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**FINANCIAL SUMMARY**


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	Amounts in £ millions	
	1986	1985
<u>Profit before taxation</u>	<u>434</u>	<u>351</u>
<u>Profit attributable</u>	<u>242</u>	<u>122</u>
<u>Shareholders' funds</u>	<u>2,021</u>	<u>1,847</u>
<u>Total capital resources</u>	<u>4,287</u>	<u>3,972</u>
<u>Total assets</u>	<u>53,169</u>	<u>58,074</u>
<u>Free capital ratio</u>	<u>7.2%</u>	<u>5.9%</u>
<u>Loan capital ratio</u>	<u>48.1%</u>	<u>41.8%</u>
<u>Earnings per share</u>	<u>104.2p</u>	<u>53.0p</u>
<u>Dividends per share</u>	<u>27.0p</u>	<u>25.5p</u>
<u>Dividend cover</u>	<u>3.9</u>	<u>2.1</u>
<u>Year-end full-time equivalent staff numbers</u>		
<u>UK</u>	<u>61,508</u>	<u>61,268</u>
<u>Overseas</u>	<u>6,026</u>	<u>5,495</u>
	<u>67,534</u>	<u>66,763</u>
<u>Crocker</u>	<u>—</u>	<u>11,827</u>
	<u>67,534</u>	<u>78,590</u>

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**FINANCIAL CALENDAR**


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<u>Dividend payments</u>	<u>April and October</u>
<u>Interest payments</u>	
<u>7½% Subordinated Unsecured Loan</u>	
<u>Stock 1983/93</u>	<u>30 June and 31 December</u>
<u>10¼% Subordinated Unsecured Loan</u>	
<u>Stock 1993/98</u>	<u>30 June and 31 December</u>
<u>14% Subordinated Unsecured Loan</u>	
<u>Stock 2002/07</u>	<u>31 May and 30 November</u>
<u>Half-yearly results announced</u>	<u>August</u>
<u>Annual General Meeting 1987</u>	<u>30 April</u>

## STATEMENT BY THE CHAIRMAN



Sir Donald Barron DL

## RESULTS

Profit before tax of the Midland Bank Group showed a further improvement in 1986, rising from £351m to £434m. This increase reflected an improvement in trading performance in most parts of the Group. The domestic and international operations of Midland Bank plc and the continental European subsidiaries did particularly well in very competitive conditions. The Investment Banking Sector made a significant contribution to profit, despite heavy start-up costs particularly in the market-making area.

The profit is struck after provisions for bad and doubtful debts of £357m, maintaining the prudent approach which we think appropriate in the present global environment. We have set up additional specific provisions of £160m against lending to re-scheduling countries - £60m of new provisions and £100m transferred from general provisions.

The Group tax charge has been abnormally high in recent years as a result of unrelieved overseas losses and non-allowable general provisions. With both of these factors declining in importance there has been a reduction in the overall tax rate from 59% to 40%. Earnings improved from £122m to £242m and the post-tax return on equity increased from 6.8% in 1985 to 12.5% in 1986.

A high level of retentions is essential in order to help provide the capital support on which the development of the business depends. Your directors feel, however, that the considerable progress we have made towards the substantial improvement in return on equity, which is one of our major objectives, and the resultant increase in earnings per share, justifies an increase in dividend from 25.5p to 27p for the year, covered 3.9 times.

The Group's free capital ratio, which relates the capital base less infrastructural assets to our public liabilities, stood at 7.2% at the year-end, up from 5.9% at the end of 1985.

The sale of Crocker to Wells Fargo was completed rather earlier than expected on 30 May 1986. Our pre-tax profits

for 1986 include £22m in respect of Crocker's net contribution up to that date, while our profits for the remainder of the year benefited from the redeployment of the sales proceeds. Those parts of the business which we retained - Crocker's international division and the bond dealing operations, including the valuable US primary government bond dealership - have been merged with Midland's own activities.

The real benefit of the sale, however, is to be seen less in immediate profit improvement than in the greater freedom we now have to concentrate our financial and managerial resources on our core business strategies - on meeting the changing needs of our personal and corporate customers, on developing our investment banking activities and on the growth of areas of specialism and expertise in international banking.

## THE ECONOMIC &amp; BUSINESS ENVIRONMENT

The economic environment in which the Group operated last year was characterised by the sharp fall in the price of oil, the relative weakness of both sterling and the US dollar and the maintenance of high domestic interest rates. The most important developments on the business front were, predictably, the major changes which took place in the regulation and operation of the UK capital markets.

At the start of the year the price of crude oil was \$26 a barrel. It fell as low as \$9 before ending the year at \$18. On balance there can be little doubt that the reduction in the oil price will have done lasting good both to the majority of UK companies and to most Third World borrowers. It should also, in time, be reflected in a higher level of economic growth in the UK and other developed economies. However, the speed of the fall has had some less welcome economic consequences. Thus its adverse effect on oil-producing debtor nations (such as Mexico) and on oil-dependent areas of the UK economy (such as the Aberdeen region) have probably been more marked than the beneficial impact it has had elsewhere, and its net effect in the short term may indeed have been mildly deflationary for the world economy as a whole.

The Third World debt problem continues to cause anxiety in the global banking industry and underlines the need for resolute co-operative action. The case by case approach which has successfully surmounted the problem since 1982 was again brought into play in the Mexican debt negotiations during 1986 and restored some stability - albeit at some cost to the lenders. We expect that this mechanism will continue to be used but there is a need for imaginative thought to be given to new solutions which reduce the disadvantages which the present mechanisms carry for both the lenders and the borrowers.

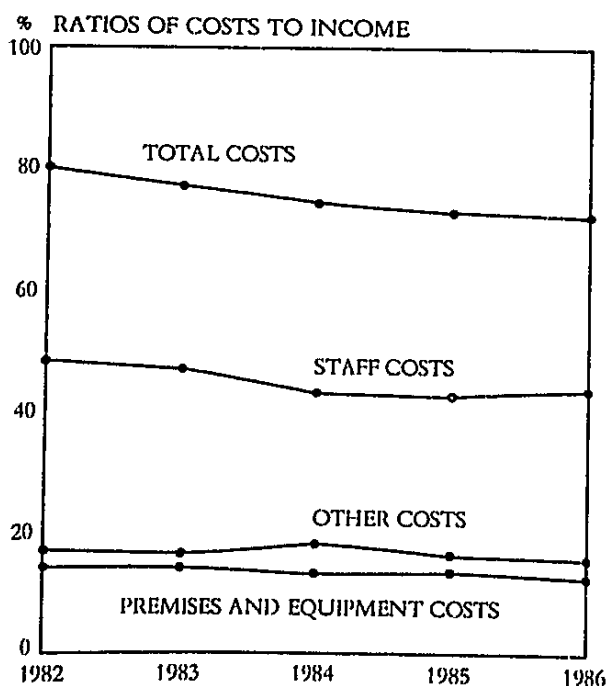
Sterling's relative weakness on the international currency markets last year, reflecting political uncertainty and a deteriorating trade balance, together with official unease about the pace of domestic credit expansion, combined to ensure that UK interest rates remained high in both nominal and real terms: Midland's own base rate averaged 10.9% for the year as a whole. While the profitability of our current

account business benefited accordingly, the net impact of developments in the UK and world economy as a whole on the Group's profits was closer to neutral.

The oil sector apart, UK company profitability showed a welcome improvement, and the specialist facilities of our Lending Services Department experienced a reduction in demand. Continued progress was made on 'working out' the portfolio of former Crocker assets now in the Bracton workout subsidiary; with the additional provisions made in 1986, these loans and investments are fully provided for.

As I have already indicated, among the most important features of the Group's operating environment last year were the twin processes of liberalisation and regulation as they affected the financial services industry as a whole and the UK capital markets in particular. On 27 October, the City experienced the culmination of a series of changes in the workings of the securities markets known collectively as 'Big Bang'. In line with these and other changes, the Midland Bank Group is, through its Midland Montagu and Greenwell Montagu subsidiaries, now a prominent participant in the rapidly changing and highly competitive UK and international capital markets.

'Big Bang' was far from being the only development to affect the Group's business environment. On the domestic front, the Building Societies Act significantly widened the range of financial services that the societies could provide while the flotation of the Trustee Savings Bank greatly increased the capital resources available to them in their challenge to the established high street banks. On the international front, the trend towards greater liberalisation of financial markets was apparent in other leading centres in which we operate such as New York and, more slowly, in Tokyo.



Success in controlling expenditure throughout the Group has further improved our ratio of costs to income.

In certain respects, however, the counterpart of liberalisation has been more intensive and more explicit forms of regulation. For instance, in the UK, virtually every major part of the Group's operations will be affected by the new structure of self-regulatory organisations established under the statutory umbrella of the Financial Services Act. The Group is devoting considerable resources to ensuring effective compliance with both the spirit and the letter of the regulations to which our various activities will be subject.

The Group strongly supports the concept and operation of the UK Take-over Panel which has proved itself both effective and efficient during its 20-year life. It has shown once again recently its ability to react quickly and flexibly to new developments in the marketplace and there is no evidence to suggest that a wholly statutory system – which would certainly be slower to respond to change – would be more effective.

## MIDLAND IN THE COMMUNITY

Midland has long recognised that as a major company it has responsibilities not only to its shareholders, customers and employees but also more generally to the community in which it operates. Our community involvement takes three main forms: donations to charitable and similar bodies; the sponsorship of educational, cultural and sporting activities; and the secondment of staff to community-based organisations of various kinds. Last year marked our 150th anniversary and the launching of several new schemes designed to reinforce this involvement.

In the area of donations, we introduced a '£1 for £1' scheme under which we match money raised by our employees for charities of their choice. I should like to pay tribute to the enterprise and enthusiasm with which so many of our employees have responded to this initiative.

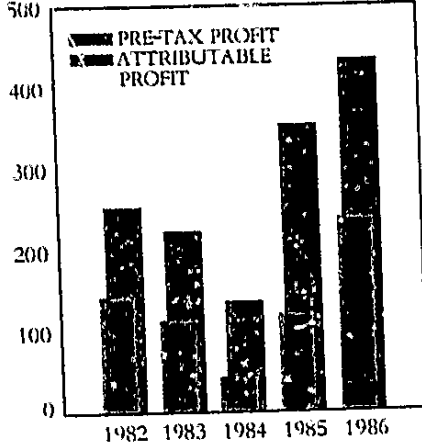
In the areas of sponsorship and secondment, where Midland is among the most prominent corporate supporters of community-based activities, two major ventures were launched last year in Birmingham, the city of Midland's birth 150 years previously: a Development Team was established under the aegis of the city's Economic Development Unit to help local companies adapt to changing economic and market circumstances; and a Prince of Wales Community Venture was launched to enable a cross-section of young, mainly unemployed, people to develop their personal skills from an experience of community service. We continued our support for the successful Enterprise Agency scheme network throughout the UK by significantly increasing the number of secondments.

Your Board is in no doubt that a well-planned and well-spread community affairs programme is in the interests of all those with a stake in Midland's long-term commercial success.

## THE BOARD, EXECUTIVE & STAFF

As foreshadowed in my report last year, Sir Kit McMahon joined the Group in April as a Deputy Chairman, succeeding Geoffrey Taylor as Group Chief Executive five months later.

**PRE-TAX & ATTRIBUTABLE PROFIT**



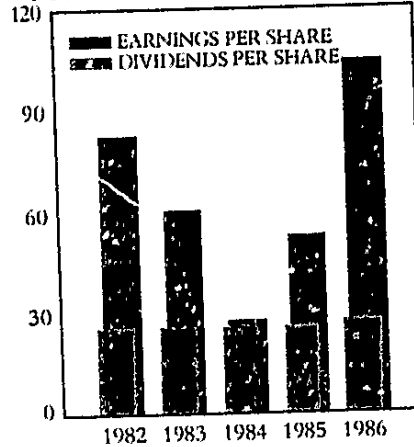
The improvement in pre-tax profit was reflected in an even sharper increase in attributable profit.

he will become Chairman and Group Chief Executive when I retire at the conclusion of my five-year term in office in April.

