No 14259

MIDLAND BANK PLC

ANNUAL REPORT
& ACCOUNTS 1991

MIDLAND GROUP

MIDLAND GROUP

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FINANCIAL CALENDAR 1992

Ordinary dividend payments	22 May and 16 October
Interest payments	
7½% Subordinated Unsecured Loan Stock 1983/93	30 June and 31 December
10¼% Subordinated Unsecured Loan Stock 1993/98	30 June and 31 December
14% Subordinated Unsecured Loan Stock 2002/07	31 May and 30 November
Half-yearly results announced	30 July
Annual general meeting	5 May

TAXATION

Capital gains

For the information of shareholders, the adjusted market value of each ordinary share on 31 March 1982, after taking into account subsequent rights and capitalisation issues, was £2·244. Further adjustments must be made where a shareholder has chosen to receive shares instead of cash for dividends.

Scrip dividend alternative

During 1991 the bank offered scrip dividend alternatives in respect of the 1990 second interim dividend paid in May 1991 and the 1991 first interim dividend paid in October 1991. The amount of the dividend necessary to give an entitlement to one new share was fixed at 202p and 244·2p respectively. Those prices did not differ by more than 15% from the market value of one new share on the first day of dealing on The London Stock Exchange. Accordingly the Inland Revenue will not seek to substitute the first day of dealing values and the values for calculating the appropriate amount in cash for inclusion on an individual's tax return will be 202p per share for the May dividend and 244·2p per share for the October dividend. For capital gains tax purposes the base costs, before indexation, to be taken into account on any subsequent disposal will also be 202p per share (May 1991) and 244·2p per share (October 1991).

Shareholders should contact their usual professional advisers if they need further information.

MIDLAND GROUP
FINANCIAL SUMMARY

	1991 £m	1990 £m
RESULTS FOR THE YEAR		
Profit before exceptional items and taxation	57	63
Exceptional items	(21)	(52)
Profit before taxation	36	11
Loss attributable	(39)	(181)
Deficit	(65)	(251)
AT YEAR-END		
Total assets	59,408	59,636
Total weighted risk assets	41,500	43,787
Shareholders' funds	2,350	2,422
Total capital resources	4,496	4,419
PER ORDINARY SHARE		
Loss — net basis	(6·2)p	(24·7)p
Loss — nil distribution basis	(5·6)p	(15·8)p
Dividends	3·4p	9·0p
Net asset value	299p	309p
RATIOS		
Return on average equity — profit before exceptional items and taxation	2·3%	2·2%
profit before taxation	1·4%	0·4%
Return on average shareholders' funds — loss attributable	(1·6)%	(6·7)%
Pre-tax return on average total assets — profit before exceptional items	0·09%	0·10%
profit before taxation	0·06%	0·02%
Capital ratios — total capital to total weighted risk assets	10·3%	9·8%
tier 1 capital to total weighted risk assets	5·5%	5·4%
total equity to total assets	4·2%	4·3%

The annual report on Form 20-F, which is filed with the Securities and Exchange Commission in the US, contains additional statistical information and analyses of the Group's financial position and results of operations for 1991. Copies will be supplied on application to the secretary.

MIDLAND BANK PLC

BOARD OF DIRECTORS

*Sir Peter Walters
Age 61 – appointed a director and vice chairman in 1991 and became chairman later that year. He is chairman of Blue Circle, deputy chairman of Thorn EMI, director of SmithKline Beecham and a former chairman of British Petroleum.

*Sir Patrick Meaney
Age 66 – a director since 1980 and a deputy chairman since 1984, he is chairman of the Rank Organisation and A Kershaw & Son and a director of ICI, MEPC and Tarmac.

*Sir Peter Leslie
Age 61 – appointed a director and a deputy chairman in 1991, he is chairman of the Commonwealth Development Corporation and the Export Guarantees Advisory Council.

*B H Asher
Age 56 – appointed a director in 1991, he is director of HSBC Holdings and The Hongkong and Shanghai Banking Corporation and is chairman of James Capel and Wardley.

*T J Cunningham
Age 49 – a director since 1988, he is president and chief executive officer of The Fishkill National Corporation and a director of Kissinger Associates.

R Delbridge
Age 49 – director group finance since December 1989.

*Sir Archibald Forster
Age 64 – a director since 1986, he is chairman and chief executive of Esso UK and a director of Lloyd's Register of Shipping and the American Chamber of Commerce.

B L Goldthorpe
Age 58 – a director since 1983, he joined Midland in 1949 and is deputy group chief executive. He is a director of HSBC Holdings and The Hongkong and Shanghai Banking Corporation.

H E Lockhart
Age 42 – a director since 1988, he is chief executive, UK Banking and Group Operations, and a director of Mastercard International.

G E Loudon
Age 49 – a director since 1988, he is chief executive, Midland Montagu.

*G Maitland Smith
Age 59 – a director since 1986, he is chairman of Sears and a director of Asprey and Hammerson.

*Sir Colin Marshall
Age 58 – a director since 1989, he is chief executive of British Airways and a director of IBM (UK), Grand Metropolitan and the British Tourist Authority.

*Baroness O'Cathain OBE
Age 54 – a director since 1984, she is managing director of The Barbican Centre and a director of Sears and Tesco.

B G Pearse
Age 58 – appointed a director and group chief executive in 1991.

*Sir Eric Pountain DL
Age 58 – a director since 1986, he is chairman of Tarmac, James Beattie and IMI.

*W Purves CBE DSO
Age 60 – a director since 1987, he is chairman of HSBC Holdings, The Hongkong and Shanghai Banking Corporation, The British Bank of the Middle East and a director of Marine Midland Banks.

*non-executive directors

Executive directors committee

Group chief executive
B G Pearse

Deputy group chief executive
B L Goldthorpe

Director group finance
R Delbridge

Chief executive, UK Banking and Group Operations
H E Lockhart

Chief executive, Midland Montagu
G E Loudon

Secretary
J R Skae


GEOFFREY MAITLAND SMITH
WILLIAM PURVES
BRIAN GOLDTHORPE
SIR ERIC POUNTAIN
SIR PATRICK MEANEY
JOHN SKAE
RICHARD DELBRIDGE
SIR ARCHIBALD FORSTER
BERNARD ASHER
BARONESS O'CATHAIN
GEORGE LOUDON
SIR COLIN MARSHALL
SIR PETER WALTERS
BRIAN PEARSE
EUGENE LOCKHART
JEFFERSON CUNNINGHAM
SIR PETER LESLIE

CHAIRMAN'S STATEMENT

Sir Peter Walters became vice chairman of Midland Group on 6 March 1991 and chairman on 14 June.

He was born in March 1931 in Birmingham and is a graduate of the city's university.

After military service he joined BP in 1954, working in various positions in the UK and USA for 19 years before becoming a managing director in 1973. Sir Peter was appointed a deputy chairman in 1980 and was chairman from November 1981 until his retirement in March 1990. He was knighted in 1984.

He has also been a director of National Westminster Bank and currently holds a number of non-executive positions. He is a director of SmithKline Beecham; deputy chairman of Thorn EMI; and chairman of Blue Circle Industries.

Sir Peter is also president of the Institute of Directors, a managing trustee of the Institute of Economic Affairs and vice-president of the Chartered Institute of Bankers.

IT IS ALMOST A YEAR SINCE I JOINED THE Midland Group board and nine months since I became chairman. This entire period has been dominated by a recession which has adversely affected virtually all business and many personal customers throughout the UK. The continuing rise in both insolvency and default has had an obvious impact on all banks.

Our provisions — which are widely spread across all kinds and sizes of borrower — were substantially increased in 1991 compared with the previous year. This is clearly a severe financial burden; there has also been the heavy additional cost of time spent in helping customers through this very difficult year.

However, the trend was foreseen in 1990 and the first half of 1991, so that a lower charge proved appropriate in the second half of the year. The effect of the recession was also seen in lower loan volumes in the second half, partially offset by a widening of margins. Our underlying profitability, evident in the record level of trading profits in 1991, enabled the Group to withstand the unprecedented level of bad debts and further strengthen its capital position.

Midland Group made a pre-tax profit of £36 million in 1991, compared with a profit of £11 million in 1990. The bad debt charge of £903 million renders unsatisfactory results which otherwise show some very encouraging trends. Trading profits before the charge for bad and doubtful debts have increased by 28% to £948 million. Non-interest income has increased by 5%. Our costs have been contained, evidenced by a 0·5% overall reduction and a 4·8% improvement, to 71·5%, of our cost income ratio. The Group's total capital ratio was 10·3%, against 9·7% at the half year.

There have been a number of very positive strands to the Group's improved trading performance. We have gained from our concentration on core business in the UK and continental Europe. Costs have been contained through continuing programmes that streamline our back-office operations and free up front-line staff to improve our service to customers.

There is still some way to go. Our network, in recent years, has become too complicated. Segmentation has been carried too far. Whilst our branches act, as they always have done, as the principal delivery points to our personal customers, our business customer requirements are met through too many other outlets. We are taking steps — progressively — to adapt the structure to re-emphasise the importance of the branch manager in meeting a broader range of both personal and business customer needs.

This development will prove to be most important in the way we make our lending decisions, all banks in recent years having paid too much attention to market share. We need to be sure that support is given to customers, of whatever size, that have a sound future. We aim to build long-term relationships through good local knowledge and a fair balance between risk and reward.

There remains, however, a continuing uncertainty about the economic environment and its likely effect on our future profitability. In all the circumstances, the board has decided that the prudent course of action is to conserve capital and reserves in the best long-term interests of the Group by maintaining the second interim dividend of 1·7p at the same level as the corresponding dividend in 1990 and the first interim dividend in 1991, making 3·4p for the year.

Our service to customers

Throughout the year, we worked in consultation with interested parties to draw up guidelines which would govern relationships with personal and business customers.

The Code of Banking Practice for personal customers was published by the banks, building societies and card issuers in December, for implementation by March this year. We see the code as setting the minimum standards to be achieved, and hope that we can go beyond these wherever possible in meeting the expectations of our customers in all their dealings with the bank.

In October, Midland led the way in launching a business charter. A feature on pages 18 to 21 of this report details our concern at the dissatisfaction expressed about banking for smaller companies, and our response to it. We hope and expect that we shall be able to live up to the pledges underlying our commitment to service, which is our key objective for 1992.

Midland's initiative to establish 11 regional enterprise funds covering England and Wales represents a further move to increase the support available to small and medium-sized businesses. These funds aim to bridge the equity gap by providing long-term finance through the injection of share and loan capital, augmented by support from local professional advisory networks.

Our role in the community

The demand for the Code of Banking Practice and the Business Banking Charter, to which I have referred, emphasises that no financial institution can stand aside from the expectations of the communities which it serves.

There has been a sea change in the attitudes and behaviour of customers, shareholders and staff. An increasing readiness to demand choice, service quality and understanding in the provision of banking services is also manifest in a wider social context. Such considerations as equality of opportunity, th environment and education now have to be considered as an integral part of business decision-making.

Our record of social concern is being enhanced, demonstrated through such actions as improving conditions for mothers wishing to return to work, and charitable donations and sponsorship aimed particularly at young people, many in disadvantaged circumstances. We are strongly committed to long-term community involvement, going hand-in-hand with long-term personal and business relationship management.

Our business in Europe

Entering 1992, the continent is already vital to the UK economy, with more than half of all exports now going to European Community countries. We regard ourselves as having the strongest presence across continental Europe of the UK banks, and have consolidated further our businesses in wholesale and merchant banking. We believe that Midland's network is now well placed to meet the cross-border financing and investment requirements that will increasingly arise.

Our board of directors

I firmly believe that companies can only be successful if they take full account of the varied interests of shareholders, employees, customers and the communities in which they operate. It is for the non-executive directors to ensure that the necessary checks and balances are effectively applied. With their different backgrounds and experience, they should be well placed to observe this interaction more objectively. They need full information and a healthy climate of debate in which decisions can be reached. In this way, confidence in the integrity and ability of the executive management can develop..

I can assure shareholders that, in the case of Midland, where we have a board of five executive and 11 non-executive directors, I and the other non-executives enjoy both total access to the facts and full and frank discussion with the executive directors.

There have been several changes to the board.

Sir Kit McMahon resigned as group chief executive in March and as chairman in June. His five years of leadership coincided with a period of extreme turbulence and rapid change both in the economic climate in general and in financial markets in particular, during which he drove the Group forward in readiness for better times ahead. He has our very best wishes for a happy retirement.

Other board members leaving during the year were Sir Alex Jarratt, Sir Kenneth Corfield, Peter Wrangham and Sir Michael Palliser. Sir Michael remains with the Group in his role of deputy chairman of Midland Montagu and chairman of Samuel Montagu & Co. Our thanks are due to them all.

Two new non-executive directors were appointed. Sir Peter Leslie, chairman of the Commonwealth Development Corporation, joined the board in July as a deputy chairman. He became a member of the Group Audit Committee, which oversees accounting policy and practice, as well as regulatory and statutory compliance; and of the Group Remuneration Committee, responsible for setting the level of compensation of the chairman and senior executives, including the executive directors. Bernard Asher, a director of HSBC Holdings and HongkongBank and the chairman of James Capel and Wardley, became a board member in November.

Our employees

Our staff throughout the Group are the backbone of the service we provide to customers. My impression is that they are people of high calibre and competence. I am extremely grateful for their continued determination to strive for excellence and a proper understanding of customer needs in the face of the many difficulties created by the adverse economic environment.

The strategy to increase decision-making within the branch network re-emphasises our commitment to the need for training and personal development, as well as for essential continuity.

The future

Writing in March, the UK economy looks set for another difficult year, against a background of recession in most of the world's other leading economies.

The good news is that UK Government policy is succeeding in its aim of controlling inflation. But this is at the cost of reduced growth. The labour market holds the key to the outlook, as the effects of the recession and low inflation continue to be felt on wage bargaining. The lack of consumer confidence could well persist, affected by a weak housing market, still rising unemployment, debt overhang and uncertainty pending the general election. The corporate sector will probably remain depressed in 1992, with an emphasis on reducing excessive debt rather than on making new investment.

Midland has the enormous benefit of its strong and diverse customer base, both historically in the UK and now in continental Europe. In time of adverse circumstances, it is important to remember our vital presence in the British high street, in both the personal and business markets. We have an impressive array of successful businesses. In Firstdirect, our telephone banking service, we have very much the market leader in what could well be one of the most significant growth areas of the decade.

When the UK economy recovers, I am confident that the strength of our businesses and our capital position, combined with the action being taken to increase income and to reduce costs, will contribute their full value towards our standing in the markets in which we operate.

Peter Walters

Sir Peter Walters
Chairman

Brian Pearse became a director and group chief executive of Midland Group in March 1991.

He was previously a director and finance director of Barclays, since 1987.

Mr Pearse was born in 1933 in Liverpool, where he joined Martins Bank — now merged with Barclays — in 1950. He worked in departments in Liverpool and Leeds, and held managerial appointments in Bradford, Sheffield and Leicester.

In 1972 Mr Pearse became district manager and then a local director at Barclays' Birmingham local headquarters.

He was a regional general manager from 1977 to 1979, when he became a general manager and director of Barclays Bank UK. In 1982 he became chief executive officer of Barclays' North American operations in New York.

He is a director of the British American Chamber of Commerce and a member of the Financial Reporting Council. He is on the Council of King's College, London University.

UK BANKING

DESPITE THE DEPRESSED ECONOMIC environment, Midland's UK banking business achieved a trading profit before bad debt charges of £631 million during 1991, which represented a 46% improvement over 1990. This substantial growth has been achieved through improvements in fee and commission income, cost containment, and efficiency measures.

Costs reduced by £31 million compared with 1990. Net interest income rose by 6% over 1990 and fee income by 13%. Deposit balances and overall spreads were also up on the previous year. Taken together, these improvements led to a 7·7% reduction in the cost-to-income ratio.

Highlighting these figures is not to ignore the continuing bad debt situation, but to set it into perspective and give some reasons for optimism.

The bad debt problem looks set to persist for some time to come. There has also been an increase in the levels of fraud that all clearing banks and building societies have witnessed in recent years. Midland has responded by further strengthening credit and other procedures at both regional and local levels. This renewed emphasis on control is showing positive results.

