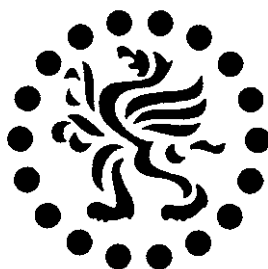


14259

INFORMATION MEMORANDUM



## Midland Bank plc

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

### MIDLAND INTERNATIONAL FINANCIAL SERVICES B.V.

*(A company incorporated with limited liability in The Netherlands and  
having its statutory seat in Amsterdam)  
as Issuer*

### MIDLAND AUSTRALIA FINANCIAL SERVICES LIMITED

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

## U.S.\$2,000,000,000 DEBT ISSUANCE PROGRAMME

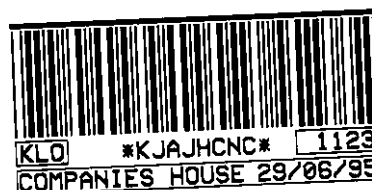
On 23 June 1994 Midland Bank plc established a U.S.\$2,000,000,000 Debt Issuance Programme (the "Programme"). This Information Memorandum supersedes any previous information memorandum. Any Notes (as defined below) issued under the Programme on or after the date of this Information Memorandum are issued subject to the provisions described herein. This does not affect any Notes already in issue.

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

Programme Arranger and Dealer  
**HSBC Markets**

Deutsche Mark Arranger and Dealer  
**Trinkaus & Burkhardt**  
Kommanditgesellschaft auf Aktien

29 June 1995



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

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

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

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

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

The delivery of this Information Memorandum or any documents incorporated by reference herein does not at any time imply that the information contained herein or therein concerning MIFS, MAFS or the Bank is correct at any time subsequent to the date hereof or thereof or that any other written information delivered in connection herewith or therewith is correct as of any time subsequent to the date indicated in such document. The Dealers and the Trustee expressly do not undertake to review the financial condition or affairs of MIFS, MAFS, the Bank or its subsidiary undertakings during the life of the Programme. Investors should review, inter alia, the most recent financial statements of MIFS, MAFS and the Bank when evaluating the Notes.

The distribution of this Information Memorandum and any document incorporated by reference herein and the offer or sale of the Notes may be restricted by law in certain jurisdictions. Persons into whose possession this Information Memorandum or any document incorporated by reference herein or any Notes come must inform themselves about, and observe, any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this Information Memorandum or any document incorporated herein by reference, see "Subscription and Sale" below. The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, and include Notes in bearer form that are subject to United States tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States to, or for the account or benefit of, U.S. persons (as defined in "Subscription and Sale" on page 99).

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

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

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

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### DOCUMENTS INCORPORATED BY REFERENCE

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

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

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

The Bank will provide a copy of any or all of the documents incorporated herein by reference, without charge, to any person holding a copy of this Information Memorandum at the request of such person either in person or in writing at the Bank's registered office.

## SUMMARY OF THE TERMS AND CONDITIONS OF THE NOTES

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

Issuers:	Midland Bank plc Midland International Financial Services B.V. ("MIFS") Midland Australia Financial Services Limited ("MAFS")
Guarantor of Notes issued by MIFS and MAFS:	Midland Bank plc
Arranger:	Other than in respect of Notes denominated in Deutsche Marks, HSBC Markets Limited. HSBC Markets Limited is Appointed Representative of Midland Bank plc. In respect of Notes denominated in Deutsche Marks, Trinkaus & Burkhardt KGaA.
Dealers:	Midland Bank plc, Trinkaus & Burkhardt KGaA and any other dealer appointed from time to time by the relevant Issuer either generally in respect of the Programme or in relation to a particular Tranche (as defined below) of Notes. At the date hereof, only credit institutions domiciled in Germany (which expression includes German branches of foreign banks) may act as dealers with respect to issues of Notes denominated in Deutsche Marks (except in the case of an issue of Notes denominated in Deutsche Marks on a syndicated basis, which will be lead managed by a credit institution domiciled in Germany).
Trustee:	The Law Debenture Trust Corporation p.l.c.
Principal Paying Agent:	Midland Bank plc
Agent Bank:	Midland Bank plc
Registrar:	Midland Bank plc
London Listing Agent:	Midland Bank plc
Size:	The Notes will be issued on a continuous basis with an initial maximum principal amount of U.S.\$2,000,000,000 or its equivalent in other currencies (calculated as specified herein) outstanding at any one time (subject to increase in accordance with the provisions of the Dealer Agreement).
Currencies:	Notes may be denominated in any currency or currencies as may be set out in the relevant Pricing Supplement including, without limitation, Australian Dollars, Deutsche Marks, European Currency Units, Hong Kong Dollars, Italian Lire, Japanese Yen, pounds sterling, Swiss Francs and United States dollars, subject to all applicable consents being obtained and to compliance with all applicable legal and/or regulatory requirements. Payments in respect of Notes may, subject in each case to compliance as aforesaid, be made in and/or linked to any currency or currencies other than the currency in which such Notes are denominated.
Maturities:	No minimum or maximum maturity subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory requirements.  As at the date hereof, Notes denominated in Deutsche Marks may not have an original maturity of less than two years. This limit may be subject to change as a result of legal or regulatory changes.
Issue Price:	Notes may be issued at par or at a premium or a discount to par and either on a fully or partly paid basis.

Interest:	Notes may bear interest on a fixed rate basis ("Fixed Rate Notes"), a floating rate basis ("Floating Rate Notes"), a variable basis ("Variable Coupon Amount Notes") or may be non-interest bearing ("Zero Coupon Notes").
Fixed Rate Notes:	<p>Interest on Fixed Rate Notes will be payable in arrear on such date or dates in each year as may be set out in the relevant Pricing Supplement.</p> <p>Interest on Fixed Rate Notes will be calculated on the basis of a 360 day year consisting of 12 months of 30 days or on such other basis as may be set out in the relevant Pricing Supplement.</p>
Floating Rate Notes:	<p>Floating Rate Notes will bear interest calculated by reference to LIBOR or such other benchmark as may be set out in the relevant Pricing Supplement.</p> <p>The margin over or under LIBOR or such other benchmark will be set out in the relevant Pricing Supplement.</p> <p>Except as otherwise set out in the relevant Pricing Supplement, interest on Floating Rate Notes will be payable in arrear on the Interest Payment Dates specified in the relevant Pricing Supplement; Interest Periods will be of a duration of one, two, three, six or twelve months or such other duration as may be set out in the relevant Pricing Supplement.</p> <p>The basis on which interest shall be calculated on Floating Rate Notes will be as set out in the relevant Pricing Supplement.</p> <p>Floating Rate Notes may, if so set out in the relevant Pricing Supplement, bear interest at a minimum rate and/or a maximum rate.</p>
Variable Coupon Amount Notes:	The relevant Pricing Supplement relating to an issue of Variable Coupon Amount Notes will set out the basis for calculating the amounts of interest payable in respect of such Notes, which may be by reference to a stock or commodity index, a currency exchange rate or any other index or formula or as otherwise set out in the relevant Pricing Supplement.
Zero Coupon Notes:	Zero Coupon Notes may be offered and sold at a discount to their principal amount and will not bear interest.
Dual Currency Notes:	Payments in respect of dual currency Notes ("Dual Currency Notes") will be made in such currencies, and based on such rates of exchange, as set out in the relevant Pricing Supplement.
Other Notes:	Terms applicable to any other type of Note which the relevant Issuer may issue under the Programme will be set out in the relevant Pricing Supplement. The term "Note" when used herein includes debt instruments, by whatever name called, issued by any Issuer under the Programme.
Issuance in Series:	Notes will be issued in series (each, a "Series"). Each Series may comprise one or more tranches (each, a "Tranche") issued on different issue dates. The Notes of each Series will all be subject to identical terms except that (i) the issue date and the amount of the first payment of interest may be different in respect of different Tranches and (ii) a Series may comprise Notes in bearer form ("Bearer Notes") and Notes in registered form ("Registered Notes") and Notes in more than one denomination. The Notes of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Bearer Notes and Registered Notes and may comprise Notes of different denominations.

Redemption:

Notes may be redeemable at par or at such other redemption amount (detailed in a formula or otherwise) as may be set out in the relevant Pricing Supplement or may have no stated maturity date.

Early Redemption:

If so set out in the relevant Pricing Supplement relating to any Series of Notes, such Notes may be redeemed prior to their stated maturity at the option of the relevant Issuer (other than for taxation reasons) and/or the Holders of such Notes subject to all applicable legal and/or regulatory requirements (including, in the case of Notes that are part of the regulatory capital of the Bank, the consent of the Bank of England). All Notes will be redeemable prior to their stated maturity for taxation reasons. The amount payable on redemption may be fixed or variable, as set out in the relevant Pricing Supplement.

Form of Notes:

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

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

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

Denominations:

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

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

Guarantee and status of the Guarantee:	<p>Notes issued by either MIFS or MAFS will be guaranteed as to payment of principal and interest by the Bank (the "Guarantee"). Such Guarantee will be given on a subordinated basis (Notes so guaranteed being "Subordinated Guaranteed Notes") or on a senior basis (Notes so guaranteed being "Senior Guaranteed Notes"), as indicated in the relevant Pricing Supplement. The Guarantee is contained in the Trust Deed.</p> <p>In relation to Senior Guaranteed Notes, claims in respect of the Guarantee will, at the date of issue of the relevant Notes, rank <i>pari passu</i> with all other unsecured and unsubordinated obligations of the Guarantor other than obligations preferred by law.</p> <p>In relation to Subordinated Guaranteed Notes, claims in respect of the Guarantee will, in the event of the winding up of the Bank, be subordinated in right of payment to the claims of depositors and all other creditors of the Bank other than claimants in respect of Subordinated Indebtedness (as defined in the Trust Deed) in the manner provided in the Trust Deed.</p> <p>In certain circumstances, payments of principal and interest in respect of Subordinated Guaranteed Notes may be deferred.</p>
Listing:	<p>Each Series of Notes may be admitted to the Official List of the London Stock Exchange or listed on such other stock exchange or exchanges as may be agreed between the relevant Issuer and the relevant Dealer and set out in the relevant Pricing Supplement ("Listed Notes") or may be unlisted ("Unlisted Notes").</p>
Terms and Conditions:	<p>A Pricing Supplement will be prepared in respect of each Tranche of Notes. The terms and conditions applicable to each Tranche will be those set out herein under "Terms and Conditions of the Notes" as supplemented, modified or replaced by the relevant Pricing Supplement.</p>
Clearing Systems:	<p>Euroclear, Cedel and/or, in relation to any Notes, any other clearing system as may be set out in the relevant Pricing Supplement and approved by the Trustee.</p>
Selling Restrictions:	<p>There are restrictions on the sale of Notes and the distribution of offering material in certain jurisdictions including the United States, the United Kingdom, Australia, Japan, The Netherlands and the Federal Republic of Germany — see "Subscription and Sale" below. Further restrictions, including restrictions on transfer, may be required in connection with any particular Tranche of Notes and will be set out in the documentation relating to such Tranche.</p>
Governing Law:	<p>The Trust Deed, the Notes, the Coupons (if any), the Talons (if any) and all related contractual documentation will be governed by, and construed in accordance with, English law.</p>



## DESCRIPTION OF THE PROGRAMME AND ISSUE PROCEDURE

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

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

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

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

Notes may not be issued under the Programme in an amount which would result in the aggregate principal amount of Notes outstanding on the Issue Date of the Notes so issued (and immediately after the issue thereof) exceeding U.S.\$2,000,000,000 or its equivalent in other currencies (subject to increase in accordance with the provisions of the Dealer Agreement). For this purpose, the U.S. dollar equivalent of Notes denominated in a currency other than U.S. dollars shall be determined on the basis of the spot rate for the sale of U.S. dollars against the purchase of such other currency in the London foreign exchange market quoted by the Bank (or if the Bank is not quoting such rates, such other financial institution as may be agreed between the Bank and the Trustee) at or about 11.00 a.m. on the second London business day prior to the Issue Date. In this paragraph "London business day" means a day on which banks and foreign exchange markets are open for business in London.

## SUMMARY OF PROVISIONS RELATING TO NOTES WHILE IN GLOBAL FORM

Each Series or Tranche of a Series may at issue be represented by one or more temporary global Notes (each, a **"Temporary Global Note"**), which will be deposited on the Issue Date with a common depositary for Euroclear and/or Cedel and/or such other clearing system or depositary as may be approved by the Trustee (such approval not to be unreasonably withheld or delayed) set out in the relevant Pricing Supplement.

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

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

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

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

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

An exchange of a Temporary Global Note for Definitive Notes or, as the case may be, a Permanent Global Note will be made only on or after the Exchange Date (as set out in the relevant Pricing Supplement) and provided certification as to the beneficial ownership thereof as required by U.S. Treasury regulations (in substantially the form set out in the Temporary Global Note or in such other form as is customarily issued in such circumstances by the relevant clearing system or depositary)

has been received. An exchange for Registered Notes will be made at any time without any requirement for certification.

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

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

Interests in a Permanent Global Note will be exchanged by the relevant Issuer in whole (but not, except in the case of (c) below in the case of Notes issued on a partly paid basis, in part only), at the option of the holder of such Permanent Global Note, for Definitive Notes and/or (in the case of a Series comprising Registered Notes or both Bearer Notes and Registered Notes and if so set out in the Relevant Pricing Supplement) Registered Notes, (a) if any Note of the relevant Series becomes immediately repayable in accordance with Condition 9, or (b) if any of Euroclear or Cedel or any other relevant clearing system or depository is closed for business for a continuous period of fourteen days (other than by reason of public holidays) or announces an intention to cease business permanently or in fact does so, or (c) unless excluded in the relevant Pricing Supplement, at the option of the holder of such Permanent Global Note upon such holder's request (subject in the case of Notes issued on a partly paid basis to the provisions of Condition 1), in the case of (a) and (b), at the cost and expense of the Issuer and, in the case of (c), at the cost and expense of the holder. In order to exercise the option contained in paragraph (c) of the preceding sentence, the holder must, not less than forty-five days before the date upon which the delivery of such Definitive Notes and/or Registered Notes is required, deposit the relevant Permanent Global Note with the Principal Paying Agent at its specified office with the form of exchange notice endorsed thereon duly completed.

## TERMS AND CONDITIONS OF THE NOTES

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

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

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

### 1. Form, Denomination and Title

#### (a) Form

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

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

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

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

*(b) Denomination*

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

*(c) Title*

Title to Bearer Notes and Coupons shall pass by delivery.

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

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

## **2. Status and Guarantee**

*(a) Claims in respect of Notes and the Guarantee*

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

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

The Notes of each Series of Undated Subordinated Notes constitute direct, unsecured obligations of the Bank ranking *pari passu* without any preference among themselves. The rights of Holders of Undated Subordinated Notes will, in the event of the winding up of the Bank, be subordinated in right of payment to the claims of Prior Creditors (as defined in the Trust Deed) of the Bank. In the event of the winding up of the Bank in England, such Notes shall be treated as if at the close of business on the business day in London preceding the commencement of the winding up of the

Bank the principal amount payable in respect of the Notes together with Arrears of Interest and accrued interest had been converted into Preference Shares, where appropriate, at the rate of exchange ruling on such preceding business day according to the terms set out in Condition 9.

**"Preference Shares"** means preference shares of £1 each in the capital of the Bank having a preferential right to a return of assets and to participate in the profits of the Bank in the winding up over the rights of the holders of all issued shares for the time being in the capital of the Bank and having such other rights and privileges and being subject to the restrictions set out in the Trust Deed.

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

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

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

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

*(b) Undated Subordinated Notes: Condition of Payment*

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

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

*(c) Undated Subordinated Notes: Deferral of Interest*

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

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

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

The Bank shall give notice in accordance with Condition 13:

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

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

In the case of Subordinated Notes and Subordinated Guaranteed Notes in relation to which this Condition 2(d) is specified in the relevant Pricing Supplement as applying, the Bank shall be entitled, by notice in writing to the Trustee (a **"Deferral Notice"**), to defer the due date for payment of any repayment of principal or payment of interest in respect of such Notes, and, accordingly, on the giving of such Notice the due date for payment of the relevant repayment or payment (the **"Deferred Payment"**) shall be so deferred and the Issuer shall not be obliged to make payment thereof on the date the same would otherwise have become due and payable, and such deferral of payment shall not constitute a default by the Issuer or, where applicable, the Guarantor for any purpose. The Bank may not give a Deferral Notice except in circumstances where the Bank of England has required or requested the Bank to defer payment of the relevant Deferred Payment. Interest will accrue on principal deferred as aforesaid in accordance with the provisions of these Conditions and the Trust Deed, save that such interest shall only become due and payable at such time as the principal in respect of which it has accrued becomes due and payable under the following sentence. Promptly upon being satisfied that the Bank of England will not object to the payment of the whole or any part of any Deferred Payment, the Bank shall give to the Trustee written notice thereof (the **"Payment Notice"**) and the relevant Deferred Payment (or the appropriate part of it) and any accrued interest as aforesaid shall become due and payable on the seventh day after the date of such notice to the Trustee. The Bank shall promptly give notice to the Holders of the relevant Series of Notes in accordance with Condition 13 of any Deferral Notice or Payment Notice.

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

### **3. Interest on Fixed Rate Notes**

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

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

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

#### *Zero Coupon Notes*

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

### **4. Interest on Floating Rate Notes**

#### *(a) Accrual of Interest*

Notes bearing interest at a floating rate (each a **"Floating Rate Note"**) bear interest on the principal amount of each Note as at its date of issue (less, in the case of any Instalment Note, any principal



amount on which interest shall have ceased to accrue in accordance with the following paragraph) from the Interest Commencement Date specified in the relevant Pricing Supplement.

