MIDLAND BANK PLC

ANNUAL REPORT & ACCOUNTS 1989

MIDLAND GROUP

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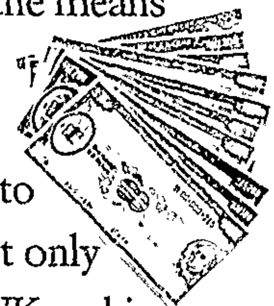
Midland Group is a longstanding provider of financial services. Our products and the means of their delivery will continue to set imaginative new industry standards.



V VECTOR

We are positioning ourselves to take maximum advantage not only of the changing environment in the UK and in Europe but also of the global opportunities that will arise in the future. In so doing we seek to give lasting benefit to our shareholders, our customers and our staff; and always in a manner that is sympathetic to the values of the wider community.

first direct

MIDLAND MONTAGU

MIDLAND BANK PLC

FINANCIAL CALENDAR 1990

Ordinary dividend payments	9 May and 8 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	2 August
Annual general meeting	24 April

CAPITAL GAINS TAX

The adjusted market value of an ordinary share of £1 on 31 March 1982, after taking account of the rights issues in September 1983 and September 1987 and the capitalisation issue in April 1989, was £2.244. Further adjustments are required where shareholders did not fully take up the rights issues or have made other disposals or acquisitions (including scrip dividend alternatives).

When shares are disposed of, shareholders will be entitled to indexation allowances.

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

MIDLAND GROUP

FINANCIAL SUMMARY

RESULTS FOR THE YEAR	1989 £m	1988 £m
Profit before exceptional charges and taxation	616	693
Exceptional charges	(877)	–
(Loss)/profit before taxation	(261)	693
(Loss)/profit attributable	(219)	412
(Deficit)/retained profit	(359)	286

AT YEAR-END		
Total assets	62,479	55.729
Shareholders' funds	2,685	3,039
Total capital resources	5,031	5,038

PER ORDINARY SHARE		
(Loss)/earnings	(28.3)p	53.6p*
Dividend	18.0p	16.4p*
Net asset value	345p	395p*

*adjusted for 1989 capitalisation issue

RATIOS		
Return on average equity – before exceptional charges and taxation	20.7%	24.3%
(loss)/profit before taxation	(8.8)%	24.3%
Return on average shareholders' funds – (loss)/profit attributable	(7.7)%	15.0%
Capital ratios – tier 1 capital to total risk weighted assets	5.4%	6.5%
total capital to total risk weighted assets	10.0%	11.8%
total equity/total assets	4.6%	5.7%

The annual report on Form 20-F, which will be available when 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 1989. Copies will be supplied on application to the secretary.

GROUP EXECUTIVE COMMITTEE

From left to right
Sir Kit McMahon
Peter White
Richard Delbridge

From left to right
George Loudon
Gene Lockhart
Mike Fuller

From left to right
Brian Goldthorpe
Sir Kit McMahon
John Skae

MIDLAND BANK PLC
BOARD OF DIRECTORS

Sir Kit McMahon
Age 62 – appointed a director and group chief executive in 1986 and became chairman in 1987. Formerly deputy governor of the Bank of England. He is a director of The Hongkong and Shanghai Banking Corporation and Eurotunnel.

Sir Alex Jarratt CB
Age 66 – a director and a deputy chairman since 1980, he is chairman of Smiths Industries, a deputy chairman of the Prudential Corporation and a director of ICI.

Sir Patrick Meaney
Age 64 – 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 and MEPC.

The Rt Hon Sir Michael Palliser GCMG
Age 67 – a director and a deputy chairman since 1987, he is chairman of Samuel Montagu & Co and a director of BAT Industries, Booker, Eagle Star and Shell.

J A Brooks CBE
Age 61 – a director since 1980, becoming non-executive in 1989, he is chairman of The Thomas Cook Group and a director of The Hongkong and Shanghai Banking Corporation.

Sir Kenneth Corfield
Age 66 – a director since 1979, he is chairman of Tanks Consolidated Investments.

T J Cunningham
Age 47 – a director since 1988, he is president and chief executive officer of The Fishkill National Corporation and a director of Kissinger Associates and P J Carroll.

R Delbridge
Age 47 – he joined Midland in 1989 and was appointed director, Group Finance in December 1989.

Sir Archibald Forster
Age 62 – a director since 1986, he is chairman and chief executive of Esso UK and a director of the American Chamber of Commerce.

B L Goldthorpe
Age 56 – a director since 1983, he joined Midland in 1949 and is deputy group chief executive.

H E Lockhart
Age 40 – a director since 1988, he is chief executive, Group Operations, deputy chairman of The Thomas Cook Group and a director of Mastercard International.

G E Loudon
Age 47 – a director since 1988, he is chief executive, Midland Montagu.

G Maitland Smith
Age 57 – a director since 1986, he is chairman of Sears and a director of Asprey and Courtaulds.

Sir Colin Marshall
Age 56 – appointed a director in 1989, he is deputy chairman of British Airways and a director of Grand Metropolitan and the British Tourist Authority.

Miss D O'Cathain OBE
Age 52 – a director since 1984, she is managing director of The Barbican Centre and a director of Sears and Tesco.

Sir Eric Pountain DL
Age 56 – a director since 1986, he is chairman of Tarmac, James Beattie and IMI.

W Purves CBE DSO
Age 58 – a director since 1987, he is chairman of The Hongkong and Shanghai Banking Corporation and of The British Bank of the Middle East and a director of Marine Midland Banks Inc.

P J Wrangham
Age 55 – a director since 19[illegible]8, he is a director of The Hongkong and Shanghai Banking Corporation.

Chairman and group chief executive
Sir Kit McMahon

Deputy chairmen
Sir Alex Jarratt CB*
Sir Patrick Meaney*
The Rt Hon Sir Michael Palliser GCMG*

Directors
J A Brooks CBE*
Sir Kenneth Corfield*
T J Cunningham*
R Delbridge
Sir Archibald Forster*
B L Goldthorpe
H E Lockhart
G E Loudon
G Maitland Smith*
Sir Colin Marshall*
D O'Cathain OBE*
Sir Eric Pountain DL*
W Purves CBE DSO*
P J Wrangham*

Secretary
J R Skae

Non-executive directors

Group executive committee

Group chief executive
Sir Kit McMahon

Deputy group chief executive
B L Goldthorpe

Director, Group Finance
R Delbridge

Chief executive, UK Banking
M J Fuller

Chief executive, Group Operations
H E Lockhart

Chief executive, Midland Montagu
G E Loudon

Group personnel director
G P White

Secretary
J R Skae

The present situation in the local authority markets is, or should be, unacceptable to all those concerned to maintain the status of London as an international financial centre. A solution either by judicial or by legislative means will be necessary if the principle of sanctity of contract, free from ambiguity and doubt, is to be re-established.

Results

Midland Group made a profit of £616 million in 1989 before exceptional charges and tax, but a provision of £846 million against loans to developing countries and a provision of £31 million against outstanding local authority interest rate contracts resulted in a pre-tax loss of £261 million.

Midland has the resources to keep its strategy on course and to maintain a high level of investment in people, systems and premises.

The third world debt problem worsened, partly as a result of the announcement of the Brady plan. There was subsequently greater reluctance on the part of a number of debtor countries to service their debt and creditor banks found themselves in a new and even more disadvantageous position. As a result, at the half-year, we raised the substantial provisions mentioned above. We believe that this level of provisions, which is in line with the newly revised Bank of England matrix, fully reflects the risks of non-payment from debtor countries. A review article later in the report outlines the history of our developing countries debt position and the steps we are taking to work the situation out.

During the year there has been a fine performance from UK Banking, within which it was pleasing to see good progress from Midland Personal Financial Services. The launch of our interest bearing current account packages was well received and helped us to sustain market share in competitive conditions. Forward Trust Group developed much new business but the prevailing high interest rate environment impacted adversely [illegible] the fixed rate element of the book, resulting in lower profits this year.

In Midland Montagu, the client businesses have contributed strongly to the overall results, including a record profit by Samuel Montagu. However, the results have also been affected by a loss in treasury activities, where the impact of rising and then persistently high interest rates was not anticipated in the Group's book of assets and liabilities.

Our European network performed well and Euromobiliare, in its first full year as part of the Group, is already working closely with other members to good effect. We shall continue to expand our businesses selectively in Western

Europe; and look forward to availing ourselves of any appropriate opportunities thrown up by current developments in Central and Eastern Europe.

Our capital ratios compare favourably with those of international banks generally, even after the new provisions. We have the resources to keep our strategy on course and to maintain our high level of investment in people, systems and premises. In this context, although costs continued to increase at a higher rate than we would normally find acceptable, this was principally to fund new developments. I am pleased with the progress we are making in our initiatives to improve our cost structure.

As a result of the continuing underlying profitability of our business sectors and our sound capital position, the board of directors has been pleased to declare a second interim dividend of 10.7p, taking the total dividend for the year to 18.0p per share, an increase of 10% over last year's payment.

The economic climate

This has not been an easy year, either domestically or on the world markets. Economic policy in the UK has continued to be restrictive. The budget was neutral and interest rates were raised by 1% in May and again in October in response to a falling pound and signs that demand in the economy was still too high.

It has taken much longer for interest rates to bite than the government expected. The most obvious effect, a depression of the housing market, led to a narrowing of interest margins on mortgage business as the building societies attempted to regain market share.

Thanks to the weaker demand for mortgage loans, competition for savings deposits became less intense, with some benefit to margins. However, competition for current account deposits meant that the payment of interest could no longer be confined to narrow segments of the market. The migration of mass market customers to interest bearing accounts is bound to have an increasingly adverse effect on retail deposit margins.

Midland and HongkongBank have both shown a manifest desire, at all levels, to seek constructive ways of moving forward.

Relationship with The Hongkong and Shanghai Banking Corporation

The progress in our relationship with HongkongBank has been one of the most gratifying aspects of 1989. The programme of geographic rationalisation between our two organisations embarked upon last year and involving operations in 14 countries was successfully completed.

A new dimension has been added to the services both groups are able to offer their clients. Cross-referral of much profitable commercial banking and trade-related business has taken place. In addition, there has been increasing collaboration in corporate finance as well as co-operation on a number of other business fronts, particularly in the technology area.

Major presentations by HongkongBank, explaining its origins and current business strategies, were made to managers from many parts of Midland Group; Midland gave reciprocal presentations to HongkongBank management in the Far East and the Middle East. We continue to develop this relationship and to discuss the form and nature of a closer business association.

Board changes

Two executive members of our board of directors bade farewell during the year. Ernst Brutsche, with the Group since 1981 and a director since 1986, left to join Citicorp; Ian Tegner, director, Group Finance since 1987, is taking well-earned retirement. To both go our thanks for their contribution during the time they were with us.

Midland's products and customer services are under constant review and we continue to think innovatively on staffing and general administration issues.

Richard Delbridge, previously a managing director of Morgan Guaranty Trust Co. joined us as director, Group Finance in Ian Tegner's stead towards the end of 1989.

Change within Midland

The past year has been one of dramatic change, both outside the Group and within it. Change is imposed upon us by forces of competition and by external factors. Its pace is not going to reduce and the opportunity exists to make a virtue out of necessity through intelligent innovation. There are numerous examples, across the spectrum of our activities, of practices new in the industry, where we have led the way.

The means by which transactions are to be handled is radically different. Processing is being moved from branches into a small number of District Service Centres. Benefits manifest themselves in greatly reduced unit delivery costs and in the substantial additional space available for customers.

Our products and customer services are under constant review—witness the introduction this year of Firstdirect, the first 24 hours a day, 365 days a year banking service available in this country. The level of public interest has been very encouraging. The numbers of enquiries received and accounts opened are well up to the targets we have set ourselves to achieve.

We have also broken new ground with the establishment of multi-service accounts on which interest is paid on current account balances. The interest expense to the bank is mitigated by income derived from other elements of the packages. We estimate the net costs of the initiative to be significantly lower than those incurred by competitor organisations.

We continue to think innovatively on staffing and general administration issues. For example, 300 nurseries are being set up, to improve recruitment and retention of women staff; chartered ferries on the Thames brought thousands of our staff to work during the rail strikes; a scholarship course has been set in place at Birmingham and Loughborough universities for staff members who have the ability, but not hitherto the opportunity, to study at university.

All this change has involved heavy demands on people, and especially so in our branch network, which has had to respond to pressures on many fronts. My warm thanks and appreciation are due for the enthusiasm and commitment with which these challenges have been met.

Community involvement

For many years we have maintained a policy of directing our charitable resources at disadvantaged sectors of the community who are least able to help themselves, and this philosophy remains in the forefront of our thinking.

This year, in collaboration with Business in the Community, we have also funded a new initiative, of which I am delighted to be chairman, to give a much higher profile to the Enterprise Agency movement. We aim to make people aware of the scale of success of the enterprise agencies in their fostering of new and growing businesses and of the new jobs that are thus created. In so doing, to encourage, we hope, an increasing level of commercial support for such worthwhile activity.

This campaign runs concurrently with longstanding contributions of cash, practical advice and the secondment of expert personnel that we have made to Local Enterprise Agencies over many years.

Our other community-related involvements have been pursued as before. One topic worthy of particular mention is the tenth year of our sponsorship of the Metropolitan Police Youth 5-A-Side football competition, aimed at improving relationships between the police and youngsters from tough inner-London areas. An average of 40,000 children have been involved each year.

The future

It does not look as if 1990 will be any less demanding. The British economy in the coming months will undoubtedly prove to be difficult for many of our business and personal customers, although the outlook in Europe and many other countries seems somewhat brighter. However, I have no doubts that the personal qualities of our staff that brought about the achievement of so much during 1989 will continue to prevail and I am confident that the visible progress that has been made will be maintained in the coming year.

Midland's charity policy is to direct our available resources at disadvantaged sectors of the community who are least able to help themselves.

