by Midland Bank plc. MAFS has no subsidiary undertaking.

General Meetings

The Annual General Meeting of shareholders is required to be held within five months from the end of each financial year. Extraordinary General Meetings of shareholders are required to be convened by MAFS whenever a Director or one or more shareholders, entitled to not less than 5 per cent. of the total voting rights of all members, deems such meeting to be advisable. Each issued share entitles the holder thereof to one vote.

Directors of MAFS

The Directors of MAFS, their functions and their principal outside activities of any significance to MAFS are as follows:—

Name	Function within MAFS	Principal Outside Activity
Christopher John Crook	Director	Chief Executive Officer, HongkongBank of Australia Limited
Stuart Arthur Davis	Director	Managing Director, HongkongBank of Australia Limited
Gary John McLennan	Director	Chief Financial Officer and Head of Services, HongkongBank of Australia Limited

The business address for the above Directors is Level 10, 1 O'Connell Street, Sydney, NSW 2000, Australia.

Financial Year

MAFS's financial year commences on 1 January and ends on 31 December each year.

Until it produced audited financial statements as at and for the year ended 31 December 1995, MAFS had not produced audited accounts since 31 December 1985 as its parent undertaking up until the transfer of ownership on 14 June 1995 to Midland Australia Limited, HSBC Australia Investments Limited was exempted from the statutory requirement in Australia to prepare and lodge audited accounts in respect of certain wholly owned subsidiary undertakings. The accounts of MAFS are consolidated into the accounts of the Bank.

Distribution of Profits

MAFS shareholders in general meeting may declare a dividend if, and only if, the Directors have recommended a dividend. A dividend cannot exceed the amount recommended by Directors.

The Directors may, before recommending any dividend, set aside out of the profits of MAFS such sums as they think proper as reserves, to be applied, at the discretion of the Directors, for any purpose for which the profits of MAFS may be properly applied.

The Directors may carry forward so much of the profits remaining as they consider ought not to be distributed as dividends without transferring those profits to a reserve.

CAPITALISATION OF MIDLAND AUSTRALIA FINANCIAL SERVICES LIMITED

The following table shows the issued share capital of MAFS on 31 March 1997:—

	AUD
Share Capital (issued and fully paid)	
Ordinary shares (of nominal value AUD1.00 each)	2

There has been no change in the capitalisation of MAFS since 31 March 1997.

As at the date hereof, MAFS has no outstanding loan capital, borrowings, indebtedness in the nature of borrowing or contingent liabilities or guarantees and has not traded for at least the past three years.

FINANCIAL STATEMENTS OF MIDLAND AUSTRALIA FINANCIAL SERVICES LIMITED

The accounts of Midland Australia Financial Services Limited for the year-end 31 December 1996 and the related report of KPMG therein contained on pages 90 to 94 are reproduced from Midland Australia Financial Services Limited's Directors' Report for the year ended 31 December 1996. References therein to the "Company" are to MAFS and cross-references made in pages 90 to 94 are to the page numbers of the Directors' Report (including certain pages not reproduced herein).

Profit and Loss Account for the year ended 31 December 1996

	Notes	1996	1995
<i>(in Australian Dollars)</i>			
Operating revenue		—	—
		<u>—</u>	<u>—</u>
Operating profit.....		—	—
Income tax attributable to operating profit		—	—
		<u>—</u>	<u>—</u>
Operating profit after income tax.....		—	—
Retained profits at the beginning of the financial year.....		5,332	5,332
		<u>5,332</u>	<u>5,332</u>
Retained profits at the end of the financial year.....		5,332	5,332
		<u>5,332</u>	<u>5,332</u>

The profit and loss accounts are to be read in conjunction with the notes to and forming part of the financial statements.

MIDLAND AUSTRALIA FINANCIAL SERVICES LIMITED

Balance Sheet as at 31 December 1996

	Notes	1996	1995
<i>(in Australian Dollars)</i>			
CURRENT ASSETS			
Receivables.....	2	5,334	5,334
SHAREHOLDERS' EQUITY			
Share Capital.....	3	2	2
Retained Profits.....		5,332	5,332
TOTAL SHAREHOLDERS' EQUITY.....		5,334	5,334

The balance sheets accounts are to be read in conjunction with the notes to and forming part of the financial statements.

MIDLAND AUSTRALIA FINANCIAL SERVICES LIMITED

Statement of Cash Flows for the year ended 31 December 1996

	1996	1995
<i>(in Australian Dollars)</i>		
Cash flows from operating activities	—	—
Cash flows from investing activities	—	—
Cash flows from financing activities.....	—	—
Net increase in cash held.....	—	—
Cash held at the beginning of the financial year	—	—
Cash held at the end of the financial year.....	—	—

The statements of cash flows should be read in conjunction with the notes to and forming part of the financial statements.

MIDLAND AUSTRALIA FINANCIAL SERVICES LIMITED

Notes to the Financial Statements for the year ended 31 December 1996

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the accounts of the Company are stated to assist in a general understanding of these accounts. These policies have been consistently applied except as otherwise indicated.

The accounts have been made out in accordance with applicable Accounting Standards, Urgent Issues Group Consensus Views, the Corporations Law and Schedule 5 to the Corporations Regulations.

(a) Basis of Preparation

The accounts have been prepared on the basis of historical costs (except where otherwise stated) and therefore do not reflect the changes in the purchasing powers of money.

(b) Cash Flows

For the purpose of the statement of cash flows, cash includes cash on hand.

(c) Income Tax

The Company adopts the liability method of tax effect accounting.

2. RECEIVABLES

	1996	1995
	<i>(in Australian Dollars)</i>	
Current		
Amount owing by related entity	5,334	5,334
	<u>5,334</u>	<u>5,334</u>

3. SHARE CAPITAL

	1996	1995
	<i>(in Australian Dollars)</i>	
Authorised capital		
1,000,000 ordinary shares of \$1 each	<u>1,000,000</u>	<u>1,000,000</u>
Issued capital		
2 ordinary shares of \$1 each fully paid	<u>2</u>	<u>2</u>

4. AUDITORS' REMUNERATION

Audit fees have been borne by a controlling entity, Midland Bank plc.

5. SEGMENT INFORMATION

The Company does not trade.

6. RELATED PARTY INFORMATION

Directors

The names of the directors of the Company during the financial year were:

C J Crook
M E Laszok (resigned 12 July 1996)
G J McLennan
S A Davis

Controlling and Related Entities

The chief entity in Australia is Midland Australia Limited. The ultimate chief entity is HSBC Holdings plc.