Sir Jack Callard, who joined the Board in 1971, retires at the AGM. He brought to our deliberations all the wisdom of a distinguished career in industry and commerce and I would like to thank him both corporately and personally for his valuable contribution.

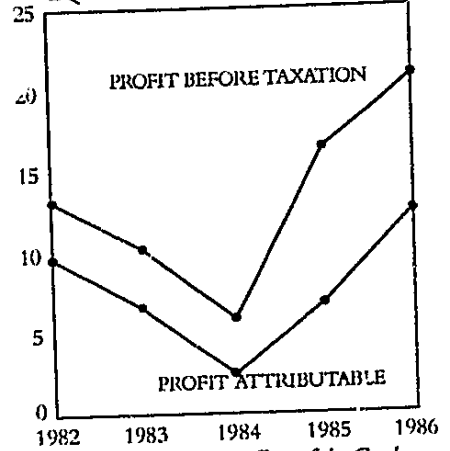
Three executive directors left the Group during 1986, and I would like to pay tribute to the distinctive contribution that each of them made to our fortunes in recent years. Frank Cahouet was instrumental in helping to restore Crocker to profitability, thereby facilitating its sale to Wells Fargo; his former colleagues all wish him well in his new position as President and Chief Operating Officer of the US Federal Mortgage Corporation. Michael Julien, as the first externally recruited finance director of a clearing bank, made a considerable contribution, particularly to the solution of the

**EARNINGS PER SHARE & DIVIDEND PER SHARE**



Earnings growth has permitted an increase from 25.5p to 27.0p in the year's dividend.

**RETURN ON AVERAGE EQUITY**



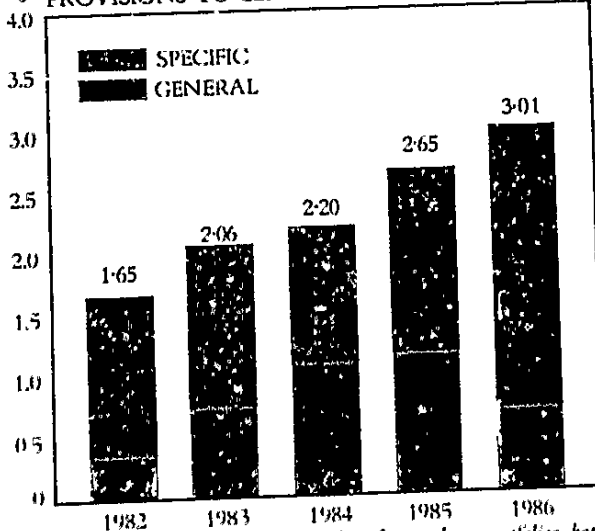
The recovery from the effects of the Crocker losses has had a beneficial impact on our return on average equity.

problems associated with Crocker and as one of the negotiators of the sale. John Greenwell retired after 43 years' service, latterly as Chief Executive (UK Business), in which capacity he did much to prepare the ground for the new approach to our retail and corporate markets: I would like to thank him for his valuable contribution to the Group over many years.

In February this year Geoffrey Taylor retired from the Group on reaching the executive retirement age of 60. Since handing over to Sir Kit McMahon as Group Chief Executive last year he had served as Vice-Chairman of the Board. Mr Taylor joined the Group in 1943 and, in his long and distinguished career, I would single out for particular mention the leading role he played in the 1970s in establishing our International Division. Although his term as Group Chief Executive was inevitably affected by the need to solve the problems of Crocker, he did much to develop the new strategy and organisational structure which is now in place and to recruit new talent to our senior management team. It is particularly pleasing that his knowledge and experience have been recognised in his appointment as one of three members of the Banking Law Review Committee recently set up by the Government. He carries the very best wishes of all his former colleagues.

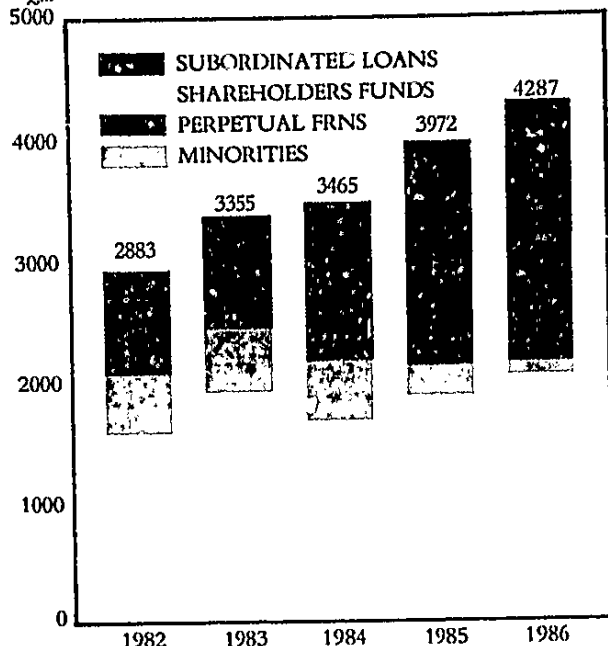
I am also glad to report the appointment to the Board of four new non-executive directors who have had distinguished careers in the business world: Archibald Forster, Ian Hay Davison, Geoffrey Maitland Smith and Sir Eric Pountain. In addition, we welcome Ian Tegner who has been appointed as Director, Group Finance in succession to Michael Julien, and three other senior executives of the Group have become directors: Ernst Brutsche, Hervé de Carmoy and Ian Paterson, who are Chief Executives of our Investment Banking, International Banking and Retail Banking Sectors, respectively. Biographical information about these and all other members of the Board and of Group Executive Committee can be found on pages 62 and 63 of this report, from which it will be seen that we will have, after the changes detailed above, a well-balanced Board of 11 non-executive and eight executive directors.

**% PROVISIONS TO LENDINGS RATIOS**



A high level of provisions is prudent for our loan portfolios, both domestic and international.

£m CAPITAL RESOURCES



Higher retentions and successful capital issues have helped to increase the Group's capital resources.

Last year's welcome improvement in profitability is, of course, a reflection of the hard work and commitment of all the executives, managers and staff of the Group. They have earned my personal gratitude, that of the Board and, I am sure, of shareholders for all the efforts that they have put into the restoration of the fortunes and morale of the Group over a relatively short period.

## THE FUTURE

The last five years have been a demanding period of change and challenge. Changes in structure, organisation, style and culture were necessary to enable the Group to make progress in highly competitive global markets. That these changes had to take place while at the same time the repercussions of the purchase of Crocker were dealt with, was an added complication.

Change will undoubtedly remain a dominant factor in the financial services industry. We shall play our part in these developments, and the diversity of resources and skills of Midland people around the world will continue to serve the needs of our customers. That basic objective will not change.

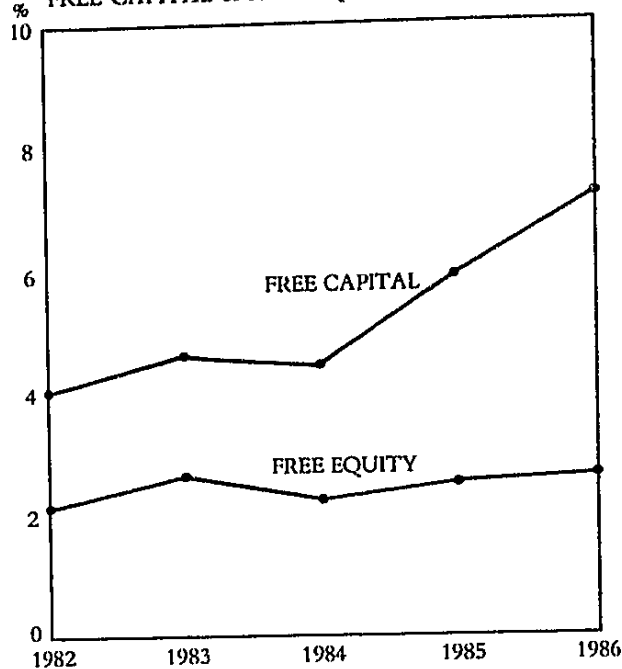
The Group now has the structure and the people to carry out its strategy; in Sir Kit McMahon it will have a Chairman and Group Chief Executive of distinction and experience. I retire from the Board confident that stronger foundations are in place and that a rewarding future lies ahead for Midland.

*Donald Barron*

16 March 1987

Donald Barron

% FREE CAPITAL & FREE EQUITY RATIOS



The Crocker sale helped improve the relationship between the free capital and free equity of the Group and its public liabilities.

## SIR DONALD BARRON

Sir Donald Barron will be retiring from the Board on 30 April 1987, having served as a director for the past fifteen years and Chairman for the past five. He took over as Chairman at Midland after fifteen years' distinguished service as Chairman of Rowntree Mackintosh, and might reasonably have expected, in his last period of active business life, to preside over a calm and steady enhancement of the fortunes of Midland.

In the event the problems of Crocker overshadowed much of his period in the Chair. Whatever the setbacks, however, he met them with a courage and steadfastness that enabled him to rally the Board, the Executive and the Staff and lead them finally to the satisfactory outcome of the sale of Crocker last May.

But though Sir Donald's most obvious contribution has been this essentially defensive one, history may decide that it was not the most fundamental. A longer perspective will reveal the extent of his achievements in modernising the Group and helping to mould it into a shape and structure appropriate to tackling the business of today and tomorrow.

Sir Donald dislikes the amateur approach and the bureaucratic mind. As befits a distinguished member of the Scottish Institute of Chartered Accountants, a Pro-Chancellor of York University

## REVIEW OF GROUP OPERATIONS BY THE GROUP CHIEF EXECUTIVE



Sir Kit McMahon, (left) Deputy Chairman and Group Chief Executive, with John Brooks, Deputy Group Chief Executive.

and a Governor of the London and the Scottish Business Schools, he believes passionately in the professional approach and in the education, training and dedication that underlie it. In many ways, large and small, he has worked to inculcate these values into the Group and he is entitled to much pride and gratification at what he has been able to achieve.

The Midland Group today is patently a very different institution from that of five years ago: much less traditional, hierarchical and inward-looking; much more flexible, open to ideas, oriented towards markets, and ready for change: much better adapted, in short, to compete successfully in the complex, rapidly changing environment in which we have to operate.

A professional approach is sometimes thought of as the antithesis of a humane one. No-one who has witnessed Sir Donald's happy touch with his Board, or visiting a branch, or speaking at retirement functions, or welcoming guests with Lady Barron at their home could ever make that mistake.

Midland owes a great debt to Sir Donald and Lady Barron. We hope that an awareness both of their own achievements and of the way they have been appreciated throughout the Group will add to the many other happinesses we wish them in a long retirement.

K. M.

In my first review as Group Chief Executive I am glad to record that the progress made in 1985 has continued throughout 1986 with pre-tax profits rising from £351m to £434m.

This improvement is the result of good performances across the Group, although the pattern of the contribution has been uneven. A good year's trading by Midland Bank plc itself was the main reason for the growth in the profits of the Group's UK operations. A strong performance by the International Banking Sector can be seen as the reward of more focussed strategies, improved productivity and the success of our subsidiaries in continental Europe. Good profits were made in the treasury, corporate finance and venture capital areas, although total investment banking profits were affected by start-up costs and low returns in the market-making area. This is to be expected initially in a market which is undergoing radical restructuring and experiencing a severe intensification of competition.

Last year represented a watershed for the Group with the completion of the sale of Crocker National Corporation to Wells Fargo and the implementation of a new Group organisation based on four business sectors: Retail, Corporate, International and Investment Banking.

Before describing the four sectors and considering how their component parts performed last year, I believe it would be worth setting out some of my first impressions of the Group, gained during my initial period as Group Chief Executive. I have been delighted to find, at all levels, a tremendous enthusiasm and commitment to the Group; in a business that has sometimes been criticised for its institutionalism, I have been encouraged by the enthusiasm for marketing, the customer orientation and the commitment to make the business perform better which I have found. I have been impressed by the richness and diversity of the Group, and the obvious promise that these qualities hold in a marketplace that is becoming more attuned to, and demanding of, well integrated financial service organisations. In this respect the Group has some unique advantages. For example it has a branch network that spans the United Kingdom, a combined merchant bank and treasury operation, and a travel industry company, which has significant expertise in travel finance and a global branch network.