Kit McMahon

Sir Kit McMahon
Chairman and group chief executive

GROUP STRUCTURE

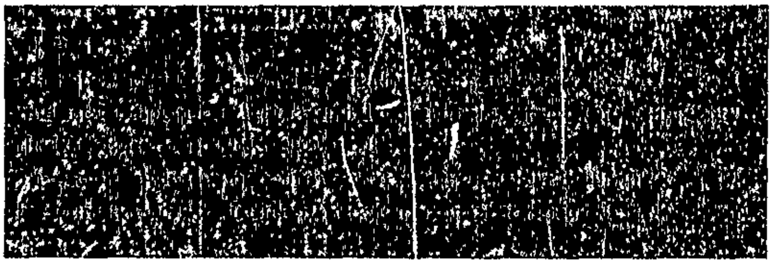
Midland Group is currently controlled by a board comprising
- 5 executive directors, including the chairman
- 13 non-executive directors

The senior forum for executive decision-making is Group Executive Committee which at present consists of
- chairman and group chief executive*
- deputy group chief executive*
- chief executive, UK Banking
- chief executive, Midland Montagu*
- chief executive, Group Operations* *(responsible also for Thomas Cook)*
- director, Group Finance*
- group personnel director

A number of functions demand a group-wide approach and straddle the activities of the individual business sectors. In particular, these areas are the responsibility of
- director, Group Finance*
- group personnel director
- group economic adviser
- group legal director
- group company secretary
- group risk management and audit director
- group corporate affairs director

*currently board members

THE BUSINESS SECTORS



Midland Montagu

Midland Montagu is the international and investment banking arm of Midland Group. It employs 5,000 staff and delivers a comprehensive range of wholesale financial services to its chosen market segments.

Midland Montagu is a leading institution in UK financial markets and has a broadly-based capability throughout Europe and in selected other international centres.

The Thomas Cook Group

The Thomas Cook Group is a wholly-owned subsidiary of Midland Group and is one of the largest and most experienced travel companies in the world. Thomas Cook has 9,000 staff and, through its various associations, operates in more than 1,200 outlets in some 117 countries. The international network provides a full range of travel and travel-related financial services.

Group Operations

Group Operations' major role is to underpin the business sectors through management of the Group's operating services. These include transaction processing, customer services, card services, information technology, Group property and securities custody. Group Operations also manages the Group corporate planning process. The sector employs 12,000 staff.

LINES OF BUSINESS	CUSTOMERS
UK BANKING	
Personal Banking is a core business which has four and a half million consumer accounts, handled through a network of 2,000 branches throughout England and Wales. Personal Financial Services is a dedicated operation specialising in the sale of a range of investment and insurance products. Firstdirect is a separate organisation within UK Banking providing a complete person-to-person banking service, 24 hours a day, seven days a week, by telephone.	PERSONAL
Enterprise serves the small business market through 340 Enterprise Centres which are being established in key offices throughout the country.	SMALL BUSINESSES
UK Corporate manages relationships with medium-sized companies through 64 Corporate Banking Centres which have been established in England, Wales and Scotland.	MEDIUM-SIZED CORPORATES
Forward Trust Group is a self-contained group of companies whose activities are asset and vehicle financing, personal finance and debt management services, the latter through Griffin Factors.	PERSONAL AND CORPORATES
MIDLAND MONTAGU	
Treasury and Capital Markets provide a full range of foreign exchange, treasury and capital market services to customers of the Group and to the Group itself. Merchant Banking provides corporate advisory and financing services, together with venture capital, institutional asset management and private banking. Midland Montagu Corporate Banking identifies and develops business opportunities with major corporate customers. Developing Countries Division actively manages the Group's portfolio of developing countries debt. International Banking comprises the London-based international businesses of correspondent banking and trade finance together with the Group's network of overseas branches and subsidiaries.	CORPORATES, CORRESPONDENT BANKS, SOVEREIGN BODIES, AND HIGH NET WORTH INDIVIDUALS
THE THOMAS COOK GROUP	
Leisure travel – a leading provider of travel services to international travellers through a global retail network.	PERSONAL
Business travel – the leader in the provision of travel to the corporate sector in the UK and Australia, with a strong presence in many other areas worldwide.	CORPORATES
Foreign money – one of the world's largest dealers in wholesale banknotes, with centres in London, Paris and Hong Kong and a major retailer of foreign exchange in key markets Travellers cheques – the largest issuer of travellers cheques in the world outside the US and a full member of Mastercard International.	PERSONAL AND CORPORATES
GROUP OPERATIONS	
UK Operations is responsible for the full range of operations functions that support the UK corporate and retail business of the Group. Group Information Technology manages IT resources and development, Group-wide. Card and Electronic Products is responsible for development, sale and support for card services, electronic banking and technology products. Wholesale Operations and Systems is responsible for transactions handling and information management within Midland Montagu. Group Property manages all aspects of property occupied by the Group. Group Strategy and Corporate Planning manages the Group's strategic planning process.	SECTORS OF MIDLAND GROUP
Midland Securities Services is the business unit within the Group that handles securities execution, settlement and custodial services.	PERSONAL AND CORPORATES

VECTOR

ORCHARD

MERIDIAN

New branches and technology

The Group's overriding objectives are improved customer service and lower unit cost of product delivery.

Midland's branch refurbishment programme has continued during 1989 with the particular aim of increasing the space available to customers. Many branches now have an extensive range of self-service machines, including statement printers, deposit machines, enquiry terminals and internal cash dispensers. In addition they have counselling areas for individual discussion without the need for an appointment. More than 340 branches now operate extended opening hours; 24-hour lobbies are available at selected locations.

The rapid pace of change continued during 1989, driven by competition, technology and the effects of deregulation in financial markets. Midland's responses have been innovative and far-reaching.

The expansion of customer reception and service areas has been facilitated by the District Service Centre (DSC) programme, which underpins Midland's goal of achieving economies of scale through the centralisation of processing. The initial phase of DSCs removes cheque processing from branches. In the future they will cover all aspects of operations, including standing orders and other pre-authorised payments, and customer accounting. 13 DSCs are now fully operational and currently process 38% of all branch transactions. By the end of 1991 all branch transactions will be processed in this way.

In other areas of the Group, central processing has been expanded significantly and a 50% increase in demand has been achieved with unit cost reductions of 20%.

3,500 IBM personal computers have been installed in branches and area offices to improve efficiency.

Personal customers

High interest rates have started to change customer attitudes. An ageing, more sophisticated and financially aware market is settling into clear segments where substantial groups of customers are demonstrating very different needs.

The policy of market segmentation in current accounts, introduced in 1987, has been expanded and developed through the introduction of Multi Service Accounts (MSAs).

Two new MSA products, Orchard and Meridian, were launched in February; the established Vector account was upgraded at the same time. Each of these accounts offers interest on current account and includes built-in savings and loan features. Each MSA is carefully tailored to the needs of a different market segment—home-owning, family formation (Orchard); mature, high net worth (Meridian); and young, financially ambitious (Vector).

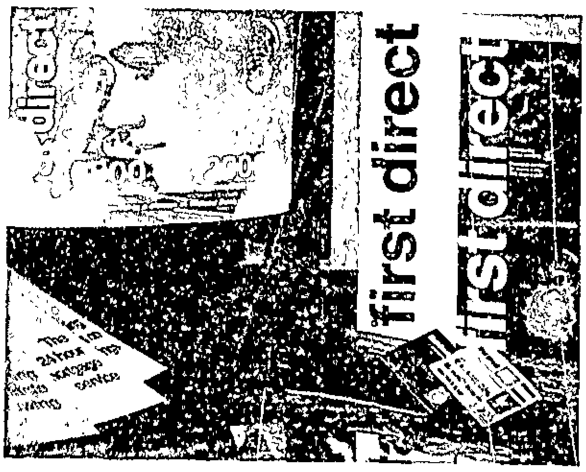
In an independent survey Vector was nominated the best known personal banking product in the UK. MSAs now represent 17% of the bank's current account base.

Midland has greatly increased the dimensions of the card market.

Midland was the first bank to meet consumer demands for higher value cheque guarantee cards.

This Visa card product is a component of both Vector and Meridian accounts.

The new Orchard – a beautifully organised bank account in a badly organised world



First Direct – complete banking service 24 hours a day, 365 days a year

£100 and £250 Autocheque cards were made available to different market segments in February and October respectively.

Customers have access to more cash dispensers. There are 1,800 machines in Midland's own network and an additional 2,800 available through reciprocity arrangements with NatWest and TSB. Further expansion is planned.

Midland is now a full member of Visa as well as Mastercard; two Visa card products, Midland Visa and Indigo, were successfully launched during the year. Midland increased its total stock of cards by 20% and now provides merchant services to over 30,000 retailers in the UK.

Midland is a founder of Switch and is currently the leading issuer with over 4 million cards.

Midland intends to remain at the forefront of electronic cheque initiatives. The bank is a founder member of Switch and is currently the leading issuer with over four million cards. This scheme has been so successful that many other banks and building societies are queuing to join.

Progress in the important youth market has been substantial.
There was a 165% growth in the number of LIVE!Cash accounts, for 14 to 20 year olds, and a 70% increase over 1988 in the number of new student accounts opened, representing an increase in market share from 9% to 17% for school leavers and 16% to 28% for new student accounts.

There has been a 25% increase to over 1,800 in the number of school banks – which are run by students within their own schools and colleges.

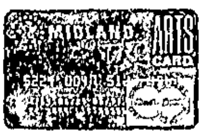
Midland has consolidated its growth into the savings and personal financial services markets.
There was a major and successful launch of Midland's High Interest Deposit Bond; balances maintained at the year end were over £540 million.

In February 1990 a new high interest notice account, Exchequer, was launched, which pays one of the most competitive interest rates in the market.

Midland PEPs achieved a 10% market share of sales in the six months following the 1989 budget. Unit trust and pension sales have also been highly successful.

Midland Personal Asset Management was created toward the end of 1989, bringing together many services for high net worth individuals previously provided by Midland Bank Trust Company. It handles the asset and estate management needs of customers with at least £100,000 to invest

Firstdirect, an entirely new concept in banking, anywhere, was introduced and began operations on a Sunday!
Firstdirect, a separate division of Midland, is the first complete telephone banking service offering a comprehensive range of products and services, from cheque accounts and mortgages to payment of bills. It is open 24 hours a day, 365 days a year. It has no branches and virtually all transactions take place over the telephone (tel. 0345 100100).



These affinity credit cards were launched during 1989. They generate income for arts and charity causes.

Small businesses

In early 1990 a special unit – Midland Enterprise – was created to cater specifically for the needs of small and developing businesses.

340 Midland Enterprise Centres are being established across the country. Specially trained staff providing an innovative range of core products, supported by new credit assessment methods and customer information systems, service the needs of start up and growing businesses.

Medium sized corporates

Midland Corporate Banking was established to allow dedicated relationship managers to be creative suppliers of business banking services for the corporate market.

64 Corporate Banking Centres have been opened throughout the country. They are supported by modern computer systems to speed decision-making.

Results in some areas have been dramatic. Sales of treasury and foreign exchange products increased by 250% in 1989 compared with 1988; sales of electronic banking products doubled in volume over the same period.

Particular emphasis is being placed on money transmission services and on international and treasury products, where Midland has a leading position. Specialists have been placed in key regional offices to help customers obtain treasury and foreign exchange services more easily.

Forward Trust Group (FTG), the finance house arm of UK Banking, provides instalment finance, leasing and factoring services.

New business lending increased by over 30% during 1989 with asset financing performing strongly. Motor finance also performed well as did FTG's joint venture with Fiat.

New relationships secured increased personal finance business. Notable successes included a partnership with the Royal Automobile Club and the development of a bureau service for several major building societies.

Concord Leasing (UK), acquired in 1988 from HongkongBank, further consolidated its position as a market leader in sales aid leasing and vendor programmes.

Griffin Factors achieved growth in both new business and profitability, expanded its client portfolio and now offers an on-line computer service to its customers.

A special unit – Midland Enterprise – has been created to cater specifically for the needs of small and developing businesses.

Major corporates, correspondent banks and sovereign bodies

Midland Montagu, the international and investment banking arm of the Group, meets market needs across the whole range of treasury, merchant and commercial banking services.

Samuel Montagu has been at the forefront of activity in cross border mergers and acquisitions, leveraged buy-outs and, domestically, acting for the UK Government in privatisation work.

In Spain, Samuel Montagu, in conjunction with Midland Bank Madrid, advised BUPA International on the acquisition of a controlling

Nine high street ShareShops have already been opened and more are planned for 1990.

Custom-built services are supplied to the corporate market.

MIDLAND MONTAGU

interest in Sanitas, the country's largest private health care company. In the UK, WPP was advised in its successful bid for the Ogilvy Group in New York.

As part of the leveraged buy-out of RJR Nabisco, Samuel Montagu advised on the sale of five of its European food brands to the French company, BSN. Midland Montagu in New York and Dominguez Barry Samuel Montagu in Australia were also active in major cross border transactions.

Midland Montagu Corporate Banking continued to promote the Group's business with larger UK and international companies and, in particular, has developed the Group's money transmission capabilities. For example, Midland's market share of the clearing business of the major high street retailers has increased significantly through its commitment to the effective, cost-efficient transfer of funds.

Midland Montagu Treasury Sales provides customers with a broad range of sophisticated option and hedging products, tailored to specific requirements.

The Group's foreign exchange business globally has been strengthened and Midland can now offer its major clients a 24 hours a day service. The four main centres of London, New York, Sydney and Tokyo are complemented by the Group's international network of treasury operations.

Trinkaus & Burkhardt, Midland's West German subsidiary, continued to introduce innovative instruments to the market with its successful issues of currency, interest rate and equity covered warrants. In the mergers and acquisitions field, the purchase by Dresdner Bank of Banque International de Placement, which was completed in conjunction with Midland Bank SA in France, is one example of excellent progress.

Travel for personal and corporate clients

The international network of Thomas Cook provides a full range of travel and travel-related financial services.

In 1989 Thomas Cook made record profits in business conducted in the UK.

A three-year investment programme is being undertaken in the Thomas Cook UK retail network. Newly designed shops will feature a travel centre, bureau de change, flight centre and travel consultancy services. These 'stores within stores' will target independent travellers as well as continuing to service the inclusive tour market.

The termination of the no-competition agreement between Wagons-lits and Thomas Cook is allowing travel market opportunities in Europe to be exploited for the first time in sixty years. A franchise programme is being developed which will allow Thomas Cook to expand its network. Stand-alone bureaux de change will also be opened in key locations.

Thomas Cook regained control of its name in the US through a licensing agreement with Robert Maxwell's Pergamon Group. A merger with Crimson Heritage, the leading US east coast travel agent, makes


Midland Montagu Ventures Limited
The Venture Catalysts

Thomas Cook Travel Inc. the third largest travel agent in the US.

The winning of the travellers cheque business of Marine Midland Bank, worth in excess of US$50 million, and the British Telecom business travel account, worth more than £20 million, were among notable successes in 1989.

Relationship with HongkongBank

Marked progress has been made in achieving closer levels of collaboration between the two groups.

