



**MIDLAND**

Annual Report and Accounts  
1994

MIDLAND BANK PLC

COMPANY NUMBER: 14259



Member HSBC Group

# Financial Overview

	1994	1993
	£M	£M
<b>For the year</b>		
Profit on ordinary activities before tax	905	844
Profit attributable	595	646
.....		
<b>At year-end</b>		
Shareholders' funds	2,858	2,670
Capital resources	5,537	5,138
Customer accounts and deposits by banks	58,225	57,287
Assets	80,375	76,473
Risk-weighted assets	48,225	45,425
.....		
<b>Ratios</b>	%	%
Return on average shareholders' funds (equity)	21.2	25.6
Capital ratios		
risk assets	11.5	11.3
tier 1 capital	6.6	6.5
Cost : income ratio	70.1	60.1
.....		
<b>Per ordinary share</b>	pence	pence
Earnings	73.1	80.7

# Board of Directors

SIR WILLIAM PURVES, CBE, DSO, Chairman. Age 63. Appointed a Director in 1987; Group Chairman of HSBC Holdings plc, Chairman of The British Bank of the Middle East and a Director of The Hongkong and Shanghai Banking Corporation Limited and Marine Midland Banks, Inc. and a non-executive Director of The 'Shell' Transport and Trading Company, plc.

G MAITLAND SMITH, Deputy Chairman. Age 62. Appointed a Director in 1986 and non-executive Deputy Chairman since 1992; a non-executive Director of HSBC Holdings plc, Chairman of Sears plc and non-executive Chairman of Hammerson plc.

KR WHITSON<sup>†</sup>, Chief Executive. Age 51. Chief Executive since April 1994; appointed a Director and Deputy Chief Executive in 1992; an executive Director of HSBC Holdings plc, Chairman of Midland Life Limited and Forward Trust Group Limited and Deputy Chairman of the Supervisory Board of Trinkaus & Burkhardt KGaA.

RMJ ORGILL<sup>†</sup>, Deputy Chief Executive. Age 56. Appointed a Director and Deputy Chief Executive in April 1994; Chairman of Midland Bank SA, a Director of The Thomas Cook Group Limited and Euroclear Clearance System S.C.

BH ASHER. Age 58. Appointed a Director in 1991; Chairman, Investment Banking Group, HSBC Holdings plc, Executive Chairman of James Capel & Co. Limited and Chairman of HSBC Investment Bank Limited, Samuel Montagu & Co. Limited and HSBC Investment Bank Asia Holdings Limited.

JRH BOND. Age 53. Appointed a Director in 1993; Group Chief Executive of HSBC Holdings plc, Chairman of Hongkong Bank of Canada and a Director of The Hongkong and Shanghai Banking Corporation Limited, Hang Seng Bank Limited, Hongkong Bank Malaysia Berhad, The Saudi British Bank and a non-executive Director of the London Stock Exchange, British Steel plc, Eurorail CTRL Limited and Visa International. President and Chief Executive Officer of Marine Midland Banks, Inc. from 1991 to 1992.

R DELBRIDGE. Age 52. Appointed a Director in 1989; Group Finance Director of HSBC Holdings plc.

JF DEVANEY. Age 48. Appointed a Director in March 1994; Chief Executive and Managing Director of Eastern Group PLC and a non-executive Director of Penske Transportation, Inc. Formerly Chairman and Chief Executive Officer of Kelsey-Hayes Corporation.

SIR ARCHIBALD FORSTER. Age 67. Appointed a Director in 1986; a Director of Trafalgar House plc, Lloyds Register of Shipping Limited, United Newspapers plc and Engen Limited and a former Chairman and Chief Executive of Esso UK plc.

AJ HALES. Age 46. Appointed a Director in June 1994; Chief Executive of Allied Domecq PLC, a non-executive Director of Welsh Water PLC and Chairman of the CBI National Manufacturing Council.

HH JACOBI. Age 60. Appointed a Director in January 1995. Chairman of the Managing Partners of Trinkaus & Burkhardt KGaA, a Director of Amtrol Inc., Atlanta AG, Braun AG and The Gillette Company. President of the North Rhine-Westphalia Stock Exchange and a Director of Deutsche Börse AG in Frankfurt.

C MILLER SMITH. Age 55. Appointed a Director in January 1994; Chief Executive designate of Imperial Chemical Industries PLC and a former Director of Unilever plc and Unilever NV.

SIR WILFRID NEWTON, CBE. Age 66. Appointed a Director in 1992; a non-executive Director of HSBC Holdings plc, Chairman of Raglan Properties plc, John I. Jacobs PLC and Mountcity Holdings Limited. A non-executive Director of Maunsell Holdings Limited and Sketchley plc. Former Chairman of London Regional Transport and Mass Transit Railway Corporation and a non-executive Director of The Hongkong and Shanghai Banking Corporation Limited from 1986 to 1992.

JE STRICKLAND. Age 55. Appointed a Director in 1993; Executive Director Services of HSBC Holdings plc, Chairman of Wayfoong Property Limited and a Director of The Hongkong and Shanghai Banking Corporation Limited and Marine Midland Banks, Inc.

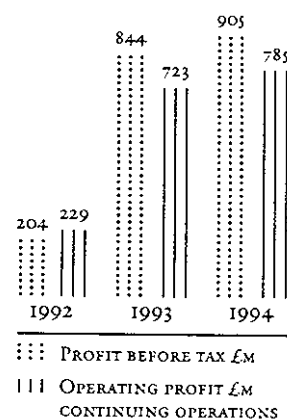
J TOWERS. Age 46. Appointed a Director in April 1994; Chief Executive of Rover Group Limited. A fellow of the Royal Academy of Engineering, the Institution of Mechanical Engineers and the Institution of Industrial Managers, and a member of the UK Council for Science and Technology, and a member of the Design Council.