The chairman has referred to the high level of criticism aimed at the banking industry during the year. He has also outlined Midland's response to it, and in particular our commitment to improving the quality of service to customers. We intend to maintain a balance between further controlling costs and improving service, to ensure that our achievement of the former objective does not impede our attainment of the latter.

The network

Our branch network is the key service point for both personal and business customers. It represents our largest capital and revenue investment within the UK, in terms of both the income it generates and the costs it incurs.

Our aim is to increase income and to reduce costs through a major branch network overhaul to reflect changing demographics, customer wealth patterns, operations centralisation and the impact of technology. The changes already made have been evidenced in the improvement in our key cost-to-income ratio.

Notable amongst the achievements in Group Operations were the completion of the £55 million, three-year programme for District Service Centres which removed cheque processing from the branch network; the delivery of a Customer Information System to assist in customer service and relationship management; and a new system automating all direct debits and standing orders.

Credit and debit cards

There was marked evolution of both the credit and debit card markets in 1991.

A more equitable pricing structure was introduced for mass-market credit card products. This entailed a reduction in interest rates, together with the introduction of fees to reduce the cross subsidy that had hitherto been made by credit card borrowers to users of the service who repaid in full each month. The account attrition rate from this initiative was lower than we expected. During the year, a combined account was launched offering both Mastercard and Visa, attached to a single account for one fee.

Financial services

Investment and insurance products are the fastest growing area of business within UK Banking. Midland Financial Services (MFS), formed in January 1991, brought together the Group's life and general insurance activities, together with unit trusts, retail stockbroking, global custodianship and investment advisory services to high-net-worth individuals.

MFS had a successful year. Total operating income from its services grew by 17%.

Sales of general insurance products were up 19% compared with 1990. Life assurance income also showed encouraging growth. The life assurance sales force, which works very closely with the branch network, is planned to increase from 350 to 500 by the end of 1992.

The number of Midland's Shareshops, situated within large branches, was also extended in 1991. The hundredth opening, in Worcester branch, was completed in December. Further expansion is planned.

We continue our major systems investment in these businesses with particular emphasis on retail stockbroking, life assurance and custodian services.

Firstdirect

Firstdirect, Midland's telephone banking service, celebrated its second anniversary. It is very much the market leader.

The total number of accounts, at 200,000, comfortably exceeded targets. The proportion of customers — more than 70% — from competitor organisations remains high. The latest attitude survey indicates that over 85% of Firstdirect account holders feel the service is better than they have received elsewhere.

Business banking

Midland supports small business through our branch network, with Enterprise Centres located within selected branches, and serves the middle market through our Corporate Banking Centres. At the other end of the spectrum, relationships have been strengthened with many major corporate entities, which are maintained by London-based teams, acting as a bridge between the network and the treasury, capital markets and investment banking expertise available from Midland Montagu.

The difficulties encountered by many of our business customers during the year led us to reaffirm our traditional commitment to the business community, by increasing the number of staff dedicated to helping companies survive the short-term problems brought on them by the recession. When economic recovery begins, we shall to a significant degree have the capacity to meet the loan demand of our business customers — for the right opportunities on the right terms — thereby playing a full part in financing the nation's future economic growth.

MIDLAND MONTAGU

Midland Montagu, our international and investment banking arm, saw strong performances in a number of its businesses, achieving a pre-tax profit of £109 million in a period during which both economic conditions and markets were depressed.

The continental European businesses continue to be of major strategic importance to the Group. There were strong performances from Guyerzeller Bank in Switzerland, from Trinkaus & Burkhardt in Germany, from our Greek branches and from the Midland Bank Trust Corporations. Business flows between our various European operations are increasing: 1991 saw an encouraging growth of corporate finance and the establishment of new venture capital businesses in France, Germany and Spain.

We also achieved success in providing financial advisory services to the emerging democracies in central Europe. Samuel Montagu's activities there continued to strengthen, culminating in a number of recently awarded mandates.

In the UK, Samuel Montagu had another successful year, despite lower levels of market activity and the requirement for some provisioning against lending in the UK, which reduced profitability compared with 1990. In Corporate Finance, advice to Scottish Power on its £1·96 billion flotation and involvement with many of the leading rights issues, including the raising of £396 million for Argyll Group, were among the highlights of the year. Specialised Financing, in partnership with Citibank, arranged News International's US$8 billion financial restructuring. Both Midland Montagu Ventures and Midland Montagu Asset Management continue to make steady progress.

Treasury and Capital Markets also focused on Europe, strengthening treasury sales delivery capability and concentrating market making and risk management in London, Dusseldorf and Athens. Capital Markets activity continued to grow across Europe, with particular success in the lira and peseta bond markets complementing existing strengths in both sterling and the deutschmark, as well as in Greenwell Montagu, our gilt-edged market maker.

There were strong performances in money market trading and foreign exchange. Currency options and swaps continue to be leading and profitable products. Distribution to a wider UK market is now being achieved through our regional treasury scheme. This had considerable successes in providing

Michael Harris is managing director of Isle of Wight Glass, a family-run business he established 20 years ago. The company creates decorative glass articles; 60% of its output is exported, to 22 countries worldwide. Midland has been the company's bank since the first year of operation.

customers outside London with direct local access to expertise in risk management. During the year, Group Operations implemented a major back-office money market system to support these activities.

In international banking, Correspondent Banking consolidated its leading position in London, whilst our trade finance activities were most satisfactory. The successful integration of Midaval, our forfaiting company, with mainstream trade finance, allowed us to offer a more rounded service. We also formed a new UK business development team to promote and deliver the Group's comprehensive range of international trade and payments-related products and services to the customers of the UK branch network.

We continued to take a proactive approach to the management of the Group's Lesser Developed Countries debt portfolio. Its quality was improved and the level of provisionable exposure reduced; overall, the size of the portfolio fell by US$810 million or 13%.

The success of the debt restructuring agreements for Mexico and Venezuela gives hope that the bank advisory committees will reach settlements this year with Brazil and Argentina. These should result in lasting economic improvement and a corresponding increase in the price of their debt on the secondary market. This outcome can be expected to have further positive implications for the quality of our earnings and the underlying value of our portfolio.

FORWARD TRUST GROUP

Forward Trust Group (FTG)'s pre-tax profit of £43 million compared favourably with the results of the finance-house industry generally.

Lending volumes were down as a direct result of the recession, but revenues benefited from improved margins and the lowering of UK interest rates. Costs were closely managed, with the overall increase being less than the rate of inflation. Bad debts were at record levels but there was an improving trend in the second half consistent with the emphasis placed on lending quality and on managing those customers with payment difficulties.

The strategy to establish discrete businesses was pursued, building upon the organisational structure introduced in 1990. In April, FTG added to its portfolio by acquiring Bristol-based Crown Vehicle Contracts, which provides vehicle contract hire services to business customers.

The other constituent businesses — Forward Asset Finance, Concord Group, Griffin Factors, Forward Trust Personal Finance and Forward Motor Finance — all withstood the rigours of the recession, although the joint venture company, Fiat Finance, experienced a difficult year.

FTG is well placed to take advantage of better trading conditions when they emerge.

THE THOMAS COOK GROUP

Profitability was eroded by a number of factors outside the Group's direct control: public reluctance to travel during and following the Gulf War; deep recession in the major markets of the UK, the US, Canada and Australia; losses from the collapse of important trading partners; the drop in the travellers' cheque float yield as interest rates declined sharply. All had a sizeable impact.

On the positive side, Thomas Cook won many new business travel and travellers' cheque contracts throughout the world. Particularly satisfying was the performance of retail foreign exchange and, most notably, of the business acquired from Deak International in 1990.

Alwyn Brettell heads a family business — Alwyn Brettell Windows — that he established in Mansfield in 1972. The firm makes windows for local authorities and private homes. It has banked with Midland for 14 years.

The generally very adverse conditions demonstrated the tremendous loyalty and commitment from Thomas Cook staff, who accepted a pay reduction from March to September to help reduce costs.

The company used its 150th anniversary to generate a large amount of publicity in each of the 100-plus countries in which it operates, culminating in a revival of a round-the-world luxury tour.

STAFF

Our remuneration strategy is to reward high-performing staff in a selective and equitable manner so as to motivate and retain quality workforce. At the same time, we have sought to balance this with the need to manage overall pay at a level related to the Group's results.

In fulfilling the essential reductions in headcount, we have made every effort to adopt a sympathetic and professional approach in what is a difficult and sensitive task.

We have continued to demonstrate our commitment to equal opportunity. We are strenuous proponents of Opportunity 2000, the campaign to improve and increase the quality and quantity of women's participation in the workforce, and have taken a range of initiatives to ensure all our employees have the right to succeed. Our already extensive network of nurseries and play schemes for the children of our working mothers was expanded.

Midland also continued its programme of active involvement in disability issues. Awareness training for employees and work experience for disabled people were offered in 1991 and the programmes will be expanded next year. We worked closely with The Employer's Forum on Disability, sponsoring the guide 'Monitoring People with Disabilities in the Workforce'.

Our commitment to developing our people has never been greater. A series of programmes, with training focused on our core skills and a comprehensive approach to career development, is being put in place to ensure the Group's continuing strength.

Having joined Midland as group chief executive in March 1991, I have now completed my first year. During the past 12 months I have sought every opportunity to meet customers and staff throughout the Group. I am most forcibly impressed by two things: firstly, by the strong desire of our customers to see Midland successful again; and secondly, by the commitment of our staff, their professionalism and their wish to serve our customers. These strengths have been maintained through a period of particular change and difficulty for the Group.

This is by no means the first year that the chief executive has commented with gratitude on the resilience and loyalty of our staff over a difficult period. Nevertheless, the sentiment could not be more sincerely felt.

Brian Pearse
Group chief executive

Gary Armitage is one of three partners who set up GMA Engineering, a Barnsley-based heavy engineering company. Midland was closely involved in the planning and financing of GMA Engineering's formation, and has been the company's banker since its inception in 1990.

MIDLAND AND THE SMALL BUSINESS COMMUNITY

SMALL FIRMS PERFORM A VITAL FUNCTION IN the process of national wealth creation. Of all businesses in this country, 96% employ fewer than 20 staff; provide 36% of total employment opportunities; and contribute 21% of total GDP. The small firms of today are potentially the big firms of tomorrow.

The year was a difficult one for the small business sector, with 47,000 business failures, resulting largely from problems brought about by the recession. There has been much public interest in the state of this market and the support given to it by the banking industry. This started with comment in the media that banks were not passing on the whole of the Chancellor of the Exchequer's interest rate cuts. This charge was ultimately proved to be unfounded. But the concerns developed into other areas of dissatisfaction, especially criticism of the speed at which companies were being forced into liquidation.

Such sentiments may be inevitable during a period of recession. However, Midland was prepared to accept that there were some grounds for discontent. Sir Peter Walters, Midland's chairman and President of the Institute of Directors, did so explicitly in the January 1992 issue of 'Director' magazine, while proposing improvements in future bank/business relationships.

Midland's Business Banking Charter

We promise to:

Publish terms and conditions setting out our obligations to you and your obligations to us.

Offer guidance on how to borrow money including how to present your case, and tell you how we calculate interest and when we charge it to your account.

Publish a price list of main business services and change our prices no more than once a year.

Hold any prices negotiated with you individually for one year unless otherwise agreed.

Give you one month's notice of any changes to our prices.

Discuss with you in advance the charges for any additional services.

Explain the steps to follow if you wish to comment on or make a complaint about our services.

A charter for business

During 1991, Midland worked closely with representative organisations of the small business sector, including the Smaller Firms Council of the Confederation of British Industry and the Forum of Private Business: the mission was to understand better the needs, problems and frustrations of small business owners and thereby respond to those needs in a more constructive manner. Feedback, both from these organisations and from independent research, ensured that a greater awareness of customers' needs was obtained.

Using this feedback, Midland was already well on the way to introducing its Business Banking Charter when the Chancellor called upon all the clearing banks to formulate a code of practice. Midland — in October — was the first bank to publish its charter.

The charter is written in straightforward language. Nothing is hidden in small print. The clear language and simple instructions eliminate any risk of misunderstanding. This was independently acknowledged in the accolade of a Plain English Award.

To introduce and explain the charter, a series of evening gatherings was held around the country, pulling together the bank's small business managers and advisers with representatives from the professional bodies. The purpose was to develop a closer working relationship with the partnership network that supports small firms.

A dedicated network

The Midland Enterprise concept, launched in 1990, has continued to develop.

Service levels are being enhanced through a network of dedicated outlets and staff, trained to recognise the particular requirements of the small business market. Midland now has 333 Enterprise Centres throughout the country, employing over 500 Enterprise Managers. They are backed up by 700 additional staff with special product and sales knowledge. Each centre works closely with the senior local Midland manager, who has special responsibility for relations with civic and business leaders in the locality.

Training for staff

Midland considers it imperative that its staff be better schooled in the needs of small businesses.

Over 400 managers have now passed through a special Manchester Business School enterprise course. This was designed by small business owners, in conjunction with bank advisers, and delivered by business people to create a more vivid awareness of the market's requirements. This one-week programme is supported through a number of other visiting business owners, who explain their particular experiences with the banking industry. The managers attending undertake a role-play exercise, where they experience directly some of the frustrations of business owners.

In November 1991, Midland announced a link with the Doncaster Business Advisory Centre, a local enterprise agency, to provide further training to 2,000 bank staff. They use the same programme that business owners go through in the process of setting up a business. The objective is to ensure that staff who have an interface with small business customers have exactly the same training as the customers themselves.

In addition, there are areas of the country that have a very strong ethnic minority presence in the business community. Working closely with the Ethnic Minority Business Development Team, a Home Office initiative, a training programme has been created to ensure that Midland staff better understand the needs of the people concerned.

Training for entrepreneurs

Midland recognises the special training requirements for the management of small businesses in its sponsorship of the Midland Bank Professor of Small Business Studies at Kingston Polytechnic.

The bank is also a strong supporter of local training and counselling activities. It currently sponsors over 200 local enterprise agencies in England and Wales. In addition 20 bank secondees, managers taken out of their workplace and attached for periods of 12 to 18 months to local enterprise agencies, offer help and guidance to new businesses. Upon return, these managers have a much greater sensitivity towards the perspective of the marketplace.

In addition to its support for the enterprise agency movement, Midland is in the top five organisations backing the newly created Training and Enterprise Councils (TECs). This backing is achieved through participation on their boards, through cash sponsorship and through secondment. The bank recognises the importance that these organisations have, both in developing the new skills required in each community and in the support they provide to new and existing small firms, through advice and training.

An integral part of Midland's Enterprise package is a series of booklets for the first-time entrepreneur, entitled 'First Steps in Setting up in Business', 'The Business Plan', 'Monitoring and Control of Your Business' and 'Better Business Management'. In addition, a half-hour video film 'Help for Small Businesses' is available.

Encouragement for youth

The importance of the Enterprise culture throughout the 1980s has primarily been directed at the adult population. However, the bank has recognised the need to bring that culture into schools, to ensure that young people have a greater awareness of the workings and importance of industry and commerce.

Midland is the major sponsor for the charity Young Enterprise. In 1991, this initiative provided an opportunity for over 25,000 young people to set up 2,000 businesses which they operated outside school hours, for periods of up to six months. The pupils, acting as company directors, are assisted by advisers drawn from local businesses; over 300 of these at any one time come from Midland. Having raised their own capital through the issue of shares, the enterprises develop and sell innovative products. Ultimately, each company is liquidated and, where possible, a dividend paid to the shareholders.

The commercial facets are not the only benefits that accrue to these young people. They also gain a great deal in working together as a team, recognising the importance of each other's role in achieving an overall objective. Midland has a policy of looking favourably on young people passing through the Young Enterprise experience when they apply for jobs within the bank.

Co-operation with Government

For many years, the bank has worked closely with the British Overseas Trade Board and the Export Credits Guarantee Department to help newcomers to exporting to recognise the opportunities and avoid the worst pitfalls inherent in this hazardous experience. Currently, entrepreneurs are being guided through the maze of the Single European Market in the run-up to 31 December 1992.

In another initiative, discussions are well advanced with the Department of Trade and Industry on ways by which profitable innovation — the successful creation and commercialisation of new products and services — might be encouraged.

The bank also maintains a close dialogue on small business matters with the Department of Employment and the Small Firms Minister, the Department of the Environment and the Home Office. The bank has been active in discussions with the political parties' specialist committees and in giving evidence to the Treasury Select Committee.