Aggregate amounts receivable at balance date from:

	1996	1995
	<i>(in Australian Dollars)</i>	
Current:		
Related entity	5,334	5,334

Transactions with related parties

Management, accounting and administrative services are provided to the Company by a related entity at no cost.

All transactions with related parties are made on normal terms and conditions except where indicated.

Interest was not paid or charged on fluctuating balances receivable from controlling entities and related entities.

7. DIRECTORS' REMUNERATION

	1996	1995
	<i>(in Australian Dollars)</i>	
Aggregate of income received or due and receivable by the directors of the Company from a related entity.....	2,688,000	1,316,149

The number of directors of the Company is shown in their relevant income bands:

	Number	Number
<i>(in Australian Dollars)</i>		
120,000 – 129,999	—	1
140,000 – 149,999	—	1
170,000 – 179,999	—	1
300,000 – 309,999	1	—
350,000 – 359,999	1	1
510,000 – 519,999	—	1
630,000 – 639,999	1	—
1,380,000 – 1,389,999	1	—

The above amounts, including the comparatives are disclosed in accordance with an ASC Class Order dated 27 June 1995.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
MIDLAND AUSTRALIA FINANCIAL SERVICES LIMITED**

Scope

We have audited the financial statements of Midland Australia Financial Services Limited for the financial year ended 31 December 1996, consisting of the profit and loss account, balance sheet, statement of cash flows, accompanying notes, and the statement by directors set out on pages 3 to 10. The Company's directors are responsible for the preparation and presentation of the financial statements and the information they contain. We have conducted an independent audit of these financial statements in order to express an opinion on them to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial statements are free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) and statutory requirements so as to present a view which is consistent with our understanding of the Company's financial position, the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial statements of Midland Australia Financial Services Limited are properly drawn up:

- (a) so as to give a true and fair view of:
 - (i) the state of affairs of the Company as at 31 December 1996, and the results and cash flows of the Company for the financial year ended on that date; and
 - (ii) the other matters required by Divisions 4, 4A and 4B of Part 3.6 of the Corporations Law to be dealt with in the financial statements;
- (b) in accordance with the provisions of the Corporations Law; and
- (c) in accordance with applicable Accounting Standards and other mandatory professional reporting requirements.

KPMG
Chartered Accountants

J F Teer
Partner

SYDNEY, 21 January 1997

Below is only a summary of certain important United Kingdom, Dutch and Australian tax implications of investing in the Notes as they affect most investors (other than dealers in securities and persons who are not the absolute beneficial owners of the Notes and Coupons). Persons who are unsure of their tax positions are strongly advised to consult their own professional advisors.

UNITED KINGDOM TAXATION

Under current law and Inland Revenue practice in the United Kingdom:—

The rules relating to withholding tax are contained largely in legislation enacted by the Finance Act 1996 and regulations laid thereunder. As some regulations are still in draft form and further regulations are expected, the rules set out in A and B below may be subject to amendment.

- A. 1. Listed Notes in bearer form which are Fixed Rate Notes, Floating Rate Notes or other interest-bearing Notes (as the case may be) will constitute "quoted Eurobonds" provided they continue to be listed on a recognised stock exchange. Accordingly, while such Notes remain in global form and are held in a recognised clearing system designated as such for the purposes of section 841A of the Income and Corporation Taxes Act 1988 ("United Kingdom Taxes Act"), payments of interest on such Notes may be made without withholding or deduction for or on account of United Kingdom income tax provided that:
- (i) payment is made directly to the recognised clearing system; or
 - (ii) the paying agent obtains a valid declaration PA3 from a depository for the recognised clearing system on the occasion of each payment; or
 - (iii) the paying agent has obtained a notice from the Inland Revenue authorising the paying agent to pay the interest with no tax deducted.
2. If Definitive Notes (but not Registered Notes) are issued in the circumstances set out in Condition 1 of the "Terms and Conditions of the Notes" and continue to be in bearer form and listed on a recognised stock exchange then payments of interest on such Notes may be made without such withholding or deduction where:
- (a) the payment is made by a paying agent outside the United Kingdom, or
 - (b) the payment is made by or through a United Kingdom paying agent and:
 - (i) a person who is not resident in the UK is beneficially entitled to the interest and beneficial owner of the Note on which the interest is paid and either:
 - (1) the paying agent obtains a valid declaration PA1 from the said person on the occasion of each payment; or
 - (2) the paying agent obtains on the occasion of each payment a valid declaration PA2 from another person who holds the Notes for the non-resident person and who is entitled to arrange for the interest to be paid with no UK tax deducted; or
 - (3) the paying agent has obtained a notice from the Inland Revenue authorising the paying agent to pay the interest with no tax deducted; or
 - (ii) such Notes are held in Euroclear or Cedel Bank or any other recognised clearing system designated as such for the purposes of Section 841A of the United Kingdom Taxes Act and one of the conditions set out in A.1(i), (ii) and (iii) above is satisfied.

In all cases falling outside the exemptions described in A.1 and A.2 above, subject to such relief as may be available under any applicable double taxation treaty, interest will be paid under deduction of lower rate United Kingdom income tax (currently 20 per cent.) unless, in the case of Notes issued by the Bank, the interest is paid in the ordinary course of its business, or, in any case, the interest is paid on Notes with a maturity date of less than one year from the date of issue and which are not issued under any arrangement the effect of which is to render such Notes part of a borrowing with a total term of a year or more, in which case payments of interest may be made without withholding or deduction in any event.