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

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

*(b) Interest Payment Dates and Interest Periods*

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

The period from (and including) the Interest Commencement Date up to (but excluding) the first Interest Payment Date and each period thereafter from (and including) an Interest Payment Date to (but excluding) the next Interest Payment Date is referred to herein as an **"Interest Period"** and the expression **"business day"**, as used in this Condition 4(b), shall mean a day on which banks and foreign exchange markets are open for business in London and, in the case of Notes denominated in, or in respect of which interest is payable in, ECU, a business day for ECU as defined by the ECU Banking Association or, in the case of Notes denominated in, or in respect of which interest is payable in, a currency other than ECU, a day on which banks and foreign exchange markets are open for business in the principal financial centre or centres of the country of such currency.

*(c) Rate of Interest*

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

- (i) the Rate of Interest in respect of an Interest Period shall, subject as provided below, be (a) the Relevant Rate of the Benchmark (where such Relevant Rate is a composite quotation or interest rate per annum or is customarily supplied by one entity) or the arithmetic mean rounded upwards, if necessary, to the nearest 0.0001 per cent. of the Relevant Rates of the Benchmark for that Interest Period which appear on the appropriate page of the Reuters Screen, Telerate (as defined below) or such other information vending service as may be set out in the relevant Pricing Supplement as at 11.00 a.m. (London time) or such other time as may be specified in the relevant Pricing Supplement on the Interest Determination Date (as defined below) in paragraph (b) plus or minus (as appropriate) the percentage rate per annum (if any) over or under the Relevant Rate of the Benchmark by which the Rate of Interest is to be determined as set out in the relevant Pricing Supplement (the **"Margin"**), all as determined by the Agent Bank;
- (ii) if the Reuters Screen, Telerate or such other information vending service as may be set out in the relevant Pricing Supplement does not contain an appropriate page in respect of the specified currency, or if fewer than two of the Relevant Rates appear at such time, or if the rates which appear as at such time do not apply to a period of a duration equal to the relevant Interest Period, the Rate of Interest for such Interest Period shall be calculated as set out in the relevant Pricing Supplement;

(iii) in this Condition 4(c) and in Condition 4(d) below only:

- (a) the **"Benchmark"** means LIBOR or such other benchmark as may be set out in the relevant Pricing Supplement;
- (b) **"Relevant Rate"** means:
  - (A) an offered rate in the case of a Note the Benchmark for which relates to an offered rate; or
  - (B) a bid rate in the case of a Note the Benchmark for which relates to a bid rate; or
  - (C) the mean of an offered and bid rate in the case of a Note the Benchmark for which relates to the mean of an offered and bid rate,as set out in the relevant Pricing Supplement;
- (c) the expression **"Interest Determination Date"** means the day determined by the Agent Bank to be customary for fixing the Benchmark rate applicable to deposits in the relevant currency for the relevant Interest Period being a day on which banks and foreign exchange markets are open for business in the principal financial centre or centres of the country of such currency or, in the case of ECU, a business day for ECU as defined by the ECU Banking Association and, unless otherwise specified in the relevant Pricing Supplement, in London; and
- (d) the expression **"the appropriate page of the Reuters Screen, Telerate"** means such page, whatever its designation, on which the Benchmark rates for deposits in the relevant currency of prime banks are for the time being displayed on the Reuters Monitor Money Rates Services or the Associated Press-Dow Jones Telerate Service.

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

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

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

*(e) Notification of Rate of Interest and Interest Amount*

The Agent Bank will cause the Rate of Interest, the Interest Amount for each Interest Period and in respect of Floating Rate Notes, the relevant Interest Payment Date to be notified to the Issuer, (where appropriate) the Guarantor, the Principal Paying Agent, (in the case of listed Notes) the stock exchange on which such Notes are for the time being listed and, for as long as such Notes are represented by Global Notes, to Euroclear and/or Cedel and/or such other clearing system or depositary as may be set out in the relevant Pricing Supplement as soon as possible after the determination thereof but in any event not later than the fourth business day thereafter. In respect of Floating Rate Notes which are Definitive Notes, the Agent Bank will give notice to the Noteholders of the Rate of Interest, the Interest Amount and the relevant Interest Payment Date in accordance with the provisions of Condition 13. The Interest Amount and the Interest Payment Date so notified in respect of any Notes may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which such Notes are for the time being listed.

*(f) Determination or calculation by the Trustee*

If the Agent Bank does not at any time for any reason determine the Rate of Interest or calculate the Interest Amount, the Trustee shall do so and such determination or calculation shall be deemed to

have been made by the Agent Bank. In doing so, the Trustee shall apply the foregoing provisions of this Condition 4, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

*(g) Certificates, etc. to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4 whether by the Agent Bank or the Trustee shall (in the absence of manifest error) be binding on the Issuer, (where appropriate) the Guarantor, the Trustee, the Paying Agents, (where appropriate) the Registrar and the Holders of Notes and of the Coupons appertaining thereto. No Holder of Notes or of the Coupons appertaining thereto shall be entitled to proceed against the Agent Bank, the Trustee, the Paying Agents, the Registrar or any of them in connection with the exercise or non-exercise by them of their powers, duties and discretions hereunder.

**5. Variable Coupon Amount Notes**

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

**6. Redemption and Purchase**

*(a) Final Redemption*

Unless previously redeemed or purchased and cancelled and subject as otherwise set out in the relevant Pricing Supplement, Notes will be redeemed at their principal amount or such other redemption amount as may be set out in or determined in accordance with the relevant Pricing Supplement (or, in the case of Instalment Notes, in such number of instalments and in such amounts ("**Instalment Amounts**") as may be specified in, or determined in accordance with the provisions of, the relevant Pricing Supplement) on the Maturity Date specified in the relevant Pricing Supplement. In the case of Notes specified in the relevant Pricing Supplement as being undated, such Notes shall be undated and shall be redeemed only in accordance with this Condition 6 or Condition 9.

*(b) Redemption for Taxation Reasons*

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

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

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

The Issuer may exercise such option in respect of any Note notwithstanding the prior exercise by the Holder thereof of its option to require the redemption of such Note under paragraph (d) below, if the

due date for redemption under this paragraph (b) would occur prior to that under paragraph (d) (but not otherwise) and, in such circumstances, the exercise of the option under paragraph (d) shall be rendered ineffective.

Subject only to the obligation of the Issuer or the Guarantor to use such endeavours as aforesaid, it shall be sufficient, to establish the circumstances required to be established pursuant to this Condition 6(b), if the Issuer or the Guarantor shall deliver to the Trustee a certificate of an independent legal adviser or accountant satisfactory to the Trustee to the effect either that such a circumstance does exist or that, upon a change in or amendment to the laws (including any regulations pursuant thereto), or in the interpretation or administration thereof, of The Netherlands, Australia or the United Kingdom (as the case may be), which at the date of such certificate is proposed and in the opinion of such legal adviser or accountant is reasonably expected to become effective on or prior to the date on which the relevant payment of principal or interest in respect of the Notes would otherwise be made, becoming so effective, such circumstances would exist.

*(c) Redemption at the option of the Issuer*

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

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

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

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

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

*(d) Redemption at the option of the Noteholders*

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

In order to give such notice, the Holder must, not less than forty-five days before the date for redemption as set out in the relevant Pricing Supplement (or such other period as may be set out in the Pricing Supplement), deposit the relevant Note (together, in the case of an interest-bearing Definitive Note, with any unmatured Coupons appertaining thereto) with, in the case of a Bearer Note, any Paying Agent, or, in the case of a Registered Note, the Registrar together with a duly

completed redemption notice in the form which is available from the specified office of any of the Paying Agents or, as the case may be, the Registrar. The Holder of a Note may not exercise such option in respect of any Note which is the subject of an exercise by the Issuer of its option to redeem such Note under Condition 6(b) or (c).

*(e) Purchases*

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

*(f) Cancellation*

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

*(g) Zero Coupon Notes*

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

*(h) Other Notes*

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

**7. Taxation**

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

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

- (a) to, or to a third party on behalf of, a Holder of a Note or Coupon who is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection with the United Kingdom (in the case of payments by the Bank), The Netherlands (in the case of payments by MIFS) or, as the case may be, Australia (in the case of payments by MAFS) other than the mere holding of such Note or Coupon; or
- (b) unless it is proved, in the case of Bearer Notes, to the satisfaction of the Principal Paying Agent or the Paying Agent to whom the same is presented, or, in the case of Registered

Notes, to the satisfaction of the Registrar, that the Holder is unable to avoid such withholding or deduction by satisfying any statutory requirement or by making a declaration of non-residence or other similar claim for exemption to the relevant tax authorities; or

- (c) more than 30 days after the Relevant Date except, in the case of Bearer Notes, to the extent that the Holder thereof would have been entitled to such additional amounts on presenting the same for payment on the last day of such period of 30 days; or
- (d) in the case of Registered Notes, unless the Holder, immediately upon becoming the Holder, (i) is eligible for the benefits of a tax treaty with the jurisdiction of the Issuer that provides for a complete exemption from withholding taxes on payments under the Notes, or (ii) is otherwise entitled to a complete exemption from withholding taxes on payments under the Notes; or
- (e) to, or to a third party on behalf of a Holder that is not the sole beneficial owner of the Note or any Coupon, or a portion of either, or that is a fiduciary or partnership, but only to the extent that a beneficiary or settlor with respect to the fiduciary, a beneficial owner or member of the partnership would not have been entitled to the payment of an additional amount had the beneficiary, settlor, beneficial owner or member received directly its beneficial or distributive share of the payment.

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

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

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

## **8. Payments**

### **(a) Bearer Notes**

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

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

If the due date for payment of any amount due in respect of any Bearer Note is not both a Relevant Financial Centre Day and a local banking day (each as defined below), then the Holder thereof will

not be entitled to payment thereof until the next day which is such a day and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is a subsequent failure to pay in accordance with these Conditions in which event interest shall continue to accrue as provided in Condition 3 or, if appropriate, Condition 4.

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

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

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

Definitive Notes which are Fixed Rate Notes should be presented for payment with all unmatured Coupons appertaining thereto, failing which the face value of any missing unmatured Coupon (or, in the case of payment not being made in full, that portion of the amount of such missing unmatured Coupon which the sum of principal so paid bears to the total amount of principal due) will be deducted from the sum due for payment. Any amount of principal so deducted will be paid in the manner mentioned above against surrender of the relevant missing Coupon within a period of ten years from the Relevant Date (as defined in Condition 7) for the payment of such principal, whether or not such Coupon has become void pursuant to Condition 10 or, if later, five years from the date on which such Coupon would have become due.

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

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

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

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

*(b) Registered Notes*

Payment of the amount due on final redemption (together with accrued interest) (the "**Redemption Amount**") in respect of Registered Notes will be made against presentation and, save in the case of

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

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

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

*(c) General Provisions*

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

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

For the purposes of these Conditions:

- (i) "**Relevant Financial Centre Day**" means, in the case of any currency other than ECU, a day on which commercial banks and foreign exchange markets settle payments in the principal financial centre or centres for such currency and in any other place set out in the Pricing Supplement and, in the case of payment in ECU, a day which is an ECU Settlement Day (as determined by the ECU Banking Association); and
- (ii) "**local banking day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in the place of presentation of the relevant Note or, as the case may be, Coupon.

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

*(d) Value of the ECU*

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



**"ECU"** shall mean, at any time, an amount equal in value to one European Currency Unit and **"European Currency Unit"** denotes the unit of account that is used from time to time in the European Monetary System.

*(e) Payments in a Component Currency of ECU*

In the event that the ECU ceases to be used in the European Monetary System then, after the ECU Conversion Date, any obligation under the terms of any Notes to make a payment in ECU will be replaced by an obligation on the part of the Issuer to make a payment in the Selected Currency in the Equivalent Amount.

For the purposes of these Conditions:

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

For the purposes of this Condition 8(e) and any other provision of these Conditions notwithstanding, **"Banking Day"** means a day on which commercial banks and foreign exchange markets settle

payments in the relevant currency in London and in the principal financial centre or centres for the relevant Component Currency.

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

## **9. Enforcement**

(a) In the case of any Series of Notes other than Subordinated Notes, Subordinated Guaranteed Notes and Undated Subordinated Notes, if default is made for a period of 14 days or more in the repayment of any principal due on the Notes of such Series or any of them or in the payment of any interest due in respect of the Notes of such Series or any of them, then the Trustee may at its discretion, and if so requested by the Holders of at least one-fifth in principal amount of such Notes then outstanding or if so directed by an Extraordinary Resolution of the Holders of such Notes (subject in each case to being indemnified to its satisfaction) shall, give written notice to the Issuer and, where applicable, the Guarantor that the Notes of such Series are immediately due and repayable, whereupon the principal amount of such Notes or such other amount as set out in the relevant Pricing Supplement shall become immediately due and repayable together with interest accrued to (but excluding) the date of actual repayment;

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

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

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

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

(ii) the Trustee may at its discretion and without further notice institute such proceedings against MIFS or MAFS, as the case may be, as it may think fit (other than proceedings for the winding-up of MIFS or MAFS, as the case may be, or any insolvency proceedings in relation to MIFS or MAFS, as the case may be) to enforce any obligation, condition or provision binding on MIFS or MAFS, as the case may be, under the Trust Deed in relation to such Series of Subordinated Guaranteed Notes or under such Subordinated Guaranteed Notes or the Coupons appertaining thereto (other than any obligation for the payment of any principal or interest in respect of such Notes or Coupons) provided that none of the Guarantor, MIFS or MAFS, as the case may be, shall by virtue of the institution of any such proceedings be obliged to pay any sum or sums (whether in respect of principal or interest or other sums in respect of the relevant Notes or the Coupons appertaining thereto or by way of damages in respect of any breach of any such obligation, condition or provision or otherwise howsoever);

(iii) the Trustee may at its discretion and without further notice institute such proceedings against the Bank as it may think fit and may, subject as hereinafter provided, institute proceedings for the winding up of the Bank in England to enforce any obligation, condition or provision binding on the Bank under the Trust Deed in relation to such Series of Subordinated Notes, Subordinated Guaranteed Notes or Undated Subordinated Notes or under such Notes or the Coupons appertaining thereto (other than any obligation for the payment of any principal or interest in respect of such Notes or Coupons) provided that the Bank shall not by virtue of the institution of any such proceedings other than proceedings for the winding up of the Bank be obliged to pay any sum or sums (whether in respect of principal or interest or other sums in respect of the relevant Notes or the Coupons appertaining thereto or by way of damages in respect of any breach of any such obligation, condition or provision or otherwise howsoever). The Trustee may only institute proceedings for the winding up of the Bank to enforce the obligations above referred to in this paragraph if a default by the Bank thereunder is not remedied to the satisfaction of the Trustee within 60 days (or such longer period as the Trustee may permit) after notice of such default has been given to the Bank by the Trustee requiring such default to be remedied.

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

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

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

where

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

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

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

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

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

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

#### **10. Prescription**

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

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

#### **11. Paying Agents, Agent Bank and Registrar**

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

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

#### **12. Replacement, Exchange and Transfer**

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

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

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

If so set out in the relevant Pricing Supplement, the Holder of Bearer Notes may exchange the same for the same aggregate principal amount of Registered Notes upon the terms and subject to the conditions set forth in the Agency Agreement. In order to exchange a Bearer Note for a Registered Note, the Holder thereof shall surrender such Bearer Note at the specified office outside the United States of the Principal Paying Agent or of the Registrar together with a written request for the exchange. Each Bearer Note so surrendered must be accompanied by all unmatured Coupons appertaining thereto other than the Coupon in respect of the next payment of interest falling due after the exchange date (as defined below) where the exchange date would, but for the provisions of this paragraph, occur between the Record Date (as defined in Condition 8(b)) for such payment of interest and the date on which such payment of interest falls due.

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

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

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

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

### 13. Notices

(a) All notices to the Holders of Notes or the Coupons appertaining thereto will be valid if published in one leading daily newspaper in London or, if this is not possible, in one other leading English language daily newspaper with general circulation in Europe. It is expected that publication of notices will normally be made in the *Financial Times*. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the date of the first such publication.

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

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

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

#### **14. Modification of Terms, Waiver and Substitution**

The Trust Deed contains provisions for convening meetings of the Holders of the Notes of any Series to consider any matter affecting their interests, including, subject to the agreement of the Issuer and, where applicable, the Guarantor, the modification by Extraordinary Resolution of the terms and conditions of such Notes or the provisions of the Trust Deed with respect to such Notes except, *inter alia*, certain terms concerning the amount and currency and the postponement of the due date of payment of the Notes and the Coupons appertaining thereto or interest or other amount payable in respect thereof, the modification of which may only be effected if passed at a meeting the quorum at which is persons holding or representing a clear majority, or at any adjourned such meeting not less than one third, in principal amount of the Notes of such Series for the time being outstanding.

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

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

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

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

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

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

#### **15. Further Issues**

The Issuer shall be at liberty from time to time without the consent of the Holders of Notes of any Series or Holders of the Coupons appertaining thereto (if any) to create and issue further notes

ranking equally in all respects (or in all respects save as specified in the relevant Pricing Supplement) with the Notes of such Series so that the same shall be consolidated and form a single series with such Notes for the time being outstanding.

#### **16. Governing Law**

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

The Bank, MIFS and MAFS irrevocably agree that the High Court of Justice in London shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with any Notes, Coupons or the Trust Deed (respectively, "**Proceedings**" and "**Disputes**"). The Bank, MIFS and MAFS irrevocably waive any objection which they might now or hereafter have to such Court being nominated as the forum to hear and determine any Proceedings and to settle any Disputes and agree not to claim that any such Court is not a convenient or appropriate forum.

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

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

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

#### **USE OF PROCEEDS**

The net proceeds of the issue of each Series of Notes issued by the Bank or MIFS will be used in the conduct of the business of the Bank and its subsidiary undertakings. The net proceeds of the issue of each Series of Notes issued by MAFS will be used in the conduct of Midland's Australian business.