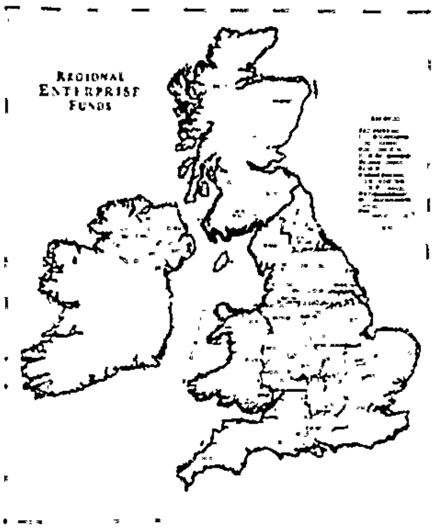
Special loans and funds

Midland Bank continues to support a number of Government initiatives which provide special forms of finance to the small business community. In particular, Midland is one of the major participants in the Small Firms Loan Guarantee Scheme.

Midland has also provided special finance in those difficult areas of coal and steel closure, through the European Coal and Steel Community Global Loan Scheme. This help has enabled some 300 businesses to expand operations, through capital investment projects totalling over £196 million. This investment has, in turn, created an additional 4,000 jobs.

On a more local basis, Midland managers have worked together with other members of the business community to set up 20 loan funds providing assistance, usually in Inner City Taskforce areas, on special terms. These provide for interest at rates starting below base and increasing as the business becomes more successful.

The schemes depend heavily upon local partnerships between the bank, other large public companies and local authorities. They also draw on the expertise and day-to-day involvement of the TECs and local enterprise agencies, which provide advice, guidance and aftercare support.



Midland is leading an initiative to establish regional enterprise funds. The funds aim to provide long-term finance to small and medium-sized businesses through the injection of share or loan capital, combined with support from local professional advisory networks.

The initiative follows a two-year investigation by Business in the Community under a team led by Sir David Scholey. The team's conclusion was that small businesses often require capital for expansion, yet find it difficult to attract funding because the costs associated with vetting and monitoring investments are disproportionately high at the small end of the market, with the result that many fund managers have been unable to service this market profitably. This is the so-called 'equity gap'.

The study also concluded that training and aftercare by non-executive directors and consultants would be essential if the companies were to achieve high sustainable growth. The launch of the enterprise funds is designed to address these issues.

It is planned that, following completion of the regional fund-raising stage of the project, the Midland Enterprise Funds will invest in unquoted companies across a broad range of industry sectors. The investment strategy is to identify and invest in businesses which have sound management and considerable growth potential.

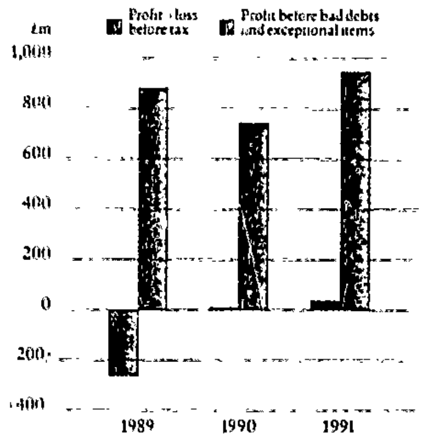
It is intended that funds will be launched by leading local stockbrokers, managed by independent, regionally-based fund managers, and supported by a professional advisory network in each locality.

Vital community service

Midland, as a major clearing bank, is an integral part of the British financial system and of each of the local communities which it serves. The importance of the small business market to the bank's core UK business cannot be over-emphasised. This position is recognised in the extent of the resources dedicated throughout the network — prime among them Midland's people — to this vital community-based service.

MIDLAND GROUP

FINANCIAL REVIEW
GROUP SUMMARY



Figures in £m	1989	1990	1991
UK Banking	476	(46)	(147)
Midland Montagu	89	79	109
Developing Countries Group	29	2	86
Thomas Cook	22	28	9
Profit before exceptional items and taxation	616	63	57
Exceptional items	(877)	(52)	(21)
Group profit/(loss) before taxation	(261)	11	36
Taxation	57	(188)	(69)
Group profit/(loss) after taxation	(204)	(177)	(33)
Group (loss) attributable	(219)	(181)	(39)

Group profit/(loss)

Group trading profit before bad debt charges was £948m, £205m (28%) better than in 1990. The Group recorded a profit before taxation of £36m, compared with a profit of £11m in 1990. The profit before taxation for the year reflected a loss of £71m in the first half of the year, followed by a recovery to a profit of £107m in the second half.

The significant improvement in trading profit before bad debt charges was due to the benefits of increased income levels and reduced costs. Despite a 4% decline in the level of average interest earning assets during 1991, net interest income increased by 7% due to widening lending spreads. Other operating income increased by 5% over 1990. Operating expenses fell by £11m.

The bad debt charge was £200m higher than in 1990, reflecting the effect of the recession in the UK economy on the financial condition of many business and personal customers. However, the second half bad debt charge of £373m was £157m lower than the first half charge, due to a slower rate of increase in problem loans in the UK, and £30m lower than the second half 1990 charge of £403m.

The exceptional items of £21m include restructuring charges of £55m for costs incurred in the reduction of the number of UK retail banking area offices, the closure of marginal branches, headcount reductions and the planned vacation of certain City office buildings. This charge was partially offset by a £34m benefit relating to the Group's share of provisions released by 3i Group, which has changed the basis of provisioning against its investments.

The Group loss after taxation of £33m compares with a loss of £177m in 1990. The taxation charge of £69m consists principally of taxation on the profits of overseas subsidiaries and branches, and notional grossing up of the increase in the embedded value of long-term assurance business. The taxation charge has been computed assuming no relief for the Group's net UK tax losses. At 31 December 1991, Midland Bank plc had accumulated tax losses and unutilised Advance Corporation Tax credits of approximately £700m.

	1989	1990	1991
Average shareholders' funds (£m)	2,832	2,683	2,386
Pre-tax return before exceptional charges on average shareholders' funds (%)	21·8	2·3	2·4
Return on average shareholders' funds (%)	(7·7)	(6·7)	(1·6)
First interim (p)	7·3	7·3	1·7
Second interim (p)	10·7	1·7	1·7
Total dividend per share (p)	18·0	9·0	3·4
Loss per share (p)	(28·3)	(24·7)	(6·2)
Dividend cover	—	—	—

Return on shareholders' funds and dividend per share

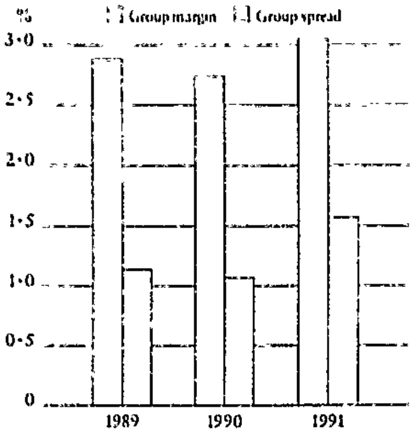
The loss attributable to shareholders in 1991 arose mainly due to the tax charge payable on profitable overseas subsidiaries. The 1990 loss attributable to shareholders was due to the significantly increased tax charge as a result of writing off the deferred tax asset.

The negative return on average shareholders' funds of 1·6% compares to a negative return of 6·7% in 1990.

The second interim dividend for 1991 was maintained at 1·7p, making a total distribution of 3·4p for the year, a 62% reduction on the level paid in 1990. The cost of dividends was consequently reduced from £70m to £26m.

The total distribution for 1991 of 3·4p is equivalent to 4·53p gross, compared to 12p in 1990.

The loss per share has been calculated on a net distribution basis. On a nil distribution basis (ie calculated by excluding the Advance Corporation Tax written off during the year from the loss before extraordinary items) the loss per share was 5·6p.



Figures as %	1989	1990	1991
Net interest margin			
Domestic	4·14	3·50	4·01
International	1·78	1·82	1·77
Group net interest margin	2·88	2·74	3·05
Net interest spread			
Domestic	2·12	1·99	2·84
International	0·27	0·19	0·12
Group net interest spread	1·14	1·07	1·57
Yield			
Domestic	14·02	15·39	13·31
International	10·32	9·58	8·58
Group yield	12·07	12·60	11·17
Average interest-earning assets			
Domestic (£bn)	29·9	31·6	31·7
International (£bn)	34·3	28·3	25·9
Group average interest earning assets (£bn)	64·2	59·9	57·6

Net interest margins, spreads and yields

Domestic margins and spreads principally reflect the activities of UK Banking sector and the Group's UK sterling treasury operations (part of Midland Montagu sector). International margins and spreads reflect the performance of Midland Montagu, Developing Countries Group, Thomas Cook and UK foreign currency treasury operations.

Net interest margin is a measure of net interest income as a percentage of average interest earning assets. Net interest spread represents the difference between the rate of interest earned on average interest earning assets and the rate of interest paid on average interest bearing funds. Yield is calculated as the average interest rate earned on average interest earning assets.

Domestic

There was a significant improvement in UK Banking loan and overdraft spreads. A review of corporate relationships led to reduced levels of fine rate lending; the spread on mortgage lending recovered from the low levels of 1990; and the results of the Group's structural sterling treasury book were substantially improved. The improvement in loan spreads was held back by the increase in the level of loans and overdrafts upon which interest is not being accrued, from an average of £191m in 1990, to £714m in 1991. The net interest spread was reduced by 32 basis points due to such loans (10 basis points in 1990). Loans and overdrafts on which interest was accrued but subsequently reserved in the bad debt charge, averaged £787m in 1991 (£344m in 1990). The interest on these loans and overdrafts accounted for 34 basis points of the spread in 1991 (16 basis points in 1990).

The improved domestic spread also reflected the change in the liability mix during 1991. The benefit of a reduced dependence on wholesale funding, due to growth in interest bearing current and savings accounts, was only partially offset by a continued migration from low to high rate deposit accounts.

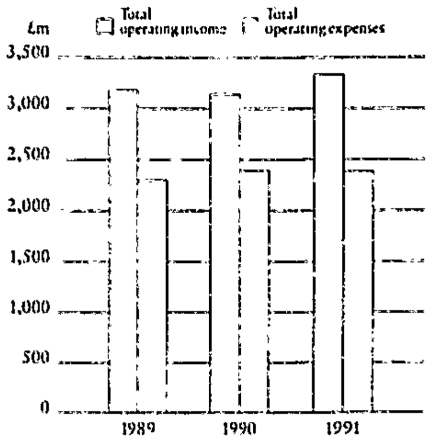
The improvement in the domestic net interest margin was less than the improvement in the net interest spread due to a lower contribution from net free funds as a result of the continued, but slowing, decline in average non-interest bearing current accounts and the effect of the fall in sterling [illegible] rates.

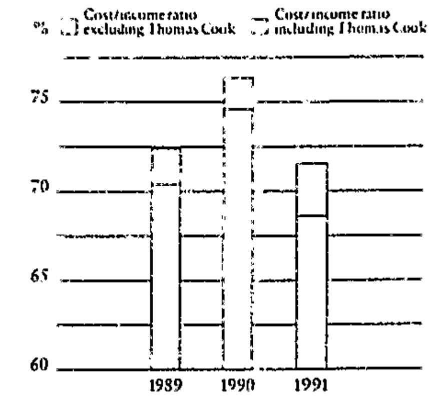
International

The decline in international net interest spread and margin primarily [illegible] ts lower levels of interest income in Developing Countries Group as a result of [illegible] debt restructuring programme and lower US dollar interest rates. In addition, the net interest spread was reduced as a result of the greater level of international loans and overdrafts upon which interest is not being accrued. These reductions were partially offset by an improvement in continental Europe, where spreads on customer lending improved in the falling interest rate environment.

There was a small decline in Thomas Cook net interest spread and margin, particularly in the second half of the year, as a result of lower worldwide interest rates.

FINANCIAL REVIEW
GROUP SUMMARY CONTINUED





Figures in £m	1989	1990	1991
Net interest income	1,850	1,643	1,757
Other operating income	1,332	1,495	1,575
Total operating income	3,182	3,138	3,332
Staff costs	1,312	1,342	1,300
Premises and equipment	473	500	555
Other costs	518	553	529
Total operating expenses	2,303	2,395	2,384
Cost/income ratio (%)	72·4	76·3	71·5
– excl. Thomas Cook (%)	70·4	74·6	68·6

Income and costs

Total Group income showed a £194m (6%) increase over 1990, reversing the small decline shown in 1990.

Net interest income grew by £114m (7%), reflecting the benefit of the improvement in Group net interest margin, partially offset by a 4% decline in average interest earning assets. However, the effect of non-accrual loans was to reduce net interest income by approximately £126m in 1991, compared with £43m in 1990. The increase in net interest income came from improved margins in UK Banking and improved treasury results, partially offset by lower interest on developing country debt as a result of continued reduction and restructuring of that portfolio and lower interest rates.

Other operating income increased by £80m (5%) over 1990, due to the benefits of strong growth in UK retail and corporate branch commission; higher levels of travel and foreign exchange income in Thomas Cook; and increased income from Midland Financial Services. These improvements were partially offset by lower fees and trading income in Midland Montagu.

Other operating income constituted 47% of total operating income, compared with 48% in 1990 and 42% in 1989.

Operating expenses showed an £11m reduction over 1990. Excluding Thomas Cook costs, which increased by £40m largely due to the effect of acquisitions in 1990, Group operating expenses fell by £51m (2%).

Staff costs were reduced by £42m (3%). The cost of annual pay awards was more than offset by the benefits of a 2,990 (5%) reduction in headcount and a reduced pension contribution rate in the UK. Group headcount (excluding Thomas Cook) has been reduced by 4,916 (9%) since 30 June 1990. This exceeds the targeted headcount reduction of 4,000.

Premises and equipment costs increased by £55m (11%) over 1990, primarily due to higher depreciation charges, increased rental and uniform business rate costs, and provisions in respect of surplus office and branch space.

Other costs were £24m (4%) lower than 1990, due to the rationalisation of operations and the tight control of overhead expenditure throughout the Group.

The overall effect of these cost and income trends was to reduce the Group cost/income ratio to 71·5% (76·3% in 1990), and to 68·6% excluding Thomas Cook (74·6% in 1990). Thomas Cook's travel services have an inherently higher cost structure than the Group's banking operations.

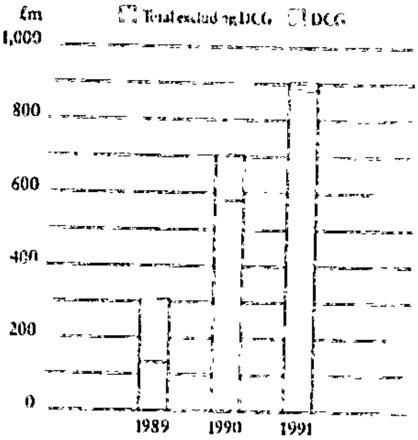
Headcount in the UK fell by 5% due to substantial savings resulting from the closure of 28 area offices and 138 branches, and the rationalisation and centralisation of certain transaction processing activities, partially offset by increased financial services sales staff, the staffing of the District Service Centres and headcount growth in Firstdirect.

Overseas staff numbers were reduced following the sale of businesses in Australia and France and the continued rationalisation of activities. The growth in Thomas Cook headcount in 1991 mainly represented consolidation of its Indian travel operations, previously accounted for as an associated undertaking.

MIDLAND GROUP

FINANCIAL REVIEW

GROUP SUMMARY CONTINUED



Figures in £m	1989	1990	1991
UK Banking	78	510	798
Midland Montagu	53	68	79
Developing Countries Group (DCG)	174	122	21
Thomas Cook	2	3	5
Total bad and doubtful debt charge	307	703	903
Specific provisions			
Corporate	37	327	536
Personal	45	134	218
Total specific provisions	82	461	754
General provisions	(4)	49	44
Total UK Banking bad debt charge	78	510	798

Charge for bad and doubtful debts (before exceptional charges)

The increase in the Group bad debt charge to £903m resulted from the impact of adverse UK economic conditions on business and personal customers. This was most noticeable in the continuing rise in corporate bad debts which increased through 1990 and 1991, although there was a decline in the charge for the second half of 1991. Provisions were increased on loans to all sectors of industry. Property and construction was the most seriously affected, followed by distribution, service and manufacturing. The South East has continued to be the worst affected area, although the distribution of provisions was more widespread in 1991 than in 1990. Higher provisions were also raised against the personal sector, including credit cards. Provisions required against mortgage loans were low, with accounts three months or more in arrears representing 1·0% of total accounts.