During 1989 Midland assumed responsibility for HongkongBank's Edinburgh, Leeds and Dublin operations, thus completing a geographic rationalisation programme between the two groups in 14 countries.

A flexible and innovative approach is brought to the management of staff.

Collaboration is developing in a number of business and product areas where the groups' strengths are complementary. A joint expatriate service was launched in October in certain overseas locations of the HongkongBank Group.

Considerable progress has been made in working together in electronic banking and other technology areas. During 1990 it is expected that the proprietary ATM networks of the two groups will be linked.

A number of cross secondments of staff have taken place as part of an on-going programme.

HongkongBank

Business referrals between Midland and HongkongBank have been significant in volume and broad-ranging in scope

Human resources

Flexibility and innovation are important facets in a human resource management philosophy aimed at coping with a culture of change.

Commitment to training is evidenced by a sizeable training budget of £30 million. This figure has increased consistently over the last few years.

In 1989, the Group launched CAMPUS, a university scholarship scheme. It was introduced particularly for women and employees from ethnic minorities who have not hitherto had the opportunity to attend university. The programme aims to bring its participants quickly to a level where they can be considered for management opportunities.

Midland has recently extended the Career Break Scheme. Employees, both male and female, may take a break of up to five years to look after children, elderly relatives and the long-term sick. Those returning are guaranteed a job of the same status as the one they left. A number of other flexible initiatives, tailored around the domestic commitments of staff, cover such programmes as part-time working and job sharing.

A new pay strategy for management will appraise performance objectively and differentiate reward for different levels of performance.

A programme is in train to establish some 300 work-based nurseries over the next four years. This will assist women who would otherwise find great difficulty in continuing their careers. The cost of the scheme will be more than offset by savings in recruitment and training expense.

Thomas Cook Faraway Holidays brings its customers the pick of the world's finest beaches.

Throughout 1989, a number of events took place which continued to focus world attention on the problem of indebtedness in developing countries. In March, the US launched a new initiative to help reduce countries' debt burdens; elections were held in several Latin American countries; and banks continued to protect themselves against the risk of non-payment by increasing their provisions. It is worthwhile, therefore, to reflect how the problem developed out of economic upheavals in the 1970s, and on how Midland has reacted to the problem.

The sudden oil price rises that took place in the early 1970s gave rise to fundamental problems in the world's financial markets.

Origins of the problem

The sudden quadrupling of oil prices in 1973-74 had two immediate consequences. The cash deposits of oil-exporting countries, placed in the eurocurrency markets, grew enormously. At the same time, the demand for loans from developing countries increased; not only from oil-importing countries, whose import bills had mushroomed, but also from oil-exporting countries – particularly Mexico and Venezuela – who wished to increase their borrowing to support faster economic development.

The 'recycling of petrodollars' from lenders to borrowers was beyond the capacity of existing official institutions. It fell to the banks, with encouragement from Western governments, to provide the means by which this huge transfer of resources was implemented. As a result of their increased lending to developing countries, a painful world recession was probably avoided.

Lending continued through the second half of the 1970s and by the end of the decade commercial banks had taken over from governments and multilateral institutions as the largest group of creditors to the highly indebted countries, holding 69% of their debt compared with 27% in 1970.

However, by the end of the decade, inflation in the US had reached record levels and monetary policy was tightened abruptly. The cost of borrowing therefore rose very sharply, precipitating a deep recession which depressed commodity prices and the growth of world trade. Against this background Mexico suspended payments of interest and principal in 1982. Similar action from other countries both inside and outside Latin America followed, creating what became known as the debt crisis.

Midland's involvement

Midland, in line with some 800 other banks throughout the world, was a lender to developing countries throughout this period. When the crisis developed in 1982 Midland had total loans outstanding of some $3.2 billion. Taken together with the $2.6 billion in outstanding developing country loans of Crocker Bank, Group exposure amounted to $5.8 billion.

Reaction to the problem

Wholesale default by developing countries would have been extremely damaging to the world financial system. Accordingly, measures were taken to prevent this. The IMF played a central role, itself providing funds and catalysing other resources, including new money and reschedulings, from other creditors. Meanwhile, the countries concerned took steps to reduce their expenditure and bring it more into line with income.

This strategy was successful in averting financial collapse. By late 1985, however, it was clear that an end to the underlying problem was no nearer. Debt burdens continued to rise while standards of living in developing countries had fallen.

The Baker initiative

In 1985 James Baker, the then US Treasury Secretary, proposed that the emphasis of developing countries' adjustment efforts be changed from austerity to growth. Growth-orientated reforms were to be supported by increased lending from both official institutions and banks, and it was hoped that the developing countries would, over time, grow out of their debt burden.

Reforms in the developing countries proved difficult to sustain, however, and neither official institutions nor banks were willing to commit sufficient new money to the 15 debtor countries covered by the initiative.

However, a menu of market-based financial instruments was developed which reduced bank exposure, improved the quality of assets that the banks continued to hold and also brought benefits to debtor countries.

Debt-for-equity

One of the most important mechanisms in the menu is the debt-for-equity swap. A debt denominated in a foreign currency is paid by the debtor in local currency at an agreed discount to the debt's face value. The creditor then uses the local currency to invest in the debtor country, thereby acquiring a claim on a real asset instead of a simple debt. The advantage to the debtor is the reduction in external debt that results from the transaction.

The solutions proposed by the US Treasury Secretary in 1985 met with limited success.

It is estimated that by 1989 the 15 countries named in the Baker initiative had reduced their bank debt by 13% using this and other techniques.

However, this period also saw an increase in interest arrears, including a moratorium by Brazil from February 1987. Subsequently, banks moved to protect themselves against likely future losses by raising substantial provisions. By the end of 1987 Midland's provisions amounted to 29% of its exposure to developing countries.

Midland's Developing Countries Division

The division was established in July 1988 to manage the Group's exposure to developing countries. It brings expertise to, and makes full use of, the market-based options for debt reduction and it represents the Group in debt rescheduling negotiations; Midland is an active member of the advisory committees for 11 countries.

Whilst recognising that Midland will retain a long-term interest in the developing countries, the division seeks to find means by which loans can be converted into more secure assets (for example, through debt-for-equity swaps); be repaid (through debt-for-goods schemes); or be sold for cash onto the secondary market. A recent debt-for-equity swap has involved a joint venture participation in a Chilean copper mining project, Los Pelambres. By exchanging $63 million of debt owed by Chile, Midland has acquired a $53 million investment, implying a discount in the exchange of 16%, with the potential for capital gain. By contrast, had Midland sold the debt for cash on the secondary market, a much larger discount – around 35% – would have been suffered.

Midland is bringing a number of constructive approaches to bear on the management and reduction of its exposure to developing countries.

To date Developing Countries Division has conducted six swaps involving loans with a total face value of $200 million, all permitting disposal at prices considerably above those available on the secondary market. In 1989 the portfolio of medium and long term debt was reduced by 16% in dollar terms through this and other means.

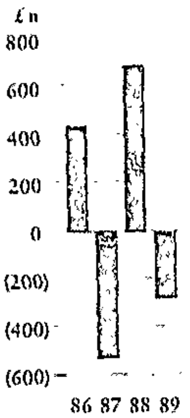
The Brady initiative

In March 1989 Nicholas Brady, US Treasury Secretary, announced proposals designed to reduce the still high debt burdens suffered by the developing countries. His proposals shifted the emphasis of the strategy towards the reduction of debt and debt service. This reduction was to be supported by official resources – from government and multilateral institutions – which would be used to collateralise the remaining portion of a country's debt.

However, in the first negotiations to take place within the Brady framework, between Mexico and the commercial banks, it became clear that available official resources will be insufficient to support debt reduction on the scale that was originally envisaged. In the meantime, the initiative has raised expectations of debt forgiveness to unreasonable levels among debtor countries.

Midland responded to this by analysing thoroughly its exposure to developing countries and concluded that further provisions were called for. At 30 June 1989, therefore, provisions were raised to 50.4% of the total, and remain at around that level today. As long as overall solutions to the sovereign debt problem remain elusive, Midland will use these provisions as a sound basis from which to manage its exposure.

Children at a UNICEF pump in Sudan. More than 5,000 people in 10 villages benefited during 1989 from a debt-for-development swap whereby Midland donated to UNICEF the $800,000 owed to it by Sudan. The funds were used to finance a water and reforestation programme in Kordofan province. This was the first agreement of its kind and is being used by UNICEF as a model for other banks to follow.



Group profit before taxation

(figures in £m)	1986	1987	1988	1989
UK Banking	294	418	474	500
Midland Montagu	7	32	144	67
Developing Countries Division	51	(1)	61	26
Thomas Cook	13	11	14	23
Profit before exceptional charges	365	460	693	616
Exceptional charges	–	(1,016)	–	(877)
Clydesdale, Northern and Crocker Banks	69	51	–	–
Group	434	(505)	693	(261)

Group profit before taxation and exceptional charges was £616m, £77m lower than in 1988. The Group recorded a loss after exceptional charges of £261m, compared to a profit of £693m in 1988.

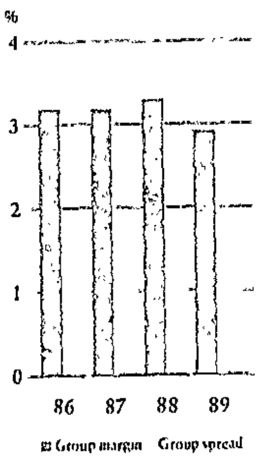
In previous reporting of profit by sector, the interest benefit arising on capital which has been applied to the creation of provisions against loans to less developed countries (LDCs) has been treated as a central resource and allocated across all sectors in proportion to their weighted risk assets.

It is now considered appropriate that the interest benefit should be transferred to Developing Countries Division, which has responsibility for the management of LDC loans, for current and future reporting. The exceptional provisions against LDC loans made in 1987 (£1,016m) and in the current year (£846m) are likewise charged to this division in the detailed review on page 27.

As a result of this change it has been necessary to restate the figures for 1987 and 1988; the figure for the Group remains unchanged. The table below illustrates the changes made as a result of this reporting amendment and identifies the 1989 impact:

(figures in £m)	1987	1988	1989
Developing Countries Division: net change	26	64	124
UK Banking: net change	(14)	(35)	(66)
Midland Montagu: net change	(12)	(29)	(58)

The exceptional charge of £31m in respect of local authority interest rate contracts has been charged to Midland Montagu in the detailed review on page 26.



Net interest margins and spreads

	1986	1987	1988	1989
Net interest margin (%)				
Domestic	5.1	5.2	4.9	4.1
International	2.0	1.6	2.0	1.8
Group	3.2	3.2	3.3	2.9
Net interest spread (%)				
Domestic	3.1	3.5	3.0	2.0
International	1.1	0.4	0.5	0.3
Group	2.0	1.8	1.7	1.1

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

Domestic

Overall margins and spreads were depressed by the results of UK treasury operations (page 26). UK Banking margins, excluding Forward Trust Group, were held substantially level year on year.

High interest rates in the UK adversely affected mortgage lending and, consequently, mortgage margins. Lending margins to corporate customers were maintained but the proportion of corporate to total lending increased which, with corporates' relatively finer margins, further reduced the domestic margin.

Offsetting the lower overall lending margins was the benefit from wider margins on retail deposits. However, the effect of a change in the liability mix towards more expensive retail and money market deposits, as well as reduced sterling treasury income, is reflected in the significant reduction in the net interest spread.

International

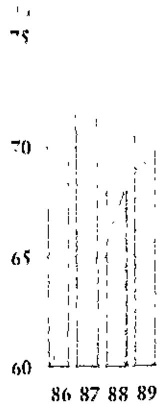
International spreads and margins declined due to lower margins in the French mortgage book and reduced income from overseas treasury activities, as well as the higher proportion of wholesale market assets for much of the year. These were partly compensated by a strong performance in correspondent banking net interest income.

There was a 14% increase in Group operating expenses (16% adjusting for the inclusion of 14 months' costs for Thomas Cook in 1988).

In 1989 there were significant product and operational developments, particularly in UK Banking, which influenced the trend in the Group's cost base. These were principally the further development of retail branded products, the launch of a direct banking operation (Firstdirect), and reorganisation changes to move a substantial part of branch processing operations to offsite processing units (District Service Centres). Midland Montagu, allowing for costs associated with new activities in Europe (particularly with the acquisition of a controlling stake in Euromobiliare) and the disadvantageous effect of weaker sterling, held costs level.

Total income grew by 11% in 1989, with net interest income growth of 7% on average asset growth of 26%. The growth in net interest income was adversely affected by the impact of reduced income on sterling treasury activities. Other income grew by 17%, with growth in both UK Banking and Midland Montagu exceeding that of interest income with the result that the proportion of other operating income to total income increased from 40% to 42%.

The overall effect of the above trend was to increase the Group cost income ratio to 72.4% (1988 70.8%), and to 70.4% excluding Thomas Cook (1988 68.2%).



excluding Thomas Cook
including Thomas Cook

Cost/income ratio

(figures in £m)	1986	1987	1988	1989
Operating expenses	2,007	1,985	2,024	2,303
Net interest income	1,671	1,593	1,721	1,850
Other operating income	1,099	1,124	1,137	1,332
Total income	2,770	2,717	2,858	3,182
Cost/income ratio %	72.4	73.0	70.8	72.4

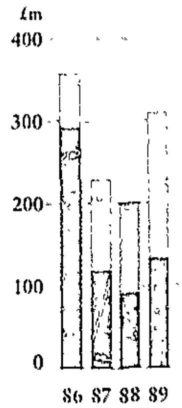
The improving trend in corporate default, which had been evident in recent years in the UK and internationally, showed signs of coming to an end during 1989. Consumer default showed no dramatic increase, notwithstanding the continuing high level of interest rates in the UK.

UK Banking's charge for bad and doubtful debts increased by 53%, reversing the declining trend seen over the previous three years. The main cause for the increase was a deterioration in the corporate sector, particularly in the sectors which are highly sensitive to reduced consumer demand.

In Midland Montagu substantial additional bad debt provisions became necessary in the first half of the year in respect of a small number of accounts, mainly overseas. The charge in the first half of the year was £54m, with a net recovery for the second half. A provision of £31m in respect of outstanding interest rate contracts carried out with local authorities has been treated as an exceptional charge and is not included above.