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

### 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 Holdings plc ("HSBC"). HSBC and its subsidiaries (the "HSBC Group") HSBC Group is one of the largest banking and financial services organisations in the world with over 3,000 offices in 68 countries. Its total assets at 31 December 1994 were £201.5 billion.

The Bank is one of the principal UK clearing banks. At 31 December 1994, Midland's total assets were £80.4 billion and on the basis of total assets Midland ranked fifth amongst such banking groups in the United Kingdom.

### Business operations

Following the sale of its Investment Banking activities to HSBC Investment Banking Group Limited, a fellow subsidiary undertaking of HSBC, Midland has grouped 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, International Banking, Latin American Operations and Midland Global Markets ("MGM").

#### *UK Banking*

Midland's network of approximately 1,740 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 (cheque accounts). At 31 December 1994, UK Banking was operating approximately 4.3 million personal current accounts and 0.6 million business current accounts. Midland's share of personal and business current accounts grew in 1994.
- **Savings Accounts and Investments**—Midland places emphasis on the acquisition of retail liabilities. 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.
- **Loans**—Midland provides a full range of lending services for personal and business customers and provides venture capital for small businesses through Midland Growth Capital and a number of regionally based enterprise funds.

The Bank is actively increasing its domestic house mortgage portfolio, providing a range of fixed and variable rate mortgages and equity release loans. The Bank's share of the mortgage market grew further during the year and the total portfolio stood at £6.2 billion at 31 December 1994.

- **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", business and affinity cards. Following detailed customer research, Midland Choice, a customer loyalty scheme, was launched in July 1994. The Bank's first private label storecard for a leading high quality retailer was also launched in 1994.

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



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

In late 1993, the Bank joined National Westminster Bank plc and British Telecommunications plc in announcing the trial of Mondex, a "smart card" electronic cash payment system. A pilot scheme will commence in 1995 and, dependent on evaluation of this, the scheme will 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 2,000 Midland ATMs which form part of a UK network of approximately 7,000 ATMs available to Midland's customers.
- **Direct Banking**—Through First Direct, a division of the Bank, a full personal banking service is provided via the telephone, 24 hours a day, 365 days a year, largely autonomously from the branch network. It primarily targets customers who seek a fast, convenient and competitively priced service.

First Direct is the market leader in person to person, 24 hour banking in the United Kingdom, and plans further growth in 1995. Steps have been taken to increase the capacity of the business to handle this expansion, including the opening of a second purpose built site in 1994. It has achieved competitive advantage through high service quality and recommendation. As at 31 December 1994, First Direct had 0.7 million accounts, of which over 70 per cent. were for customers new to Midland.

- **Private Banking**—Midland launched a new service, Midland Private Banking, in September 1994 to provide broadly based independent financial expertise and advisory services to more affluent personal customers. This service is available from 30 offices alongside retail bank branches, providing a local service to its client base.
- **Stockbroking**—Midland Stockbrokers executes stock exchange transactions on behalf of Midland's personal and professional customers either directly by telephone, or through 159 "share shops", most of which are located in the larger branches.
- **Midland Securities Services** provides securities execution, settlement and custodial services to customers. It focuses its activities on three lines of business: global and domestic custody, primary market support services and corporate trusteeship.
- **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 now provides a full range of trade and international banking services, including documentary credits, bills, guarantees 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.
- **Personal Financial Services**—Midland Personal Financial Services ("MPFS") sells life products, pensions, investments and general insurance products through the retail branch network and approximately 800 branch based financial planning managers. Under the terms of the UK Financial Services Act 1986, MPFS acts as a "company representative" for the sale of regulated products. These are sourced from Midland Life Limited, in which the Bank has a majority interest, and Midland Unit Trust Management Limited.

As at the end of the first quarter of 1995 Midland Life Limited had 1.1 per cent. of the annual premium market and 1.4 per cent. of the life single premium market. Midland remains one of the market leaders in providing stock market linked bonds.

In the United Kingdom, the regulatory bodies have introduced more demanding staff competence requirements for the sale of investment products, and full commission

disclosure on life assurance based products as from January 1995. Midland has taken steps to comply fully with these requirements and is therefore well placed to continue expanding its business in this area.

- 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 is a leader in the London market. The additional coverage and relationships of the HSBC Group have strengthened this position.

The 1740 branch network is divided into geographical divisions each headed by a general manager. The UK divisions are further split into 122 area management groups, each consisting of a number of branches.

A major investment programme is under way to upgrade the image of the Bank's branches to a consistent standard by September 1995. This programme will provide a professional yet friendly environment better to meet the needs of customers.

To complement these physical changes, the Bank continues to appoint more senior bankers back into the branches where they have the experience and authority to deal with complex customer needs on the spot.

Cheques and credits paid in through the retail banking network are processed through seven District Service Centres. A three year programme is underway whereby back office processes are either automated or removed from the branches. This includes extending the use of the District Service Centres to carry out additional processing, and the expansion of the Bank's Customer Service Centres to handle more customers' telephone calls directly. These centres are being closely aligned to First Direct to ensure that the quality of service delivered by First Direct also reaches Midland customers generally.

Charges have been a major source of dissatisfaction both in the personal and in the small business markets. The Bank has moved to simplify and rationalise its charges in the personal market. For a fifth consecutive year, the tariff for small businesses remains unchanged.

During 1994, the Bank changed its clearing cycle. The standard clearing cycle for cheques collected was reduced from three days to two days. This change was designed to improve customer service. Although this action will have a small negative impact on income in the short-term, it is expected to support long-term growth and profitability through improved customer acquisition and retention.

Within the branch network, the introduction of a Customer Information System is now complete. This system provides account officers with information on banking and card products and services supplied to individual customers and is an important step towards improved service quality.

Alongside these domestic changes, the Bank has developed a new cross border transaction service, WorldPay, which greatly reduces the cost of transferring small payments internationally and the international direct debit service for incoming payments has been enhanced. WorldPay is a useful additional payment mechanism for both personal and business customers.

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 is to be increased to 250 and, as technology has automated and streamlined certain processing activities in the branches, more space is made available in front of counters to provide customers with better facilities.

### *International Banking*

Midland's overseas operations offer a wide range of commercial banking activities including lending, deposit taking, treasury and capital markets, trade services and private banking business.

The overseas network consists of branches, subsidiary undertakings and representative offices in eleven countries in continental Europe. The Bank has branches in Spain, Greece, France and

Sweden, and representative offices in Ireland and Russia. Regulatory approval has been obtained to open a branch in Italy during the second half of 1995. On 20 June 1995 authorisation was given by the Central Bank of the Republic of Armenia for the Bank to set up a 70 per cent. owned banking subsidiary in the Republic of Armenia.

In addition, Midland operates through the following subsidiary undertakings in Europe: in Germany, Trinkaus & Burkhardt KGaA; in France, in Midland Bank SA; in Luxembourg, Trinkaus & Burkhardt (International) SA; in Switzerland, Guyerzeller Bank AG and in Trinkaus & Burkhardt (Schweiz) AG; Turkey, Midland Bank AS; and in Ireland, Midland International Financial Services (Ireland) Limited.

The remaining overseas operations now comprise the branches in New York and Tokyo and representative offices in Singapore and Taipei. The treasury and capital markets business of the New York and Tokyo branches forms part of MGM.

A licence has been granted by the Reserve Bank of Australia to open a branch in Sydney. The new branch was opened on 13 March 1995 and will undertake treasury sales and trading and will also offer structured finance, securitisation, debt origination, project finance, specialised lending and advisory services. In 1995, Midland also acquired from the HSBC Group the entire share capital of Midland Australia Limited, the principal business of which will be corporate lending. Subsequently, on 14 June 1995, Midland Australia Limited acquired the entire share capital of MAFS.

With effect from 1 January 1995, Midland's International Banking and Latin American Operations were integrated in order to form a unified structure to represent Midland overseas.

#### *Latin American Operations*

Latin American Operations comprise short-term finance to banks and corporates for international trade purposes and origination, distribution and trading of debt instruments. Long-term exposure includes Brady bonds issued as a result of debt restructuring by Argentina, Brazil, Mexico and Venezuela and loans to certain other countries where debt restructuring negotiations are taking place. A portfolio of equity investments is held, arising from the conversion of debt.

Representative offices are maintained in Argentina, Brazil, Chile, Colombia, Mexico and Venezuela to provide a local understanding of the political and economic environment, to identify business opportunities and to assist in the management of Midland's investments in these countries.

On 1 April 1995 the Bank acquired the two branches in Panama of The Hongkong and Shanghai Banking Corporation Limited.

#### *Midland Global Markets*

Following the merger with HSBC, the Bank's treasury operations in London, New York and Tokyo were integrated with those of the HSBC Group to form MGM. This was one of the important areas of synergy highlighted at the time of the merger with HSBC. The formation of MGM has enabled the HSBC Group to increase significantly its presence in these markets in New York and Tokyo. MGM in London is co-located with James Capel, a fellow subsidiary undertaking within the HSBC Group, in one of the largest trading rooms in Europe.

MGM'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 dealing service for spot and forward foreign exchange is available in London. Certain customers may also deal direct through Midland's FX-Direct dealing system. Nine regional treasury centres throughout the United Kingdom provide direct access to treasury services for customers on a local basis.

In the foreign exchange markets, MGM is placed in the top three internationally. It is also well established in the interest rate markets, for example in Forward Rate Agreements where it is one of the top three market makers. In capital markets, MGM's business is conducted in the name of HSBC Markets Limited, the appointed representative of the Bank. In 1994, HSBC Markets Limited 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 (previously Greenwell Montagu Gilt-Edged). Midland Global Futures

provides comprehensive cover of the London International Financial Futures Exchange and has achieved a prominent position in terms of market share. It is also represented on most of the leading overseas financial futures exchanges. During 1994, HSBC Futures was formed to draw together business in Europe, Asia, America and Australasia, which will enable customers to execute and clear business on all of the world's principal futures and options exchanges.

In New York and Tokyo, MGM provides the same range of products as in London. In Tokyo, securities activities are handled by HSBC Securities Limited.

#### **Asset Finance**

Through Forward Trust Group Limited and its subsidiary undertakings, 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 now 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**

A comprehensive range of motor finance products is offered to corporate customers, 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.

#### **Recent Developments**

On 22 June 1995, the Bank sold one third of its 7.9 per cent. interest in the issued share capital of 3i Group plc for a cash consideration of £55 million. The Bank retains an interest in 5.3 per cent. of 3i Group plc shares (30.7 million shares).

## DIRECTORS OF MIDLAND BANK PLC

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

<b>Name</b>	<b>Function within Midland</b>	<b>Principal outside activity</b>
Sir William Purves, CBE, DSO	Chairman	Group Chairman, HSBC Holdings plc
G. Maitland Smith	Deputy Chairman	Chairman, Hammerson plc
K.R. Whitson*	Chief Executive	
R.M.J. Orgill*	Deputy Chief Executive	
B.H. Asher	Director	Executive Director, Investment Banking, HSBC Holdings plc
J.R.H. Bond	Director	Group Chief Executive, HSBC Holdings plc
R. Delbridge	Director	Group Finance Director, HSBC Holdings plc
J.F. Devaney	Director	Chief Executive and Managing Director, Eastern Group PLC
Sir Archibald Forster	Director	Director, Trafalgar House plc and Director, United Newspapers plc
A.J. Hales	Director	Chief Executive, Allied Domecq PLC
H.H. Jacobi	Director	Chairman of the Managing Partners, Trinkaus & Burkhardt KGaA**
C. Miller Smith	Director	Chief Executive, Imperial Chemical Industries PLC
Sir Wilfrid Newton, CBE	Director	Chairman, Raglan Properties plc
J.E. Strickland	Director	Executive Director Services, HSBC Holdings plc
J. Towers, CBE	Director	Chief Executive, Rover Group Limited

\* denotes executive director

\*\* a subsidiary undertaking of the Bank

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

## CONSOLIDATED CAPITALISATION OF MIDLAND BANK PLC

The following table shows the unaudited authorised and issued share capital of the Bank and Consolidated Loan Capital of Midland as at the close of business on 31 March 1995:

	Authorised £m	Authorised U.S.\$m	Issued and fully paid £m
<b>Ordinary Share Capital</b>			
Ordinary shares (of nominal value £1 each) .....	1,000	–	797
			<hr/>
			Proceeds of Issue £m
<b>Preference Share Capital</b>			
Sterling preference shares (of nominal value £1 each) .....	150	–	–
Dollar preference shares (of nominal value U.S.\$0.01 each) .....		2	253
			<hr/>
			Amount outstanding £m
<b>Consolidated Loan Capital</b>			
<b>Perpetual subordinated loan capital of Midland Bank plc</b>			
Undated Floating Rate Primary Capital Notes (U.S.\$750 million) .....			462
Undated Floating Rate Primary Capital Notes (U.S.\$500 million) .....			308
Undated Floating Rate Primary Capital Notes (Series 3) (U.S.\$300 million) .....			185
			<hr/>
			954
<b>Perpetual subordinated loan capital of subsidiary undertakings</b>			
Convertible Undated Floating Rate Subordinated Notes (FrFr 2 million) .....			0
<b>Subordinated loan capital of Midland Bank plc</b>			
Subordinated Floating Rate Notes 2001 .....			250
14% Subordinated Unsecured Loan Stock 2002/2007 .....			100
8%% Subordinated Notes 2004 (U.S.\$400 million) .....			244
			<hr/>
			594
<b>Subordinated loan capital of subsidiary undertakings</b>			
6%% Guaranteed Bonds 1986/1996 (DM 200 million) .....			90
Guaranteed Floating Rate Notes 1986/1998 (DM 300 million) .....			135
7.55% Guaranteed Loan 1998 (Yen 6.3 billion) .....			45
9.25% Notes 1991/1998 (Lux FR 500 million) .....			11
Guaranteed Floating Rate Notes 1999 (U.S.\$200 million) .....			123
7.25% Guaranteed Loan 1999 (Yen 3.0 billion) .....			22
7.41% Guaranteed Loan 1999 (Yen 10.0 billion) .....			71
7%% Dual Currency Guaranteed Bonds 1999 (Yen 5.0 billion) .....			36
Guaranteed Floating Rate Notes 1989/1999 (DM 200 million) .....			90
6.99% Guaranteed Loan 1999 (Yen 5.0 billion) .....			36
Borrowings at fixed and variable rates repayable 2000/2009 (DM 419 million) .....			189
Guaranteed Floating Rate Unsecured Loan Stock 2001 .....			3
12%% Guaranteed Notes 2003 (U.S.\$150 million) .....			92
			<hr/>
			943
<b>Total Consolidated Loan Capital .....</b>			
			<hr/>
			2,491
			<hr/>

**Notes:**

The Bank issued U.S.\$300 million 7.65% Subordinated Notes 2025 on 10 May 1995.

The ordinary share capital and the one preferred ordinary share of Midland Bank plc are beneficially owned by HSBC.

Save as disclosed above, there has been no material change in the share capital of the Bank or the Consolidated Loan Capital of Midland since 31 March 1995.

## **FINANCIAL STATEMENTS OF MIDLAND BANK PLC**

The accounts of Midland Bank plc and the Midland group for the year ended 31 December 1994 and the related report of KPMG and the statement of Directors' Responsibilities therein contained on pages 40 to 80 are reproduced from the Midland Bank plc Annual Report and Accounts 1994 (the "Accounts"). Accordingly, cross-references made in pages 40 to 80 are to the page numbers of the Accounts (including certain pages not reproduced herein).

# Statement of Directors' Responsibilities

## STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO FINANCIAL STATEMENTS.

The following statement, which should be read in conjunction with the Auditors' statement of their responsibilities set out in their report on page 17, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the Auditors in relation to the financial statements.

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Bank and its subsidiary undertakings as at the end of the financial year and of the profit or loss for the financial year. The Directors are required to prepare these financial statements on the going concern basis unless it is not appropriate. Since the Directors are satisfied that the Bank has the resources to continue in business for the foreseeable future, the financial statements continue to be prepared on the going concern basis.

The Directors consider that in preparing the financial statements (on pages 18 to 56), the Bank has used appropriate accounting policies, consistently applied save as disclosed in the Notes to the Accounts, and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

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

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

On behalf of the Board

RG Barber, Secretary, 27 February 1995



# Report of the Auditors

TO THE MEMBERS OF MIDLAND BANK PLC. We have audited the financial statements on pages 18 to 56.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS.** As described on page 16, the Bank's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**BASIS OF OPINION.** We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Midland Bank Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**OPINION.** In our opinion the financial statements give a true and fair view of the state of affairs of the Bank and of the Midland Bank Group as at 31 December 1994 and of the profit of the Midland Bank Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG, Chartered Accountants, Registered Auditors  
London, 27 February 1995

# Consolidated Profit and Loss Account

For the Year Ended 31 December 1994

	Note	1994 £M	1993 £M
Interest receivable			
- interest receivable and similar income arising from debt securities		672	655
- other interest receivable and similar income		3,608	3,984
Interest payable		(2,452)	(2,830)
Net interest income		1,828	1,809
Dividend income			
Fees and commissions receivable	4	10	21
Fees and commissions payable		1,101	1,097
Dealing profits		(53)	(36)
Other operating income		33	609
		172	141
		1,263	1,832
Operating income		3,091	3,641
Administrative expenses			
Depreciation and amortisation	5	(1,978)	(2,004)
		(188)	(168)
		(2,166)	(2,172)
Operating profit before provisions		925	1,469
Provisions for bad and doubtful debts	14	(98)	(679)
Provisions for contingent liabilities and commitments	6, 28	(37)	-
Amounts written off fixed asset investments		(5)	(26)
Operating profit		785	764
Profit on disposal of fixed assets and investments	6	86	45
Income from associated undertakings		34	35
Profit on ordinary activities before tax	6	905	844
Tax on profit on ordinary activities	7	(289)	(172)
Profit on ordinary activities after tax		616	672
Minority interests		(21)	(26)
Profit for the financial year attributable to shareholders		595	646
Dividends (including amounts attributable to non-equity shareholders)	9	(413)	(403)
Retained profit for the year transferred to reserves	31	182	243
Earnings per ordinary share	10	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 1994 all activities are continuing.