<sup>†</sup>Executive Directors

SECRETARY AND REGISTERED OFFICE  
RG Barber, Poultry, London EC2P 2BX

# Financial Review

RESULTS OF PRINCIPAL BUSINESSES	1994	1993	1992
	£M	£M	£M
Operating profit/(loss) of continuing operations:			
Commercial Banking			
- UK Banking	460	97	(96)
- International Banking	68	(51)	(31)
- Midland Global Markets	(25)	490	146
- Latin American Operations	200	124	164
	<u>703</u>	<u>660</u>	<u>183</u>
Asset Finance	82	63	46
	<u>785</u>	<u>723</u>	<u>229</u>
Operating profit of discontinued operations:			
Investment Banking	-	41	(33)
Thomas Cook	-	-	25
	<u>785</u>	<u>764</u>	<u>221</u>
Profit on disposal of fixed assets and investments	86	45	51
Net profit on disposal of discontinued operations	-	-	56
Reorganisation and restructuring costs	-	-	(140)
Income from associated undertakings	34	35	16
Profit before tax	<u>905</u>	<u>844</u>	<u>204</u>



UK BANKING	1994	1993	1992
	£M	£M	£M
Net interest income	1,286	1,213	1,131
Other operating income	973	993	936
	<u>2,259</u>	<u>2,206</u>	<u>2,067</u>
Operating expenses	<u>(1,616)</u>	<u>(1,628)</u>	<u>(1,559)</u>
Operating profit before provisions	643	578	508
Provisions for bad and doubtful debts	(141)	(465)	(545)
Provisions for contingent liabilities and commitments	(37)	-	-
Amounts written off fixed asset investments	(5)	(16)	(59)
Operating profit/(loss)	<u>460</u>	<u>97</u>	<u>(96)</u>

Operating profit before provisions increased by 11% to £643M. Net interest income increased by £73M. Reduced levels of non-performing debt, increased net free funds, increased mortgage lending, increased card balances, and asset growth in First Direct all contributed to this improvement, but there were lower spreads on liability products.

# Financial Review (continued)

Other operating income fell by £20M mainly due to the transfer of Montagu Private Equity to HSBC Investment Banking on 30 April 1994. Excluding this, other operating income was broadly in line with 1993. Fee income from card services, mortgages, electronic banking products and Midland Securities Services increased, but branch fee and commission income pricing revisions in mid 1993 led to lower charges for many personal customers. Despite difficult trading conditions, caused by increased regulatory demand and the poor performance of the stock market, income from personal financial services products was only slightly lower than 1993.

Operating expenses were £12M lower than 1993. Staff costs rose, reflecting the impact of pay awards, increased headcount to service business growth and costs incurred in rationalising the network. Other operating expenses fell, principally reflecting lower premises and equipment costs.

The £324M reduction in the doubtful debt charge reflected the improvement in the UK economy. The specific charge for corporate lending reduced by £257M to £110M in 1994 and the specific personal charge reduced by £41M to £39M.

The Securities and Investment Board concluded its review of the industry's past business conduct in relation to pension transfers, and non-joiners and opt-outs of occupational pension schemes, in October 1994. Following the publication of its findings and recommendations, a £37M 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 included within provisions for contingent liabilities and commitments, bringing the provision in this respect to £45M.

INTERNATIONAL BANKING	1994 £M	1993 £M	1992 £M
Net interest income	137	126	101
Other operating income	149	199	127
	<u>286</u>	<u>325</u>	<u>228</u>
Operating expenses	<u>(205)</u>	<u>(235)</u>	<u>(236)</u>
Operating profit/(loss) before provisions	81	90	(8)
Provisions for bad and doubtful debts	(13)	(131)	(23)
Amounts written off fixed asset investments	-	(10)	-
Operating profit/(loss)	<u>68</u>	<u>(51)</u>	<u>(31)</u>

International Banking recorded a £68M profit in 1994 compared with a loss of £51M in 1993, mainly due to a £118M reduction in the doubtful debt charge.

Net interest income increased by £11M, principally in Germany due to improved spread between funding cost and yield on securities held.

The £50M reduction in other operating income reflects reduced dealing profits from treasury operations in continental Europe.

Operating expenses were £30M lower. Provisions in 1993 of £19M for costs associated with surplus premises did not recur, and staff costs were lower.

The charge for doubtful debts fell by £118M. The 1993 charge was unusually high due to substantial charges in France, principally property related, and to a lesser extent in Germany.

MIDLAND GLOBAL MARKETS	1994	1993	1992
	£M	£M	£M
Net interest income	161	157	95
Net fees and commissions (payable)/receivable	(35)	5	(30)
Dealing profits			
– Foreign exchange	110	166	95
– Interest rate derivatives	17	175	23
– Securities	(118)	125	52
– Equities and other trading	(1)	–	–
	8	466	170
Other operating income	(27)	471	140
	134	628	235
Operating expenses	(159)	(138)	(89)
Operating (loss)/profit	(25)	490	146

Midland Global Markets comprises the treasury operations of Midland in London, New York and Tokyo.

Net interest income increased by £4M to £161M. The trading bond portfolio generated higher net interest income due to improved interest spread between funding cost and yield on securities held. However, this increase was partly offset by the effect of narrower spreads in money market trading.

Dealing profits decreased by £458M compared with 1993. The decrease was mainly in interest rate derivatives and securities trading reflecting difficult trading conditions, particularly following interest rate rises in the first quarter. Proprietary position taking in both interest rate derivatives and securities lost £73M in 1994, of which £72M arose in the first half, compared with a profit of £157M in 1993. The second half of 1994 showed a slight improvement over the first half, with a small dealing profit being recorded.

