

14259



**MIDLAND BANK PLC** ✓  
(Incorporated with limited liability in England)

Issue of  
7,000,000  
Non-Cumulative Dollar  
Preference Shares, Series B1, of US\$0.01 each  
at an issue price of US\$20 per share  
and  
7,000,000  
Non-Cumulative Non-Voting Dollar  
Preference Shares, Series B2, of US\$0.01 each  
at an issue price of US\$5 per share

---

Copies of this document, which comprises listing particulars relating to Midland Bank plc required by Section 142 of the Financial Services Act 1986, have been delivered to the Registrar of Companies in England and Wales for registration as required by the listing rules made under Section 149 of that Act. ✓

Application has been made to the London Stock Exchange Limited (the "London Stock Exchange") for the non-cumulative preference shares, Series B1, of US\$0.01 each and the non-cumulative non-voting preference shares, Series B2, of US\$0.01 each to be admitted to the Official List of the London Stock Exchange. These shares, together with the Series B ADS units representing such shares (as defined below), have been admitted to listing on the New York Stock Exchange and trading commenced on 27 March 1995.

The Directors of Midland Bank plc, whose names are set out in paragraph 5 of Part I of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors of Midland Bank plc (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

30 July 1996 ✓

# CONTENTS

Page

Definitions .. .. . 3

## PART I — Information on Midland

1. Principal activities, objects and principal place of business .. .. .	5
2. Business operations .. .. .	5
3. Recent developments .. .. .	8
4. Current trading and prospects .. .. .	9
5. Directors .. .. .	9

## PART II — The dollar preference shares

1. Description of the Series B dollar preference shares .. .. .	10
2. Description of the American Depositary Receipts .. .. .	16
3. UK taxation .. .. .	21

## PART III — Financial information relating to Midland

1. The Bank's audited consolidated financial statements for the three years ended 31 December 1995 .. .. .	25
2. The Bank's audited statement of consolidated cash flows for the three years ended 31 December 1995 .. .. .	74

## PART IV — General information

1. The Bank .. .. .	78
2. Share capital .. .. .	78
3. Share rights .. .. .	79
4. Directors' interests, service contracts and remuneration .. .. .	84
5. Employees .. .. .	85
6. Subsidiary undertakings .. .. .	86
7. Associated undertakings .. .. .	87
8. Investments .. .. .	87
9. Principal premises .. .. .	87
10. Legal proceedings .. .. .	87
11. Significant changes .. .. .	87
12. Material contracts .. .. .	87
13. Miscellaneous .. .. .	88
14. Documents available for inspection .. .. .	88

## DEFINITIONS

In this document the following expressions have the following meanings, unless the context requires otherwise:—

“ADRs”	American Depositary Receipts issued by the Depositary under the Deposit Agreement evidencing ADSs
“ADSs”	American Depositary Shares (referred to in the Deposit Agreement) representing dollar preference shares
“Articles”	the articles of association of the Bank currently in force
“Bank”	Midland Bank plc
“Commission”	The United States Securities and Exchange Commission
“Co-Managers”	the co-managers listed on page 89 of this document
“Deposit Agreement”	the agreement dated 4 October 1993 made between (1) the Bank, (2) the Depositary and (3) all holders from time to time of ADRs issued by the Depositary thereunder
“Depositary”	The Bank of New York or any other bank or trust company acting from time to time as the depositary under the Deposit Agreement
“dollar preference shares”	the non-cumulative preference shares of US\$0.01 each in the capital of the Bank
“HSBC”	HSBC Holdings plc
“HSBC Group”	HSBC and its subsidiary undertakings
“Issue”	the issue of 7,000,000 Series B1 dollar preference shares and 7,000,000 Series B2 non-voting dollar preference shares by the Bank at the Issue Price
“Issue Price”	respectively US\$20 per Series B1 dollar preference share and US\$5 per Series B2 dollar preference share
“Lead Manager”	the lead manager listed on page 89 of this document
“London Stock Exchange”	the London Stock Exchange Limited
“Midland”	the Bank and its subsidiary undertakings
“ordinary shares”	the ordinary shares of £1 each in the share capital of the Bank
“Purchase Agreement”	the agreement dated 27 September 1993 made between the Bank and the Lead Manager
“Representatives”	the Lead Manager and the Co-Managers
“Series A dollar preference shares”	the Series A1 dollar preference shares and the Series A2 dollar preference shares
“Series A1 dollar preference shares” and “Series A2 dollar preference shares”	respectively the non-cumulative preference shares, Series A1, of US\$0.01 each and the non-cumulative non-voting preference shares, Series A2, of US\$0.01 each in the share capital of the Bank

"Series B1 ADSs and Series B2 ADSs"	ADSs representing respectively Series B1 dollar preference shares and Series B2 dollar preference shares
"Series B1 ADRs and Series B2 ADRs"	ADRs evidencing respectively Series B1 ADSs and Series B2 ADSs
"Series B ADRs"	Series B1 ADRs and Series B2 ADRs
"Series B ADSs"	Series B1 ADSs and Series B2 ADSs
"Series B1 dollar preference shares" and "Series B2 dollar preference shares"	respectively the non-cumulative preference shares, Series B1, of US\$0.01 each and the non-cumulative non-voting preference shares, Series B2, of US\$0.01 each in the share capital of the Bank
"Series B dollar preference shares"	the Series B1 dollar preference shares and the Series B2 dollar preference shares
"Series B ADS units"	units comprising one Series B1 ADS and one Series B2 ADS each
"Series B ADR units"	units comprising one Series B1 ADR and one Series B2 ADR each
"Series C dollar preference shares"	the Series C1 dollar preference shares and the Series C2 dollar preference shares
"Series C1 dollar preference shares" and "Series C2 dollar preference shares"	respectively the non-cumulative preference shares, Series C1 of US\$0.01 each and the non-cumulative non-voting preference shares, Series C2 of US\$0.01 each in the share capital of the Bank
"Series D dollar preference shares"	the Series D1 dollar preference shares and the Series D2 dollar preference shares
"Series D1 dollar preference shares" and "Series D2 dollar preference shares"	respectively the non-cumulative preference shares, Series D1 of US\$0.01 each and the non-cumulative non-voting preference shares, Series D2 of US\$0.01 each in the share capital of the Bank
"sterling preference shares"	the non-cumulative preference shares of £1 each in the share capital of the Bank
"Terms Agreement"	the agreement dated 16 February 1995 made between the Bank and the Underwriters
"Treaty"	the United Kingdom/United States double taxation treaty relating to income and capital gains
"Underwriters"	the purchasers of the Series B ADSs under the Terms Agreement

In this document, all references to "cents", "dollars", "US cents", "US dollars" and "US\$" are to the lawful currency of, and all references to "US" or "USA" are to, the United States of America; all references to "£", "p" and "sterling" are to the lawful currency of, and all references to "UK" are to, the United Kingdom.

## PART I

### INFORMATION ON MIDLAND

#### 1. PRINCIPAL ACTIVITIES, OBJECTS AND PRINCIPAL PLACE OF BUSINESS

The principal objects 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 entire issued ordinary share capital and the one preferred ordinary share of the Bank are owned by HSBC. The HSBC Group is one of the largest banking and financial services organisations in the world with over 3,300 offices in 72 countries. Its total assets at 31 December 1995 were £226.8 billion.

The Bank is one of the principal UK clearing banks. At 31 December 1995, Midland's total assets were £93.6 billion and on the basis of total assets ranked fifth amongst banking groups in the United Kingdom.

#### 2. BUSINESS OPERATIONS

Midland groups its activities into two core business streams, Commercial Banking and, through its subsidiary undertaking Forward Trust Group Limited, Asset Finance.

##### COMMERCIAL BANKING

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

##### UK Banking

Midland'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 1995 UK Banking was operating approximately 4.4 million personal current accounts and 0.6 million business current accounts.
- Loans – Midland 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. Despite the depressed housing market, the Bank's mortgage book grew by four times the national average in 1995.
- 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 products, pensions, investments and general insurance products through the retail branch network. During 1995, the dedicated sales force of approximately 700 financial planning managers was integrated with the retail branch network. Under the terms of the Financial Services Act 1986, the Bank acts as a "company representative" for the sale of regulated products. These are sourced from Midland Life Limited and Midland Unit Trust Management Limited.

Midland Life Limited currently has 1.5 per cent. of the annual premium market and 1.7 per cent. of the single premium market. Midland is a market leader in providing stock market-linked bonds and critical illness protection products. Midland is well placed to continue expanding its business in this area.

In the United Kingdom, the regulatory bodies introduced more demanding staff competence requirements for the sale of investment products, and full commission disclosure of life assurance based products from January 1995.

- Card Services – The Bank issues credit cards under both the MasterCard and VISA payment schemes. A full range of card products is offered 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 also a major merchant acquirer for both credit card and debit card transactions.

In 1995 the Bank commenced a pilot scheme with National Westminster Bank Plc and British Telecommunications plc to evaluate Mondex, a "smart card" electronic cash payment system. Dependent on evaluation of this pilot scheme, the scheme may be extended 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 2,030 machines sited at Midland branches and a further 326 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 approximately 9,500 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 hours banking in the United Kingdom, and plans further growth in 1996. It has achieved competitive advantage through high service quality and recommendation. As at 31 December 1995, First Direct had approximately 525,000 cheque account customers, of which over 70 per cent. were new to Midland.

- 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.
- Offshore Services – Midland's outlets in the Channel Islands, the Isle of Man and the Cayman Islands offer not only the normal range of domestic banking facilities to those resident on the islands, but an array of expertise and specialised services to expatriate customers worldwide.
- Trade Services – HSBC Trade Services is the name under which the Bank 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 world-wide 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. Midland Corporate Banking is also responsible for all the Bank's correspondent banking relationships and the Bank 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 geographical divisions each headed by a general manager. The UK divisions are further split into 118 area management groups, each consisting of a number of branches.

A major investment programme was undertaken during 1995 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 seven 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 of the Bank's Customer Service Centres to handle more customers' telephone calls directly. These Customer Service Centres aim to complement and strengthen the relationship between Midland's branches and 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 transferring their accounts to the Bank under which the Bank pays customers £10 each time guaranteed standards are not met. The intention is to encourage potential customers to transfer their accounts to the Bank.

Charges have been a major source of dissatisfaction in both the personal and small business markets. The Bank has moved to simplify and rationalise its charges in the personal market. 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. The number of branches with self-service lobbies providing 24 hour access has been increased to 242 and, as technology has automated and streamlined certain processing activities in the branches, more space has been made available to provide customers with better facilities.

#### HSBC MIDLAND

HSBC MIDLAND comprises the treasury operations of Midland 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 may have the facility to deal direct through Midland'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 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 name that seeks to bring together a number of other operating arms of the HSBC Group. In 1995, HSBC Markets ranked first as lead manager of sterling bond issues.

Midland is also prominent in the UK government bond market through its market making subsidiary undertaking, HSBC Greenwell. HSBC Futures provides comprehensive cover of the London International Financial Futures Exchange and has also 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 in London. In Tokyo, securities activities are handled by HSBC Securities Limited. The treasury operations in Tokyo have achieved a leading position in the foreign exchange and interest rate markets and command an important presence in both the interbank and customer markets.

#### 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 20 countries.

Midland has branches in Australia, France, Greece, Italy, Japan, Panama, Spain, Sweden and the United States. The treasury business in the United States and the branch in Japan form an integral part of HSBC MIDLAND. In the third quarter of 1996, a branch is to be opened in Malta.

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

Midland also operates through the following subsidiary undertakings: in France – Midland Bank SA; in Germany – Trinkaus & Burkhardt KGaA; in Ireland – Midland International Financial Services (Ireland)

Limited; in Luxembourg – Trinkaus & Burkhardt (International) SA; in Switzerland – Guyerzeller Bank AG and Trinkaus & Burkhardt (Schweiz) AG; and in Turkey – Midland Bank AS. In Armenia, Midland Armenia Bank JSC, a 70 per cent. owned subsidiary undertaking, opened in the first quarter of 1996.

In addition, Midland has minority shareholdings in the following banks: in Argentina – Banco Roberts SA; in Brazil – Banco Bamerindus do Brasil SA; and in the United Kingdom – British Arab Commercial Bank Limited.

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, Ecuador, Mexico and Venezuela 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 to business customers as well as consumer credit products to the personal sector. Asset Finance is self-contained operationally, but works closely with UK Banking to provide comprehensive financial packages for a wide variety of customer requirements.

During 1993, Asset Finance acquired Swan National Leasing from TSB Group and has integrated the business with its other motor finance activities under the name of Swan National Motor Finance. As a result, Asset Finance has a strong market position in each of its core sectors: business finance, motor finance, debt management and personal finance.

#### **Business Finance**

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.

#### **Motor Finance**

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

#### **Debt Management**

Griffin Factors Limited offers factoring, invoice discounting and receivables management services to business customers. Metropolitan Collection Services provides management and recovery services for personal and corporate debt.

#### **Personal Finance**

Forward Trust Personal Finance Limited offers personal loans at point of sale through retailers of consumer goods. It also provides personal loans to consumers and to customers of building societies.

### **3. RECENT DEVELOPMENTS**

On 25 January 1996, Midland sold its remaining 5.3 per cent. shareholding in 3i Group plc at a profit of approximately £76 million, in respect of which no tax charge will arise because of capital losses carried forward from prior years.

On 31 January 1996, Midland acquired a further 16.7 per cent. of the issued equity share capital and 14.1 per cent. of the subordinated unsecured loan stock of UBAF Bank Limited, an associated undertaking, at a cost of £28 million. On 4 March 1996, UBAF Bank Limited changed its name to British Arab Commercial Bank Limited.

On 11 March 1996, the Bank issued US\$300 million of fixed rate subordinated notes, redeemable on 15 March 2011. The notes bear interest at 6.95 per cent.



On 21 March 1996, the Bank issued £150 million sterling fixed rate, step-up, subordinated undated notes. The notes bear interest at 9.25 per cent.

On 31 May 1996, the Bank issued one ordinary share of £1 to its parent undertaking, HSBC Holdings plc, at a premium of £199,999,999.

On 24 June 1996, the Bank issued US\$500 million of fixed rate subordinated notes, redeemable on 15 June 2006. The notes bear interest at 7.625 per cent.

On 24 July 1996, the Bank issued 8,000,000 Series D1 dollar preference shares and 8,000,000 Series D2 dollar preference shares for a consideration, before underwriting discount, of US\$200 million. Details of the terms and conditions of the shares are described in Part IV of these listing particulars.

#### 4. CURRENT TRADING AND PROSPECTS

During 1996 Midland has continued to experience some limited asset growth in corporate and personal banking but this is in an environment where interest margins remain under intense competitive pressure.

Continuation of asset growth during the rest of the year will depend upon maintained growth in the economy, in particular continued recovery in consumer spending and the housing market.

#### 5. DIRECTORS

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

Name	Function with Midland	Principal outside activity
Sir William Purves, CBE, DSO	Chairman	Group Chairman, HSBC Holdings plc
Geoffrey Maitland Smith	Deputy Chairman	Chairman, Hammerson plc
Keith Roderick Whitson*	Chief Executive	
Richard Michael James Orgill*	Deputy Chief Executive	
Bernard Harry Asher	Director	Chairman, HSBC Investment Bank plc
John Reginald Hartnell Bond	Director	Group Chief Executive, HSBC Holdings plc
John Francis Devaney	Director	Executive Chairman, Eastern Group PLC
Sir Archibald William Forster	Director	Director, Trafalgar House plc and Director, United News and Media Plc
Antony John Hales	Director	Chief Executive, Allied Domecq PLC
Herbert H. Jacobi	Director	Chairman of the Managing Partners, Trinkaus & Burkhardt KGaA**
Stephen Keith Green	Director	General Manager and Group Treasurer, HSBC Holdings plc
Sir (Charles) Wilfrid Newton, CBE	Director	Chairman, Raglan Properties plc
Alison Clare Reed	Director	Divisional Director, Finance, Marks and Spencer plc
John Towers, CBE	Director	

\* denotes executive Director

\*\* denotes a subsidiary undertaking of the Bank

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

## PART II

### THE DOLLAR PREFERENCE SHARES

#### 1. DESCRIPTION OF THE SERIES B DOLLAR PREFERENCE SHARES

The Series B1 dollar preference shares and the Series B2 dollar preference shares have attached thereto the respective rights and are subject to the respective limitations and restrictions set out in the terms and conditions thereof adopted by resolution of a duly constituted committee of the board of Directors of the Bank passed on 16 February 1995 (the "Terms and Conditions") and such shares are otherwise subject to the Articles. The following description is a summary of, and is subject to, the detailed provisions of the Terms and Conditions.

##### (a) Status, Form and Title

The Series B1 dollar preference shares and the Series B2 dollar preference shares constitute separate classes of shares, in each case ranking *pari passu inter se* and with the remainder of the dollar preference shares and with the sterling preference shares and all other shares subsequently created and expressed to rank *pari passu* therewith.

The Series B1 dollar preference shares and the Series B2 dollar preference shares have each been issued fully paid in bearer form ("Bearer Shares") in the form of share warrants to bearer within the meaning of the Companies Act 1985 ("Warrants"). Title to the Bearer Shares will pass by delivery of the Warrants. Title to Series B1 dollar preference shares and Series B2 dollar preference shares in registered form ("Registered Shares") will pass by transfer and registration in accordance with the Articles and as described in the following paragraph.

##### (b) Exchange for, and Transfer of, Registered Shares

Immediately prior to any withdrawal of Series B dollar preference shares from deposit under the Deposit Agreement, upon delivery of the relevant Warrants to the specified office of the registrar for the Series B dollar preference shares (the "Registrar"), the Registrar will issue a share certificate (without dividend coupons) (a "Certificate") in respect of the relevant Series B dollar preference shares in registered form. Upon delivery for exchange, the relevant Warrants shall be cancelled by the Registrar and fresh Warrants, representing the balance of the outstanding Series B dollar preference shares not exchanged on that occasion, if any, shall be issued to the person lodging the same.

Each Certificate representing Series B1 dollar preference shares and Series B2 dollar preference shares will be exchangeable, on application to the specified office of the Registrar, and against surrender of such Certificate, for separate Certificates respectively representing such Series B1 dollar preference shares and Series B2 dollar preference shares.

Series B dollar preference shares in registered form shall not be exchangeable for Series B dollar preference shares in bearer form.

Certificates respectively representing more than one Series B1 dollar preference share and/or Series B2 dollar preference share may be split upon request to the specified office of the Registrar. In the case of the transfer of some only of the Series B1 dollar preference shares or the Series B2 dollar preference shares in registered form, a new Certificate or Certificates in respect of the Series B1 dollar preference shares or Series B2 dollar preference shares not transferred will be delivered to the transferor at his own risk.

The Articles provide, *inter alia*, that Registered Shares shall be transferred by an instrument in writing in the usual common form or any other form which the Directors may approve, executed by or on behalf of the transferor and, in the case of a transfer of a share not fully paid, by or on behalf of the transferee. The Directors may, in their absolute discretion, decline to register the transfer of any share (whether or not fully paid) to an infant or bankrupt and may also decline to register any instrument of transfer unless the instrument of transfer is in respect of only Series B1 dollar preference shares or Series B2 dollar preference shares (as the case may be), is duly stamped (if so required) and is deposited at the place in the United Kingdom where the register of members of the Series B dollar preference shares is kept. Each registration of transfer of Registered Shares will be effected upon the entry of the name of the transferee in the register of members in respect of the Registered Shares, without payment of any fee (but subject to payment of any taxes, stamp duties or other governmental charges payable in connection therewith).

Series B1 dollar preference shares and Series B2 dollar preference shares in registered form shall be separately transferable.

(c) Dividends

The Series B1 dollar preference shares and the Series B2 dollar preference shares shall confer on the holders thereof the right to receive, in priority to any other class of shares in the capital of the Bank for the time being (other than the one preferred ordinary share of £1 and the remainder of the dollar preference shares in issue and subject as mentioned in paragraph (h) below), non-cumulative dividends when, as and if declared by the board of Directors of the Bank or an authorised committee thereof out of the distributable profits of the Bank in the amounts and at the rates provided below.

Such dividends will be payable in United States dollars quarterly in arrears on 15 March, 15 June, 15 September and 15 December in each year (each a "Dividend Payment Date") in respect of the quarter (a "dividend period") then ended, but so that the first dividend period was from (but excluding) 23 February 1995 to (and including) 15 March 1995.

The dividend payable on each Series B1 dollar preference share on any Dividend Payment Date will be fixed at the amount which, when annualised, will be equal to US\$1.64 (exclusive of any B1 UK Associated Tax Credit (as defined below)) (such annualised amount being equal to 8.2% of the liquidation value thereof (being US\$20)) (the "B1 Dividend").

The dividend payable on each Series B2 dollar preference share on any Dividend Payment Date (the "B2 Dividend") will be fixed at such rate per annum of the liquidation value thereof (being US\$5) as will ensure that the sum of: (i) the B1 Dividend payable on such Dividend Payment Date, (ii) the UK Associated Tax Credit in respect of such B1 Dividend (the "B1 UK Associated Tax Credit"), (iii) the B2 Dividend payable on such Dividend Payment Date and (iv) the UK Associated Tax Credit in respect of such B2 Dividend (the "B2 UK Associated Tax Credit") will represent an annual rate equal to 10.25% of the aggregate of the liquidation value (the "Total Liquidation Value") of a Series B1 dollar preference share and a Series B2 dollar preference share (being US\$25); provided that no dividend will be payable on any Series B2 dollar preference share in the event that the sum of the B1 Dividend and the B1 UK Associated Tax Credit, expressed as an annual rate, is greater than or equal to 10.25% of the Total Liquidation Value.

On the basis of the UK tax legislation in force on the date of this document and assuming that the Bank did not elect to designate the dividends as "foreign income dividends" as described below, the B1 Dividend, the B1 UK Associated Tax Credit, the B2 Dividend and the B2 UK Associated Tax Credit for a shareholder (other than a company) resident in the United Kingdom for UK tax purposes holding one B1 dollar preference share and one B2 dollar preference share on any Dividend Payment Date would be as follows:

	US\$
B1 Dividend	0.410000
B1 UK Associated Tax Credit	0.102500
B2 Dividend	0.102500
B2 UK Associated Tax Credit	0.025625
	<hr/>
	0.640625
	<hr/>

The term "UK Associated Tax Credit" means any UK tax in accordance with, and at the rate specified by, UK law in effect at the relevant time (i) which is, or is treated as having been, borne by a recipient of a dividend on a Series B1 dollar preference share or a Series B2 dollar preference share, as the case may be, by deduction at source or (ii) for which a credit (which term shall include a relief from liability for all or part of any UK tax which would otherwise be imposed in respect of such a dividend) in respect of UK tax is available to the recipient of such a dividend, in each case on the assumption that such recipient is an individual resident in the United Kingdom for UK tax purposes but excludes any such tax which (as a result of an election made by the Bank in relation to a dividend) cannot be repaid in any circumstances to a recipient of the dividend who is an individual resident in the United Kingdom for UK tax purposes. The term "UK Associated Tax Credit" thus includes, but is not limited to, the amount of advance corporation tax ("ACT") in respect of which a tax credit is available to an individual resident in the United Kingdom for UK tax purposes.