At the year end, total Group specific provisions (excluding those related to LDC loans) amounted to £425m or 1.13% of lendings and general provisions (excluding those related to LDC loans) to £161m or 0.43% of lendings. These ratios compare to 0.95% and 0.60% respectively at end 1988.

Provisions against LDC loans are reviewed later as part of the review of Developing Countries Division.

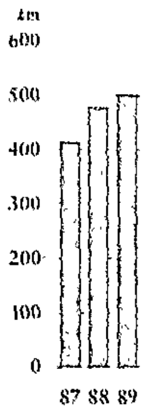


total excluding Developing Countries Division
Developing Countries Division

Charge for bad and doubtful debts (before exceptional charges)

(figures in £m)	1986	1987	1988	1989
UK Banking	83	63	51	78
Midland Montagu	142	18	35	53
Developing Countries Division	60	111	112	174
Thomas Cook	1	1	3	2
	286	193	201	307
Clydesdale, Northern and Crocker Banks	71	37	–	–
Total	357	230	201	307

INDIVIDUAL OPERATIONS



UK Banking – profit before taxation

(figures in £m)	1987	1988	1989
Net interest income	1,021	1,126	1,319
Other operating income	491	526	626
Total income	1,512	1,652	1,945
Operating expenses	(1,058)	(1,178)	(1,404)
Charge for bad and doubtful debts	(63)	(51)	(78)
Share of associates	27	51	37
Profit before tax	418	474	500

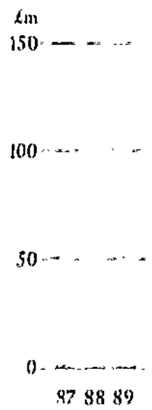
There was an encouraging performance from UK Banking in a year of rising interest rates and a less favourable economic climate. Profit before tax, excluding Forward Trust Group (£45m against £60m in 1988) and associates, increased by 15% from £365m to £420m.

Average assets grew by 22% during the year, with substantial growth in loans to corporate and business customers in the earlier part of the year. Net interest income in mainstream UK Banking likewise rose by 22%, resulting in maintained margins. However, Forward Trust Group, where predominantly fixed rate lending suffered from the rising interest rate environment, showed a fall in interest income.

While there was a continuing move towards interest bearing current accounts and high interest bearing deposits in 1989, net interest income benefited from wider margins on retail deposit accounts and the higher level of interest rates. The overall effect was that the net interest margin was virtually unchanged.

Other operating income grew by 19%. Midland Personal Financial Services, whose results include the contribution from Midland Life, showed a significant growth in income. Commission income has shown limited growth in an increasingly price sensitive market.

Operating expenses grew by 19% during the course of the year, a reflection of the significant expenditure incurred in training and marketing and in the costs of establishing new District Service Centres, the installation of personal computers in the network and the establishment of Firstdirect.



Midland Montagu (excluding Developing Countries Division) – profit before taxation

(figures in £m)	1987	1988	1989
Net interest income	258	379	263
Other operating income	365	360	459
Total income	623	739	722
Operating expenses	(554)	(567)	(608)
Charge for bad and doubtful debts	(18)	(35)	(53)
Share of associates	(19)	7	6
Profit before tax and exceptional charge	32	144	67
Exceptional charge	–	–	(31)
Profit before tax	32	144	36

Midland Montagu's profit before tax, at £67m before an exceptional charge of £31m in respect of local authority interest rate contracts, was sharply down on the figure for 1988. The reasons for the decline lay in the impact of high sterling interest rates on the Group's book of sterling assets and liabilities and higher bad debt provisions incurred in the first half of the year.

Net interest income fell by £116m as a result of a substantial decline in treasury profitability. In the UK, the dual impact of an inverse yield curve and rising interest rates on a book positioned towards declining interest rates resulted in a sharp turn-round from 1988 when the opposite circumstances prevailed for much of the year. Higher interest rates also adversely affected treasury results in a number of overseas units. On the other hand, correspondent banking activities showed a significant increase in net interest income.

Other operating income increased by £99m owing to an excellent performance in client based activities. In particular, Samuel Montagu's corporate advisory activities and other merchant banking businesses performed strongly, while the network of continental European subsidiaries also showed a substantial increase in income. Treasury trading income, on the other hand, declined, influenced by the rising trend in European interest rates.

Operating expenses increased by 7% during the year. When account is taken of adverse exchange rate movements, and the inclusion for the first time of Euromobiliare, costs were held level.

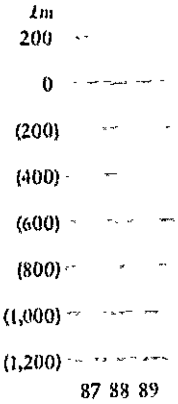
For the reasons explained on page 24, Developing Countries Division receives the interest benefit arising on capital which has been applied to the creation of provisions against loans to LDCs.

The increase in net interest income in 1989 compared to 1988 was due to the funding benefit arising from the additional provisions against principal of £846m made in June 1989. Interest income was reduced by the agreement with Mexico which had the effect of reducing interest income by 35% as from July 1989 on $1,366m of loans. This has been offset by the foreign exchange translation effect of a weaker pound on interest income in 1989.

Other income declined in 1989 following the adoption of a policy to offset debt swap fee income against losses incurred in debt reduction swap transactions.

Operating expenses have shown an increase in line with a substantially increased level of debt reduction activity.

The reserved interest provision of £174m in 1989 is principally against Argentina (£66m) and Brazil (£77m). The much lower charge in 1988 was largely due to the receipt of £60m interest due from Brazil, previously reserved in 1987.



Developing Countries Division – (loss)/profit before taxation

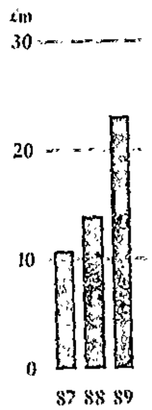
(figures in £m)	1987	1988	1989
Net interest income	85	149	198
Other operating income	41	40	23
Total income	126	189	221
Operating expenses	(16)	(16)	(21)
Charge for bad and doubtful debts:			
– principal	–	(105)	–
– reserved interest	(111)	(7)	(174)
(Loss)/profit before tax and exceptional charge	(1)	61	26
Exceptional charge	(1,016)	–	(846)
(Loss)/profit before tax	(1,017)	61	(820)

Against a background of a difficult year for the worldwide travel industry, Thomas Cook's profit in 1989 rose to £23m (21% higher than for the 12 months to 31 December 1988).

Comparing full year trends, net interest income increased by 18% in 1989 due to the strength of travellers cheque sales in the UK, European and African markets, together with higher yields on both the sterling and US dollar portfolios.

The increase of 18% in non-interest income in 1989 compared to 1988 largely reflects the continued growth in the UK retail travel sector. The main contributors to this increase have been a concentration on higher margin business and a significant expansion of retail foreign exchange activities. In Australia the pilots' strike and subsequent disruption of the domestic air market has had a significant adverse impact on trading results.

An 18% increase in operating expenses reflects the growth in business volumes, the adverse impact on costs of sterling's weakness and general inflationary pressures.

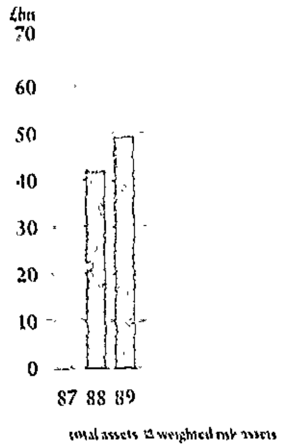


The Thomas Cook Group profit before taxation

figures in £m	1987	1988	1989
Net interest income	48	67	70
Other operating income	155	211	224
Total income	203	278	294
Operating expenses	192	262	270
Charge for bad and doubtful debts	1	3	2
Share of associates	1	1	1
Profit before tax	11	14*	23

* 1988 results are for the 14 months ended 31 December 1988. The profit for the 12 months to 31 December 1988 was £19m

BALANCE SHEET



Group total assets and weighted risk assets

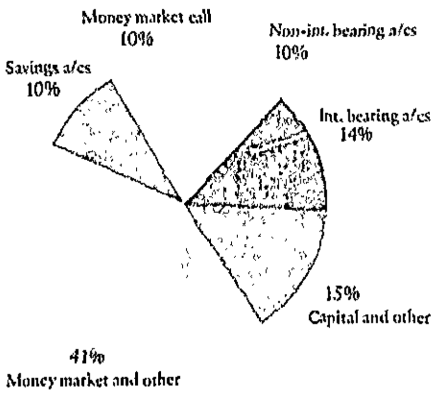
(period-end balances) *(figures in £bn)*	1987	1988	1989
UK Banking	19.9	24.6	29.0
Midland Montagu	25.0	27.2	30.2
Developing Countries Division	2.9	2.9	2.3
Thomas Cook	0.7	1.0	1.0
Total assets	48.5	55.7	62.5
Total weighted risk assets	*	42.1	48.8

Group total assets grew by 12% during the year and weighted risk assets by 16%, the disparity being due to a *comparatively lower proportion of* low-weighted treasury assets being held at the end of 1989 compared to 1988. *Much the greater part of the* growth took place in the first half of the year, with an 18% increase in assets *to 30 June 1989 (19% increase in* weighted risk assets) and a 5% decrease in assets (2% decrease in *weighted risk assets) in the second half.*

* Weighted risk assets for *1988* and *1989* are calculated under the Bank of England revised guidelines; a comparable number is not available for 1987.

The decline in the second half was in Midland Montagu, contributed to by the effective marginal appreciation in sterling during the second half, in contrast with the depreciation which occurred in the first half. Asset growth continued in UK Banking, primarily in business and corporate lending, albeit slowing towards the end of the year.

When account is taken of the effect of exchange rate changes the underlying asset increase during the year was approximately 7%.



1989

Group funding mix

(based on average balances)	1987	1988	1989
	%	%	%
Demand deposits:			
Customer accounts			
– interest bearing	11	13	14
– non-interest bearing	12	12	10
Money market (overnight and call deposits)	9	9	10
Time deposits:			
Savings accounts	9	7	10
Money market and other	42	42	41
Capital and other	17	17	15
Total	100	100	100

Interest bearing customer accounts continued to form an increasing proportion of the Group's average funding mix. This stems from the growth in high interest cheque accounts and the growing balances on customer current accounts marketed under the brand names Vector and Meridian. There has been some migration of non-interest bearing accounts to interest bearing, but year on year non-interest bearing balances showed overall growth, albeit at a significantly lower rate than total balance sheet growth.

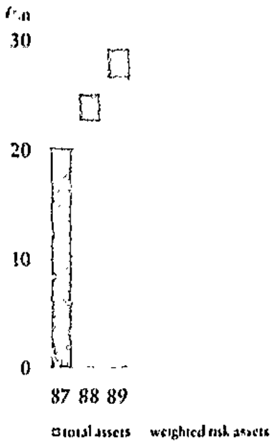
Savings accounts continue to be actively promoted and the declining trend in this source of funding has been decisively reversed through the active marketing of new savings account products in the UK, resulting in a £1.4bn increase in savings balances in UK Banking.

Capital and other balances have increased at a slower rate than total balance sheet growth and, therefore, form a decreased proportion of total funding.

End-year assets were £4.4bn, 18% higher than 1988. Growth in the second half year slowed to 7% compared to 10% in the first half.

Corporate lending, included in overdrafts and term loans, grew slightly in excess of 50% during the year. Growth continued strongly into the second half, with some slackening towards the latter end of the year. Growth in personal mortgage lending for the year at 4.5% was affected by the higher rates and the downturn in the housing market. Other loans to the personal sector showed moderate increases throughout the year.

Weighted risk assets grew in line with the general pattern of advances. The risk weighting applied to personal mortgages is 0.5, which mainly accounts for the difference between total and weighted risk assets.



UK Banking – total assets and weighted risk assets

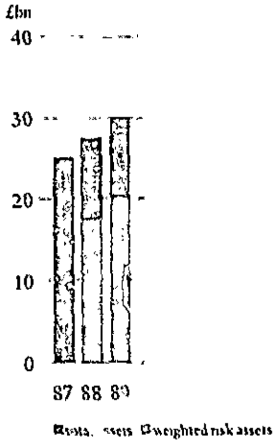
(period-end balances) (figures in £bn)	1987	1988	1989
Overdrafts and term loans	9.4	11.7	14.2
Mortgage advances	3.6	4.5	4.7
Instalment finance/finance leases	2.6	3.2	3.7
Other lending	2.1	2.3	2.6
Other assets	2.2	2.9	3.8
Total assets	19.9	24.6	29.0
Total weighted risk assets	N/A	22.5	26.0

Midland Montagu's reported asset levels are substantially affected by sterling exchange rates, due both to its overseas operations and foreign currency denominated UK activities.

£2.4bn of the £3.0bn growth in total assets can be attributed to the weakening of sterling in relation to the US dollar and major European currencies. Approximately £1.1bn of this exchange rate effect relates to the international business areas with a similar impact on treasury and capital markets, the balance of £0.2bn applying to corporate banking.

The underlying growth (after excluding the currency translation rate effect) has been concentrated in the merchant banking area (£0.4bn) and corporate banking (£0.2bn).

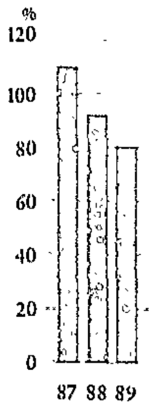
Weighted risk assets have increased by £2.8bn, compared to the growth of £3.0bn in total assets. This is in line with the growth being concentrated in activities servicing corporate customers in merchant banking, corporate banking and international banking.