Operating expenses increased by £21M compared with 1993. The costs of an increase in headcount, reflecting the transfer of Samuel Montagu's fixed income capital markets operations to Midland and growth in other front office operations including specialised derivatives, together with higher administrative expenses, were partly offset by reduced bonuses.

# Financial Review (continued)

LATIN AMERICAN OPERATIONS	1994 £M	1993 £M	1992 £M
Net interest income	119	163	67
Other operating income	<u>14</u>	<u>12</u>	<u>8</u>
	133	175	75
Operating expenses	<u>(12)</u>	<u>(14)</u>	<u>(13)</u>
Operating profit before provisions	121	161	62
Release of/(provisions for) bad and doubtful debts	<u>79</u>	<u>(37)</u>	<u>102</u>
Operating profit	<u><u>200</u></u>	<u><u>124</u></u>	<u><u>164</u></u>

Latin American Operations manage the Midland LDC portfolio and its commercial and investment banking activities in Latin America.

Net interest income was £44M lower than 1993. 1993 benefited from substantial income from both Argentina, following the Brady restructuring agreement, and Chile, due to income from securities held following debt restructuring in 1992 and sold in the latter part of 1993. Net interest income in 1994 includes the recovery of previously suspended interest following the Brady restructuring agreement for Brazilian debt.

The £79M net release of provisions in 1994 principally derives from the sale of debt.

ASSET FINANCE	1994 £M	1993 £M	1992 £M
Net interest income	125	125	131
Other operating income	<u>154</u>	<u>97</u>	<u>31</u>
	279	222	162
Operating expenses	<u>(174)</u>	<u>(122)</u>	<u>(75)</u>
Operating profit before provisions	105	100	87
Provisions for bad and doubtful debts	<u>(23)</u>	<u>(37)</u>	<u>(41)</u>
Operating profit	<u><u>82</u></u>	<u><u>63</u></u>	<u><u>46</u></u>

Forward Trust enjoyed a record operating profit of £82M. Business Finance, Personal Finance, Factoring and Motor Finance (including Swan National Leasing, which was acquired in July 1993) all contributed to the improved performance.

The £57M increase in other operating income compared with 1993 principally reflects gross income from operating lease assets arising from the acquisition of Swan National Leasing. This increase is largely offset by a related increase in the charge for depreciation included in operating expenses. Other operating income also increased due to higher volumes in Griffin Factors.

The charge for doubtful debts was £14M lower than 1993, reflecting a continuing reduction in the level of loan default.

NET INTEREST INCOME	1994	1993	1992
Continuing operations	£M	£M	£M
Net interest income	1,828	1,784	1,525
Average interest earning assets	63,807	64,608	57,556
Interest spread (per cent)	2.32	2.26	1.82
Net interest margin (per cent)	2.86	2.76	2.65

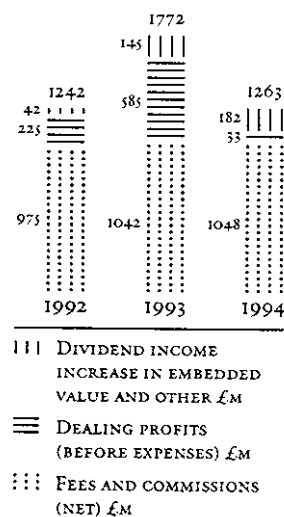
Action to formalise netting arrangements with customers led to a reduction in average interest earning assets of £3.2BN in 1994 over 1993. If 1993 balances had been netted by the same amount, average interest earning assets would have been £61.4BN. After allowing for this, there was an underlying increase in interest earning assets of £2.4BN, principally due to increased loans to banks and growth in mortgage lending.

The increase of £44M in net interest income was mainly due to a reduction in the level of non-performing debt and improved interest spread between funding cost and yield on securities held. Net interest income arising from recovery of suspended interest on loans to Less Developed Countries ('LDCs') was £11M lower than in 1993.

After allowing for the effect of netting arrangements described above, the interest spread decreased to 2.32% from 2.34%. Lower spreads on liability products, and the effect of a higher proportion of lower spread money market and dealing assets were partly offset by lower levels of non-performing debt and improved spreads on card balances.

After allowing for the effect of netting arrangements described above, net interest margin fell to 2.86% from 2.91%. This was due to the reduction in spreads and the effect of lower interest rates, partly offset by the benefit of an increase in net free funds.

OTHER OPERATING INCOME	1994	1993	1992
Continuing operations	£M	£M	£M
Dividend income	10	21	5
Fees and commissions receivable	1,101	1,078	992
Fees and commissions payable	(53)	(36)	(17)
Dealing profits			
– Foreign exchange	131	205	125
– Interest rate derivatives	43	200	22
– Securities	(151)	160	76
– Equities and other trading	10	20	2
	33	585	225
Increase in embedded value	62	67	55
Other	110	57	(18)
Total other operating income	1,263	1,772	1,242



Dividend income was £10M, down from £21M in 1993. This was due to the transfer of Montagu Private Equity to HSBC Investment Banking on 30 April 1994.



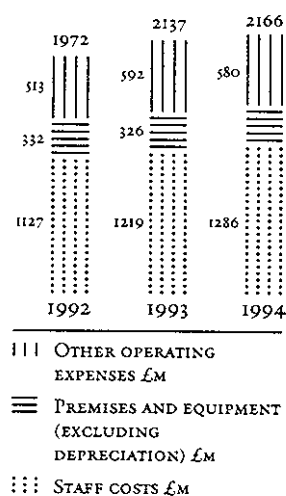
# Financial Review (continued)

Fees and commissions receivable were £23M higher than 1993. Branch fee and commission income reduced following pricing revisions, which led to lower charges for many personal customers, in mid 1993. This decrease was partly offset by increased fee income from card services and mortgages. Elsewhere fee income rose with increases in Asset Finance, reflecting higher factoring income, Corporate and Institutional Banking, mainly due to higher levels of electronic banking business, and First Direct, as a result of an increase in the account base.