# Consolidated Balance Sheet

At 31 December 1994		1994	1993
	Note	£M	£M
<b>Assets</b>			
Cash and balances at central banks		535	436
Items in the course of collection from other banks		1,608	1,779
Treasury bills and other eligible bills	11	2,474	1,709
Loans and advances to banks	12	12,933	10,793
Loans and advances to customers	13	37,780	37,526
Debt securities	17	12,430	13,026
Equity shares	18	406	495
Interests in associated undertakings	19	83	219
Other participating interests	20	36	31
Tangible fixed assets	22	1,406	1,271
Other assets	23	9,681	8,087
Prepayments and accrued income		1,003	1,101
Total assets	32	<u>80,375</u>	<u>76,473</u>
<b>Liabilities</b>			
Deposits by banks	24	13,668	16,789
Customer accounts	25	44,557	40,498
Items in the course of transmission to other banks		803	970
Debt securities in issue	26	2,375	1,947
Other liabilities	27	11,915	9,740
Accruals and deferred income		1,155	1,020
Provisions for liabilities and charges	28		
- deferred taxation		107	154
- other provisions for liabilities and charges		258	217
Subordinated liabilities	29		
- undated loan capital		992	1,046
- dated loan capital		1,490	1,247
Minority interests		197	175
<b>Shareholders' funds (including non-equity interests)</b>			
Called up share capital	30	797	797
Share premium account	31	1,219	1,226
Revaluation reserves	31	(97)	(97)
Profit and loss account	31	939	744
		<u>2,858</u>	<u>2,670</u>
Total liabilities	32	<u>80,375</u>	<u>76,473</u>
<b>Memorandum items</b>			
Contingent liabilities	33		
- acceptances and endorsements		343	417
- guarantees and assets pledged as collateral security		5,504	4,388
- other contingent liabilities		152	257
		<u>5,999</u>	<u>5,062</u>
Commitments	33	<u>27,927</u>	<u>26,254</u>

W Purves, Chairman  
 K.R. Whitson, Chief Executive and Director  
 R.M.J. Orgill, Deputy Chief Executive and Director  
 R.G. Barber, Secretary

# Balance Sheet

At 31 December 1994

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

W Purves, Chairman

KR Whitson, Chief Executive and Director

RMJ Orgill, Deputy Chief Executive and Director

RG Barber, Secretary

**CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
**For the Year Ended 31 December 1994**

	1994 £M	1993 £M
Profit for the financial year attributable to shareholders	595	646
Exchange and other movements	9	12
Total recognised gains and losses for the year	<u>604</u>	<u>658</u>

**CONSOLIDATED RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**  
**For the Year Ended 31 December 1994**

	1994 £M	1993 £M
Profit for the financial year attributable to shareholders	595	646
Dividends	(413)	(403)
	<u>182</u>	<u>243</u>
Other recognised gains and losses relating to the year	9	12
New share capital subscribed	-	163
Goodwill on acquisition of subsidiary undertakings	(3)	(18)
Goodwill reinstated on the disposal of subsidiary undertakings	-	46
Net addition to shareholders' funds	<u>188</u>	<u>446</u>
Shareholders' funds at 1 January	<u>2,670</u>	<u>2,224</u>
Shareholders' funds at 31 December	<u>2,858</u>	<u>2,670</u>
<b>Shareholders' funds are analysed as follows:</b>		
Equity interests	2,702	2,507
Non-equity interests	156	163
	<u>2,858</u>	<u>2,670</u>

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 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. The presentation of certain balances reported in the consolidated balance sheet has been changed to comply with the netting provisions of Financial Reporting Standard ('FRS') 5 'Reporting the Substance of Transactions'. As a result of this change, comparative data have been restated (Note 32 (E)).

The presentation of depreciation of operating lease assets has also been changed. In the 1993 accounts this was deducted from operating lease income and the net amount was included within 'Other operating income', whereas it is now included within 'Depreciation and amortisation'. Comparative data have been restated to reflect this change (Note 6 (A)).

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

In accordance with FRS 1 '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 accounting policies used in the preparation of these accounts are consistent with previous years, except as set out in Note 2 (I) below.

- B) The consolidated financial statements comprise the accounts of the Bank and its subsidiary and associated undertakings (together 'Midland'). 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, except where the fee is 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.

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.

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

- C) **DEBT SECURITIES AND EQUITY SHARES.** Debt securities and equity shares intended to be held on a continuing basis are disclosed as investment securities and are included in the balance sheet at cost less provision for any permanent diminution in value.

Where dated investment securities have been purchased at a premium or discount, these premiums and discounts are amortised through the profit and loss account over the period from 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' or 'Loans and advances to banks'.

- D) **SUBSIDIARY AND ASSOCIATED UNDERTAKINGS.** The Bank's investments in subsidiary undertakings are stated at attributable net asset values and, where appropriate, embedded value 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.

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. Freehold and long leasehold premises which are not subject to provision for depreciation are maintained to a high standard and it is considered that their residual values, based on prices prevailing at the time of the latest valuation, are such that depreciation is not significant.

Other leasehold land and buildings are written off on the straight line basis over 10 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.

# Notes to the Accounts (continued)

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

- F) **FINANCE AND OPERATING LEASES (CONTINUED).** 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) **EMBEDDED VALUE.** The embedded value of the long-term assurance business includes the surplus retained in long-term assurance funds and the net present value of policies in force, which are determined on a post-tax basis and included in 'Other assets'. The remaining part of embedded value, being the net tangible assets of Midland Life Limited, including long-term assurance assets and liabilities attributable to policyholders, are consolidated in Midland's accounts. Changes in embedded value are recognised in the profit and loss account and, for the purpose of presentation, are grossed up at the prevailing rates of taxation.

- 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.

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. Previously, these results were translated at the rates of exchange ruling at the year-end (the closing rate method). The change in policy has been made in order to comply with the accounting policy of the Bank's ultimate parent HSBC Holdings plc which changed during the year. As there is no material difference in applicable exchange rates for 1993, the 1993 results have not been restated. The impact on the 1994 results of the change in policy was immaterial.

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 closing rate ruling at the year-end are accounted for in reserves.

Other exchange differences are recognised in the profit and loss account.



## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

- 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 dealing purposes, to hedge risk, or as part of the management of asset and liability portfolios. Transactions undertaken for dealing purposes are marked to market and the net present value of the 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.

Transactions designated as hedges are accounted for on an equivalent basis to the assets, liabilities or net positions which they are hedging. Any profit or loss is recognised on the same basis as that arising from the related assets, liabilities or positions. Interest rate swap transactions undertaken as part of the management of asset and liability portfolios are separately identified and income or expense is accrued and included in 'Interest receivable' or 'Interest payable'.

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

## 3. 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	1,078	19	1,097
Fees and commissions payable	(36)	-	(36)
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

	1994	1993
	£M	£M
Income from equity shares	8	19
Income from participating interests, other than associated undertakings	2	2
	<u>10</u>	<u>21</u>

## 5. ADMINISTRATIVE EXPENSES

A)	1994	1993
	£M	£M
Staff costs		
- wages and salaries	970	967
- social security costs	82	75
- other pension costs	119	104
- other staff costs	115	97
	<u>1,286</u>	<u>1,243</u>
Other administrative expenses		
- premises and equipment (excluding depreciation)	300	327
- other administrative expenses	392	434
	<u>692</u>	<u>761</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:

	1994	1993
Commercial Banking	48,665	48,204
Forward Trust Group	2,361	2,136
Investment Banking	-	388
	<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 94% of UK employees. The Principal Scheme is a funded defined benefit scheme.

Previously, the Bank operated a separate pension scheme for the benefit of part-time employees of the Bank (the 'Key-Time Scheme'). On 1 January 1994, the assets and liabilities of the Key-Time Scheme were transferred to the main Midland Bank Pension 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.

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.

## 5 ADMINISTRATIVE EXPENSES (CONTINUED)

- B) RETIREMENT BENEFITS (CONTINUED). Other pension schemes in the United Kingdom are constituted and funded similarly to the Midland Bank Pension Scheme.

The total pension cost for the year ended 31 December 1994 was £119 million (1993 £104 million), which includes £103 million (1993 £87 million) for the Bank in respect of the Midland Bank Pension 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 £16.7 million (1993 £19 million).

The latest actuarial review as at 31 December 1994 estimated the present value of the accumulated post-retirement benefit obligation to be £127 million (1993 £130 million), for Midland and £120 million (1993 £123 million) for the Bank, of which £29.7 million (1993 £16 million) has been provided for Midland and £27.7 million (1993 £15 million) has been provided for the Bank. The main financial assumptions used at 31 December 1994 are price inflation of 4.5% per annum, health care claims costs escalation of 8.0% per annum, and a discount rate of 8.5% per annum.

- C) DIRECTORS' EMOLUMENTS. The aggregate emoluments of the Directors of the Bank, computed in accordance with Part 1 of Schedule 6 of the Act were as follows:

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

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

£	1994	1993	£	1994	1993
0 - 5,000	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	1	-	235,001 - 240,000	1	-
20,001 - 25,000	1	-	290,001 - 295,000	-	1
25,001 - 30,000	-	1	345,001 - 350,000	1	-
40,001 - 45,000	1	1	380,001 - 385,000	-	1

The Chairman's emoluments totalled £50,000 comprising £50,000 in respect of Sir Peter Walters up to 31 March 1994 (1993 £200,000) and nil in respect of Sir William Purves from 1 April 1994 to 31 December 1994.

	1994 £'000	1993 £'000
Emoluments of the highest paid Director		
- salary and other emoluments	287	330
- discretionary bonus	60	50
- pension contributions	37	-
	<u>384</u>	<u>380</u>

# Notes to the Accounts (continued)

## 5. ADMINISTRATIVE EXPENSES (CONTINUED)

- C) **DIRECTORS' EMOLUMENTS (CONTINUED).** In addition, pensions in respect of past services of £175,000 (1993 £214,000) were paid.

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 £2.3 million (1993 £2.1 million), including £0.7 million (1993 £0.7 million) which relates to the Bank. £1.1 million (1993 £1.0 million) has been paid to the Auditors of the Bank and their associates for non-audit work.

## 6 PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

Profit on ordinary activities before tax is stated after:

	1994	1993
	£M	£M
A) <b>INCOME</b>		
Aggregate amounts receivable, including capital repayments, under		
- finance leases	300	412
- hire purchase contracts	541	350
- operating leases	97	55
Increase in embedded value	62	67
Income from listed investments	598	519
Profits less losses on securities dealing	(140)	197
Profits less losses on disposal of investment securities	19	23

Income from operating leases was previously reported net of the attributable depreciation charge. Depreciation in respect of operating lease assets is now included within 'Depreciation and amortisation'. Income receivable from operating leases as disclosed above is now stated before the deduction of attributable depreciation. Comparative data have been restated accordingly.

As part of the flotation of 3i Group plc, formerly an associated undertaking of Midland, which was completed on 18 July 1994, Midland reduced its equity shareholding from 17% to 8%. The profit on sale resulting from the disposal amounted to £64 million, in respect of which no tax charge arises because of capital losses carried forward from prior years.

	1994	1993
	£M	£M
B) <b>CHARGES</b>		
Interest charges incurred with respect to subordinated liabilities	139	144
Finance charges in respect of finance leases and similar hire purchase contracts	10	18
Hire of plant and machinery	25	38
Rentals payable on premises held under operating leases	81	95

- C) **PROVISIONS FOR CONTINGENT LIABILITIES AND COMMITMENTS.** The Securities and Investment Board concluded its industry-wide review of past business conduct in relation to pension transfers, and non-joiners and opt-outs of occupational pension schemes, in October 1994 and published its findings and recommendations. A £37 million provision for the amount of compensation potentially payable to customers in respect of pension transfers, and non-joiners and opt-outs of occupational pension schemes, has been made on the basis of information currently available, and is included within 'Provisions for contingent liabilities and commitments', bringing the provision in this respect to £45 million.

## 7. TAX ON PROFIT ON ORDINARY ACTIVITIES

The charge for taxation comprises:

	1994	1993
	£M	£M
UK corporation tax including deferred tax credit of £26M (1993 credit of £18M)	294	151
Relief for overseas tax	(19)	(35)
	<u>275</u>	<u>116</u>
Advance corporation tax written back	(1)	(5)
UK corporation tax adjustments in respect of prior years	13	(11)
Deferred tax adjustments in respect of prior years	(23)	-
	<u>264</u>	<u>100</u>
Overseas tax including deferred tax credit of £12 million (1993 charge of £3M)	19	63
	<u>283</u>	<u>163</u>
Associated undertakings	6	9
	<u>289</u>	<u>172</u>

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

The UK tax charge includes £20 million (1993 £31 million) in respect of grossing up for notional tax, mainly on the increase in embedded value and on franked investment income.

8. **PROFIT OF THE BANK.** The profit of the Bank for the financial year attributable to ordinary shareholders was £526 million (1993 £706 million).

## 9. DIVIDENDS

	1994	1993
	£M	£M
<b>Equity</b>		
Ordinary dividends		
- paid	200	200
- proposed	200	200
	<u>400</u>	<u>400</u>
<b>Non-equity</b>		
Preference dividends	12	3
Other finance costs	1	-
	<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.

10. **EARNINGS PER ORDINARY SHARE.** Earnings per ordinary share is calculated by dividing the profit for the financial year attributable to shareholders, after deducting preference dividends, of £582 million (1993 £643 million) by the weighted average number of ordinary shares in issue in 1994 of 797 million (1993 797 million).

# Notes to the Accounts (continued)

## II. TREASURY BILLS AND OTHER ELIGIBLE BILLS

	MIDLAND		BANK	
	1994	1993	1994	1993
	£M	£M	£M	£M
Treasury bills and similar securities	1,794	728	1,780	720
Other eligible bills	680	981	575	778
	<u>2,474</u>	<u>1,709</u>	<u>2,355</u>	<u>1,498</u>

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

## 12. LOANS AND ADVANCES TO BANKS

	MIDLAND		BANK	
	1994	1993	1994	1993
	£m	£M	£M	£M
Repayable on demand	2,855	1,928	1,915	1,520
Other loans and advances				
Remaining maturity				
- 3 months or less	7,933	6,973	7,277	5,785
- 1 year or less but over 3 months	1,643	1,336	1,495	1,506
- 5 years or less but over 1 year	337	158	254	307
- over 5 years	229	609	256	648
	<u>10,142</u>	<u>9,076</u>	<u>9,282</u>	<u>8,246</u>
	12,997	11,004	11,197	9,766
Specific bad and doubtful debt provisions	(64)	(211)	(38)	(193)
	<u>12,933</u>	<u>10,793</u>	<u>11,159</u>	<u>9,573</u>
Loans and advances to banks include:				
Subordinated loans and advances	-	-	92	35
Amounts due from subsidiary undertakings				
- subordinated			92	35
- unsubordinated			534	1,346
			<u>626</u>	<u>1,381</u>
Amounts due from fellow subsidiary undertakings				
- unsubordinated	647	729	615	688

### 13. LOANS AND ADVANCES TO CUSTOMERS

	MIDLAND		BANK	
	1994 £M	1993 £M	1994 £M	1993 £M
<b>Remaining maturity</b>				
- 3 months or less	13,177	14,532	12,764	14,250
- 1 year or less but over 3 months	4,959	4,396	5,250	4,424
- 5 years or less but over 1 year	9,022	7,402	6,788	5,427
- over 5 years	12,009	13,127	10,664	11,731
	<u>39,167</u>	<u>39,457</u>	<u>35,466</u>	<u>35,832</u>
General and specific bad and doubtful debt provisions	<u>(1,387)</u>	<u>(1,931)</u>	<u>(1,131)</u>	<u>(1,681)</u>
	<u>37,780</u>	<u>37,526</u>	<u>34,335</u>	<u>34,151</u>
Of which repayable on demand or at short notice	<u>6,356</u>	<u>6,331</u>	<u>5,662</u>	<u>6,975</u>
<b>Loans and advances to customers include:</b>				
Subordinated loans and advances (excluding equity shares)	<u>-</u>	<u>-</u>	<u>5</u>	<u>-</u>
Amounts due from subsidiary undertakings				
- subordinated			5	-
- unsubordinated			<u>4,132</u>	<u>3,875</u>
			<u>4,137</u>	<u>3,875</u>
Amounts due from fellow subsidiary undertakings				
- unsubordinated	<u>398</u>	<u>792</u>	<u>361</u>	<u>735</u>
Amounts due from parent undertaking				
- unsubordinated	<u>244</u>	<u>257</u>	<u>244</u>	<u>257</u>

Included within loans and advances to customers are equity shares with a book value of £103 million (1993 £136 million) acquired in exchange for advances with an original face value of £257 million (1993 £365 million).