Midland Montagu (excluding Developing Countries Division) – total assets and weighted risk assets

(period-end balances) (figures in £bn)	1987	1988	1989
Treasury and Capital Markets	)	13.3	14.0
Merchant Banking	)	0.5	0.9
Corporate Banking	25.0	3.0	3.4
International	)	9.8	11.1
Other	)	0.6	0.8
Total assets	25.0	27.2	30.2
Total weighted risk assets	N/A	17.4	20.2

DEVELOPING COUNTRY EXPOSURE



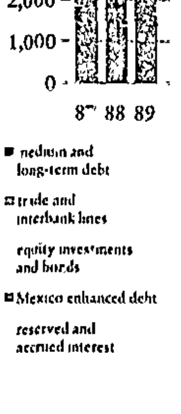
Net provisionable exposure as a % of shareholders' funds

Provisionable exposure – analysis by country and ratios

(period-end balances) (figures in $m)	1987	1988	1989
Argentina	1,158	1,261	1,310
Brazil	2,207	2,111	2,068
Mexico	1,888	1,801	1,375
Rest of Latin America	1,302	1,332	1,148
Rest of the world	1,190	1,197	1,286
Gross outstandings	7,745	7,692	7,187
Contingencies and undrawn commitments	655	548	421
Voluntary short-term and fully secured items	(666)	(719)	(652)
Provisionable exposure – $m	7,734	7,521	6,956
Provisions – $m	2,256	2,455	3,490
Provisionable exposure – £m	4,434	4,176	4,332
Provisions – £m	1,206	1,363	2,173
Provisions as % of provisionable exposure	29.2	32.6	50.2
Net provisionable exposure as % of shareholders' funds	113	93	80

Provisionable exposure declined by 8% in 1989 in US dollar terms but the effect of currency depreciation was to increase it by 4% in sterling terms. Gross outstandings to Argentina increased largely because of higher reserved interest; gross outstandings to Brazil declined as the effect of increased reserved interest was more than offset by the ongoing debt reduction programme. The reduction in exposure to Mexico consists primarily of the agreed debt restructuring whereby debt totalling $1,366m was converted into a combination of par bonds ($409m) and discount bonds ($622m).

Net provisionable exposure expressed as a percentage of shareholders' funds continued to reduce, amounting to 80% at 31 December 1989 compared to 113% in 1987 and as high as 238% in 1986 (based on gross outstandings).



medium and long-term debt
trade and interbank lines
equity investments and bonds
Mexico enhanced debt
reserved and accrued interest

Provisionable exposure classification

(period-end balances) (figures in $m)	1987	1988	1989
Medium and long-term debt	6,432	6,244	4,213
Equity investments and bonds	14	24	309
Reserved and accrued interest	338	301	511
Medium/long-term exposure	6,784	6,569	5,033
Mexico enhanced debt	–	–	1,031
Fixed trade and interbank lines	950	952	892
Provisionable exposure	7,734	7,521	6,956

Major movements in provisionable exposure during 1989 were:	$m
Provisionable exposure at 1 January 1989	7,521
Reduction through debt swaps and sales	(646)
Increase in equity investments	189
Reduction through Mexico debt exchange	(335)
Increase in reserved and accrued interest	210
Repayments and other reductions	(216)
Provisionable exposure before new countries	6,723
Increase through addition of new countries	233
Provisionable exposure at 31 December 1989	6,956

The table below analyses total provisions and related exposure at 31 December 1989:

	Provisionable exposure $m	Provisions $m	Provisions as % of provisionable exposure %
Medium/long-term exposure (excluding Mexico enhanced debt)	5,033	3,073	61.1
Mexico enhanced debt:			
– discount bonds	622	–	–
– par bonds	409	143	35.0
	1,031		
Fixed trade and interbank lines	892	274	30.7
Totals	6,956	3,490	50.2

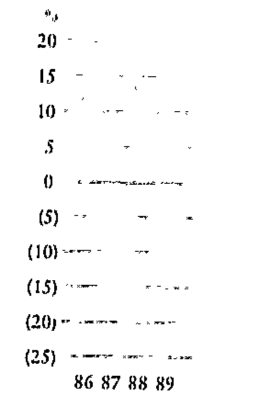
SHAREHOLDERS' RETURN

The negative return in 1989 arises as a result of the exceptional charge in respect of LDC provisions.

Group average shareholders' funds for 1989 are higher than 1988, notwithstanding the loss for the year, having had the full year benefit of the 1988 property revaluation. While the return of 21.8% before exceptional charges and taxation is lower than the 25.2% earned in 1988, UK Banking continued to show its historically high return but this was offset by the impact of the reduction in Midland Montagu's return.

Return on shareholders' funds

	1986	1987	1988	1989
Average shareholders' funds (£m)	1,938	2,074	2,748	2,832
Profit/(loss) before taxation and exceptional charges (£m)	434	511	693	616
Profit/(loss) attributable (£m)	242	(393)	412	(219)
Pre-tax return (before exceptional charges) on average shareholders' funds (%)	22.4	24.6	25.2	21.8
Return on average shareholders' funds (%)	12.5	(18.9)	15.0	(7.7)



Return on average shareholders' funds

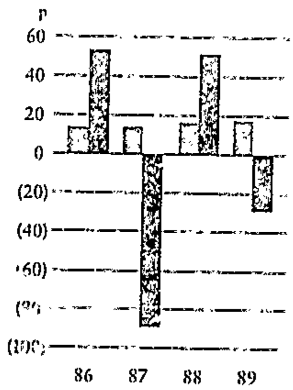
Dividends increased by 10% in 1989 following an increase of 14% in 1988. The total cost of dividend payments in the year was £140m.

Adjusting for the after tax effect of the exceptional charges, the dividend cover would have been 2.7 times in 1989.

Dividends per share

	1986	1987	1988	1989
First interim (p)	6.2	6.2	6.8	7.3
Second interim (p)	8.2	8.2	9.6	10.7
Total dividend per share (p)	14.4	14.4	16.4	18.0
Earnings per share (p)	55.4	(89.5)	53.6	(28.3)
Dividend cover	3.9	–	3.3	–

(Figures have been adjusted for the 1987 rights issue and 1989 capitalisation issue)



dividend per share ■ earnings per share

MIDLAND GROUP
FINANCIAL REVIEW
CAPITAL ADEQUACY

	1988	1989
Capital ratios	%	%
Total capital/risk assets	11.8	10.0
Tier 1 capital/risk assets	6.5	5.4
Composition of capital		
Tier 1:	£m	£m
Shareholders' funds and minorities (excl. property revaluation reserve)	2,723	2,611
Tier 2:		
Property revaluation reserve	457	236
General provisions	190	161
Perpetual subordinated debt	861	965
Term subordinated debt	945	1,132
	2,453	2,494
Unconsolidated investments	(214)	(244)
Total capital	4,962	4,861
Weighted risk assets	£m	£m
On-balance-sheet	35,164	39,625
Off-balance-sheet	6,903	9,124
Total	42,067	48,749

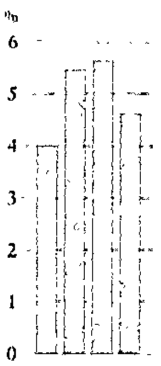
Group capital

Capital ratios have been calculated on the basis of the Bank of England application of the Basle Agreement on international bank capital ratios.

The Group's tier 1 capital shows a reduction of £112m from the level at 31 December 1988. This was caused by the deficit for the year of £359m offset in large part by the capitalisation issue during the course of the year, which transferred £220m of capital from the property revaluation reserve (held in tier 2 capital) to tier 1 shareholders' funds.

Apart from the reduction due to the transfer from property revaluation reserve, the main changes to tier 2 capital were in the level of subordinated debt. Of the net increase of £291m, £178m was due to the effect of the depreciation of sterling during the year on the predominantly foreign currency denominated debt (84% of the total), £173m for new issues and a reduction of £60m through repayments and amortisation of qualifying subordinated debt.

At 10.0% the Group's total capital/risk assets ratio shows a decline from the level of 11.8% of a year earlier, but is well in excess of the internationally agreed minimum of 8% and reflects a considerably higher level of provisioning of LDC debt.



Total equity to total assets ratio

Equity/assets ratio

(period-end balances)	1986	1987	1988	1989
Shareholders' funds and minorities(£m)	2,111	2,685	3,180	2,851
Total year-end assets (£bn)	53.2	48.5	55.7	62.5
Total equity to total assets ratio (%)	4.0	5.5	5.7	4.6

The deficit during the year of £359m, only partially offset by an increase in minorities, resulted in a fall in shareholders' funds and minorities to £2,851m. The effect of this fall and a 12% increase in total assets is a fall in the equity/assets ratio from 5.7% to 4.6%, a level which, however, is still higher than that experienced through 1986.

MIDLAND BANK PLC

REPORT OF THE DIRECTORS

Results for the year

The results for the year are set out in the consolidated profit and loss account on page 39.

A first interim dividend of 7.3p per ordinary share was paid on 16 October 1989. The directors have declared a second interim dividend in respect of 1989 amounting to 10.7p per ordinary share payable on 9 May 1990 to those shareholders whose names are on the register of members on 8 March 1990 instead of recommending a final dividend at the annual general meeting.

The interim dividends for 1989 total 18.0p per share (16.4p for 1988 after adjustment for the 1989 capitalisation issue).

Group activities

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

Share capital

As a result of resolutions passed by shareholders at last year's annual general meeting and at extraordinary general meetings held on 27 April 1989 and 2 October 1989, the authorised share capital of the bank is as follows:-

£1,000,000,000 divided into 1,000,000,000 ordinary shares of £1 each.

£150,000,000 divided into 150,000,000 non-cumulative preference shares of £1 each.

US$500,000,000 divided into 20,000,000 non-cumulative preference shares of US$25 each.

During the year the issued ordinary share capital of the bank was increased from 549,587,734 shares to 778,668,888 shares as follows:-

3,193,101 shares issued under the Midland Bank Group Profit Sharing Share Scheme at £3.189 per share.

2,667,691 shares issued under the Midland Bank Group Savings Related and Executive Share Option Schemes at prices ranging from £1.5390 to £4.1971 per share.

220,342,783 shares issued under a two for five capitalisation issue.

2,877,579 shares issued in lieu of cash by way of scrip dividend.

None of the non-cumulative preference shares have been issued.

The bank has been notified that The Hongkong and Shanghai Banking Corporation Limited and its subsidiaries and The Kuwait Investment Office have interests in the ordinary share capital of the bank of 14.8% and 10.5% respectively.

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 that they are asked to consider and, if thought fit, pass a number of resolutions as special business, further details of which are as follows:-

Resolution No 8: Scrip dividend scheme

This resolution provides an opportunity for ordinary shareholders to acquire additional ordinary shares without dealing costs and gives the bank the benefit of the retained cash and the advance corporation tax otherwise payable on the cash dividend.

By voting in favour of the resolution shareholders are not committing themselves to a personal decision on whether to take shares or cash in respect of future dividends.

Resolution No 9: Authority of directors to allot shares

At last year's annual general meeting the directors were given general authority for five years to allot the authorised but unissued ordinary share capital of the bank. It is proposed that this general authority be rolled forward for a further period of five years. The maximum amount for which the authority is sought is up to £221,331,112.

Resolution No 10: Disapplication of pre-emption rights

It is proposed to ask shareholders to renew the power granted to directors at last year's annual general meeting to allot ordinary shares for cash within certain limits otherwise than pro rata to ordinary shareholders.

If approved, this proposal would empower the directors to allot shares for cash provided that, except in a rights issue, the new shares did not exceed 5% of the issued ordinary share capital.

The directors believe that the proposals in resolutions 9 and 10 would continue to provide the board with a prudent measure of flexibility for them to act in the bank's interests.

Resolution No 11: Staff profit sharing

The Midland Bank Group 1979 Profit Sharing Share Scheme and the Midland Bank Group 1979 Profit Sharing Cash Scheme ('the schemes') restrict distributions in any scheme year to no more than 5% of the profits (before taxation and extraordinary items) relating to the trading activities of the [illegible] participating companies. The [illegible]ect of the [illegible] provisions of £846 million [illegible]spect of lo[illegible] countries identified as having actual or potential paym[illegible] referred to in note 5 of the accounts for 1989) [illegible] to produce a loss for the year and consequently eliminate any profit sharing distribution. The profit for 1989 before these exceptional provisions would have been £585 million. Although this became a loss before tax of £261 million after these exceptional provisions, the directors are concerned that their decision to make these provisions should not prejudice any profit sharing distribution to the relevant employees who are predominantly based in the UK and who have contributed greatly to the underlying profitability of the Group. In 1987, in similar circumstances, shareholders authorised an amendment to the rules of the schemes to permit an adjustment to the basis of calculation of the profit-share by adding back an amount equivalent to the exceptional provisions made in that year. In respect of the scheme year 1989 it is proposed that the directors be authorised to make an adjustment of £846 million in calculating the profit-share. The directors would exercise their discretion to restrict the level of distribution to below that which would be produced by adding back the £846 million in full. This would reflect the fact that some provision for country risk would have been made in any event.

To the extent that the exceptional provisions made against specific loans in both 1987 and 1989 may eventually prove excessive and are taken back into profits for future years, a corresponding reduction in the profit before taxation figure for staff profit sharing purposes would, of course, be made.

Loan capital

During the year Midland International Financial Services BV, a wholly-owned Dutch subsidiary of the bank, drew down the final tranche of Yen 3.1 billion from a Yen 9.4 billion loan facility entered into in 1988. In addition, two new loan facilities, for Yen 10 billion and Yen 5 billion respectively, were entered into and drawn down in the year.

Midland International Financial Services BV also made the undermentioned loan capital issues:-

- Yen 5 billion Dual Currency 7¼% Guaranteed Bonds due 1999
- DM200 million Guaranteed Floating Rate Notes of 1989/1999

The above loans and capital issues are guaranteed by the bank on a subordinated basis as to payment of principal and interest. The proceeds will be employed in the conduct of the business of Midland Group.

Directors

The following directors have retired from the board:- Mr E W Brutsche in May 1989 and Mr I N Tegner in December 1989.

Appointments to the board have been made as follows:- Sir Colin Marshall in April 1989 and Mr R Delbridge in December 1989. Sir Colin Marshall was re-appointed by shareholders at the 1989 annual general meeting. In accordance with the articles of association of the bank, Mr R Delbridge will retire at the forthcoming annual general meeting and, being eligible, offers himself for re-appointment.

Mr J A Brooks, Sir Archibald Forster, Mr G Maitland Smith and Sir Eric Pountain retire by rotation in accordance with the articles of association of the bank and, being eligible, offer themselves for re-election.

Mr J A Brooks has a service contract with the bank which expires on 31 December 1990: Mr R Delbridge has a service contract with the bank which may be terminated by the bank upon 36 months' notice.

Sir Archibald Forster, Mr G Maitland Smith and Sir Eric Pountain 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 5.

Group audit committee and Group remuneration committee

At 31 December 1989 membership of these committees was as follows:-

Group audit committee

Mr G Maitland Smith (chairman), Sir Archibald Forster, Miss D O'Cathain and Sir Michael Palliser.

Group remuneration committee

Sir Patrick Meaney (chairman), Sir Kenneth Corfield, Sir Alex Jarratt and Sir Michael Palliser.

Subsidiary companies

In the latter part of 1989 Midcorp plc, a wholly-owned subsidiary of the bank, acquired all the issued share capital of Billingsgate City Securities plc for a consideration of £100 million.