Dealing profits, which arise from Midland Global Markets' and International Banking's treasury operations and do not include net interest income earned on dealing assets, decreased by £552M or 94% compared with 1993. The decrease was mainly in interest rate derivatives and securities trading and was caused by difficult trading conditions, following rises in interest rates in the first quarter. Proprietary position taking in interest rate derivatives and securities lost £73M in 1994 compared with a profit of £157M in 1993. £72M of proprietary trading losses were incurred during the first half of 1994. Dealing profits, which showed a loss of £6M for the first half of 1994, improved to a profit of £39M in the second half of the year.

In a difficult market environment, affected by increasing regulatory demands and the poor performance of the stock market, the embedded value of life assurance business increased by £62M, compared with £67M in 1993.

Other income was £53M higher than 1993 mainly due to increased gross income from operating lease assets arising in Swan National Leasing which was acquired in July 1993. This increase was largely offset by a related increase in the charge for depreciation.



OPERATING EXPENSES	1994	1993	1992
Continuing operations	£M	£M	£M
Staff costs	1,286	1,219	1,127
Premises and equipment (excluding depreciation)	300	326	332
Other administrative expenses	392	425	384
Administrative expenses	1,978	1,970	1,843
Depreciation	188	167	129
Total operating expenses	2,166	2,137	1,972
Cost : income ratio (per cent)	70.1	60.1	71.3
Staff numbers (full-time equivalent)	45,900	45,088	45,317

Operating expenses were £29M higher than 1993. This increase combined with the £465M decrease in operating income has led to the cost : income ratio rising to 70.1%.

Midland continues to develop its target markets in retail banking and additional staff have been recruited to service growth in First Direct, Midland Personal Financial Services and mortgages. Staff numbers have also grown as a result of bringing in-house certain cards operations previously processed externally.

Staff costs were £1,286M compared with £1,219M in 1993. The costs of the increase in staff numbers and the 1994 pay award, together with a £13M charge for additional pension contributions following the 1993 actuarial valuation of the Midland Bank Pension Scheme, were partly offset by reduced bonuses in Midland Global Markets.

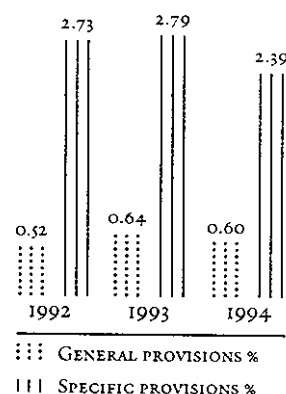
The charge for depreciation increased to £188M from £167M in 1993 mainly as a result of the depreciation of operating lease assets in Swan National Leasing which was acquired in July 1993.

# CHARGE FOR BAD AND DOUBTFUL DEBTS

Continuing operations	1994	1993	1992
	£M	£M	£M
Domestic			
- UK Banking	141	465	545
- Asset Finance	23	37	41
	<u>164</u>	<u>502</u>	<u>586</u>
International (excluding LDC)	1	131	23
LDC	<u>(67)</u>	<u>37</u>	<u>(102)</u>
	<u>98</u>	<u>670</u>	<u>507</u>

The doubtful debt charge at £98M was £572M lower than in 1993. There were sharp improvements in both the domestic UK charge, which was £338M lower at £164M, reflecting the improvement in the economy, and the international charge (excluding LDCs), which was £130M lower at £1M, due to the non-recurrence of substantial provisions in France and Germany in 1993. There was a net release of LDC provisions of £67M, comprising a £73M release in Latin American Operations as a result of debt sales, and a £6M charge overseas.

BAD DEBT PROVISIONS (excluding LDC provisions) to gross lending (excluding LDC loans)	31 Dec 1994	31 Dec 1993	31 Dec 1992
	%	%	%
Specific provisions	2.39	2.79	2.73
General provisions	<u>0.60</u>	<u>0.64</u>	<u>0.52</u>
Total provisions	<u>2.99</u>	<u>3.43</u>	<u>3.25</u>



Total specific provisions (excluding those relating to LDCs) amounted to £928M or 2.39% of lending (excluding LDC loans). General provisions amounted to £230M or 0.60% of lending.

LDC EXPOSURE AND PROVISIONS	31 Dec 1994	31 Dec 1993	31 Dec 1992
	£M	£M	£M
Provisionable exposure	1,075	1,711	2,400
Provisions	293	820	1,126
Provisions as a percentage of provisionable exposure	27%	48%	47%

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 £800M (31 December 1993 £721M). LDC provisionable exposure excludes suspended interest of £46M (31 December 1993 £177M).

Provisions as a percentage of provisionable exposure reduced due to the utilisation of provisions following the debt restructuring agreement with Brazil, and sales of debt.

# Report of the Directors

**RESULTS FOR 1994.** The consolidated profit for the year attributable to the shareholders of Midland Bank plc ('the Bank') and its subsidiary and associated undertakings ('Midland') was £595 million.

Interim dividends for 1994 of £100 million, £50 million and a further £50 million were paid on the ordinary share capital on 19 August and 4 November and 30 December 1994 respectively. The Directors propose to pay a further interim dividend for 1994 of £200 million and to transfer £182 million to reserves.

Further information about the results is given in the accompanying consolidated profit and loss account on page 18.

**PRINCIPAL ACTIVITIES AND BUSINESS REVIEW.** Midland provides a comprehensive range of banking, financial and related services.