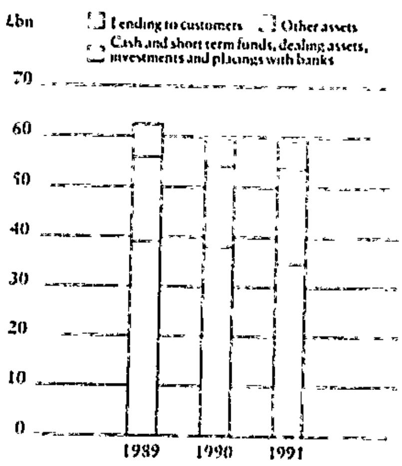
The UK Banking bad debt charge of £798m was £288m (56%) higher than the 1990 charge, but the second half charge of £333m was £132m (28%) lower than the first half charge, which included an increase in general provisions of £50m.

Within UK Banking, the Forward Trust Group bad debt charge of £58m showed an increase of £23m (66%) over 1990, reflecting increased levels of consumer and corporate default.

The Midland Montagu bad debt charge of £79m was £11m higher than 1990. While the 1990 bad debt charge related primarily to a small number of UK corporate borrowers, the 1991 provisions relate to both UK and continental European accounts.

The Developing Countries Group bad debt charge of £21m was £101m lower than in 1990. This reduction was mainly due to the receipt of interest, and the sale of rights to past due interest, on Brazilian and Argentinian debt.

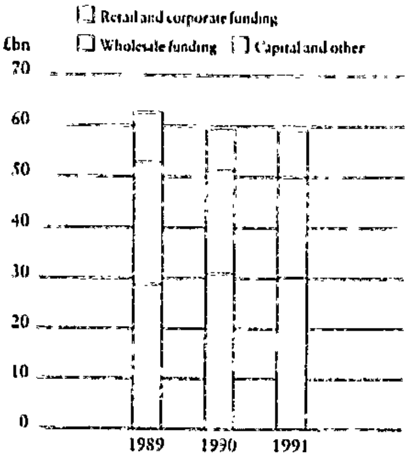
Total Group specific provisions outstanding at the year end (excluding those relating to developing country loans) amounted to £1,111m, or 3·22% of lending. General provisions (excluding those relating to developing country loans) amounted to £236m, or 0·68%, of lending. Total domestic provisions amounted to 5·60% of domestic lending, excluding mortgage lending.



Group assets

Period-end balances Figures in £bn	1989	1990	1991
Cash and short-term funds	9·4	10·0	11·2
Dealing assets	2·2	2·0	2·2
Investments	1·6	2·2	2·4
Placings with banks over 30 days	3·8	2·0	3·2
Lending to customers	39·2	38·2	34·9
Other assets	6·3	5·2	5·5
Total assets	62·5	59·6	59·4

There was a change in the mix of Group assets during 1991, with customer lending falling by £3·3bn as a result of the recession in the UK and a greater focus on improving the Group return on assets. Short-term funds, dealing assets and placings with banks over 30 days increased by £2·6bn to a level which represented 28% of total assets at the end of 1991, compared with 23% at the end of 1990, and 25% at the end of 1989.



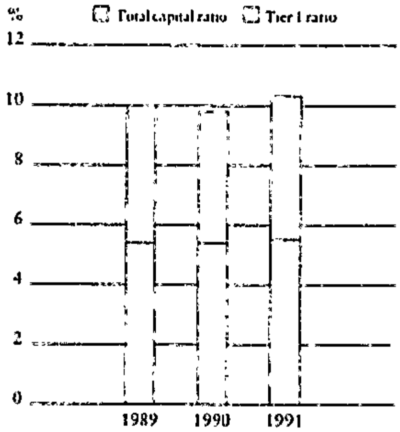
Group funding

Period-end balances Figures in £bn	1989	1990	1991
Retail and corporate funding:			
Current accounts – interest free	6·8	5·3	5·4
Current accounts – interest bearing	4·4	5·6	4·9
Savings and deposit accounts	17·6	20·0	19·9
Total retail and corporate funding	28·8	30·9	30·2
Wholesale funding:			
UK money market	15·8	15·4	15·2
Overseas money market	8·2	4·8	4·6
Total wholesale funding	24·0	20·2	19·8
Capital and other	9·7	8·5	9·4
Total liabilities	62·5	59·6	59·4

Certain classification changes in the UK Banking funding mix, as described on page 28, are also reflected in the Group funding mix.

Retail and corporate funding was essentially unchanged. A lower level of interest bearing current accounts at end-1991 is the result of the unusually high balances of the Group's international customers at end-1990, immediately prior to the Gulf War. Savings and deposit accounts, which include the high interest cheque accounts of retail customers and the time and notice deposits of retail and corporate customers, maintained a steady total balance throughout the year, with growth in UK Banking being offset by a slight decline in Midland Montagu as the overall funding demands of the Group eased.

The proportion of loans funded from retail and corporate sources increased to 87% in 1991, compared with 81% in 1990. At the same time cash and short-term funds, dealing assets and placings with banks have increased from 69% to 84% of wholesale funding.



Group capital

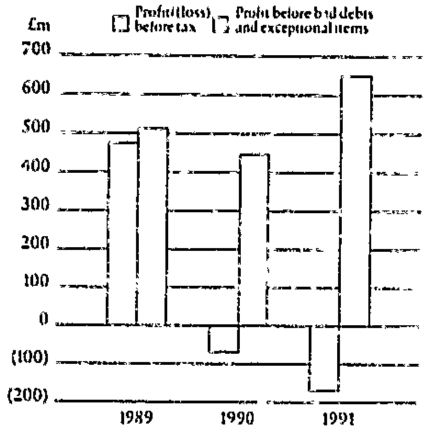
Period-end balances	1989	1990	1991
Capital ratios	%	%	%
Total capital/risk assets	10·0	9·8	10·3
Tier 1 capital/risk assets	5·4	5·4	5·5
Composition of capital	£m	£m	£m
Tier 1:			
Shareholders' funds and minorities (excl. property revaluation reserve)	2,611	2,347	2,284
Tier 2:			
Property revaluation reserve	236	232	229
General provisions	161	196	236
Perpetual subordinated debt	965	802	828
Term subordinated debt	1,132	979	1,082
Disqualified tier 2 capital	—	—	(91)
Total qualifying tier 2 capital	2,494	2,209	2,284
Unconsolidated investments	(244)	(247)	(281)
Total capital	4,861	4,309	4,287
Weighted risk assets			
On-balance sheet	39,625	37,360	35,134
Off-balance sheet	9,124	6,427	6,366
Total weighted risk assets	48,749	43,787	41,500

As a result of the deficit on retentions, the Group's tier 1 capital showed a reduction of £63m (3%) from the level at 31 December 1990.

Qualifying tier 2 capital increased by £75m (3%), largely due to the effect of a weaker sterling on the translation of predominantly US dollar denominated subordinated debt and additional general provisions. Capital measurement for Bank of England supervisory purposes does not permit qualifying tier 2 capital to exceed the level of tier 1 capital. This results in the disqualification of £91m of tier 2 capital for purposes of the calculation of the Group's capital ratios at 31 December 1991.

The effect of the decline in total qualifying capital of £22m was more than offset by a reduction of £2·3bn in weighted risk assets, giving an improvement in the total capital ratio to 10·3%. Within this ratio, the tier 1 ratio improved from 5·4% to 5·5%.

FINANCIAL REVIEW
INDIVIDUAL OPERATIONS



Figures in £m	1989	1990	1991
Net interest income	1,304	1,219	1,296
Other operating income	612	732	828
Total operating income	1,916	1,951	2,124
Operating expenses	(1,399)	(1,504)	(1,473)
Trading profit before charge for bad and doubtful debts	517	447	651
Charge for bad and doubtful debts	(78)	(510)	(798)
Share of profits of associated undertakings	37	17	—
Profit/(loss) before exceptional items and taxation	476	(46)	(147)
Exceptional items	—	(22)	(21)
Profit/(loss) before taxation	476	(68)	(168)

UK Banking — profit/(loss) before taxation

UK Banking's trading profit before bad debt charges and exceptional items was £651m, which was £204m (46%) better than in 1990. The strong improvement reflects the benefits of a £173m (9%) growth in total operating income and a £31m (2%) reduction in operating expenses. UK Banking reported an overall loss before taxation of £168m compared with a loss of £68m in 1990.

The profit before taxation in the second half of 1991 amounted to £4m compared with a loss of £172m in the first half. The major cause of the improvement was the £132m decline in the bad debt charge, from £465m in the first half to £333m in the second. Second half trading profit before bad debt charges was £17m (5%) higher than the first half, and £96m (40%) better than the second half of 1990.

Net interest income increased in 1991 as a result of improved interest spreads, despite an increase in non-performing loans, partially offset by a lower volume of lending. The improvement in spreads reflected the benefits of a general widening of lending spreads, an improvement in the liability mix through growth in retail liabilities and a reduced dependence on wholesale market funds.

Other operating income grew by £96m (13%) over 1990. This was mainly due to increased retail and corporate branch commission, higher card fee income and increased income from Midland Financial Services.

Total operating income in Midland Financial Services increased by 17%, from £165m to £193m, reflecting strong growth in insurance product and pension income. The increase in the total embedded value of life assurance business was £41m, compared with £18m in 1990.

The £31m (2%) reduction in UK Banking operating expenses reflects the benefits of a 6% headcount reduction, a lower pension contribution rate and a reduction in non-staff costs. Premises costs increased as a result of uniform business rate and rental increases, and provisions made for surplus office and branch space.

Firstdirect continued to develop successfully in line with strategic targets and achieved its planned growth in accounts.

Forward Trust Group trading profit before bad debt charges was £101m, £20m (25%) better than 1990. Net interest income grew by 14% as a result of improved margins, despite new lending volumes being constrained by weak customer demand and lower volumes of leasing. Other operating income improved by 22% due to increased factoring activity and an emphasis on fee generating business. The growth in operating expenses was held to 3%. The charge for bad debts showed a £23m (66%) increase over 1990 and related to both consumer and industrial lending. Forward Trust Group profit before taxation declined by 10% to £43m.

Period-end balances Figures in £bn	1989	1990	1991
Overdrafts and term loans	14·5	15·4	13·6
Mortgage advances	4·7	4·7	4·3
Instalment finance/ finance leases	3·7	3·7	3·5
Other customer lending	2·6	2·9	2·8
Total customer lending	25·5	26·7	24·2
Less: provisions	(0·3)	(0·7)	(1·1)
Net customer lending	25·2	26·0	23·1
Other assets	3·8	3·6	3·5
Total period-end assets	29·0	29·6	26·6
Period-end weighted risk assets	26·0	26·5	23·4

UK Banking — total assets and weighted risk assets

The recession led to a fall in demand for suitable new lending opportunities. Third party assets fell by £3·0bn (10%) to £26·6bn at 31 December 1991.

The review of corporate relationships, notably those involving fine rate lending, which commenced in the second half of 1990, continued throughout 1991 and was a significant factor in the reduction in lending volumes.

All forms of personal lending remained flat, and the depressed housing market contributed to a decline in the volume of mortgage lending. New mortgage lending of approximately £400m was offset by mortgage redemptions of approximately £800m.

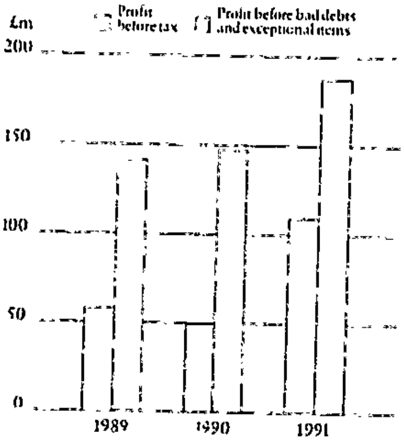
Period-end balances Figures in £bn	1989	1990	1991
Retail and corporate funding:			
Current accounts – interest free	5·4	4·6	4·6
Current accounts – interest bearing	1·0	1·6	1·8
Savings and deposit accounts	13·9	15·9	16·1
Total retail and corporate funding	20·3	22·1	22·5
Wholesale funding UK money market	1·9	1·6	1·4
Total wholesale funding	1·9	1·6	1·4
Inter-Group	3·9	2·7	(0·6)
Capital and other	2·9	3·2	3·3
Total liabilities	29·0	29·6	26·6

UK Banking — funding mix

The analysis of UK Banking funding mix as at 31 December 1991 shows a number of classification changes from that shown in previous reviews. Comparative figures for the two previous year-ends have been correspondingly adjusted. The most significant of the changes has been the transfer of retail and corporate high interest cheque accounts from 'current accounts — interest bearing' to 'savings and deposit accounts'.

Total retail and corporate funding showed a small increase during 1991, with interest free current accounts stabilising at the 1990 level, halting the declining trend of previous years. Interest bearing current accounts, which are almost wholly retail personal customer accounts, continued to increase, although much more slowly than in previous years. Savings and deposit accounts showed slight but steady growth in 1991, consolidating the 14% increase of 1990.

As a result of the decline in its asset funding requirements, UK Banking became a net provider of funds to Midland Montagu towards the end of 1991 as its net funding position improved from a £2·7bn deficit at the start of 1991 to a £0·6bn surplus by the end of the year.



Figures in £m	1989	1990	1991
Net interest income	275	229	292
Other operating income	479	454	448
Total operating income	754	717	740
Operating expenses	(613)	(570)	(553)
Trading profit before charge for bad and doubtful debts	141	147	187
Charge for bad and doubtful debts	(53)	(68)	(79)
Share of profits of associated undertakings	1	—	1
Profit before exceptional items and taxation	89	79	109
Exceptional items	(31)	(30)	—
Profit before taxation	58	49	109

Midland Montagu (excluding DCG) — profit before taxation

Midland Montagu's trading profit before bad debts of £187m was 27% higher than 1990. Profit before taxation increased by £60m, despite an £11m (16%) increase in the bad debt charge.

The contribution from the treasury and capital markets business was substantially higher in 1991, primarily arising in money market trading and from improvements in the Group's structural interest rate book. Within merchant banking, improved corporate finance performance was more than offset by increased bad debt provisions in specialised financing activities and lower venture capital realisations. Corporate banking showed a significant recovery over 1990 through lower bad debt charges and higher non-interest income. Correspondent banking and trade finance continued to be significant contributors to profits, in spite of reduced levels of economic activity and the lower interest rate environment.

Net interest income grew by £63m (28%) over 1990. Improved treasury results, and higher lending volumes in continental Europe, more than offset income lost due to the sale and closure of businesses in 1990 and 1991. Reductions in continental Europe and lower venture capital realisations, together with income lost due to the restructuring measures of 1991 and 1990, resulted in the level of other operating income falling by £40m (8%).

Operating expenses were £17m (3%) lower than 1990, reflecting the sale of businesses and rationalisation of activities during 1990 and 1991, and the continued emphasis on cost control.

A lower level of bad debt recoveries and the recessionary economic environment in the UK, together with problems affecting a small number of overseas accounts, resulted in an increase in the net bad debt charge of £11m.

Samuel Montagu & Co. group made a consolidated profit before taxation of £34m, compared with £58m in 1990. This decline was due to a higher level of bad debt charges. In difficult market conditions trading profit before bad debts declined by 5%. The profit before taxation from Midland Montagu's continental European activities declined from £67m in 1990 to £28m in 1991, due to higher bad debt charges, lower trading income and restructuring costs.

FINANCIAL REVIEW

INDIVIDUAL OPERATIONS CONTINUED

Period-end balances Figures in £bn	1989	1990	1991
Cash and short-term funds	8·6	9·1	10·4
Dealing assets	2·2	2·0	2·2
Investments	1·2	1·7	1·9
Placings with banks over 30 days	3·4	1·8	3·0
Customer term loans	9·6	8·8	8·3
Other customer advances	2·4	2·2	2·3
Other assets	2·8	2·0	2·3
Total assets	30·2	27·6	30·4
Total weighted risk assets	20·2	15·1	16·1

Midland Montagu (excluding DCG) — total assets and weighted risk assets

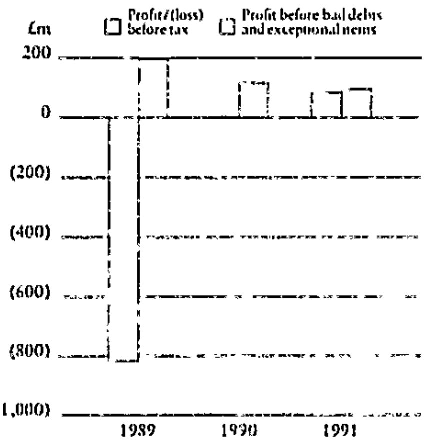
The decline in customer lending primarily reflects the rationalisation of operations outside continental Europe over the past two years. This decline was more than offset by a growth in short-term funds, dealing assets and placings with banks over 30 days, reflecting higher levels of money market and securities activity. Foreign exchange rate movements had little overall effect on total asset and weighted risk asset totals during 1991.