The only significant asset of Billingsgate City Securities is a freehold property at 10 Lower Thames Street, London EC3, the principal office of Midland Montagu, the international and investment banking arm of Midland Group.

Employees

The number of full-time equivalent staff employed in the Group at 31 December 1989, on a worldwide basis, was 60,237, of whom 54,070 were employed in the UK. The average number of staff employed (including part-timers) each week by the Group, in the UK, was 58,313 and their annual aggregate remuneration was £803 million.

Employee communication and involvement

During 1989, Midland Group has demonstrated its commitment to improving openness of communications between management and staff through a review of internal communications. This included a survey of over 1,000 employees. As a result, its internal communications strategy and practices are being revised to encourage greater two-way understanding and involvement.

There continued to be a high level of staff participation in the various employee share schemes. More than 20,000 staff received all or part of their allocation in shares. Under the new savings-related share option scheme, options were granted to almost 10,000 employees.

In February 1989, the bank terminated all agreements with the Manufacturing, Science and Finance Union following a long period of decline in union membership. This was achieved without disruption to banking operations and service to customers. Satisfactory consultations and negotiations have continued with the Banking, Insurance and Finance Union, which is the principal union within the Group.

Employment of disabled persons

During the year the bank has taken active steps to ensure that people with disabilities receive equal treatment in terms of application for employment as well as training and career development opportunities.

Existing employees who become disabled are, wherever possible, retained in suitable jobs and, where necessary, provided with appropriate equipment. Employees who have responsibilities as carers of relatives or partners with disabilities are also now able to take advantage of the career-break scheme.

Donations

During the year the Group made donations in the UK for charitable purposes amounting to £730,652. Included in this sum is an amount of £201,720 which relates to the £1 for £1 staff charity scheme.

No donations were made for political purposes.

Auditors

Ernst & Whinney merged their practice with Arthur Young on 1 September 1989 and now practise in the name of Ernst & Young. Accordingly they have signed their auditors' report in their new name. They have expressed their willingness to continue in office as auditors. A resolution proposing their re-appointment 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
22 February 1990

MIDLAND BANK PLC

ANALYSIS OF ORDINARY SHAREHOLDERS

At 31 December 1989

Category of shareholder	Number of shareholders	Percentage of total	Number of shares held	Percentage of total
Individuals	104,051	95.12	127,398,487	16.36
Trustee of Midland Bank Group 1979 Profit-Sharing Share Scheme*	1	–	7,754,505	1.00
Assurance and insurance companies	566	0.52	57,506,589	7.38
Commercial and industrial companies	613	0.56	118,164,944	15.17
Charities, local authorities, hospitals	379	0.35	10,740,561	1.38
Nominee companies	3,299	3.02	412,967,704	53.04
Pension funds and pension trusts	102	0.09	26,149,436	3.36
Unit trusts and investment trusts	368	0.34	17,986,662	2.31
	109,379	100.00	778,668,888	100.00

*the trustee of the Midland Bank Group 1979 Profit-Sharing Share Scheme holds ordinary shares on behalf of 26,624 participants

Ordinary shares held	Number of shareholders	Percentage of total	Number of shares held	Percentage of total
1-100	14,542	13.30	441,121	0.06
101-250	10,777	9.85	1,858,571	0.24
251-500	16,504	15.09	6,117,387	0.78
501-1,000	24,496	22.40	17,982,328	2.31
1,001-5,000	38,743	35.42	77,459,504	9.95
5,001-10,000	2,506	2.29	16,666,139	2.14
10,001-25,000	780	0.71	11,645,555	1.50
25,001-50,000	272	0.25	9,524,721	1.22
50,001-250,000	449	0.41	53,376,767	6.85
250,001 and over	310	0.28	583,596,795	74.95
	109,379	100.00	778,668,888	100.00

REPORT OF THE AUDITORS

To the members of Midland Bank plc

We have audited the accounts set out on pages 37 to 60 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 1989 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

Ernst & Young
Chartered Accountants

London
22 February 1990

MIDLAND GROUP
ACCOUNTING POLICIES

Accounting policies adopted by the Group are set out below and are consistent with those adopted in 1988 with the exception of the introduction of the policy on embedded value, the impact of which is not material.

(a) Accounting convention

The accounts are prepared in accordance with the requirements of the UK Statements of Standard Accounting Practice under the historical cost convention modified by the revaluation of freehold and long leasehold properties and dealing assets.

(b) Basis of consolidation

The Group accounts are prepared in accordance with sections 258 and 259 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 subsidiaries and the attributable share of profits and reserves of its associated companies.

(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 the customer's account 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 and 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

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. The great majority of such leases relates to finance leases since substantially all the risks and rewards attaching to the assets leased are transferred to the lessee.

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

The directors consider that, except for certain specialised properties, residual values of freehold and long leasehold buildings (50 years and over unexpired) are such that a nil rate of depreciation should be currently applied. 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. Obsolescence of buildings is charged to profit as it arises. 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 arises in two ways, interest income and dealing income, and is analysed between 'interest receivable' and 'other operating income'.

(h) Fixed interest investments

Where fixed interest investments with fixed redemption dates have been purchased for the long term 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 amortised cost. Profits and losses on the realisation of these investments are dealt with in the profit and loss account as they arise.

(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 full-time employee 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.

(j) Embedded value

Changes in the value placed on long-term assurance business in force (known as the 'embedded value'), which are determined on a post-tax basis, are included in the profit and loss account. The embedded value is determined in consultation with independent actuaries, using a discount rate of 15% per annum. For the purpose of presentation, the change in this value is grossed up at the underlying rates of taxation.

In previous years, no recognition of embedded value was made in the accounts. There is no material effect on reported results of prior periods as a result of the introduction of this accounting policy.

(k) Deferred taxation

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 and liabilities of UK resident companies maintained in foreign currencies, including investments in associated companies and trade investments financed by loans in foreign currencies and commitments for future purchases or sales, are translated into sterling at the exchange rates ruling at the balance sheet dates of those companies and any difference is taken to profit and loss account.

On consolidation, the accounts of overseas subsidiaries and associated companies are translated into sterling at the exchange rates ruling at their balance sheet dates and the consequential adjustments to the opening balances are dealt with through reserves.

(m) Premium on acquisition of shares in associated and subsidiary companies

Premiums on acquisition of shares in associated and subsidiary companies are written off to reserves in the year of acquisition.

(n) Investments in associated and subsidiary companies

Midland Bank plc's investments in associated and subsidiary companies are stated at its share of their net tangible assets.

MIDLAND GROUP

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

Year ended 31 December 1989

	1989 £m	1988 £m
INTEREST RECEIVABLE		
Short-term funds	1,137	690
Dealing assets	291	195
British Government securities (listed)	30	61
Other investments—listed	49	33
unlisted	79	57
	128	90
Advances to customers	5,069	3,486
Placings with banks (over 30 days)	632	407
Finance leases and instalment finance	457	326
	7,744	5,255
INTEREST PAYABLE		
Deposits	5,627	3,340
Perpetual subordinated loan capital, term subordinated loan capital and long-term borrowings wholly repayable		
—within five years	29	25
other	238	169
	5,894	3,534
OTHER OPERATING INCOME		
Service charges, fees and other banking income	1,037	853
Foreign exchange earnings	134	120
Travel income	147	144
Income from trade investments	1	1
Profit/(loss) on sale of investments—fixed interest	1	(10)
other	9	22
	10	12
Profit on disposal of fixed assets	3	7
	1,332	1,137
OPERATING EXPENSES		
Staff		
Salaries and other staff costs	1,190	1,067
Pension costs	122	115
	1,312	1,182
Premises and equipment		
Depreciation and amortisation	123	101
Hire of computers and other equipment	14	12
Rents payable	83	74
Other	253	204
	473	391
Other*	518	451
	2,303	2,024

*including audit fees of £3.7m (1988 £3.3m)

MIDLAND GROUP

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 1989

	Notes	1989 £m	1988 £m
Interest receivable		7,744	5,255
Interest payable		5,894	3,534
Net interest income		1,850	1,721
Other operating income		1,332	1,137
Operating income		3,182	2,858
Operating expenses		2,303	2,024
Trading profit before charge for bad and doubtful debts		879	834
Charge for bad and doubtful debts		307	201
Trading profit		572	633
Share of profits of associated companies	4	44	60
Profit before exceptional charges		616	693
Exceptional charges	5	(877)	–
(Loss)/profit before taxation		(261)	693
Taxation	6	(57)	273
(Loss)/profit after taxation		(204)	420
Minority interests		(15)	(8)
(Loss)/profit attributable to members of Midland Bank plc		(219)	412
Dividends	7	140	126
(Deficit)/retained profit		(359)	286
(Loss)/earnings per share	8	(28.3)p	53.6p*

Movements in reserves are set out in note 26.

*adjusted for 1989 capitalisation issue

MIDLAND GROUP

CONSOLIDATED BALANCE SHEET

31 December 1989

	Notes	1989 £m	1988 £m
ASSETS			
Liquid assets	9	8,862	7,619
Items in course of collection		1,011	781
Certificates of deposit		539	852
Dealing assets	10	2,247	2,700
Investments	11	1,628	1,381
Debtors	12	999	806
Advances and other accounts	13	45,530	40,273
		60,816	54,412
Trade investments	14	25	24
Investments in associated companies	15	190	171
Premises and equipment	17	1,448	1,122
		62,479	55,729
LIABILITIES AND SHAREHOLDERS' FUNDS			
Current, deposit and other customer accounts	18	54,680	47,983
Other liabilities	19	2,177	2,132
		56,857	50,115
Deferred taxation	20	36	198
Long-term borrowings	21	555	378
Term subordinated loan capital	22	1,183	970
Perpetual subordinated loan capital	23	997	888
Minority interests		166	141
Shareholders' funds			
Share capital	24	779	550
Share premium	25	1,060	1,042
Reserves	26	846	1,447
		2,685	3,039
		62,479	55,729

Kit McMahon, chairman and group chief executive
B L Goldthorpe, deputy group chief executive
Richard Delbridge, director, Group Finance
J R Skae, secretary

Kit McMahon

22 February 1990

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MIDLAND BANK PLC

BALANCE SHEET

31 December 1989

ASSETS	Notes	1989 £m	1988 £m
Liquid assets	9	5,669	4,608
Items in course of collection		955	766
Certificates of deposit		394	214
Dealing assets	10	243	424
Investments	11	498	574
Debtors		254	169
Deferred taxation	20	295	87
Advances and other accounts	13	34,926	31,486
Balances due by subsidiaries		2,325	1,544
		45,559	39,872
Trade investments	14	2	17
Investments in associated companies	15	165	147
Investments in subsidiary companies	16	1,725	1,458
Premises and equipment	17	1,052	906
		48,503	42,400
LIABILITIES AND SHAREHOLDERS' FUNDS			
Current, deposit and other customer accounts	18	40,295	35,292
Other liabilities	19	550	565
Balances due to subsidiaries		3,622	2,257
		44,467	38,114
Term subordinated loan capital	22	386	386
Perpetual subordinated loan capital	23	965	861
Shareholders' funds			
Share capital	24	779	550
Share premium	25	1,060	1,042
Reserves	26	846	1,447
		2,685	3,039
		48,503	42,400

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22 February 1990

MIDLAND GROUP

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year ended 31 December 1989

	1989 £m	1988 £m
SOURCE OF FUNDS		
(Loss)/profit attributable to members of Midland Bank plc	(219)	412
ADJUSTMENTS FOR ITEMS NOT INVOLVING THE MOVEMENT OF FUNDS		
Depreciation of premises and equipment	123	101
Deferred taxation	(162)	127
Minority interests	25	42
Amount retained by associated companies	(20)	(31)
Other items	(18)	(5)
Funds generated from operations	(271)	646
FUNDS FROM OTHER SOURCES		
Disposal of trade investments and associated companies	18	4
Disposal of premises and equipment	28	25
Increase in share and loan capital	526	125
	301	800
APPLICATION OF FUNDS		
Dividends paid	130	115
Purchase of trade investments and associated companies	23	41
Purchase of goodwill on acquisition of subsidiaries	22	35
Purchase of premises and equipment	454	204
	629	395
Working capital	(328)	405
	301	800
WORKING CAPITAL		
Advances and other customer accounts	5,257	5,918
Liquid assets	1,243	1,303
Debtors and other assets	(96)	(286)
Current and deposit accounts and other liabilities excluding dividends	(6,732)	(6,530)
	(328)	405

1 Turnover

The turnover of the Group as a whole is not shown as it results mainly from the business of banking. Non-banking turnover consists of commissions on travel arrangements and sales in respect of tour operations amounting to £370m (1988 £385m). Aggregate leasing rentals were £822m (1988 £644m) the majority of which related to finance leases. Aggregate hire purchase instalments were £367m (1988 £392m).

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 82% 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 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 was made as at 31 December 1987 at which date the market value of the scheme assets was £1,784m. This valuation was prepared on the attained age method and showed that the level of funding at that date was 95%, significantly higher than at 31 December 1984, the date of the last actuarial valuation. The actuaries recommended future contributions of 20% of pensionable salary (1984 27%) of which 1.4% (1984 7.7%) represents the amount expected to be necessary to achieve a funding level of 100% by 31 December 2006. Participating companies agreed to make these contributions from 1 January 1988.

The main financial assumptions used in the latest valuation, which, except for small increases of ½% per annum in the effective allowances made for equity dividend and post retirement pension increases, are consistent with those used in the previous valuation, were

	Percentage per annum
Long-term investment return	9
General salary increases	7
Equity dividend increases	4.5
Post retirement pension increases	4

The actuaries also confirmed that, on the basis of the actuarial assumptions and methods used, the scheme's assets at 31 December 1987 fully covered its liabilities based on then current salary levels and service to the valuation date.

A pension scheme for certain part-time staff of the bank was introduced on 1 January 1989 and as at 31 December 1989 covered 3% of the Group's UK employees. The scheme is a 'defined benefit scheme' and is similarly funded and constituted as the principal pension scheme.

The pension schemes of The Thomas Cook Group and the Samuel Montagu Group, which cover 9% of the Group's UK employees, are similarly constituted and are fully funded.

3 Emoluments

The aggregate emoluments of the directors of the bank amounted to £3,168,000 (1988 £3,253,000) and consisted of fees £137,000 (1988 £172,000) and other emoluments £3,031,000 (1988 £3,081,000). In addition, pensions in respect of past services of £146,000 (1988 £228,000) were paid.