During the past few years a number of long-standing weaknesses have been identified. Our cost/income ratio is too high. Midland has suffered in recent years from low retentions and inadequate investment. This means that there is much to be done to make up lost ground, particularly in branch premises and in our systems. Our core businesses are still too heavily centred on relatively slow-growing markets. As with many other international banks, our Latin American lending remains a source of concern.

We are vigorously tackling these various weaknesses. We are eliminating duplications between the sectors; we are aiming to slim our central functions and to rationalise our City premises; and we aim radically to improve our systems and the nature of our branch network.

We are committed to major investment in technology to achieve our strategic objectives over the next three to four years. The benefits of such an investment will be enormous.

**L**indsay Walker of Clydesdale Bank with Dennis Paterson, (foreground) and Robin Currie, (right) of Banff & Buchan Nurseries examining young Elite Sitka spruce trees which have been developed by the Forestry Commission to generate a significant increase in timber yield.

Four years ago Clydesdale Bank Equity helped these customers in a management buy-out of the nursery. The company has prospered and grown into one of the leading operations in the UK.

Following on from this and other successful management buy-outs Clydesdale has become involved in a new joint venture company called The Buy-Out Syndicate. This new company, launched in conjunction with investment bankers Quayle Munro and stockbrokers Bell Lawrie, offers the complete range of financial services required to facilitate management buy-outs.



The elimination of paper flows and the general enhancement of our systems will not only reduce our processing costs but also help us to improve the quality of our products and our services, and to provide us with higher quality management information, all of which are crucial to the achievement of a strong competitive position. In improving our cost/income ratio it will be just as important to enhance our income as to reduce our costs.

In sum, a robust strategy has been developed, and is being implemented by a strong and experienced management team. Issues in need of resolution are being tackled forcibly and enthusiastically. The foundations are now well established for steady progress in a rapidly changing and intensely competitive marketplace.

I will now review each of the sectors in more detail, and highlight the main events of 1986.

## RETAIL BANKING SECTOR

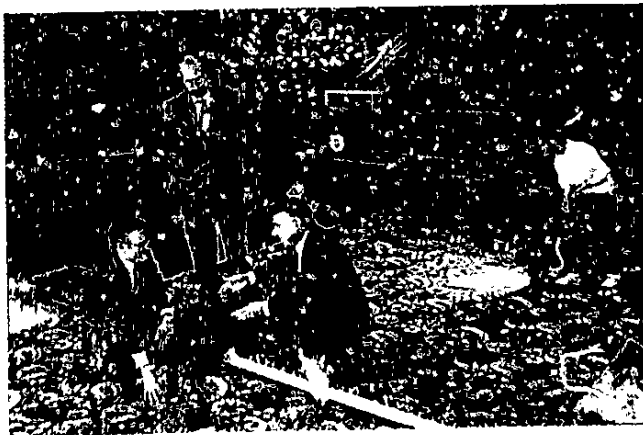
The Retail Banking Sector, led by Ian Paterson, has been formed to provide a comprehensive range of financial products and services to individuals and small to medium-sized businesses throughout the United Kingdom. The sector will integrate and build on the existing strengths of Clydesdale Bank, Forward Trust Group, Midland Bank, Northern Bank and Thomas Cook. The growing area of related financial services will be emphasised by re-structuring

the Group's Insurance Services, Trust Company, Unit Trust Managers and Stock Exchange Services into a single, highly focussed unit.

Our understanding of the needs of this marketplace has been demonstrated by the response of our customers to product developments during the past year.

The innovative packaging of HomeOwner Plus saw Midland recognised as one of the principal, and most competitive, providers of home mortgage finance, and resulted in a doubling of our outstanding mortgage lending to £2.7bn. The CarOwner Plus product, using newly developed methods of reaching key customer groups, also proved highly successful. Similarly, the development of the 55+ package for this key customer group and the repackaging of the gold MasterCard product all represented stages in building a comprehensive range of targeted products and services to meet the distinctive needs of our customers.

We are continuing to rationalise, improve and enhance our branch network. On the basis of detailed research into the spread and needs of our customers we are introducing a range of different types of branch. We are replacing, where appropriate the traditional full service branch by partly or fully automated branches, relying primarily on machines to provide facilities for cash withdrawal, depositing cheques and obtaining statements. This will allow staff to devote more time to customer financial counselling.



**I**n 1986 Northern Bank sponsored the Northern Ireland Export Awards in conjunction with the Industrial Development Board, Local Enterprise Development Unit, Northern Ireland Chamber of Commerce and Industry, and British Midland Airways.

Northern Bank's customer, Ulster Carpet Mills, was successful in winning not only the 'A' Category Award, for manufacturing companies employing more than 50 people, but also the Premier Export Award, for the best performance of all the prize winners of the competition.

Seen in the foreground discussing one of the quality control checks at the factory are (left to right) Walter Wilson, Chairman and Joint Managing Director of Ulster Carpet Mills; Edward Wilson, Joint Managing Director of Ulster Carpet Mills; and Bill Kennedy, Manager, Northern Bank, Portadown.



I have been thinking about this for a long time. It's not just about the money, but about the way we live. We are all in this together, and we need to find a way to make it work. The future is uncertain, but we must be prepared to face it head-on. We need to be honest with ourselves and with each other. We need to be brave and take risks. We need to be kind and compassionate. We need to be strong and resilient. We need to be true to ourselves and to our values. We need to be the change we want to see in the world.



**T**he first time I saw the exhibition, I was struck by the way it brought the UK's history to life. It was a real treat to see the way the British people lived and worked in the past. The exhibition was a real eye-opener. It was a real treat to see the way the British people lived and worked in the past. The exhibition was a real eye-opener. It was a real treat to see the way the British people lived and worked in the past. The exhibition was a real eye-opener. It was a real treat to see the way the British people lived and worked in the past.

We are taking advantage of this progressive rationalisation of the network to improve the way we present and sell our services to the customer on the one hand, and to reduce the cost of providing those services on the other. In conjunction with design consultants Fitch & Co. we are engaged in introducing a new design concept for branch banking, which is well in advance of anything our competitors are doing, and has been very well received by both customers and commentators. The aim is to make our branches more like smart shops in appearance, and to encourage closer and easier communication between customers and staff.

At the same time much effort is being concentrated on improving productivity and reducing costs throughout the network by major improvements and modernisation of our back-office and front-office systems; a programme to streamline branch operations; and the completion of a work measurement programme in all branches.

We now have 1300 automated teller machines installed in branches and in sites such as Tesco's, Sainsbury's and motorway service stations. In addition, we have announced plans to link our network with that of the TSB Group. This, when added to the established link with National Westminster, will provide our customers with the most extensive ATM network in the United Kingdom.

Midland Bank will play a full part in helping to develop a national scheme for Electronic Funds Transfer at Point of Sale (EFT-PoS). In the meantime Clydesdale Bank is now operating a successful electronic funds transfer link with a number of retailers, while Midland Bank is also operating a similar 'Speedline' pilot at Milton Keynes.

In our Access credit card operation, there has been a gratifying 17% increase in turnover while the number of retailer outlets increased by 6% to 260,000.

Despite the removal of first year capital allowances in March, Forward Trust Group's leasing business did well in 1986, with large deals conducted with British Airways and Tso, and with the provision of finance for the first phase of Nissan's factory project in Wearside. Other parts of FTG's business have also prospered, notably in the dealer vehicle finance market and in the personal finance area.

Griffin Factors once again discounted record volumes of business in 1986, continuing to grow faster than all its major clearing bank-owned competitors.

Thomas Cook added the Spanish peseta to its range of currency travellers cheques; formed a joint venture called Hoteltech which provides a worldwide hotel reservations system; launched Airfare Warehouse, which specialises in discounted air fares; and developed Thomas Cook Premium services, a card-based service offering travel-related benefits to the holder.

The individual components of the new financial services division all did well in 1986. Midland Bank Group Unit Trust Managers increased the number of unitholder accounts from 45,500 to 65,500, and doubled its profits. The Midland Bank Trust Company achieved its eighth successive year of increased profits. Midland Bank Insurance Services not only extended the product range available through the branch network but, by providing the insurance element of the HomeOwner Plus package, contributed to the great success and profitability of the product.

The formation of the Retail Banking Sector reflects the way the Midland Bank Group is becoming a progressive, market-orientated organisation. It is the Retail Banking Sector's aim to be as good as the best of the high street retailers in providing well-developed products where and when the customer wants them, with the highest quality service.



**H**ampden Homecare is the largest retailer of DIY and house improvement products in Northern Ireland. It retails a wide range of products and trades as 'Texas Homecare' under a franchise granted by Home Care Group. All stages of Hampden's franchising operation have been financed by Northern Bank.

Hampden Homecare has opened several stores since 1977. The latest, at Ballymena, was opened in January 1986. However, with the help of Northern Bank, building has already commenced on an even larger store at Upper Galwally, Belfast, and when completed it will be the largest store of its type in Ireland.

Seen discussing the plans of this store at an early stage in the development of the site are Cliff Spence of architects Robinson Mellwaine; David Russell, Hampden's Finance Director; Sam McConnell, an Assistant General Manager, Corporate

Finance Division, Northern Bank; David Lorry, one of Northern's graduate trainees; and John Rainey, Contracts Manager of Gilbert-Ash, main contractors.

The discussions continued with a visit to the Ballymena store by the Northern Bank management team, and here they are seen talking with Tim Wright, the Store Manager, (standing on the left) and Jeanette Hughes (a member of staff).





**F**orward Trust has significant experience in providing retailers and other suppliers of consumer durables with a wide range of services, backed up by fast and reliable technology, particularly on-line credit sanctioning facilities.

*Floreac, Britain's biggest furniture buying group representing over 100 independent retailers, was one of the first companies to use Forward Trust's special Retailer Operations Unit, which offers immediate on-line credit facilities for customers using the service.*

*Here a salesman in Floreac's salesroom in Nottingham is seen requesting authorisation from Gillian Rankin, a management trainee with Forward Trust. Authorisation allows the customer to make the purchase and Floreac to receive value for the transaction on the same day.*



## CORPORATE BANKING SECTOR

The newly established Corporate Banking Sector is led by Brian Goldthorpe. The decision to place the management of our corporate business into a separate sector was the outcome of two related perceptions. The first was that the needs of the retail market are divergent from those of the increasingly complex corporate market. Secondly, and anticipating future developments, it was foreseen that the demands of the middle market would tend to emulate those of the larger corporates through the growth of greater management sophistication. The traditional one-stop universal branch is no longer equal to the task of providing the diversity of products which corporate customers now expect.

In establishing the Corporate Banking Sector we recognise the need for improved training of our account officers. Training in sales skills and product knowledge has not received due attention in banking. We intend to change that quickly, with particular emphasis on new business development and international and investment management products.

The aim of the new sector is to market and sell the many investment and commercial banking products and services produced by other parts of the Group. The sector will attach particular importance to providing rapid credit decisions within the context of a pre-determined assessment of risk.

The sector has three operating divisions which reflect the diversity of the market. Global Corporate Banking Division manages our relationships with the largest companies worldwide. The emphasis is on relationship building and co-ordinated delivery of the full range of Midland Group products in many locations. Investment banking and trading products will be the sales focus.

Global Specialised Industries Division manages our relationships with key companies in the aerospace, shipping, energy and financial industries. Advanced technical and industry skills are being mobilised in order to develop profitable corporate relationships. Again the sales focus will be on investment banking and trading products.

The UK Corporate Banking Division will manage our accounts with the middle market in the United Kingdom. The strategy of focussed management and sales attention here is unique amongst our key competitors. We have adopted it because we believe it offers the best opportunities for profitable business with this segment of the market. The division will have small local offices (the first 40 of which will be established in 1987) throughout the United Kingdom. The initial sales focus will be on credit, deposits, operational products and foreign exchange, with progressively more emphasis on investment banking products. Management control of the business and tight cost control will be the keys to success.