- B. 1. Where any interest on Notes issued by MIFS or MAFS is payable to any person in the UK and is entrusted to any person in the UK (the "paying agent") for payment or distribution, the paying agent will be obliged to withhold UK income tax at the lower rate (currently 20 per cent.), subject to certain exceptions, including the following:
- (a) the person beneficially entitled to the interest and beneficial owner of the Notes is not resident in the UK and one of the conditions set out in A.2(b)(i)(1), (2) and (3) above is satisfied; or
 - (b) the relevant Notes are held in a recognised clearing system and one of the conditions set out in A.1(i), (ii) and (iii) above is satisfied; or
 - (c) interest arises to trustee of certain trusts (called "qualifying discretionary and accumulation trusts"), where essentially neither the trustees nor the beneficiaries are resident in the UK and the paying agent obtains a valid declaration PA1 from the trustee on the occasion of each payment; or
 - (d) the person owning the Notes and entitled to the interest is eligible for certain reliefs, for example a UK bank, charity, approved pension scheme or sovereign power or its government or an international organisation and the paying agent obtains a valid declaration PA1 or PA2 from the appropriate person on the occasion of each payment.
2. A person in the UK who in the course of a trade or profession:
- (i) collects, secures or receives, or arranges to collect or secure payment of, interest on behalf of a holder of Definitive Notes or an interest in a Global Note (which are in each case quoted Eurobonds) or interest on Notes issued by MIFS or MAFS; or
 - (ii) acts as custodian of such Notes and receives interest on such Notes or directs that interest on such Notes be paid to another person or consents to such payment
- will be required to withhold UK income tax at the lower rate (currently 20 per cent.) subject to certain exceptions, including the following:
- (a) the relevant Notes are held in a recognised clearing system and either:
 - (i) the collecting agent pays or accounts for the interest directly to the recognised clearing system; or
 - (ii) the collecting agent holds a valid declaration CA3 from a depositary for the recognised clearing system; or
 - (iii) the collecting agent has obtained a notice from the Inland Revenue authorising the collecting agent to pay the interest with no tax deducted; or
 - (b) the person beneficially entitled to the interest owns the relevant Notes and is not resident in the UK, and the collecting agent either:
 - (1) holds a valid declaration CA1 from the beneficial owner of the Notes; or
 - (2) holds a valid declaration CA2 from a person (other than the beneficial owner of the Notes) to whom the interest is payable or who is entitled to arrange for the interest to be collected without deduction of UK tax and who is not a collecting agent in the UK; or
 - (3) the collecting agent has obtained a notice from the Inland Revenue directing the collecting agent to pay the interest with no tax deducted; or
 - (c) the interest is payable to trustees of certain trusts (called "qualifying discretionary and accumulation trusts") where essentially neither the trustees nor beneficiaries are resident in the UK and the collecting agent has obtained a valid declaration CA1 from the trustees; or
 - (d) the person owning the relevant Notes and beneficially entitled to the interest is eligible for certain reliefs, for example a UK charity, approved UK pension fund, UK bank (note that the bank exemption is not applicable to interest on Notes which are quoted Eurobonds) or sovereign power or its government, UK authorised or unauthorised unit trust or foreign diplomat, foreign consular employee or member of foreign armed forces and the collecting agent has obtained a valid declaration CA1 or CA2 from the appropriate person.

In all cases declarations made on or before the fourteenth day of a month will be effective from the first day of the previous month. Declarations received after the fourteenth day of a month are effective from the first day of the month in which they are received.

- C. Payments of interest in respect of Notes issued by the Bank have a United Kingdom source and accordingly will be chargeable to United Kingdom tax by direct assessment even if paid without withholding or deduction.

However, where the beneficial owner of the interest is not resident in the United Kingdom, the Notes are not held by or for a branch or agent in the United Kingdom through which the non-resident carries on a trade, profession or vocation and the interest is not attributable to a branch or agency in the United Kingdom, the Finance Act 1995 generally limits the United Kingdom tax charged to tax, if any, which has been deducted at source.

Exemption from or reduction of such United Kingdom tax liability might be available under an applicable double taxation treaty.

Payments of interest in respect of Notes issued by MIFS or MAFS will not be subject to UK tax except in the hands of UK residents or non-UK residents carrying on a trade in the UK through a branch or agency to which the interest is attributable.

- D. The provisions relating to additional payments referred to in Condition 7 of the "Terms and Conditions of the Notes" would not apply if the Inland Revenue sought to assess the person entitled to the principal or interest in respect of a Note directly to United Kingdom tax. However, exemption from or reduction of such United Kingdom tax liability might be available under an applicable double taxation treaty.
- E. Notes may be issued at an issue price of less than 100 per cent. of their principal amount. Any discount element on such Notes will not be subject to any UK withholding tax pursuant to the provisions mentioned in A. and B. above. Where Notes are issued with a redemption premium, as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest. Payments of interest are subject to UK withholding tax as outlined in A. and B. above.
- F. Holders of Notes who are individuals may be subject to United Kingdom taxation on a disposal or redemption of Notes if they are resident or ordinarily resident in the United Kingdom or if they carry on a trade in the United Kingdom through a branch or agency to which the Notes are attributable. The exemption from United Kingdom taxation from gains for "qualifying corporate bonds" will apply only to Notes which are "qualifying corporate bonds" within the terms of section 117 of the Taxation of Chargeable Gains Act 1992 with the result that no chargeable gain or allowable loss will arise on a disposal of such Notes by individual Noteholders.
- G. The provisions of the accrued income scheme (the "scheme") may apply to individual Noteholders transferring Notes which bear interest where the holder is resident or ordinarily resident in the UK or carries on a trade in the UK through a branch or agency to which the Note is attributable. On a transfer of securities with accrued interest computed in accordance with the scheme, the scheme usually applies to deem the transferor to receive an amount of income equal to the accrued interest and to deem the transferee to obtain an equivalent credit to set against the deemed or actual interest he subsequently receives. These provisions will be modified in the case of Notes bearing interest at a variable rate; for persons within the charge, on a transfer of securities, the transfer will be deemed to be a transfer with accrued interest and the amount of accrued income deemed to be received by a transferor will be such amount as the Inland Revenue decides is just and reasonable. The purchaser of such Notes will not be entitled to any equivalent credit under the scheme to set against any deemed or actual interest in respect of Notes which bear interest.
- H. Holders of Notes which are companies within the charge to UK corporation tax (other than authorised unit trusts) will be taxed and relieved in respect of their returns from Notes, including interest and returns attributable to movement in value, as income in accordance with an authorised accruals or mark to market basis of accounting.