In addition, a sum of £280,000 was paid by Midland Bank plc in respect of the termination of the office of an executive director, and a sum of £118,000 was paid as a contribution on his behalf to the bank pension scheme.

The chairman's emoluments totalled £329,616 (1988 £263,554).

The emoluments of the highest paid director amounted to £725,844 (1988 £640,827).

Three directors have waived the fees accruing to them for their services in 1989 and future years. 1989 fees waived totalled £35,477 (1988 four directors, total £30,254).

The tables below show the number of directors and employees of Midland Bank plc (other than employees who discharged their duties wholly or mainly outside the UK, the chairman and the highest paid director), whose emoluments receivable from the bank and, in the case of directors only, its subsidiaries, fell within the bands stated.

Directors £	1989	1988
1- 5,000	2	5
5,001- 10,000	–	2
10,001- 15,000	2	4
15,001- 20,000	4	1
20,001- 25,000	1	–
30,001- 35,000	–	1
45,001- 50,000	2	2
95,001-100,000	1	1
115,001-120,000	1	–
125,001-130,000	1	1
140,001-145,000	–	1
175,001-180,000	–	1
185,001-190,000	2	–
215,001-220,000	–	1
240,001-245,000	1	–
445,001-450,000	1	–
505,001-510,000	–	1
570,001-575,000	–	1

Employees £	1989	1988
30,000- 35,000	802	742
35,001- 40,000	684	508
40,001- 45,000	374	289
45,001- 50,000	252	145
50,001- 55,000	138	72
55,001- 60,000	92	59
60,001- 65,000	55	20
65,001- 70,000	40	10
70,001- 75,000	29	9
75,001- 80,000	12	5
80,001- 85,000	8	5
85,001- 90,000	5	2
90,001- 95,000	4	4
95,001-100,000	5	2
100,001-105,000	3	–
105,001-110,000	2	–
110,001-115,000	4	–
115,001-120,000	1	1
120,001-125,000	1	1
125,001-130,000	1	–
135,001-140,000	2	–
140,001-145,000	1	–
210,001-215,000	–	1
230,001-235,000	1	–

4 Associated companies

Dividends receivable during 1989 from associated companies, substantially all of which are unlisted, amounted to £6m (1988 £5m).

5 Exceptional charges

	1989 £m	1988 £m
Exceptional provisions against loans to borrowers in countries identified as having actual or potential payment difficulties	846	–
Exceptional provisions in respect of outstanding local authority interest rate contracts	31	–
	877	–

6 Taxation

The (credit)/charge for taxation is made up as follows	1989 £m	1988 £m
United Kingdom corporation tax		
Current at 35% (1988 35%)	(1)	211
Deferred	(143)	(5)
Transfer to tax credit equalisation	4	4
Notional tax charge on tax credit equalisation release	4	4
	(136)	214
Less relief in respect of overseas taxation	3	19
	(139)	195
Overseas taxation		
Current	54	58
Deferred	10	(3)
	(75)	250
Associated companies	18	23
	(57)	273

The credit in respect of taxation of £57m in 1989 shown above comprises a credit for taxation purposes of £285m attributable to the exceptional charges, less a charge of £228m in respect of the profit before exceptional charges.

Relief has been anticipated for the losses arising from the exceptional charges on the assumption that the Inland Revenue will grant such relief and that future taxable profits will be sufficient to enable such relief to be realised. The directors are of the opinion that there are no foreseeable events which make these assumptions unreasonable.

7 Dividends

	1989 pence per share	1988 pence per* share	1989 £m	1988 £m
First interim	7.3	6.8	56	52
Second interim	10.7	9.6	84	74
	18.0	16.4	140	126

*adjusted for 1989 capitalisation issue

8 (Loss)/earnings per share

(Loss)/earnings per share have been calculated on the loss attributable to members of Midland Bank plc of £219m (1988 profit attributable £412m) related to the weighted average of 774m shares (1988 768m shares, adjusted for the capitalisation issue in 1989) in issue during the year.

9 Liquid assets	Group 1989 £m	Group 1988 £m	Midland Bank plc 1989 £m	Midland Bank plc 1988 £m
Coin, bank notes, balances with central banks and gold	919	761	586	470
Money at call and short notice	7,453	6,745	4,694	4,043
Bills discounted	490	113	389	95
	8,862	7,619	5,669	4,608

Coin, bank notes, balances with central banks and gold includes gold bullion, amounting to £225m (1988 £187m) at current market value.

10 Dealing assets	Group 1989 £m	Group 1988 £m	Midland Bank plc 1989 £m	Midland Bank plc 1988 £m
Bullion other than gold	149	160	1	–
Bills	367	280	130	135
Certificates of deposit	199	210	3	31
Investments				
Listed –				
Securities of, or guaranteed by, the British Government	247	449	22	61
Others listed in Great Britain	158	157	27	69
Others listed elsewhere	1,008	921	7	31
	1,413	1,527	56	161
Unlisted –				
United States authorities and agencies	14	20	–	–
Other	72	440	53	97
	86	460	53	97
	1,499	1,987	109	258
Properties	33	63	–	–
	2,247	2,700	243	424

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

NOTES ON THE ACCOUNTS

continued

11 Investments

	1989 £m Book amount	1989 £m Valuation	1988 £m Book amount	1988 £m Valuation
Group				
Listed –				
Securities of, or guaranteed by, the British Government	317	300	338	326
Others listed in Great Britain	105	133	153	162
Others listed elsewhere	557	555	213	208
	979	988	704	696
Unlisted –				
United States authorities and agencies	202	204	231	228
Other	447	477	446	453
	1,628	1,669	1,381	1,377
Midland Bank plc				
Listed –				
Securities of, or guaranteed by, the British Government	307	291	306	293
Others listed in Great Britain	32	44	46	48
Others listed elsewhere	122	122	125	125
	461	457	477	466
Unlisted –				
United States authorities and agencies	29	29	94	93
Other	8	8	3	3
	498	494	574	562

Where fixed interest investments with a fixed redemption date are held for the long term, they are stated at amortised cost amounting to £1,412m (1988 £1,234m) for the Group and £[illegible]89m (1988 £572m) for Midland Bank plc.

All other investments are stated at cost less provision. Listed investments are valued at middle market prices and unlisted investments at directors' valuation.

12 Debtors

Sundry debtors include securities trading assets arising in the market-making subsidiaries; related liabilities are included under 'Other liabilities' – see note 19.

15 Investments in associated companies	1989 £m	1989 £m	1988 £m	1988 £m
Share of net tangible assets	Book amount	Valuation	Book amount	Valuation
Group				
Listed elsewhere than in Great Britain	4	5	7	7
Unlisted – Equity	157	200	141	180
Other	29	23	23	23
	190	228	171	210
Midland Bank plc				
Unlisted – Equity	136	164	124	148
Other	29	23	23	23
	165	187	147	171

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

The principal associated companies at 31 December 1989 were as follows

	Country of incorporation and operation	Accounts made up to	Direct interest of Midland Bank plc
3i Group plc	Great Britain	30.9.1989*	
Issued share capital £232m			18%
Signet Limited	Great Britain	31.10.1989	
(formerly The Joint Credit Card Company Limited)			
Issued share capital £400			30%
Loan capital £76.2m			30%
UBAF Bank Limited	Great Britain	31.12.1989	
US$ share capital $93m			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 companies	1989 £m	1988 £m
Midland Bank plc		
Shares in subsidiaries at bank's share of net tangible assets	990	843
Loans to subsidiaries	735	615
	1,725	1,458

The principal subsidiaries at 31 December 1989, all of whose accounts were made up to 31 December 1989, were as follows

	Country of incorporation and operation	Equity interest of Midland Bank plc	
		Direct	Indirect
Euromobiliare SpA†°	Italy	45%	3%
Forward Trust Limited	Great Britain		100%
Griffin Factors Limited	Great Britain		100%
Midland Bank SA°	France		72%
Midland Bank Trust Company Limited	Great Britain	100%	
Samuel Montagu & Co. Limited	Great Britain		100%
The Thomas Cook Group Limited	Great Britain	100%	
Trinkaus & Burkhardt KGaA°#	West Germany		71%

All the above subsidiaries 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.

† the bank also holds an option to purchase approximately 6% of the ordinary shares and has an agreement with Euromobiliare management and management companies regarding the exercise of director and shareholder votes in the company
° minority shareholding listed
limited partnership

17 Premises and equipment	£m	£m	£m	£m	£m
		Leasehold land and buildings			
	Freehold land and buildings	50 years and over unexpired	under 50 years unexpired	Furniture, fittings and equipment	Total
Group					
Cost or valuation					
At 1 January 1989	662	63	159	619	1,503
Currency translation adjustments	11	–	1	11	23
Reclassifications	(3)	5	–	(2)	–
Additions	167	61	27	199	454
Disposals	(3)	–	(6)	(56)	(65)
At 31 December 1989	834	129	181	771	1,915
Accumulated depreciation	(10)	(1)	(76)	(380)	(467)
Net book amount					
At 31 December 1989	824	128	105	391	1,448
At 31 December 1988	654	63	96	309	1,122
Midland Bank plc					
Cost or valuation					
At 1 January 1989	546	63	124	452	1,185
Reclassifications	(3)	5	(2)	–	–
Additions	26	60	20	147	253
Disposals	(2)	–	(5)	(38)	(45)
At 31 December 1989	567	128	137	561	1,393
Accumulated depreciation	(6)	(1)	(62)	(272)	(341)
Net book amount					
At 31 December 1989	561	127	75	289	1,052
At 31 December 1988	541	63	71	231	906

	Group £m	Midland Bank plc £m
Cost or valuation of premises and equipment at 31 December 1989 comprises		
Land and buildings		
at valuation 1988	661	603
at cost	483	229
	1,144	832
Furniture, fittings and equipment, at cost	771	561
	1,915	1,393

The depreciable amounts for leaseholds under 50 years unexpired for the Group and for Midland Bank plc were £181m (1988 £159m) and £137m (1988 £124m) respectively.

The net book amount for furniture, fittings and equipment includes assets held under finance leases of £51m (1988 £42m) and £51m (1988 £39m) for the Group and Midland Bank plc respectively on which the depreciation charges are £14m (1988 £18m) and £13m (1988 £16m) respectively.

18 Current, deposit and other customer accounts	Group 1989 £m	Group 1988 £m	Midland Bank plc 1989 £m	Midland Bank plc 1988 £m
Sterling				
Current and demand accounts	18,251	15,608	16,987	14,411
Deposit and savings accounts	4,639	2,259	3,265	2,231
Money market and other time deposits	10,425	11,584	7,742	7,863
Accrued interest	376	298	296	244
Items in transit and other customer accounts	366	542	244	427
	34,057	30,291	28,534	25,176
Currency				
Current and demand accounts	5,893	4,916	2,069	1,794
Deposit and savings accounts	2,748	1,444	1,614	936
Money market and other time deposits	10,776	10,365	7,639	7,007
Accrued interest	325	296	205	201
Items in transit and other customer accounts	881	671	234	178
	20,623	17,692	11,761	10,116
	54,680	47,983	40,295	35,292

Included in the Group figures above are secured bank overdrafts of subsidiaries amounting to £25m (1988 £12m).

19 Other liabilities	Group 1989 £m	Group 1988 £m	Midland Bank plc 1989 £m	Midland Bank plc 1988 £m
Taxation	215	205	126	107
Creditors and securities trading liabilities	1,878	1,853	340	384
Dividend	84	74	84	74
	2,177	2,132	550	565

Securities trading liabilities arise in the market-making subsidiaries and reflect the level of activity in the securities markets. The related assets are included under 'Debtors'—see note 12.

Obligations under finance leases included within 'creditors and securities trading liabilities' were as follows

	Group 1989 £m	Group 1988 £m	Midland Bank plc 1989 £m	Midland Bank plc 1988 £m
Payable within 1 year	34	40	24	19
1-5 years	63	70	39	38
over 5 years	1	3	–	–
	98	113	63	57
Less: future finance charges	13	30	10	10
	85	83	53	47

20 Deferred taxation

	1989 £m		1988 £m	
	Potential deferred tax	Balance at 31 December	Potential deferred tax	Balance at 31 December
Group				
Short-term timing differences	18	18	(9)	(9)
Accelerated capital allowances	16	16	23	23
Leasing transactions	360	271	342	253
Premises revaluation	42	2	42	2
Tax losses arising from exceptional charges	(174)	(174)	–	–
Other items	35	31	21	18
Advance corporation tax recoverable	(128)	(128)	(89)	(89)
	169	36	330	198
Midland Bank plc				
Short-term timing differences	(4)	(4)	(19)	(19)
Accelerated capital allowances	7	7	17	17
Premises revaluation	33	–	33	–
Tax losses arising from exceptional charges	(174)	(174)	–	–
Other items	4	4	4	4
Advance corporation tax recoverable	(128)	(128)	(89)	(89)
	(262)	(295)	(54)	(87)

21 Long-term borrowings

	1989 £m	1988 £m
Subsidiaries		
5% Debenture 1987/92 DM 9m	3	3
Borrowings at fixed and variable rates between 8.3% and 15.9% repayable 1990/98* FrFrs 1,911m (1988 FrFrs 1,998m)	205	183
3¾% Bonds repayable 1991/92 SwFrs 20m	8	7
6% Bonds repayable 1993 DM 75m	28	24
5½% Bonds repayable 1993 DM 75m	28	24
4% Guaranteed Note 1986/93 Ecu 15.5m	11	–
10% Bonds repayable 1986/93 Lire 13.9bn	7	–
Multicurrency loan facility 1993 US$25m#	15	–
6% Bonds repayable 1996 DM 100m	37	30
13¼% Note repayable 1997	25	25
Guaranteed Floating Rate Notes 1997 FrFrs 900m#	97	82
Floating Rate Note 1999 SKr 200m#	20	–
Guaranteed Floating Rate Unsecured Loan Notes 1999#	35	–
£52.5m 6¼% deep discount first mortgage bonds 2006†	36	–
	555	378
Repayable within 1 year	5	1
1-2 years	33	8
2-5 years	249	95
over 5 years	268	274
	555	378

* repayable by instalments
# the interest rates on floating rate borrowings are related to local market rates and these range from 6.125% to 15.125% at 31 December 1989
† secured on one of the Group's freehold properties

22 Term subordinated loan capital	1989 £m	1988 £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
Subsidiaries		
8¼% Guaranteed Bonds 1992	–	21
11½% Guaranteed Bonds 1992 US$150m	93	83
Guaranteed Floating Rate Notes 1992 US$150m	93	83
6½% Guaranteed Bonds 1986/96 DM 200m	73	63
Guaranteed Floating Rate Notes 1986/98 DM 300m	110	94
7.55% Guaranteed Loan 1998 Yen 6.3bn	27	28
Guaranteed Floating Rate Notes 1999 US$200m	125	111
7.25% Guaranteed Loan 1999 Yen 3.1bn	13	–
7.41% Guaranteed Loan 1999 Yen 10.0bn	43	–
7¾% Dual Currency Guaranteed Bonds 1999 Yen 5.0bn	22	–
Guaranteed Floating Rate Notes 1989/1999 DM 200m	73	–
6.99% Guaranteed Loan 1999 Yen 5.0bn	22	–
Guaranteed Floating Rate Unsecured Loan Stock 2001	9	17
Guaranteed Floating Rate Series A to C Unsecured Loan Stock 2001	1	1
12¼% Guaranteed Notes 2003 US$150m	93	83
	797	584
	1,183	970
Repayable within 1 year	–	4
1–2 years	–	4
2–5 years	192	184
over 5 years	991	778
	1,183	970

Term 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.
The interest rates on the floating rate term subordinated loan capital are related to relevant London Interbank Offered Rates.