# Notes to the Accounts (continued)

## 14. PROVISIONS FOR BAD AND DOUBTFUL DEBTS

### A) MOVEMENTS ON PROVISIONS FOR BAD AND DOUBTFUL DEBTS

	Specific 1994 £M	General 1994 £M	Total 1994 £M	Specific 1993 £M	General 1993 £M	Total 1993 £M
<b>Midland</b>						
At 1 January	1,893	249	2,142	2,278	219	2,497
Effect of foreign exchange rate and other movements	(19)	-	(19)	23	(8)	15
Charge/(release) for the year	117	(19)	98	629	50	679
Amounts written off	(847)	-	(847)	(1,031)	-	(1,031)
Recoveries of amounts written off in previous years	51	-	51	32	-	32
Amounts transferred on acquisition/ (disposal) of subsidiary undertakings	26	-	26	(38)	(12)	(50)
At 31 December	<u>1,221</u>	<u>230</u>	<u>1,451</u>	<u>1,893</u>	<u>249</u>	<u>2,142</u>
<b>Bank</b>						
At 1 January	1,688	186	1,874	2,033	158	2,191
Effect of foreign exchange rate and other movements	(26)	1	(25)	26	-	26
Charge/(release) for the year	60	(8)	52	507	28	535
Amounts written off	(769)	-	(769)	(910)	-	(910)
Recoveries of amounts written off in previous years	37	-	37	32	-	32
At 31 December	<u>990</u>	<u>179</u>	<u>1,169</u>	<u>1,688</u>	<u>186</u>	<u>1,874</u>

	MIDLAND		BANK	
	1994 £M	1993 £M	1994 £M	1993 £M
<b>Included in:</b>				
Loans and advances to banks	64	211	38	193
Loans and advances to customers	<u>1,387</u>	<u>1,931</u>	<u>1,131</u>	<u>1,681</u>
	<u>1,451</u>	<u>2,142</u>	<u>1,169</u>	<u>1,874</u>

### B) MOVEMENTS ON THE SUSPENDED INTEREST ACCOUNT

	MIDLAND		BANK	
	1994 £M	1993 £M	1994 £M	1993 £M
At 1 January	291	438	277	430
Effect of foreign exchange rate and other movements	(4)	27	(4)	14
Interest suspended in the year	58	96	52	89
Suspended interest recovered	(96)	(112)	(96)	(112)
Amounts written off	(93)	(152)	(88)	(144)
Amounts transferred on acquisition/(disposal) of subsidiary undertakings	3	(6)	-	-
At 31 December	<u>159</u>	<u>291</u>	<u>141</u>	<u>277</u>



#### 14. PROVISIONS FOR BAD AND DOUBTFUL DEBTS (CONTINUED)

##### c) NON-PERFORMING LOANS

	MIDLAND		BANK	
	1994 £M	1993 £M	1994 £M	1993 £M
Loans on which interest has been suspended (net of suspended interest)	1,092	2,246	881	2,063
Provisions	(696)	(1,299)	(576)	(1,204)
	<u>396</u>	<u>947</u>	<u>305</u>	<u>859</u>
Other non-performing loans	1,341	1,583	1,117	1,273
Provisions	(525)	(594)	(414)	(484)
	<u>816</u>	<u>989</u>	<u>703</u>	<u>789</u>
Total non-performing loans	<u>1,212</u>	<u>1,936</u>	<u>1,008</u>	<u>1,648</u>

#### 15. LESS DEVELOPED COUNTRIES PROVISIONABLE EXPOSURE

	MIDLAND	
	1994 £M	1993 £M
Less developed countries exposures to banks and customers (net of provisions in respect of commercial risk)	1,075	1,711
Accrued interest	<u>46</u>	<u>177</u>
	<u>1,121</u>	<u>1,888</u>
Less developed countries risk provisions	(293)	(820)
Suspended interest	<u>(46)</u>	<u>(177)</u>
Net exposure to less developed countries	<u>782</u>	<u>891</u>
As a percentage of shareholders' funds	27.4%	33.4%

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 1994 was £800 million (1993 £721 million).

#### 16. CONCENTRATIONS OF EXPOSURE. With the exception of house mortgage loans in the United Kingdom, there were no loan concentrations at 31 December 1994 which exceeded 10% of total loans and advances.

# Notes to the Accounts (continued)

## 17. DEBT SECURITIES

	MIDLAND				BANK			
	Book value 1994 £M	Market value 1994 £M	Book value 1993 £M	Market value 1993 £M	Book value 1994 £M	Market value 1994 £M	Book value 1993 £M	Market value 1993 £M
Issued by public bodies								
Investment securities								
- government securities	3,639	3,594	2,767	2,803	3,536	3,492	2,663	2,699
- other public sector securities	223	209	169	169	42	40	7	7
	<u>3,862</u>	<u>3,803</u>	<u>2,936</u>	<u>2,972</u>	<u>3,578</u>	<u>3,532</u>	<u>2,670</u>	<u>2,706</u>
Other securities								
- government securities	2,412		5,335		1,733		3,983	
- other public sector securities	107		239		1		192	
	<u>2,519</u>		<u>5,574</u>		<u>1,734</u>		<u>4,175</u>	
Issued by other issuers								
Investment securities	773	766	952	991	453	450	320	323
Other securities								
- bank and building society certificates of deposit	2,719		1,762		2,554		1,391	
- other debt securities	2,557		1,802		1,797		1,579	
	<u>5,276</u>		<u>3,564</u>		<u>4,351</u>		<u>2,970</u>	
	<u>12,430</u>		<u>13,026</u>		<u>10,116</u>		<u>10,135</u>	
Due within one year	4,810		3,526		4,510		2,996	
Due one year and over	7,620		9,500		5,606		7,139	
	<u>12,430</u>		<u>13,026</u>		<u>10,116</u>		<u>10,135</u>	
Debt securities include:								
Subordinated debt securities	<u>102</u>		<u>27</u>		<u>87</u>		<u>-</u>	
Unamortised net premiums on investment securities	<u>23</u>		<u>136</u>		<u>21</u>		<u>135</u>	
Amounts due from fellow subsidiary undertakings								
- unsubordinated	<u>-</u>		<u>166</u>		<u>-</u>		<u>166</u>	

# 17. DEBT SECURITIES (CONTINUED)

	MIDLAND				BANK			
	Book	Market	Book	Market	Book	Market	Book	Market
	value	value	value	value	value	value	value	value
	1994	1994	1993	1993	1994	1994	1993	1993
	£M	£M	£M	£M	£M	£M	£M	£M
<b>Investment securities</b>								
- listed on a recognised								
UK exchange	2,545	2,520	2,335	2,372	2,442	2,416	2,322	2,359
- listed elsewhere	1,269	1,241	806	840	777	766	3	3
- unlisted	821	808	747	751	812	800	665	667
	<u>4,635</u>	<u>4,569</u>	<u>3,888</u>	<u>3,963</u>	<u>4,031</u>	<u>3,982</u>	<u>2,990</u>	<u>3,029</u>
<b>Other securities</b>								
- listed on a recognised								
UK exchange	1,090		1,737		534		503	
- listed elsewhere	2,874		2,952		1,901		2,586	
- unlisted	<u>3,831</u>		<u>4,449</u>		<u>3,650</u>		<u>4,056</u>	
	<u>7,795</u>		<u>9,138</u>		<u>6,085</u>		<u>7,145</u>	
	<u><u>12,430</u></u>		<u><u>13,026</u></u>		<u><u>10,116</u></u>		<u><u>10,135</u></u>	

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

	Cost	Provisions	Book
	£M	£M	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)
At 31 December 1994	<u>4,637</u>	<u>(2)</u>	<u>4,635</u>
<b>Bank</b>			
At 1 January 1994	2,990	-	2,990
Effect of foreign exchange rate 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)
At 31 December 1994	<u>4,031</u>	<u>-</u>	<u>4,031</u>

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.

# Notes to the Accounts (continued)

## 18. EQUITY SHARES

	MIDLAND				BANK			
	Book value	Market value	Book value	Market value	Book value	Market value	Book value	Market value
	1994	1994	1993	1993	1994	1994	1993	1993
	£M	£M	£M	£M	£M	£M	£M	£M
Investment securities								
- listed on a recognised UK exchange	70	154	7	28	70	154	-	-
- listed elsewhere	99	87	68	80	2	2	1	1
- unlisted	22	31	167	214	13	13	25	25
	<u>191</u>	<u>272</u>	<u>242</u>	<u>322</u>	<u>85</u>	<u>169</u>	<u>26</u>	<u>26</u>
Other securities								
- listed elsewhere than on a recognised UK exchange	215		249		-		-	
- unlisted	-		4		-		4	
	<u>215</u>		<u>253</u>		<u>-</u>		<u>4</u>	
	<u>406</u>		<u>495</u>		<u>85</u>		<u>30</u>	

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

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

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.

## 19. INTERESTS IN ASSOCIATED UNDERTAKINGS

### A) MOVEMENTS ON INTERESTS IN ASSOCIATED UNDERTAKINGS

	MIDLAND £M	BANK £M
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	-
At 31 December 1994	<u>83</u>	<u>40</u>

Interests in associated undertakings include £73 million (1993 £65 million) for Midland, and £33 million (1993 £32 million) for the Bank, representing interests in banks. None of the above interests is listed.

Further to the flotation of 3i Group plc, Midland reduced its equity shareholding from 17% to 8% and the residual holding is included in equity shares, investment securities, at 31 December 1994.

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

	1994 £M	1993 £M
Cost	57	59
Provisions	(23)	(25)
	<u>34</u>	<u>34</u>

### B) PRINCIPAL ASSOCIATED UNDERTAKINGS AT 31 DECEMBER 1994

	Accounts made up to	Country of incorporation/ registration and operations	Principal activities	Midland's interest in equity capital	Issued equity capital
Banco Roberts SA	31/7/94	Argentina	Banking	†30%	Argentinian Pesos 50M
UBAF Bank Limited	31/12/94	England	Banking	25% 25%	US\$81M £32M fully paid, £5M nil paid

† Held indirectly

UBAF Bank Limited has issued US\$28.7 million of subordinated unsecured loan stock and £10 million of subordinated loan stock in which the Bank has 25% and 13% interests respectively.

# Notes to the Accounts (continued)

## 20. OTHER PARTICIPATING INTERESTS

	MIDLAND		BANK	
	1994	1993	1994	1993
	£M	£M	£M	£M
Listed elsewhere than on a recognised UK exchange	9	6	-	-
Unlisted	27	25	4	3
	<u>36</u>	<u>31</u>	<u>4</u>	<u>3</u>
Market value of listed securities	9	8	-	-
	<u>9</u>	<u>8</u>	<u>-</u>	<u>-</u>

None of the above other participating interests represents interests in banks.

Movements on other participating interests were as follows:

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

## 21. SHARES IN GROUP UNDERTAKINGS

### A) MOVEMENTS ON THE BANK'S INTEREST IN SHARES IN GROUP UNDERTAKINGS

	£M
At 1 January 1994	
Acquisitions	1,110
Transfers from subsidiary undertakings of the Bank	11
Repayment of capital by subsidiary undertakings	297
Liquidations	(137)
Provisions	(23)
Revaluation	(78)
At 31 December 1994	<u>50</u>
	<u>1,230</u>

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.

## 21. SHARES IN GROUP UNDERTAKINGS (CONTINUED)

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

	1994 £M	1993 £M
Cost	1,270	1,123
Provisions	(87)	(9)
	<u>1,183</u>	<u>1,114</u>

### B) PRINCIPAL SUBSIDIARY UNDERTAKINGS AT 31 DECEMBER 1994

	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		99%
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		0%	
£1 ordinary C shares		100%	
£1 ordinary D shares†		96%	
Swan National Leasing Limited	England		100%
Trinkaus & Burkhardt KGaA‡	Germany		70%

† 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.

The financial year of all of the above principal subsidiary undertakings ends on 31 December, with the exception of Midland Life Limited where 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 1994.

With the exception of Midland Life Limited, where the Bank holds shares representing 77.5% of the voting capital, the proportion of voting rights held either directly or indirectly by Midland is equal to the equity capital interest shown above.

# 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 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>	<u>652</u>	<u>101</u>	<u>205</u>	<u>924</u>	<u>364</u>	<u>2,246</u>
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>	<u>(7)</u>	<u>(5)</u>	<u>(130)</u>	<u>(592)</u>	<u>(106)</u>	<u>(840)</u>
<b>Net book value</b>						
<b>At 31 December 1994</b>	<u>645</u>	<u>96</u>	<u>75</u>	<u>332</u>	<u>258</u>	<u>1,406</u>
<b>At 31 December 1993</b>	<u>561</u>	<u>104</u>	<u>83</u>	<u>285</u>	<u>238</u>	<u>1,271</u>
<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>	<u>460</u>	<u>90</u>	<u>175</u>	<u>794</u>	<u>-</u>	<u>1,519</u>
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>	<u>(7)</u>	<u>(5)</u>	<u>(109)</u>	<u>(513)</u>	<u>-</u>	<u>(634)</u>
<b>Net book value</b>						
<b>At 31 December 1994</b>	<u>453</u>	<u>85</u>	<u>66</u>	<u>281</u>	<u>-</u>	<u>885</u>
<b>At 31 December 1993</b>	<u>403</u>	<u>93</u>	<u>71</u>	<u>241</u>	<u>-</u>	<u>808</u>



## 22. TANGIBLE FIXED ASSETS (CONTINUED)

B) **ASSETS HELD UNDER FINANCE LEASES.** The net book amount of equipment, fixtures and fittings includes assets held under finance leases of £21 million (1993 £23 million) for Midland and the Bank, on which the depreciation charge was £11 million (1993 £9 million).

C) **VALUATIONS.** Cost or valuation of freehold and long leasehold land and buildings at 31 December comprises:

	MIDLAND		BANK	
	1994 £M	1993 £M	1994 £M	1993 £M
At 1992 valuation	647	650	467	487
At cost	106	20	83	14
	<u>753</u>	<u>670</u>	<u>550</u>	<u>501</u>

All freehold and long leasehold land and buildings are revalued triennially. The basis of valuation is open market value for existing use, except for certain specialised premises which are valued on the basis of depreciated replacement cost.

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

	MIDLAND		BANK	
	1994 £M	1993 £M	1994 £M	1993 £M
Cost	746	661	497	447
Accumulated depreciation	(38)	(34)	(38)	(34)
Provision for permanent diminution in value	(35)	(35)	(61)	(61)
Net book value	<u>673</u>	<u>592</u>	<u>398</u>	<u>352</u>

### D) LAND AND BUILDINGS OCCUPIED FOR OWN ACTIVITIES

Net book value	<u>741</u>	<u>635</u>	<u>588</u>	<u>523</u>
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Of the land and buildings which are not occupied for own activities, premises with a net book value of £64 million (1993 £61 million) are occupied by other members of the HSBC Group.

# Notes to the Accounts (continued)

## 23. OTHER ASSETS

	MIDLAND		BANK	
	1994	1993	1994	1993
	£M	£M	£M	£M
Foreign exchange and interest rate contracts	7,217	5,991	7,008	5,691
Bullion	89	-	89	-
Deferred tax asset	-	-	51	-
Long-term assurance assets attributable to policyholders	1,198	1,025	-	-
Other	1,177	1,071	520	489
	<u>9,681</u>	<u>8,087</u>	<u>7,668</u>	<u>6,180</u>
Foreign exchange and interest rate contracts include unsubordinated amounts due from:				
Subsidiary undertakings			77	89
Fellow subsidiary undertakings	<u>1,004</u>	<u>524</u>	<u>1,004</u>	<u>524</u>

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

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

	MIDLAND	
	1994	1993
	£M	£M
Net tangible assets of Midland Life Limited	64	60
Surplus retained in long-term assurance funds and net present value of policies in force	111	79
Total embedded value	<u>175</u>	<u>139</u>

The net present value of policies in force is determined in consultation with qualified actuaries, using a discount rate of 15%. The increase in the total embedded value included in the consolidated profit and loss account amounts to £62 million (1993 £67 million) before tax and £41 million (1993 £45 million) after tax.

## 24. DEPOSITS BY BANKS

	MIDLAND		BANK	
	1994	1993	1994	1993
	£M	£M	£M	£M
Repayable on demand	3,527	3,126	2,863	3,119
With agreed maturity dates or periods of notice				
Remaining maturity				
- 3 months or less but not repayable on demand	8,282	11,270	7,817	10,811
- 1 year or less but over 3 months	1,290	1,638	1,509	1,738
- 5 years or less but over 1 year	241	659	116	519
- over 5 years -	328	96	220	3
	<u>10,141</u>	<u>13,663</u>	<u>9,662</u>	<u>13,071</u>
	<u>13,668</u>	<u>16,789</u>	<u>12,525</u>	<u>16,190</u>
Deposits by banks include amounts due to:				
Subsidiary undertakings			1,448	2,942
Fellow subsidiary undertakings	<u>1,059</u>	<u>1,510</u>	<u>968</u>	<u>1,451</u>

## 25. CUSTOMER ACCOUNTS

	MIDLAND		BANK	
	1994 £M	1993 £M	1994 £M	1993 £M
Repayable on demand	31,054	27,518	26,203	24,969
With agreed maturity dates or periods of notice				
Remaining maturity				
- 3 months or less but not repayable on demand	10,517	11,475	11,280	9,334
- 1 year or less but over 3 months	1,582	1,115	2,736	1,546
- 5 years or less but over 1 year	1,070	389	1,390	398
- over 5 years	334	1	332	284
	<u>13,503</u>	<u>12,980</u>	<u>15,738</u>	<u>11,562</u>
	<u>44,557</u>	<u>40,498</u>	<u>41,941</u>	<u>36,531</u>
Customer accounts include amounts due to:				
Subsidiary undertakings			3,098	2,026
Fellow subsidiary undertakings	<u>245</u>	<u>57</u>	<u>164</u>	<u>41</u>
Parent undertaking	<u>809</u>	<u>489</u>	<u>809</u>	<u>489</u>

## 26. DEBT SECURITIES IN ISSUE

	MIDLAND		BANK	
	1994 £M	1993 £M	1994 £M	1993 £M
Bonds and medium term notes				
Repayable				
- within 1 year	24	46	-	-
- between 1 and 2 years	101	23	-	-
- between 2 and 5 years	126	247	-	-
- in 5 years or more	370	203	-	-
	<u>621</u>	<u>519</u>	<u>-</u>	<u>-</u>
Other debt securities in issue				
Remaining maturity				
- 3 months or less	1,317	996	1,267	996
- 1 year or less but over 3 months	311	392	193	392
- 5 years or less but over 1 year	126	40	113	40
	<u>1,754</u>	<u>1,428</u>	<u>1,573</u>	<u>1,428</u>
	<u>2,375</u>	<u>1,947</u>	<u>1,573</u>	<u>1,428</u>

Debt securities in issue include amounts due to fellow subsidiary undertakings of £29 million (1993 £32 million).