DUTCH TAXATION

MIFS has been advised that under the existing laws of the Netherlands, in respect of any issue of Notes and/or Coupons which it makes:

- (a) all payments under Notes and/or Coupons can be made free of withholdings or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld or assessed by The Netherlands or any political subdivision or taxing authority thereof or therein, unless the Notes qualify as profit sharing debentures (*winstdelende obligaties*) as referred to in Article 1 of the Dutch Dividend Tax Act (*Wet op de dividendbelasting 1965*);
- (b) a holder of a Note and/or Coupon who derives income from a Note and/or Coupon or who realises a gain on the disposal or redemption of a Note and/or Coupon will not be subject to Dutch taxation on income or capital gain unless:
 - (i) the holder is, or is deemed to be, resident in The Netherlands for the purpose of the relevant provisions; or
 - (ii) such income or gain is attributable to an enterprise or part thereof which is carried on through a permanent establishment or permanent representative in The Netherlands; or
 - (iii) the holder has, directly or indirectly, a substantial interest or a deemed substantial interest in the Issuer and such interest or the Notes and/or Coupons do not form part of the assets of an enterprise; or
 - (iv) if the holder is an individual not having a substantial interest or a deemed substantial interest in the Issuer, any of certain connected persons has a substantial interest or a deemed substantial interest in the Issuer and such interest or the Notes and/or Coupons do not form part of the assets of an enterprise;
- (c) Dutch net wealth tax will not be levied on a holder of a Note and/or Coupon unless such holder is an individual and:
 - (i) the holder is, or is deemed to be, resident in The Netherlands for the purpose of the relevant provisions; or
 - (ii) such Note and/or Coupon is attributable to an enterprise or part thereof which is carried on through a permanent establishment or a permanent representative in The Netherlands;
- (d) Dutch gift, estate or inheritance taxes will not be levied on the occasion of the transfer of a Note and/or Coupon by way of a gift or on death of a holder unless:
 - (i) the holder is, or is deemed to be, resident in The Netherlands for the purpose of the relevant provisions; or
 - (ii) the transfer is construed as a gift made by or on behalf of a person who, at the time of gift or his death is, or is deemed to be, resident in The Netherlands for the purposes of the relevant provisions; or
 - (iii) such Notes and/or Coupon is attributable to an enterprise or part thereof which is carried on through a permanent establishment or a permanent representative in The Netherlands;
- (e) there is no Dutch registration tax, capital tax, stamp duty or any similar tax or duty other than court fees and contributions for the registration with the Trade Register of the Chamber of Commerce, payable in The Netherlands in respect of or in connection with the execution, delivery and enforcement by legal proceedings (including any foreign judgment in the courts of The Netherlands) or any agreement relating to the issue of the Notes and/or Coupons or the performance of the Issuer's obligations under the Notes and/or Coupons;
- (f) there is no Dutch value added tax payable in respect of payments in consideration for the issue of a Note and/or Coupon or in respect of the payment of interest or principal under the Notes and/or Coupons or the transfer of the Notes and/or Coupons; and
- (g) a holder of a Note and/or Coupon will not become resident, or deemed to be resident, in The Netherlands by reason only of the holding of the Note and/or Coupon or the execution, performance, delivery and/or enforcement of the Notes and/or Coupons.

AUSTRALIAN TAXATION

MAFS intends, as soon as practicable after the proceeds of any issue of Notes are received, to make application to the Australian Commissioner of Taxation for a Certificate of Exemption from interest withholding tax under Section 128F of the Income Tax Assessment Act 1936 (as amended) of Australia if required to obtain an exemption from Australian interest withholding tax. When such a certificate has been given, a person who is not a resident of the Commonwealth of Australia within the meaning of the Income Tax Assessment Act 1936 of Australia (as amended) and who does not carry on business at or through a permanent establishment in Australia and who has acquired or thereafter, acquires any of the Notes will not incur or become liable for any Australian income tax on interest payable in respect of the Notes, so long as such certificate remains current. To the knowledge of MAFS, if required to obtain an exemption from Australian interest withholding tax there is no reason why such a certificate should not be issued.

On 25 June 1996 the Australian Treasurer announced that he intended to amend section 128F of the Income Tax Assessment Act 1936 (as amended) of Australia (the "Tax Act"). To implement that announcement the Government introduced proposed withholding tax legislation into Parliament on 13 February 1997.

So far as they relate to section 128F of the Tax Act, the proposed new rules include the following key features.

- (i) The removal of the present requirement for the issuing company to apply for an exemption certificate under section 128F of the Tax Act confirming that non-residents are not subject to Australian withholding tax in respect of debentures issued outside Australia by that company. Instead, issuers are to be able to self assess themselves to the exemption under the new rules.
- (ii) The present end use requirement that the borrowed funds be used in an Australian business will be removed.
- (iii) The present requirement that, to qualify for the interest exemption, the relevant debentures must be widely distributed will be replaced by the public offer test. There are six proposed public offer tests (of which one must be satisfied and of which one relates to debentures in global form), the purpose of which is to ensure that lenders on overseas capital markets are aware that an Australian company is offering debentures for issue.
- (iv) No public offer test will be satisfied if, at the time of issue, the issuing company was aware, or should have known, that the debentures would be acquired by an Australian resident or an associate of the issuing company (other than in the capacity of a dealer, manager or underwriter in relation to the placement of the debentures).
- (v) The exemption will also not be available if the issuing company was aware, or should have been aware, at the time of payment that interest in respect of the debenture was to be paid to an associate of the issuing company.
- (vi) The proposed amendments are intended to have effect from 1 January 1996. During the transitional period from 1 January 1996 until the new rules come into effect, both the existing, and proposed, rules apply.

It is not certain that the proposed new rules will be enacted into law and in the form currently before Parliament.

Pending clarification and introduction of the new exemption, MAFS intends to continue to rely on the exemption available under the current section 128F.

SUBSCRIPTION AND SALE

Midland Bank plc and Trinkaus & Burkhardt KGaA, (the "Dealers") have in a dealer agreement dated 27 June 1997 (the "Dealer Agreement") agreed with MIFS, MAFS and the Bank a basis upon which they or any of them may from time to time agree either as principal or agent of the relevant Issuer to subscribe for or purchase, to underwrite or, as the case may be, to procure subscribers or purchasers for Notes. When entering into any such agreement to subscribe for or purchase, to underwrite, or as the case may be, to procure subscribers for or purchasers any particular Series of Notes, the relevant Issuer and the relevant Dealer will agree those details relating to such Notes which are described in "Description of the Programme and Issue Procedure" above. The Dealer Agreement contains provisions for the Issuers to appoint other dealers from time to time either generally in respect of the Programme or in relation to a particular Tranche of Notes.

General

Save for having obtained the approval of the Information Memorandum by the London Stock Exchange (in accordance with Part IV of the Financial Services Act 1986) and by the COB and save for having procured the delivery of a copy of the Information Memorandum for registration to the Registrar of Companies in England and Wales and (where relevant) for submission being made of the Information Memorandum (approved as set out in Paragraph 1(i) of "The Netherlands" below) to the STE (as defined below), no action has been or will be taken in any country or jurisdiction by the Bank, MIFS or MAFS or the Dealers that would permit a public offering of Notes, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Information Memorandum or any Pricing Supplement comes are required by the Bank, MIFS, MAFS and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or have in their possession or distribute such offering material, in all cases at their own expense.