Period-end balances Figures in £bn	1989	1990	1991
Retail and corporate funding:			
Current accounts – interest free	1·4	0·7	0·8
Current accounts – interest bearing	3·4	4·0	3·1
Savings and deposit accounts	3·7	4·1	3·8
Total retail and corporate funding	8·5	8·8	7·7
Wholesale funding:			
UK money market	13·7	13·7	13·7
Overseas money market	8·2	4·8	4·6
Total wholesale funding	21·9	18·5	18·3
Inter-Group	(3·7)	(2·6)	0·7
Capital and other	3·5	2·9	3·7
Total liabilities	30·2	27·6	30·4

Midland Montagu (excluding DCG) — funding mix

Total retail and corporate funding declined in 1991. There was a significant reduction in interest bearing current accounts and deposit accounts as customer balances returned to more normal levels following the build up of balances at end-1990 immediately prior to the Gulf War.

During 1991 UK Banking switched from having a need for wholesale funding to having surplus retail and corporate deposits available to fund Midland Montagu assets. As a result Midland Montagu reliance upon UK and overseas money market funding fell slightly, despite a significant growth in money market assets.



Developing Countries Group — profit/(loss) before taxation

Figures in £m	1989	1990	1991
Net interest income	201	125	102
Other operating income	18	11	9
Total operating income	219	136	111
Operating expenses	(21)	(18)	(15)
Trading profit before charge for bad and doubtful debts	198	118	96
Charge for bad and doubtful debts:			
– principal	—	8	6
– reserved interest	(174)	(130)	(27)
Share of profits of associated undertakings	5	6	11
Profit before exceptional items and taxation	29	2	86
Exceptional items	(846)	—	—
Profit/(loss) before taxation	(817)	2	86

Developing Countries Group net interest income was £23m lower than in 1990 as a result of a fall in US dollar interest rates and the effects of the implementation of its debt restructuring programme. The bad debt charge was lower than in either of the two previous years due to lower US dollar interest rates and the receipt of partial payments of Brazilian and Argentinian interest, amounting to £44m, and the sale of rights to past due interest relating to these two countries, amounting to £33m.

Developing Countries Group — provisionable exposure

Period-end balances Figures in $m	1989	1990	1991
Argentina	1,310	1,308	1,241
Brazil	2,068	1,751	1,504
Mexico	1,375	1,486	1,493
Rest of Latin America	1,148	1,052	992
Rest of the world	1,286	1,022	1,140
Gross outstandings	7,187	6,619	6,370
Contingencies and undrawn commitments	421	415	640
Voluntary short-term and fully secured items	(652)	(632)	(1,418)
Provisionable exposure ($m)	6,956	6,402	5,592
Provisions ($m)	3,490	3,415	3,142
Provisionable exposure (£m)	4,332	3,313	2,989
Provisions (£m)	2,173	1,767	1,679
Provisions as % of provisionable exposure	50·2	53·3	56·2
Net provisionable exposure as % of shareholders' funds	80·4	63·8	55·7

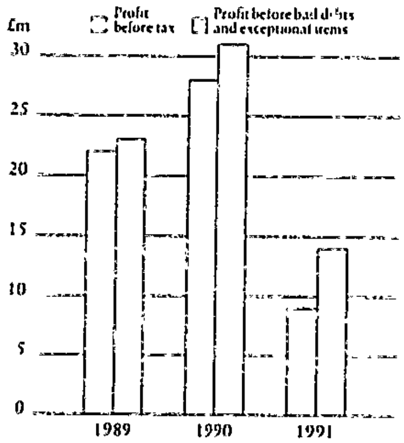
Provisionable exposure was reduced by $810m (13%) during 1991, following a reduction of $554m in 1990. Provisionable exposure fell by 10% (£324m) in sterling terms.

Debt sales and swaps, amounting to $578m, were achieved during 1991 as part of the policy to reduce exposure and improve the quality of the portfolio. The balance of the reduction in provisionable exposure related principally to negotiated settlements of trade facilities, amounting to $403m, partially offset by new provisionable exposures.

Total provisionable exposure at 31 December 1991 includes unpaid and accrued interest of $589m/£315m ($610m/£316m at 31 December 1990) and equity investments, the result of debt/equity swaps, of $456m/£244m.

The proportion of the debt portfolio on which interest was being serviced increased from 42% at the end of 1990 to 60% at the end of 1991.

The Thomas Cook Group — profit before taxation



Figures in £m	1989	1990	1991
Net interest income	70	70	67
Other operating income	223	264	290
Total operating income	293	334	357
Operating expenses	(270)	(303)	(343)
Trading profit before charge for bad and doubtful debts	23	31	14
Charge for bad and doubtful debts	(2)	(3)	(5)
Share of profits of associated undertakings	1	—	—
Profit before taxation	22	28	9

The Thomas Cook profit before taxation of £9m was £19m (68%) lower than the record profit earned in 1990. The reduction occurred in the first half of 1991 and was caused by the effects of the UK economic recession and the adverse impact of the Gulf War on the travel industry. Trading performance recovered in the second half and returned to 1990 levels, despite continuing recessionary pressure.

Net interest income was £3m lower than 1990. Falling US dollar and sterling interest rates resulted in lower yields on invested funds, and this was only partially offset by higher US dollar float volumes.

Other operating income grew by £26m (10%) during 1991, much of which was due to the full year effect of acquisitions made in 1990, principally in North America. The balance was accounted for by organic growth, especially in the UK through additional foreign exchange implants in Midland Bank branches, and expansion in continental Europe.

Thomas Cook operating expenses were £40m (13%) higher than 1990, principally due to the full year effect of acquisitions made during 1990, expansion in continental Europe, increased business volumes and general inflation. This cost growth was partially offset by cost containment measures undertaken in the first half of 1991.

The majority of the decline in profit in 1991 occurred in the UK, where a decline in travel business and the incurrence of restructuring costs was only partially offset by improved foreign exchange earnings.

Results for the year

The results for the year and their effect on reserves are set out in the consolidated profit and loss account on page 37 and in note 26 on page 56, respectively.

A first interim dividend of 1·7p per ordinary share was paid on 11 October 1991. The directors have declared a second interim dividend in respect of 1991 amounting to 1·7p per ordinary share payable on 22 May 1992 to those shareholders whose names are on the register of members on 19 March 1992 instead of recommending a final dividend at the annual general meeting. The interim dividends for 1991 total 3·4p per share (9·0p for 1990).

Group activities

The bank and its subsidiary undertakings, operating in the UK and in other parts of the world, provide a comprehensive range of banking, financial and related services.

The chairman's statement and accompanying reviews report on the Group's business during the year and on future developments.

Share capital

During the year the issued ordinary share capital of the bank was increased from 783,631,314 shares to 784,909,378 shares as follows:

542,689 shares issued under the Midland Bank Group Savings-Related and Executive Share Option Schemes at prices ranging from £1·6130 to £2·5377 per share.

735,375 shares issued in lieu of cash by way of scrip dividend.

The effect of these increases on the capital of the bank is detailed in note 24 on page 55.

At 26 February 1992 the bank had been notified of the following interests of 3% or more of its issued ordinary share capital:

HSBC Holdings plc Group	14·6%
Kuwait Investment Office	10·0%
UBS (UK) Limited Group*	4·0%

*managed for clients on a discretionary basis

The close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the bank.

Special business at the annual general meeting

Shareholders will see from the notice of the annual general meeting on page 64 that they are asked to consider and, if thought fit, pass a number of resolutions as special business. These are explained and set out in a separate letter dated 7 April 1992 enclosed with this report.

Property valuation

The generally depressed state of the UK property market, and of certain overseas markets, has continued throughout 1991. The market value for existing use of the Group's major, and a sample of smaller, freehold and long leasehold properties has been reviewed at 31 December 1991, using both external and internal professional surveyors. Provisions have been made in 1991 for exit costs expected to be incurred for all properties for which the Group has no future use. It is not considered that there is permanent impairment in the value of any freehold or long leasehold properties which are being used, or are to be used, for current or future business purposes. Based on this review, it is estimated that, at 31 December 1991, there was an overall shortfall between net book value and market value for existing use of some £226 million.

The Group's freehold and long leasehold properties are subject to comprehensive valuation on a quinquennial basis, for the purpose of updating their balance sheet value. The next such valuation will be made at 31 December 1993.

Directors

The following directors left the board during 1991:

Mr J A Brooks in January, Sir Kit McMahon in June, Sir Michael Palliser in July, Sir Kenneth Corfield and Sir Alex Jarratt in September and Mr P J Wrangham in November.

Appointments to the board during 1991 were as follows:

Mr B G Pearse and Sir Peter Walters in March, Sir Peter Leslie in July and Mr B H Asher in November. Mr Pearse and Sir Peter Walters were reappointed by shareholders at the 1991 annual general meeting. In accordance with the articles of association of the bank Mr Asher and Sir Peter Leslie will retire at the forthcoming annual general meeting and, being eligible, offer themselves for reappointment.

Mr G E Loudon, Sir Colin Marshall and Mr W Purves retire by rotation in accordance with the articles of association of the bank and, being eligible, offer themselves for re-election.

Mr Loudon has service contracts with subsidiaries of the bank which may be terminated by these subsidiaries upon 36 months' notice.

Mr Asher, Sir Peter Leslie, Sir Colin Marshall and Mr Purves have no service contracts with the bank or any of its subsidiaries.

No director had a material interest at any time during the year in any contract of significance, other than a service contract, with the bank or any of its subsidiaries.

The names of the present directors of the bank and brief biographical notes are shown on page 4.

During the year, the bank has maintained cover for its directors and officers under directors and officers liability insurance policies.

The interests of directors in shares of the bank and its subsidiaries are shown in note 32 on page 59.

Group audit committee and Group remuneration committee

At 31 December 1991 membership of these committees was as follows:

Group audit committee:
Mr G Maitland Smith (chairman), Sir Archibald Forster, Sir Peter Leslie and Baroness O'Cathain.

Group remuneration committee:
Sir Patrick Meaney (chairman), Sir Peter Leslie, Sir Colin Marshall and Sir Peter Walters.

Group structure

Details of the principal subsidiary undertakings of the Group are shown on page 49 of the accounts.

During 1991 the bank increased its interest in the issued ordinary share capital of Euromobiliare SpA, a subsidiary Italian investment bank, from 49% to 55%. The bank also entered into an agreement with three directors of Euromobiliare to acquire 500,000 Euromobiliare shares from them at Lire5,500 per share for a total consideration equivalent to approximately £1·3 million.

In July 1991 the bank disposed of its 30% interest in Signet Limited, a processor of credit card transactions, to First Data Resources for a total consideration of £37 million.

In May 1991 the Group disposed of its 100% interest in Midland Montagu Australia (Holdings) Limited for a total consideration of A$30·7 million. Former directors of Midland's Australian subsidiary undertakings acquired 19% of the shares of Midland Montagu Australia (Holdings) Limited.

Employees

The number of full-time equivalent staff employed in the Group at 31 December 1991, on a worldwide basis, was 57,640, of whom 51,197 were employed in the UK. The average number of staff employed (including part-timers) each week by the Group, in the UK, was 57,802 and their annual aggregate remuneration was £886 million.

Employee communication and involvement

The development of effective two-way communications with our staff continues to be a crucial aspect of our consultation policy. Consultation arrangements, agreed in conjunction with the recognised unions within the Group, are well established and have proved to be effective in handling in a sensitive and professional manner the redundancy programmes conducted during 1991. The substantial reduction in the number of employees has been achieved during this period without any industrial action. Every effort continues to be taken to inform employees on key issues.

Since 1979, employees have had the opportunity to participate in various employee share schemes.

Employment of disabled persons

During 1991, Midland continued its programme of promoting equality of opportunity for disabled people. Further detail is set out in the group chief executive's review of operations on page 16.

Midland has supported Hereward College in the establishment of a business park in Coventry for disabled entrepreneurs. Midland hopes to continue its involvement in this exciting project, which is the first of its kind in Europe, offering a unique opportunity for disabled men and women to set up and run businesses in a purpose-built business park.

Donations

During the year the Group made donations in the UK for charitable purposes amounting to £488,397. Included in this sum is an amount of £100,068 which relates to the £1 for £1 staff charity scheme.

Additional community support was provided through sponsorship projects and by means of secondments aimed at improving the performance of small businesses, particularly in inner city areas.

No donations were made for political purposes.

Auditors

Ernst & Young have expressed their willingness to continue in office as auditors. A resolution proposing their reappointment as auditors and giving authority to the directors to fix their remuneration will be submitted to the annual general meeting.

By order of the board
J R Skae, secretary

Poultry, London
26 February 1992

MIDLAND GROUP
REPORT OF THE AUDITORS

To the members of Midland Bank plc

We have audited the accounts set out on pages 34 to 59 in accordance with Auditing Standards.

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the Group at 31 December 1991 and of the loss and source and application of funds of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
Chartered Accountants
Registered Auditor

London
26 February 1992

ACCOUNTING POLICIES

Accounting policies adopted by the Group are set out below and are consistent with those adopted in 1990.

(a) Accounting convention
The accounts are prepared in accordance with applicable accounting standards under the historical cost convention modified by the revaluation of freehold and long leasehold properties, certain investments and dealing assets.

(b) Basis of consolidation
The Group accounts are prepared in accordance with sections 255 and 255A of, and Schedule 9 to, the Companies Act 1985 and deal with the state of affairs and profits and losses of Midland Bank plc and all its subsidiary undertakings and the attributable share of profits and reserves of its associated undertakings.

(c) Bad and doubtful debts
Specific and general provisions for bad and doubtful debts are based on the year-end appraisal of advances. The specific element relates to individual banking relationships; the general element relates to other positions not separately identified but known from experience to exist in any portfolio of banking relationships.

Interest on bad and doubtful loans continues to be charged to customers' accounts and credited to interest income where insolvency law permits, although in most instances a corresponding specific provision is made. When it becomes apparent that recovery is unlikely, interest ceases to be accrued. When there is no prospect of recovery, the outstanding debt is written off.

(d) Instalment finance
Income from fixed rate instalment finance business, after making a deduction for certain initial expenses, is credited to profit and loss account in proportion to the reducing balance outstanding. These balances are stated in the balance sheet after deduction of unearned charges and interest.

(e) Equipment leased to customers under finance leases
Amounts receivable under finance leases are included in the balance sheet under 'Advances and other accounts'. Income from leasing contracts, other than those with major recourse or similar agreements, is credited to profit and loss account in proportion to the funds invested.

Where leasing contracts are covered by major recourse or other similar agreements, income is released to maintain the book amount of the asset at a value consistent with the contractual arrangements.

(f) Depreciation of premises and equipment
Freehold and long leasehold (50 years and over unexpired) buildings are maintained to a high standard and it is considered that, except for certain specialised properties, residual values of these are such that depreciation is not significant, and it is accordingly not currently applied. Any permanent diminution in the value of these properties is recognised when it occurs. Specialised properties are depreciated on an individual basis having regard to their anticipated useful lives. Other leasehold land and buildings are written off on the straight-line basis over ten years, or the period of the lease whichever is the shorter. Furniture, fittings and equipment are depreciated on the straight-line

basis over their estimated useful lives at rates ranging from 5% to 50% per annum.

(g) Dealing assets
Where assets are acquired with the intention of reselling them in the short term at a profit, they are stated in the balance sheet at market value. Income from dealing assets is analysed between 'Interest receivable' and 'Other operating income'.

(h) Investments (other than those included in dealing assets)
Investments are included in the balance sheet at cost less provision for any permanent diminution in value.