**A**lan Kennedy, (left) Managing Director of Cunard Steam-Ship Company, showing Howard Marchant, Corporate Banking Director of Midland's Shipping Group, the luxury cruise brochure of the Sea Goddess Liners, which now form part of the Cunard cruise fleet.

Midland's Shipping Group responded quickly and positively to a request from Cunard for an innovative loan/lease package to enable them to add two luxury cruise vessels to their fleet in August 1986. The transaction enabled Cunard to gain the two luxury vessels in the face of considerable competition from other cruise operators.

Alan Kennedy had recently joined Cunard from Thomas Cook and the financial package underlying the transaction served to strengthen the relationship between his new company and the Group.



## INVESTMENT BANKING SECTOR

Our Investment Banking Sector includes our treasury operations (Midland Bank Group Treasury), merchant banking (Samuel Montagu & Co.) and stockbroking and market-making activities (the Greenwell Montagu companies). In the course of the year, we developed a single management structure, under the leadership of Ernst Brutsche, to control the various business activities. We are now able to deliver a broad range of connected services and products to meet the varied needs of the Group's customers.

In addition to a new management structure, a new corporate structure has recently been unveiled using Midland Montagu as an 'umbrella' name and including a distinctive corporate identity. While Samuel Montagu, Greenwell Montagu and other names will continue to be used where appropriate, it will be clear that they are part of a larger investment banking and securities organisation, which is in turn part of the Midland Bank Group. However, our Group Treasury will continue to use the Midland name when operating on behalf of Midland Bank plc. Apart from equity market-making, from which we have now withdrawn, the different elements that make up Midland Montagu have had a generally successful year, despite some significant costs which we have had to bear. These costs include the consolidation of most of our activities into one extensively re-fitted building at Billingsgate, as well as the initial costs of establishing a presence in the re-structured gilts and equities markets after 'Big Bang'.

Group Treasury has maintained a 5% share in the highly competitive London foreign exchange market, where turnover averages US\$90bn daily. Our volume of futures business increased by some 300% - with our position maintained as one of the top five participants in LIFFE - with a similar rate of growth in options. Our reputation for innovation was enhanced by the launch of a 'third generation' of treasury products, such as the 'break-forward' and the 'scout'.

Under the new Midland Montagu structure, our operations in the fixed-income securities markets have been consolidated into one business area. This includes Samuel Montagu's commercial paper unit, now trading as Midland Montagu Commercial Paper which has been successful in establishing itself as a leading participant in this marketplace.

Greenwell Montagu Gilt-Edged has also established itself as a leading fixed-income securities trader. Appointed by the Bank of England as one of the 27 recognised market-makers, it operates as a separately capitalised company making a continuous market in all gilt-edged stocks, together with some 50 'bulldogs' and corporate bonds. It has also established a money market operation dealing in bills and certificates of deposit, for which discount house status will be sought. Having been a leader in the gilts market as a broker we have become one of the top players in the newly structured and far more competitive market environment.

In the market for equities, Greenwell Montagu Securities was similarly set up as a separately capitalised subsidiary. Since 'Big Bang', competition in equity market-making has been extremely fierce, and in March this year we took the decision to withdraw from this activity and concentrate instead on providing comprehensive research and distribution services as an agency broker, or broker-dealer. In this capacity we believe that our overseas distribution network will be a source of real competitive advantage.

In the precious metals market, Samuel Montagu's bullion team had a satisfactory year. In April 1986, an agreement was signed to finance and supply gold coins to commemorate the 1988 Seoul Olympics.

In the area of capital markets, which covers the origination of debt securities and specialist credit business, we have maintained our leading position and strength in sterling syndicated loans and eurobonds. Many substantial transactions have been completed, further underlining the reputation of our capital markets team for innovation and product development.

Samuel Montagu's corporate finance division had a record year in 1986, advising on 75 significant transactions. Among the more notable of these were Norton Opax's successful takeover of McCorquodale, and Argyll's battle with Guinness for control of Distillers. Samuel Montagu is also advising the Department of Trade and Industry on the privatisation of Rolls Royce and the British Steel Corporation. In the field of public finance, the division continued to provide financial advice to governments, central banks and other public sector institutions.

The Group has been committed to developing its presence in the investment management market, building on the



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**I**n July 1986 the leading Birmingham stockbrokers, Smith Keen Cutler, opened a share shop in Midland's New Street branch, Birmingham. Smith Keen Cutler is part of the Group's Investment Banking Sector, having been acquired in April 1986.

The share shop is designed to bring the wide ranging facilities of a stockbroker's office to members of the public and the venture is seen as a significant step forward for wider share ownership.

The shop has attracted a great deal of media interest and David London, (seated) Director of Smith Keen Cutler and his staff have been kept extremely busy since the shop opened.



resources retained following the sale of Montagu Investment Management in 1985. A new holding company has been formed under the name of Midland Montagu Asset Management. It will operate through three subsidiaries – Midland Montagu Fund Managers (institutional fund management), Greenwell Montagu Stockbrokers (private client investment management and agency stockbroking) and the Samuel Montagu (Jersey) Group (offshore trust services). These companies already manage over £4bn of funds and serve some 20,000 clients, including Midland Bank's own range of unit trust funds, for which the institutional fund management team has achieved impressive results.

Greenwell Montagu Stockbrokers acquired the Birmingham-based stockbroker Smith Keen Cutler (SKC) in April 1986 which, combined with healthy business growth in its own operations, has made it one of the five leading private client stockbroking operations in the country in terms of assets under management. New service developments have included the launch of a share-dealing service via the Midland Bank gold MasterCard, and the establishment of a share shop by SKC in Midland Bank's Birmingham New Street branch.

In the area of venture and development capital, Midland Montagu Ventures (previously Midland Bank Equity Group) had a record trading performance. This was largely as

a result of capital gains from the flotation or sale of companies in which investments were held. During the year 29 new investments were made. Midland Montagu Ventures now ranks in the top five venture capital companies by value of investments and has a total of 160 investments with a combined cost of £53m.

Overseas, we moved a step closer to achieving a global presence in the international securities markets when we received an integrated securities licence in Japan. This will enable us to capture an increasing share of capital flows between the UK, Far East, United States and Europe. The securities branch will be in full operation by mid-1987. In Australia, Dominguez Barry Samuel Montagu Ltd. and Midland International Australia Ltd. have been integrated into a combined operation and have acquired a seat on the Sydney Futures Exchange while in Hong Kong, Greenwell Montagu (Far East) Ltd. – the stockbroking operation established to cover South-East Asia – commenced operations.

## INTERNATIONAL BANKING SECTOR

The International Banking Sector continues to operate under the leadership of Hervé de Carmoy. It is made up of four business units – credit and risk, finance and support, geographic regions and lines of business. Within the last of these, there are two specialised units which deal with private banking and with trade and export finance. Overseas activities are conducted in three primary ways: through the Group's correspondent banking network, one of the largest in the world, which enables us to offer a highly efficient range of international payment and trade finance services; through direct representation via our network of branches overseas; and through shareholdings in overseas companies, notably our subsidiaries in Australia, Canada, France, West Germany, Hong Kong, Singapore, Switzerland and the United States.

The sector continued in 1986 the impressive growth in operating profits recorded over the past few years. This was particularly gratifying in the light of a number of unhelpful external factors, particularly the continuing problems associated with rescheduling countries' debt.

The success of the International Banking Sector, despite these developments, reflects a number of factors. Most important perhaps has been a heavy investment in people, while the attention which has been focussed on credit policies has meant a much tighter approach to lending, with a consequent enhanced quality of the loan portfolio and a better monitoring of day-to-day business risks. Substantial investment in information technology has also allowed us to achieve considerable improvements in productivity.

In the electronic banking sphere, Midland is now the dominant force in the important London CHAPS market, with its share of overall business now over 50%. It is building on this expertise, in providing highly sophisticated payment systems and cash management services to the corporate sector.

In its international trade and export finance department, which now includes trade finance activities formerly carried out in Samuel Montagu, Midland has probably one of the



**P**ictured on the floor of the Dusseldorf Stock Exchange are Herbert H. Jacobi, (right) Chairman of the Managing Partners of Trinkaus & Burkhardt, and Uwe Nagel, Director of the Bank's liquidity management service for corporate customers, which was successfully launched in 1986.

Trinkaus & Burkhardt is a member of the Group, and a German private banking house with a 200-year history. In his capacity as Vice-President of the Stock Exchange, Mr Jacobi is maintaining the Bank's unbroken tradition of membership of the Exchange's board, which extends back more than 100 years.

Trinkaus & Burkhardt's association with the Exchange has gained a new dimension through two important transactions of its own. At the end of 1985 came the highly successful flotation of some 30% of the Bank's equity, followed in December 1986 by an equity-linked bond issue which was also well received in the market.



**M**idland Bank S.A., headquartered in Paris, has made a successful entry into the highly competitive house mortgage market in France.

Here a customer receives personal advice from Mme Cecile du Halgout, a member of MBSA's home loans team at its offices in a western suburb of Paris.

strongest operations of its type. This gives the Group considerable advantages in servicing the needs of importing and exporting customers the world over. This operation is matched by the continuing development of MidAval, the sector's forlating operation.

Finally, the performance of overseas subsidiaries improved considerably: all of them increased their earnings substantially, with Trinkaus & Burkhardt in West Germany and Midland Bank SA in France being worthy of special mention. The overseas branches had a good year, with New York branch doing particularly well.

## NORTH AMERICAN STRATEGY

We have retained some specialised elements of the Crocker operations to assist both in our international and in our capital markets strategy. We now have some very good branches and offices in the Asia-Pacific area and we are fortunate in also having a US government primary securities dealership, being one of only two British banks to be in such a position.

The segregation of some of Crocker's poor quality lending into Braetson Corporation, which was set up specifically to manage these problem assets, has proved a constructive move. We have a competent work-out team and we consider that the levels of provisions are realistic.

The disposal of Crocker has enabled us to develop our North American strategy in 1986 on lines which we believe to be consistent with the opportunities available in the market and with the emerging shape of the Group. In addition it will help to integrate a widely diverse set of businesses currently operating largely independently, ranging from Midland International Trade Services to Thomas Cook. In particular, the Crocker entities have been combined with Midland's New York branch treasury and foreign exchange dealing operations and with the activities of Samuel Montagu, New York, to form a fully integrated investment banking unit. This will trade under the name of Midland Montagu Capital Markets.

The integration of all financial market trading and investment banking activities in the US provides a significant nucleus of talent and critical mass from which to launch a progressive investment banking effort in this important market. It will also complement and support the origination, dealing and distribution strengths of the Group throughout the world.

## GROUP FINANCE

The finance function throughout the organisation is responsible for ensuring that we have effective financial controls and information systems, and for capital structure and taxation, as well as playing an important role in the development and critical assessment of strategic objectives.

At the beginning of 1987, Ian Fegner joined us from Bowater Industries as Director, Group Finance, in succession to Michael Julien. He also has responsibility for our relationships with the investment community.





Following the sale of Crocker Bank in 1986, the Group still has a substantial presence in the US centred on New York.

Midland has over 500 people in the country in investment banking, trade finance, Thomas Cook operations and commercial international banking. These represent a growing cadre of money and capital market capabilities, banking and corporate finance professionals and trade specialists capable of putting together complex cross-border transactions. Midland has professional resources in personnel, finance, systems, credit and skilled operating support staff able to ensure that an ever-growing level of both paper and electronic-based transactions are processed in an efficient and accurate manner.

In the photograph, Doug Werhlich, (centre) Regional Director North America, is seen reviewing a complex proposal with Dick Peterson, Senior Vice-President, Corporate, and Nan Logan, Assistant Vice-President, Credit. The proposal led ultimately to substantial income for the New York branch.

## INFORMATION TECHNOLOGY

In my introduction, I touched upon the crucial role that information technology plays and will play in the competitive market position of the Group. It is with that recognition, and an appreciation that the Group has some ground to make up, that we appointed Gene Lockhart as Chief Executive, Information Technology, for the Group. We are making progress in a number of areas.