The Dealer Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out below) to the extent that such restrictions shall, as a result of change(s) in or change(s) in official interpretation of, after the date hereof, applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the first paragraph under the heading "General" above.

Selling restrictions may be supplemented or modified with the agreement of the relevant Issuer. Any such supplement or modification will be set out in the relevant Pricing Supplement (in the case of a supplement or modification relevant only to a particular Tranche of Notes) or (in any other case) in a supplement to this Information Memorandum.

United States of America

The Notes have not been and will not be registered under the United States Securities Act of 1993, as amended (the "Securities Act"), and may not be offered or sold within the United States or to or for the account or benefit of the U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in the preceding sentence have the meanings given to them by Regulation S under the Securities Act.

Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. person, except in certain transactions permitted by U.S. tax regulations. Terms used in the preceding sentence have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

Each Dealer has agreed that, except as permitted by the Dealer Agreement, it has not and will not offer, sell or deliver Notes, (i) as part of their distribution at any time, or (ii) otherwise until forty days after the later of the closing date and the completion of the distribution of the Notes comprising the relevant Series, as determined and certified to the Principal Paying Agent or the relevant Issuer by such Dealer (or in the case of a sale of a Series of Notes to or through more than one Dealer, by each of such Dealers as to the Notes of such Series purchased by or through it, in which case the Principal Paying Agent or relevant Issuer shall notify each such Dealer when all such Dealers have so certified), within the United States or to, or for the account or benefit of, U.S. persons, and such Dealer will send to each dealer to which it sells Notes during the restricted period relating thereto a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of U.S. persons. In

addition, until forty days after the commencement of the offering of Notes comprising any Series, any offer or sale of Notes of such Series within the United States by a dealer (whether or not participating in the offering of Notes of such Series) may violate the registration requirements of the Securities Act.

Each Dealer has further represented and agreed that, prior to the issuance of Index Linked Notes the Issuer thereof and the Dealer or Dealers intending to purchase such Notes shall consult U.S. counsel, and each Dealer or Dealers shall offer, sell and deliver such Notes only in compliance with such additional U.S. restrictions as such U.S. counsel may advise.

United Kingdom

In relation to each Tranche of Notes, each Dealer subscribing for or purchasing such Notes has represented to and agreed with, or will represent to and agree with, the relevant Issuer that:—

- (a) in relation to Notes of any Tranche which have a maturity of one year or more and which are to be listed on the London Stock Exchange, it has not offered or sold and will not offer or sell Notes of any Tranche to persons in the United Kingdom prior to the admission of the Notes of such Tranche to listing in accordance with Part IV of the Financial Services Act 1986 (the "Act") except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Act;
- (b) in relation to Notes of any Tranche which have a maturity of one year or more and which are not to be listed on the London Stock Exchange, it has not offered or sold and, prior to the expiry of the period of six months from the Issue Date of the Notes of such Tranche, will not offer or sell any Notes of such Tranche to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;
- (c) it has complied and will not comply with all applicable provisions of the Act with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom; and
- (d) it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with any issue of Notes, other than, in relation to any Notes to be listed on the London Stock Exchange, any document which consists of or any part of listing particulars, supplementary listings particulars or any other document required or permitted to be published by listing rules under Part IV of the Act, to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended by the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1997) or is a person to whom such document may otherwise lawfully be issued or passed on.

Japan

Each Dealer has understood that the Notes have not been and will not be registered under the Securities and Exchange Law of Japan. Accordingly, each Dealer has undertaken that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any Japanese Person, or to others for reoffering or resale, directly or indirectly in Japan or to any Japanese Person except under circumstances which will result in compliance with all applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities and in effect at the relevant time. For the purposes of this paragraph, "Japanese Person" shall mean any person resident in Japan, including any corporation or other entity organised under the laws of Japan. No Notes denominated in Japanese Yen shall be sold without the specific approval of the Japanese Ministry of Finance, except for Notes which are already permitted by the Japanese Ministry of Finance.

Federal Republic of Germany

Each Dealer has confirmed that it is aware of the fact that no German selling prospectus (*Verkaufsprospekt*) has been nor will be published in respect of the Programme and that it will comply with the Securities Selling Prospectus Act (the "Act") of the Federal Republic of Germany

(*Wertpapier Verkaufsprospektgesetz*). In particular each Dealer has undertaken not to engage in public offering (*öffentliche Anbieten*) in the Federal Republic of Germany with respect to any Notes issued under the Programme otherwise than in accordance with the Act and any other act replacing or supplementing the Act and all other applicable laws and regulations.

The Netherlands

I. Each Dealer has represented and agreed (and each further Dealer appointed under the Programme will be required to represent and agree) that any Notes issued under the Programme (including rights representing an interest in a Note in global form) in, from, or into The Netherlands as far as Notes issued by MIFS are concerned or in The Netherlands as far as Notes issued by the Bank or MAFS are concerned, shall in order to comply with The Netherlands Securities Market Supervision Act 1995 (*“Wet toezicht effectenverkeer 1995”* the “Netherlands Securities Act”):

- (i) only be issued and offered in the event that such Notes have been or will most likely be admitted to the official listing on (a) a recognised stock exchange in The Netherlands or (b) a stock exchange in another state which is a party to the Treaty on European Economic Area and, in the latter case, the Information Memorandum has been approved by, and the relevant Pricing Supplement in respect of such Notes has been submitted to or approved by, the competent authority as referred to in Article 20 or Article 21 of EU Directive 89/298/EEC and the Securities Board of The Netherlands (*“Stichting Toezicht Effectenverkeer”* — hereinafter the “STE”) has, where necessary, confirmed the availability of mutual recognition in respect of these documents; or
- (ii) only be issued and offered in the event that the Information Memorandum has been approved by, and the relevant Pricing Supplement in respect of such Notes has been submitted to or approved by, the competent authority of another state which is a party to the Treaty on European Economic Area as referred to in Article 20 of EU Directive 89/298/EEC in connection with a public offering of such Notes and the STE has, where necessary, confirmed the availability of mutual recognition in respect of these documents; or
- (iii) only be issued and offered, anywhere in the world, when issued by MIFS, if they are part of a series of Notes comprising only Notes with a denomination of at least NLG 100,000 or the equivalent in any other currency, or, in The Netherlands when issued by MAFS or the Bank, in a denomination of at least NLG 100,000 or the equivalent in any other currency; or
- (iv) not be offered, transferred or sold, whether directly or indirectly, to any individual or legal entity, as part of their initial distribution or at any time thereafter, other than to individuals or legal entities, situated anywhere in the world, (as far as Notes of MIFS are concerned) or in The Netherlands (as far as Notes of the Bank or MAFS are concerned) who or which trade or invest in securities in the conduct of their profession or trade (which includes banks, investment banks, securities firms, insurance companies, pension funds, investment institutions, central governments, large international and supranational organisations and treasuries and finance companies of large enterprises), in which case:
 - (a) it must be made clear upon making the offer and from any documents or advertisements in which a forthcoming offering of Notes is publicly announced that the offer is exclusively made to the said individuals or legal entities; and
 - (b) a copy of any offering material (including the relevant Pricing Supplement) must be submitted to the STE before the issue date; or
- (v) (for syndicated tranches of Notes) only be issued and offered if the following criteria are met:
 - (a) the Notes are subscribed for and placed by a syndicate of which at least two members are domiciled in different states which are party to the Treaty on European Economic Area;
 - (b) 60 per cent. or more of the issue is placed by syndicate members which are situated in one or more states other than the jurisdiction of the relevant Issuer; and
 - (c) investors may only acquire the Notes being offered through the intermediary of a bank or other financial institution;