A UK resident company paying a dividend out of non-UK source profits can elect to designate such dividend as a "foreign income dividend" with the result that such dividend does not carry an associated

tax credit. If such an election were to be made under these provisions, an Eligible US Holder (as defined in paragraph 5(a) of this Part II below) receiving a foreign income dividend would not be entitled under the Treaty to receive any payment in respect of such a tax credit.

If the Bank were to (i) elect for any part of any quarterly dividend paid on the Series B1 dollar preference shares or the Series B2 Dollar Preference Shares to be treated as a "foreign income dividend" or (ii) make an election to pay all or any part of any quarterly dividend in circumstances in which an Eligible US Holder would not be entitled to a tax credit under the terms of the Treaty but would have been so entitled had the Bank not made such an election, the Bank shall be required to increase the cash dividend paid on the Series B2 dollar preference shares. The increase will be such amount as will ensure that (subject to the proviso mentioned in the fourth paragraph under this heading "Dividends"), the sum of the cash dividends on the Series B1 dollar preference shares and the Series B2 dollar preference shares payable on the relevant Dividend Payment Date, together with the UK Associated Tax Credit (if any) in respect of such cash dividends, will, expressed as an annual rate of the Total Liquidation Value, equal 10.25% of the Total Liquidation Value.

There shall be no adjustment of such dividend rate, however, as a result of any other change in US or UK taxation (including the abrogation of, or a change in, the Treaty as in force on the date of adoption of the Terms and Conditions).

The amount of dividends payable on the Series B1 dollar preference shares and the Series B2 dollar preference shares for each dividend period will be computed based upon the liquidation value per share of such shares (being US\$20 in the case of the Series B1 dollar preference shares and US\$5 in the case of the Series B2 dollar preference shares) by dividing the applicable annual dividend amount or rate by the number of dividend periods in a year, except that the amount of dividends payable for any dividend period shorter or longer than a full dividend period will be computed on the basis of a 360-day year of twelve 30-day months and the actual number of days elapsed in that period.

The board of Directors of the Bank or an authorised committee thereof shall declare and pay in full on each Dividend Payment Date dividends on the Series B1 dollar preference shares and the Series B2 dollar preference shares unless, in the opinion of the board of Directors or such committee, (i) payment of any such dividend would breach or cause a breach of the Bank of England's capital adequacy requirements applicable to the Bank (or its subsidiary undertakings), or (ii) the distributable profits of the Bank are insufficient to enable the payment in full of dividends on the Series B1 dollar preference shares, the Series B2 dollar preference shares and dividends on any other shares of the Bank stated to be payable on such Dividend Payment Date and ranking *pari passu* as to dividends with the Series B dollar preference shares.

If on any Dividend Payment Date the distributable profits of the Bank are, in the opinion of the board of Directors or an authorised committee thereof, insufficient to enable payment in full of dividends on the Series B dollar preference shares and of any dividends payable on the same date on any other shares of the Bank ranking *pari passu* as to dividends with the Series B dollar preference shares, the Bank shall declare and pay, to the extent of distributable profits (if any) (after payment in full, or the setting aside of a sum required for payment in full, of all dividends payable on any shares ranking in priority to the Series B dollar preference shares), dividends on the Series B1 dollar preference shares and Series B2 dollar preference shares and such other shares *pro rata* to the amount of the cash dividend then owing in respect of them (together with arrears, if any, of cumulative dividends on any shares ranking *pari passu* as to dividends with the Series B dollar preference shares).

Dividends on the Series B dollar preference shares shall be non-cumulative. If a dividend, or any part thereof, is not required to be paid, and is not paid, on a Dividend Payment Date in respect of Series B1 dollar preference shares or Series B2 dollar preference shares, as the case may be, then holders of such shares will have no claim in respect of such non-payment or to any interest thereon, whether or not dividends on the Series B dollar preference shares are declared for any future period.

If the dividend payable on the Series B1 dollar preference shares or the Series B2 dollar preference shares has not been paid in full on the most recent Dividend Payment Date, no dividends (other than a pro rata dividend declared and paid on shares ranking *pari passu* therewith, as provided above) may be declared, paid or set aside for payment on any other share capital of the Bank ranking, as to dividends, *pari passu* with or after the Series B1 dollar preference shares and the Series B2 dollar preference shares, until such time as dividends on all outstanding Series B1 dollar preference shares and Series B2 dollar preference shares have been or contemporaneously are paid in full, or a sum sufficient for the payment thereof set aside for such payment in full, in respect of the then-current dividend period.

If the dividend payable on the Series B1 dollar preference shares or the Series B2 dollar preference shares has not been paid in full on the most recent Dividend Payment Date, the Bank may not redeem, purchase or otherwise acquire for any consideration any other share capital of the Bank ranking, as to repayment of the Bank's capital, *pari passu* with or after the Series B1 dollar preference shares and the Series B2 dollar preference shares, and may not set aside any sum or establish any sinking fund for the redemption, purchase or other acquisition thereof, until such time as dividends on all Series B dollar preference shares have been paid in full, or a sum shall have been set aside for such payment in full, in respect of three consecutive dividend periods.

Dividends on the Series B dollar preference shares will be payable, in the case of Bearer Shares, to the holder of such Bearer Shares upon presentation and surrender to the paying agent of dividend coupons in respect thereof and, in the case of Registered Shares, to the record holders thereof as they appear on the register for such Series B dollar preference shares on such record dates, which will not be less than 15 nor more than 60 days prior to the relevant Dividend Payment Dates, as will be fixed by the board of Directors of the Bank or an authorised committee thereof. Subject to any applicable fiscal or other laws and regulations, payments of dividends on Bearer Shares will be made by dollar cheque drawn on, or at the discretion of the Bank by transfer to a dollar account maintained by the payee with, a bank in London or in The City of New York, or on Registered Shares will be made by dollar cheque drawn on a bank in London or in The City of New York and mailed to the record holder thereof at such holder's address as it appears on the register for the Series B dollar preference shares.

If any Dividend Payment Date is not a day on which banks in London and in The City of New York are open for business and on which foreign exchange dealings may be conducted in London and The City of New York (a "Dollar Business Day"), then payment of the dividend will be made on the next succeeding day which is a Dollar Business Day, without any interest or other payment in respect of any such delay.

Except as provided herein, the Series B dollar preference shares shall carry no right to participate in the profits of the Bank.

**(d) Return of Capital**

In the event of a return of capital in respect of a winding-up of the Bank or otherwise (but not a redemption or purchase by the Bank of any of its share capital), holders of Series B dollar preference shares shall be entitled to receive, in US dollars, out of the assets of the Bank available for distribution to shareholders (together with the holders of any other shares of the Bank ranking as regards repayment of capital *pari passu* with the Series B dollar preference shares) and before any distribution of assets is made to holders of any other class of shares of the Bank ranking after the Series B dollar preference shares as regards repayment of capital, the amount of (i) US\$20 per share, in the case of the Series B1 dollar preference shares, and (ii) US\$5 per share, in the case of the Series B2 dollar preference shares, plus, in each case (and provided that the dividends mentioned below were or would have been payable in accordance with the Articles), an amount equal to any dividends declared but unpaid in respect of the previous dividend period and any accrued and unpaid dividends for the then-current dividend period to the date of commencement of the winding-up of the Bank or the date of any such other return of capital, as the case may be.

If upon any return of capital in a winding up of the Bank, the amounts payable with respect to the Series B dollar preference shares and any other preference shares of the Bank ranking as to any such distribution *pari passu* with the Series B dollar preference shares are not paid in full, the holders of the Series B dollar preference shares and of such other preference shares will share *pro rata* in any such distribution of assets of the Bank in proportion to the full respective preferential amounts to which they are entitled.

After payment of the full amount (as described in the two preceding paragraphs) to which they are entitled, the holders of the Series B dollar preference shares will have no right or claim to any of the remaining assets of the Bank and will not be entitled to any further participation or return of capital in a winding up.

**(e) Redemption**

The Bank shall be entitled, subject to the provisions of applicable law, to redeem all or some only of the Series B dollar preference shares by giving to the holders of the Series B dollar preference shares to be redeemed not less than 30 days' nor more than 60 days' prior notice in writing (a "Notice of Redemption") of a redemption date (a "Redemption Date") which falls no earlier than 24 February 2000.

Any such redemption shall be made at the redemption price of (i) US\$20 per share, in the case of the Series B1 dollar preference shares and (ii) US\$5 per share, in the case of the Series B2 dollar preference shares; provided that, in the case of the redemption of any or all of the Series B2 dollar preference shares, the Bank has paid, on or before the Redemption Date, any special dividend due, if applicable, in respect of the shares to be redeemed as specified below:

Redemption Date	Special dividend per Series B2 dollar preference share US\$
24 February 2000 to 23 February 2001 inclusive	1.28125
24 February 2001 to 23 February 2002 inclusive	1.02500
24 February 2002 to 23 February 2003 inclusive	0.76875
24 February 2003 to 23 February 2004 inclusive	0.51250
24 February 2004 to 23 February 2005 inclusive	0.25625
On or after 24 February 2005	Nil

In addition, upon the redemption of all or any of the Series B1 dollar preference shares or the Series B2 dollar preference shares, the Bank will, on or before the Redemption Date, pay in respect of the shares to be redeemed, dividends declared but unpaid in respect of the previous dividend period and any accrued and unpaid dividends (up to and including the Redemption Date) for the then-current dividend period.

In the event that less than all of the outstanding Series B dollar preference shares are to be redeemed, the Series B dollar preference shares to be redeemed will be selected by the Bank by a drawing in the presence of the Bank's auditors. The Bank intends to effect any such partial redemption only by redeeming equal numbers of Series B1 dollar preference shares and Series B2 dollar preference shares and intends to conduct any such drawing accordingly.

Each Notice of Redemption will specify (i) the Redemption Date, (ii) the particular Series B dollar preference shares to be redeemed, (iii) the redemption price and (iv) the place or places at which documents of title in respect of such Series B dollar preference shares are to be presented for redemption and payment of the redemption monies is to be effected. No defect in the Notice of Redemption or in the giving thereof will affect the validity of the redemption proceedings.

Payments in respect of the amount due on redemption of Registered Shares represented by a Certificate shall be made by US dollar cheque drawn on a bank in London or in The City of New York or upon the request of the holder (or joint holders) not later than the date specified for such purpose in the Notice of Redemption by transfer to a US dollar account maintained by the payee with a bank in London or in The City of New York. Such payments will be made against presentation and surrender of the relevant Certificates at the place (or one of the places) specified in the Notice of Redemption and if any Certificate so surrendered includes any Series B dollar preference shares not to be redeemed on the relevant Redemption Date the Bank shall within 14 days thereafter issue to the holder, free of charge, a fresh Certificate or Certificates in respect of such shares.

Payments in respect of the amount due on redemption of Bearer Shares shall be made by US dollar cheque drawn on a bank in London or in The City of New York or upon the request of the holder not later than the date specified for the purpose in the Notice of Redemption by transfer to a US dollar account maintained by the payee with a bank in London or in The City of New York. Such payments will be made against presentation and surrender of the Warrants and all unmatured dividend coupons and talons (if any) at the place (or one of the places) specified in the Notice of Redemption. Upon the relevant Redemption Date all unmatured dividend coupons and any talons for additional dividend coupons appertaining thereto (whether or not returned) shall become void and no payment will be made in respect thereof. If the Warrants so surrendered represent any Series B dollar preference shares not to be redeemed on the relevant Redemption Date, the Bank shall issue, free of charge, a fresh Warrant or Warrants representing such shares.

All payments in respect of redemption moneys will in all respects be subject to any applicable fiscal or other laws.

As from the relevant Redemption Date, the dividend on the Series B dollar preference shares due for redemption shall cease to accrue, except on any such Series B dollar preference share in respect of which (upon the due surrender of the Certificate or, as the case may be, the Warrant and all unmatured dividend coupons and talons (if any) in respect thereof) payment of the redemption moneys due on

such Redemption Date have been improperly withheld or refused. In such case, such dividend, at the rate then applicable, shall be deemed to have continued and shall accordingly continue to accrue from the relevant Redemption Date to the date of payment of such redemption moneys. Such Series B dollar preference share shall not be treated as having been redeemed until the redemption moneys in question together with any accrued dividend thereon shall have been paid.

If the due date for the payment of the redemption moneys on any Series B dollar preference share is not a Dollar Business Day then payment of such moneys will be made on the next succeeding day which is a Dollar Business Day and without any interest or other payment in respect of such delay.

The receipt of the holder for the time being of any Registered Share (or in the case of joint holders the receipt of any of them) and the receipt of the person delivering any Warrant to the place (or one of the places) specified in the Notice of Redemption in respect of the moneys payable on redemption of such Registered Share or, as the case may be, such Bearer Share shall constitute an absolute discharge to the Bank in respect thereof.

**(f) Purchase**

Subject to certain limitations contained in the Articles and applicable law (including, without limitation, US Federal securities law) and applicable regulations of the London Stock Exchange, the Bank may at any time and from time to time purchase outstanding Series B1 dollar preference shares and Series B2 dollar preference shares in the open market, by tender (to all holders alike) or by private agreement in each case upon such terms as the Directors of the Bank shall determine, provided that the Bank may purchase or cause to be purchased Series B1 dollar preference shares and Series B2 dollar preference shares only by the purchase of equal numbers of Series B1 dollar preference shares and Series B2 dollar preference shares.

No redemption or repurchase of any Series B dollar preference shares shall be made by the Bank without the prior consent of the Bank of England.

**(g) Voting Rights**

Holders of Series B dollar preference shares shall not be entitled to attend or vote at any general meeting of shareholders of the Bank except as provided below.

Holders of Series B1 dollar preference shares and/or Series B2 dollar preference shares (as the case may be) shall have the right to attend any general meeting of the Bank, but will only be entitled to vote on the relevant resolution or resolutions, at which any resolution is proposed (i) to vary or abrogate any of the rights attaching to the Series B1 dollar preference shares or the Series B2 dollar preference shares or (ii) to reduce the paid up capital of the Series B1 dollar preference shares or the Series B2 dollar preference shares.

Holders of Series B1 dollar preference shares will also be entitled to receive notice of, attend and vote at any general meeting of the Bank:

- (i) at which any resolution is proposed (a) for the winding up of the Bank or (b) for the sale of the whole of the business of the Bank, or
- (ii) if the Bank shall have failed to pay in full the dividend payable on the Series B1 Dollar Preference Shares for the most recent dividend period.

In the case of sub-clause (i) above, the holders of Series B1 dollar preference shares will be entitled to vote only on the relevant resolution(s). In the case of sub-clause (ii) above, the holders of Series B1 dollar preference shares will be entitled to vote on all matters put before all general meetings of the Bank until such time as the Bank shall have paid in full the dividend payable on the Series B1 dollar preference shares for three consecutive dividend periods. Holders of Series B2 dollar preference shares, in their capacity as such, will not be entitled to receive notice of or to attend or vote at any such meetings.

Whenever entitled to vote at a general meeting of the Bank, on a show of hands, each holder of Series B1 dollar preference shares or Series B2 dollar preference shares present in person shall have one vote and on a poll each such holder present in person or by proxy shall have three votes per share.

The holders of a majority in nominal value of all dollar preference shares (as defined in the Articles) in issue from time to time (including holders of Series B1 dollar preference shares) who have voting rights as a result of the non-payment of any dividend are entitled to require the board of Directors of the Bank to convene an extraordinary general meeting of the Bank upon receipt, at the registered office

of the Bank, of a written request stating the objects of the proposed meeting, signed by, or on behalf of, such holders.

The Bank will send to each holder of Series B dollar preference shares all notices of general meetings of the Bank at which such holder is entitled to attend and vote. Each such notice will include a statement specifying (i) the date of such meeting, (ii) a description of any resolution to be proposed for adoption at such meeting on which such holders are entitled to vote and (iii) instructions for the delivery of proxies. A holder of Series B dollar preference shares who is not registered with an address in the United Kingdom and who has not supplied to the Bank an address within the United Kingdom for the purpose of the giving of notices is not entitled to receive notices of meetings from the Bank.

**(h) Further Issues and Variation of Rights**

The rights attached to the Series B1 dollar preference shares and the Series B2 dollar preference shares will be deemed to be varied by the creation or issue of any shares of any class, or any securities convertible into shares of any class, ranking as regards the right to participate in the profits or assets of the Bank in priority to such Series B1 dollar preference shares and Series B2 dollar preference shares.

If the most recent dividend payable on dollar preference shares of any series in issue shall not have been paid in full, the rights attached to the Series B1 dollar preference shares and the Series B2 dollar preference shares will be deemed to be varied by the creation or issue of any further series of dollar preference shares, any sterling preference shares or any other shares of the Bank, or any securities convertible into such shares, ranking as regards the right to participate in the profits or assets of the Bank *pari passu* with the Series B1 dollar preference shares and the Series B2 dollar preference shares; provided, however, that the rights attached to the Series B1 dollar preference shares or the Series B2 dollar preference shares shall not otherwise be deemed to be varied by the creation or issue of any such further shares, whether carrying identical rights or different rights in any respect including as to dividend, premium on a return of capital, redemption or conversion and whether denominated in US dollars or any other currency.

Subject to applicable law, the rights attached to the Series B1 dollar preference shares and the Series B2 dollar preference shares are capable of being varied or abrogated with the written consent of the holders of three-quarters in nominal value of, or with the sanction of an extraordinary resolution passed at a separate general meeting of holders of, the Series B1 dollar preference shares or the Series B2 dollar preference shares (as the case may be). The necessary quorum for any such meeting shall be two persons holding or representing by proxy not less than one-third of the Series B1 dollar preference shares or the Series B2 dollar preference shares (as the case may be), but at any meeting of such holders adjourned through want of a quorum one holder present in person or by proxy (whatever the number of shares held by him) shall be a quorum. At a class meeting, on a show of hands every holder of such shares present in person is entitled to one vote and, on a poll, every holder of such shares is entitled to one vote for each such share held by him. The necessary majority for the passing of an extraordinary resolution at a class meeting will be three-quarters of those present in person or by proxy in such class meeting.

**2. DESCRIPTION OF THE AMERICAN DEPOSITARY RECEIPTS**

The following is a summary of certain terms and provisions of the Deposit Agreement pursuant to which the Series B ADR units have been issued. The summary set out below does not purport to be complete and is subject to, and qualified in its entirety by reference to, the Deposit Agreement.

**(a) American Depositary Receipts**

ADRs evidencing ADSs are issuable by the Depositary pursuant to the Deposit Agreement. ADRs evidence ADSs of a particular series, which represent dollar preference shares of a corresponding series. Each ADS of a particular series represents one dollar preference share of the corresponding series deposited with the Depositary or its custodial agent (the "Custodian"). An ADR may evidence any number of whole ADSs. Dollar preference shares of more than one series that are deposited under the Deposit Agreement as units will be represented by units of ADSs of each corresponding series evidenced by units of ADRs of each corresponding series.

**(b) Deposit and Withdrawal of Deposited Securities**

Upon notification of deposit with the Custodian of share certificates for dollar preference shares of a particular series, properly endorsed and accompanied, if required by law, by a duly executed



instrument of transfer or endorsement and upon payment of the charge provided in the Deposit Agreement and subject to the terms thereof, the Depositary will execute and deliver at its corporate trust office to the person or persons specified by the depositor in writing upon payment of the fees, charges and taxes provided in the Deposit Agreement, an ADR or ADRs registered in the name of such person or persons evidencing the number of ADSs of the series corresponding to the dollar preference shares of such series issuable in respect of such deposit. In the case of dollar preference shares of more than one series that are deposited under the Deposit Agreement as units, the Depositary will execute and deliver, on one certificate, the ADRs of each corresponding series evidencing the number of ADSs of each corresponding series issuable in respect of such deposit.

Upon surrender of properly endorsed ADRs or units of ADRs at the corporate trust office of the Depositary and upon payment of the fees, charges and taxes provided in the Deposit Agreement and subject to the terms thereof, a holder of such ADRs or units of ADRs is entitled to delivery, to or upon the order of such holder, at the corporate trust office of the Depositary or at the office of the Custodian in London, of the deposited certificates representing the dollar preference shares and any other property or documents of title at the time represented by the surrendered ADRs or units of ADRs. The forwarding of share certificates and other documents of title for such delivery at the corporate trust office of the Depositary will be at the risk and expense of the ADR holder. Unless otherwise specified in the terms of issue of any particular series, dollar preference shares of more than one series that are deposited under the Deposit Agreement as units may be withdrawn from deposit only as units.

The Depositary reserves the right to issue ADRs of a particular series prior to the receipt of dollar preference shares of such series subject to the conditions specified in the Deposit Agreement, which require persons to whom such ADRs are so issued or delivered to, among other things, furnish certain written representations and provide collateral to the Depositary. Neither the Depositary nor the Custodian may lend deposited dollar preference shares.

**(c) Dividends and Other Distributions**

The Depositary will distribute all cash dividends or other cash distributions that it receives in respect of deposited dollar preference shares of a particular series to the holders of ADRs entitled thereto in proportion to their respective holdings of ADSs of the series representing such dollar preference shares. The cash amount distributed will be reduced by any amounts required to be withheld by the Bank, the Depositary or the Custodian on account of applicable taxes.

In the event that the Bank makes any distribution other than in cash or dollar preference shares of a particular series in respect of any deposited dollar preference shares of such series, the Depositary will distribute the property received by it to the holders of ADRs entitled thereto in proportion to their respective holdings of ADSs of the series representing such dollar preference shares. If a distribution by the Bank in respect of deposited dollar preference shares of a particular series consists of a dividend in, or distribution of, dollar preference shares of such series, the Depositary may, with the Bank's approval, and will, if the Bank so requests, distribute to the holders of ADRs entitled thereto, in proportion to their respective holdings of ADSs of the series representing such dollar preference shares, additional ADRs for an aggregate number of ADSs of such series representing the number of dollar preference shares of the corresponding series distributed in respect of the deposited dollar preference shares of such corresponding series represented by such dividend or distribution. If additional ADRs are not so distributed, each outstanding ADS of such series will thereafter represent such additional dollar preference shares of the corresponding series distributed in respect of the deposited dollar preference shares of such corresponding series represented by such ADSs prior to such dividend or distribution.

If the Depositary determines that any distribution in property (including dollar preference shares of a particular series or rights to subscribe thereto) cannot be made proportionately among the holders of ADRs entitled thereto or if for any other reason (including any requirement that the Bank or the Depositary withhold an amount on account of applicable taxes) the Depositary determines that such distribution is not feasible the Depositary may dispose of all or a portion of such property in such amounts and in such manner, by public or private sale, as the Depositary deems equitable and practicable, and the Depositary will distribute the net proceeds of any such sale or the balance of any such property, after deduction of any taxes required to be withheld by the Bank or the Depositary to the holders of ADRs entitled thereto.