A major investment in our retail banking systems is allowing us both to restructure our branch network and to adopt an increased level of customer orientation for marketing, sales and operations efforts in the Retail Banking Sector. Investment in our international and domestic payment transmission systems is preserving our position as a recognised market leader. Strategic investments in technology are being made to support the improved front

office and back-office areas of Midland Montagu and our Corporate Banking Sector.

We are building on the advantages offered to us by the MIDNET communications network. This provides data communication facilities for Midland Bank and Thomas Cook as well as links to all other Group companies throughout the United Kingdom. The network is the first of its kind amongst the clearing banks. It will provide the basis for the migration from our existing Burroughs computer system to new IBM systems. In 1986, a Head Office network, HONET, was introduced, ensuring that an evolutionary path to a new generation of telecommunications networking could be achieved through the use of the latest integrated digital technology.

In summary, we are focussing our technology in areas where value to our shareholders can be significantly increased.

## COMPLIANCE

The new financial and regulatory environment has greatly increased the risks of conflict of interest arising within large groups such as ours. I believe we have a duty to do everything in our power to ensure, and be seen to ensure, that investors and all others who deal with us are fully protected; and that we ourselves scrupulously obey, both in letter and spirit, all relevant laws and regulations. To this end we have devoted considerable resources to ensuring effective compliance with the provisions of the Financial Services Act and with the standards expected of a major clearing bank. Very good progress has been made: a Group compliance committee and officer are in place, as are compliance committees and officers for each of the sectors. Compliance machinery is also in place for each of the legal entities.

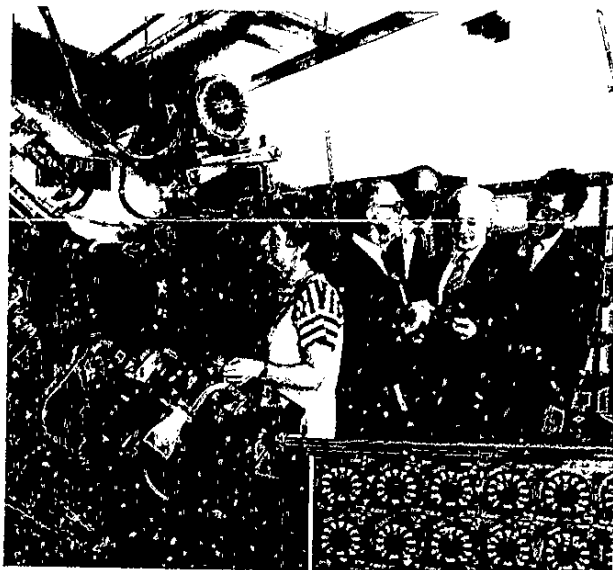
We make no apology for the extra costs that this will entail as we strongly believe that practitioners throughout the financial services area must do everything in their power to maintain public and political confidence in the new arrangements.

## PERSONNEL

To my mind, nothing will prove more important to the ultimate success of the Midland Group than imaginative and professional management, training and development of the people who work in it.

A number of initiatives are in hand across the sectors to improve management education and training, to recruit high calibre individuals and to enable all staff to realise their full potential. At Group level, we have introduced a comprehensive education and training strategy which has involved London and Manchester Business Schools in the development of general management programmes. We have also developed a unified Group graduate recruitment and development programme and introduced a systematic approach to the identification and development of high potential staff.

The withdrawal from the Federation of London Clearing Bank Employers in December 1985 has created the opportunity for the Bank to act with a new freedom to



A part of the company's strategy in 1986, Midland will send a 250,000 £ fund to set up a 'Team' in David Grant & Son, Birmingham. The Team, which has operated for two years, is working with Birmingham's Finance Dept Grant Unit and the bank to put a spin to the city of Midland's bank.

The Team, led by David Miller, (second from right), an experienced Midland banker, who works with Richard Abel, (right), a chartered accountant from the Birmingham office of Arthur Anderson & Co., and Derek Stocker, an expert finance specialist from Midland's International Banking Sector (background).

Here we see the Team meeting with Ken Proud, Managing Director of James Cooke & Son, at one of the company's presses. They are inspecting export production of a speedometer dial being produced for the Ford Motor Company.

Over 80 companies have been visited by the Team since it was formed. The Team's initial role has been expanded and it now offers help to companies with their business plans, management buy-outs, start-up proposals and problem solving.

Graduates who join the Group participate in accelerated training schemes which involve them in a wide variety of work. Direct contact with customers takes place at the earliest opportunity as part of a challenging personal development programme.

Rebecca Soans, (left), joined International Banking Sector in September 1985 after graduating in law at Cambridge. She is seen here outside one of the busy international branches at Heathrow Airport with a customer and a 'Meet and Greet' guide from Thomas Cook. Rebecca has already worked in a number of different locations. Currently, she is engaged on a six month tour of duty in Australia, after which she will return to the United Kingdom to take up a new assignment.

Career development in the Group is planned in consultation with each individual member of staff and personal objectives agreed. Each person's progress is based on merit and monitored against these objectives. To aid in this management development process the Group Career Potential Centre will focus its attention on each individual's potential, whilst encouraging their self-development through personal counselling. Graduates will attend this centre within their first two years in the Group.

The Group recruited 210 graduates in 1986 and our target for 1987 is 325.



determine pay and conditions for its staff relevant to its market needs. Our 1986 pay settlement, agreed with our unions, ASTMS and BIFU, addressed the problem of low pay for junior clerical staff, eliminated age-related scales and brought certain managerial salaries more into line with a competitive market position.

I would like to add my personal endorsement to our established commitment to equal opportunities, which I believe to be vital in ensuring that the Group uses all its talents to its greatest possible benefit.

There have been a substantial number of staff changes during 1986 as a consequence of the introduction of the new sectoral structure. In addition, however, there have been a few significant movements into and out of the Group other than those mentioned by the Chairman.

I am pleased to welcome Stewart Gager as Group Risk Management Director and Peter Axten as Chief Executive, Midland Montagu Asset Management. A number of members of our senior executive management team have either retired or resigned to take up new opportunities during 1986. These were: David Barber, John Bennett, John Boreham, Eric Crawford, George Gillespy, Peter Hargreaves, Robert Logan and Peter Nicholson. I would like to thank them all for their contributions to the Group which, in most cases, spanned their entire working lives.

I would like to record my personal thanks to all staff throughout the Group for their efforts, enthusiasm and commitment in a year that has entailed a great deal of change, and my gratitude for the warmth of their welcome and assistance given to me during my first months within the Group.

Needless to say 1987 will continue to bring much change, internal and external, but the emphasis we are putting on the development of our staff will enable us, I am sure, to respond successfully to these challenges.

*Kit McMahon*

16 March 1987

Kit McMahon

# ANALYSIS OF SHAREHOLDERS

At 31 December 1986

Class of Shareholder	Number of Shareholders	Percentage of total	Number of Shares held	Percentage of total
Women	46,701	44.69	28,367,522	12.23
Men	37,350	35.74	22,036,679	9.50
Joint accounts	16,134	15.44	23,278,425	10.04
Assurance and insurance companies	613	0.59	28,267,748	12.19
Commercial and industrial companies	570	0.54	1,879,671	0.81
Charities, local authorities, hospitals, colleges, etc.	480	0.46	6,138,130	2.65
Nominee companies	2,180	2.09	99,420,340	42.88
Pension funds and pension trustees	145	0.14	12,931,659	5.58
Investment trusts and funds	321	0.31	9,539,710	4.12
	<u>104,494</u>	<u>100.00</u>	<u>231,859,884</u>	<u>100.00</u>

Shares held	Number of Shareholders	Percentage of total	Number of Shares held	Percentage of total
1-100	12,757	12.21	719,125	0.31
101-250	19,759	18.91	3,508,655	1.51
251-500	26,822	25.67	10,176,575	4.39
501-1,000	27,005	25.84	19,877,106	8.57
1,001-5,000	16,559	15.85	29,758,521	12.83
5,001-10,000	667	0.64	4,795,526	2.07
10,001-25,000	321	0.31	5,430,180	2.34
25,001-50,000	198	0.19	7,596,717	3.28
50,001-250,000	278	0.26	33,775,222	14.57
250,001 and over	128	0.12	116,222,257	50.13
	<u>104,494</u>	<u>100.00</u>	<u>231,859,884</u>	<u>100.00</u>

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## BOARD OF DIRECTORS

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<b>Chairman</b>	Sir Donald Barron, DL
<b>Deputy Chairman and Group Chief Executive</b>	*Sir Kit McMahon
<b>Deputy Chairmen</b>	Sir Alex Jarratt, CB Sir Patrick Meaney
<b>Directors</b>	*J. A. Brooks *E. W. Brutsche Sir Jack Callard Sir Kenneth Corfield Sir John Cuckney I. F. Hay Davison *H. P. de Carmoy A. W. Forster *B. L. Goldthorpe *J. G. Harris Sir Derrick Holden-Brown Sir Trevor Holdsworth G. Maitland Smith D. O'Cathain *I. Paterson Sir Eric Pountain, DL *I. N. Tegner
<b>Secretary</b>	J. R. Skae
	*Executive Directors

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## GROUP EXECUTIVE COMMITTEE

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<b>Group Chief Executive</b>	Sir Kit McMahon
<b>Deputy Group Chief Executive</b>	J. A. Brooks
<b>Director, Central Resources Management and Administration</b>	J. G. Harris
<b>Director, Group Finance</b>	I. N. Tegner
<b>Sector Chief Executives</b>	E. W. Brutsche – Investment Banking H. P. de Carmoy – International Banking B. L. Goldthorpe – Corporate Banking I. Paterson – Retail Banking
<b>Chief Executive, Information Technology</b>	H. E. Lockhart
<b>Group Personnel Director</b>	J. Thackway
<b>Secretary</b>	J. R. Skae

# DIRECTORS' INTERESTS

## Directors' interests in the shares of Midland Bank plc

Beneficial interests	Shares at 31 December 1986	Shares at 1 January 1986 (or date of appointment if later)
Sir Donald Barron	3,124	3,124
J. A. Brooks	4,546	1,781
E. W. Brutsche	500	500
Sir Jack Callard	701	701
Sir Kenneth Corfield	1,250	1,250
Sir John Cuckney	312	312
I. F. Hay Davison	Nil	Nil
H. P. de Carmoy	100	Nil
A. W. Forster	1,000	1,000
B. L. Goldthorpe	2,496	2,142
J. G. Harris	4,361	7,181
Sir Derrick Holden-Brown	2,000	2,000
Sir Trevor Holdsworth	312	312
Sir Alex Jarratt	1,812	1,812
G. Maitland Smith	500	500
Sir Kit McMahon	1,180	680
Sir Patrick Meaney	312	312
D. O'Cathain	1,000	1,000
I. Paterson	1,407	1,407
Sir Eric Pountain	1,500	1,500
G. W. Taylor	5,078	2,446

Shares for which directors have options to subscribe under share option schemes

	Shares at 31 December 1986	Shares at 1 January 1986 (or date of appointment if later)
J. A. Brooks	29,228	15,081
H. P. de Carmoy	1,997	1,997
B. L. Goldthorpe	22,706	8,706
J. G. Harris	24,632	10,632
I. Paterson	22,546	22,546
G. W. Taylor	79,989	22,091

At 31 December 1986 no director had any non-beneficial interest in the shares of Midland Bank plc or any interest in the shares of subsidiaries and no director had any interest in the loan stocks of Midland Bank plc or its subsidiaries.

No changes in any of the above interests occurred between 31 December 1986 and 2 March 1987.

Mr I. N. Tegner has at all times since his appointment as a director in January 1987 held a beneficial interest in 500 shares of Midland Bank plc.

## REPORT OF THE DIRECTORS

### PROFITS AND APPROPRIATIONS

The profit of the Group attributable to members of Midland Bank plc for the year ended 31 December 1986 amounted to £242m and has been dealt with as shown in the consolidated profit and loss account on page 27.

A first interim dividend of 11.5p per share was paid on 2 October 1986. The directors have declared a second interim dividend amounting to 15.5p per share payable on 3 April 1987 in respect of 1986 instead of recommending a final dividend at the annual general meeting. The interim dividends total 27.0p per share, (25.5p per share in 1985).