provided that each of the relevant Issuer and each relevant Dealer has further represented and agreed that it has not publicly promoted and shall not publicly promote the offer or sale of such Notes by conducting a generalised advertising or cold-calling campaign anywhere in the world; or

- (vi) only be issued if any other exemption from the prohibition contained in Article 3 paragraph 1 of the Netherlands Securities Act applies and the requirements of such exemption are fully complied with; or
- (vii) only be issued if the STE has, upon request, granted an (individual) dispensation from the above prohibition and the conditions attached to such dispensation are fully complied with.

Provided that in the case (i) and (ii) above:

- (a) the relevant Issuer and the relevant Dealer or Dealers procure that any advertisement or document in which a forthcoming offering of Notes is publicly announced will be submitted to the STE prior to publication thereof and will mention the respective dates on which the Information Memorandum and the relevant Pricing Supplement were published and were made available or (as the case may be) will be published and will be made available for inspection at the registered office of the relevant Issuer and at the office of the Principal Paying Agent; and
- (b) each relevant Dealer represents and agrees that prior to the submission of the Information Memorandum (with the approval of the competent authorities) and the relevant Pricing Supplement to the STE:
 - (i) it has not offered, transferred or sold any Notes and will not, directly or indirectly, offer, transfer or sell any Notes to individuals or legal entities as referred to in (iv) above; and
 - (ii) either it has not distributed and will not distribute any offering or promotional materials in respect of the Notes or it has complied and will comply with the conditions under (iv)(a) and (b) above;and each invitation telex and relevant Pricing Supplement in respect of such Notes will set forth the restrictions under (b)(i) and (ii) above.

II. In addition and without prejudice to the restrictions set out in I above, Zero Coupon Notes (as defined below) in definitive form may only be transferred and accepted directly or indirectly, within, from or into The Netherlands through the mediation of either the relevant Issuer or a member of the AEX Stock Exchange Amsterdam in accordance with the Dutch Savings Certificates Act ("*Wet inzake Sparbewijzen*") of 21 May 1985. Such restrictions do not apply (a) to a transfer and acceptance of Zero Coupon Notes in definitive form between individuals not acting in the course of a business or profession, or (b) to the transfer and acceptance of such Zero Coupon Notes if the Zero Coupon Notes (either in definitive form or as rights representing an interest in the Zero Coupon Notes in global form) are issued outside The Netherlands and are not distributed within, from or into The Netherlands in the course of initial distribution or immediately thereafter. For purposes of this paragraph "Zero Coupon Notes" are Notes that are to bearer and that constitute a claim for a fixed sum against the relevant Issuer and that do not pay interest during their term or pay interest only at maturity.

Australia

No prospectus in relation to the Notes has been lodged with, or registered by, the Australian Securities Commission. Each Dealer has severally represented and agreed that in connection with the initial distribution of the Notes, it:

- (i) has not (directly or indirectly) offered for subscription or purchase or issued invitations to subscribe for or buy nor has it sold such Notes;
- (ii) will not (directly or indirectly) offer for subscription or purchase or issue invitations to subscribe for or buy nor will it sell the Notes; and
- (iii) has not distributed and will not distribute any draft or definitive offering memorandum, advertisement or other offering material,

in the Commonwealth of Australia, its territories or possessions ("Australia") or to any resident of Australia (including corporations and other entities organised under the laws of Australia but not

including a permanent establishment of such corporation or other entity located outside Australia). In addition, each Dealer agrees that, after the initial distribution of any Notes, it will not (directly or indirectly) offer for subscription or purchase, or issue invitations to subscribe for or buy or sell, such Notes or distribute any draft or definitive document in relation to any such offer, invitations or sale, in Australia, except in accordance with Australian Corporations Law, Australian Corporations Regulations and any other applicable laws.

Each Dealer which is a resident of Australia for the purposes of the Income Tax Assessment Act, 1936 ("Tax Act") which purchases Registered Notes from MAFS on their initial distribution shall, promptly after the issue of the relevant Registered Notes, either:

- (i) quote its tax file number (as defined in the Tax Act) to MAFS; or
- (ii) if it fails to quote its tax file number to MAFS be taken to have represented to MAFS that it carries on the business of providing business finance and that it purchased the Registered Notes in the ordinary course of that business.

Each Dealer which purchases Registered Notes from MAFS on their initial distribution as agent for or otherwise on behalf of a foreign branch of a resident of Australia ("Investor") shall, promptly after the issue of the relevant Registered Notes, either:

- (i) quote to MAFS the Investor's tax file number (as defined in the Tax Act) on the Investor's behalf; or
- (ii) provide confirmation to MAFS that the Investor carries on a business of providing business finance and that the investor subscribed for the Registered Notes in the ordinary course of that business.

The Republic of France

Each Dealer has represented and agreed that the Notes are being issued outside the Republic of France and that, in connection with an initial distribution, it has not offered or sold and will not offer or sell, directly or indirectly, any Notes to the public in the Republic of France and that it has not distributed and will not distribute or cause to be distributed to the public in the Republic of France the Information Memorandum or any other offering material relating to the Notes.