Where dated investments 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 more conservative result is adopted. These investments are included in the balance sheet at cost adjusted for the amortisation of premiums and discounts arising on acquisition. Any profit or loss on realisation of these investments is recognised in the profit and loss account as it arises.

Investments in associated undertakings and subsidiary undertakings are stated at share of net tangible assets and, where appropriate, embedded value as explained in (j) below.

(i) Retirement benefits
Annual contributions are made to UK pension schemes, on the advice of actuaries, for funding of retirement benefits in order to build up reserves for each scheme member during the employee's working life 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 subsidiaries make provisions for pensions in accordance with local law and practice. The cost of providing other post-retirement benefits is recognised as an expense in the year in which the claims are made.

(j) Embedded value
The surplus retained in long-term assurance funds and the net present value of policies in force, which form part of the embedded value of the long-term assurance business, are determined on a post-tax basis and included in debtors. Changes in this value are recognised in the profit and loss account and, for the purpose of presentation, are grossed up at the prevailing rates of taxation. The remaining part of embedded value, being the net tangible assets of Midland Life Limited, is consolidated in the Group accounts.

(k) Deferred taxation
The provision for deferred taxation is calculated, using the liability method, on all timing differences to the extent that they are likely to crystallise in the future.

(l) Currency translation
Assets, liabilities and results of subsidiary and associated undertakings denominated in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date.

Translation differences arising on the application of year-end rates of exchange to opening net assets of overseas subsidiary and associated undertakings and to related foreign currency borrowings are taken to reserves.

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

(m) Premiums on acquisition of shares in associated and subsidiary undertakings
Premiums on acquisition of shares in associated and subsidiary undertakings are written off to reserves in the year of acquisition.

(n) Off-balance-sheet financial instruments
Accounting for off-balance-sheet financial instruments is based on whether contracts have been undertaken to serve customers, for dealing, to hedge risk, or as part of the management of the Group's assets and liabilities.

Transactions to serve customers or for dealing are marked to market and the results are recognised in the profit and loss account as they arise.

In general, transactions designated as hedges are required to satisfy hedging criteria, in default of which they are classified as dealing. Hedging transactions are valued on an equivalent basis to the assets, liabilities and positions which they are hedging. Any profit or loss is recognised at the same time as any profit or loss arising from the related assets, liabilities or positions. Currency or interest rate swap transactions undertaken as part of the management of the Group's assets and liabilities are separately identified and income or expense is accrued as an adjustment to net interest income.

MIDLAND GROUP

ANALYSIS OF INTEREST RECEIVABLE, INTEREST PAYABLE, OTHER OPERATING INCOME AND OPERATING EXPENSES

YEAR ENDED 31 DECEMBER 1991

	1991 £m	1990 £m
INTEREST RECEIVABLE		
Short-term funds	897	1,046
Dealing assets	187	239
British Government securities (listed)	68	41
Other investments — listed	67	51
unlisted	55	51
	122	102
Advances to customers	4,310	5,259
Placings with banks (over 30 days)	345	339
Lease financing and instalment finance	502	520
	6,431	7,546
INTEREST PAYABLE		
Deposits	4,455	5,653
Perpetual subordinated loan capital, term subordinated loan capital and long-term borrowings wholly repayable — within 5 years	28	19
other	191	231
	4,674	5,903
OTHER OPERATING INCOME		
Service charges, fees and other banking income	1,218	1,109
Foreign exchange earnings	162	181
Travel income	174	164
Income from trade investments	1	2
Profit/(loss) on sale of investments — fixed interest	9	(4)
other	8	31
	17	27
Profit on disposal of fixed assets	3	12
	1,575	1,495
OPERATING EXPENSES		
Staff		
Salaries and other staff costs	1,209	1,232
Pension costs	91	110
	1,300	1,342
Premises and equipment		
Depreciation	152	145
Hire of computers and other equipment	23	19
Rents payable	106	92
Other	274	244
	555	500
Other*	529	553
	2,384	2,395

*including audit fees of £3·8m (1990 £3·8m)

MIDLAND GROUP

CONSOLIDATED PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 DECEMBER 1991

	Notes	1991 £m	1990 £m
Interest receivable		6,431	7,546
Interest payable		(4,674)	(5,903)
Net interest income		1,757	1,643
Other operating income		1,575	1,495
Operating income		3,332	3,138
Operating expenses		(2,384)	(2,395)
Trading profit before charge for bad and doubtful debts		948	743
Charge for bad and doubtful debts		(903)	(703)
Trading profit		45	40
Share of profits of associated undertakings	3	12	23
Profit before exceptional items and taxation		57	63
Exceptional items	4	(21)	(52)
Profit before taxation		36	11
Taxation	5	(69)	(188)
Loss after taxation		(33)	(177)
Minority interests		(16)	(16)
Loss before extraordinary items		(49)	(193)
Extraordinary items	6	10	12
Loss attributable to members of Midland Bank plc		(39)	(181)
Dividends	7	(26)	(70)
Deficit		(65)	(251)
Loss per share – net basis	8	(6·2)p	(24·7)p
nil distribution basis		(5·6)p	(15·8)p

Movements in reserves are set out in note 26.

MIDLAND GROUP

CONSOLIDATED BALANCE SHEET 31 DECEMBER 1991

	Notes	1991 £m	1990 £m
ASSETS			
Cash and short-term funds	10	11,210	9,995
Items in course of collection		595	492
Dealing assets	11	2,221	1,969
Investments	12	2,353	2,174
Debtors	13	1,718	1,172
Advances and other accounts	14	39,586	42,125
		57,683	57,927
Trade investments and investments in associated undertakings	15	217	201
Premises and equipment	17	1,508	1,508
		59,408	59,636
LIABILITIES AND SHAREHOLDERS' FUNDS			
Current, deposit and other customer accounts	18	51,337	52,881
Other liabilities	19	2,994	1,675
		54,331	54,556
Deferred taxation	20	174	207
Long-term borrowings	21	407	454
Term subordinated loan capital	22	1,129	1,012
Perpetual subordinated loan capital	23	851	824
Minority interests		166	161
Shareholders' funds			
Share capital	24	785	784
Share premium	25	1,047	1,066
Reserves	26	518	572
		2,350	2,422
		59,408	59,636

Peter Walters, chairman
Brian Pearse, group chief executive
Richard Delbridge, director group finance
John Skae, secretary

Peter Walters
Brian Pearse
Richard Delbridge
J C Skae

26 February 1992

MIDLAND BANK PLC

BALANCE SHEET 31 DECEMBER 1991

	Notes	1991 £m	1990 £m
ASSETS			
Cash and short-term funds	10	9,117	8,191
Items in course of collection		578	439
Dealing assets	11	405	192
Investments	12	1,036	1,106
Debtors		354	250
Advances and other accounts	14	29,387	31,902
Balances due by subsidiary undertakings		3,497	3,178
		44,344	45,258
Trade investments and investments in associated undertakings	15	166	165
Investments in subsidiary undertakings	16	1,622	1,373
Premises and equipment	17	1,114	1,134
		47,246	47,930
LIABILITIES AND SHAREHOLDERS' FUNDS			
Current, deposit and other customer accounts	18	39,635	40,393
Other liabilities	19	700	467
Balances due to subsidiary undertakings		3,344	3,460
		43,679	44,320
Deferred taxation	20	3	–
Term subordinated loan capital	22	386	386
Perpetual subordinated loan capital	23	828	802
Shareholders' funds			
Share capital	24	785	784
Share premium	25	1,047	1,066
Reserves	26	518	572
		2,350	2,422
		47,246	47,930

Peter Walters, chairman
Brian Pearse, group chief executive
Richard Delbridge, director group finance
John Skae, secretary

Peter Walters
Brian Pearse
Richard Delbridge
John Skae

26 February 1992

MIDLAND GROUP

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED 31 DECEMBER 1991

	1991 £m	1990 £m
SOURCE OF FUNDS		
Loss attributable to members of Midland Bank plc	(39)	(181)
ADJUSTMENTS FOR ITEMS NOT INVOLVING THE MOVEMENT OF FUNDS		
Depreciation of premises and equipment	152	145
Deferred taxation	(35)	171
Minority interests	5	(5)
Amount retained by associated undertakings	(33)	(2)
Profit on sale of trade investments	(2)	(5)
Profit on sale of subsidiary and associated undertakings	(10)	(12)
Profit on disposal of premises and equipment	(3)	(12)
Other items	(28)	12
Funds generated from operations	7	111
FUNDS FROM OTHER SOURCES		
Proceeds from sale of trade investments	15	6
Proceeds from sale of subsidiary and associated undertakings	51	64
Proceeds from sale of premises and equipment	34	48
Increase in share capital	1	5
Increase in loan capital	144	–
	252	234

	1991 £m	1990 £m
APPLICATION OF FUNDS		
Dividends paid	25	135
Purchase of trade investments and associated undertakings	22	15
Premiums paid on acquisition of subsidiary undertakings	2	19
Purchase of premises and equipment	185	242
Decrease in loan capital	–	336
Decrease in long-term borrowings	47	97
	281	844
Working capital	(29)	(610)
	252	234

	1991 £m	1990 £m
WORKING CAPITAL		
Advances and other customer accounts	(2,490)	(3,241)
Cash and short-term funds	1,215	681
Debtors and other assets	1,384	(53)
Current and deposit accounts and other liabilities excluding dividends	(138)	2,003
	(29)	(610)

1 TURNOVER

The Group's revenues result mainly from the business of banking and related activities. Non-banking turnover, which arises primarily in the UK, consists of commissions on travel arrangements and sales in respect of tour operations amounting to £418m (1990 £394m).

Aggregate rentals from finance leases were £712m (1990 £772m). Aggregate hire purchase instalments were £447m (1990 £441m).

2 RETIREMENT BENEFITS

The Midland Bank Pension Scheme, the assets of which are held in a separate trust fund, is the principal pension scheme within the Group covering 77% of the Group's UK employees. The Midland Bank Pension Scheme is a funded 'defined benefit scheme'.

Actuarial valuations of the assets and liabilities of the scheme are carried out triennially by external professional actuaries, using the projected unit method, to determine the financial position of the scheme and to enable the bank to determine the level of contributions to be made to the scheme.

The latest valuation of the Midland Bank Pension Scheme was made as at 31 December 1990. The market value of the scheme's assets at this date was £2,295m and the actuarial value of the assets was sufficient to cover 108% of the benefits which had accrued to members, after allowing for expected future increases in earnings

On the basis of the actuaries' recommendations, contributions have been reduced to 14% of pensionable salary for 1991, to remain at that percentage at least until the next actuarial valuation due to be carried out at 31 December 1993. Changes in the valuation assumptions together with recognition of the surplus revealed in the valuation have reduced the pension cost for 1991 by £27m compared to 1990.

The main financial assumptions used in the latest valuation were

	Percentage per annum
Long-term investment return	10
General salary increases	7·5
Equity dividend increases	5·5
Post-retirement pension increases	5

Other Group pension schemes in the UK are similarly constituted and funded as the Midland Bank Pension Scheme.

The Group also provides post-retirement health care benefits for certain pensioners, employees and dependent relatives. An independent actuarial valuation as at 1 August 1991 estimated the present value of the accumulated post-retirement benefit obligation at £99m for the Group and at £82m for Midland Bank plc, for which no provision has been made; these amounts are subject to material uncertainties inherent both in future health care costs and claims experience

3 DIVIDENDS RECEIVABLE FROM ASSOCIATED UNDERTAKINGS

Dividends receivable during 1991 from associated undertakings, all of which are unlisted, amounted to £9m (1990 £10m).

4 EXCEPTIONAL ITEMS

	1991 £m	1990 £m
Exceptional charge for restructuring costs	(55)	(52)
Share of release of provisions by associated undertaking	34	–
	(21)	(52)

The exceptional charge for restructuring costs covered the cost of two major programmes initiated in the first half of the year. These were the closure of certain area offices and branches, and rationalisation of operations functions; and a programme to release space through rationalisation of the property portfolio in the City of London, including the disposal of a number of leasehold properties.

The share of release of provisions by an associated undertaking relates to 3i Group plc, which has changed its accounting policies to those of an investment company, and has also changed the basis of provisioning against its investments. Midland Group has retained the historical cost basis to account for this investment in 3i and has treated its share of the release relating to the change in basis of provisioning as an exceptional item.

5 TAXATION

The charge for taxation comprises	1991 £m	1990 £m
UK corporation tax including deferred taxation credit of £8m (1990 credit £57m)	(18)	53
Relief for overseas tax	1	–
	(17)	53
Anticipated tax relief written off	–	(190)
Advance Corporation Tax written off	(5)	(69)
Adjustments in respect of prior years	6	79
Corporation tax rate changes including deferred credit of £14m (1990 nil)	(6)	–
	(22)	(127)
Overseas tax including deferred charge of £4m (1990 charge £11m)	(48)	(50)
	(70)	(177)
Associated undertakings	1	(11)
	(69)	(188)

The charge for UK corporation tax assumes a rate of 33·25% for the year (1990 35%). In accordance with accounting practice generally accepted in the UK, relief is not being anticipated for net tax losses of UK Group companies or Advance Corporation Tax. Such relief will remain available to the Group for set-off against future UK liabilities.

The UK tax charge includes £16m (1990 £10m) in respect of grossing up for notional tax on the increase in value of long-term assurance business and on franked investment income.

6 EXTRAORDINARY ITEMS

Extraordinary items comprise profits on sale of subsidiary and associated undertakings.

7 DIVIDENDS

	1991 pence per share	1990 pence per share	1991 £m	1990 £m
First interim	1·7	7·3	13	57
Second interim	1·7	1·7	13	13
	3·4	9·0	26	70

8 LOSS PER SHARE

Loss per share on the net basis has been calculated on the loss before extraordinary items of £49m (1990 loss £193m) related to the weighted average of 784m shares (1990 781m shares) in issue during the year. Loss per share on the nil distribution basis has been calculated in the same manner except that the loss before extraordinary items has been adjusted to exclude Advance Corporation Tax written off during the year.

9 SEGMENTAL REPORTING

Other than for the Thomas Cook business segment, in the analyses given below, because of the fungibility of certain liabilities within the Group, net assets have been arrived at by allocating shareholders' funds to business and geographical segments in proportion to the weighted risk assets booked in each segment. The analyses of profit before taxation reflect adjustments to remove the benefit of actual shareholders' funds in each segment and to allocate the benefit of Group shareholders' funds in proportion to the weighted risk assets employed in each segment. Central assets, liabilities, income and expenditure are allocated to segments on the basis of the relevant net assets. Analyses of total assets, based upon the segment in which they are booked, are also provided.

	1991 £m Profit before taxation	1991 £m Shareholders' funds	1991 £m Total assets	1990 £m Profit before taxation	1990 £m Shareholders' funds	1990 £m Total assets
Business segments						
UK Banking	(168)	1,281	26,555	(68)	1,420	29,619
Midland Montagu (excluding DCG)	109	908	30,427	49	841	27,594
Developing Countries Group (DCG)	86	78	1,310	2	82	1,400
Thomas Cook	9	83	1,116	28	79	1,023
Group total	36	2,350	59,408	11	2,422	59,636
Geographical segments						
UK	(34)	1,981	48,178	(77)	2,076	49,270
Continental Europe	37	267	8,139	74	243	7,100
United States	23	70	1,935	14	64	1,843
Rest of the world	10	32	1,156	–	39	1,423
Group total	36	2,350	59,408	11	2,422	59,636

The Group's share of profits of associated undertakings, which arises in the UK geographical segment in both years, includes £11m in DCG, £1m in Midland Montagu (excluding DCG) and £34m (see note 4) in UK Banking business segments (1990 £6m in DCG and £17m in UK Banking business segments). The Group's share of net assets of associated undertakings included is £190m (1990 £181m).

10 CASH AND SHORT-TERM FUNDS

	Group 1991 £m	Group 1990 £m	Midland Bank plc 1991 £m	Midland Bank plc 1990 £m
Coin, bank notes, balances with central banks and gold	798	869	523	598
Money at call and short notice	6,786	6,774	5,020	5,334
Bills discounted	3,171	1,868	3,161	1,841
Certificates of deposit	455	484	413	418
	11,210	9,995	9,117	8,191

Coin, bank notes, balances with central banks and gold includes gold bullion, amounting to £150m (1990 £183m) at current market value.