### GROUP ACTIVITIES

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

### SHARE CAPITAL

During 1986, 1,182,488 shares were issued in respect of the exercise of options under the share option schemes at prices ranging from £2.6752 to £3.94 per share.

The resolution to be proposed as resolution number 13 at the forthcoming annual general meeting seeks to increase the authorised share capital of the Bank from £315,000,000 to £400,000,000 by the creation of 85,000,000 shares at £1 each. The proposed increase is to maintain a reasonable margin of unissued capital. Assuming the resolution is passed, 42% of the Bank's authorised share capital will be unissued.

The resolution to be proposed as number 14 seeks to roll forward for a further period of five years the authority that was granted to the directors by shareholders at the annual general meeting held in 1986. The resolution, if passed, would empower the directors to allot shares of a nominal value up to £77,286,628 at any time within the next five years.

Resolution number 15 proposes that in certain specified cases the directors be authorised to allot shares for cash without first having to offer such shares to shareholders in proportion to their existing holdings. Paragraph (i) of the resolution would permit directors, in the event of a rights issue, to make appropriate exclusions or arrangements to deal with difficulties where, for example, there are legal, regulatory or practical reasons why it may not be possible to issue new shares to some shareholders, particularly those resident overseas. This part of the resolution, if passed, will last for five years. The directors currently propose to roll forward this authority for a further five years at each future annual general meeting. Paragraph (ii) of the resolution would permit the directors to allot shares up to the limited amount shown in the resolution for cash other than by way of rights issue (for example, where the directors wish to raise additional capital in an overseas country by the issue of Midland Bank shares). This part of the resolution, if passed, will last until the next annual general meeting when renewal will be sought.

Paragraph (iii) of the resolution permits the authorisations in paragraphs (i) and (ii) of the resolution to continue beyond their expiry dates in relation to allotments under an offer or agreement to issue shares which was made prior to the expiry date. The Bank's continuing obligations to The Stock Exchange no longer require it to obtain shareholders' prior approval of any actual issue for cash which is within the terms of this resolution.

The directors believe that these authorities, which are similar to those given in previous years, would provide the Board with a prudent measure of flexibility for them to act in the Bank's interests. There is no present intention to issue any of the unissued authorised capital except for the purposes of the existing employee share schemes. No issue will be made so as to change control of the Bank without prior approval of the shareholders.

The directors are not aware of any person having a beneficial interest in 5% or more of the Bank's issued share capital.

### LOAN CAPITAL

During the year the Bank made the undermentioned loan capital issues:

£250m Subordinated Floating Rate Notes 2001

US\$300m Undated Floating Rate Primary Capital Notes.

The net proceeds of both issues are being employed in the conduct of the business of the Midland Bank Group.

### DIRECTORATE

Mr J. D. Greenwell and Mr M. F. Julien retired from the Board in September 1986, Mr F. V. Cahouet in October 1986 and Mr G. W. Taylor in February 1987.

Mr J. A. Brooks and Sir Trevor Holdsworth retire by rotation and, being eligible, offer themselves for reappointment.

Sir Jack Callard also retires by rotation but does not seek reappointment. Sir Donald Barron will retire from the Board at the conclusion of the forthcoming annual general meeting and will be succeeded as Chairman by Sir Kit McMahon who becomes Chairman and Group Chief Executive. Sir Kit was appointed to the Board in April 1986 and was re-elected at the annual general meeting in the same month.

Appointments to the Board have been made as follows: Mr A. W. Forster in July 1986; Mr E. W. Brutsche, Mr H. P. de Carmoy, Mr G. Maitland Smith and Mr I. Paterson in September 1986; Mr I. F. Hay Davison in October 1986; Sir Eric Pountain in November 1986 and Mr I. N. Tegner in January 1987. In accordance with the Articles of Association these directors will retire at the forthcoming annual general meeting and, being eligible, offer themselves for reappointment.

Mr Brooks, Mr de Carmoy and Mr Paterson have service contracts which are subject to termination on two years' notice.

Mr Brutsche has service contracts which can be terminated on 31 December 1988. Sir Trevor Holdsworth, Mr Forster, Mr Maitland Smith, Mr Hay Davison and Sir Eric Pountain have no service contracts with the Bank or any of its subsidiaries. Mr Tegner has a service contract which is subject to termination on three years' notice.

The names of the present directors of the Bank are shown on page 20 and brief biographical notes on pages 62 and 63.

The directors' interests (as defined in the Companies Act 1985) in the shares and loan stocks of the Bank and its subsidiaries are shown on page 21.

The Group increased to 100% its investment in the London stockbroking firm formerly known as W. Greenwell & Co.

The Group has disposed of its 75% interest in the Markt Group of European import distribution companies to certain directors of those companies. Midland's auditors have confirmed that the consideration of £170,000 cash and £630,000 Dutch Guilder denominated 8.5% participating loan stock 1993 was fair and reasonable so far as Midland's shareholders were concerned. Midland advanced £170,000 to the Markt Group directors to finance their equity stakes.

## BOARD COMMITTEES

The Audit Committee consists of the following non-executive directors: Sir Derrick Holden-Brown (Chairman), Sir John Cuckney, Mr I. F. Hay Davison and Mr G. Maitland Smith.

The Remuneration Committee, which deals with the terms of service of directors and senior executives of the Group, consists of the following non-executive directors: Sir Patrick Meaney (Chairman), Sir Alex Jarratt and Sir Kenneth Corfield.

## EMPLOYEES

The weekly average number of employees in the Group, excluding those who worked wholly or mainly outside the United Kingdom, and their aggregate remuneration for the year were as follows:

	employees		£ millions	
	1986	1985	1986	1985
Midland Bank plc	47,804	47,901	483	449
Other Group Companies	19,568	18,522	198	177
	<u>67,372</u>	<u>66,423</u>	<u>681</u>	<u>626</u>

## ACCOUNTING FOR THE EFFECTS OF INFLATION

The following information concerning the effects of inflation gives the key profit and loss account elements prepared on the basis of Statement of Standard Accounting Practice 16, Current Cost Accounting, consistent with previous years.

	1986	1985
	£ millions	£ millions
Current cost profit before taxation	382	276
Current cost profit after taxation	210	69
Current cost profit attributable to members of Midland Bank plc	191	58
Current cost earnings per share	82.4p	25.4p
Dividends	27.0p	25.5p

## SUBSIDIARY COMPANIES

At an extraordinary general meeting on 21 April 1986 Midland Bank shareholders approved the sale of Crocker National Corporation to Wells Fargo & Company. On 30 May 1986 the sale was completed for a cash consideration of US\$1,117 million.

## EMPLOYEE COMMUNICATION & INVOLVEMENT IN THE UNITED KINGDOM

With the establishment of the Group's four new business sectors, major attention was given to effective two-way communication between management and employees within the Midland Bank Group. Each of the sector chief executives was engaged in major communication exercises during 1986 to explain the organisational and strategic significance of the new structure to all staff.

In addition, a new internal publication, Midland Group Bulletin, was launched. Its purpose is to describe major business and strategic developments of interest to actual and potential managerial staff. As such it complements the Group newspaper, with its more general appeal to all groups of staff.

Established communications exercises, such as the regular use of video programmes, the half-yearly Management-Staff Communication meetings and the Staff Suggestion Scheme continued to play their important roles.

During the year there continued to be considerable staff involvement in the various employee share schemes and more than 10,000 Group staff chose to take their profit sharing allocations in shares. To ensure that the limit was not exceeded on the number of new shares which could be issued, the shares required were purchased on the Stock Market. A further 3,200 staff exercised options granted under the Savings-Related Share Option Scheme and some 8,600 staff and former staff, who had previously received shares through the Profit Sharing Scheme, became shareholders in their own right.

Negotiations and consultations continue to take place on a range of issues between management and representatives of recognised unions within the Midland Group. The principal unions involved are the Banking, Insurance and Finance Union and the Association of Scientific, Technical and Managerial Staffs.

Following withdrawal from industry-wide negotiations at the end of 1985, Midland Bank negotiated its own pay agreement in 1986 and discussions started for the introduction of a new system of job evaluation for clerical staff.

### EMPLOYMENT OF DISABLED PERSONS

It is the policy of the Bank to promote equality of employment opportunities by giving full and fair consideration to applications from disabled people for vacancies where particular job requirements are considered to be within their ability. When existing employees become disabled, every effort is made to retain them within the workforce wherever reasonable and practicable. The Bank also endeavours to provide equal opportunities in the training, promotion and general career development of disabled employees.

### EMPLOYEES' SHARE OPTION SCHEME

Following the Finance Act 1986, savings-related share option schemes may now allow a right of exercise by option holders whose employment with the Group ceases on the sale of the subsidiary or business in which they are employed. The directors propose to incorporate this provision in the rules of the Bank's scheme and so bring it into line with modern practice. Shareholders will be asked to authorise this change at the forthcoming annual general meeting when the rules of the scheme will be available for inspection.

### DONATIONS

During the year the Group made donations in the United Kingdom for charitable purposes amounting to £1,093,300. Included in this sum is an amount of £315,000 which relates to the '£1 for £1' Staff Charity Scheme launched in 1986 to celebrate the Bank's 150th anniversary. The Bank also made larger charitable donations during 1986 as a special acknowledgement of its 150th year. No donations for political purposes were made.

As evidence of its commitment to a planned community affairs programme, which includes sponsorship and secondments as well as donations, the Bank has joined the recently-launched Per Cent Club of companies which agree to expend  $\frac{1}{2}\%$  of pre-tax profits in cash, or kind, on charitable or community activities.

### CLOSE COMPANY PROVISIONS

Midland Bank plc is not a close company as defined in the Income and Corporation Taxes Act 1970.

### AUDITORS

Ernst & Whinney have informed the Bank of their willingness to continue in office as auditors. In accordance with Section 384 of the Companies Act 1985 a resolution proposing their reappointment as auditors and giving authority to the directors to fix their remuneration will be submitted to the annual general meeting.

By order of the Board  
J. R. Skae, Secretary

Poultry, London  
4 March 1987

## REPORT OF THE AUDITORS

To the members of Midland Bank plc

We have audited the accounts set out on pages 25 to 47 in accordance with approved auditing standards. The accounts have been prepared under the historical cost convention as explained in accounting policy (a).

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 1986 and of the profit and source and application of funds of the Group for the year then ended and comply with the Companies Act 1985.

Ernst & Whinney  
Chartered Accountants

London  
4 March 1987



# ACCOUNTING POLICIES

The principal accounting policies adopted by the Group are set out below and are consistent with those adopted in 1985.

## a Accounting convention

The accounts are prepared under the historical cost convention modified by the revaluation of freehold and long leasehold properties.

## 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 of Midland Bank plc and all its subsidiaries and the attributable share of profits and reserves of its associated companies.

The accounts of certain subsidiaries are made up to 30 September or 31 October in order to avoid delay in the presentation of the Group accounts. For certain of the market-making subsidiaries, the accounting reference date is the nearest London stock exchange market settlement date prior to 31 December.

## 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 identified risk advances; the general element relates to other advances where possible risks are anticipated. The charge in the profit and loss account accordingly represents the net increase in provisions less recoveries for the year.

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.

Since UK lease rates reflect the tax benefits which will accrue to the Group from future reduction in corporation tax rates and which have been taken into account in arriving at the UK tax charge, a provision, in the form of tax credit equalisation, has been made to reduce leasing balances to amounts which would equate with the principal element of the future rentals.

## f Depreciation of premises and equipment

The directors have reviewed the lives of freehold and long leasehold buildings (50 years and over unexpired), and consider that, except for certain specialised properties, residual values are such that a nil rate of depreciation should be applied; therefore, from 1 January 1986, such properties are no longer depreciated.

Previously, such freehold and long leasehold properties were depreciated at rates ranging from 1½% to 5%. Specialised

properties continue to be 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. Onsolescence 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%.

## 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. Income from dealing assets is now analysed between 'interest receivable' and 'other operating income', as appropriate, rather than being reported in 'other operating income', and 1985 figures have been restated on a comparable basis.