Upon any change in nominal value, scrip issue, consolidation, sub-division, or any other reclassification of dollar preference shares of a particular series or upon any recapitalisation, reorganisation, merger, amalgamation, consolidation or sale of assets affecting the Bank or to which it is a party, any securities

that shall be received by the Depositary or the Custodian in exchange for or in conversion to or in respect of dollar preference shares of a particular series will be treated as new dollar preference shares of such series under the Deposit Agreement. The outstanding ADSs of the series representing such dollar preference shares shall thereafter represent the right to receive new dollar preference shares of such series so received unless additional ADRs for an aggregate number of the ADSs, representing such dollar preference shares are delivered as in the case of a scrip dividend, or unless the Depositary calls for the surrender of outstanding ADRs to be exchanged for new ADRs.

**(d) Redemption of ADSs**

In the event that the Bank exercises any right of redemption in respect of dollar preference shares of a particular series, the Depositary will redeem, from the amounts received by the Depositary in respect of the redemption of deposited dollar preference shares of such series, a number of ADSs of the series representing such dollar preference shares which corresponds to the number of deposited dollar preference shares of such series so redeemed. The redemption price per ADS will correspond to the redemption price per share payable with respect to the dollar preference shares so redeemed. If less than all of the outstanding dollar preference shares of a particular series are to be redeemed, the ADSs to be redeemed will be selected by lot or *pro rata* as may be determined by the Depositary. In the event that the Bank exercises rights of redemption in respect of dollar preference shares of more than one series that are deposited under the Deposit Agreement as units, the Depositary will redeem a number of units of ADSs of each corresponding series which corresponds to the number of deposited units of dollar preference shares so redeemed. The redemption price per unit of ADSs will correspond to the redemption price per unit payable with respect to such units of dollar preference shares so redeemed, and if less than all of such units of dollar preference shares are to be redeemed, the units of ADSs to be redeemed will be selected by lot or *pro rata* as may be determined by the Depositary.

**(e) Record Dates**

Whenever any dividend or other distribution shall become payable or shall be made in respect of dollar preference shares of a particular series, or whenever any dollar preference shares of a particular series are to be redeemed, or whenever rights shall be issued, or whenever the Depositary causes a change in the number of dollar preference shares of a particular series that are represented by each ADS of the corresponding series, or whenever the Depositary shall receive notice of any general meeting of shareholders of the Bank at which holders of dollar preference shares of a particular series are entitled to vote or of any meeting of holders of dollar preference shares of a particular series, the Depositary will fix a record date for the determination of the holders of ADRs evidencing ADSs of the series representing such dollar preference shares who are entitled to receive such dividend, distribution or rights or the net proceeds of the sale thereof or where shares are to be redeemed, or to give instructions for the exercise of voting rights at any such meeting, or to determine the date on or after which each ADS of the series representing dollar preference shares of a particular series will represent a changed number of dollar preference shares of such series subject to the provisions of the Deposit Agreement.

**(f) Voting of the Underlying Deposited Securities**

Upon receipt of notice of any meeting of shareholders of the Bank at which holders of dollar preference shares of a particular series are entitled to vote or of any meeting of holders of dollar preference shares of a particular series, if requested in writing by the Bank, the Depositary will, as soon as practicable thereafter, notify in writing the record holders of ADRs evidencing ADSs of the series representing such dollar preference shares. Such notice shall contain such information as is set forth in the notice of meeting, a statement that the record holders of such ADRs at the close of business on a specified record date are entitled under the Deposit Agreement, subject to any applicable provisions of English law and of the Articles, to instruct the Depositary in writing as to the exercise of the voting rights, if any, pertaining to the dollar preference shares of the series represented by their respective ADSs, and a brief statement as to the manner in which such instructions may be given. The Depositary has agreed that it will endeavour, insofar as practicable, to vote or cause to be voted the dollar preference shares so represented in accordance with the instructions of record holders of ADRs set forth in a written request and received on or before the date established by the Depositary for such purpose. The Depositary has agreed not to vote the dollar preference shares so represented except in accordance with written instructions from the record holders of ADRs.

**(g) Restrictions on Transfer and Re-deposit**

Unless otherwise permitted in accordance with the Deposit Agreement, in the case of dollar preference shares of more than one series that are deposited under the Deposit Agreement as units, the ADSs of

each series corresponding to such dollar preference shares will not be separately transferable and will be transferable only as units of ADSs. In addition, unless otherwise permitted in accordance with the Deposit Agreement, holders of dollar preference shares of more than one series that are deposited under the Deposit Agreement as units will not be entitled, following a withdrawal of such dollar preference shares from deposit under the Deposit Agreement, to re-deposit such dollar preference shares.

**(h) Inspection of Transfer Books**

The Depositary will keep books, at its corporate office, for the registration and transfer of ADRs evidencing ADSs of each series. Such books will at all reasonable times be open for inspection by the holders of such ADRs, provided that such inspection shall not be for the purpose of communicating with holders of ADRs in the interest of a business or object other than the business of the Bank or a matter related to the Deposit Agreement or such ADRs.

**(i) Reports and Notices**

The Bank will furnish the Depositary with its annual reports, which will include a description of operations and annual audited consolidated financial statements prepared in conformity with generally accepted accounting principles in the United Kingdom ("UK GAAP"), together with a reconciliation of net income and shareholders' funds to amounts estimated to be in accordance with generally accepted accounting principles in the United States ("US GAAP"), and interim reports which will include unaudited interim consolidated financial information prepared in conformity with UK GAAP and which, if the Bank so elects, may contain a reconciliation of net income and shareholders' funds to amounts estimated to be in accordance with US GAAP. The Depositary will make available at its corporate trust office for inspection by holders of ADRs evidencing ADSs of a particular series any reports and communications received from the Bank that are both (i) received by the Depositary as the holder of dollar preference shares of the corresponding series and (ii) made generally available to the holders of such dollar preference shares by the Bank (including the annual report and accounts of the Bank). The Depositary will also mail copies of such reports to ADR holders when furnished by the Bank as provided in the Deposit Agreement. In addition, if the Depositary receives notice that the Bank has not furnished the Commission with public reports, documents or other information required by the US Securities Exchange Act of 1934, the Depositary will furnish promptly to the Commission copies of all annual or other periodic reports and other notices or communications which the Depositary receives as holder of dollar preference shares from the Bank and which are not otherwise furnished to or filed with the Commission pursuant to any other requirement of the Commission.

On or before the first date on which the Bank gives notice, by publication or otherwise, of any meeting at which holders of the dollar preference shares of a particular series are entitled to vote, or of any reconvening of any adjourned meeting of such holders, or of the taking of any action in respect of any cash or other distributions on or the offering of any rights or any redemption of dollar preference shares of a particular series, the Bank shall transmit to the Depositary and the Custodian a copy of the notice thereof in the form given or to be given to holders of dollar preference shares of such series. The Bank will arrange for the prompt delivery by the Bank to the Depositary and the Custodian of such notices, and, if requested in writing by the Bank, the Depositary will arrange for the mailing, at the Bank's expense, of copies thereof to all holders of ADRs evidencing ADSs of the series representing such dollar preference shares.

**(j) Amendment and Termination of the Deposit Agreement**

The form of the ADRs evidencing the ADSs of a particular series and the Deposit Agreement may at any time and from time to time be amended by agreement between the Bank and the Depositary in any respect which they may deem necessary or desirable. Any amendment that imposes or increases any fees or charges (other than the fees of the Depositary for the execution and delivery or the cancellation of ADRs and taxes and other governmental charges), or that otherwise prejudices any substantial existing right of holders of outstanding ADRs evidencing ADSs of a particular series, will not take effect as to any such ADRs until the expiration of 30 days after notice of such amendment to the Deposit Agreement has been given to the record holders of such ADRs. Every holder of any such ADRs at the time any such amendment so becomes effective, if such holder has been given such notice, will be deemed by continuing to hold such ADRs to consent and agree to such amendment and to be bound by the Deposit Agreement or the ADRs as amended thereby. In no event may any amendment impair the right of any holder of ADRs evidencing ADSs of a particular series to surrender such ADRs and

receive therefor the dollar preference shares of the corresponding series and other property represented thereby.

Whenever so directed by the Bank, the Depositary has agreed to terminate the Deposit Agreement as to ADRs evidencing ADSs of a particular series by mailing notice of such termination to the record holders of all such outstanding ADRs at least 30 days prior to the date fixed in such notice for such termination. The Depositary may likewise terminate the Deposit Agreement as to ADRs evidencing ADSs of a particular series at any time 60 days after the Depositary shall have delivered to the Bank a written notice of its election to resign and a successor depositary shall not have been appointed and accepted its appointment as provided in the Deposit Agreement. If any ADRs evidencing ADSs of a particular series remain outstanding after the date of any such termination, the Depositary thereafter will discontinue the registration of transfers of ADRs evidencing ADSs of such series, will suspend the distribution of dividends to the holders thereof and will not give any further notices or perform any further acts under the Deposit Agreement with respect to such ADRs, except that the Depositary will continue to collect dividends and other distributions pertaining to the dollar preference shares of the corresponding series and any other property represented by the ADRs evidencing ADSs of such series, will sell rights as provided in the Deposit Agreement and will continue the delivery of dollar preference shares of the corresponding series, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any rights or other property, in exchange for ADRs surrendered to the Depositary.

At any time after the expiration of two years from the date of termination of the Deposit Agreement as to the ADRs evidencing ADSs of a particular series, the Depositary may sell the dollar preference shares of the corresponding series and any other property represented by such ADRs and may thereafter hold the net proceeds, together with any other cash then held by it under the Deposit Agreement in respect of such ADRs, without liability for interest, for the *pro rata* benefit of the holders of ADRs evidencing ADSs of such series that have not theretofore been surrendered. In the case of dollar preference shares of more than one series that are deposited under the Deposit Agreement as units, the Deposit Agreement may be terminated as to the ADRs of any series corresponding to the dollar preference shares of any such series so deposited only by terminating the Deposit Agreement with respect to the ADRs of each series corresponding to the dollar preference shares of each such series so deposited and otherwise in accordance with the foregoing procedures.

Except as provided above, an amendment of the form of ADRs evidencing ADSs of a particular series, or an amendment of the Deposit Agreement, or the termination thereof, as to ADRs evidencing ADSs of a particular series, will not necessarily occur concurrently with, or result in, an amendment or termination, as the case may be, as to ADRs evidencing ADSs of any other series.

**(k) Charges of Depositary**

The Bank will, subject to the provisions of the Deposit Agreement, pay the fees, if any, and reasonable expenses of the Depositary in connection with the initial issuance of ADRs evidencing ADSs of a particular series, and will also pay all other fees and reasonable expenses of the Depositary and those of any ADR registrar or co-registrar or co-transfer agent under the Deposit Agreement including any UK stamp duty reserve tax on the issue of dollar preference shares of the corresponding series to the Custodian, if any. However, the Bank shall not be liable for stock transfer or other taxes and other governmental charges, any applicable transfer or registration fee on deposit or withdrawal of dollar preference shares, charges of the Depositary in connection with the conversion of foreign currency into US dollars or certain cable, telex, facsimile transmission and delivery charges. Subject to the foregoing, the Depositary will charge the party to whom ADRs are issued, and the party surrendering ADRs, US\$5 or less for each 100 ADSs (or portion thereof) evidenced by the ADRs issued or surrendered.

**(l) General**

Neither the Depositary nor the Bank will be liable to the holders of ADRs if prevented or forbidden or delayed by any present or future law of any country or by any governmental authority, any present or future provision of the Articles or of the dollar preference shares of any series or any act of God or war or other circumstances beyond its control in performing its obligations under the Deposit Agreement. The obligations of the Bank and the Depositary under the Deposit Agreement are expressly limited to performing without negligence or bad faith their respective duties specified therein.

If any ADSs of a particular series representing dollar preference shares of a corresponding series are listed on one or more stock exchanges in the United States, the Depositary will act as registrar or, upon the request or with the approval of the Bank, appoint a registrar or one or more co-registrars, for

registration of the ADRs evidencing such ADSs in accordance with any requirements of such exchange or exchanges. Such registrars or co-registrars may be removed and a substitute or substitutes appointed by the Depositary upon the request or with the approval of the Bank.

The ADRs evidencing ADSs of any series are transferable on the books of the Depositary, provided, however, that the Depositary may close the transfer books as to ADRs evidencing ADSs of a particular series at any time or from time to time when deemed expedient by it in connection with the performance of its duties or at the request of the Bank. As a condition precedent to the execution and delivery, registration of transfer, consolidation, sub-division or surrender of any ADR or unit of ADRs, or withdrawal of dollar preference shares of each corresponding series, the Bank, the Depositary or the Custodian may require payment from the presenter of such ADR or the depositor of such dollar preference shares of a sum sufficient to reimburse it for any tax or other governmental charge and any stock transfer or registration fee with respect thereto (including any such taxes or charges and fees with respect to dollar preference shares being deposited or withdrawn) and payment of any applicable fees payable as provided in the Deposit Agreement. The Depositary may withhold the execution and delivery or registration of transfer of any ADR or any distribution of, or related to, dollar preference shares until it has received such proof of citizenship, residence, exchange control approval or other information as it may deem necessary or proper. The execution and delivery, or transfer of ADRs generally, may be suspended during any period when the transfer books of the Depositary are closed or if any such action is deemed necessary or advisable by the Depositary or the Bank at any time or from time to time. The surrender of ADRs of any series and withdrawal of Deposited Securities (as such term is defined in the Deposit Agreement) may not be suspended except for (i) temporary delays caused by closing the transfer books of the Depositary or the Bank or the deposit of dollar preference shares of the corresponding series in connection with voting at a shareholders' meeting or the payment of dividends, (ii) the payment of fees, taxes and similar charges and (iii) compliance with any laws or governmental regulations relating to the ADRs of such series or to the withdrawal of Deposited Securities.

Upon the request or the approval of the Bank, the Depositary may appoint one or more co-transfer agents for the registration of ADRs. In carrying out its functions, a co-transfer agent may require evidence of authority and compliance with applicable laws and other requirements by holders of ADRs or persons entitled thereto and will be entitled to protection and indemnity to the same extent as the Depositary.

The Deposit Agreement requires that record holders of ADRs comply with the Bank's requests for information as to the capacity in which such holders own or owned ADRs and regarding the identity of any other person interested in such ADRs and the nature of such interest and various other matters.

### 3. UK TAXATION

The following is a summary of certain relevant aspects of current UK law and Inland Revenue practice which may apply to holders who are the beneficial owners of Series B1 dollar preference shares or Series B2 dollar preference shares and who are beneficially entitled to the dividends and any other amounts payable in respect thereof where such dividends or other amounts are not deemed for UK purposes to be the income of any other person. It is not exhaustive, and in particular does not deal with the position of certain classes of shareholder, such as dealers in securities or shareholders who may be resident or domiciled for tax purposes in jurisdictions other than the United Kingdom. Holders who are in any doubt as to their tax position should consult their professional advisers.

#### (a) Tax Treatment of Dividends

Under current UK taxation legislation, no tax will be withheld from dividends paid by the Bank in respect of Series B1 dollar preference shares and Series B2 dollar preference shares; however, upon payment of a dividend the Bank will generally be required to account to the Inland Revenue for ACT. The rate of ACT will be related to the lower rate of UK income tax so that under current legislation the rate of ACT is one-quarter of the amount of the dividend paid.

An individual holder of Series B dollar preference shares who is resident in the United Kingdom for UK taxation purposes will be entitled to a tax credit in respect of any dividend received from the Bank (unless the Bank has elected to designate the dividend as a "foreign income dividend" as described below). Under current legislation the tax credit will be equal to one-quarter of the amount of the dividend received. The dividend and the associated tax credit are both included in the taxpayer's total income for UK tax purposes. The tax credit is set against the taxpayer's overall tax liability and may

be refunded by the Inland Revenue to the extent that the taxpayer's total tax credits exceed his overall income tax liability.

A corporate holder of Series B1 dollar preference shares and Series B2 dollar preference shares which is resident in the United Kingdom for UK taxation purposes will not be charged to UK taxation on any dividend received from the Bank and (unless the Bank has elected to designate the dividend as a "foreign income dividend" as described below) the dividend will constitute franked investment income for such a holder.

A holder of Series B1 dollar preference shares and Series B2 dollar preference shares not resident in the United Kingdom for taxation purposes is not generally entitled to the benefit of the tax credit in relation to any dividend received. Such a holder may be entitled to receive an amount in respect of the tax credit or part of such tax credit if there is an appropriate provision in any applicable double taxation treaty between the United Kingdom and the relevant country of residence, or if the holder is a Commonwealth citizen or falls into certain other categories (unless the Bank has elected to designate the dividend as a "foreign income dividend" as described below). Holders who are individuals and who are not resident in the United Kingdom for UK taxation purposes will not normally be liable to such an income tax charge on dividends received in the tax year 1995/96 where such dividends arise from investments managed by UK investment managers nor on any dividends received in subsequent tax years (other than in the exceptional circumstances where the investment on which the dividends are paid is managed by an investment manager acting, broadly, on non-arm's length terms).

Under the terms of issue of the Series B2 dollar preference shares, a dividend paid in respect of such shares may be adjusted in the event of a change in the amount of the tax credit to which an individual holder resident in the United Kingdom for UK tax purposes is entitled in respect of the dividend: See paragraph (c) "Dividends" in "Description of the Series B1 dollar preference shares and the Series B2 dollar preference shares" above.

If the Bank were to pay a dividend out of non-UK source profits it could elect for such dividend to be treated as a "foreign income dividend" with the result that (i) the Bank would have a reduced, or no, liability to pay ACT and (ii) such dividend would not carry an associated tax credit. If such an election were to be made, a UK resident individual receiving such a dividend would be treated as having paid income tax at the lower rate in relation to such dividend, but would have no right in any circumstances to a refund of any amount of income tax treated as having been paid. Such an individual who was liable only to the lower rate or basic rate income tax would have no further liability to income tax in respect of the foreign income dividend, but a higher rate income liability would arise in the normal manner. The foreign income dividend would not frank non-foreign income dividends paid by a UK resident corporate shareholder, although it would frank foreign income dividends paid by such a shareholder. A shareholder not resident in the United Kingdom receiving such a foreign income dividend would not be entitled to receive any amount in respect of the income tax treated as having been paid in relation to such a dividend notwithstanding that an applicable double taxation treaty would entitle such a holder to receive an amount in respect of the tax credit or part of the tax credit relating to an ordinary dividend. Under the terms of issue of the Series B2 dollar preference shares, a dividend paid in respect of such shares may be adjusted if the Bank were to elect for any quarterly dividend paid on the Series B1 dollar preference shares or the Series B2 dollar preference shares to be treated as a foreign income dividend: See paragraph (c) "Dividends" in "Description of the Series B1 dollar preference shares and the Series B2 dollar preference shares" above.

US Holders who are Eligible US Holders (as those terms are respectively defined below) will, under the Treaty, be entitled to receive a payment from the Inland Revenue in respect of the associated tax credit described above less a withholding of, currently, 15% of the sum of the dividend and the associated tax credit. Thus, assuming that UK resident individual holders continue to be entitled to a tax credit of one quarter of the amount of the dividend, a dividend of US\$80 paid to an Eligible US Holder would give rise to a claim for a payment under the Treaty of US\$20 less a withholding of US\$15 making a total receipt (after UK taxes but before US taxes) of US\$85. In addition, a US Holder that is a partnership, trust or estate may be entitled under the Treaty to receive such a payment from the Inland Revenue, but only to the extent that the dividend income derived by such US Holder is taxable in the United States as the income of a US resident in the hands of such US Holder or its partners or beneficiaries.

For the purposes hereof the term "US Holder" means a holder of a Series B1 dollar preference share, a Series B2 dollar preference share or a Series B ADS unit who is a citizen or resident of the United States or who otherwise will be subject to US Federal income tax on a net income basis in respect

thereof. The term "Eligible US Holder" means a US Holder who is the beneficial owner of a Series B1 dollar preference share, a Series B2 dollar preference share or a Series B ADS unit and of the dividend paid thereon and who is entitled to a payment from the Inland Revenue under the Treaty as described above. This includes an individual or a corporation who or which qualifies as a resident of the US for the purposes of the Treaty (and which, in the case of a corporation, is not also resident in the United Kingdom for UK tax purposes) other than a US Holder (i) that is a corporation which, alone or together with one or more associated corporations, controls, directly or indirectly, 10% or more of the voting stock of the Bank, or (ii) whose holding of Series B1 dollar preference shares, Series B2 dollar preference shares, Series B ADS units or Series B ADR units is effectively connected with a permanent establishment in the United Kingdom through which such US Holder carries on business or with a fixed base in the United Kingdom from which such US Holder performs independent personal services, or (iii) under certain circumstances, (a) is an investment or holding company 25% or more of the capital of which is owned, directly or indirectly, by persons that are not individuals resident in, and are not nationals of, the US, (b) is exempt from US Federal income tax on the dividend in the US or (c) owns 10% or more of the class of shares of the Bank which includes the Series B dollar preference shares.

Where Series B1 dollar preference shares and Series B2 dollar preference shares are held in the form of Series B1 ADR units and Series B2 ADR units, arrangements (the "H Arrangements") have been made with the Inland Revenue enabling certain Eligible US Holders to obtain a repayment of the tax credit (less applicable withholding under the Treaty) at the same time as they receive, and together with, the dividend. The H Arrangements will generally apply to Eligible US Holders other than (i) estates or trusts, any of the beneficiaries of which are not US residents; (ii) investment or holding companies, 25% or more of the capital of which is owned directly or indirectly by persons who are not individual residents or nationals of the US; (iii) persons exempt from US Federal income tax with respect to dividends paid on the Series B1 dollar preference shares or the Series B2 dollar preference shares; and (iv) any person, whether an individual or a corporation, owning 10% or more of the class of shares in respect of which the dividend is paid. The operation of the H Arrangements will generally depend on how the Eligible US Holder of a Series B ADR unit holds such unit: if such unit is held directly, it will be necessary for the Eligible US Holder to complete a declaration on the reverse of the dividend cheque as to the conditions entitling the Eligible US Holder to the payment and present the cheque for payment within three months from the date of its issue; if such unit is held through an agent, dealer or broker participating in The Depository Trust Company, such agent, dealer or broker is required to make an equivalent form of declaration as to the conditions entitling the Eligible US Holder to the payment. The H Arrangements are at the discretion of the Inland Revenue who may cancel or amend them at any time without notice.

Eligible US Holders who are not entitled to benefit from the H Arrangements may obtain payment of the tax credit (less applicable withholding under the Treaty) by making a claim to the Inland Revenue under the relevant US procedures.

In the event that the Bank redeems any Series B dollar preference shares, any amount paid by the Bank by way of a special dividend on redemption will be treated for UK taxation purposes in the same manner as any other dividend paid by the Bank in respect of Series B dollar preference shares, as described above.

#### **(b) Capital Gains Tax**

Holders of Series B1 dollar preference shares and Series B2 dollar preference shares who are not resident for taxation purposes in the United Kingdom (and, in the case of a holder who is an individual, not ordinarily resident for taxation purposes in the United Kingdom) will not normally be subject to UK taxation on capital gains unless, at the time of the relevant disposal, the holder carries on a trade, profession or vocation in the United Kingdom through a branch or agency and the Series B1 dollar preference shares or the Series B2 dollar preference shares are or have been used in or for the purposes of the trade, profession or vocation or acquired for use by or used or held for the purposes of that branch or agency. In any other case, any disposal (including the disposal which occurs on redemption) or deemed disposal of the Series B1 dollar preference shares or the Series B2 dollar preference shares may (after taking account of the indexation allowance) give rise to a chargeable gain or allowable loss for the purposes of the Taxation of Chargeable Gains Act 1992.