11 DEALING ASSETS

	Group 1991	Group 1990	Midland Bank plc 1991	Midland Bank plc 1990
	£m	£m	£m	£m
Bullion other than gold	41	68	–	–
Bills	245	426	62	59
Certificates of deposit	408	281	80	10
Investments				
Listed —				
Securities of, or guaranteed by, the British Government	322	320	–	–
Others listed in Great Britain	201	104	10	27
Others listed elsewhere	935	628	196	12
	1,458	1,052	206	39
Unlisted	69	142	57	84
	1,527	1,194	263	123
	2,221	1,969	405	192

Listed investments are valued at middle market prices and unlisted investments at directors' valuation.

12 INVESTMENTS

	1991 £m Book amount	1991 £m Valuation	1990 £m Book amount	1990 £m Valuation
Group				
Listed				
Securities of, or guaranteed by, the British Government	346	351	1,040	1,019
Others listed in Great Britain	80	84	98	96
Others listed elsewhere	723	707	499	494
	1,149	1,142	1,637	1,609
Unlisted				
United States authorities and agencies	726	745	136	138
Other	478	520	401	422
	2,353	2,407	2,174	2,169
Midland Bank plc				
Listed				
Securities of, or guaranteed by, the British Government	336	341	1,030	1,009
Others listed in Great Britain	17	17	18	18
Others listed elsewhere	41	41	47	47
	394	399	1,095	1,074
Unlisted				
United States authorities and agencies	588	599	–	–
Other	24	24	11	11
	1,006	1,022	1,106	1,085

Dated investments, which amount to £2,170m (1990 £2,041m) for the Group and £987m (1990 £1,101m) for Midland Bank plc, are stated at cost adjusted for the amortisation of premiums and discounts arising on acquisition.

Listed investments are valued at middle market prices and unlisted investments at directors' valuation.

13 DEBTORS AND EMBEDDED VALUE

Debtors includes the surplus retained in long-term assurance funds and the net present value of policies in force, which forms part of the embedded value as follows

	1991	1990
	£m	£m
Net tangible assets of Midland Life Limited	21	11
Surplus retained in long-term assurance funds and net present value of policies in force	36	18
Total embedded value	57	29

The net tangible assets and results of Midland Life Limited are consolidated in the Group accounts.

The net present value of policies in force is determined in consultation with independent actuaries, using a discount rate of 15%. The increase in the total embedded value included in the consolidated profit and loss account amounts to £41m (1990 £18m) before tax and £28m (1990 £12m) after tax.

Debtors also includes securities trading assets arising in the market-making subsidiary undertakings; related liabilities are included under 'Other liabilities' — see note 19.

14 ADVANCES AND OTHER ACCOUNTS

	Group 1991	Group 1990	Midland Bank plc 1991	Midland Bank plc 1990
	£m	£m	£m	£m
Loans to customers				
Advances	34,246	37,084	28,936	31,979
Instalment finance	1,280	1,368	–	–
	35,526	38,452	28,936	31,979
Lease financing	2,431	2,482	–	–
Total loans and lease financing	37,957	40,934	28,936	31,979
Less provisions	3,026	2,693	2,762	2,456
	34,931	38,241	26,174	29,523
Placings with banks (over 30 days)	3,239	2,044	2,037	882
Accrued interest and other customer accounts	1,416	1,840	1,176	1,497
	39,586	42,125	29,387	31,902
Of which				
Sterling	27,451	31,727	22,352	26,169
Currency	12,135	10,398	7,035	5,733
	39,586	42,125	29,387	31,902

Advances are stated after deduction of amounts refinanced with the Export Credits Guarantee Department and the Department of Trade and Industry.

Included in instalment finance above are amounts in respect of hire purchase contracts amounting to £653m (1990 £745m).

The cost of assets acquired in 1991 for the purpose of letting under lease financing and hire purchase contracts amounted to £682m (1990 £745m) and £451m (1990 £549m), respectively.

14 ADVANCES AND OTHER ACCOUNTS CONTINUED

Movements on provisions for bad and doubtful debts were as follows

	1991 £m Specific	1991 £m General	1991 £m Total	1990 £m Specific	1990 £m General	1990 £m Total
Group						
Provisions at 1 January	2,497	196	2,693	2,598	224	2,822
Currency translation and other adjustments	60	–	60	(360)	(11)	(371)
Charge for the year	863	40	903	720	(17)	703
Amounts written off	(640)	–	(640)	(476)	–	(476)
Less recoveries of amounts written off in previous years	10	–	10	15	–	15
	(630)	–	(630)	(461)	–	(461)
Provisions at 31 December	2,790	236	3,026	2,497	196	2,693
Midland Bank plc						
Provisions at 1 January	2,314	142	2,456	2,405	165	2,570
Currency translation and other adjustments	64	–	64	(338)	(17)	(355)
Charge for the year	756	34	790	656	(6)	650
Amounts written off	(556)	–	(556)	(423)	–	(423)
Less recoveries of amounts written off in previous years	8	–	8	14	–	14
	(548)	–	(548)	(409)	–	(409)
Provisions at 31 December	2,586	176	2,762	2,314	142	2,456

The Group makes specific provisions against loans to and interest due from 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 is normally reserved when it is more than 90 days overdue.

15 TRADE INVESTMENTS AND INVESTMENTS IN ASSOCIATED UNDERTAKINGS

	1991	1991	1990	1990
	£m	£m	£m	£m
	Book amount	Valuation	Book amount	Valuation
Group				
Trade investments				
Listed elsewhere than in Great Britain	5	5	9	10
Unlisted	22	35	11	18
	27	40	20	28
Associated undertakings (unlisted)				
Equity	184	185	156	183
Other	6	6	25	25
	217	231	201	236
Midland Bank plc				
Trade investments (unlisted)	2	12	2	7
Associated undertakings (unlisted)				
Equity	158	157	138	149
Other	6	6	25	25
	166	175	165	181

Listed investments are valued at middle market prices and unlisted investments at directors' valuation.

The principal associated undertakings at 31 December 1991 were as follows

	Country of registration and operation	Accounts made up to	Direct interest of Midland Bank plc
3i Group plc	England and Wales	30.9.1991*	
Issued share capital £236m			18%
UBAF Bank Limited	England and Wales	31.12.1991	
US$ share capital $174m			25%
Sterling share capital £46m of which £15m 67% paid up			25%
Subordinated unsecured loan stock US$28·7m			25%
Subordinated loan stock £10m			12·5%

*interim accounts

16 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	1991 £m	1990 £m
Midland Bank plc		
Shares in subsidiary undertakings at bank's share of net tangible assets and embedded value	1,158	957
Loans to subsidiary undertakings	464	416
	1,622	1,373

The principal subsidiary undertakings at 31 December 1991 were as follows

	Country of registration/ incorporation and operation	Percentage of equity capital held by Midland Bank plc Direct	Indirect
Euromobiliare SpA*	Italy	55%	
Forward Trust Limited	England and Wales		100%
Greenwell Montagu Gilt-Edged	England and Wales		100%
Griffin Factors Limited	England and Wales		100%
Guyerzeller Bank AG	Switzerland		74%
Midland Bank SA*	France		73%
Midland Bank Trust Company Limited	England and Wales	100%	
Midland Bank Trust Corporation (Jersey) Limited	Jersey		100%
Samuel Montagu & Co. Limited	England and Wales		100%
The Thomas Cook Group Limited	England and Wales	100%	
Trinkaus & Burkhardt KGaA*#	Germany		71%

All the above subsidiary undertakings prepare accounts to 31 December and are engaged in the business of banking and financial services with the exception of The Thomas Cook Group Limited, which is engaged in the business of world travel, tour operations, foreign exchange dealings and the issue of travellers cheques.

*minority shareholding listed

#limited partnership

NOTES ON THE ACCOUNTS CONTINUED

17 PREMISES AND EQUIPMENT

	Freehold land and buildings	Leasehold land and buildings: 50 years and over unexpired	Leasehold land and buildings: Under 50 years unexpired	Furniture, fittings and equipment	Total
	£m	£m	£m	£m	£m
Group					
Cost or valuation					
At 1 January 1991	842	156	209	890	2,097
Currency translation adjustments	(2)	–	1	1	–
Additions	29	10	8	138	185
Disposals	(6)	–	(7)	(77)	(90)
At 31 December 1991	863	166	211	952	2,192
Accumulated depreciation	(12)	(4)	(115)	(553)	(684)
Net book amount					
At 31 December 1991	851	162	96	399	1,508
At 31 December 1990	832	153	110	413	1,508
Midland Bank plc					
Cost or valuation					
At 1 January 1991	605	155	159	649	1,568
Additions	21	11	5	86	123
Disposals	(9)	(8)	(5)	(36)	(58)
At 31 December 1991	617	158	159	699	1,633
Accumulated depreciation	(8)	(4)	(88)	(419)	(519)
Net book amount					
At 31 December 1991	609	154	71	280	1,114
At 31 December 1990	598	153	81	302	1,134

	Group	Midland Bank plc
	£m	£m
Cost or valuation of premises and equipment at 31 December 1991 comprises		
Land and buildings – at valuation 1988	608	581
at cost	632	353
	1,240	934
Furniture, fittings and equipment, at cost	952	699
	2,192	1,633

For both the Group and Midland Bank plc, the gross depreciable amounts for freehold land and buildings and leaseholds over 50 years unexpired, relating to specialist facilities, were £28m (1990 £27m) and £31m (1990 £30m), respectively.

The net book amount for furniture, fittings and equipment includes assets held under lease financing of £41m (1990 £32m) and £37m (1990 £32m) for the Group and Midland Bank plc respectively on which the depreciation charges were £16m (1990 £14m) and £15m (1990 £14m), respectively.

During the year, provisions have been made for all exit costs associated with premises for which the Group has no further business use.

NOTES ON THE ACCOUNTS CONTINUED

18 CURRENT, DEPOSIT AND OTHER CUSTOMER ACCOUNTS

	Group 1991 £m	Group 1990 £m	Midland Bank plc 1991 £m	Midland Bank plc 1990 £m
Sterling				
Current and demand accounts	19,135	18,582	17,744	17,451
Deposit and savings accounts	4,750	5,428	3,151	3,731
Money market and other time deposits	9,901	11,914	7,820	9,284
Accrued interest and other customer accounts	513	702	313	489
	34,299	36,626	29,028	30,955
Currency				
Current and demand accounts	4,585	4,684	2,660	2,353
Deposit and savings accounts	2,025	2,665	502	1,278
Money market and other time deposits	9,536	7,832	7,348	5,651
Accrued interest and other customer accounts	892	1,074	97	156
	17,038	16,255	10,607	9,438
	51,337	52,881	39,635	40,393

19 OTHER LIABILITIES

	Group 1991 £m	Group 1990 £m	Midland Bank plc 1991 £m	Midland Bank plc 1990 £m
Taxation	143	134	101	111
Creditors and securities trading liabilities	2,838	1,528	586	343
Dividend	13	13	13	13
	2,994	1,675	700	467

Securities trading liabilities arise in the market-making subsidiary undertakings and reflect the level of activity in the securities markets. The related assets are included under 'Debtors' — see note 13.

Obligations under lease financing included within 'Creditors and securities trading liabilities' were as follows

	Group 1991 £m	Group 1990 £m	Midland Bank plc 1991 £m	Midland Bank plc 1990 £m
Payable within 1 year	28	25	23	21
1–5 years	36	27	29	18
	64	52	52	39
Less: future finance charges	(14)	(8)	(11)	(6)
	50	44	41	33

20 DEFERRED TAXATION

	Group	Midland Bank plc
	£m	£m
Movements during the year		
At 1 January 1991	207	–
Exchange and other adjustments	(15)	–
(Credit)/charge to profit and loss account	(18)	3
At 31 December 1991	174	3

	1991	1991	1990	1990
	£m	£m	£m	£m
	Unprovided deferred tax/(relief)	Provided in accounts	Unprovided deferred tax/(relief)	Provided in accounts
Group				
Short-term timing differences	(1)	43	(8)	42
Accelerated capital allowances	(8)	4	(1)	3
Leasing transactions	88	220	94	257
Trading losses carried forward	(224)	(44)	(186)	(38)
Other items	32	34	5	25
Advance Corporation Tax	(85)	(83)	(69)	(82)
	(198)	174	(165)	207
Midland Bank plc				
Short-term timing differences	(1)	3	(8)	–
Accelerated capital allowances	(8)	–	(1)	–
Trading losses carried forward	(207)	–	(166)	–
Other items	31	–	5	–
Advance Corporation Tax	(39)	–	(21)	–
	(224)	3	(191)	–

It is also not considered necessary to provide for taxation on capital gains which might arise on the disposal of Group subsidiary or associated undertakings at their balance sheet amounts; 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; or for any liability to UK taxation on overseas earnings which are not expected to be remitted.

21 LONG-TERM BORROWINGS

	1991 £m	1990 £m
Subsidiary undertakings		
5% Debenture 1987/'92 DM 9m	–	3
Borrowings at fixed and variable rates between 8·5% and 10·4% repayable 1994/98° FrFrs 1,400m (1990 FrFrs 1,842m)	144	187
6% Bonds repayable 1993 DM 75m	26	26
5½% Bonds repayable 1993 DM 75m	26	26
4% Guaranteed Note 1986/1993 Ecu 9·4m	7	7
10% Bonds repayable 1986/1993 Lire 13·9bn	7	6
Multicurrency loan facility 1993 US$ 25m#	5	9
6% Bonds repayable 1996 DM 100m	35	35
Guaranteed Floating Rate Notes 1997 FrFrs 900m#	93	91
Floating Rate Note 1999 SKr 200m#	19	18
Guaranteed Floating Rate Unsecured Loan Notes 1999	–	9
£52·5m 6⅝% Deep Discount First Mortgage Bonds 2006†	37	37
Zero Coupon Deep Discount Loan Stock 1998	8	–
	407	454
Repayable within 1 year	–	33
1 – 2 years	71	3
2 – 5 years	148	147
over 5 years	188	271
	407	454

°repayable by instalments

#interest rates on floating rate borrowings are related to local market rates

†secured on one of the Group's freehold properties

22 TERM SUBORDINATED LOAN CAPITAL

	1991 £m	1990 £m
Midland Bank plc		
7½% Subordinated Unsecured Loan Stock 1983/93	5	5
10¾% Subordinated Unsecured Loan Stock 1993/98	31	31
Subordinated Floating Rate Notes 2001#	250	250
14% Subordinated Unsecured Loan Stock 2002/07	100	100
	386	386
Subsidiary undertakings		
11½% Guaranteed Bonds 1992 US$ 150m°	80	78
6½% Guaranteed Bonds 1986/96 DM 200m°	70	69
Guaranteed Floating Rate Notes 1986/98 DM 300m#°	106	104
7·55% Guaranteed Loan 1998 Yen 6·3bn°	27	24
9·25% Notes 1991/1998 LuxFr 500m	8	–
Guaranteed Floating Rate Notes 1999 US$ 200m#°	107	103
7·25% Guaranteed Loan 1999 Yen 3·1bn°	13	12
7·41% Guaranteed Loan 1999 Yen 10·0bn°	43	38
7¾% Dual Currency Guaranteed Bonds 1999 Yen 5·0bn°	21	19
Guaranteed Floating Rate Notes 1989/99 DM 200m#°	70	69
6·99% Guaranteed Loan 1999 Yen 5·0bn°	21	19
Borrowings at fixed and variable rates repayable 2000/2004 DM 264m (1990 DM 20m)	92	7
Guaranteed Floating Rate Unsecured Loan Stock 2001#	5	5
Guaranteed Floating Rate Series A to C Unsecured Loan Stock 2001#	–	1
12¾% Guaranteed Notes 2003 US$ 150m°	80	78
	743	626
	1,129	1,012
Repayable within 1 year	80	–
1–2 years	5	78
2–5 years	70	5
over 5 years	974	929
	1,129	1,012

Subordinated loan capital is repayable at par at maturity but some is repayable prior to maturity at the option of the borrower, in certain cases at a premium over par.

interest rates on the floating rate loan capital are related to relevant London Interbank Offered Rates

° issued by a subsidiary undertaking under the bank's subordinated guarantee and on-lent to the bank on a subordinated basis

23 PERPETUAL SUBORDINATED LOAN CAPITAL

	1991 £m	1990 £m
Midland Bank plc		
Undated Floating Rate Primary Capital Notes US$ 750m	401	388
Undated Floating Rate Primary Capital Notes US$ 500m	267	259
Undated Floating Rate Primary Capital Notes (Series 3) US$ 300m	160	155
	828	802
Subsidiary undertakings		
Convertible Undated Floating Rate Subordinated Notes FrFrs 221m	23	22
	851	824

The Undated Floating Rate Primary Capital Notes have characteristics which render them similar in certain circumstances to preferred shares.