## 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 pension schemes on the advice of actuaries for funding of retirement benefits and these are charged to profit and loss account as incurred. In the case of certain overseas subsidiaries, retirement benefits are funded so as to conform with local law and practice.

## j 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.

## k 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.

## l 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.

## m 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.

### ANALYSIS OF INTEREST RECEIVABLE, INTEREST PAYABLE, OTHER OPERATING INCOME & OPERATING EXPENSES

Year ended 31 December 1986	Amounts in £ millions	
	1986	1985
<b>Interest receivable</b>		
Short-term funds	571	700
Dealing assets	200	175
British Government securities (listed)	65	84
Other investments – listed	47	45
unlisted	66	64
	<u>113</u>	<u>109</u>
Advances to customers	3,700	4,180
Placings with banks (over 30 days)	522	626
Instalment finance	121	132
Finance leases	136	118
	<u>5,428</u>	<u>6,124</u>
<b>Interest payable</b>		
Deposits	3,559	4,163
Perpetual floating rate notes, subordinated loan capital and long-term borrowings (see note 5)	198	178
	<u>3,757</u>	<u>4,341</u>
<b>Other operating income</b>		
Service charges, fees and other banking income	836	806
Foreign exchange earnings	110	80
Travel income	87	82
Income from trade investments (listed)	2	1
Profit on sale of investments – fixed interest	48	16
other	3	4
	<u>51</u>	<u>20</u>
Profit on sale of interests in subsidiaries and associated companies	8	13
Profit on disposal of fixed assets	5	47
	<u>1,099</u>	<u>1,049</u>
<b>Operating expenses</b>		
<b>Staff</b>		
Salaries and other staff costs	1,053	1,073
Pension costs	151	127
	<u>1,204</u>	<u>1,200</u>
<b>Premises and equipment</b>		
Depreciation and amortisation	90	99
Hire of computers and other equipment	12	25
Rents payable	80	89
Other	176	192
	<u>358</u>	<u>405</u>
<b>Other</b>	445	468
	<u>2,007</u>	<u>2,073</u>

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 1986

Amounts in £ millions

	Notes	1986	1985
Interest receivable		5,428	6,124
Interest payable		3,757	4,341
Net interest income		1,671	1,783
Other operating income		1,099	1,049
Operating income		2,770	2,832
Operating expenses		2,007	2,073
Trading profit before charge for bad and doubtful debts		763	759
Charge for bad and doubtful debts		357	431
Trading profit		406	328
Share of profits of associated companies	6	28	23
Profit before taxation		434	351
Taxation	7	172	207
Profit after taxation		262	144
Minority interests		(20)	(22)
Profit attributable to members of Midland Bank plc		242	122
Dividends	8	63	59
Retained profit		179	63
Earnings per share	9	104.2p	53.0p

Movements in reserves are set out in note 26

1985 includes the results of Crocker National Corporation for 12 months, 1986 includes its results for five months; more information is given in note 32.

# CONSOLIDATED BALANCE SHEET

31 December 1986

Amounts in £ millions

ASSETS	Notes	1986	1985
Liquid assets	10	7,975	8,728
Items in course of collection		579	1,307
Certificates of deposit		527	361
Dealing assets	11	2,622	2,492
Investments	12	2,385	2,105
Debtors	13	1,388	408
Advances and other accounts	14	36,641	41,473
		52,117	56,874
Trade investments	15	24	29
Investments in associated companies	16	128	115
Premises and equipment	18	900	1,056
		53,169	58,074
LIABILITIES			
Current, deposit and other customer accounts	19	46,082	52,461
Notes in circulation		277	267
Other liabilities	20	1,970	813
		48,329	53,541
Deferred taxation	21	280	293
Long-term borrowings	22	273	268
Subordinated loan capital	23	1,094	998
Perpetual floating rate notes	24	1,082	892
Minority interests		90	235
Shareholders' funds			
Share capital	25	232	231
Share premium	25	276	275
Reserves	26	1,513	1,341
		2,021	1,847
		53,169	58,074

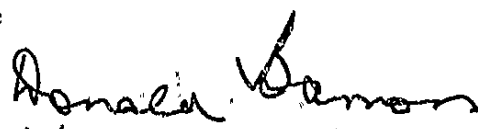

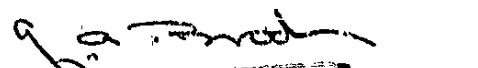
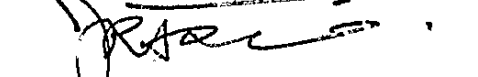
Donald Barron, Chairman

Kit McMahon, Deputy Chairman and Group Chief Executive

J. A. Brooks, Deputy Group Chief Executive

J. R. Skae, Secretary

4 March 1987

## BALANCE SHEET

31 December 1986

Amounts in £ millions

ASSETS	Notes	1986	1985
Liquid assets	10	5,184	4,211
Items in course of collection		437	391
Certificates of deposit		272	157
Dealing assets	11	411	1,123
Investments	12	1,214	751
Debtors	13	72	68
Advances and other accounts	14	25,265	22,321
Balances due by subsidiaries		1,782	1,358
		<u>34,637</u>	<u>30,380</u>
Trade investments	15	13	19
Investments in associated companies	16	86	76
Investments in subsidiary companies	17	2,197	2,071
Premises and equipment	18	607	572
		<u>37,540</u>	<u>33,118</u>
LIABILITIES			
Current, deposit and other customer accounts	19	31,035	28,140
Other liabilities	20	272	275
Balances due to subsidiaries		2,775	1,849
		<u>34,082</u>	<u>30,264</u>
Deferred taxation	21	—	6
Subordinated loan capital	23	386	136
Perpetual floating rate notes	24	1,051	865
Shareholders' funds			
Share capital	25	232	231
Share premium	25	276	275
Reserves	26	1,513	1,341
		<u>2,021</u>	<u>1,847</u>
		<u>37,540</u>	<u>33,118</u>

Donald Barron, Chairman  
 Kit McMahon, Deputy Chairman and Group Chief Executive  
 J. A. Brooks, Deputy Group Chief Executive  
 J. R. Skae, Secretary

4 March 1987



*Donald Barron*  
*Kit McMahon*  
*J. A. Brooks*  
*J. R. Skae*

# STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year ended 31 December 1986	Amounts in £ millions	
	1986	1985
<b>Source of funds</b>		
<b>Profit attributable to members of Midland Bank plc</b>	<b>242</b>	<b>122</b>
<b>Adjustments for items not involving the use of funds</b>		
Loss on disposal of Crocker National Corporation	8	—
Depreciation of premises and equipment	90	99
Deferred taxation	(13)	23
Minority interests	13	2
Amount retained by associated companies	(12)	(7)
Other items	(2)	(44)
<b>Funds generated from operations</b>	<b>326</b>	<b>195</b>
<b>Funds from other sources</b>		
Net proceeds from disposal of Crocker National Corporation	738	—
Disposal of trade investments and associated companies	25	68
Disposal of premises and equipment	9	139
Increase in share and loan capital	397	586
Minority interests	17	—
	<b>1,512</b>	<b>988</b>
<b>Application of funds</b>		
Dividends paid	61	58
Purchase of trade investments and associated companies	21	23
Purchase of interest in subsidiaries	20	67
Purchase of premises and equipment	155	161
Minority interests	—	43
	<b>257</b>	<b>352</b>
<b>Working capital</b>	<b>1,255</b>	<b>636</b>
	<b>1,512</b>	<b>988</b>
<b>Working capital</b>		
Advances and other customer accounts	4,081	(3,385)
Liquid assets	1,417	(1,106)
Debtors and other assets	2,730	1,198
Current and deposit accounts and other liabilities excluding dividends	(6,973)	3,929
	<b>1,255</b>	<b>636</b>

Funds movements for 1986 exclude the effects of the disposal of Crocker National Corporation.

# NOTES ON THE ACCOUNTS

Amounts in £ millions

## 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 £259m (1985 £235m). The aggregate leasing rentals were £373m (1985 £301m) the majority of which related to finance leases. Aggregate hire purchase instalments were £273m (1985 £299m).

## 2 RETIREMENT BENEFITS

Pensions for employees of Midland Bank plc and certain wholly-owned UK subsidiaries are paid from a separate Trust Fund set up under the Midland Bank Pension Scheme. The annual charge to income represents payments by participating companies to the Trust Fund, determined on an actuarial basis, designed 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. Such pensions are based on pensionable salary (i.e. excluding overtime, bonuses, etc.) and are determined by the length of service of the employee and his final salary upon retirement. Pensions payable are limited to a maximum of two-thirds of final salary for employees with 40 years' service or more. Staff do not make contributions for basic pensions but may make voluntary contributions to purchase additional benefits.

An actuarial valuation is carried out on the Midland Bank Trust Fund triennially to determine the payments to be made to the pension fund. In determining these payments, account is taken of estimated increases in salaries and pensions as well as anticipated increases in the income of the pension fund. At 31 December 1984, the date of the last actuarial valuation, the actuaries confirmed that the liabilities of the Midland Bank Pension Scheme based on current salary levels and service to date were fully funded.

The pension funds of Clydesdale Bank PLC and Northern Bank Limited and certain other UK subsidiaries are similarly constituted. Overseas subsidiaries make provisions for pensions in accordance with local law or practice.

## 3 EMOLUMENTS

The number of directors of Midland Bank plc and their aggregate emoluments were as follows

	1986 Number of directors £000	1985 Number of directors £000
For duties discharged wholly or mainly within the United Kingdom		
Fees	81	62
Other	1,671	784
	23 1,752	17 846
For duties discharged wholly or mainly outside the United Kingdom		
Fees	7	7
Other	1,032	848
	1 1,039	2 855
	24 2,791	19 1,701

In addition, sums paid or payable by subsidiaries to Mr F. V. Cahouet in respect of the termination of his office as Chairman and Chief Executive Officer of Crocker National Corporation aggregated £3,929,600, including £897,200 in respect of estimated future pension obligations.

Pensions of £168,000 (1985 £147,000) in respect of past services were paid to former directors or their dependants.

The Chairman's emoluments totalled £125,851 (1985 £106,990).

The emoluments of the highest paid director who discharged his duties wholly or mainly in the United Kingdom amounted to £188,840 (1985 £119,965).

Some of the directors served on the Board for part of the year only

The tables show the number of directors and employees of Midland Bank plc, other than directors and employees who discharged their duties wholly or mainly outside the United Kingdom, whose emoluments receivable from the Bank and its subsidiaries fell within the bands stated.

	£	1986	1985
<b>Directors</b>			
1- 5,000		4	1
5,001- 10,000		2	6
10,001- 15,000		3	1
15,001- 20,000		3	2
20,001- 25,000		—	1
25,001- 30,000		1	—
30,001- 35,000		—	1
35,001- 40,000		—	—
40,001- 45,000		2	1
45,001- 50,000		—	2
50,001- 55,000		—	1
55,001- 60,000		1	—
60,001- 65,000		1	—
65,001- 70,000		1	—
70,001- 75,000		1	—
75,001- 80,000		1	—
80,001- 85,000		1	—
85,001- 90,000		1	—
90,001- 95,000		—	—
<b>Employees</b>			
30,000- 35,000		469	416
35,001- 40,000		300	230
40,001- 45,000		153	158
45,001- 50,000		100	50
50,001- 55,000		11	11
55,001- 60,000		10	5
60,001- 65,000		6	8
65,001- 70,000		2	5
70,001- 75,000		10	1
75,001- 80,000		1	—
80,001- 85,000		1	—
85,001- 90,000		—	1

# NOTES ON THE ACCOUNTS CONTINUED

## 4 AUDITORS' REMUNERATION

	1986	1985
Midland Bank plc	0.5	0.5
Subsidiaries	2.5	2.5
	<u>3.0</u>	<u>3.0</u>

## 5 INTEREST ON PERPETUAL FLOATING RATE NOTES, SUBORDINATED LOAN CAPITAL AND LONG-TERM BORROWINGS

	1986	1985
Interest on		
Perpetual floating rate notes	68	32
Subordinated loan capital	105	119
Long-term borrowings	25	27
	<u>198</u>	<u>178</u>
Of which		
Interest on loans wholly repayable within five years	18	15
Other	180	163
	<u>198</u>	<u>178</u>

## 6 SHARE OF PROFITS OF ASSOCIATED COMPANIES

	1986	1985
Unlisted	<u>28</u>	<u>23</u>

Dividends receivable from associated companies during 1986 amounted to £6m (1985 £6m).