The Bank has some 1,700 branches in the United Kingdom, the Channel Islands and the Isle of Man. Overseas it has branches in France, Greece, Japan, Spain, Sweden and the USA; representative offices in Argentina, Brazil, Chile, Colombia, Ireland, Mexico, Russia, Singapore, Taiwan and Venezuela; and subsidiary undertakings in France, Germany, Ireland, Luxembourg, Switzerland and Turkey.

A review of the development of the business of Midland during the year and an indication of likely future developments are given in the 'Financial Review' on pages 3 to 9.

**VALUATION OF FREEHOLD AND LONG LEASEHOLD LAND AND BUILDINGS.** Midland's freehold and long leasehold land and buildings were revalued at the end of 1992, on the basis of market value for existing use. The market value of these premises has been reviewed at 31 December 1994. The Directors do not consider that there is any significant difference between the net book value of premises as stated in the accounts at 31 December 1994 and market value at that date.

**DIRECTORS.** The names of Directors serving at the date of this report are listed on page 2.

During the year JF Devaney, AJ Hales, C Miller Smith, J Towers and RMJ Orgill were appointed Directors and Sir Colin Marshall and Sir Peter Walters resigned. HH Jacobi was appointed a Director and Sir Brian Pearse resigned on 27 January 1995.

Having been appointed since the last Annual General Meeting, AJ Hales and HH Jacobi will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. BH Asher, Sir William Purves and JE Strickland will retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election.

**DIRECTORS' INTERESTS.** Directors of the Bank at the year-end had the following interests, all beneficial, in the shares and loan capital of HSBC Holdings plc:

	AT 1 JANUARY 1994 (OR AT DATE OF APPOINTMENT IF LATER)	AT 31 DECEMBER 1994
<b>Ordinary Shares of HK\$10</b>		
BH Asher	2,100	2,100
JRH Bond	15,830	16,538
Sir Wilfrid Newton	3,356	3,505
Sir William Purves	40,861	34,331
JE Strickland	26,868	28,068
KR Whitson	1,524	1,591
<b>Ordinary Shares of 75p</b>		
R Delbridge	7,372	7,621
Sir Archibald Forster	4,008	4,187
AJ Hales	1,000	1,000
G Maitland Smith	1,742	1,805
Sir Wilfrid Newton	-	2,000
Sir Brian Pearse	24,595	12,431
Sir William Purves	1,311	1,369
<b>11.69% Subordinated Bonds 2002</b>		
JRH Bond	500,000	500,000
R Delbridge	3,900	3,900
Sir Archibald Forster	2,072	2,072
G Maitland Smith	910	910
Sir Wilfrid Newton	35,000	35,000
RMJ Orgill	250,000	250,000
Sir Brian Pearse	13,143	13,143

# Report of the Directors (continued)

**DIRECTORS' INTERESTS (CONTINUED).** At 31 December 1994, the undernamed executive Directors held options to acquire the number of HSBC Holdings plc ordinary shares of 75p each set against their respective names. The options granted under the HSBC Holdings plc executive share option scheme were for nil consideration at exercise prices equivalent to the market value at the date of grant, and the options granted under the HSBC Holdings plc savings-related share option scheme were granted at 15 per cent discount to market value. The number of shares and the exercise prices of options outstanding on 1 June 1994 were adjusted in accordance with the terms of the share option schemes for the bonus element of the enhanced scrip alternative to the HSBC Holdings plc 1993 final dividend. There are no performance criteria conditional upon which the options are exercisable. The market value of the ordinary shares of 75p each at 30 December 1994 (the last day in 1994 when the London Stock Exchange was open for business) was 706p. The highest and lowest market values during the year were 1,099p and 661p. Market value is the mid-market price quoted on the London Stock Exchange on the relevant date.

	Options held at 1 January 1994 (or at date of appointment if later)	Options granted during year	Options exercised during year	Options held at 31 December 1994 <sup>†</sup>	Exercise price in pence	Exercisable from	Exercisable until
RMJ Orgill	7,000		–	7,063 <sup>†</sup>	721.84	12 Oct 1996	12 Oct 2003
	10,000		–	10,090 <sup>†</sup>	851.27	8 Mar 1997	8 Mar 2004
		1,463	–	1,476 <sup>§</sup>	700.84	1 Jul 1999	31 Dec 1999
KR Whitson	8,500		–	8,577 <sup>†</sup>	721.84	12 Oct 1996	12 Oct 2003
		12,500	–	12,613 <sup>†</sup>	851.27	8 Mar 1997	8 Mar 2004

<sup>†</sup> Adjusted for the bonus element of the enhanced scrip alternative to the HSBC Holdings plc 1993 final dividend

<sup>†</sup> Options granted under the HSBC Holdings plc executive share option scheme

<sup>§</sup> Options granted under the HSBC Holdings plc savings-related share option scheme

Save as stated above, none of the Directors had an interest in any shares or debentures of HSBC Holdings plc or any of its subsidiary undertakings at 1 January 1994 or at 31 December 1994, and none of the Directors, or members of their immediate families, was granted or exercised any right to subscribe for any shares or debentures during the year, which is required to be recorded in the Register of Directors' Interests maintained by the Bank pursuant to Section 325 of the Companies Act 1985.

There have been no changes in these interests since 31 December 1994.

Further particulars of the interests of Directors of the Bank, who are also Directors of HSBC Holdings plc, are stated in the 1994 Annual Report and Accounts of that Company.

None of the Directors had during the year or at the end of the year a material interest, directly or indirectly, in any contract of significance with the Bank or any of its subsidiary undertakings.