GENERAL INFORMATION

1. The listing of each Series of Listed Notes on the London Stock Exchange will be expressed as a percentage of their principal amount (excluding accrued interest). The listing of the Programme on the London Stock Exchange is expected to be granted on 27 June 1997. Any Tranche of Notes intended to be listed on the London Stock Exchange will be admitted to the Official List upon submission to the London Stock Exchange of the Relevant Pricing Supplement and any other information required by the London Stock Exchange, subject to the issue of the relevant Notes. Prior to official listing, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction.

However, Notes may be issued pursuant to the Programme which will not be listed on the London Stock Exchange or any other stock exchange or which will be listed on such stock exchange as the relevant Issuer and the relevant Dealer(s) may agree.

2. Save as disclosed herein, since 31 December 1996, there has been no significant change in the financial or trading position nor any material adverse change in the financial position or prospects of MIFS, MAFS or Midland Bank plc and its subsidiary undertakings (taken as a whole).

3. None of MIFS, MAFS, the Bank or any of the Bank's subsidiary undertakings is engaged in any legal or arbitration proceedings (nor so far as MIFS, MAFS or the Bank is aware are legal or arbitration proceedings pending or threatened against any of the Issuers or any of their respective subsidiary undertakings) which may have or have had during the previous 12 months a significant effect on the financial position of any Issuer and its subsidiary undertakings (taken as a whole).

4. KPMG Chartered Accountants, Registered Auditors has audited without qualification the Annual Report and Accounts of Midland for the financial years ended 31 December 1994 and 1995. KPMG Audit Plc has audited without qualification the Annual Report and Accounts of Midland for the financial year ended 31 December 1996. KPMG Accountants N.V. has audited without qualification the annual accounts of MIFS for the financial years ended 31 December 1994, 1995 and 1996. KPMG Chartered Accountants has audited without qualification the annual accounts of MAFS for the financial years ended 31 December 1995 and 1996. Prior to 1995, MAFS had not produced audited accounts since 1985 as its parent undertaking, until the transfer of ownership on 14 June 1995, was exempted from the statutory requirement in Australia to prepare and lodge audited accounts in respect of wholly owned subsidiary undertakings.

5. KPMG Chartered Accountants, Registered Auditors has given and not withdrawn its written consent to the issue of this document with the inclusion herein of its name in the form and context in which it appears. KPMG Audit Plc has given and not withdrawn its written consent to the issue of this document with the inclusion herein of its name and the inclusion and incorporation by reference herein of its reports in relation to the Bank in the form and context in which they appear or will be incorporated by reference herein and has authorised the contents of that part of the listing particulars for the purposes of Section 152(1)(e) of the Financial Services Act 1986. KPMG Accountants N.V. has given and not withdrawn its written consent to the issue of this document with the inclusion herein of its name and the inclusion and incorporation by reference herein of its reports in relation to MIFS in the form and context in which they appear or will be incorporated by reference herein and has authorised the contents of that part of the listing particulars for the purposes of Section 152(1)(e) of the Financial Services Act 1986. KPMG Chartered Accountants has given and not withdrawn its written consent to the issue of this document with the inclusion herein of its name and the inclusion and incorporation by reference herein of its reports in relation to MAFS in the form and context in which they appear or will be incorporated by reference herein and has authorised the contents of that part of the listing particulars for the purposes of section 152(1)(e) of the Financial Services Act 1986.

6. The establishment and continuation of the Programme was authorised by resolutions of a Committee of the Board of Directors of the Bank passed on 25 May 1994, 29 June 1995, 28 June 1996 and 25 June 1997, by resolutions of the Managing Directors of MIFS passed on 15 June 1994 and 29 June 1995 and by resolutions of the Board of Directors of MAFS passed on 29 June 1995, 28 June 1996 and 20 June 1997.

7. From the date of this document and throughout the life of the Programme, copies and, where applicable, English translations of the Certificate of Incorporation of the Bank, the Memorandum and Articles of Association of the Bank, the constitutive documents of MIFS, the constitutive

documents of MAFS, the consolidated Annual Report and Accounts of the Bank (including all notes, reports and information required by the Companies Acts 1985 and 1989), the Financial Statements of MIFS and the Directors' Report of MAFS in respect of each of the financial years ended 31 December 1995 and 1996, all future consolidated Annual Reports and Accounts of the Bank, all future Financial Statements of MIFS and all future Directors' Report of MAFS, Statements of Interim Results of the Bank, the current listing particulars in relation to the Programme, together with any amendments or supplements thereto and any documents incorporated therein by reference and (in relation to Listed Notes only) any future Pricing Supplements and copies of the Trust Deed, the Agency Agreement, the Dealer Agreement and the consents of KPMG Chartered Accountants, Registered Auditors, KPMG Audit Plc, KPMG Accountants N.V. and KPMG Chartered Accountants referred to above will be available for inspection, during normal business hours at the principal office of the Trustee and at the registered office of the Bank.

8. Where any Subordinated Notes, Subordinated Guaranteed Notes or Undated Subordinated Notes form part of the regulatory capital of the Bank, no repayment of such Notes will be made without the prior consent of the Bank of England.

9. The Notes have been accepted for clearance through Euroclear and Cedel Bank. Each Pricing Supplement shall specify any other clearing system as shall have accepted the relevant Notes for clearance. The appropriate common code and the International Securities Identification Number in relation to the Notes of each Series will be set out in the relevant Pricing Supplement. The relevant Pricing Supplement shall specify any other clearing system (including Sicovam) as shall have accepted the relevant Notes for clearance together with any further appropriate information.

10. Settlement arrangements will be agreed between the relevant Issuer, the relevant Dealer and the Principal Paying Agent or, as the case may be, the Registrar in relation to each Tranche of Notes.

11. Only in the case of Unlisted Notes, Definitive Notes may not in all circumstances be printed from engraved steel plates. If they are not to be so printed, a statement to that effect will be made in the Pricing Supplement.

12. In relation to MAFS only, under temporary Australian foreign exchange controls, payments to, or on behalf of:

- (a) the Government of Iraq, its agencies or nationals;
- (b) the Federal Republic of Yugoslavia (Serbia and Montenegro) or its agencies; or
- (c) the Government of Libya or any public authority or controlled entity of the Government of Libya,

may only be made with Reserve Bank of Australia approval.

13. In relation to the Bank and MIFS, any transfer of, or payment in respect of, a Note or Coupon involving the government of any country which is currently the subject of United Nations sanctions, any person or body resident in, incorporated in or constituted under the laws of any such country or exercising public functions in any such country or any person or body controlled by any of the foregoing or by any person acting on behalf of the foregoing may be subject to restrictions pursuant to such sanctions.