The exchange of Series B1 dollar preference shares or Series B2 dollar preference shares in bearer form for such shares in registered form should not be treated as a disposal for the purposes of UK taxation of capital gains.

**(c) Stamp Duty and Stamp Duty Reserve Tax**

No UK stamp duty or stamp duty reserve tax will be payable on the issue of the Series B dollar preference shares.

No UK stamp duty or stamp duty reserve tax will be payable on the deposit with the Depositary of the Series B dollar preference shares in bearer form in exchange for Series B ADS units evidenced by Series B ADR units.

Provided that any instrument of transfer is not executed in the United Kingdom and remains at all times outside the United Kingdom, no UK stamp duty will be payable on the acquisition or transfer of Series B ADS units nor on the transfer of, or agreement to transfer Series B ADR units where such units remain at all times outside the United Kingdom. No UK stamp duty reserve tax will be payable on any agreement to transfer Series B ADS units or Series B ADR units.

Stamp duty or stamp duty reserve tax will normally be payable in respect of the transfer of, or agreement to transfer, Series B dollar preference shares in registered form at the rate of £0.50 per £100 or part thereof of the price.

**(d) Inheritance Tax**

A holder of Series B dollar preference shares, Series B ADS units, or Series B ADR units who is domiciled or is deemed to be domiciled in the United Kingdom may be liable to UK inheritance tax on death, or on making a gift (or disposal at an undervalue) of any part or the whole of his holding, unless such holder is protected by the provisions of any relevant double taxation treaty. A holder of Series B dollar preference shares, Series B ADS units or Series B ADR units who is a trustee may, in certain circumstances, be liable to UK inheritance tax where the settlor of the trust of which such holder is a trustee was or is domiciled or deemed to be domiciled in the United Kingdom. A closely controlled company which is a holder of Series B dollar preference shares may be liable to UK inheritance tax on any transfer of such shares by way of gift or at an undervalue.

Series B dollar preference shares in bearer form physically located in the United Kingdom and Series B dollar preference shares in registered form will be regarded as property situated within the United Kingdom for the purpose of UK inheritance tax and in certain circumstances Series B ADS units and Series B ADR units may be so regarded for such purpose. Accordingly, a holder of such shares or ADS units or ADR units may (notwithstanding that he is not domiciled or deemed to be domiciled in the United Kingdom) in certain circumstances be within the charge to UK inheritance tax unless such holder is protected by the provisions of any relevant double taxation treaty.

Generally, inheritance tax is not chargeable on outright gifts made more than seven years before the death of the donor.

The above summarises certain aspects of current law and practice in the United Kingdom. Prospective holders who are in doubt as to their position or who may be subject to tax in any other jurisdiction should consult their professional advisers.



## **PART III**

### **FINANCIAL INFORMATION RELATING TO MIDLAND**

The financial information relating to Midland set out in sections 1 and 2 below does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. Statutory consolidated accounts for the Bank and its subsidiary undertakings for the three years ended 31 December 1995 have been delivered to the Registrar of Companies. The auditors of the Bank, KPMG, Chartered Accountants and Registered Auditors, of 8 Salisbury Square, London EC4Y 8BB, made reports under section 235 of the Companies Act 1985 in respect of each set of audited consolidated accounts of the Bank and each such report was an unqualified report and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

#### **1. THE BANK'S AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE YEARS ENDED 31 DECEMBER 1995**

The financial information set out in this section 1 has been extracted without material adjustment from the Bank's audited consolidated accounts for each of the three years ended 31 December 1995.

# Consolidated Profit and Loss Account

	Note	1995 £m	1994 £m	1993 £m
Interest receivable				
—interest receivable and similar income arising from debt securities		749	672	655
—other interest receivable and similar income		4,225	3,608	3,984
Interest payable		(3,067)	(2,452)	(2,830)
Net interest income		1,907	1,828	1,809
Dividend income	4	9	10	21
Fees and commissions receivable		1,242	1,182	1,170
Fees and commissions payable		(144)	(134)	(109)
Dealing profits		222	33	609
Other operating income		192	172	141
		1,521	1,263	1,832
Operating income		3,428	3,091	3,641
Administrative expenses	5	(2,112)	(1,978)	(2,004)
Depreciation and amortisation		(195)	(188)	(168)
		(2,307)	(2,166)	(2,172)
Operating profit before provisions		1,121	925	1,469
Provisions for bad and doubtful debts	14	(198)	(98)	(679)
Provisions for contingent liabilities and commitments	6, 28	—	(37)	—
Amounts written off fixed asset investments		(1)	(5)	(26)
Operating profit		922	785	764
Profit on disposal of fixed assets and investments	6	54	86	45
Income from associated undertakings		22	34	35
Profit on ordinary activities before tax	6	998	905	844
Tax on profit on ordinary activities	7	(361)	(289)	(172)
Profit on ordinary activities after tax		637	616	672
Minority interests		(27)	(21)	(26)
Profit for the financial year attributable to shareholders		610	595	646
Dividends (including amounts attributable to non-equity shareholders)	9	(472)	(413)	(403)
Retained profit for the year transferred to reserves	31	138	182	243
Earnings per ordinary share	10	73.8p	73.1p	80.7p

An analysis of profit on ordinary activities before tax between continuing and discontinued operations for the year ended 31 December 1993 is given in Note 3. In 1995 and 1994 all activities are continuing.

## Consolidated Balance Sheet

	Note	1995 £m	1994 £m	1993 £m
<b>ASSETS</b>				
Cash and balances at central banks		487	535	436
Items in the course of collection from other banks		2,064	1,608	1,779
Treasury bills and other eligible bills	11	4,614	2,474	1,709
Loans and advances to banks	12	12,381	12,933	10,793
Loans and advances to customers	13	42,548	37,780	37,526
Debt securities	17	13,586	12,430	13,026
Equity shares	18	451	406	495
Interests in associated undertakings	19	91	83	219
Other participating interests	20	83	36	31
Tangible fixed assets	22	1,429	1,406	1,271
Other assets	23	14,518	9,681	8,087
Prepayments and accrued income		1,375	1,003	1,101
Total assets	32	93,627	80,375	76,473
<b>LIABILITIES</b>				
Deposits by banks	24	15,152	13,668	16,789
Customer accounts	25	49,617	44,557	40,498
Items in the course of transmission to other banks		1,157	803	970
Debt securities in issue	26	2,036	2,375	1,947
Other liabilities	27	17,744	11,915	9,740
Accruals and deferred income		1,286	1,155	1,020
Provisions for liabilities and charges	28			
—deferred taxation		137	107	154
—other provisions for liabilities and charges		247	258	217
Subordinated liabilities	29			
—undated loan capital		999	992	1,046
—dated loan capital		1,832	1,490	1,247
Minority interests		181	197	175
Shareholders' funds (including non-equity interests)				
Called up share capital	30	797	797	797
Share premium account	31	1,452	1,219	1,226
Revaluation reserves	31	(31)	(97)	(97)
Profit and loss account	31	1,021	939	744
		3,239	2,858	2,670
Total liabilities	32	93,627	80,375	76,473
<b>MEMORANDUM ITEMS</b>				
Contingent liabilities	33			
—acceptances and endorsements		772	343	417
—guarantees and assets pledged as collateral security		6,607	5,504	4,388
—other contingent liabilities		130	152	257
		7,509	5,999	5,062
Commitments	33	29,033	27,927	26,254

Balance Sheet

	Note	1995 £m	1994 £m	1993 £m
<b>ASSETS</b>				
Cash and balances at central banks		424	445	393
Items in the course of collection from other banks		2,057	1,599	1,748
Treasury bills and other eligible bills	11	4,403	2,355	1,498
Loans and advances to banks	12	12,779	11,159	9,573
Loans and advances to customers	13	35,752	34,335	34,151
Debt securities	17	10,450	10,116	10,135
Equity shares	18	71	85	30
Interests in associated undertakings	19	45	40	39
Other participating interests	20	6	4	3
Shares in group undertakings	21	1,142	1,230	1,110
Tangible fixed assets	22	882	885	808
Other assets	23	11,973	7,668	6,180
Prepayments and accrued income		1,039	762	816
Total assets	32	81,023	70,683	66,484
<b>LIABILITIES</b>				
Deposits by banks	24	14,053	12,525	16,190
Customer accounts	25	44,781	41,941	36,531
Items in the course of transmission to other banks		1,157	803	970
Debt securities in issue	26	1,260	1,573	1,428
Other liabilities	27	13,632	8,573	6,644
Accruals and deferred income		717	604	444
Provisions for liabilities and charges	28			
—deferred taxation		—	—	8
—other provisions for liabilities and charges		188	211	172
Subordinated liabilities	29			
—undated loan capital		999	992	1,046
—dated loan capital		997	603	381
Shareholders' funds (including non-equity interests)				
Called up share capital	30	797	797	797
Share premium account	31	1,452	1,219	1,226
Revaluation reserves	31	213	48	(20)
Profit and loss account	31	777	794	667
		3,239	2,858	2,670
Total liabilities	32	81,023	70,683	66,484
<b>MEMORANDUM ITEMS</b>				
Contingent liabilities	33			
—acceptances and endorsements		606	141	417
—guarantees and assets pledged as collateral security		7,555	6,517	5,246
—other contingent liabilities		130	152	217
		8,291	6,810	5,880
Commitments	33	27,628	26,741	23,494

Consolidated Statement of Total Recognised Gains and Losses  
for the Year Ended 31 December 1995

	1995 £m	1994 £m	1993 £m
Profit for the financial year attributable to shareholders	610	595	646
Deficit on revaluation of freehold and long leasehold premises	(26)	—	—
Exchange and other movements	44	9	12
<b>Total recognised gains and losses for the year</b>	<b>628</b>	<b>604</b>	<b>658</b>

Consolidated Reconciliation of Movements in Shareholders' Funds  
for the Year Ended 31 December 1995

	1995 £m	1994 £m	1993 £m
Profit for the financial year attributable to shareholders	610	595	646
Dividends	(472)	(413)	(403)
	138	182	243
Other recognised gains and losses relating to the year	44	9	12
Deficit on revaluation of freehold and long leasehold premises	(26)	—	—
New share capital subscribed	233	—	163
Goodwill on acquisition of subsidiary undertakings	(8)	(3)	(18)
Goodwill reinstated on the disposal of subsidiary undertakings	—	—	46
Net addition/(reduction) to shareholders' funds	381	188	446
Shareholders' funds at 1 January	2,858	2,670	2,224
<b>Shareholders' funds at 31 December</b>	<b>3,239</b>	<b>2,858</b>	<b>2,670</b>
Shareholders' funds are analysed as follows:			
Equity interests	2,850	2,702	2,507
Non-equity interests	389	156	163
	3,239	2,858	2,670

Non-equity interests in shareholders' funds comprise proceeds of the issue of US\$ preference shares (Note 30), 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 UK 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.

Midland complies with the requirements of FRS 6, "Acquisitions and Mergers", and 7, "Fair Values in Acquisition Accounting", which are both effective for the first time for business combinations undertaken in 1995.

In accordance with FRS1, "Cash Flow Statements", no cash flow statement is presented, as the Bank is a wholly owned subsidiary undertaking of HSBC Holdings plc which presents such a statement in its own accounts.

The Profit and Loss Account presentation of interchange fees payable to other banks has been changed. Interchange fees arise from the use of credit cards by banks' customers either through sales transactions or cash withdrawals from automated teller machines. In 1994 and prior years, interchange fees were offset against related fees receivable from customers within "Fees and commissions receivable". In 1995, in order to reflect the separate legal obligations of Midland in respect of Fees receivable and payable, interchange fees payable have been included in "Fees and commissions payable". Comparative data for 1994 and 1993 have been restated to reflect this change in presentation.

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

- (b) The consolidated financial statements comprise the accounts of the Bank and its subsidiary and associated undertakings. The consolidated accounts include the attributable share of the results and net tangible assets 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 2(b)).

Fee income is accounted for in the period when receivable, unless charged to cover the costs of a continuing service to, or risk borne for, the customer, or it is in the nature of interest. 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. In addition, interest on these loans is normally provided for when it is more than 90 days overdue.

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

## Notes to the Accounts (continued)

### 1. Principal accounting policies (continued)

#### (b) Loans and advances and doubtful debts (continued)

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.

#### (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 date of purchase to 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" and "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 2(g) below. Changes in the 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 difference between the cost of acquisition and the fair value of the share of separable net assets acquired, is taken to 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 or loss on disposal of the undertaking.

#### (e) Tangible fixed assets

No depreciation is provided on freehold or long leasehold (50 years and over unexpired) premises with the exception of premises valued at depreciated replacement cost which are depreciated over 10 years. The Directors have reviewed the appropriateness of this accounting policy in the context of the results of the latest valuation and consider that it remains appropriate. Any change in value which is considered to be temporary is recognised on a triennial basis and dealt with in the revaluation reserve. Any permanent change in value is charged to the profit and loss account when it occurs, and is included in "Depreciation and amortisation" or, to the extent that it was considered to be temporary as part of a previous triennial valuation, is transferred to the profit and loss account reserve.

Notes to the Accounts (continued)

2. Principal accounting policies (continued)

(e) Tangible fixed assets (continued)

Other leasehold land and buildings are written off on the straight line basis over ten years, or the period of the lease, whichever is the shorter.

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

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.

(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, provision for reduced future rentals, tax credit equalisation and grant equalisation.

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.

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, based on the advice of a qualified actuary, of the net present value of the future earnings inherent in policies in force, together with the surplus retained in long-term assurance funds and the net shareholder assets of Midland Life Limited. Midland's interest in the surplus retained in long-term assurance funds and the net present value of policies in force is included in "Other assets". Changes in the value placed on Midland's interest in long-term assurance business are recognised in the profit and loss account and, for the purpose of presentation, are grossed up at the prevailing rates 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) Pensions 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.



## Notes to the Accounts (continued)

### 2. Principal accounting policies (continued)

#### (i) Pensions and other post-retirement benefits (continued)

For UK 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 to the employee or dependant a pension after retirement. The costs of providing these benefits are charged to the profit and loss account on a regular basis. Overseas subsidiary undertakings make provisions for pensions in accordance with local law and practice.

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. The accumulated obligation in respect of these benefits relating to current and retired employees at 1 January 1993 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 in subsidiary and associated undertakings 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.

Transactions undertaken for trading purposes are marked to market 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".

Notes to the Accounts (continued)

3. Analysis of 1993 profit on ordinary activities before tax

	Continuing operations 1993 £m	Discontinued operations 1993 £m	Total 1993 £m
Interest receivable			
—interest receivable and similar income arising from debt securities	630	25	655
—other interest receivable and similar income	3,943	41	3,984
Interest payable	(2,789)	(41)	(2,830)
Net interest income	1,784	25	1,809
Dividend income	21	—	21
Fees and commissions receivable	1,151	19	1,170
Fees and commissions payable	(109)	—	(109)
Dealing profits	585	24	609
Other operating income	124	17	141
	1,772	60	1,832
Operating income	3,556	85	3,641
Administrative expenses	(1,970)	(34)	(2,004)
Depreciation and amortisation	(167)	(1)	(168)
	(2,137)	(35)	(2,172)
Operating profit before provisions	1,419	50	1,469
Provisions for bad and doubtful debts	(670)	(9)	(679)
Amounts written off fixed asset investments	(26)	—	(26)
Operating profit	723	41	764
Profit on disposal of fixed assets and investments	43	2	45
Income from associated undertakings	35	—	35
Profit on ordinary activities before tax	801	43	844

Notes to the Accounts (continued)

4. Dividend income

	1995 £m	1994 £m	1993 £m
Income from equity shares	6	8	19
Income from participating interests, other than associated undertakings	3	2	2
	<u>9</u>	<u>10</u>	<u>21</u>

5. Administrative expenses

	1995 £m	1994 £m	1993 £m
(a) Staff costs			
—wages and salaries	1,007	970	967
—social security costs	86	82	75
—other pension costs	126	119	104
—other staff costs	175	115	97
	<u>1,394</u>	<u>1,286</u>	<u>1,243</u>
Other administrative expenses			
—premises and equipment (excluding depreciation)	287	300	327
—other administrative expenses	431	392	434
	<u>718</u>	<u>692</u>	<u>761</u>
	<u>2,112</u>	<u>1,978</u>	<u>2,004</u>

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

	1995	1994	1993
Commercial Banking	48,278	48,665	48,204
Forward Trust Group	2,450	2,361	2,136
Investment Banking	—	—	388
	<u>50,728</u>	<u>51,026</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 92.4% of UK employees. The Principal Scheme is a funded defined benefit scheme.

Actuarial valuations of the assets and liabilities of the Principal Scheme are carried out triennially by professionally qualified actuaries, using the projected unit method, 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.

Notes to the Accounts (continued)

5. Administrative expenses (continued)

(b) Retirement benefits (continued)

The latest valuation of the Midland Bank Pension Scheme was made at 31 December 1993 at which time the market 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 actuaries' 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.

The main assumptions used in this valuation 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 Midland for the year ended 31 December 1995 was £126 million (1994 £119 million, 1993 £104 million) which includes £106 million (1994 £103 million, 1993 £87 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 £21 million (1994 £17 million, 1993 £19 million).

The latest actuarial review as at 31 December 1995 estimated the present value of the post-retirement benefit obligation to be £149 million (1994 £127 million, 1993 £130 million) for Midland and £142 million (1994 £120 million, 1993 £123 million) for the Bank, of which £47 million (1994 £30 million, 1993 £16 million) has been provided for Midland and £45 million (1994 £28 million, 1993 £15 million) has been provided for the Bank. The main financial assumptions used at 31 December 1995 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 I of Schedule 6 of the Act were as follows:

	1995 £'000	1994 £'000	1993 £'000
Fees	163	104	74
Salaries and other emoluments	1,824	696	823
Discretionary bonuses	135	98	100
Pension contributions	652	58	32
	<u>2,774</u>	<u>956</u>	<u>1,029</u>

Notes to the Accounts (continued)

5. Administrative expenses (continued)

(c) Directors' emoluments (continued)

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

£	1995	1994	1993	£	1995	1994	1993
0 – 5,000	7	6	5	45,001 – 50,000	—	1	—
5,001 – 10,000	—	1	1	125,001 – 130,000	—	1	—
10,001 – 15,000	—	3	3	195,001 – 200,000	—	—	1
15,001 – 20,000	3	1	—	235,001 – 240,000	—	1	—
20,001 – 25,000	3	1	—	290,001 – 295,000	—	—	1
25,001 – 30,000	—	—	1	320,001 – 325,000	1	—	—
35,001 – 40,000	1	—	—	345,001 – 350,000	—	1	—
40,001 – 45,000	—	1	1	380,001 – 385,000	1	—	1

The Chairman received no emoluments (1994 £50,000; 1993 £200,000).

	1995 £'000	1994 £'000	1993 £'000
Emoluments of the highest paid UK Director			
—salary and other emoluments	307	287	330
—discretionary bonus	75	60	50
—pension contributions	47	37	—
	<u>429</u>	<u>384</u>	<u>380</u>

In addition, pensions and other amounts paid under retirement benefit arrangements in respect of past services of £410,424 (1994 £175,000; 1993 £214,000) were paid. The provision in respect of unfunded pension obligations to a former Director amounted to £1,508,000 (1994 and 1993 nil).

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.

(d) Auditors' remuneration

Auditors' remuneration amounted to £2.5 million (1994 £2.3 million, 1993 £2.1 million), including £0.7 million (1994 £0.7 million, 1993 £0.7 million) which relates to the Bank. In addition £0.9 million (1994 £1.1 million, 1993 £1.0 million) has been paid to the Auditors of the Bank and their associates for non-audit work as analysed below:

	1995 £'000	1994 £'000	1993 £'000
Regulatory and accounting related work	477	653	572
Tax advice	203	125	151
Consultancy assignments	8	—	—
Other	206	283	278
	<u>894</u>	<u>1,061</u>	<u>1,001</u>

Notes to the Accounts (continued)

6. Profit on ordinary activities before tax

Profit on ordinary activities before tax is stated after:

	1995 £m	1994 £m	1993 £m
(a) Income			
Aggregate amounts receivable, including capital repayments, under			
—finance leases	258	300	412
—hire purchase contracts	574	541	350
—operating leases	97	97	55
Increase in value of long-term assurance business	72	62	67
Income from listed investments	664	598	519
Profits less losses on securities dealing	34	(140)	197
Profits less losses on disposal of investment securities	50	19	23

(b) Charges

	1995 £m	1994 £m	1993 £m
Interest charges incurred with respect to subordinated liabilities	189	139	144
Finance charges in respect of finance leases and similar hire purchase contracts	9	10	18
Hire of plant and machinery	15	25	38
Rentals payable on premises held under operating leases	96	81	95

(c) Profit on disposal of fixed assets and investments

During the year Midland reduced its equity shareholding in 3i Group plc from 8 per cent. to 5.3 per cent. which resulted in a profit of £31 million. No tax charge arises on the profit on sale because of capital losses carried forward from prior years.

Profit on disposal of other fixed assets and investments attracted a tax charge of £8 million (1994 and 1993 nil).

7. Tax on profit on ordinary activities

The charge for taxation comprises:

	1995 £m	1994 £m	1993 £m
UK corporation tax including deferred tax charge of £16 million (1994 credit £26 million, 1993 credit £18 million)	328	294	151
Relief for overseas tax	(13)	(19)	(35)
	315	275	116
Advance corporation tax written back	—	(1)	(5)
UK corporation tax adjustments in respect of prior years	(43)	13	(11)
Deferred tax adjustments in respect of prior years	22	(23)	—
	294	264	100
Overseas tax including deferred tax charge of £13 million (1994 credit £12 million, 1993 charge £3 million)	61	19	63
	355	283	163
Associated undertakings	6	6	9
	361	289	172

Notes to the Accounts (continued)

7. Tax on profit on ordinary activities (continued)

Midland provides for UK corporation tax at 33% (1994 33%, 1993 33%).

The UK tax charge includes £25 million (1994 £20 million, 1993 £31 million) in respect of grossing up for notional tax, mainly on the increase in the value of long-term assurance business attributable to shareholders and on franked investment income.

8. Profit of the Bank

The profit of the Bank for the year attributable to ordinary shareholders was £446 million (1994 £526 million, 1993 £706 million).

9. Dividends

	1995 £m	1994 £m	1993 £m
Equity			
Ordinary dividends			
—paid	300	200	200
—proposed	150	200	200
	<u>450</u>	<u>400</u>	<u>400</u>
Non-equity			
Preference dividends	20	12	3
Other finance costs	2	1	—
	<u>472</u>	<u>413</u>	<u>403</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.

10. 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, of £588 million (1994 £582 million, 1993 £643 million) by the weighted average number of ordinary shares in issue in 1995 of 797 million (1994 797 million, 1993 797 million).