DIRECTORS' EMOLUMENTS. The emoluments of the Directors of the Bank for 1994 were as follows:

	Fees £'000	Salary and other remuneration £'000	Benefits in kind £'000	Discretionary bonuses <sup>8</sup> £'000	Pension contributions £'000	Total £'000
Sir William Purves	–	–	–	–	–	–
Sir Peter Walters <sup>1</sup>	–	50	–	–	–	50
KR Whitson	–	281	6	60	37	384
RMJ Orgill <sup>2</sup>	11	176	13	38	21	259
Sir Brian Pearse <sup>3</sup>	11	110	6	–	–	127
G Maidland Smith	–	45	–	–	–	45
Sir Archibald Forster	18	4	–	–	–	22
C Miller Smith	15	4	–	–	–	19
Sir Wilfrid Newton	15	–	–	–	–	15
JF Devaney <sup>4</sup>	11	1	–	–	–	12
J Towers <sup>5</sup>	11	–	–	–	–	11
AJ Hales <sup>6</sup>	8	–	–	–	–	8
Sir Colin Marshall <sup>7</sup>	4	–	–	–	–	4
BH Asher	–	–	–	–	–	–
JRH Bond	–	–	–	–	–	–
R Delbridge	–	–	–	–	–	–
JE Strickland	–	–	–	–	–	–
Total	104	671	25	98	58	956

<sup>1</sup> Retired on 31 March 1994 (Chairman to 31 March 1994)

<sup>2</sup> Appointed on 1 April 1994

<sup>3</sup> Resigned as Chief Executive on 31 March 1994

<sup>4</sup> Appointed on 25 March 1994

<sup>5</sup> Appointed on 5 April 1994

<sup>6</sup> Appointed on 24 June 1994

<sup>7</sup> Resigned on 25 March 1994

<sup>8</sup> These discretionary bonuses in respect of 1994 will be paid in 1995

# Report of the Directors (continued)

**DIRECTORS' AND OFFICERS' LIABILITY INSURANCE.** Directors' and Officers' liability insurance was maintained during the year.

**EMPLOYMENT OF DISABLED PERSONS.** Midland seeks to employ a workforce reflecting the community, which includes people with disabilities.

Midland has a rehabilitation policy under which it will make every effort, if existing employees become disabled, to retain them within the workforce wherever reasonable and practicable. The training, development and promotion of employees with disabilities follows the same pattern as for other employees with the objective of enabling them to realise their potential and to contribute fully to the business.

Midland is raising awareness of disability amongst its employees by a continuing programme of disability equality training. The process for recruiting graduates into Midland actively encourages applications from candidates with disabilities.

**EMPLOYEE COMMUNICATION AND INVOLVEMENT.** A wide variety of communication methods is used to maintain and encourage effective two-way communication with employees on key issues. Consultation arrangements, agreed in conjunction with the recognised union within Midland, are well established and effective. Encouragement for every employee to contribute to the success of the business is made through performance management. Employees are given the opportunity to participate in the HSBC Holdings plc savings-related share option scheme. Ideas from staff for improving Midland's operations and services are sought through 'Bright Ideas', the employee suggestion scheme.

**COMMUNITY INVOLVEMENT AND DONATIONS.** During 1994 Midland spent £6 million in support of community activities in the United Kingdom. This was provided in the form of donations, sponsorship, secondment of staff and gifts in kind. Within this, donations were made for charitable purposes totalling £933,000. This figure includes the amount of £330,000 relating to the £1 for £1 staff charity scheme. No political donations were made during the year.

**CORPORATE GOVERNANCE.** The Bank has complied throughout the year with the operative provisions of the Code of Best Practice contained in the Report of the Committee on the Financial Aspects of Corporate Governance ('the Cadbury Committee') published in December 1992, except that it has not appointed a Remuneration Committee. The functions of the Remuneration Committee are fulfilled by the Group Remuneration Committee, a committee of the Board of the Bank's ultimate parent company, HSBC Holdings plc. The provisions of the code under which Directors are required to report on their company's systems of internal control will come into effect in respect of the Annual Report and Accounts for 1995, following publication of guidance for Directors as recommended in the Cadbury Committee's report.

The Board has appointed a number of committees consisting of certain Directors and senior executives. The following are the principal committees:

**EXECUTIVE COMMITTEE.** The Executive Committee meets regularly and operates as a general management committee under the direct authority of the Board. The members of the Committee are K R Whitson (Chairman), R M J Orgill, K J Bryan, M G H Heald, D J Mills, M B McPhee, G E Picken, K W Rigby and R L Wyatt.

**AUDIT COMMITTEE.** The Audit Committee meets regularly with Midland's senior financial, internal audit and compliance management and the external Auditors to consider the nature and scope of audit reviews and the effectiveness of internal control and compliance. The members of the Audit Committee, all of whom are non-executive Directors, are G Maitland Smith (Chairman), J F Devaney, Sir Archibald Forster and C Miller Smith.

**PENSION SCHEMES.** The principal Midland pension scheme is the Midland Bank Pension Scheme, the assets of which are held in a separate trust fund. The Pension Scheme is administered by Midland Bank Pension Trust Limited whose board of nineteen Directors (eight of whom are elected by active members and one by pensioners) meets quarterly. It has three sub-committees which monitor and review investment performance, discretionary benefits, and administration and communications. The Pension Scheme does not invest in shares of the Bank's ultimate parent company or in any of its subsidiary undertakings.

**AUDITORS.** On 6 February 1995 the Auditors changed the name under which they practise to KPMG and, accordingly, have signed their report in their new name. KPMG have expressed their willingness to continue in office. A resolution proposing their reappointment and giving authority to the Directors to fix their remuneration will be submitted to the forthcoming Annual General Meeting.