# Notes to the Accounts (continued)

## 27. OTHER LIABILITIES

	MIDLAND		BANK	
	1994 £M	1993 £M	1994 £M	1993 £M
Short positions in securities				
Treasury bills and similar securities	90	21	90	-
Debt securities				
- government securities	1,366	1,364	454	413
- other public sector securities	31	-	31	-
- issued by other bodies	205	6	205	-
Equity shares	366	-	-	-
	<u>2,058</u>	<u>1,391</u>	<u>780</u>	<u>413</u>
Foreign exchange and interest rate contracts	6,876	5,445	6,633	5,109
Taxation	397	215	277	75
Obligations under finance leases	103	142	21	22
Dividends	200	200	200	200
Long-term assurance liabilities attributable to policyholders (Note 23)	1,198	1,025	-	-
Other	1,083	1,322	662	825
	<u>11,915</u>	<u>9,740</u>	<u>8,573</u>	<u>6,644</u>
Foreign exchange and interest rate contracts include amounts due to:				
Subsidiary undertakings			52	79
Fellow subsidiary undertakings	<u>520</u>	<u>485</u>	<u>518</u>	<u>485</u>

Obligations under finance leases fall due as follows:

	MIDLAND		BANK	
	1994 £M	1993 £M	1994 £M	1993 £M
Within 1 year	55	55	12	10
1 to 5 years	69	115	18	18
Over 5 years	1	-	1	-
	<u>125</u>	<u>170</u>	<u>31</u>	<u>28</u>
Less future finance charges	(22)	(28)	(10)	(6)
	<u>103</u>	<u>142</u>	<u>21</u>	<u>22</u>

## 28. PROVISIONS FOR LIABILITIES AND CHARGES

### A) DEFERRED TAXATION PROVISIONS

	MIDLAND £M	BANK £M
At 1 January 1994	154	8
Effect of foreign exchange rate and other movements	14	7
Credit to profit and loss account	(61)	(66)
At 31 December 1994	<u>107</u>	<u>(51)</u>
Included in 'Provisions for liabilities and charges'	107	-
Included in 'Other assets' (Note 23)	-	(51)
	<u>107</u>	<u>(51)</u>

	Unprovided deferred tax/(relief) 1994 £M	Provided in accounts 1994 £M	Unprovided deferred tax/(relief) 1993 £M	Provided in accounts 1993 £M
<b>Midland</b>				
Short-term timing differences	(35)	18	(27)	7
Accelerated capital allowances	(8)	(3)	(4)	(2)
Leasing transactions	63	190	87	187
Trading losses carried forward	-	(1)	-	(8)
Advance corporation tax	(15)	(79)	(39)	(80)
Other items	<u>(39)</u>	<u>(18)</u>	<u>(26)</u>	<u>50</u>
	<u>(34)</u>	<u>107</u>	<u>(9)</u>	<u>154</u>
<b>Bank</b>				
Short-term timing differences	(35)	(20)	(27)	8
Accelerated capital allowances	(8)	(1)	(5)	-
Other items	<u>(24)</u>	<u>(30)</u>	<u>(18)</u>	<u>-</u>
	<u>(67)</u>	<u>(51)</u>	<u>(50)</u>	<u>8</u>

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. Deferred tax assets of £51 million are stated net of a deferred tax liability totalling £3 million in respect of overseas branches.

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. PROVISION 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 1994	56	-	112	49	217
Effect of foreign exchange rate and other movements	2	-	(1)	-	1
Reclassification	-	8	-	-	8
Charge 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 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>

## 29. SUBORDINATED LIABILITIES

	MIDLAND		BANK	
	1994 £M	1993 £M	1994 £M	1993 £M
Dated loan capital is repayable as follows:				
1 to 2 years	83	-	-	-
2 to 5 years	533	273	-	-
Over 5 years	874	974	603	381
	<b>1,490</b>	<b>1,247</b>	<b>603</b>	<b>381</b>

## 29. SUBORDINATED LIABILITIES (CONTINUED)

Subordinated borrowings which exceeded £100 million were as follows:

	1994	1993
	£M	£M
<b>Bank</b>		
£250M Subordinated Unsecured Floating Rate Notes 2001	250	250
£100M 14% Subordinated Unsecured Loan Stock 2002/07	100	100
US\$750M Undated Floating Rate Primary Capital Notes	480	506
US\$500M Undated Floating Rate Primary Capital Notes	320	337
US\$300M Undated Floating Rate Primary Capital Notes (Series 3)	192	203
US\$400M 8 <sup>5</sup> / <sub>8</sub> % Subordinated Notes 2004	253	-
	<u>1,595</u>	<u>1,396</u>
<b>Subsidiary undertakings<sup>†</sup></b>		
DM 300M Guaranteed Floating Rate Notes 1986/98	124	117
US\$200M Guaranteed Floating Rate Notes 1999	128	135
US\$150M 12 <sup>3</sup> / <sub>4</sub> % Guaranteed Notes 2003	96	101
	<u>1,943</u>	<u>1,749</u>

<sup>†</sup> 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 6.5% and 10.75%.

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, and in certain cases at a premium over par.

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 preference 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 £703 million (1993 £685 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\$25 each £M	Non-cumulative preference shares of US\$0.01 each £M	Ordinary shares of £1 each £M	Total £M
At 31 December 1993 and 1994	<u>150</u>	<u>-</u>	<u>1</u>	<u>1,000</u>	<u>1,151</u>

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 US\$ non-cumulative preference shares of nominal value US\$0.01 each and one preferred ordinary share of nominal value £1.

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 preference shares, and US\$5 per share, in the case of the Series A2 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 rights to participate in the surplus of assets on a winding up.

Holders of the Series A1 and Series A2 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 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 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.



### 31. RESERVES

Movements on reserves were as follows:

	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 surpluses 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 £77 million (1993 £74 million).

The reserves of the Bank include distributable reserves of £794 million (1993 £633 million).

### 32. ANALYSIS OF TOTAL ASSETS AND LIABILITIES

#### A) ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCY

	MIDLAND		BANK	
	1994 £M	1993 £M	1994 £M	1993 £M
Sterling	47,718	43,729	44,886	38,968
Currencies other than sterling	<u>32,657</u>	<u>32,744</u>	<u>25,797</u>	<u>27,516</u>
Total assets	<u>80,375</u>	<u>76,473</u>	<u>70,683</u>	<u>66,484</u>
Sterling	47,659	43,449	44,772	38,916
Currencies other than sterling	<u>32,716</u>	<u>33,024</u>	<u>25,911</u>	<u>27,568</u>
Total liabilities	<u>80,375</u>	<u>76,473</u>	<u>70,683</u>	<u>66,484</u>

# Notes to the Accounts (continued)

## 32. ANALYSIS OF TOTAL ASSETS AND LIABILITIES (CONTINUED)

### B) ASSETS SUBJECT TO SALE AND REPURCHASE TRANSACTIONS

	MIDLAND		BANK	
	1994	1993	1994	1993
	£M	£M	£M	£M
Total assets subject to sale and repurchase transactions	<u>1,649</u>	<u>2,079</u>	<u>1,360</u>	<u>2,074</u>

### C) ASSETS LEASED TO CUSTOMERS. Amounts relating to assets leased to customers are included under the following balance sheet headings:

	MIDLAND	
	1994	1993
	£M	£M
Finance leases		
- loans and advances to banks		
- loans and advances to customers	36	41
Hire purchase contracts	1,504	1,706
- loans and advances to customers		
Operating leases	690	712
- tangible fixed assets		
	<u>258</u>	<u>238</u>
	<u>2,488</u>	<u>2,697</u>

The cost of assets acquired by Midland during the year for the purpose of letting under finance leases and hire purchase contracts amounted to £259 million (1993 £393 million) and £574 million (1993 £429 million), respectively.

### D) ASSETS CHARGED AS SECURITY FOR LIABILITIES. Midland has pledged assets as security for liabilities included under the following headings:

	AMOUNT OF LIABILITY SECURED	
	1994	1993
	£M	£M
Deposits by banks	753	1,197
Customer accounts	300	630
Debt securities in issue	39	38
	<u>1,092</u>	<u>1,865</u>

The amount of assets pledged to secure these liabilities was £4,091 million (1993 £2,227 million).

### E) RESTATEMENT OF BALANCES FOR FRS 5. The effect of restating 1993 balances to reflect the implementation of Financial Reporting Standard 5, 'Reporting the Substance of Transactions', is set out below:

	MIDLAND		BANK	
	1993	1993	1993	1993
	£M	£M	£M	£M
Total assets previously reported	76,431		64,960	
Total liabilities previously reported		76,431		64,960
Loans and advances to banks	662		662	
Loans and advances to customers	(1,105)		298	
Deposits by banks		662		662
Customer accounts		(1,105)		298
Other assets	<u>485</u>		<u>564</u>	
Other liabilities		<u>485</u>		<u>564</u>
Restated total assets	<u>76,473</u>		<u>66,484</u>	
Restated total liabilities		<u>76,473</u>		<u>66,484</u>

### 33. MEMORANDUM ITEMS AND FOREIGN EXCHANGE AND INTEREST RATE CONTRACTS

	MIDLAND					
	Contract	Credit	Risk-	Contract	Credit	Risk-
	amount	equivalent	weighted	amount	equivalent	weighted
	1994	amount	amount	1993	amount	amount
	£M	1994	1994	1993	1993	1993
		£M	£M	£M	£M	£M
<b>Contingent liabilities</b>						
Acceptances and endorsements	343	343	342	417	417	417
Guarantees and assets pledged as collateral security						
- guarantees and irrevocable letters of credit	5,504	4,698	2,976	4,388	3,140	2,028
Other contingent liabilities	152	22	3	257	127	121
	<u>5,999</u>	<u>5,063</u>	<u>3,321</u>	<u>5,062</u>	<u>3,684</u>	<u>2,566</u>
<b>Commitments</b>						
Other commitments						
- documentary credits and short-term trade-related transactions	693	139	107	890	178	107
- forward asset purchases and forward deposits placed	141	141	48	63	63	63
- undrawn note issuance and revolving underwriting facilities	172	86	86	996	498	498
- undrawn formal standby facilities, credit lines and other commitments to lend						
- over 1 year	8,195	4,097	3,027	8,044	4,022	3,166
- 1 year or less	18,726	-	-	16,261	-	-
	<u>27,927</u>	<u>4,463</u>	<u>3,268</u>	<u>26,254</u>	<u>4,761</u>	<u>3,834</u>
Exchange rate contracts	<u>243,666</u>	<u>5,064</u>	<u>1,259</u>	<u>235,896</u>	<u>4,230</u>	<u>1,044</u>
Interest rate contracts	<u>746,448</u>	<u>6,010</u>	<u>1,527</u>	<u>583,206</u>	<u>3,926</u>	<u>973</u>
					1994	1993
					£M	£M
Incurring on behalf of parent and fellow subsidiary undertakings (contract amount)						
- contingent liabilities					<u>105</u>	<u>98</u>

# Notes to the Accounts (continued)

## 33. MEMORANDUM ITEMS AND FOREIGN EXCHANGE AND INTEREST RATE CONTRACTS (CONTINUED)

	BANK					
	Contract amount 1994 £M	Credit equivalent amount 1994 £M	Risk- weighted amount 1994 £M	Contract amount 1993 £M	Credit equivalent amount 1993 £M	Risk- weighted amount 1993 £M
<b>Contingent liabilities</b>						
Acceptances and endorsements	141	141	140	417	417	417
Guarantees and assets pledged as collateral security						
- guarantees and irrevocable letters of credit	6,517	3,782	2,293	5,246	2,788	1,738
Other contingent liabilities	152	22	3	217	87	81
	<u>6,810</u>	<u>3,945</u>	<u>2,436</u>	<u>5,880</u>	<u>3,292</u>	<u>2,236</u>
<b>Commitments</b>						
Other commitments						
- documentary credits and short- term trade-related transactions	551	110	85	763	153	88
- forward asset purchases and forward deposits placed	86	86	17	31	31	31
- undrawn note issuance and revolving underwriting facilities	172	86	86	996	498	498
- undrawn formal standby facilities, credit lines and other commitments to lend						
- over 1 year	8,949	3,868	2,865	7,698	3,616	2,783
- 1 year or less	16,983	-	-	14,006	-	-
	<u>26,741</u>	<u>4,150</u>	<u>3,053</u>	<u>23,494</u>	<u>4,298</u>	<u>3,400</u>
<b>Exchange rate contracts</b>	<u>228,960</u>	<u>4,775</u>	<u>1,178</u>	<u>220,491</u>	<u>3,994</u>	<u>995</u>
<b>Interest rate contracts</b>	<u>722,235</u>	<u>5,686</u>	<u>1,446</u>	<u>562,292</u>	<u>3,590</u>	<u>906</u>
					1994 £M	1993 £M
Incurring on behalf of subsidiary undertakings (contract amount)						
- contingent liabilities					<u>1,587</u>	<u>1,540</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.

The contract amounts of these instruments indicate the volume of transactions outstanding at the balance sheet date; they do not represent amounts at risk. The amounts shown above in respect of interest rate and exchange rate contracts as at 31 December 1993 have been restated to include contracts with other subsidiaries of HSBC Holdings plc.

Interest rate contracts are undertaken for both dealing and non-dealing purposes. Non-dealing transactions are undertaken to hedge risk or as part of the management of asset and liability portfolios. The majority of the transactions undertaken for non-dealing purposes are between business units within Midland, one of which is a dealing desk, which may then lay off the resulting position by trading in the external market.

#### Replacement cost of contracts

	MIDLAND		BANK	
	1994 £M	1993 £M	1994 £M	1993 £M
Exchange rate contracts	2,726	2,110	2,726	2,090
Interest rate contracts	4,625	3,881	4,343	3,601
	<u>7,351</u>	<u>5,991</u>	<u>7,069</u>	<u>5,691</u>

Replacement cost of contracts represents the mark to market assets on all contracts with a positive value. The replacement cost amounts at 31 December 1993 have been restated as a result of the implementation of the netting provisions of FRS5.

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. Among these is the claim for unquantified damages originally commenced by the Secretary of State for Trade and Industry as assignee of certain individuals who were investors with Barlow Clowes.

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	
	1994	1993	1994	1993
	£M	£M	£M	£M
Expenditure contracted for	150	96	150	96
Expenditure authorised by the Board, but not contracted for	<u>49</u>	<u>25</u>	<u>42</u>	<u>23</u>
	<u>199</u>	<u>121</u>	<u>192</u>	<u>119</u>

## 36. OPERATING LEASE COMMITMENTS

Annual commitments under non-cancellable operating leases were:

	MIDLAND		BANK	
	1994	1993	1994	1993
	£M	£M	£M	£M
Premises				
Operating leases which expire				
- within 1 year	2	5	2	5
- 1 to 5 years	7	18	7	17
- over 5 years	<u>60</u>	<u>72</u>	<u>58</u>	<u>69</u>
	<u>69</u>	<u>95</u>	<u>67</u>	<u>91</u>
Equipment				
Operating leases which expire				
- within 1 year	-	2	-	2
- 1 to 5 years	<u>3</u>	<u>9</u>	<u>3</u>	<u>9</u>
	<u>3</u>	<u>11</u>	<u>3</u>	<u>11</u>

### 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
<b>1994</b>					
Gross income					
Interest receivable	3,501	586	122	71	4,280
Dividend income	5	5	-	-	10
Fees and commissions receivable	964	122	13	2	1,101
Dealing profits	43	24	(34)	-	33
Other operating income	164	8	-	-	172
Total gross income	<u>4,677</u>	<u>745</u>	<u>101</u>	<u>73</u>	<u>5,596</u>
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
<b>1993</b>					
Gross income					
Interest receivable	3,835	658	104	42	4,639
Dividend income	19	2	-	-	21
Fees and commissions receivable	957	120	17	3	1,097
Dealing profits	425	110	41	33	609
Other operating income	146	(10)	-	5	141
Total gross income	<u>5,382</u>	<u>880</u>	<u>162</u>	<u>83</u>	<u>6,507</u>
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

Substantially all of Midland's discontinued operations were included in the United Kingdom segment.

### B) BY CLASS OF BUSINESS

	Commercial Banking £M	Forward Trust Group £M	Investment Banking £M	Total £M
<b>1994</b>				
Profit on ordinary activities before tax	823	82	-	905
Net assets	2,575	283	-	2,858
Total assets	76,181	4,194	-	80,375
<b>1993</b>				
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

On 30 June 1993, Midland transferred its Investment Banking activities, primarily the Samuel Montagu group of companies, to HSBC Investment Banking.

# Notes to the Accounts (continued)

## 38. TRANSACTIONS, ARRANGEMENTS AND AGREEMENTS INVOLVING DIRECTORS, OFFICERS AND RELATED PARTIES

- A) **DIRECTORS AND OFFICERS.** The aggregate amounts outstanding at 31 December 1994 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 1994 £'000	Number of persons 1994
<b>Directors</b>		
- loans	49	2
- quasi-loans and guarantees	12	11
<b>Officers</b>		
- loans	842	21
- quasi-loans and guarantees	54	27

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.

39. **APPROVAL OF ACCOUNTS.** These accounts were approved by the Board of Directors on 27 February 1995.