11. Treasury bills and other eligible bills

	Midland		Bank	
	1995 £m	1994 £m	1995 £m	1994 £m
Treasury bills and similar securities	3,638	1,794	3,606	1,780
Other eligible bills	976	680	797	575
	<u>4,614</u>	<u>2,474</u>	<u>4,403</u>	<u>2,355</u>

Treasury bills and other eligible bills are not held as investment securities.

Notes to the Accounts (continued)

12. Loans and advances to banks

	Midland		Bank	
	1995 £m	1994 £m	1995 £m	1994 £m
Repayable on demand	2,923	2,855	1,699	1,915
Other loans and advances				
Remaining maturity				
—3 months or less	6,612	7,933	7,871	7,277
—1 year or less but over 3 months	2,251	1,643	2,522	1,495
—5 years or less but over 1 year	327	337	478	254
—over 5 years	315	229	234	256
	9,505	10,142	11,105	9,282
	12,428	12,997	12,804	11,197
Specific bad and doubtful debt provisions	(47)	(64)	(25)	(38)
	12,381	12,933	12,779	11,159
Loans and advances to banks include:				
Subordinated loans and advances	—	—	87	92
Amounts due from subsidiary undertakings				
—subordinated			87	92
—unsubordinated			3,246	534
			3,333	626
Amounts due from fellow subsidiary undertakings				
—unsubordinated	723	647	688	615



Notes to the Accounts (continued)

13. Loans and advances to customers

	Midland		Bank	
	1995 £m	1994 £m	1995 £m	1994 £m
Remaining maturity				
—3 months or less	14,237	13,177	12,046	12,764
—1 year or less but over 3 months	5,754	4,959	4,747	5,250
—5 years or less but over 1 year	10,596	9,022	7,992	6,788
—over 5 years	13,344	12,009	12,116	10,664
	<u>43,931</u>	<u>39,167</u>	<u>36,901</u>	<u>35,466</u>
General and specific bad and doubtful debt provisions	(1,383)	(1,387)	(1,149)	(1,131)
	<u>42,548</u>	<u>37,780</u>	<u>35,752</u>	<u>34,335</u>
Of which repayable on demand or at short notice	<u>6,765</u>	<u>6,356</u>	<u>6,050</u>	<u>5,662</u>
Loans and advances to customers include:				
Subordinated loans and advances (excluding equity shares)	—	—	5	5
Amounts due from subsidiary undertakings				
—subordinated			5	5
—unsubordinated			955	4,132
			<u>960</u>	<u>4,137</u>
Amounts due from fellow subsidiary undertakings				
—unsubordinated	<u>597</u>	<u>398</u>	<u>574</u>	<u>361</u>
Amounts due from parent undertaking				
—unsubordinated	<u>264</u>	<u>244</u>	<u>249</u>	<u>244</u>

Included within loans and advances to customers are equity shares with a book value of £92 million (1994 £103 million) acquired in exchange for advances with an original face value of £252 million (1994 £257 million).

Notes to the Accounts (continued)

14. Provisions for bad and doubtful debts

(a) Movements on provisions for bad and doubtful debts

	Specific 1995 £m	General 1995 £m	Total 1995 £m	Specific 1994 £m	General 1994 £m	Total 1994 £m
<b>Midland</b>						
At 1 January	1,221	230	1,451	1,893	249	2,142
Effect of foreign exchange rate and other movements	18	3	21	(19)	—	(19)
Charge/(release) for the year	163	35	198	117	(19)	98
Amounts written off	(279)	—	(279)	(847)	—	(847)
Recoveries of amounts written off in previous years	39	—	39	51	—	51
Amounts transferred on acquisition of subsidiary undertakings	—	—	—	26	—	26
<b>At 31 December</b>	<b>1,162</b>	<b>268</b>	<b>1,430</b>	<b>1,221</b>	<b>230</b>	<b>1,451</b>
<b>Bank</b>						
At 1 January	990	179	1,169	1,688	186	1,874
Effect of foreign exchange rate and other movements	5	1	6	(26)	1	(25)
Charge/(release) for the year	150	41	191	60	(8)	52
Amounts written off	(221)	—	(221)	(769)	—	(769)
Recoveries of amounts written off in previous years	29	—	29	37	—	37
<b>At 31 December</b>	<b>953</b>	<b>221</b>	<b>1,174</b>	<b>990</b>	<b>179</b>	<b>1,169</b>
			Midland		Bank	
			1995	1994	1995	1994
			£m	£m	£m	£m
Included in:						
Loans and advances to banks			47	64	25	38
Loans and advances to customers			1,383	1,387	1,149	1,131
			<u>1,430</u>	<u>1,451</u>	<u>1,174</u>	<u>1,169</u>

Notes to the Accounts (continued)

14. Provisions for bad and doubtful debts (continued)

(b) Movements on suspended interest account

	Midland		Bank	
	1995 £m	1994 £m	1995 £m	1994 £m
At 1 January	159	291	141	277
Effect of foreign exchange rate and other movements	2	(4)	1	(4)
Interest suspended in the year	63	58	57	52
Suspended interest recovered	(46)	(96)	(46)	(96)
Amounts written off	(26)	(93)	(22)	(88)
Amounts transferred on acquisition of subsidiary undertakings	—	3	—	—
At 31 December	152	159	131	141

(c) Non-performing loans

	Midland		Bank	
	1995 £m	1994 £m	1995 £m	1994 £m
Loans on which interest has been suspended (net of suspended interest)	1,235	1,092	1,118	881
Provisions	(656)	(696)	(575)	(576)
	579	396	543	305
Other non-performing loans	1,102	1,341	801	1,117
Provisions	(506)	(525)	(356)	(414)
	596	816	445	703
Total non-performing loans	1,175	1,212	988	1,008

Notes to the Accounts (continued)

15. Less developed countries provisionable exposure

	Midland	
	1995 £m	1994 £m
Total less developed countries: exposures to banks and customers (net of provisions in respect of commercial risk)	1,006	1,075
Accrued interest	42	46
	<u>1,048</u>	<u>1,121</u>
Less developed countries risk provisions	(270)	(293)
Suspended interest	(42)	(46)
	<u>736</u>	<u>782</u>
Net exposure to less developed countries		
As a percentage of shareholders' funds	22.7%	27.4%

Included within LDC provisionable exposure are par and discount bonds which are held as a result of debt restructuring by Argentina, Brazil, Mexico and Venezuela. The principal amount of these bonds is secured by US treasury instruments. The gross carrying value of these bonds at 31 December 1995 was £812 million (1994 £800 million).

16. Concentrations of exposure

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

	1995 £m	1994 £m
Consumer		
Residential Mortgages	9,266	8,161
Other advances to individuals	4,781	4,431
Commercial		
Commercial, industrial and international trade	12,449	10,684

Notes to the Accounts (continued)

17. Debt securities

	Midland				Bank			
	Book value 1995 £m	Market value 1995 £m	Book value 1994 £m	Market value 1994 £m	Book value 1995 £m	Market value 1995 £m	Book value 1994 £m	Market value 1994 £m
Issued by public bodies								
Investment securities								
—government securities	3,953	4,015	3,639	3,594	3,841	3,901	3,536	3,492
—other public sector securities	294	305	223	209	128	129	42	40
	<u>4,247</u>	<u>4,320</u>	<u>3,862</u>	<u>3,803</u>	<u>3,969</u>	<u>4,030</u>	<u>3,578</u>	<u>3,532</u>
Other securities								
—government securities	3,089		2,412		2,034		1,733	
—other public sector securities	289		107		159		1	
	<u>3,378</u>		<u>2,519</u>		<u>2,193</u>		<u>1,734</u>	
Issued by other issuers								
Investment securities	1,206	1,240	773	766	731	747	453	450
Other securities								
—bank and building society certificates of deposit	1,681		2,719		1,542		2,554	
—other debt securities	3,074		2,557		2,015		1,797	
	<u>4,755</u>		<u>5,276</u>		<u>3,557</u>		<u>4,351</u>	
	<u>13,586</u>		<u>12,430</u>		<u>10,450</u>		<u>10,116</u>	
Due within one year	3,380		4,810		3,062		4,510	
Due one year and over	10,206		7,620		7,388		5,606	
	<u>13,586</u>		<u>12,430</u>		<u>10,450</u>		<u>10,116</u>	
Debt securities include:								
Subordinated debt securities	88		102		88		87	
Unamortised net (discounts)/premiums on investment securities	(27)		23		(5)		21	
Investment securities								
—listed on a recognised UK exchange	2,316	2,331	2,545	2,520	2,197	2,212	2,442	2,416
—listed elsewhere	2,143	2,216	1,269	1,241	1,514	1,557	777	766
—unlisted	994	1,013	821	808	989	1,008	812	800
	<u>5,453</u>	<u>5,560</u>	<u>4,635</u>	<u>4,569</u>	<u>4,700</u>	<u>4,777</u>	<u>4,031</u>	<u>3,982</u>
Other securities								
—listed on a recognised UK exchange	1,621		1,090		749		534	
—listed elsewhere	3,897		2,874		2,565		1,901	
—unlisted	2,615		3,831		2,436		3,650	
	<u>8,133</u>		<u>7,795</u>		<u>5,750</u>		<u>6,085</u>	
	<u>13,586</u>		<u>12,430</u>		<u>10,450</u>		<u>10,116</u>	

Notes to the Accounts (continued)

17. Debt securities (continued)

Movements on debt securities which are held as investment securities were as follows:

	Cost £m	Provisions £m	Book value £m
<b>Midland</b>			
At 1 January 1995	4,637	(2)	4,635
Effect of foreign exchange rate and other movements	31	—	31
Acquisitions	2,654	—	2,654
Disposals and amounts repaid	(1,846)	—	(1,846)
Transfers and reclassifications	7	2	9
Provisions	—	(1)	(1)
Amortisation of discounts and premiums	(29)	—	(29)
<b>At 31 December 1995</b>	<b>5,454</b>	<b>(1)</b>	<b>5,453</b>
<b>Bank</b>			
At 1 January 1995	4,031	—	4,031
Effect of foreign exchange rate and other movements	(15)	—	(15)
Acquisitions	2,376	—	2,376
Disposals and amounts repaid	(1,710)	—	(1,710)
Transfers and reclassifications	46	—	46
Amortisation of discounts and premiums	(28)	—	(28)
<b>At 31 December 1995</b>	<b>4,700</b>	<b>—</b>	<b>4,700</b>
	Cost £m	Provisions £m	Book value £m
<b>Midland</b>			
At 1 January 1994	3,891	(3)	3,888
Acquisitions	2,898	—	2,898
Disposals and amounts repaid	(2,307)	3	(2,304)
Transfers and reclassifications	220	—	220
Provisions	—	(2)	(2)
Amortisation of discounts and premiums	(65)	—	(65)
<b>At 31 December 1994</b>	<b>4,637</b>	<b>(2)</b>	<b>4,635</b>
<b>Bank</b>			
At 1 January 1994	2,990	—	2,990
Effect of foreign exchange rate and other movements	(50)	—	(50)
Acquisitions	2,801	—	2,801
Disposals and amounts repaid	(2,246)	—	(2,246)
Transfers and reclassifications	600	—	600
Amortisation of discounts and premiums	(64)	—	(64)
<b>At 31 December 1994</b>	<b>4,031</b>	<b>—</b>	<b>4,031</b>

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

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 £5,518 million for Midland (1994 £4,567 million) and £4,735 million (1994 £3,980 million) for the Bank.

Notes to the Accounts (continued)

17. Debt securities (continued)

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. Equity shares

	Midland				Bank			
	Book value 1995 £m	Market value 1995 £m	Book value 1994 £m	Market value 1994 £m	Book value 1995 £m	Market value 1995 £m	Book value 1994 £m	Market value 1994 £m
Investment securities								
—listed on a recognised UK exchange	47	128	70	154	47	128	70	154
—listed elsewhere	79	87	99	87	2	2	2	2
—unlisted	49	49	22	31	17	17	13	13
	<u>175</u>	<u>264</u>	<u>191</u>	<u>272</u>	<u>66</u>	<u>147</u>	<u>85</u>	<u>169</u>
Other securities								
—listed elsewhere than on a recognised UK exchange	266		215		1		—	
—unlisted	10		—		4		—	
	<u>276</u>		<u>215</u>		<u>5</u>		<u>—</u>	
	<u>451</u>		<u>406</u>		<u>71</u>		<u>85</u>	

Movements on equity shares which are held as investment securities were as follows:

	Cost £m	Provisions £m	Book value £m
<b>Midland</b>			
At 1 January 1995	197	(6)	191
Effect of foreign exchange rate and other movements	(2)	(1)	(3)
Acquisitions	45	—	45
Disposals	(57)	—	(57)
Provisions	—	(1)	(1)
At 31 December 1995	<u>183</u>	<u>(8)</u>	<u>175</u>
<b>Bank</b>			
At 1 January 1995	85	—	85
Acquisitions	37	—	37
Disposals	(55)	—	(55)
Provisions	—	(1)	(1)
At 31 December 1995	<u>67</u>	<u>(1)</u>	<u>66</u>

Notes to the Accounts (continued)

18. Equity shares (continued)

	Cost £m	Provisions £m	Book value £m
<b>Midland</b>			
At 1 January 1994	319	(77)	242
Effect of foreign exchange rate and other movements	4	(6)	(2)
Acquisitions	112	—	112
Disposals and transfers on sale of subsidiary undertakings	(308)	77	(231)
Transfer from associated undertakings	70	—	70
<b>At 31 December 1994</b>	<b>197</b>	<b>(6)</b>	<b>191</b>
<b>Bank</b>			
At 1 January 1994	77	(51)	26
Effect of foreign exchange rate and other movements	(18)	19	1
Acquisitions	88	—	88
Disposals	(132)	32	(100)
Transfer from associated undertakings	70	—	70
<b>At 31 December 1994</b>	<b>85</b>	<b>—</b>	<b>85</b>

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.

On 25 January 1996, Midland sold its remaining 5.3% shareholding in 3i Group plc. The profit arising of approximately £76 million, in respect of which no tax charge will arise because of capital losses carried forward from prior years, will be recognised in the first half of 1996.

19. Interests in associated undertakings

(a) Movements on interests in associated undertakings

	Midland £m	Bank £m
At 1 January 1995	83	40
Effect of foreign exchange rate and other movements	3	1
Acquisitions	10	4
Disposals	(3)	(3)
Goodwill written off	(3)	—
Revaluation	—	3
Retained profits	1	—
<b>At 31 December 1995</b>	<b>91</b>	<b>45</b>
	<b>Midland £m</b>	<b>Bank £m</b>
At 1 January 1994	219	39
Effect of foreign exchange rate and other movements	(1)	(1)
Acquisitions	—	137
Disposals	(83)	(83)
Transfer to equity shares, investment securities	(70)	(70)
Revaluation	—	18
Retained profits	18	—
<b>At 31 December 1994</b>	<b>83</b>	<b>40</b>



# Notes to the Accounts (continued)

## 19. Interests in associated undertakings (continued)

### (a) Movements on interests in associated undertakings (continued)

Interests in associated undertakings include £80 million (1994 £73 million) for Midland, and £38 million (1994 £33 million) for the Bank, representing interests in banks. None of the above interests is listed.

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

	1995 £m	1994 £m
Cost	58	57
Provisions	(23)	(23)
	<u>35</u>	<u>34</u>

### (b) Principal associated undertakings at 31 December 1995

	Accounts made up to	Country of incorporation/ registration and operations	Principal activities	Midland's interest in equity capital	Issued equity capital
Banco Roberts SA	30.6.95	Argentina	Banking	*30%	Argentinian Pesos 100m
UBAF Bank Limited	31.12.95	England	Banking	25% 25%	US\$81m £32m fully paid, £5m nil paid

\*Held indirectly

As at 31 December 1995 UBAF Bank Limited had issued US\$44.5 million of subordinated unsecured loan stock in which the Bank had a 20.6% interest.

On 31 January 1996, Midland acquired a further 16.7% of the issued equity share capital and 14.1% of the subordinated unsecured loan stock of UBAF Bank Limited at a cost of £28 million.

## 20. Other participating interests

	Midland		Bank	
	1995 £m	1994 £m	1995 £m	1994 £m
Listed elsewhere than on a recognised UK exchange	53	9	—	—
Unlisted	30	27	6	4
	<u>83</u>	<u>36</u>	<u>6</u>	<u>4</u>
Market value of listed securities	<u>42</u>	<u>9</u>	<u>—</u>	<u>—</u>

Other participating interests include £40 million (1994 Nil) for Midland, and Nil (1994 Nil) for the Bank, representing interests in listed banks.

Notes to the Accounts (continued)

20. Other participating interests (continued)

Movements on other participating interests were as follows:

	Cost £m	Provisions £m	Book value £m
<b>Midland</b>			
At 1 January 1995	53	(17)	36
Effect of foreign exchange rate movements	2	—	2
Acquisitions	45	—	45
<b>At 31 December 1995</b>	<b>100</b>	<b>(17)</b>	<b>83</b>
<b>Bank</b>			
At 1 January 1995	19	(15)	4
Acquisitions	2	—	2
<b>At 31 December 1995</b>	<b>21</b>	<b>(15)</b>	<b>6</b>

On 20 December 1995, Midland acquired 6.1% of the ordinary share capital of Banco Bamerindus do Brasil SA, a listed Brazilian Bank.

	Cost £m	Provisions £m	Book value £m
<b>Midland</b>			
At 1 January 1994	48	(17)	31
Effect of foreign exchange rate movements	1	—	1
Acquisitions	4	—	4
<b>At 31 December 1994</b>	<b>53</b>	<b>(17)</b>	<b>36</b>
<b>Bank</b>			
At 1 January 1994	18	(15)	3
Acquisitions	1	—	1
<b>At 31 December 1994</b>	<b>19</b>	<b>(15)</b>	<b>4</b>

21. Shares in group undertakings

(a) Movements on the Bank's interests in shares in group undertakings

	£m
At 1 January 1995	1,230
Acquisitions	51
Repayment of capital by subsidiary undertakings	(243)
Liquidations	(36)
Provisions	(35)
Revaluation	175
<b>At 31 December 1995</b>	<b>1,142</b>

Notes to the Accounts (continued)

21. Shares in group undertakings (continued)

(a) Movements on the Bank's interests in shares in group undertakings (continued)	£m
At 1 January 1994	1,110
Acquisitions	11
Transfers from subsidiary undertakings of the Bank	297
Repayment of capital by subsidiary undertakings	(137)
Liquidations	(23)
Provisions	(78)
Revaluation	50
At 31 December 1994	1,230

The above amount represents the direct interests of the Bank in its subsidiary undertakings. None of these interests is listed or relates to investments in banks.

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

	1995 £m	1994 £m
Cost	1,036	1,270
Provisions	(116)	(87)
	920	1,183

(b) Principal subsidiary undertakings at 31 December 1995

	Country of registration/ incorporation and operation	Percentage of equity capital held by Midland Bank plc	
		Direct	Indirect
Forward Trust Limited	England		100%
HSBC Greenwell	England	100%	
Griffin Factors Limited	England		100%
Guyertzeller Bank AG	Switzerland		75%
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		71%

\* 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 and financial services.

In 1995 Midland acquired a further 22.5% interest in Midland Life Limited bringing its total holding to 100% of Midland Life Limited's equity capital. The cash consideration amounted to £50.6 million. The fair value of the net assets acquired is considered to equate to the book value of the net assets acquired of Midland Life Limited, including the value of the surplus retained in long-term assurance funds and the net present value of policies in force. Goodwill of £4.9 million has been taken to reserves.

The financial year of all the above principal subsidiary undertakings ends on 31 December, with the exception of Midland Life Limited where the accounts are made up to 31 August to avoid undue delay in the publication of Midland's accounts. Midland's consolidated accounts include interim accounts for Midland Life Limited prepared to 31 December 1995.

Notes to the Accounts (continued)

22. Tangible fixed assets

(a) Movements on tangible fixed assets

	Freehold land and buildings £m	Long leasehold land and buildings £m	Short leasehold land and buildings £m	Equipment, fixtures and fittings £m	Equipment on operating leases £m	Total £m
<b>Midland</b>						
Cost or valuation						
At 1 January 1995	652	101	205	924	364	2,246
Effect of foreign exchange rate and other movements	10	—	1	6	—	17
Additions	43	1	11	157	141	353
Disposals	(46)	(17)	(5)	(160)	(119)	(347)
Deficit on revaluation	(35)	(11)	—	—	—	(46)
At 31 December 1995	624	74	212	927	386	2,223
Accumulated depreciation						
At 1 January 1995	(7)	(5)	(130)	(592)	(106)	(840)
Effect of foreign exchange rate and other movements	—	—	—	(4)	—	(4)
Disposals	7	—	3	145	70	225
Elimination of accumulated depreciation on revalued properties	6	8	—	—	—	14
Charge for the year	(6)	(3)	(16)	(89)	(75)	(189)
At 31 December 1995	—	—	(143)	(540)	(111)	(794)
Net book value						
At 31 December 1995	624	74	69	387	275	1,429
At 31 December 1994	645	96	75	332	258	1,406
<b>Bank</b>						
Cost or valuation						
At 1 January 1995	460	90	175	794	—	1,519
Effect of foreign* exchange rate and other movements	—	—	—	1	—	1
Additions	38	1	11	149	—	199
Disposals	(46)	(17)	(5)	(120)	—	(188)
Deficit on Revaluation	(36)	(10)	—	—	—	(46)
At 31 December 1995	416	64	181	824	—	1,485
Accumulated depreciation						
At 1 January 1995	(7)	(5)	(109)	(513)	—	(634)
Disposals	8	—	3	106	—	117
Elimination of accumulated depreciation on revalued properties	4	7	—	—	—	11
Charge for the year	(5)	(2)	(13)	(77)	—	(97)
At 31 December 1995	—	—	(119)	(484)	—	(603)
Net book value						
At 31 December 1995	416	64	62	340	—	882
At 31 December 1994	453	85	66	281	—	885

Notes to the Accounts (continued)

22. Tangible fixed assets (continued)

(a) Movements on tangible fixed assets (continued)

	Freehold land and buildings £m	Long leasehold land and buildings £m	Short leasehold land and buildings £m	Equipment, fixtures and fittings £m	Equipment on operating leases £m	Total £m
<b>Midland</b>						
Cost or valuation						
At 1 January 1994	564	106	200	848	343	2,061
Reclassification	23	(23)	—	—	—	—
Effect of foreign exchange rate and other movements	3	—	—	9	(3)	9
Additions	69	19	13	132	139	372
Disposals	(7)	(1)	(8)	(65)	(115)	(196)
<b>At 31 December 1994</b>	<b>652</b>	<b>101</b>	<b>205</b>	<b>924</b>	<b>364</b>	<b>2,246</b>
Accumulated depreciation						
At 1 January 1994	(3)	(2)	(117)	(563)	(105)	(790)
Effect of foreign exchange rate and other movements	—	—	(2)	—	11	9
Disposals	—	—	5	56	68	129
Charge for the year	(4)	(3)	(16)	(85)	(80)	(188)
<b>At 31 December 1994</b>	<b>(7)</b>	<b>(5)</b>	<b>(130)</b>	<b>(592)</b>	<b>(106)</b>	<b>(840)</b>
Net book value						
At 31 December 1994	645	96	75	332	258	1,406
At 31 December 1993	561	104	83	285	238	1,271
<b>Bank</b>						
Cost or valuation						
At 1 January 1994	406	95	170	733	—	1,404
Reclassification	23	(23)	—	—	—	—
Additions	49	19	12	121	—	201
Disposals	(18)	(1)	(7)	(60)	—	(86)
<b>At 31 December 1994</b>	<b>460</b>	<b>90</b>	<b>175</b>	<b>794</b>	<b>—</b>	<b>1,519</b>
Accumulated depreciation						
At 1 January 1994	(3)	(2)	(99)	(492)	—	(596)*
Effect of foreign exchange rate and other movements	—	—	(2)	(1)	—	(3)
Disposals	—	—	5	52	—	57
Charge for the year	(4)	(3)	(13)	(72)	—	(92)
<b>At 31 December 1994</b>	<b>(7)</b>	<b>(5)</b>	<b>(109)</b>	<b>(513)</b>	<b>—</b>	<b>(634)</b>
Net book value						
At 31 December 1994	453	85	66	281	—	885
At 31 December 1993	403	93	71	241	—	808

Notes to the Accounts (continued)

22. Tangible fixed assets (continued)

(a) Movements on tangible fixed assets (continued)

At 30 November 1995, the freehold and long leasehold (50 years and over unexpired) premises of Midland were revalued by external and internal valuers, all of whom are members of the Royal Institution of Chartered Surveyors. The basis of valuation was existing use value, except for certain specialised properties which were valued on the basis of depreciated replacement cost.