On behalf of the Board

RG Barber, Secretary, 27 February 1995





# 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

KPMG

# 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)
<b>Net interest income</b>		<b>1,828</b>	<b>1,809</b>
Dividend income	4	10	21
Fees and commissions receivable		1,101	1,097
Fees and commissions payable		(53)	(36)
Dealing profits		33	609
Other operating income		172	141
		<b>1,263</b>	<b>1,832</b>
<b>Operating income</b>		<b>3,091</b>	<b>3,641</b>
Administrative expenses	5	(1,978)	(2,004)
Depreciation and amortisation		(188)	(168)
		<b>(2,166)</b>	<b>(2,172)</b>
<b>Operating profit before provisions</b>		<b>925</b>	<b>1,469</b>
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)
<b>Operating profit</b>		<b>785</b>	<b>764</b>
Profit on disposal of fixed assets and investments	6	86	45
Income from associated undertakings		34	35
<b>Profit on ordinary activities before tax</b>	6	<b>905</b>	<b>844</b>
Tax on profit on ordinary activities	7	(289)	(172)
<b>Profit on ordinary activities after tax</b>		<b>616</b>	<b>672</b>
Minority interests		(21)	(26)
<b>Profit for the financial year attributable to shareholders</b>		<b>595</b>	<b>646</b>
Dividends (including amounts attributable to non-equity shareholders)	9	(413)	(403)
<b>Retained profit for the year transferred to reserves</b>	31	<b>182</b>	<b>243</b>
<b>Earnings per ordinary share</b>	10	<b>73.1p</b>	<b>80.7p</b>

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
<b>Total assets</b>	32	<b>80,375</b>	<b>76,473</b>
<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
		2,858	2,670
<b>Total liabilities</b>	32	<b>80,375</b>	<b>76,473</b>
<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
		5,999	5,062
<b>Commitments</b>	33	<b>27,927</b>	<b>26,254</b>

W Purves, Chairman  
 KR Whitson, Chief Executive and Director  
 RMJ Orgill, Deputy Chief Executive and Director  
 RG 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
Total assets	32	<u>70,683</u>	<u>66,484</u>
<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
		<u>2,858</u>	<u>2,670</u>
Total liabilities	32	<u>70,683</u>	<u>66,484</u>
<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
		<u>6,810</u>	<u>5,880</u>
Commitments	33	<u>26,741</u>	<u>23,494</u>

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>
Shareholders' funds are analysed as follows:		
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 (J) 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.

# Notes to the Accounts (continued)

4. DIVIDEND INCOME	1994 £M	1993 £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	1994 £M	1993 £M
A)		
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 £M	1993 £M
A) INCOME		
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 £M	1993 £M
B) CHARGES		
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
Equity		
Ordinary dividends		
- paid	200	200
- proposed	200	200
	<u>400</u>	<u>400</u>
Non-equity		
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)

## 11. 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	1993	1994	1993
	£M	£M	£M	£M
Remaining maturity				
- 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>
Loans and advances to customers include:				
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	1993	1994	1993
	£M	£M	£M	£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	1993
	£M	£M
Less developed countries exposures to banks and customers (net of provisions in respect of commercial risk)	1,075	1,711
Accrued interest	46	177
	<u>1,121</u>	<u>1,888</u>
Less developed countries risk provisions	(293)	(820)
Suspended interest	(46)	(177)
	<u>782</u>	<u>891</u>
Net exposure to less developed countries		
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
<b>Issued by public bodies</b>								
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>	
<b>Issued by other issuers</b>								
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	<u>2,557</u>		<u>1,802</u>		<u>1,797</u>		<u>1,579</u>	
	<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	<u>7,620</u>		<u>9,500</u>		<u>5,606</u>		<u>7,139</u>	
	<u>12,430</u>		<u>13,026</u>		<u>10,116</u>		<u>10,135</u>	
<b>Debt securities include:</b>								
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 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
<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	3,831		4,449		3,650		4,056	
	<u>7,795</u>		<u>9,138</u>		<u>6,085</u>		<u>7,145</u>	
	<u>12,430</u>		<u>13,026</u>		<u>10,116</u>		<u>10,135</u>	

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

	Cost £M	Provisions £M	Book value £M
<b>Midland</b>			
At 1 January 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 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
<b>Investment securities</b>								
- 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>
<b>Other securities</b>								
- 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 £M	Provisions £M	Book value £M
<b>Midland</b>			
At 1 January 1994	319	(77)	242
Effect of foreign exchange rate and other movements	4	(6)	(2)
Acquisitions	112	-	112
Disposals and transfers on sale of subsidiary undertakings	(308)	77	(231)
Transfer from associated undertakings	70	-	70
<b>At 31 December 1994</b>	<u>197</u>	<u>(6)</u>	<u>191</u>
<b>Bank</b>			
At 1 January 1994	77	(51)	26
Effect of foreign exchange rate and other movements	(18)	19	1
Acquisitions	88	-	88
Disposals	(132)	32	(100)
Transfer from associated undertakings	70	-	70
<b>At 31 December 1994</b>	<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	<u>(23)</u>	<u>(25)</u>
	<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	<sup>†</sup> 30%	Argentinian Pesos 50M
UBAF Bank Limited	31/12/94	England	Banking	25% 25%	US\$81M £32M fully paid, £5M nil paid