23 Perpetual subordinated loan capital	1989 £m	1988 £m
Midland Bank plc		
Undated Floating Rate Primary Capital Notes US$750m	467	417
Undated Floating Rate Primary Capital Notes US$500m	311	278
Undated Floating Rate Primary Capital Notes (Series 3) US$300m	187	166
	965	861
Subsidiaries		
Convertible Undated Floating Rate Subordinated Notes FrFrs 300m	32	27
	997	888

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 1990 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	Non-cumulative Preference Shares of $100 each	Non-cumulative Preference Shares of $25 each	Shares of £1 each	Ordinary Shares of £1 each	Total
Authorised	£m	£m	£m	£m	£m	£m
At 1 January 1989	–	–	–	750	–	750
Created 27 April	150	148	–	250	–	548
Re-designated 27 April	–	–	–	(1,000)	1,000	–
Re-denominated 2 October	–	(154)	154	–	–	–
Created 2 October	–	–	154	–	–	154
Currency translation adjustments	–	6	3	–	–	9
At 31 December 1989	150	–	311	–	1,000	1,461
Issued						
At 1 January 1989	–	–	–	550	–	550
Capitalisation issue	–	–	–	220	–	220
Shares issued in lieu of cash						
– 1988 second interim dividend	–	–	–	1	–	1
– 1989 first interim dividend	–	–	–	–	2	2
Redesignated 27 April	–	–	–	(771)	771	–
Shares issued under employee profit sharing and share option schemes	–	–	–	–	6	6
At 31 December 1989	–	–	–	–	779	779

24 Share capital – *continued*

At the annual general meeting held on 27 April 1989 the authorised share capital was increased by the creation of 250,000,000 shares of £1 each.

At the extraordinary general meeting held on 27 April 1989 the authorised share capital was further increased by the creation of two new classes of preference shares:

(i) 150,000,000 non-cumulative preference shares of £1 each.
(ii) 2,500,000 non-cumulative preference shares of US$100 each.

As a result of the creation of the preference shares, the existing shares were re-designated as ordinary shares.

At the extraordinary general meeting held on 2 October 1989 the 2,500,000 non-cumulative preference shares of US$100 each were sub-divided into 10,000,000 non-cumulative preference shares of US$25 each; and the authorised share capital was increased by the creation of a further 10,000,000 non-cumulative preference shares of US$25 each.

25 Share premium

	1989 £m	1988 £m
At 1 January	1,042	1,036
Shares issued under share option schemes	3	2
Shares issued in lieu of dividends	8	1
Shares issued under employee profit sharing scheme	7	3
At 31 December	1,060	1,042

26 Reserves

	£m Midland Bank plc and subsidiaries	£m Associated companies	£m Group	£m Midland Bank plc
At 1 January 1989	1,375	72	1,447	1,447
Currency translation adjustments	5	(5)	–	–
(Deficit)/retained profit	(379)	20	(359)	(72)
Capitalisation issue	(220)	–	(220)	(220)
Premium written off on acquisition of subsidiary companies	(22)	–	(22)	–
Net decrease in net tangible assets of subsidiary and associated companies	–	–	–	(309)
At 31 December 1989	759	87	846	846

Group reserves at 31 December 1989 include £236m in respect of revaluation of freehold and long leasehold properties, of which £192m relates to Midland Bank plc In addition, the reserves of Midland Bank plc at 31 December 1989 include £226m in respect of post-acquisition retained reserves of subsidiary and associated companies.

27 Contingent liabilities	1989 £m	1988 £m
There were the following contingent liabilities in respect of		
Acceptances		
Group	1,002	1,092
Midland Bank plc	935	968
Engagements		
Group	6,627	5,686
Midland Bank plc	5,772	5,079

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 subsidiaries in respect of some of these items, and certain exposures to banks by a subsidiary.

Provision has been made by exceptional charge in respect of all outstanding local authority interest rate contracts following the judgement in the High Court that such contracts are void. The judgement in the High Court giving rise to this declaration is being vigorously contested. There is a contingent risk in respect of those contracts which have matured and have been settled. The directors do not believe that any material liability arises in respect of these latter contracts.

	1989 £m	1988 £m
Midland Bank plc has guaranteed		
Term subordinated loan capital and long- and short-term borrowings of certain subsidiaries	1,142	851
Lendings to customers by certain subsidiaries	689	471

28 Capital and other commitments	1989 £m	1988 £m
Contracts for outstanding capital expenditure not provided for in these accounts amounted to		
Group	83	109
Midland Bank plc	43	78

In addition, the board has authorised capital expenditure amounting approximately to £95m (1988 £128m) for the Group and £84m (1988 £111m) for Midland Bank plc.

29 Operating lease commitments

Annual commitments under non-cancellable operating leases were as follows

	1989 Premises £m	1989 Equipment £m	1988 Premises £m	1988 Equipment £m
Group				
Expiring within 1 year	1	2	1	1
1-5 years	10	27	4	13
over 5 years	68	–	67	–
	79	29	72	14
Midland Bank plc				
Expiring within 1 year	–	–	–	–
1-5 years	3	27	–	11
over 5 years	53	–	47	–
	56	27	47	11

30 Profit sharing

There is a profit sharing scheme based upon the profits of the Group. All employees of the bank who meet the eligibility requirements, including executive directors and UK staff seconded to overseas operations, and most of its subsidiary companies in the UK participate in this scheme. Employees normally have the option of taking their entitlement by way of an allocation of the bank's shares (within certain restrictions) or in cash.

Provision has been made for 1989 profit sharing on the basis that proposals to be put before the shareholders at the annual general meeting to be held on 24 April 1990 are approved by the shareholders. It is not possible at this time to quantify the number of shares which will be issued in 1990 in respect of 1989 profit sharing.

When an employee elects to take up shares, the shares allocated are held by trustees for a minimum period of two years after which the shares may be transferred to the beneficiary, although if the employee wishes to obtain full tax advantage these shares should be held for five years.

31 Share options

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

Options	Period	1989 Price
22,280,628	1990/99	£1.6130/3.3310

Options	Period	1988 Price*
13,981,271	1989/98	£1.4210/3.3310

*adjusted for 1989 capitalisation issue

32 Directors' and officers' loans

The aggregate amounts outstanding at 31 December 1989 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 £m	Number of persons
Directors		
Loans	1.0	9
Quasi-loans	*	22
Credit transactions	–	–
Officers		
Loans	0.3	3
Quasi-loans	#	3
Credit transactions	–	–

* aggregate amount outstanding was £8,195
# aggregate amount outstanding was £4,901

33 Directors' interests

The interests, all beneficial, of those who were directors at 31 December 1989, in the ordinary shares of the bank were

	At 31 December 1989		At 1 January 1989 (or date of appointment if later)	
	Shares	Options	Shares	Options
Sir Kit McMahon	7,202	277,760	3,626	126,894
J A Brooks	36,780	172,243	11,370	114,021
Sir Kenneth Corfield	3,681	–	2,500	–
T J Cunningham	13,182	–	9,140	–
R Delbridge	1,000	–	1,000	–
Sir Archibald Forster	2,945	–	2,000	–
B L Goldthorpe	12,437	152,354	7,140	119,357
Sir Alex Jarratt	5,073	–	3,624	–
H E Lockhart	1,689	148,588	1,182	86,136
G E Loudon	150	34,999	102	–
G Maitland Smith	1,400	–	1,000	–
Sir Colin Marshall	–	–	–	–
Sir Patrick Meaney	938	–	638	–
D O'Cathain	2,923	–	2,045	–
Sir Michael Palliser	901	–	613	–
Sir Eric Pountain	4,518	–	3,068	–
W Purves	1,044	–	746	–
P J Wrangham	7,148	–	5,000	–

No director had any 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 1989 and 22 February 1990.

MIDLAND GROUP

FIVE YEAR SUMMARY

		1989 £m	1988 £m	1987 £m	1986 £m	1985 £m
Profit before exceptional charges and taxation		616	693	511	434	351
Exceptional charges		(877)	–	(1,016)	–	–
(Loss)/profit before taxation		(261)	693	(505)	434	351
Taxation (credit)/charge		(57)	273	(58)	172	207
(Loss)/profit before extraordinary items		(219)	412	(456)	242	122
(Loss)/profit attributable		(219)	412	(393)	242	122
Shareholders' funds		2,685	3,039	2,586	2,021	1,847
Minority interests		166	141	99	90	235
Perpetual subordinated loan capital		997	888	858	1,082	892
Term subordinated loan capital		1,183	970	945	1,094	998
Total capital resources		5,031	5,038	4,488	4,287	3,972
Current, deposit and other customer accounts		54,680	47,983	41,679	46,082	52,461
Advances and other accounts		45,530	40,273	34,355	36,641	41,473
Total assets		62,479	55,729	48,450	53,169	58,074
Capital ratios – tier 1 capital to total risk weighted assets		5.4%	6.5%	–	–	–
total capital to total risk weighted assets		10.0%	11.8%	–	–	–
total equity/total assets		4.6%	5.7%	5.5%	4.0%	3.6%
Return on average shareholders' funds – (loss)/profit attributable		(7.7)%	15.0%	(18.9)%	12.5%	6.8%
Return on average equity – profit before exceptional charges and taxation		20.7%	24.3%	23.6%	20.8%	16.4%
(loss)/profit before taxation		(8.8)%	24.3%	(23.3)%	20.8%	16.4%
Average shares in issue (millions)	a	774	768	511	435	433
Net assets per share	a	345p	395p	338p	418p	393p
Earnings per share	a	(28.3)p	53.6p	(89.5)p	55.4p	28.1p
Dividends per share	a	18.0p	16.4p	14.4p	14.4p	13.6p
Dividend cover	b	–	3.3	–	3.9	2.1
Shareholders	c	109,379	106,361	106,387	104,494	110,331
Average base rate		13.9%	10.1%	9.7%	10.9%	12.2%

a 1985-1988 adjusted for 1989 capitalisation issue and 1985 and 1986 (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
PRINCIPAL ADDRESSES

UK
Midland Group provides a comprehensive range of financial and related services in England, Scotland and Wales through a network of regional management centres, corporate banking centres, area offices and some 2,000 branches

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The Thomas Cook Group Limited
PO Box 36, Thorpe Wood
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Thomas Cook Group travel and related services are available from more than 1,200 offices in some 117 countries.

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continued

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Samuel Montagu Inc
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Midland Montagu Securities Inc
Telephone: 212 969 7600
156 West 56th Street
New York NY 10019

MIDLAND BANK PLC

NOTICE OF MEETING

Notice is hereby given that the 154th annual general meeting of Midland Bank plc will be held at Merchant Taylors' Hall, 30 Threadneedle Street, London, EC2, on Tuesday, 24 April 1990 at 11.00 am for the following purposes:–

ORDINARY BUSINESS

1 To receive the report of the directors and audited accounts for the year ended 31 December 1989.

To re-appoint the following directors:–

2 R Delbridge.

3 J A Brooks.

4 Sir Archibald Forster.

5 G Maitland Smith.

6 Sir Eric Pountain.

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

SPECIAL BUSINESS

To consider and, if thought fit, to pass the undermentioned resolutions:–

8 Ordinary Resolution (Scrip dividend)
That the directors of the bank be and are hereby authorised to exercise the powers conferred on them by article 114A of the bank's articles of association in respect of any ordinary dividend to be declared by the directors before the annual general meeting of the bank in 1991.

9 Ordinary Resolution (Directors' authority to allot shares)
That the general authority conferred on the directors by article 8B (1) of the articles of association of the bank be renewed for a period of five years from the date of the passing of this resolution and that for such period the prescribed amount (as referred to in that article) be £221,331,112.

10 Special Resolution (Disapplication of pre-emption rights)
That for the purposes of article 8 of the articles of association of the bank:–
(a) the power conferred by paragraph B (2) (a) of that article (disapplication for small cash issues) be renewed and the special prescribed period (as referred to in that article) be the period from the date of the passing of this resolution to the conclusion of the annual general meeting in 1991, or 23 July 1991 if earlier (so that the aggregate nominal amount of equity securities allotted for cash during such period shall not exceed 38,933,444).
(b) conditionally upon the passing of resolution 9 comprised in this notice, the power conferred by paragraph B (2) (b) of that article (five year disapplication for rights issues) be renewed.

11 Ordinary Resolution (Staff profit sharing)
That the directors be and are hereby authorised, subject to such prior approvals of the Board of Inland Revenue as the directors consider necessary, to determine the amount which may be allocated to the trustees of the Midland Bank Group 1979 Profit Sharing Share Scheme and the Midland Bank Group 1979 Profit Sharing Cash Scheme in respect of the scheme year 1989 by adding back to the profit before taxation of the relevant participating companies an amount no greater than the exceptional provisions of £846 million in respect of loans to countries identified as having actual or potential payment difficulties.

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 him. 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
26 March 1990

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.

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 of the meeting from 10.45 am on the day of the meeting until the conclusion of the meeting.

3 No changes in any of the directors' interests in the shares of the bank as shown in note 33 on page 60 of the accounts for 1989 occurred between 22 February 1990 and 1 March 1990.

Registrars: Ravensbourne Registration Services Ltd
Bourne House, 34 Beckenham Road
Beckenham, Kent BR3 4TU
Tel: 01-650 4866