The Directors have reviewed the results of the 1995 property valuation to identify premises where a permanent diminution in value has occurred. This review took into account the expected future business use and the likely timescales for recovery of values over the longer term, based on the advice of external valuers. £6 million has been charged to the profit and loss account and is included in 'Depreciation and amortisation' as a result of newly identified permanent diminutions. Permanent diminutions in value amounting to £91 million for Midland and £26 million for the Bank which were previously considered to be temporary have been identified and transferred from the revaluation reserve to the profit and loss account reserve. After deducting the net surplus attributable to minority interests the remaining deficit on revaluation of £31 million for Midland and £28 million for the Bank is not considered to be permanent in nature and is accordingly included in the revaluation reserve.

(b) Assets held under finance leases

The net book amount of equipment, fixtures and fittings included assets held under finance leases of £27 million (1994 £21 million) for Midland and the Bank, on which the depreciation charge was £13 million (1994 £11 million).

(c) Valuations

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

	Midland		Bank	
	1995 £m	1994 £m	1995 £m	1994 £m
At valuation	698	647	480	467
At cost	—	106	—	83
	<u>698</u>	<u>753</u>	<u>480</u>	<u>550</u>

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

	Midland		Bank	
	1995 £m	1994 £m	1995 £m	1994 £m
Cost	738	746	473	497
Accumulated depreciation	(43)	(38)	(42)	(38)
Provision for permanent diminution in value	(132)	(35)	(67)	(61)
Net book value	<u>563</u>	<u>673</u>	<u>364</u>	<u>398</u>

(d) Land and buildings occupied for own activities

Net book value	<u>675</u>	<u>741</u>	<u>525</u>	<u>588</u>
----------------	------------	------------	------------	------------

Of the land and buildings which are not occupied for own activities, premises with a net book value of £77 million (1994 £64 million) are occupied by other members of the HSBC Group.

Notes to the Accounts (continued)

23. Other assets

	Midland		Bank	
	1995 £m	1994 £m	1995 £m	1994 £m
Assets, including gains, resulting from off-balance-sheet interest rate and exchange rate contracts which are marked to market	11,407	7,217	10,969	7,008
Bullion	150	89	150	89
Deferred tax asset	—	—	52	51
Long-term assurance net assets attributable to policyholders	1,534	1,198	—	—
Other	1,427	1,177	802	520
	<u>14,518</u>	<u>9,681</u>	<u>11,973</u>	<u>7,668</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			87	77
Fellow subsidiary undertakings	<u>1,153</u>	<u>1,004</u>	<u>1,151</u>	<u>1,004</u>

"Other" includes the surplus retained in long-term assurance funds and the net present value of policies in force, which form part of the long-term assurance business as follows:

	Midland	
	1995 £m	1994 £m
Net tangible assets of Midland Life Limited	78	64
Surplus retained in long-term assurance funds and net present value of policies in force	139	111
Total long-term assurance business attributable to shareholders	<u>217</u>	<u>175</u>

The net present value of policies in force is determined in consultation with qualified actuaries, using a discount rate of 12.5% (1994 15%). 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 (1994 £62 million) before tax and £49 million (1994 £41 million) after tax.

Notes to the Accounts (continued)

23. Other assets (continued)

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

	1995 £m	1994 £m
Assets		
Loans and advances to banks	238	309
Debt securities	730	671
Equity shares	503	356
Other assets	610	367
Prepayments and accrued income	22	24
	<u>2,103</u>	<u>1,727</u>
Liabilities		
Other liabilities	(569)	(529)
	<u>1,534</u>	<u>1,198</u>
Long-term assurance net assets attributable to policyholders		

24. Deposits by banks

	Midland		Bank	
	1995 £m	1994 £m	1995 £m	1994 £m
Repayable on demand	4,045	3,527	2,992	2,863
With agreed maturity dates or periods of notice				
Remaining maturity				
—3 months or less but not repayable on demand	9,578	8,282	9,462	7,817
—1 year or less but over 3 months	1,057	1,290	1,110	1,509
—5 years or less but over 1 year	187	241	270	116
—over 5 years	285	328	219	220
	<u>11,107</u>	<u>10,141</u>	<u>11,061</u>	<u>9,662</u>
	<u>15,152</u>	<u>13,668</u>	<u>14,053</u>	<u>12,525</u>
Deposits by banks include amounts due to:				
Subsidiary undertakings			2,605	1,448
Fellow subsidiary undertakings	808	1,059	763	968



## Notes to the Accounts (continued)

## 25. Customer accounts

	Midland		Bank	
	1995 £m	1994 £m	1995 £m	1994 £m
Repayable on demand	34,551	31,054	29,149	26,203
With agreed maturity dates or periods of notice				
Remaining maturity				
—3 months or less but not repayable on demand	11,793	10,517	11,666	11,280
—1 year or less but over 3 months	1,881	1,582	1,998	2,736
—5 years or less but over 1 year	827	1,070	1,333	1,390
—over 5 years	565	334	635	332
	15,066	13,503	15,632	15,738
	49,617	44,557	44,781	41,941
Customer accounts include amounts due to:				
Subsidiary undertakings			1,457	3,098
Fellow subsidiary undertakings	307	245	200	164
Parent undertaking	1,873	809	1,813	809

## 26. Debt securities in issue

	Midland		Bank	
	1995 £m	1994 £m	1995 £m	1994 £m
Bonds and medium term notes				
Repayable				
—within one year	111	24	—	—
—between 1 and 2 years	35	101	—	—
—between 2 and 5 years	189	126	—	—
—in 5 years or more	251	370	—	—
	586	621	—	—
Other debt securities in issue				
Remaining maturity				
—3 months or less	894	1,317	851	1,267
—1 year or less but over 3 months	249	311	233	193
—5 years or less but over 1 year	297	126	166	113
—over 5 years	10	—	10	—
	1,450	1,754	1,260	1,573
	2,036	2,375	1,260	1,573

Notes to the Accounts (continued)

27. Other liabilities

	Midland		Bank	
	1995 £m	1994 £m	1995 £m	1994 £m
Short positions in securities				
Treasury bills and similar securities	176	90	176	90
Debt securities				
—government securities	1,494	1,366	588	454
—other public sector securities	62	31	62	31
—issued by other bodies	207	205	202	205
Equity shares	450	366	—	—
	<u>2,389</u>	<u>2,058</u>	<u>1,028</u>	<u>780</u>
Liabilities, including losses, resulting from off-balance-sheet interest rate and exchange rate contracts which are marked to market	11,986	6,876	11,375	6,633
Taxation	420	397	262	277
Obligations under finance leases	59	103	16	21
Dividends	150	200	150	200
Long-term assurance net assets attributable to policyholders (Note 23)	1,534	1,198	—	—
Other	1,206	1,083	801	662
	<u>17,744</u>	<u>11,915</u>	<u>13,632</u>	<u>8,573</u>
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			100	52
Fellow subsidiary undertakings	1,016	520	1,011	518

Obligations under finance leases fall due as follows:

	Midland		Bank	
	1995 £m	1994 £m	1995 £m	1994 £m
Within 1 year	33	55	7	12
1 to 5 years	35	69	12	18
Over 5 years	—	1	—	1
	<u>68</u>	<u>125</u>	<u>19</u>	<u>31</u>
Less future finance charges	(9)	(22)	(3)	(10)
	<u>59</u>	<u>103</u>	<u>16</u>	<u>21</u>

Notes to the Accounts (continued)

28. Provisions for liabilities and charges

(a) Deferred taxation provisions

	Midland £m	Bank £m		
At 1 January 1995	107	(51)		
Effect of foreign exchange rate and other movements	(21)	—		
Charge/(credit) to profit and loss account	51	(1)		
At 31 December 1995	137	(52)		
Included in "Provisions for liabilities and charges"	137	—		
Included in "Other assets" (Note 23)	—	(52)		
	137	(52)		
	Midland £m	Bank £m		
At 1 January 1994	154	8		
Effect of foreign exchange rate and other movements	14	7		
Charge/(credit) to profit and loss account	(61)	(66)		
At 31 December 1994	107	(51)		
Included in "Provisions for liabilities and charges"	107	—		
Included in "Other assets" (Note 23)	—	(51)		
	107	(51)		
	Unprovided deferred tax/(relief) 1995 £m	Provided in accounts 1995 £m	Unprovided deferred tax/(relief) 1994 £m	Provided in accounts 1994 £m
Midland				
Short-term timing differences	(23)	24	(35)	18
Accelerated capital allowances	(7)	(4)	(8)	(3)
Leasing transactions	63	209	63	190
Advance corporation tax	(12)	(80)	(15)	(79)
Other items	(28)	(12)	(39)	(19)
	(7)	137	(34)	107
Bank				
Short-term timing differences	(23)	(27)	(35)	(20)
Accelerated capital allowances	(7)	—	(8)	(1)
Other items	(16)	(25)	(24)	(30)
	(46)	(52)	(67)	(51)

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.

Notes to the Accounts (continued)

28. Provisions for liabilities and charges (continued)

(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
<b>Midland</b>					
At 1 January 1995	73	45	102	38	258
Effect of foreign exchange rate and other movements	3	—	1	—	4
Charge/(credit) to profit and loss account	32	—	27	(8)	51
Provisions utilised	(9)	—	(46)	(11)	(66)
<b>At 31 December 1995</b>	<b>99</b>	<b>45</b>	<b>84</b>	<b>19</b>	<b>247</b>
<b>Bank</b>					
At 1 January 1995	30	45	98	38	211
Effect of foreign exchange rate and other movements	(1)	—	—	—	(1)
Charge/(credit) to profit and loss account	21	—	22	(8)	35
Provisions utilised	(3)	—	(43)	(11)	(57)
<b>At 31 December 1995</b>	<b>47</b>	<b>45</b>	<b>77</b>	<b>19</b>	<b>188</b>
	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
<b>Midland</b>					
At 1 January 1994	56	—	112	49	217
Effect of foreign exchange rate and other movements	2	—	(1)	—	1
Reclassification	—	8	—	—	8
Charge/(credit) to profit and loss account	24	37	13	(5)	69
Provisions utilised	(9)	—	(22)	(6)	(37)
<b>At 31 December 1994</b>	<b>73</b>	<b>45</b>	<b>102</b>	<b>38</b>	<b>258</b>
<b>Bank</b>					
At 1 January 1994	16	—	107	49	172
Effect of foreign exchange rate and other movements	1	—	1	—	2
Reclassification	—	8	—	—	8
Charge/(credit) to profit and loss account	18	37	12	(5)	62
Provisions utilised	(5)	—	(22)	(6)	(33)
<b>At 31 December 1994</b>	<b>30</b>	<b>45</b>	<b>98</b>	<b>38</b>	<b>211</b>

Notes to the Accounts (continued)

29. Subordinated liabilities

	Midland		Bank	
	1995 £m	1994 £m	1995 £m	1994 £m
Dated loan capital is repayable as follows:				
Within one year	2	—	—	—
1 to 2 years	—	83	—	—
2 to 5 years	575	533	—	—
Over 5 years	1,255	874	997	603
	<u>1,832</u>	<u>1,490</u>	<u>997</u>	<u>603</u>

Subordinated borrowings which exceeded £100 million were as follows:

		1995 £m	1994 £m
<b>Bank</b>			
£250m	Subordinated Unsecured Floating Rate Notes 2001	250	250
£100m	14% Subordinated Unsecured Loan Stock 2002/07	100	100
£200m	9% Subordinated Notes 2005	200	—
US\$750m	Undated Floating Rate Primary Capital Notes	483	480
US\$500m	Undated Floating Rate Primary Capital Notes	322	320
US\$300m	Undated Floating Rate Primary Capital Notes (Series 3)	193	192
US\$300m	7.65% Subordinated Notes 2025	192	—
US\$400m	8% Subordinated Notes 2004	255	253
		<u>1,995</u>	<u>1,595</u>
<b>Subsidiary undertakings*</b>			
DM300m	Guaranteed Floating Rate Notes 1986/98	135	124
US\$200m	Guaranteed Floating Rate Notes 1999	129	128
		<u>2,259</u>	<u>1,847</u>

\*Issued 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 London Interbank Offered Rates; on the remaining subordinated loan capital, interest is payable at fixed rates between 6.25% and 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.

A total of £634 million (1994 £703 million) of dated loan capital was issued by subsidiary undertakings under the Bank's subordinated guarantee and on-lent to the Bank on a subordinated basis.

Notes to the Accounts (continued)

30. Called up share capital

(a) Authorised 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-1994 and 1995	150	1	1,000	1,151
Issued, allotted and fully paid share capital	—	—	797	797

(b) Issued, allotted and fully paid share capital

The issued, allotted and fully paid share capital of the Bank comprises 796,903,201 ordinary shares of nominal value £1 each, 20,000,000 Series A, 14,000,000 Series B and 16,000,000 Series C US\$ non-cumulative preference shares of nominal value US\$0.01 each and one preferred ordinary share of nominal value £1.

On 23 February 1995 the Bank issued 14,000,000 Series B non-cumulative preference shares which comprise 7,000,000 Series B1 and 7,000,000 Series B2 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.

On 26 October 1995 the Bank issued 16,000,000 Series C non-cumulative preference shares which comprise 8,000,000 Series C1 and 8,000,000 Series C2 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 issues were 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 and Series C1 preference shares, and US\$ 5 per share, in the case of the Series A2, Series B2 and Series C2 preference shares, plus an amount equal to any dividends declared but unpaid in respect of the previous dividend 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 and Series C2 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 and Series C1 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 the Series A1, Series B1 or Series C1 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.

Notes to the Accounts (continued)

30. Called up share capital (continued)

(b) Issued, allotted and fully paid share capital (continued)

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 made up to 26 October 2005.

31. Reserves

Movements on reserves were as follows:

	Midland £m	Bank £m	Associated undertakings £m
Share premium account			
At 1 January 1995	1,219	1,219	—
New share capital subscribed	233	233	—
At 31 December 1995	1,452	1,452	—
Revaluation reserves			
At 1 January 1995	(97)	48	—
Effect of foreign exchange rate and other movements	1	1	—
Revaluation of interests in subsidiary and associated undertakings	—	178	—
Deficit on revaluation of freehold and long leasehold premises	(26)	(29)	—
Permanent property revaluation deficits transferred to profit and loss account	91	26	—
Realisation of revaluation reserve transferred to profit and loss account	—	(11)	—
At 31 December 1995	(31)	213	—
Profit and loss account			
At 1 January 1995	939	794	19
Effect of foreign exchange rate and other movements	43	2	(4)
Retained profit for the financial year	138	(4)	1
Goodwill on acquisition of subsidiary and associated undertakings	(8)	—	—
Permanent property revaluation deficits transferred from revaluation reserves	(91)	(26)	—
Realisation of revaluation reserve transferred from revaluation reserve	—	11	—
At 31 December 1995	1,021	777	16

Notes to the Accounts (continued)

31. Reserves (continued)

	Midland £m	Bank £m	Associated undertakings £m
Share premium account			
At 1 January 1994	1,226	1,226	—
Effect of foreign exchange rate movements	(7)	(7)	—
At 31 December 1994	<u>1,219</u>	<u>1,219</u>	<u>—</u>
Revaluation reserves			
At 1 January 1994	(97)	(20)	—
Effect of foreign exchange rate and other movements	3	—	—
Revaluation of interests in subsidiary and associated undertakings	—	68	—
Realisation of net property revaluation deficits transferred to profit and loss account	(3)	—	—
At 31 December 1994	<u>(97)</u>	<u>48</u>	<u>—</u>
Profit and loss account			
At 1 January 1994	744	667	127
Effect of foreign exchange rate and other movements	13	1	2
Partial disposal and reclassification of residual investment in 3i Group plc	—	—	(128)
Retained profit for the financial year	182	126	18
Goodwill written off	(3)	—	—
Realisation of net property revaluation surpluses transferred from revaluation reserves	3	—	—
At 31 December 1994	<u>939</u>	<u>794</u>	<u>19</u>

The cumulative amount of goodwill written off in Midland's reserves is £85 million (1994 £77 million).

The reserves of the Bank include distributable reserves of £775 million (1994 £794 million).



Notes to the Accounts (continued)

32. Analysis of total assets and liabilities

(a) Assets and liabilities denominated in foreign currency

	Midland		Bank	
	1995	1994	1995	1994
	£m	£m	£m	£m
Sterling	50,947	47,718	48,223	44,886
Currencies other than sterling	42,680	32,657	32,800	25,797
Total assets	93,627	80,375	81,023	70,683
Sterling	51,374	47,659	48,328	44,772
Currencies other than sterling	42,253	32,716	32,695	25,911
Total liabilities	93,627	80,375	81,023	70,683

(b) Assets subject to sale and repurchase transactions

	Midland		Bank	
	1995	1994	1995	1994
	£m	£m	£m	£m
Total assets subject to sale and repurchase transactions	2,049	1,649	1,565	1,360

(c) Assets leased to customers

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

	Midland	
	1995	1994
	£m	£m
Finance leases		
—loans and advances to banks	—	36
—loans and advances to customers	1,510	1,504
Hire purchase agreements		
—loans and advances to customers	695	690
Operating leases		
—tangible fixed assets	275	258
	2,480	2,488

The cost of assets acquired by Midland during the year for the purpose of letting under finance leases and hire purchase contracts amounted to £406 million (1994 £259 million) and £551 million (1994 £574 million), respectively.

Notes to the Accounts (continued)

32. 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	
	1995 £m	1994 £m
Deposits by banks	1,355	753
Customer accounts	4	300
Debt securities in issue	40	39
	<u>1,399</u>	<u>1,092</u>

The amount of assets pledged to secure these liabilities was £6,790 million (1994 £4,091 million).

Notes to the Accounts (continued)

33. Memorandum items and foreign exchange and interest rate contracts

Midland

	Contract amount 1995 £m	Credit equivalent amount 1995 £m	Risk-weighted amount 1995 £m	Contract amount 1994 £m	Credit equivalent amount 1994 £m	Risk-weighted amount 1994 £m
Contingent liabilities						
Acceptances and endorsements	772	771	762	343	343	342
Guarantees and assets pledged as collateral security						
—guarantees and irrevocable letters of credit	6,607	5,269	3,275	5,504	4,698	2,976
Other contingent liabilities	130	—	—	152	22	3
	<u>7,509</u>	<u>6,040</u>	<u>4,037</u>	<u>5,999</u>	<u>5,063</u>	<u>3,321</u>
Commitments						
Other commitments						
—documentary credits and short-term trade-related transactions	708	262	143	693	139	107
—forward asset purchases and forward forward deposits placed	399	399	317	141	141	48
—undrawn note issuance and revolving underwriting facilities	73	37	37	172	86	86
—undrawn formal standby facilities, credit lines and other commitments to lend						
—over 1 year	9,393	4,697	3,579	8,195	4,097	3,027
—1 year or less	18,460	—	—	18,726	—	—
	<u>29,033</u>	<u>5,395</u>	<u>4,076</u>	<u>27,927</u>	<u>4,463</u>	<u>3,268</u>
Exchange rate contracts	<u>293,421</u>	<u>7,024</u>	<u>1,797</u>	<u>243,666</u>	<u>5,064</u>	<u>1,259</u>
Interest rate contracts	<u>595,060</u>	<u>8,678</u>	<u>2,003</u>	<u>746,448</u>	<u>6,010</u>	<u>1,527</u>
					1995 £m	1994 £m
Incurred on behalf of parent and fellow subsidiary undertakings (contract amount)						
—contingent liabilities					<u>95</u>	<u>105</u>

## Notes to the Accounts (continued)

## 33. Memorandum items and foreign exchange and interest rate contracts (continued)

## Bank

	Contract amount 1995 £m	Credit equivalent amount 1995 £m	Risk- weighted amount 1995 £m	Contract amount 1994 £m	Credit equivalent amount 1994 £m	Risk- weighted amount 1994 £m
Contingent liabilities						
Acceptances and endorsements	606	605	605	141	141	140
Guarantees and assets pledged as collateral security						
—guarantees and irrevocable letters of credit	7,555	5,086	3,008	6,517	3,782	2,293
Other contingent liabilities	130	—	—	152	22	3
	<u>8,291</u>	<u>5,691</u>	<u>3,613</u>	<u>6,810</u>	<u>3,945</u>	<u>2,436</u>
Commitments						
Other commitments						
—documentary credits and short-term trade-related transactions	514	225	115	551	110	85
—forward asset purchases and forward deposits placed	88	88	22	86	86	17
—undrawn note issuance and revolving underwriting facilities	73	37	37	172	86	86
—undrawn formal standby facilities, credit lines and other commitments to lend						
—over 1 year	10,292	5,146	3,473	8,949	3,868	2,865
—1 year or less	16,661	—	—	16,983	—	—
	<u>27,628</u>	<u>5,496</u>	<u>3,647</u>	<u>26,741</u>	<u>4,150</u>	<u>3,053</u>
Exchange rate contracts	<u>282,491</u>	<u>6,683</u>	<u>1,705</u>	<u>228,960</u>	<u>4,775</u>	<u>1,178</u>
Interest rate contracts	<u>565,500</u>	<u>8,325</u>	<u>1,883</u>	<u>722,235</u>	<u>5,686</u>	<u>1,446</u>
					1995 £m	1994 £m
Incurred on behalf of subsidiary undertakings (contract amount)						
—contingent liabilities					<u>1,367</u>	<u>1,587</u>
Incurred on behalf of parent and fellow subsidiary undertakings (contract amount)						
—contingent liabilities					<u>102</u>	<u>105</u>

33. Memorandum items and foreign exchange and interest rate contracts (continued)

The tables on the previous pages 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 depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments and from 0% to 50% for exchange rate and interest rate contracts.