<sup>†</sup> 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	<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	1,110
Acquisitions	11
Transfers from subsidiary undertakings of the Bank	297
Repayment of capital by subsidiary undertakings	(137)
Liquidations	(23)
Provisions	(78)
Revaluation	50
At 31 December 1994	<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	1993
	£M	£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	Long leasehold land and buildings	Short leasehold land and buildings	Equipment, fixtures and fittings	Equipment on operating leases	Total
Midland	£M	£M	£M	£M	£M	£M
Cost or valuation						
At 1 January 1994	564	106	200	848	343	2,061
Reclassification	23	(23)	-	-	-	-
Effect of foreign exchange rate and other movements	3	-	-	9	(3)	9
Additions	69	19	13	132	139	372
Disposals	(7)	(1)	(8)	(65)	(115)	(196)
<b>At 31 December 1994</b>	<b>652</b>	<b>101</b>	<b>205</b>	<b>924</b>	<b>364</b>	<b>2,246</b>
Accumulated depreciation						
At 1 January 1994	(3)	(2)	(117)	(563)	(105)	(790)
Effect of foreign exchange rate and other movements	-	-	(2)	-	11	9
Disposals	-	-	5	56	68	129
Charge for the year	(4)	(3)	(16)	(85)	(80)	(188)
<b>At 31 December 1994</b>	<b>(7)</b>	<b>(5)</b>	<b>(130)</b>	<b>(592)</b>	<b>(106)</b>	<b>(840)</b>
Net book value						
<b>At 31 December 1994</b>	<b>645</b>	<b>96</b>	<b>75</b>	<b>332</b>	<b>258</b>	<b>1,406</b>
At 31 December 1993	561	104	83	285	238	1,271
<b>Bank</b>						
Cost or valuation						
At 1 January 1994	406	95	170	733	-	1,404
Reclassification	23	(23)	-	-	-	-
Additions	49	19	12	121	-	201
Disposals	(18)	(1)	(7)	(60)	-	(86)
<b>At 31 December 1994</b>	<b>460</b>	<b>90</b>	<b>175</b>	<b>794</b>	<b>-</b>	<b>1,519</b>
Accumulated depreciation						
At 1 January 1994	(3)	(2)	(99)	(492)	-	(596)
Effect of foreign exchange rate and other movements	-	-	(2)	(1)	-	(3)
Disposals	-	-	5	52	-	57
Charge for the year	(4)	(3)	(13)	(72)	-	(92)
<b>At 31 December 1994</b>	<b>(7)</b>	<b>(5)</b>	<b>(109)</b>	<b>(513)</b>	<b>-</b>	<b>(634)</b>
Net book value						
<b>At 31 December 1994</b>	<b>453</b>	<b>85</b>	<b>66</b>	<b>281</b>	<b>-</b>	<b>885</b>
At 31 December 1993	403	93	71	241	-	808



## 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	1993	1994	1993
	£M	£M	£M	£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	1993	1994	1993
	£M	£M	£M	£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	<u>111</u>	<u>79</u>
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	1993	1994	1993
	£M	£M	£M	£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			<u>3,098</u>	<u>2,026</u>
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	1993	1994	1993
	£M	£M	£M	£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	1993	1994	1993
	£M	£M	£M	£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			<u>52</u>	<u>79</u>
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	1993	1994	1993
	£M	£M	£M	£M
Within 1 year	55	55	12	10
1 to 5 years	69	115	18	18
Over 5 years	<u>1</u>	<u>-</u>	<u>1</u>	<u>-</u>
	125	170	31	28
Less future finance charges	<u>(22)</u>	<u>(28)</u>	<u>(10)</u>	<u>(6)</u>
	<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	(39)	(18)	(26)	50
	<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	(24)	(30)	(18)	-
	<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>	<u>73</u>	<u>45</u>	<u>102</u>	<u>38</u>	<u>258</u>
<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>	<u>30</u>	<u>45</u>	<u>98</u>	<u>38</u>	<u>211</u>

## 29. SUBORDINATED LIABILITIES

	MIDLAND		BANK	
	1994	1993	1994	1993
	£M	£M	£M	£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
	<u>1,490</u>	<u>1,247</u>	<u>603</u>	<u>381</u>

## 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 5/8% 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 3/4% 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
<b>Share premium account</b>			
At 1 January 1994	1,226	1,226	-
Effect of foreign exchange rate movements	(7)	(7)	-
<b>At 31 December 1994</b>	<u>1,219</u>	<u>1,219</u>	<u>-</u>
<b>Revaluation reserves</b>			
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)	-	-
<b>At 31 December 1994</b>	<u>(97)</u>	<u>48</u>	<u>-</u>
<b>Profit and loss account</b>			
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	-	-
<b>At 31 December 1994</b>	<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	32,657	32,744	25,797	27,516
<b>Total assets</b>	<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	32,716	33,024	25,911	27,568
<b>Total liabilities</b>	<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	36	41
– loans and advances to customers	1,504	1,706
Hire purchase contracts		
– loans and advances to customers	690	712
Operating leases		
– tangible fixed assets	258	238
	<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 FRS5. 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 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	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 £M	1993 £M
Incurred on behalf of parent and fellow subsidiary undertakings (contract amount)						
– contingent liabilities					105	98

# 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>
Exchange rate contracts	<u>228,960</u>	<u>4,775</u>	<u>1,178</u>	<u>220,491</u>	<u>3,994</u>	<u>995</u>
Interest rate contracts	<u>722,235</u>	<u>5,686</u>	<u>1,446</u>	<u>562,292</u>	<u>3,590</u>	<u>906</u>
Incurred on behalf of subsidiary undertakings (contract amount)					1994 £M	1993 £M
- 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	1993	1994	1993
	£M	£M	£M	£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 £M	1993 £M	1994 £M	1993 £M
Expenditure contracted for	150	96	150	96
Expenditure authorised by the Board, but not contracted for	49	25	42	23
	<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 £M	1993 £M	1994 £M	1993 £M
Premises				
Operating leases which expire				
- within 1 year	2	5	2	5
- 1 to 5 years	7	18	7	17
- over 5 years	60	72	58	69
	<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	3	9	3	9
	<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>					
<b>Gross income</b>					
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
<b>Total gross income</b>	<b>4,677</b>	<b>745</b>	<b>101</b>	<b>73</b>	<b>5,596</b>
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>					
<b>Gross income</b>					
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
<b>Total gross income</b>	<b>5,382</b>	<b>880</b>	<b>162</b>	<b>83</b>	<b>6,507</b>
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.