40. **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.

Copies of the 1994 Annual Report and Accounts of HSBC Holdings plc can be obtained, when issued, from its registered office at 10 Lower Thames Street, London EC3R 6AE.



## MIDLAND INTERNATIONAL FINANCIAL SERVICES B.V.

### Incorporation, Duration and Registered Office

MIFS was incorporated with limited liability in The Netherlands as a "*Besloten Vennootschap met beperkte aansprakelijkheid*" for an indefinite period by deed executed on 31 December 1975. Its registered office is in Amsterdam. MIFS is registered with the Commercial Register of the Amsterdam Chamber of Commerce under number 144.849.

### Objects of MIFS

The principal object for which MIFS is established is the participation in and in any other manner taking interests in other companies and enterprises, as well as the financing of other companies and enterprises, all the foregoing in the widest possible sense.

### Share Capital

The authorised share capital of MIFS is Dfl 2,000,000 divided into 20,000 shares, each with a nominal value of Dfl 100. All these shares have been issued at par and are indirectly wholly-owned by the Bank.

### General Meetings

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

### Management

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

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

The Managing Directors of MIFS are at present:

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

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

### Financial Year

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

### Distribution of Profits

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

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

# **CAPITALISATION OF MIDLAND INTERNATIONAL FINANCIAL SERVICES B.V.**

The following table shows the capitalisation and long-term debt of MIFS as at close of business on 31 March 1995:

**Share Capital** (authorised, issued and fully paid) NLGm  
 Ordinary shares (of nominal value NLG 100 each) 2

<b>Long-term debt</b>			<b>NLGm</b>	
Original currency			Swapped currency	
USD	200,000,000	Guaranteed Floating Rate Notes 1999	—	306
JPY	6,335,000,000	7.55% Guaranteed Loan 1998	USD50,000,000	76
DEM	300,000,000	Guaranteed Floating Rate Notes 1986/1998	—	336
DEM	200,000,000	6.50% Guaranteed Bonds 1986/1996	—	224
JPY	5,000,000,000	7.75% Dual Currency Guaranteed Bonds 1999	GBP22,222,222	55
DEM	200,000,000	Guaranteed Floating Rate Notes 1989/1999	—	224
JPY	10,000,000,000	7.41% Guaranteed Loan 1989/1999	USD80,400,000	123
JPY	5,000,000,000	6.99% Guaranteed Loan 1989/1999	USD33,857,000	52
JPY	3,041,521,000	7.25% Guaranteed Loan 1999	USD25,000,000	38
<b>Total Long-term debt</b>				<b>1,434*</b>

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

There has been no material change in the capitalisation and long-term debt of MIFS since 31 March 1995.

## FINANCIAL STATEMENTS OF MIDLAND INTERNATIONAL FINANCIAL SERVICES B.V.

The accounts of Midland International Financial Services B.V. for the year-end 31 December 1994 and the related report of KPMG Accountants N.V. on pages 83 to 92 are reproduced from Midland International Financial Services B.V. Annual Report and Accounts from 1994. References therein to the "Company" are to MIFS.

### Balance Sheet as at December 31, 1994

*(after proposed appropriation of results and with comparative figures for 1993)*

	Notes	1994	1993
<i>(in thousands of Dutch guilders)</i>			
<b>Assets</b>			
<b>Financial fixed assets</b>			
Loans to group company	4	1,520,399	1,605,713
<b>Current assets</b>			
Loans to group company	4	–	296,193
Interest due from group company		20,782	21,990
Income tax receivable		–	100
Deposits with group company		880	661
Sundry receivables		18	19
Cash		1,006	1,794
		<b>22,686</b>	<b>320,757</b>
		<b>1,543,085</b>	<b>1,926,470</b>
<b>Shareholder's equity and liabilities</b>			
Shareholder's equity	5	2,064	2,212
Long-term debt	6	1,520,399	1,605,713
<b>Current liabilities</b>			
Bonds and notes	6	–	296,193
Accrued interest on bonds and notes		20,454	21,640
Deferred interest income		–	661
Income tax payable		130	–
Accrued expenses		38	51
		<b>20,622</b>	<b>318,545</b>
		<b>1,543,085</b>	<b>1,926,470</b>

The accompanying notes form part of these accounts.

## Profit and Loss Account for the year ended December 31, 1994

(with comparative figures for 1993)

	Notes	1994	1993
<i>(in thousands of Dutch guilders)</i>			
<b>Interest income</b>			
Loan interest from group company		90,008	124,635
Deposit interest from group company		50	70
Other interest income		937	559
		<b>90,995</b>	<b>125,264</b>
<b>Expenses</b>			
Interest on long-term debt		88,452	123,083
General and administrative expenses		270	298
		<b>88,722</b>	<b>123,381</b>
<b>Profit before taxation</b>		<b>2,273</b>	<b>1,883</b>
Taxation	7	(871)	(751)
<b>Profit for the year</b>	5	<b>1,402</b>	<b>1,132</b>

The accompanying notes form part of these accounts.

## **Notes to the 1994 Annual Accounts**

### **1 Group affiliation and principal activity**

The Company, incorporated in The Netherlands with limited liability, is a wholly owned subsidiary of Midland Bank International Financial Services Limited, United Kingdom, which is ultimately owned by HSBC Holdings plc, United Kingdom. The principal activity of the Company is to act as a finance company.

### **2 Basis of presentation**

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

### **3 Accounting policies**

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

#### **a Foreign currencies**

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

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

#### **b Long-term debt**

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

#### **c Interest income and expenses**

Interest revenues and expenses are recorded on an accruals basis.

#### 4 Loans to group company

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

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

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

	1994	1993
<i>(in thousands of Dutch guilders)</i>		
At January 1	1,901,906	1,852,094
Loans repaid	(296,193)	–
Translation adjustment	(85,314)	49,812
	1,520,399	1,901,906
Less: Amounts receivable within one year	–	(296,193)
At December 31	<b>1,520,399</b>	<b>1,605,713</b>

#### 5 Shareholder's equity

The authorised, issued and fully paid share capital comprises 20,000 shares of NLG 100 each.

Movements in shareholder's equity are summarised below:

	Share capital	Accumulated profits	Total
<i>(in thousands of Dutch guilders)</i>			
At January 1, 1994	2,000	212	2,212
Profit for the year	–	1,402	1,402
Dividend paid	–	(1,550)	(1,550)
At December 31, 1994	<b>2,000</b>	<b>64</b>	<b>2,064</b>

## 6 Long-term debt

	1994	1993
<i>(in thousands of Dutch guilders)</i>		
1. USD 200,000,000 Guaranteed Floating Rate Notes 1999	347,450	389,000
2. JPY 6,335,000,000 7.55% Guaranteed Loan 1998	86,862	97,250
3. DEM 300,000,000 Guaranteed Floating Rate Notes 1986/1998	335,939	336,311
4. DEM 200,000,000 6.50% Guaranteed Bonds 1986/1996	223,959	224,207
5. FRF 900,000,000 Guaranteed Floating Rate Notes 1997	–	296,193
6. JPY 5,000,000,000 7.75% Dual Currency Guaranteed Bonds 1999	60,306	63,883
7. DEM 200,000,000 Guaranteed Floating Rate Notes 1989/1999	223,959	224,207
8. JPY 10,000,000,000 7.41% Guaranteed Loan 1989/1999	139,675	156,378
9. JPY 5,000,000,000 6.99% Guaranteed Loan 1989/1999	58,818	65,852
10. JPY 3,041,521,000 7.25% Guaranteed Loan 1999	43,431	48,625
	<u>1,520,399</u>	<u>1,901,906</u>
Less: Amounts due within one year	–	(296,193)
	<u><b>1,520,399</b></u>	<u><b>1,605,713</b></u>

The average interest rate paid during the year is 5.7% (1993: 6.6%).

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

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

All swapped currency loans mature in accordance with the terms of the original loan agreement.

Movements during the year in the bonds and notes are as follows:

	1994	1993
<i>(in thousands of Dutch guilders)</i>		
January 1	1,901,906	1,852,094
Redemptions	(296,193)	–
Translation adjustments	(85,314)	49,812
	1,520,399	1,901,906
Less: Amounts due within one year	–	(296,193)
At December 31	<b>1,520,399</b>	<b>1,605,713</b>

The bonds, notes and loans are guaranteed by Midland Bank plc and are unsecured obligations of the Company.

#### **Mandatory redemption**

Unless previously redeemed or purchased and cancelled, the bonds, notes and loans will be redeemed at their principal amount as follows:

1. The Guaranteed Floating Rate Notes 1999 on the interest payment date falling in March 1999.
2. The 7.55% Guaranteed Loan 1998 on November 30, 1998.
3. The Guaranteed Floating Rate Notes 1986/1998 on the interest payment date falling in June 1998.
4. The 6.50% Guaranteed Bonds 1986/1996 on October 9, 1996.
6. The 7.75% Dual Currency Guaranteed Bonds 1999 on March 29, 1999.
7. The Guaranteed Floating Rate Notes 1989/1999 on the interest payment date falling in July 1999.
8. The 7.41% Guaranteed Loan 1989/1999 on January 25, 1999.
9. The 6.99% Guaranteed Loan 1989/1999 on November 30, 1999.
10. The 7.25% Guaranteed Loan 1999 on January 12, 1999.



### **Optional redemption**

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

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

The Company may redeem the following Guaranteed Bonds at rates varying from 100 per cent. to 102 per cent. depending on the terms of the bonds and the date of their redemption.

4. DEM 200,000,000 6.50% 1986/1996, on October 9, 1992 or any subsequent interest payment date (in total only).

### **Redemption for tax reasons**

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

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

## **7 Income tax**

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

## **8 Directors**

The Company has 3 directors (1993:3), none of whom received any remuneration in 1994 (1993: NLG 4,000). The Company has no supervisory directors.

Midland International Financial Services B.V., Amsterdam

## **9 Employees**

The Company employs no personnel.

Amsterdam, February 13, 1995

H.G. O'Brien

D.C. Thomas

C.J.M. Lynch

(resigned March 31, 1994)

W.J. de Graaf

(appointed March 31, 1994)

## **Supplementary data**

### **1 Statutory rules as to appropriation of profits**

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

### **2 Proposed appropriation of results**

Interim dividends have been proposed by the Board of Directors and paid during the year for a total of NLG 1,550,000. The Board of Directors has resolved to propose to the Annual General Meeting of Shareholders the distribution of a dividend equal to the amount of the interim dividends paid in the year.

### **3 Auditors' report**

The auditors' report is set out on the following page.

## **Auditors' report**

We have audited the accounts of Midland International Financial Services B.V., Amsterdam, for the year ended December 31, 1994. Our examination has been performed in accordance with auditing standards generally accepted in The Netherlands.

Based upon our examination we are of the opinion that the accompanying annual accounts give a true and fair view of the financial position of the Company as at December 31, 1994, and of its profit for the year then ended and also comply in all other respects with Dutch legal requirements concerning annual accounts.

Amstelveen, February 13, 1995

KPMG Accountants N.V.

## MIDLAND AUSTRALIA FINANCIAL SERVICES LIMITED

### Incorporation, Duration and Registered Office

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

### Objects of MAFS

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

### Share Capital

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

### General Meetings

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

### Management

MAFS is managed by one Managing Director. A Managing Director is appointed and such appointments may be varied or revoked by Directors. A Managing Director may exercise individually any of the powers exercisable by the Directors. The Managing Director of MAFS is Marea Elizabeth Laszok.

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

Name	Function within MAFS	Principal Outside Activity
Marea Elizabeth Laszok	Managing Director	Managing Director HongkongBank of Australia Limited
John Spencer Dickinson	Director	Chief Executive Officer HongkongBank of Australia Limited
Gary John McLennan	Director	Chief Financial Officer and Head of Services HongkongBank of Australia Limited

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

### Financial Year

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

MAFS has not produced audited accounts since 31 December 1985 as its parent undertaking up until the transfer of ownership on 14 June 1995 to Midland Australia Limited, Wardley Australia Limited

was exempted from the statutory requirement in Australia to prepare and lodge audited accounts in respect of wholly-owned subsidiary undertakings. The accounts of MAFS will be consolidated into the accounts of the Bank.

### **Distribution of Profits**

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

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

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

### **Capitalisation of MAFS**

The following table shows the issued share capital of MAFS on 31 March 1995:—

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

There has been no change in the capitalisation of MAFS since 31 March 1995.

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

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

#### UNITED KINGDOM TAXATION

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

1. Listed Notes in bearer form which are Fixed Rate Notes, Floating Rate Notes or other interest-bearing Notes (as the case may be) will constitute "quoted Eurobonds" provided they continue to be quoted on a recognised stock exchange. Accordingly, while such Notes remain in global form and are held in a recognised clearing system designated as such for the purposes of section 124 of the Income and Corporation Taxes Act 1988 ("United Kingdom Taxes Act"), payments of interest on such Notes may be made without withholding or deduction for or on account of United Kingdom income tax. If Definitive Notes (but not Registered Notes) are issued in the circumstances set out in Condition 1 of the "Terms and Conditions of the Notes" and continue to be quoted on a recognised Stock Exchange then payments of interest on such Notes may be made without such withholding or deduction where:—
  - (a) the payment is made by a paying agent outside the United Kingdom, or
  - (b) the payment is made by or through a United Kingdom paying agent and:
    - (i) it is proved that the person who is the beneficial owner of the relevant Note and entitled to the interest (or where, except in the case of Unlisted Notes issued by MIFS or MAFS, the interest is by virtue of any provision of the United Kingdom Taxes Act deemed to be income of some other person, that other person) is not resident in the United Kingdom and, in the case of Unlisted Notes issued by MIFS or MAFS, that the interest is not deemed for tax purposes to be that of any other person; or
    - (ii) such Notes are held in Euroclear or Cedel or any other recognised clearing system designated as such for the purposes of Section 124 of the United Kingdom Taxes Act.

Where Unlisted Notes are issued by MIFS or MAFS in the circumstances set out in Condition 1 of the "Terms and Conditions of the Notes" then payments of interest on such Notes may be made without such withholding or deduction where (a) or (b) above applies.

In all other cases, subject to relief under any applicable double taxation treaty, interest will be paid under deduction of basic rate United Kingdom income tax unless, in the case of Notes issued by the Bank, the interest is paid in the ordinary course of its *bona fide* banking business in the United Kingdom in which case payments of interest may be paid without withholding or deduction in any event.

2. A United Kingdom collecting agent who receives or obtains payment of interest (other than interest on an Unlisted Note or a Registered Note issued, in each case, by the Bank) on behalf of a holder of Definitive Notes or Coupons or an interest in a Global Note will, if that payment was not made by or entrusted to any person in the United Kingdom or if the relevant Definitive Note or Global Note is held in a recognised clearing system, be required to withhold United Kingdom income tax at the basic rate unless it can be shown, to the satisfaction of the Inland Revenue, that the beneficial owner of such Note and Coupon in the case of Definitive Notes and Global Notes only, is not resident in the United Kingdom and the interest is not deemed for tax purposes to be that of any other person.
3. Payments of interest in respect of Notes issued by the Bank have a United Kingdom source and accordingly will be chargeable to United Kingdom tax by direct assessment even if paid without withholding or deduction. However, under long-standing Inland Revenue practice (Extra-Statutory Concession B-13) such payments will not be assessed to United Kingdom tax in the hands of persons who are not residents of the United Kingdom, except where such persons:
  - (a) are chargeable in the name of a person (including a trustee) or in the name of an agent or a branch in the United Kingdom which has the direction or management or control of the interest; or

- (b) seek to claim relief and/or repayment of tax deducted at source in respect of taxed income from United Kingdom sources; or
- (c) are chargeable to United Kingdom corporation tax on the income of a United Kingdom branch or agency or to United Kingdom income tax on the profits of a trade carried on in the United Kingdom to which the interest is attributable.

The Finance Act 1995 replaces the extra statutory concession described above with effect generally from April 1996. Where the beneficial owner of the interest is not resident in the United Kingdom, the Notes are not held by a branch or agent in the United Kingdom through which the non-resident carries on a trade, profession or vocation or the interest is not attributable to a branch or agency in the United Kingdom, the Finance Act 1995 generally limits the United Kingdom tax charged to tax, if any, which has been deducted at source.

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

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

4. The provisions relating to additional payments referred to in Condition 7 of the "Terms and Conditions of the Notes" would not apply if the Inland Revenue sought to assess the person entitled to the relevant interest or (where applicable) the "deep discount" or "deep gain" element of a Note directly to United Kingdom tax. However, exemption from or reduction of such United Kingdom tax liability might be available under an applicable double taxation treaty.
5. Notes issued at an issue price of less than 100 per cent. of their principal amount may constitute "deep discount securities" as defined in section 57 and schedule 4 of the United Kingdom Taxes Act. Where Notes constitute "deep discount securities" the holder of such Notes may be liable to United Kingdom income tax (or corporation tax) on the accrued discount at the time of any disposal (which includes redemption). Noteholders will not be subject to any withholding tax on any discount and the provisions of paragraph 2 above relating to collecting agents in the United Kingdom do not apply to receipts of sums in respect of the discount element on any Note. Noteholders resident outside the United Kingdom are chargeable to income tax (or corporation tax) on any discount element by direct assessment in respect of Notes issued by the Bank although Extra Statutory Concession B-13 and the Finance Act 1995 provisions apply to such payments in the same way as they apply to payments of interest.
6. Notes in respect of which the amount payable upon redemption exceeds or could exceed the issue price thereof which do not constitute deep discount securities may constitute "deep gain securities" for the purpose of section 94 and Schedule 11 of the Finance Act 1989. Where these provisions apply, their effect is to treat any profit arising on a transfer or redemption of such Notes as taxable income. For these purposes transfer means transfer by way of sale, exchange, gift or otherwise. Cancellation of such Notes by the Issuer or their purchase by the Issuer will be an occasion of charge, as will the death of the holder. Payments of income by the Issuer attributable to a "deep gain" are not subject to United Kingdom withholding. Noteholders resident outside the United Kingdom are chargeable to income tax (or corporation tax) on any "deep gain" element by direct assessment in respect of Notes issued by the Bank although Extra-Statutory Concession B-13 and the Finance Act 1995 provisions apply to such payments in the same way as they apply to payments of interest.
7. The attention of Noteholders is drawn to paragraph 21 of Schedule 11 to the Finance Act 1989 the effect of which is that later issues of Notes under any Pricing Supplement may change the tax treatment of Notes issued under any earlier Pricing Supplement, with the result that such earlier issued Notes may become "deep gain" securities.
8. Holders of Notes may be subject to United Kingdom taxation on a disposal or redemption of Notes if they are resident or ordinarily resident in the United Kingdom or if they carry on a trade in the United Kingdom through a branch or agency to which the Notes are attributable. The exemption from United Kingdom taxation from capital gains for "qualifying corporate



bonds" will only apply to Notes which are "qualifying corporate bonds" within the terms of section 117 of the Taxation of Chargeable Gains Act 1992 (including *inter alia* any Notes constituting "deep gain securities") with the result that no chargeable gain or allowable loss will arise on a disposal of such Notes.