The interest rates on the Undated Floating Rate Primary Capital Notes are related to London Interbank Offered Rates. The annual interest rate on the Convertible Undated Floating Rate Subordinated Notes is related to the average monthly bond rates for new issues in the Paris market.

The right to convert the Convertible Undated Floating Rate Subordinated Notes may be exercised at any time from 1 January 1992 until 31 December 2005 on the basis of 3·6 ordinary shares of Midland Bank SA each with a nominal value of FrFrs 100 for each FrFrs 1,000 note.

24 SHARE CAPITAL

The movements in authorised and issued share capital were as follows

	Non-cumulative Preference Shares of £1 each £m	Non-cumulative Preference Shares of US$25 each £m	Ordinary Shares of £1 each £m	Total £m
Authorised				
At 1 January 1991	150	259	1,000	1,409
Currency translation adjustment	–	8	–	8
At 31 December 1991	150	267	1,000	1,417
Issued				
At 1 January 1991	–	–	784	784
Shares issued under share option schemes	–	–	–	–
Shares issued in lieu of dividends	–	–	1	1
At 31 December 1991	–	–	785	785

It is not possible to quantify at this time the number of shares which will be issued under the option to take shares in lieu of cash for the second interim dividend. Of the first interim dividend, £1m (5·1%) was taken up in shares rather than in cash.

25 SHARE PREMIUM	1991 £m	1990 £m
At 1 January	1,066	1,060
Shares issued under share option schemes	1	2
Shares issued in lieu of cash dividends	(20)	4
At 31 December	1,047	1,066

As a result of legal advice, the treatment of shares issued in lieu of dividends resulting from shareholders' elections has been changed during the year. The Group now accounts for the shares issued by capitalising the nominal value from share premium. The above amount includes £19m in respect of such scrip dividends for prior years, which has been reinstated in reserves together with the amount relating to this year.

26 RESERVES	Midland Bank plc and subsidiary undertakings £m	Associated undertakings £m	Group £m	Midland Bank plc £m
At 1 January 1991	473	99	572	572
Currency translation adjustments	(2)	(5)	(7)	-
(Deficit)/retained profit	(98)	33	(65)	(13)
Shares issued in lieu of cash dividends	20	-	20	20
Premiums written off on acquisition of subsidiary undertakings	(2)	-	(2)	-
Net decrease in net tangible assets of subsidiary and associated undertakings	-	-	-	(61)
At 31 December 1991	391	127	518	518

Under the exemption provided by Section 230 of the Companies Act 1985, Midland Bank plc's profit and loss account has not been presented in these accounts.

The cumulative amount of premiums on acquisition, net of discounts on acquisition, written off in the Group's reserves, is £161m (1990 £164m).

Group reserves at 31 December 1991 include surplus on revaluation of property of £229m.

The reserves of Midland Bank plc at 31 December 1991 are analysed as follows	Midland Bank plc £m
Distributable reserves	107
Property revaluation reserves	185
Other non-distributable reserves	226
Total reserves	518

27 CONTINGENT LIABILITIES

	1991 £m	1990 £m
There were the following contingent liabilities in respect of		
Acceptances		
Group	978	950
Midland Bank plc	931	877
Engagements		
Group	5,246	5,660
Midland Bank plc	4,483	4,854

In addition there were outstanding financial contracts, agreements and other financial instruments entered into in the normal course of business. Midland Bank plc has guaranteed the performance of certain subsidiary undertakings in respect of some of these items, and certain exposures to banks by a subsidiary undertaking.

	1991 £m	1990 £m
Midland Bank plc has guaranteed		
Term subordinated loan capital and long- and short-term borrowings of certain subsidiary undertakings	808	866
Loans to customers by certain subsidiary undertakings	910	894

Proceedings were commenced in 1988 against one of the bank's subsidiaries, Samuel Montagu & Co. Limited, by British & Commonwealth Holdings PLC (B&C) in connection with the proposed purchase by Quadrex Holdings Inc. of the Wholesale Broking Division of Mercantile House from B&C. Samuel Montagu has been held liable and has appealed against that judgement. A further hearing, expected to commence in April 1992, will deal with the amount of any damages which may be awarded. On the basis of the information and advice currently available, the directors are of the opinion that no provision is required against the claim.

Proceedings have been issued against the bank by the Secretary of State for Trade and Industry, claiming as assignee of certain individuals who were investors with Barlow Clowes. On 2 July 1991 the bank served a defence to the claim, and intends to defend the claim vigorously. On the basis of the information and advice presently available, the directors are of the opinion that no provision is required against the claim.

28 CAPITAL COMMITMENTS

	1991 £m	1990 £m
Contracts for outstanding capital expenditure not provided for in these accounts amounted to		
Group	31	54
Midland Bank plc	29	38

In addition, the board has authorised capital expenditure amounting to approximately £58m (1990 £109m) for the Group and £57m (1990 £103m) for Midland Bank plc.

29 OPERATING LEASE COMMITMENTS

Annual commitments under non-cancellable operating leases were as follows

	1991 Premises	1991 Equipment	1990 Premises	1990 Equipment
	£m	£m	£m	£m
Group				
Expiring within 1 year	12	1	4	–
1–5 years	10	16	16	21
over 5 years	70	–	71	–
	92	17	91	21
Midland Bank plc				
Expiring within 1 year	9	1	1	–
1–5 years	3	15	7	20
over 5 years	47	–	49	–
	59	16	57	20

30 SHARE OPTIONS

Options outstanding to UK employees of the Group under the Midland Bank plc savings-related and executive share option schemes to subscribe for ordinary shares of the bank were as follows

	Options	Period	Price
1991	32,986,227	1992/2001	£1·6130/3·3310

	Options	Period	Price
1990	26,376,478	1991/2000	£1·6130/3·3310

31 DIRECTORS' AND OFFICERS' LOANS

The aggregate amounts outstanding at 31 December 1991 from those who were directors (including connected persons) or officers of the bank during the year, and the number of persons concerned, were as follows

	Aggregate amount outstanding	Number of persons
	£	
Directors		
Loans	1,203,306	8
Quasi-loans and guarantees	63,512	19
Officers		
Loans	49,995	1
Quasi-loans and guarantees	913	1

32 DIRECTORS' INTERESTS

The disclosable interests, all beneficial, of the directors at 31 December 1991, in the ordinary shares of the bank were

	Shares		Options		
	At 31 December 1991	At 1 January 1991 (or date of appointment if later)	At 31 December 1991	Granted during the year	At 1 January 1991 (or date of appointment if later)
T J Cunningham	13,755	13,548	–	–	–
R Delbridge	1,000	1,000	322,414	102,414	220,000
Sir Archibald Forster	3,168	3,121	–	–	–
B L Goldthorpe	14,923	14,699	235,056	45,000	190,056
Sir Peter Leslie	1,000	–	–	–	–
H E Lockhart	1,816	1,789	268,588	80,000	188,588
G E Loudon	2,517	158	96,608	41,609	54,999
G Maitland Smith	1,400	1,400	–	–	–
Sir Colin Marshall	1,500	–	–	–	–
Sir Patrick Meaney	1,007	993	–	–	–
Baroness O'Cathain	3,144	3,097	–	–	–
B G Pearse	10,154	–	300,000	[illegible]	–
Sir Eric Pountain	4,698	4,659	–	–	–
W Purves	1,044	1,044	–	–	–
Sir Peter Walters	10,000	–	–	–	–

No director at 31 December 1991 had any disclosable interests in the loan stocks of Midland Bank plc or in the share or loan capital of its subsidiaries.

No changes in any of the above interests occurred between 31 December 1991 and 26 February 1992.

33 DIRECTORS' EMOLUMENTS

The aggregate emoluments of the directors of the bank amounted to £2,520,644 (1990 £2,635,368) and consisted of fees £112,500 (1990 £150,000) and other emoluments £2,408,144 (1990 £2,485,368). In addition, pensions in respect of past services of £205,840 (1990 £157,504) were paid.

The chairman's emoluments totalled £262,367 (£152,623 in respect of Sir Kit McMahon up to 14 June 1991 and £109,744 in respect of Sir Peter Walters from 15 June 1991 to 31 December 1991) (1990 £295,703). The emoluments of the highest paid director amounted to £398,128 (1990 £429,216). A sum of £489,187 was paid by Midland Bank plc in respect of the termination of the service agreement of the former chairman and group chief executive and £60,813 was paid as a contribution on his behalf to the bank pension scheme.

Six directors waived fees accruing to them for their services in 1991 totalling £37,382 (1990 £36,635).

The adjacent table shows the number of directors whose emoluments receivable from the bank and its subsidiary undertakings fell within the bands stated.

£	1991	1990
0 – 5,000	4	2
10,001 – 15,000	3	2
15,001 – 20,000	3	3
20,001 – 25,000	2	1
35,001 – 40,000	1	–
45,001 – 50,000	1	2
50,001 – 55,000	1	–
95,001 – 100,000	–	1
100,001 – 105,000	–	1
110,001 – 115,000	–	1
120,001 – 125,000	1	–
150,001 – 155,000	1	–
165,001 – 170,000	–	1
190,001 – 195,000	1	–
245,001 – 250,000	–	1
255,001 – 260,000	1	–
295,001 – 300,000	1	1
390,001 – 395,000	1	–
395,001 – 400,000	1	–
420,001 – 425,000	–	1
425,001 – 430,000	–	1

MIDLAND BANK PLC

ANALYSIS OF ORDINARY SHAREHOLDERS AT 31 DECEMBER 1991

Category of shareholder	Number of shareholders	Percentage of total	Number of shares held	Percentage of total
Individuals	95,898	93·40	109,675,206	13·98
Trustee of Midland Bank Group 1979 Profit-Sharing Share Scheme*	1	–	7,918,817	1·01
Assurance and insurance companies	408	0·40	58,410,435	7·44
Commercial and industrial companies	519	0·51	117,845,079	15·01
Charities, local authorities, hospitals	275	0·27	6,378,088	0·81
Nominee companies	5,185	5·05	447,320,141	56·99
Pension funds and pension trusts	59	0·06	20,967,357	2·67
Unit trusts and investment trusts	318	0·31	16,394,255	2·09
	102,663	100·00	784,909,378	100·00

*the Trustee of the Midland Bank Group 1979 Profit-Sharing Share Scheme holds ordinary shares on behalf of 26,115 participants

Ordinary shares held	Number of shareholders	Percentage of total	Number of shares held	Percentage of total
1-100	16,774	16·34	541,660	0·07
101-250	10,820	10·54	1,874,485	0·24
251-500	15,603	15·20	5,852,527	0·75
501-1,000	22,058	21·49	16,268,994	2·07
1,001-5,000	33,452	32·58	67,760,157	8·63
5,001-10,000	2,383	2·32	16,037,657	2·04
10,001-25,000	682	0·66	10,092,544	1·29
25,001-50,000	232	0·23	8,544,477	1·09
50,001-250,000	370	0·36	47,657,329	6·07
250,001 and over	289	0·28	610,279,548	77·75
	102,663	100·00	784,909,378	100·00

MIDLAND GROUP
FIVE YEAR SUMMARY

		1991 £m	1990 £m	1989 £m	1988 £m	1987 £m
Profit before exceptional items and taxation		57	63	616	693	511
Exceptional items		(21)	(52)	(877)	–	(1,016)
Profit/(loss) before taxation		36	11	(261)	693	(505)
Taxation (charge)/credit		(69)	(188)	57	(273)	58
(Loss)/profit before extraordinary items		(49)	(193)	(219)	412	(456)
(Loss)/profit attributable		(39)	(181)	(219)	412	(393)
Shareholders' funds		2,350	2,422	2,685	3,039	2,586
Minority interests		166	161	166	141	99
Perpetual subordinated loan capital		851	824	997	888	858
Term subordinated loan capital		1,129	1,012	1,183	970	945
Total capital resources		4,496	4,419	5,031	5,038	4,488
Current, deposit and other customer accounts		51,337	52,881	54,680	47,983	41,679
Advances and other accounts		39,586	42,125	45,530	40,273	34,355
Total assets		59,408	59,636	62,479	55,729	48,450
Capital ratios						
— total capital to total weighted risk assets		10·3%	9·8%	10·0%	11·8%	–
tier 1 capital to total weighted risk assets		5·5%	5·4%	5·4%	6·5%	–
total equity to total assets		4·2%	4·3%	4·6%	5·7%	5·5%
Return on average shareholders' funds						
— (loss)/profit attributable		(1·6)%	(6·7)%	(7·7)%	15·0%	(18·9)%
Return on average equity						
— profit before exceptional items and taxation		2·3%	2·2%	20·7%	24·3%	23·6%
profit/(loss) before taxation		1·4%	0·4%	(8·8)%	24·3%	(23·3)%
Return on average total assets						
— profit before exceptional items and taxation		0·09%	0·10%	0·90%	1·27%	0·94%
profit/(loss) before taxation		0·06%	0·02%	(0·38)%	1·27%	(0·93)%
Average shares in issue (millions)	a	784	781	774	768	511
Net assets per share	a	299p	309p	345p	395p	338p
(Loss)/earnings per share (net basis)	a	(6·2)p	(24·7)p	(28·3)p	53·6p	(89·5)p
Dividends per share	a	3·4p	9·0p	18·0p	16·4p	14·4p
Dividend cover	b	–	–	–	3·3	–
Shareholders	c	102,663	109,236	109,379	106,361	106,387
Average base rate		11·7%	14·8%	13·9%	10·1%	9·7%

a 1987 and 1988 adjusted for 1989 capitalisation issue and first interim 1987 adjusted for 1987 rights issue

b dividend cover is calculated by dividing earnings per share by dividends per share

c number of shareholders registered at year-end

MIDLAND GROUP WORLDWIDE
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Midland Group provides a comprehensive range of financial and related services in England and Wales through a network of regional management centres, corporate banking centres, area offices, enterprise centres, international banking centres and some 1,830 branches.

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MIDLAND BANK PLC

NOTICE OF MEETING

Notice is hereby given that the 156th annual general meeting of Midland Bank plc will be held at Merchant Taylors' Hall, 30 Threadneedle Street, London EC2, on Tuesday, 5 May 1992 at 2.30pm for the following purposes:

ORDINARY BUSINESS

1 To receive the accounts and the reports of the directors and of the auditors for the year ended 31 December 1991.

To reappoint the following directors:

2 B H Asher

3 Sir Peter Leslie

4 G E Loudon

5 Sir Colin Marshall

6 W Purves

7 To reappoint Ernst & Young as auditors and to authorise the directors to fix their remuneration.

SPECIAL BUSINESS

8-10 To consider and, if thought fit, to pass the resolutions set out in the notice of special business in the circular letter to shareholders dated 7 April 1992 accompanying the report and accounts of which this notice forms a part. The resolutions are numbered 8-10 inclusive on the proxy form. Resolution 8 will be proposed as an ordinary resolution and resolutions 9 and 10 as special resolutions.

A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of the member. A proxy need not be a member. The completion and return of the form of proxy will not preclude a member from attending the meeting and voting in person.

By order of the board
J R Skae, secretary

Poultry, London
7 April 1992

Notes

1 Only holders of ordinary shares are entitled to attend or be represented at the meeting. A form of proxy is enclosed with the annual report and, to be effective, the proxy must be completed and returned so as to reach the bank's registrar as soon as possible but in any event not less than 48 hours before the time for holding the meeting.

2 Copies of directors' service contracts of more than one year's duration or memoranda of the terms thereof will be available for inspection at the registered office of Midland Bank plc during usual business hours from the date of this notice until the date of the meeting and at the place and on the day of the meeting for at least 15 minutes before the meeting begins until the conclusion of the meeting.

3 No change in any of the directors' interests in the shares of the bank as shown in note 32 on page 59 of the accounts for 1991 or in the particulars and amount of an interest of any person who has notified the bank of interests of 3% or more of the issued ordinary share capital of the bank as shown in the directors' report on page 31 of the accounts for 1991 occurred between 26 February 1992 and 9 March 1992.

Registrars:
The Registrars
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Telephone: 081-650 4866