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.

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, which excludes contracts made with other Midland counterparties, there are £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 which were made for trading purposes. The remaining exchange and interest rate contracts were made for non-trading purposes. In 1994, £243,595 million (Midland) and £228,888 million (Bank) contract amount of exchange rate contracts and £733,992 million (Midland) and £711,463 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.

Replacement cost of contracts

	Midland		Bank	
	1995	1994	1995	1994
	£m	£m	£m	£m
Exchange rate contracts	4,065	2,726	3,882	2,726
Interest rate contracts	7,478	4,625	7,259	4,343
	<u>11,543</u>	<u>7,351</u>	<u>11,141</u>	<u>7,069</u>

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.

34. 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 the ultimate resolution of any of the above matters.

Notes to the Accounts (continued)

35. Capital commitments

	Midland		Bank	
	1995 £m	1994 £m	1995 £m	1994 £m
Expenditure contracted for	29	150	29	150
Expenditure authorised by the Board, but not contracted for	18	49	17	42
	<u>47</u>	<u>199</u>	<u>46</u>	<u>192</u>

36. Operating lease commitments

Annual commitments under non-cancellable operating leases were:

	Midland		Bank	
	1995 £m	1994 £m	1995 £m	1994 £m
Premises				
Operating leases which expire				
—within 1 year	1	2	1	2
—1 to 5 years	7	7	7	7
—over 5 years	69	60	66	58
	<u>77</u>	<u>69</u>	<u>74</u>	<u>67</u>
Equipment				
Operating leases which expire				
—1 to 5 years	—	3	—	3
	<u>—</u>	<u>3</u>	<u>—</u>	<u>3</u>

Notes to the Accounts (continued)

37. 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. Similarly, profit/(loss) on ordinary activities before tax has been adjusted to reflect the value of shareholders' funds included in each segment. The analysis is based on the location of the office recording the transaction.

	United Kingdom £m	Continental Europe £m	United States £m	Rest of the World £m	Total £m
1995					
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	5,376	937	134	192	6,639
Profit/(loss) 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
1994					
Gross income					
Interest receivable	3,501	586	122	71	4,280
Dividend income	5	5	—	—	10
Fees and commissions receivable	1,045	122	13	2	1,182
Dealing profits	43	24	(34)	—	33
Other operating income	164	8	—	—	172
Total gross income	4,758	745	101	73	5,677
Profit/(loss) on ordinary activities before tax	870	78	(41)	(2)	905
Net assets	2,315	341	101	101	2,858
Total assets	64,741	10,829	2,875	1,930	80,375
1993					
Gross income					
Interest receivable	3,835	658	104	42	4,639
Dividend income	19	2	—	—	21
Fees and commissions receivable	1,030	120	17	3	1,170
Dealing profits	425	110	41	33	609
Other operating income	146	(10)	—	5	141
Total gross income	5,455	880	162	83	6,580
Profit/(loss) on ordinary activities before tax	802	(9)	20	31	844
Net assets	2,214	309	51	96	2,670
Total assets	62,477	8,981	3,637	1,378	76,473

Notes to the Accounts (continued)

37. Segmental analysis (continued)

(b) By class of business

	Commercial Banking £m	Forward Trust Group £m	Investment Banking £m	Total £m
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
1994				
Profit on ordinary activities before tax	823	82	—	905
Net assets	2,575	283	—	2,858
Total assets	76,181	4,194	—	80,375
1993				
Profit on ordinary activities before tax	740	61	43	844
Net assets	2,401	269	—	2,670
Total assets	72,302	4,171	—	76,473

In accordance with the exemption provided by SSAP 25, no segmental analysis of turnover is provided.

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

(a) Directors and Officers

The aggregate amounts outstanding at 31 December 1995 from those who were Directors (including connected persons) or Officers of the Bank during the year, and the number of persons concerned, were:

	Aggregate amount outstanding 1995 £'000	Number of persons 1995
Directors		
—loans	81	4
—quasi-loans and guarantees	19	9
Officers		
—loans	553	9
—quasi-loans and guarantees	33	13

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) Related parties

In the normal course of business, Midland maintains on-balance-sheet and off-balance-sheet accounts and conducts transactions with other members of the HSBC Group. This business is conducted at prevailing market rates and terms and includes deposits taken and placed and interest rate and foreign exchange swaps.



Notes to the Accounts (continued)

39. Ultimate parent company

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

The Bank is a direct, wholly-owned subsidiary undertaking of HSBC Holdings plc, the only undertaking for which consolidated accounts which include the consolidated accounts of Midland are drawn up.

**2. THE BANK'S AUDITED STATEMENT OF CONSOLIDATED CASH FLOWS FOR THE  
THREE YEARS ENDED 31 DECEMBER 1995**

The financial information set out in this section 2 has been extracted without material adjustment from the consolidated financial statements in the Bank's Annual Report on Form 20-F to the Securities and Exchange Commission for the year ended 31 December 1995. The consolidated financial statements, which were prepared in accordance with applicable UK accounting standards, were reported on by the Bank's auditors, KPMG, Chartered Accountants and Registered Auditors, of 8 Salisbury Square, London EC4Y 8BB, without qualification.

Statement of consolidated cash flows

	Note	1995 £m	1994 £m	1993 £m
Net cash inflow from operating activities	a	59	984	1,233
<b>Returns on investments and servicing of finance</b>				
Income received on investment securities		328	255	109
Dividends received from associated undertakings		5	10	9
Interest paid on finance leases and similar hire purchase contracts		(7)	(9)	(18)
Ordinary dividends paid		(500)	(400)	(200)
Preference dividends paid		(20)	(12)	(3)
Dividends paid to minority interests		(6)	(4)	(5)
Interest paid on loan capital		(188)	(130)	(144)
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>(388)</b>	<b>(290)</b>	<b>(252)</b>
<b>Taxation</b>				
UK Corporation tax		(233)	(70)	(19)
Overseas tax		(37)	(22)	(37)
<b>Total tax paid</b>		<b>(270)</b>	<b>(92)</b>	<b>(56)</b>
<b>Investing activities</b>				
Purchase of investment securities		(2,699)	(3,010)	(3,498)
Proceeds from disposals of investment securities and amounts repaid		1,953	2,554	928
Purchase of interest in associated undertakings and other participating interests		(55)	(4)	(6)
Proceeds from sale of interest in associated undertakings and other participating interests		4	147	6
Purchase of tangible fixed assets		(353)	(372)	(216)
Proceeds from sale of tangible fixed assets		126	70	68
Purchase of subsidiary undertakings		(53)	—	—
<b>Net cash outflow from investing activities</b>		<b>(1,077)</b>	<b>(615)</b>	<b>(2,718)</b>
<b>Net cash outflow before financing activities</b>		<b>(1,676)</b>	<b>(13)</b>	<b>(1,793)</b>
<b>Financing</b>	d			
Issue of preference share capital		233	—	163
Loan capital issued		393	256	70
Loan capital repaid		(91)	(39)	(30)
<b>Net cash inflow from financing</b>		<b>535</b>	<b>217</b>	<b>203</b>
<b>(Decrease) increase in cash and cash equivalents</b>	b	<b>(1,141)</b>	<b>204</b>	<b>(1,590)</b>

Notes to the statement of consolidated cash flows

(a) Reconciliation of operating profit to net cash flow from operating activities

	1995 £m	1994 £m	1993 £m
Operating profit	922	785	764
Provisions for bad and doubtful debts	198	98	679
Net advances written off	(240)	(796)	(999)
Provisions for contingent liabilities and commitments	—	37	—
Change in value of long-term assurance funds and net present value of policies in force	(72)	(62)	(67)
Interest on loan capital	189	139	144
Depreciation and amortisation	195	188	168
Amounts written off fixed asset investments	1	5	26
Income receivable on investment securities	(287)	(272)	(226)
Interest paid on finance leases and similar hire purchase contracts	9	10	18
Net cash inflow from trading activities	915	132	507
Change in items in the course of collection from other banks	(456)	171	(81)
Change in treasury bills and other eligible bills	(2,009)	(936)	314
Change in loans and advances to banks	60	(1,993)	(2,360)
Change in loans and advances to customers	(5,023)	290	3,995
Change in deposits by banks	1,484	(3,121)	4,034
Change in customer accounts	5,060	4,059	(286)
Change in debt securities in issue	(339)	428	190
Change in debt securities and equity shares – dealing	(908)	1,310	(4,396)
Change in other assets	(5,169)	(1,290)	(1,072)
Change in other liabilities	6,329	1,954	572
Elimination of exchange movements and other non-cash movements	115	(20)	(184)
Net cash inflow from operating activities	59	984	1,233

(b) Analysis of changes in cash and cash equivalents during the year

	1995 £m	1994 £m	1993 £m
At 1 January	8,260	8,011	9,201
Net cash flow before the effect of foreign exchange rate and other movements	(1,141)	204	(1,590)
Effect of foreign exchange rate and other movements	177	45	400
At 31 December	7,296	8,260	8,011

Notes to the statement of consolidated cash flows (continued)

(c) Analysis of the balances of cash and cash equivalents as classified in the consolidated balance sheet

	1995 £m	1994 £m	1993 £m
Cash and balances at central banks	487	535	436
Treasury bills and other eligible bills	4,614	2,474	1,709
Loans and advances to banks	12,428	12,997	11,004
Total cash and short-term funds	17,529	16,006	13,149
Less balances included in cash and short-term funds with original maturity over three months	(10,878)	(8,844)	(6,036)
Add balances not included in cash and short-term funds with original maturity under three months	645	1,098	898
Total cash and cash equivalents	7,296	8,260	8,011

(d) Changes in financing during the year

	Share capital (including share premium)			Loan capital		
	1995 £m	1994 £m	1993 £m	1995 £m	1994 £m	1993 £m
Balance at 1 January	2,016	2,023	1,860	2,482	2,293	2,209
Issued during the year	233	—	163	393	256	70
Repaid during the year	—	—	—	(91)	(39)	(30)
Effect of foreign exchange rate and other movements	—	(7)	—	47	(28)	44
Balance at 31 December	2,249	2,016	2,023	2,831	2,482	2,293

(e) Disposal of subsidiary undertakings

	1993 £m
Net assets disposed of during the period	
Cash and cash equivalents	863
Short-term funds with original maturity over three months	257
Loans and advances to banks	—
Loans and advances to customers	897
Net intra-Midland balances	(1,021)
Debt securities and equity shares	1,325
Other assets	229
Deposits by banks and customer accounts	(1,604)
Debt securities in issue	(82)
Other liabilities	(613)
Accruals and deferred income	(32)
Provisions for liabilities and charges	
Deferred taxation	(3)
Minority interests	(15)
	201
Premiums on acquisition previously written off to reserves	46
Gain on sale of subsidiary undertakings	—
Loss on sale of subsidiary undertakings	—
Intra-HSBC Group balances arising on disposal/Proceeds of disposal	247

## PART IV

### GENERAL INFORMATION

#### 1. THE BANK

The Bank was constituted in England by Deed of Settlement dated 15 August 1836 under the name of "The Birmingham and Midland Bank". On 5 November 1873 it was registered in England as "The Birmingham and Midland Bank" under the Companies Act 1862 as a company without limited liability and on 1 July 1880 it was re-registered in England under the Companies Acts 1862 to 1879 with number 14259 as a company with limited liability under the name of "The Birmingham and Midland Bank Limited". In 1891, pursuant to the provisions of the Companies (Memorandum of Association) Act 1890, it adopted a memorandum and articles of association in substitution for the Deed of Settlement. The name of the Bank was changed on 28 September 1891 to "The London and Midland Bank, Limited", on 3 November 1898 to "The London, City and Midland Bank, Limited", on 1 October 1918 to "The London Joint City and Midland Bank Limited" and on 27 November 1923 to "Midland Bank Limited". On 1 February 1982 the Bank was re-registered as a public limited company under the Companies Acts 1948 to 1980 as "Midland Bank Public Limited Company".

The Bank's registered office is at Poultry, London EC2P 2BX and the Bank's head office is at 27/32 Poultry, London EC2P 2BX. The Bank operates under the Companies Act 1985 (the "Act").

#### 2. SHARE CAPITAL

2.1 The following table shows the authorised and issued share capital of the Bank at the date of this document:

	Authorised			
	£	No.	US\$	No.
Ordinary shares	999,999,999	999,999,999		
Sterling preference shares	150,000,000	150,000,000		
Dollar preference shares:				
Series A1			100,000	10,000,000
Series A2			100,000	10,000,000
Series B1			70,000	7,000,000
Series B2			70,000	7,000,000
Series C1			80,000	8,000,000
Series C2			80,000	8,000,000
Series D1			92,000	9,200,000
Series D2			92,000	9,200,000
Undesignated			1,316,000	131,600,000
		Issued		
Ordinary shares	796,903,202	796,903,202		
Sterling preference shares	—	—		
Dollar preference shares:				
Series A1			100,000	10,000,000
Series A2			100,000	10,000,000
Series B1			70,000	7,000,000
Series B2			70,000	7,000,000
Series C1			80,000	8,000,000
Series C2			80,000	8,000,000
Series D1			80,000	8,000,000
Series D2			80,000	8,000,000

On 16 September 1993, one preferred ordinary share of £1 was created (as described in paragraph 2.2 below) and issued to HSBC.

The entire issued ordinary share capital of the Bank is beneficially owned by HSBC.

2.2 On 27 April 1989 the ordinary share capital of the Bank was increased to £1,150,000,000 by the creation of 250,000,000 ordinary shares of £1 each and 150,000,000 non-cumulative preference shares of £1 each and US\$250,000,000 by the creation of 2,500,000 non-cumulative preference shares of US\$100 each. On 2 October 1989 the then existing 2,500,000 authorised non-cumulative preference shares of US\$100 each were subdivided into 10,000,000 non-cumulative preference shares of US\$25 each and the authorised share capital of the Bank was increased by a further US\$250,000,000 by the creation of 10,000,000 non-cumulative preference shares of US\$25 each. On 27 August 1993 the US\$500,000,000 non-cumulative preference share capital was diminished to US\$2,000,000 by the cancellation of 19,920,000 non-cumulative preference shares and the sub-division of the remaining 80,000 non-cumulative preference shares of US\$25 each into 200,000,000 non-cumulative preference shares of US\$0.01 each. On 16 September 1993 the 1,000,000,000 ordinary shares of £1 each were redesignated as 999,999,999 ordinary shares of £1 each and one preferred ordinary share of £1.

2.3 The power of the Directors of the Bank to allot relevant securities and equity securities (as respectively defined under the Act) is subject to certain conditions laid down in the Act.

By resolutions of the Bank passed on 5 May 1992, the Directors were authorised pursuant to section 80 of the Act to allot relevant securities up to an aggregate nominal amount of £215,090,622, and, in addition, sterling preference shares up to an aggregate nominal value of £150,000,000 and dollar preference shares up to an aggregate nominal value of US\$500,000,000 during the period expiring on 4 May 1997.

By a resolution of the Bank passed on 16 September 1993, the Directors were generally empowered in accordance with section 95 of the Act to allot equity securities pursuant to the authorities referred to above (and the authority contained in the Articles) as if section 89(1) of the Act did not apply to such allotment, such power expiring on 4 May 1997 (although the Bank may make an offer or agreement which would or might require equity securities to be allotted after such date and the Directors may allot equity securities in pursuance thereof).

2.4 On 4 October 1993, 10,000,000 Series A1 dollar preference shares and 10,000,000 Series A2 dollar preference shares were issued at \$20 and \$5 per share respectively.

On 23 February 1995, 7,000,000 Series B1 dollar preference shares and 7,000,000 Series B2 dollar preference shares were issued at \$20 and \$5 per share respectively.

On 26 October 1995, 8,000,000 Series C1 dollar preference shares and 8,000,000 Series C2 dollar preference shares were issued at \$20 and \$5 per share respectively.

On 31 May 1996, one ordinary share was issued at a premium of £199,999,999.

On 24 July 1996, 8,000,000 Series D1 dollar preference shares and 8,000,000 Series D2 dollar preference shares were issued at \$20 and \$5 per share respectively.

Save as mentioned above, during the three years immediately preceding the date of this document there has been no issue of shares of the Bank and no material issue of shares of any of its subsidiaries (other than intra-group issues by wholly-owned subsidiaries and pro rata issues by partly-owned subsidiaries).

At the date of this document, there are approximately 203 million ordinary shares authorised but unissued, representing approximately 20 per cent of the authorised ordinary share capital; 150 million sterling preference shares authorised and unissued, representing 100 per cent of the authorised sterling preference share capital and 131.6 million dollar preference shares authorised but unissued, representing 65.8 per cent of the authorised dollar preference share capital.

## 2.5 Options

No unissued share or loan capital of the Bank or of any other member of Midland is under option or is agreed conditionally or unconditionally to be put under option.

## 3. SHARE RIGHTS

The principal characteristics of the various classes of shares in the capital of the Bank are as follows:

### 3.1 Ordinary Shares

#### 3.1.1 Rights to Dividend and Capital

Subject to the rights, if any, of any other class of shares for the time being issued, (i) the profits of the Bank which the Directors may determine to be distributed in respect of any financial

year and approved by the members in general meeting shall be distributed amongst the holders of the ordinary shares for the time being in issue according to the amounts credited as paid up thereon other than amounts paid in advance of calls; and, (ii) on a winding up of the Bank, the surplus assets of the Bank remaining after payment of its liabilities shall (subject as aforesaid) be distributed amongst the holders of the ordinary shares according to the amount paid up thereon.

### 3.1.2 Voting Rights

On a show of hands every holder of ordinary shares present in person (or a corporation duly represented) shall have one vote and on a poll every holder of ordinary shares present in person or by proxy or representative shall have one vote in respect of every ordinary share of which he is the holder provided that (i) all calls or other sums payable by him in respect of all ordinary shares held by him have been paid; and (ii) the Directors have not resolved that he be debarrd from voting in respect of ordinary shares in relation to which a notice requiring disclosure of interests has been issued but not complied with.

## 3.2 Sterling Preference Shares and Dollar Preference Shares (together "preference shares")

### 3.2.1 Priority

The preference shares rank as regards repayment of capital in a winding up and as regards income in priority to the ordinary shares. The sterling preference shares and the dollar preference shares rank *pari passu inter se* and with all other shares expressed to rank *pari passu* therewith.

### 3.2.2 Right to Dividend

The preference shares carry the right to a non-cumulative preferential dividend payable at a rate (whether fixed or variable) to be determined by the Directors before allotment, which is, in the case of dollar preference shares, payable in US dollars.

All or any of the following provisions may apply in relation to any particular preference shares ("relevant preference shares") if the terms of issue of those shares, as determined by the Directors, so provide:

3.2.2.1 in the event that the distributable profits of the Bank are, in the opinion of the Directors, insufficient to pay in full a dividend due on the relevant preference shares on a particular date (the "relevant date"), then either (i) none of such dividend shall be payable, or (ii) such profits as are available (after providing for any prior ranking dividends payable on or before the relevant date) shall be distributed *pro rata* among holders of the relevant preference shares and any other shares which rank *pari passu* with the relevant preference shares and on which a dividend is payable on the relevant date or arrears of cumulative dividend are unpaid at the relevant date;

3.2.2.2\* no dividend will be payable on the relevant preference shares if, in the judgement of the Directors, the payment of the dividend would breach, or cause a breach of, the Bank of England's capital adequacy requirements applicable to the Bank and/or any of its subsidiaries;

3.2.2.3 in the event that no dividend is payable for the reasons specified in paragraphs 3.2.2.1 or 3.2.2.2. above, the Bank may, if sufficient reserves are available for the purpose, allot the holders of the relevant preference shares further preference shares of a nominal amount related to the cash amount of the dividends which has not been paid on a basis which is to be determined by the Directors before allotment of the relevant preference shares (and will, in practice, take account of the absence of the tax credit which would normally attach to the dividend). If there is insufficient unissued preference share capital available, or insufficient authority under section 80 of the Act to enable further preference shares to be allotted, the Directors will convene an extraordinary general meeting of the Bank to which will be put a resolution or resolutions to create further preference shares and to give the Directors appropriate authority to allot those shares. Any further preference shares so allotted will carry the same rights as the existing preference shares in respect of which they are allotted. If there is insufficient capital available to issue additional dollar preference shares, but sufficient to issue sterling preference shares of equal nominal value, the Bank shall allot to the holders of the dollar preference shares additional sterling preference shares. The additional sterling preference shares shall,



as far as practicable, carry equivalent rights to those the dollar preference shares would have conferred on their holders;

3.2.2.4 if a dividend on the relevant preference shares is not paid in full (or a sum is not set aside for such payment), the Bank may not redeem, purchase or otherwise acquire any other share capital of the Bank ranking *pari passu* with or after the relevant preference shares until such time as dividends on the relevant preference shares have been paid (or provided for) in full in respect of such period as shall be determined by the Directors prior to the allotment of the relevant preference shares;

3.2.2.5 if a dividend on the relevant preference shares is not paid in full (or a sum is not set aside for such payment), no dividend (other than a *pro rata* dividend declared and paid on *pari passu* shares as described in paragraph 3.2.2.1 above) may thereafter be declared or paid on any shares ranking *pari passu* with or after the relevant preference shares until such time as dividends on the relevant preference shares have been paid (or provided for) in full in respect of the then-current dividend period.

### 3.2.3 Right to Capital

The preference shares carry the right upon a return of capital on a winding up of the Bank or otherwise (but not, unless otherwise provided by their terms of issue, on a redemption or purchase by the Bank of any of its share capital) to the repayment of the capital paid up on the preference shares together with any premium determined by the Directors before allotment, and to an amount equal to (i) accruals of dividend since the end of the most recent dividend period plus (ii) any dividends declared but unpaid in respect of the previous dividend period.

### 3.2.4 Redemption and Purchase

Unless the Directors shall before allotment of any particular dollar preference shares determine that such shares shall not be redeemable, dollar preference shares will be redeemable at the option of the Bank on any date falling more than five, ten, fifteen or twenty years after the date of allotment (to be determined by the Directors prior to the allotment of the first dollar preference shares in the relevant series of dollar preference shares, provided that, in relation to any series of dollar preference shares allotted after the coming into force of section 133 of the Companies Act 1989, the Directors may fix the date or dates on which the shares of such series may be redeemed). On redemption there will be paid on each redeemable dollar preference share in US dollars the aggregate of the nominal amount thereof and any premium paid on issue. Should redemption be made between the fifth and tenth anniversary of the allotment of the dollar preference shares to be redeemed, a dividend on redemption may be payable and, if so, such dividend must be paid before the shares are redeemed. This dividend will be calculated in accordance with one of a number of formulae set out in the Articles of Association as may be determined by the Directors prior to the date of allotment of the relevant series of dollar preference shares.