On 25 May 1995, the Inland Revenue published a consultative document containing proposals which would, if enacted, have the effect of disapplying the qualifying corporate bond exemption to securities such as Notes. The proposals are currently subject to consultation and amendment. However, if legislation were enacted in accordance with the current proposals it would be likely to have the effect of bringing all returns and fluctuations in value, whether of a capital or income nature, on securities such as the Notes into charge for United Kingdom taxation purposes and is likely to supersede the "deep discount securities" and "deep gain securities" legislation described in paragraphs 5 to 7 above. Corporate Noteholders would be charged to tax in each accounting period by reference to interest received or accrued in such period and to any fluctuations in value of the Notes accruing or arising in such period.

Non-corporate investors may be treated in a similar manner, although it is possible that such investors will be allowed to defer any tax charges attributable to fluctuations in the value of Notes until disposal. Non-corporate investors with small portfolios may be outside the scope of the scheme. However, the final impact of these proposals, if any, will not be known until the end of the consultation process at the earliest.

9. The provisions of the accrued income scheme (the "scheme") may apply to persons transferring Notes which bear interest or to persons to whom such Notes are transferred. Generally, dealers in securities and persons who are neither resident nor ordinarily resident in the United Kingdom will not be subject to the provisions of the scheme. On a transfer of securities with accrued interest computed in accordance with the scheme the scheme usually applies to deem the transferor to receive an amount of income equal to the accrued interest and to deem the transferee to obtain an equivalent credit to set against the deemed or actual interest he subsequently receives. These provisions will be modified in the case of Notes bearing interest at a variable rate; for persons within the charge, on a transfer of securities, the transfer will be deemed to be a transfer with accrued interest and the amount of accrued income deemed to be received by a transferor will be such amount as the Inland Revenue decides is just and reasonable. The purchaser of such a Note will not be entitled to any equivalent credit under the scheme to set against any deemed or actual interest in respect of Notes which bear interest. In addition, the scheme does not apply to sums received in respect of the "deep gain" realised on "deep gain securities" or in respect of "deep discount" realised on "deep discount securities". The proposals contained in the consultative document of 25 May referred to in paragraph 8 above would, if introduced be likely to replace the accrued income scheme.
10. No United Kingdom Inheritance Tax is, or will be, charged on the death of, or on a gift of Notes or Coupons by a Noteholder or a Couponholder, as the case may be, who is neither domiciled nor deemed to be domiciled in the United Kingdom provided generally that the relevant Notes or Coupons, as the case may be, are situated outside the United Kingdom at the time of death or gift. Where Notes are held in Euroclear or Cedel, the Inland Revenue is known to consider that the situs is not necessarily determined by the place where they are held. In other cases, Notes and Coupons, in the case of Global Notes and Definitive Notes only, will normally be treated as being situated in the place where they are physically held. In any event, Inheritance Tax charge is not chargeable on certain types of gift made seven years or more before the death of the donor.

#### DUTCH TAXATION

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

- (a) all payments under the Notes and/or Coupons can be made free of withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld or assessed by The Netherlands or any political subdivision or taxing authority thereof or therein, unless the

Notes qualify as profit sharing debentures (*winstdelende obligaties*) as referred to in Article 1 of the Dutch Dividend Tax Act (*Wet op de dividendbelasting 1965*);

- (b) a holder of a Note and/or Coupon who derives income from a Note and/or Coupon or who realises a gain on the disposal or redemption of a Note and/or Coupon will not be subject to Dutch taxation on income or capital gains unless:
  - (i) the holder is, or is deemed to be, resident in The Netherlands for the purpose of the relevant provisions; or
  - (ii) such income or gain is attributable to an enterprise or part thereof which is carried on through a permanent establishment or permanent representative in The Netherlands; or
  - (iii) the holder has, directly or indirectly, a substantial interest or a deemed substantial interest in the share capital of the Issuer and such interest does not form part of the assets of an enterprise;
- (c) Dutch net wealth tax will not be levied on a holder of a Note and/or Coupon unless such holder is an individual and:
  - (i) the holder is, or is deemed to be, resident in The Netherlands for the purpose of the relevant provisions; or
  - (ii) such Note and/or Coupon is attributable to an enterprise or part thereof which is carried on through a permanent establishment or a permanent representative in The Netherlands.
- (d) Dutch gift, estate or inheritance taxes will not be levied on the occasion of the transfer of a Note and/or Coupon by way of a gift or on the death of a holder unless:
  - (i) the holder is, or is deemed to be, resident in The Netherlands for the purpose of the relevant provisions; or
  - (ii) the transfer is construed as a gift made by or on behalf of a person who, at the time of the gift or his death is, or is deemed to be, resident in The Netherlands for the purposes of the relevant provisions; or
  - (iii) such Notes and/or Coupon is attributable to an enterprise or part thereof which is carried on through a permanent establishment or a permanent representative in The Netherlands.
- (e) there is no Dutch registration tax, capital tax, stamp duty or any other similar tax or duty other than court fees, payable in The Netherlands in respect of or in connection with the execution, delivery and enforcement by legal proceedings (including any foreign judgment in the courts of The Netherlands) or any agreement relating to the issue of the Notes and/or Coupons or the performance of the Issuer's obligations under the Notes and/or Coupons; and
- (f) there is no Dutch value added tax payable in respect of payments in consideration for the issue of a Note and/or Coupon or in respect of the payment of interest or principal under the Notes and/or Coupons or the transfer of the Notes and/or Coupons.

#### **AUSTRALIAN TAXATION**

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

## **SUBSCRIPTION AND SALE**

Midland Bank plc and Trinkaus & Burkhardt KGaA, (the "Dealers") have in a dealer agreement dated 29 June 1995 (the "Dealer Agreement") agreed with MIFS, MAFS and the Bank a basis upon which they or any of them may from time to time agree either as principal or agent of the relevant Issuer to subscribe for or purchase, to underwrite or, as the case may be, to procure subscribers or purchasers for Notes. When entering into any such agreement to subscribe for or purchase, to underwrite, or as the case may be, to procure subscribers for or purchasers any particular Series of Notes, the relevant Issuer and the relevant Dealer will agree those details relating to such Notes which are described in "Description of the Programme and Issue Procedure" above. The Dealer Agreement contains provisions for the Issuers to appoint other dealers from time to time either generally in respect of the Programme or in relation to a particular Tranche of Notes.

### **General**

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

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

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

### **United States of America**

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold within the United States or to or for the account or benefit of U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in the preceding sentence have the meanings given to them by Regulation S under the Securities Act.

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

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

confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of U.S. persons. In addition, until forty days after the commencement of the offering of Notes comprising any Series, any offer or sale of Notes of such Series within the United States by a dealer (whether or not participating in the offering of Notes of such Series) may violate the registration requirements of the Securities Act.

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

### **United Kingdom**

Each Dealer has represented and agreed that:—

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

### **Japan**

Each Dealer has understood that the Notes have not been and will not be registered under the Securities and Exchange Law of Japan and, accordingly, has undertaken that so long as the Securities and Exchange Law of Japan and any applicable laws, regulations and ministerial guidelines of Japan so require, (i) it will not offer or sell any Notes denominated in Japanese Yen, directly or indirectly, in Japan or to, or for the benefit of, any Japanese Person or to others for reoffering or resale, directly or indirectly, in Japan or to any Japanese Person prior to the date 90 days (or, in the case of dual-currency Notes, 180 days) after the date of issue thereof and (ii) thereafter, it will not so offer or sell any Notes denominated in Japanese Yen except under circumstances which will result in compliance with all applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities and in effect at the relevant time. For the purposes of this paragraph, "Japanese Person" shall mean any person resident in Japan, including any corporation or other entity organised under the laws of Japan. No

Notes denominated in Japanese Yen shall be sold without the specific approval of the Japanese Ministry of Finance.

### **Federal Republic of Germany**

Each Dealer has confirmed that it is aware of the fact that no selling prospectus (*Verkaufsprospekt*) has been nor will be published in respect of the Programme and that it will comply with the Securities Selling Prospectus Act of the Federal Republic of Germany (*Wertpapier-Verkaufsprospektgesetz*) of 13 December 1990. In particular each Dealer has undertaken not to engage in public advertisements (*öffentliche Werbung*) in the Federal Republic of Germany with respect to any Notes issued under the Programme.

Each Dealer has agreed that it will only offer Notes which are not listed on any German Stock Exchange in accordance with the provisions of the German Securities Selling Prospectus Act of the Federal Republic of Germany of 13 December 1990.

### **The Netherlands**

I. Each Dealer has represented and agreed (and each further Dealer appointed under the Programme will be required to represent and agree) that any Notes issued under the Programme (including rights representing an interest in a Note in global form) by MIFS and any Notes issued under the Programme by the Bank or MAFS which are offered, as part of their initial distribution or by way of re-offering, in The Netherlands, shall in order to comply with The Netherlands Securities Market Supervision Act (*"Wet toezicht effectenverkeer"*, the "Netherlands Securities Act"):

- (i) only be issued and offered in the event that such Notes have been or will most likely be admitted to the official listing on (a) a recognised stock exchange in The Netherlands or (b) a stock exchange in another EU Member State and, in the latter case, the Information Memorandum has been approved by, and the relevant Pricing Supplement in respect of such Notes has been submitted to or approved by, the competent authority as referred to in Article 20 or Article 21 of EU Directive 89/298/EEC and the Securities Board of The Netherlands (*"Stichting Toezicht Effectenverkeer"* — hereinafter the "STE") has confirmed the availability of mutual recognition in respect of these documents; or
- (ii) only be issued and offered in the event that the Information Memorandum has been approved by, and the relevant Pricing Supplement in respect of such Notes has been submitted to or approved by, the competent authority of another EU Member State as referred to in Article 20 of EC Directive 89/298/EEC in connection with a public offering of such Notes and the STE has confirmed the availability of mutual recognition in respect of these documents; or
- (iii) only be issued and offered, when issued by MIFS, if they are part of a series of Notes comprising only Notes with a denomination of at least NLG 100,000 or the equivalent in any other currency, or, when issued by MAFS or the Bank, in a denomination of at least NLG 100,000 or the equivalent in any other currency; or
- (iv) not be offered, transferred or sold, whether directly or indirectly, to any individual or legal entity, as part of their initial distribution or at any time thereafter, other than to individuals or legal entities, situated *anywhere in the world*, who or which trade or invest in securities in the conduct of their profession or trade (which includes banks, brokers, dealers, insurance companies, pension funds, other institutional investors and commercial enterprises which regularly, as an ancillary activity, invest in securities), in which case:
  - (a) it must be made clear upon making the offer and from any documents or advertisements in which a forthcoming offering of Notes is publicly announced that the offer is exclusively made to the said individuals or legal entities; and
  - (b) a copy of any offering material (including the relevant Pricing Supplement) must be submitted to the STE before the issue date; or
- (v) (for syndicated tranches of Notes) only be issued and offered if the following criteria are met:
  - (a) the Notes are subscribed for and placed by a syndicate of which at least two members are domiciled in different EU Member States;

- (b) 60 per cent. or more of the issue is placed by syndicate members which are situated in one or more states other than the jurisdiction of the relevant Issuer; and
- (c) investors may only acquire the Notes being offered through the intermediary of a bank or other financial institution;

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

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

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

- (a) the relevant Issuer and the relevant Dealer or Dealers procure that any advertisement or document in which a forthcoming offering of Notes is publicly announced will be submitted to the STE prior to publication thereof and will mention the fact that the Information Memorandum will be published and will be made available for inspection at the registered office of the relevant Issuer and at the office of the Principal Paying Agent; and
- (b) each relevant Dealer represents and agrees that prior to the submission of the Information Memorandum (with the approval of the competent authorities) and the relevant Pricing Supplement to the STE:
  - (i) unless any series of Notes comprises only Notes with a denomination of no less than NLG 100,000 (or the equivalent in another currency), it has not offered, transferred or sold any Notes and will not, directly or indirectly, offer, transfer or sell any Notes with a denomination of less than NLG 100,000 (or the equivalent in another currency), except to individuals or legal entities as referred to in (iv) above; and
  - (ii) either it has not distributed and will not distribute any offering or promotional materials in respect of the Notes or it has complied and will comply with the conditions under (iv)(a) and (b) above;

and each invitation telex and relevant Pricing Supplement in respect of such Notes will set forth the restrictions under (i) and (ii) above.

II. In addition to the above, Zero Coupon Notes in definitive form may only be transferred and accepted through the mediation of either the relevant Issuer or a member of the Amsterdam Stock Exchange (*Vereniging voor de Effectenhandel*) in accordance with the Dutch Savings Certificates Act ("*Wet inzake Spaarbewijzen*") of 21 May 1985. Such restrictions do not apply (a) to a transfer and acceptance of Zero Coupon Notes in definitive form between individuals not acting in the course of a business or profession, or (b) to the transfer and acceptance of Zero Coupon Notes in definitive form if the Zero Coupon Notes (either in definitive form or as rights representing an interest in the Zero Coupon Notes in global form) are issued outside The Netherlands and are not distributed within The Netherlands in the course of initial distribution or immediately thereafter. For purposes of this paragraph "Zero Coupon Notes" are Notes that are to bearer and that constitute a claim for a fixed sum against the relevant Issuer and that do not pay interest during their term or pay interest only at maturity.

## Australia

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

- (i) has not (directly or indirectly) offered for subscription or purchase or issued invitations to subscribe for or buy nor has it sold such Notes;

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

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

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

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

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

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

## GENERAL INFORMATION

1. The listing of each Series of Listed Notes on the London Stock Exchange will be expressed as a percentage of their principal amount (excluding accrued interest). The listing of the Programme on the London Stock Exchange is expected to be granted on 30 June 1995. Any Tranche of Notes intended to be listed on the London Stock Exchange will be admitted to the Official List upon submission to the London Stock Exchange of the relevant Pricing Supplement and any other information required by the London Stock Exchange, subject to the issue of the relevant Notes. Prior to official listing, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the fifth working day after the day of the transaction.

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

2. Save as disclosed herein, since 31 December 1994, there has been no significant change in the financial or trading position nor any material adverse change in the financial position or prospects of MIFS, MAFS or Midland Bank plc and its subsidiary undertakings (taken as a whole).

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

4. KPMG Chartered Accountants, Registered Auditors have audited without qualification the Annual Report and Accounts of Midland for the financial years ended 31 December 1993 and 1994. Ernst & Young, Chartered Accountants, Registered Auditors, Rolls House, 7 Rolls Building, Fetter Lane, London EC4A 1NH have audited without qualification the Annual Report and Accounts of Midland for the preceding financial year. KPMG Accountants N.V., have audited without qualification the Annual Accounts of MIFS for the financial years ended 31 December 1993 and 1994. Moret Ernst & Young, Drentestraat 20, 1083 HK Amsterdam have audited without qualification the Annual Accounts of MIFS for the preceding financial year.

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

6. The establishment of the Programme was authorised by resolutions of a Committee of the Board of Directors of the Bank passed on 23 June 1994 and 29 June 1995, by resolutions of the Managing Directors of MIFS passed on 15 June 1994 and 29 June 1995 and by a resolution of the Board of Directors of MAFS passed on 29 June 1995.

7. From the date of this document and throughout the life of the Programme, copies and, where applicable, English translations of the Certificate of Incorporation of the Bank, the Memorandum and Articles of Association of the Bank, the constitutive documents of MIFS, the consolidated Annual Report and Accounts of the Bank and the Directors Report and Accounts of MIFS in respect of each of the financial years ended 31 December 1993 and 1994 respectively, the constitutive documents of MAFS, all future Annual Reports and Accounts of the Bank, all future Directors Reports and Accounts of MIFS and all future Annual Report and Accounts of MAFS, Statements of Interim Results of the Bank, the current listing particulars in relation to the Programme, together with any amendments or supplements thereto and any documents incorporated therein by reference and (in relation to listed Notes only) any future Pricing Supplements and copies of the Trust Deed, the Agency Agreement, the Dealer Agreement and the consents of KPMG and KPMG Accountants N.V., referred to above will be available for inspection, during normal business hours at the principal office of the Trustee and at the registered offices of the Bank, MIFS and MAFS.



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

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

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

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

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

- (a) the Government of Iraq, the Federal Republic of Yugoslavia (Serbia and Montenegro) or the Republic of Bosnia and Herzegovina or to their respective agencies or nationals; or
- (b) the Government of Libya or any public authority or controlled entity of the Government of Libya,

may only be made with Reserve Bank of Australia approval.

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

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