14. Under Article 109G of the Treaty establishing the European Communities (the "Treaty of Rome"), as amended by the Treaty on European Union (the "Maastricht Treaty" and, together with the Treaty of Rome, the "Treaty"), the currency composition of the ECU may not be changed. The Treaty contemplates that European monetary union will occur in three stages, the second of which began on 1 January 1994 with the entry into force of the Maastricht Treaty. The Treaty provides that, at the start of the third stage of European monetary union, the value of the ECU as against the currencies of the member states participating in the third stage will be irrevocably fixed, and the ECU will become a currency in its own right. In contemplation of that third stage, the European Council meeting in Madrid on 16 December 1995 decided that the name of that currency will be the Euro and that, in accordance with the Treaty, substitution of the Euro for the ECU will be at the rate of one Euro for one ECU. From the start of the third stage of European monetary union, all payments in respect of Notes denominated in ECU will be made in Euro at the rate then established in accordance with the Treaty.

15. For so long as Notes are capable of being issued under the Programme and are listed on the Paris Bourse, the following documents may be inspected during normal business hours at the address specified for such purpose in the Pricing Supplement relating to such Notes:

- (a) the *statuts* (together with French translation thereof) of the relevant Issuer and (where applicable) the Guarantor;
- (b) the Dealer Agreement;
- (c) the Agency Agreement;
- (d) the Trust Deed;
- (e) the audited financial statements of the relevant Issuer and (where applicable) the Guarantor together with all other audited annual financial statements of the relevant Issuer and (where applicable) the Guarantor subsequent to 31 December 1996;
- (f) any Pricing Supplement in relation to any Tranche which is listed on the Paris Bourse; and
- (g) the Information Memorandum and any document incorporated by reference therein prepared in relation to the Programme.

16. Paris Listing Information

Under current regulations made by the French *Trésor*, it is recommended that French Franc Notes be listed on the Paris Bourse where either (a) such French Franc Notes are, or are intended to be, listed on any other stock exchange or (b) such French Franc Notes are, or are intended to be, distributed as a public offer (within the meaning of the rules and regulations relating to the *marché de l'euro franc* from time to time issued by the *Comité des Emissions*). The following procedures will apply, *inter alia*, to the French Franc Notes which are so to be listed.

(a) *Commission des Opérations de Bourse* ("COB")

Prior to listing of any Notes (including French Franc Notes) on the Paris Bourse, the COB is required to approve the Information Memorandum. In addition, the Pricing Supplement applicable to each issue of Notes to be listed on the Paris Bourse is currently required to be approved at the time of the relevant issue. The relevant approval in relation to the Programme will be evidenced by the issue of a registration number by the COB. The registration number will be disclosed in the Information Memorandum. The relevant approval in relation to each issue will be evidenced by the issue of the *visa* number by the COB. The *visa* number will be disclosed in the Pricing Supplement applicable to the relevant Notes.

(b) *Société des Bourses Françaises* ("SBF")

The listing of Notes (including French Franc Notes) on the Paris Bourse is subject to approval by the SBF. Such approval will be evidenced by publication of a notice in the *Bulletin Officiel de la Cote*. At the option of the relevant Issuer, such publication may be made in one notice published in connection with a particular issue of Notes or in two notices, the first published in relation to the Programme generally and the second published in connection with a particular issue of French Franc Notes incorporating by reference the contents of the first notice (to the extent not modified in the second notice).

(c) *Bulletin des Annonces Légales Obligatoires* ("BALO")

Notes to be listed on the Paris Bourse may not be offered in France and the publication of the Pricing Supplement applicable thereto must not be made before such listing becomes effective and details of the relevant Notes (in the form of a *notice légale*) have been published in connection with a particular issue of Notes.

(d) *Documents available for inspection*

In the case of Notes (including French Franc Notes) listed on the Paris Bourse, the applicable Pricing Supplement will specify the additional place in Paris at which documents incorporated herein by reference in the Information Memorandum (or otherwise required to be made available for inspection) may be inspected during normal business hours. The Issuers have undertaken to make such documents available as so required.

(e) *Responsibility Statement*

The responsibility statement follows:

**PERSONNES QUI ASSUMENT LA RESPONSABILITE DU DOCUMENT DENOMME
"INFORMATION MEMORANDUM" EN CE QUI CONCERNE LES TITRES QUI SERONT
NEGOCIES AU PREMIER MARCHE (COMPARTIMENT INTERNATIONAL) DE LA BOURSE
DE PARIS**

Au nom de Midland Bank plc

A la connaissance de Midland Bank plc, en tant qu'émetteur, les données du présent document dénommé "*Information Memorandum*" sont conformes à la réalité et ne comportent pas d'omission de nature à en altérer la portée.

.....
R M J ORGILL

Midland Bank plc

Au nom de Midland International Financial Services B.V.

A la connaissance de Midland International Financial Services B.V., en tant qu'émetteur, les données du présent document dénommé "*Information Memorandum*" sont conformes à la réalité et ne comportent pas d'omission de nature à en altérer la portée.

.....
M C ANDERSON

Midland International Financial Services B.V.

Au nom de Midland Australia Financial Services Limited

A la connaissance de Midland Australia Financial Services Limited, en tant qu'émetteur, les données du présent document dénommé "*Information Memorandum*" sont conformes à la réalité et ne comportent pas d'omission de nature à en altérer la portée.

.....
A PICKUP

Midland Australia Financial Services Limited

Au nom de Midland Bank plc

A la connaissance de Midland Bank plc en tant que garant, les données du présent document dénommé "*Information Memorandum*" sont conformes à la réalité et ne comportent pas d'omission de nature à en altérer la portée.

.....
R M J ORGILL

Midland Bank plc

Au nom de la Banque Présentatrice

A la connaissance de la Banque Présentatrice, les données du présent document dénommé "*Information Memorandum*" en ce qui concerne les titres qui sont admis au Premier Marché (Compartiment International) de la Bourse de Paris sont conformes à la réalité et ne comportent pas d'omission de nature à en altérer la portée.

.....
R MOSELEY

Midland Bank plc, Paris Branch

NUMERO D'ENGREISTREMENT DE LA COMMISSION DES OPERATIONS DE BOURSE

En vue de la cotation à Paris des titres éventuellement émis dans le cadre de présent Programme, et par application des articles 6 et 7 de l'ordonnance n°. 67-833 du 28 septembre 1967 telle que modifiée, la Commission des Opérations de Bourse a enregistré le présent document dénommé "*Information Memorandum*" sous le numéro P.97-222 du 26 June 1997.

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