Unless the Directors shall before allotment of any particular sterling preference shares determine that such shares shall not be redeemable, sterling preference shares will be redeemable at the option of the Bank on any date falling more than twenty-five years after the first date of allotment of sterling preference shares of the relevant series, provided that in relation to any series of sterling preference shares allotted after the coming into force of section 133 of the Companies Act 1989, the Directors may fix the date or dates on which the shares of such series may be redeemed. On redemption there shall be paid on each sterling preference share the aggregate of the nominal amount of each sterling preference share, any accrued dividend, and any premium paid on issue.

The Bank is also to be entitled (if it obtains the necessary powers by resolution in general meeting) to purchase preference shares in the market, by tender to all holders of relevant preference shares alike or by private treaty.

### 3.2.5 Restriction on Capitalisation Issues

If so determined by the Directors prior to allotment of any particular preference shares, class consent of the holders of those shares will be required if the Directors propose to effect a capitalisation issue and, following that issue, the profits of the Bank available for distribution would be less than a multiple, determined by the Directors before allotment of those shares, of the annual dividends payable (exclusive of any tax credit) on those preference shares and on any other shares ranking *pari passu* with, or in priority to, those preference shares.

### 3.2.6 Variation of Rights

The rights attached to the preference shares are deemed to be varied by the creation and issue of shares ranking as regards participation in profits or assets in priority to such preference shares, but shall not, unless otherwise provided by their terms of issue, be deemed to be varied:

- (i) by the creation or issue of further shares in the Bank ranking in some or all respects *pari passu* with, or after, the preference shares; or
- (ii) by a redemption or purchase by the Bank of any of its share capital.

### 3.3 Series A Dollar Preference Shares

The terms and conditions of the Series A1 Dollar Preference Shares and the Series A2 Dollar Preference Shares are identical to those of the Series B1 Dollar Preference Shares and the Series B2 Dollar Preference Shares except that:

- (i) the dividend payable on each Series A1 dollar preference share on any dividend payment date will be fixed at the amount which, when annualised, will be equal to US\$1.42 (exclusive of any A1 UK Associated Tax Credit (as defined below)) (such annualised amount being equal to 7.1% of the liquidation value thereof (being US\$20)) (the "A1 Dividend");
- (ii) the dividend payable on each Series A2 dollar preference share on any dividend payment date (the "A2 Dividend") will be fixed at such rate per annum of the liquidation value thereof (being US\$5) as will ensure the sum of: (i) the A1 Dividend payable on such Dividend Payment Date, (ii) the UK Associated Tax Credit in respect of such A1 Dividend (the "A1 UK Associated Tax Credit"), (iii) the A2 Dividend (exclusive of any A2 UK Associated Tax Credit (as defined below)) payable on such Dividend Payment Date and (iv) the UK Associated Tax Credit in respect of such A2 Dividend (the "A2 UK Associated Tax Credit") will be equal to 8.875% of the aggregate of the liquidation value (the "Total Liquidation Value") of a Series A1 dollar preference share and a Series A2 dollar preference share (being US\$25); provided that no dividend will be payable on any Series A2 dollar preference share in the event that the sum of the A1 Dividend and the A1 UK Associated Tax Credit is greater than or equal to 8.875% of the Total Liquidation Value; and
- (iii) the Bank shall be entitled, subject to the provisions of applicable law, to redeem all or some only of the Series A dollar preference shares by giving to the holders of the Series A dollar preference shares to be redeemed prior notice in writing of a redemption date which falls no earlier than 5 October 1998.

Any such redemption shall be made at the redemption price of (i) US\$20 per share, in the case of the Series A1 dollar preference shares and (ii) US\$5 per share, in the case of the Series A2 dollar preference shares; provided that, in the case of the redemption of any or all of the Series A2 dollar preference shares, the Bank has paid, on or before the redemption date shown below, any special dividend due, if applicable, in respect of the shares to be redeemed as specified below:

Redemption Date	Special dividend per Series A2 dollar preference share US\$
5 October 1998 to 4 October 1999 inclusive	1.109375
5 October 1999 to 4 October 2000 inclusive	0.887500
5 October 2000 to 4 October 2001 inclusive	0.665625
5 October 2001 to 4 October 2002 inclusive	0.443750
5 October 2002 to 4 October 2003 inclusive	0.221875
On or after 5 October 2003	Nil

### 3.4 Series C Dollar Preference Shares

The terms and conditions of the Series C1 Dollar Preference Shares and the Series C2 Dollar Preference Shares are identical to those of the Series B1 Dollar Preference Shares and the Series B2 Dollar Preference Shares except that:

- (i) the dividend payable on each Series C1 dollar preference share on any dividend payment date will be fixed at the amount which, when annualised, will be equal to US\$1.46 (exclusive of any C1 UK Associated Tax Credit (as defined below)) (such annualised amount being equal to 7.3% of the liquidation value thereof (being US\$20)) (the "C1 Dividend");

- (ii) the dividend payable on each Series C2 dollar preference share on any dividend payment date (the "C2 Dividend") will be fixed at such rate per annum of the liquidation value thereof (being US\$5) as will ensure the sum of: (i) the C1 Dividend payable on such Dividend Payment Date, (ii) the UK Associated Tax Credit in respect of such C1 Dividend (the "C1 UK Associated Tax Credit"), (iii) the C2 Dividend (exclusive of any C2 UK Associated Tax Credit (as defined below)) payable on such Dividend Payment Date and (iv) the UK Associated Tax Credit in respect of such C2 Dividend (the "C2 UK Associated Tax Credit") will be equal to 9.125% of the aggregate of the liquidation value (the "Total Liquidation Value") of a Series C1 dollar preference share and a Series C2 dollar preference share (being US\$25); provided that no dividend will be payable on any Series C2 dollar preference share in the event that the sum of the C1 Dividend and the C1 UK Associated Tax Credit is greater than or equal to 9.125% of the Total Liquidation Value; and
- (iii) the Bank shall be entitled, subject to the provisions of applicable law, to redeem all or some only of the Series C dollar preference shares by giving to the holders of the Series C dollar preference shares to be redeemed prior notice in writing of a redemption date which falls no earlier than 27 October 2000.

Any such redemption shall be made at the redemption price of (i) US\$20 per share, in the case of the Series C1 dollar preference shares and (ii) US\$5 per share, in the case of the Series C2 dollar preference shares; provided that, in the case of the redemption of any or all of the Series C2 dollar preference shares, the Bank has paid, on or before the redemption date shown below, any special dividend due, if applicable, in respect of the shares to be redeemed as specified below:

Redemption Date	Special dividend per Series C2 dollar preference share US\$
27 October 2000 to 26 October 2001 inclusive	1.140625
27 October 2001 to 26 October 2002 inclusive	0.912500
27 October 2002 to 26 October 2003 inclusive	0.684375
27 October 2003 to 26 October 2004 inclusive	0.456250
27 October 2004 to 26 October 2005 inclusive	0.228125
On or after 27 October 2005	Nil

### 3.5 Series D Dollar Preference Shares

The terms and conditions of the Series D1 Dollar Preference Shares and the Series D2 Dollar Preference Shares are identical to those of the Series B1 Dollar Preference Shares and the Series B2 Dollar Preference Shares except that:

- (i) the dividend payable on each Series D1 dollar preference share on any dividend payment date will be fixed at the amount which, when annualised, will be equal to US\$1.528 (exclusive of any D1 UK Associated Tax Credit (as defined below)) (such annualised amount being equal to 7.64% of the liquidation value thereof (being US\$20)) (the "D1 Dividend");
- (ii) the dividend payable on each Series D2 dollar preference share on any dividend payment date (the "D2 Dividend") will be fixed at such rate per annum of the liquidation value thereof (being US\$5) as will ensure the sum of: (i) the D1 Dividend payable on such Dividend Payment Date, (ii) the UK Associated Tax Credit in respect of such D1 Dividend (the "D1 UK Associated Tax Credit"), (iii) the D2 Dividend (exclusive of any D2 UK Associated Tax Credit (as defined below)) payable on such Dividend Payment Date and (iv) the UK Associated Tax Credit in respect of such D2 Dividend (the "D2 UK Associated Tax Credit") will be equal to 9.55% of the aggregate of the liquidation value (the "Total Liquidation Value") of a Series D1 dollar preference share and a Series D2 dollar preference share (being US\$25); provided that no dividend will be payable on any Series D2 dollar preference share in the event that the sum of the D1 Dividend and the D1 UK Associated Tax Credit is greater than or equal to 9.55% of the Total Liquidation Value; and
- (iii) the Bank shall be entitled, subject to the provisions of applicable law, to redeem all or some only of the Series D dollar preference shares by giving to the holders of the Series D dollar preference shares to be redeemed prior notice in writing of a redemption date which falls no earlier than 25 July 2001.

Any such redemption shall be made at the redemption price of (i) US\$20 per share, in the case of the Series D1 dollar preference shares and (ii) US\$5 per share, in the case of the Series D2 dollar preference shares.

### 3.6 Preferred Ordinary Share

The preferred ordinary share ranks *pari passu* with and carries the same rights as the ordinary shares, but in addition confers the following rights. On the payment by the Bank of any dividend on any other class of share (other than the ordinary shares) the Bank shall pay, in priority, £100 to the holder of the preferred ordinary share. On a winding up (but not on any redemption, reduction or purchase of any share capital), the Bank shall pay, in priority to any other share, an amount equal to the sum of the nominal value and any premium paid on the issue of the preferred ordinary share to the holder thereof.

### 3.7 All Classes of Shares in the Capital of the Bank

#### 3.7.1 Pre-emption Rights

The allotment of shares is, where applicable, subject to the provisions of section 80 of the Act (which governs the authority of Directors to allot relevant securities, as defined in sub-section (2) of that section) and section 89 of the Act (which, to the extent not disappplied, confers on shareholders rights of pre-emption in respect of the allotment of equity securities, as defined in section 94(5) of the Act, which are, or are to be, paid up in cash, other than the allotment of equity securities to employees under an employees' share scheme, as defined in section 743 of the Act).

#### 3.7.2 Forfeiture of Dividends

The Articles provide that any dividend unclaimed after a period of 12 years from the date of declaration of such dividend shall be forfeited and shall revert to the Bank.

#### 3.7.3 Changes in Capital

The Bank may by ordinary resolution increase its share capital, consolidate and sub-divide its shares and cancel any unissued shares. Subject to the provisions of the Act, the Bank may purchase its own shares and, by special resolution, reduce its share capital. Prior to the allotment or after the purchase or redemption of preference shares, the Directors are authorised to consolidate, divide or sub-divide the preference shares.

#### 3.7.4 Transfer of Shares

An instrument of transfer of shares must be in writing in the usual common form or any other form which the Directors may approve and must be executed by or on behalf of the transferor and duly stamped. The Directors may, in their absolute discretion, decline to register the transfer of any share (whether or not fully paid) to an infant or bankrupt.

#### 3.7.5 Variation of Rights

Whenever the share capital of the Bank is divided into different classes of shares, the rights attaching to any class may be varied in such manner, if any, as may be provided by the relevant Articles setting out those rights or (subject thereto) may be varied with the written consent of the holders of three-quarters in nominal value of the issued shares of that class or with a sanction of any extraordinary resolution passed at a separate general meeting of the holders of the shares of that class.

## 4. DIRECTORS' INTERESTS, SERVICE CONTRACTS AND REMUNERATION

### 4.1 Shareholdings and Other Interests

- 4.1.1 At 30 July 1996, no Director, or any person connected with a Director, had any beneficial or non-beneficial interest in the shares or loan stock of the Bank or any of its subsidiary undertakings.
- 4.1.2 The aggregate amount outstanding at 26 July 1996 (the latest practicable date before the issue of this document) under loans and guarantees by the Bank or any of its subsidiary undertakings to Directors of the Bank (or persons connected with such Directors) was approximately £51,000.
- 4.1.3 No Director has or has had any interest in any transaction which is or was unusual in its nature or conditions or significant to the business of Midland and which has been effected by the Bank or any subsidiary of the Bank during the current or immediately preceding financial year or was effected by the Bank or any subsidiary of the Bank during any earlier financial year and remains in any respect outstanding or unperformed.

## 4.2 Service Contracts

- 4.2.1 K.R. Whitson has a service agreement with HSBC dated 1 August 1992, as amended on 16 February 1996. The agreement, which is terminable upon 12 months' notice given by HSBC to K.R. Whitson and upon 12 months' notice given by K.R. Whitson to HSBC, provides, *inter alia*, for the payment to K.R. Whitson of a fixed salary at the rate of £305,000 per annum, a discretionary bonus which is determined by the Group Remuneration Committee of HSBC and participation in The HongKong Bank Group London Staff Pension Fund. The agreement does not contain any provision for the payment of compensation upon its early termination.
- 4.2.2 R.M.J. Orgill has a service agreement with HSBC dated 22 March 1993. The agreement, which is terminable upon 24 months' notice given by HSBC to R.M.J. Orgill and upon 12 months' notice given by R.M.J. Orgill to HSBC, provides, *inter alia*, for the payment to R.M.J. Orgill of a fixed salary at the rate of £250,000 per annum, a discretionary bonus which is determined by the Group Remuneration Committee of HSBC and participation in The HongKong Bank Group London Staff Pension Fund. The agreement does not contain any provision for the payment of compensation upon its early termination.
- 4.2.3 H. H. Jacobi has a service agreement with Trinkaus & Burkhart KGaA (a 71% owned subsidiary undertaking of the Bank) dated 18 February 1986, as amended on 1 December 1987, 11 October 1990, 25 March 1994 and 28 February 1996. The agreement, which is terminable upon 5 years' notice, provides, *inter alia*, for the payment to H. H. Jacobi of a fixed salary of DM 1,100,000 per annum and certain annual payments with respect to partnership-related profit sharing. This remuneration relates to duties discharged wholly outside the United Kingdom. The agreement does not contain any provision for the payment of compensation upon its early termination. H. H. Jacobi also has a pensions agreement with Trinkaus & Burkhart KGaA dated 18 February 1986, as amended on 1 December 1987.
- 4.2.4 Save as disclosed above, no Director has a service agreement, or proposed service contract, with the Bank or any of its subsidiary undertakings which is not determinable without payment of compensation (other than statutory compensation) within one year.

## 4.3 Remuneration

The aggregate remuneration paid and benefits in kind granted to the Directors of the Bank for the year ended 31 December 1995 amounted to approximately £2,774,000.

## 5. EMPLOYEES

The average number of persons employed by Midland for the three years ended 31 December 1995 were as follows:

	1995	1994	1993
Commercial Banking	48,278	48,665	48,204
Forward Trust Group	2,450	2,361	2,136
Investment Banking	—	—	388
	<u>50,728</u>	<u>51,026</u>	<u>50,728</u>

## 6. SUBSIDIARY UNDERTAKINGS

The following are the principal subsidiary undertakings of the Bank as at the date of this document, all of which were consolidated in the audited consolidated accounts of the Bank for the year ended 31 December 1995:

Name	Activities	Registered Office	Country of Incorporation or Registration	% Owned	Issued and fully-paid share capital 000's (£ unless otherwise indicated)
Forward Trust Limited	leasing, instalment credit and related services	12 Calthorpe Road Edgbaston Birmingham B15 1QZ	England	100	265,000
HSBC Greenwell	gilts market maker	10 Lower Thames Street London EC3R 6AE	England	100	30,000
Griffin Factors Limited	factoring services and invoice discounting	21 Farncombe Road Worthing Sussex BN11 2BW	England	100	14,000
Guyertzeller Bank AG	private banking	Genferstrasse 6-8 Zurich 8027	Switzerland	75	ChFr5,000
Midland Bank SA	commercial banking	20 bis avenue Rapp Paris 75007	France	100	FrFr475,615
Midland Bank Trust Company Limited	private client banking, asset management and trustee services	27/32 Poultry London EC2P 2BX	England	100	15,000
Midland Bank International Finance Corporation Limited	banking services	28/34 Hill Street St. Helier Jersey	Jersey	100	1,334
Midland Life Limited	life assurance	27/32 Poultry London EC2P 2BX	England	100	14,375
Swan National Leasing Limited	contract hire and fleet management	Mansion House Guildhall Lane Leicester LE1 5FR	England	100	100
Trinkaus & Burkhardt KGaA‡	commercial and investment banking	Königsallee 21/23 40212 Düsseldorf	Germany	71	DM117,500

‡ partnership limited by shares

## 7. ASSOCIATED UNDERTAKINGS

The following are the principal associated undertakings of the Bank as at the date of this document:

Name	Registered Office	Proportion of ordinary share capital held (directly or indirectly) %
British Arab Commercial Bank Limited	30 Gresham Street, London EC2V 7LP	42
Banco Roberts SA	Roberts Building, 25 de Mayo 258, (1002)-Buenos Aires, Argentine Republic	30

## 8. INVESTMENTS

On 26 July 1993, Forward Trust acquired Swan National Leasing for a consideration of £182.5 million.

## 9. PRINCIPAL PREMISES

Midland has over 2,000 premises, principally in the United Kingdom, of which approximately 1,150 are either freehold or long leasehold. Its principal establishments are as follows:

Premises	Size (sq m)	Area not occupied by Midland (sq m)	Tenure (unexpired term)	Current annual rent payable
27/32 Poultry London EC2P 2BX	17,304	—	Freehold	—
10 Lower Thames Street London EC3R 6AE	16,733	16,733	Freehold	—
Pennine Centre 41 Silver Street Head Sheffield S1 3GG	23,266	5,235	Freehold	—
Konigsallee 21/23 40212 Düsseldorf Germany	18,561	3,000	Freehold	—
First Direct 40 Wakefield Road Leeds LS10 3TP	14,400	—	Freehold	—
Forward Trust House 12 Calthorpe Road Birmingham B15 1QZ	8,412	—	Long leasehold (87 years)	£1,600

## 10. LEGAL PROCEEDINGS

Neither the Bank nor any of its subsidiaries is engaged in any legal or arbitration proceedings (nor so far as the Bank is aware are any such legal or arbitration proceedings pending or threatened) which may have, or have had in the twelve months preceding the date of this document, a significant effect on the financial position of Midland.

## 11. SIGNIFICANT CHANGES

There has been no significant change in Midland's financial or trading position since 31 December 1995, the date to which the audited consolidated accounts, for the year then ended were prepared.

## 12. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business, which are, or may be, material, have been entered into by the Bank and its subsidiary undertakings within the two years immediately preceding the date of this document:

- 12.1 An agreement made 19 October 1994 between (1) the Bank and (2) Samuel Montagu & Co Limited whereby the Bank purchased the entire debt securities portfolio of Samuel Montagu & Co Limited (other

than those issued by Latin American governments) for a consideration equal to their market value as at that date.

12.2 The Purchase Agreement, referred to in Part II above.

12.3 The Terms Agreement, referred to in Part II above.

12.4 The Deposit Agreement, referred to in Part II above.

12.5 The following agreements relating to the issue of the Series C dollar preference shares:

- (a) a purchase agreement dated 6 December 1994 between (1) the Bank and (2) J P Morgan Securities Inc.;
- (b) a terms agreement dated 20 October 1995 between (1) the Bank and (2) the underwriters named herein;
- (c) the Deposit Agreement, as amended and restated on 23 October 1995.

12.6 Agreements dated 31 January 1996 between (1) UBIC Netherland B.V. and (2) Midland, and between (1) Libyan Arab Foreign Bank and (2) Midland, pursuant to which Midland increased its shareholding in British Arab Commercial Bank Limited (then UBAF Bank Limited) from 24.77 per cent. to 41.55 per cent.

12.7 The following agreements relating to the issue of the Series D dollar preference shares:

- (a) a purchase agreement dated 6 March 1996 between (1) the Bank and (2) Merrill Lynch, Pierce, Fenner & Smith Incorporated;
- (b) a terms agreement dated 19 July 1996 between (1) the Bank and (2) the underwriters named herein.

### 13. MISCELLANEOUS

13.1 It is expected that listing of the Series B1 dollar preference shares and the Series B2 dollar preference shares on the London Stock Exchange will be granted on 2 August 1996 and that dealings in the Series B1 dollar preference shares and the Series B2 dollar preference shares will commence on 5 August 1996.

13.2 The Series B dollar preference shares have not been sold, nor are they available, in whole or in part to the public in conjunction with the application for their admission to the Official List of the London Stock Exchange.

13.3 In accordance with current Bank of England requirements, no redemption or purchase of any preference shares will be made by the Bank without the prior consent of the Bank of England.

13.4 The total dividend declared per ordinary share was 56.4689p in 1995, 50.1943p in 1994 and 50.1943p in 1993. The total dividend declared on the single preferred ordinary share, which was issued in 1993, was £1,800 in 1995, £800 in 1994 and £200 in 1993.

13.5 On 31 May 1996, KPMG Audit Plc were appointed as auditors to the Bank.

### 14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours on any weekday (Saturdays and public holidays excepted) at the offices of Clifford Chance, 200 Aldersgate Street, London, EC1A 4JJ up to and including 14 August 1996:

- 14.1 the memorandum and articles of association of the Bank;
- 14.2 the terms and conditions of the Series B1 dollar preference shares and the Series B2 dollar preference shares referred to in paragraph 3 of Part II above.
- 14.3 the audited consolidated accounts of the Bank and its subsidiaries for the two financial years ended 31 December 1994 and 31 December 1995;
- 14.4 the service contracts referred to in paragraph 4.2 above;
- 14.5 the material contracts referred to in paragraph 12 above;
- 14.6 the trust deeds and other documents constituting the subordinated borrowings listed in note 29 under Part III above which are issued by, or guaranteed by, the Bank.



#### LEAD MANAGER

Merrill Lynch & Co.  
World Financial Center  
North Tower  
250 Vesey Street  
New York  
NY10281

#### CO-MANAGERS

Dean Witter Reynolds Inc.  
Two World Trade Center  
New York  
NY 10048

PaineWebber Incorporated  
1285 Avenue of the Americas  
New York  
NY 10019

Prudential Securities Incorporated  
One New York Plaza  
New York  
NY 10292

Smith Barney  
1345 Avenue of the Americas  
New York  
NY 10105

#### DEPOSITARY

Bank of New York  
46 Berkeley Street  
London W1X 6AA

#### BROKERS

HSBC James Capel  
3rd Floor  
Thames Exchange  
10 Queen Street Place  
London EC4R 1BE

Cazenove & Co.  
12 Tokenhouse Yard  
London EC2R 7AN

#### LEGAL ADVISERS To the Bank

*In England:*  
Clifford Chance  
200 Aldersgate Street  
London EC1A 4JJ

*In the USA:*  
Cleary, Gottlieb, Steen & Hamilton  
Level 5  
City Place House  
55 Basinghall Street  
London EC2V 3EH

#### To the Underwriters

*In England:*  
Linklaters & Paines  
Barrington House  
59/67 Gresham Street  
London EC2V 7JA

*In the USA:*  
Shearman & Sterling  
199 Bishopsgate  
4th Floor  
London EC2M 3TT

#### REGISTRAR

HSBC Holdings plc  
10 Lower Thames Street  
London EC3R 6AE

#### AUDITORS

KPMG  
8 Salisbury Square  
London EC4Y 8BB

#### PAYING AGENT

The Secretary's Office  
Midland Bank plc  
27/32 Poultry  
London EC2P 2BX