## 7 TAXATION

	1986	1985
The charge for taxation is made up as follows		
United Kingdom corporation tax		
Current at 36.25% (1985 41.25%)	93	88
Deferred	(24)	17
Transfer to tax credit equalisation	15	21
Notional tax charge on tax credit equalisation release	21	23
	<u>105</u>	<u>149</u>
Less relief in respect of overseas taxation	29	18
	<u>76</u>	<u>131</u>
Overseas taxation		
Current	77	66
Deferred	11	1
	<u>164</u>	<u>198</u>
Associated companies	8	9
	<u>172</u>	<u>207</u>
Had full provision been made for deferred taxation on all timing differences, the charge for taxation would have been increased by	<u>—</u>	<u>6</u>



Amounts in £ millions

## 8 DIVIDENDS

	pence per share	1986	1985	1986	1985
First interim		11.5	11.0	27	25
Second interim		15.5	14.5	36	34
		<u>27.0</u>	<u>25.5</u>	<u>63</u>	<u>59</u>

## 9 EARNINGS PER SHARE

Earnings per share have been calculated on profit attributable to members of Midland Bank plc of £242m (1985 £122m) related to the weighted average of 231m (1985 230m) shares in issue during the year.

## 10 LIQUID ASSETS

	1986	1985
<b>Group</b>		
Coin, bank notes, balances with central banks and gold	1,022	1,263
Money at call and short notice	6,762	7,155
Bills discounted		
British Treasury bills	17	11
Other bills	174	299
	<u>191</u>	<u>310</u>
	<u>7,975</u>	<u>8,728</u>
<b>Midland Bank plc</b>		
Coin, bank notes and balances with the Bank of England	405	391
Money at call and short notice	4,686	3,598
Bills discounted		
British Treasury bills	4	3
Other bills	89	219
	<u>93</u>	<u>222</u>
	<u>5,184</u>	<u>4,211</u>

Coin, bank notes, balances with central banks and gold includes gold bullion, amounting to £213m (1985 £286m) at current market value, held to meet customers' unallocated gold demand deposits.

# NOTES ON THE ACCOUNTS CONTINUED

11 DEALING ASSETS	1986	1985
<b>Group</b>		
Bullion other than gold	200	220
British Treasury bills	7	3
Other bills	211	123
Certificates of deposit	203	458
<b>Investments</b>		
Listed – Securities of, or guaranteed by, the British		
Government	287	138
Others listed in Great Britain	227	136
Others listed elsewhere	1,092	592
	<u>1,606</u>	<u>866</u>
Unlisted – United States authorities and agencies	167	664
Other	188	129
	<u>355</u>	<u>793</u>
	1,961	1,659
<b>Properties</b>	40	29
	<u>2,622</u>	<u>2,492</u>
<b>Midland Bank plc</b>		
Certificates of deposit	147	368
Other bills	31	—
<b>Investments</b>		
Listed – Securities of, or guaranteed by, the British		
Government	18	137
Others listed in Great Britain	55	43
Others listed elsewhere	117	83
	<u>190</u>	<u>263</u>
Unlisted – United States authorities and agencies	12	437
Other	31	55
	<u>43</u>	<u>492</u>
	233	755
	<u>411</u>	<u>1,123</u>

Listed investments are valued at middle market prices and unlisted investments at directors' valuation. Bullion is held substantially to meet customers' unallocated bullion deposits.

Amounts in £ millions

## 12 INVESTMENTS

Group	Book amount	Valuation 1986	Book amount	Valuation 1985
Listed – Securities of, or guaranteed by, the British Government	1,057	1,010	611	606
Others listed in Great Britain	243	249	77	83
Others listed elsewhere	291	292	384	353
	1,591	1,551	1,072	1,042
Unlisted – United States authorities and agencies	273	284	704	689
Other	521	552	329	349
	2,385	2,387	2,105	2,080

## Midland Bank plc

Listed – Securities of, or guaranteed by, the British Government	887	839	484	478
Others listed in Great Britain	149	149	—	—
Others listed elsewhere	120	130	158	158
	1,156	1,118	642	636
Unlisted – United States authorities and agencies	52	55	—	—
Other	6	6	109	110
	1,214	1,179	751	746

Where fixed interest investments with a fixed redemption date are held for the long term, they are stated at amortised cost amounting to £2,027m (1985 £1,927m) for the Group and £941m (1985 £642m) 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.

## 13 DEBTORS

	Group	Midland Bank plc 1986	Group	Midland Bank plc 1985
Sundry debtors and securities trading assets	1,388	72	408	68

Securities trading assets arise in the new market-making subsidiaries and reflect the level of activity in the securities markets. The related liabilities are included under 'Other liabilities' – see note 20.

# NOTES ON THE ACCOUNTS CONTINUED

## 14 ADVANCES AND OTHER ACCOUNTS

	Group	Midland Bank plc 1986	Group	Midland Bank plc 1985
Lendings to customers				
Advances	30,496	22,481	35,162	19,995
Instalment finance	718	—	873	—
	31,214	22,481	36,035	19,995
Finance leases	1,466	—	1,335	—
Total lendings	32,680	22,481	37,370	19,995
Less provisions	983	609	989	493
	31,697	21,872	36,381	19,502
Placings with banks (over 30 days)	3,431	2,151	3,614	1,787
Accrued interest and other customer accounts	1,513	1,242	1,478	1,032
	36,641	25,265	41,473	22,321
Of which				
Sterling	20,215	14,206	17,044	11,769
Currency	16,426	11,059	24,429	10,552
	36,641	25,265	41,473	22,321

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

Included in instalment finance above are amounts in respect of hire purchase contracts amounting to £395m (1985 £340m).

The cost of assets acquired in 1986 for the purpose of letting under finance leases and hire purchase contracts amounted to £629m (1985 £527m) and £423m (1985 £344m) respectively.

Movements on provisions for bad and doubtful debts were as follows

Group	Specific	General	1986 Total	Specific	General	1985 Total
Provisions at 1 January	561	428	989	426	423	849
Currency translation and other adjustments	24	—	24	(13)	(80)	(93)
Charge for the year	413	(56)	357	346	85	431
Amounts written off	(236)	—	(236)	(215)	—	(215)
Less recoveries of amounts written off in previous years	16	—	16	17	—	17
	(220)	—	(220)	(198)	—	(198)
Less provisions relating to Crocker	22	145	167	—	—	—
Provisions at 31 December	756	227	983	561	428	989
Midland Bank plc						
Provisions at 1 January	299	194	493	204	110	314
Currency translation and other adjustments	18	—	18	(19)	(16)	(35)
Charge for the year	280	(75)	205	143	38	181
Adjustment in respect of loans purchased from Crocker	—	—	—	48	62	110
Amounts written off	(116)	—	(116)	(89)	—	(89)
Less recoveries of amounts written off in previous years	9	—	9	12	—	12
	(107)	—	(107)	(77)	—	(77)
Provisions at 31 December	490	119	609	299	194	493

The overall level of provision has been assessed on the same basis as in previous years.

In 1986 the charge to profit and loss account for specific provisions includes £160m for sovereign debt of which £100m was transferred from the general provision.

Amounts in £ millions

## 15 TRADE INVESTMENTS

	Book amount	Valuation 1986	Book amount	Valuation 1985
At cost less provisions				
Group				
Listed elsewhere than in Great Britain	4	22	1	4
Unlisted	20	27	28	41
	<u>24</u>	<u>49</u>	<u>29</u>	<u>45</u>
Midland Bank plc				
Unlisted	<u>13</u>	<u>14</u>	<u>19</u>	<u>29</u>

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

The principal trade investments at 31 December 1986 were as follows

	Country of incorporation	Interest of Midland Bank plc	
		Direct	Indirect
The Agricultural Mortgage Corporation PLC Issued share capital £8.5m	Great Britain	13%	
The Bankers' Clearing House Limited Issued share capital £1.5m Loans £4m	Great Britain	17% 20%	
European American Bancorp Issued share capital US \$75.9m	USA	5%	
Banque Internationale de Placement Issued share capital FrFr 140m	France		10%

# NOTES ON THE ACCOUNTS CONTINUED

## 16 INVESTMENTS IN ASSOCIATED COMPANIES

	Book amount	Valuation 1986	Book amount	Valuation 1985
Share of net tangible assets				
<b>Group</b>				
Listed elsewhere than in Great Britain	4	4	6	20
Unlisted				
Equity	110	127	94	109
Other	14	14	15	15
	<u>128</u>	<u>145</u>	<u>115</u>	<u>144</u>
<b>Midland Bank plc</b>				
Unlisted				
Equity	74	82	63	74
Other	12	12	13	13
	<u>86</u>	<u>94</u>	<u>76</u>	<u>87</u>

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

The principal associated companies at 31 December 1986 were as follows

	Country of incorporation and operation	Accounts made up to	Interest of Midland Bank plc	
			Direct	Indirect
Bankers' Automated Clearing Services Limited	Great Britain	30.11.1986		
Issued share capital £3m			24%	
Loan capital £4m			18%	2%
Investors in Industry Group plc	Great Britain	30.9.1986*		
Issued share capital £115m			16%	2%
The Joint Credit Card Company Limited	Great Britain	31.10.1986		
Issued share capital £400			30%	
Loan capital £27.9m			30%	
International Commodities Clearing House Holdings	Great Britain	31.12.1986		
Issued share capital £8.3m			22%	
Moracrest Investments Limited	Great Britain	30.9.1986		
Issued share capital				
Ordinary shares £7.5m				33%
Cumulative preference shares £3m				33%
UBAF Bank Limited	Great Britain	31.12.1986		
Issued share capital £46m, of which £15m 67% paid up			25%	
Subordinated unsecured loan stock US \$11.7m			25%	
Subordinated loan stock £10m			12%	

\*unaudited interim accounts

Amounts in £ millions

## 17 INVESTMENT IN SUBSIDIARIES

## Midland Bank plc

	1986	1985
Shares in subsidiaries at Bank's share of net tangible assets	956	852
Loans to subsidiaries	1,241	1,219
	<u>2,197</u>	<u>2,071</u>

The principal subsidiaries at 31 December 1986, all of whose accounts were made up to 31 December 1986 unless otherwise indicated, were as follows

	Country of incorporation and operation	Equity interest of Midland Bank plc	
		Direct	Indirect
Clydesdale Bank PLC*	Great Britain	100%	
Forward Trust Limited	Great Britain		100%
Greenwell Montagu Gilt Edged†	Great Britain		100%
Greenwell Montagu Securities† (19 December)	Great Britain		100%
Greenwell Montagu Stockbrokers† (19 December)	Great Britain		100%
Griffin Factors Limited	Great Britain		100%
Handel finanz Midland Bank	Switzerland		85%
Midland America Corporation	USA		100%
Midland Bank Canada (31 October)	Canada		100%
Midland Bank Group International Trade Services Limited (30 September)	Great Britain		100%
Midland Bank Insurance Services Limited	Great Britain		100%
Midland Bank International Financial Services Limited	Great Britain	100%	
Midland Bank SA*	France		76%
Midland Bank (Singapore) Limited	Singapore		100%
Midland Bank Trust Company Limited	Great Britain	100%	
Midland Finance (HK) Limited	Hong Kong		100%
Midland International Australia Limited	Australia		100%
Midland International Financial Services BV	The Netherlands		100%
Midland-Montagu Government Securities, Inc.	USA		100%
Midland Montagu Leasing Limited	Great Britain		100%
Midland-Montagu Municipal Securities, Inc.	USA		100%
Midland Montagu Ventures Limited (30 September)	Great Britain		100%
Northern Bank Limited	Northern Ireland	100%	
Northern Bank (Ireland) Limited	Republic of Ireland	100%	
Samuel Montagu & Co. Limited	Great Britain		100%
The Thomas Cook Group Limited (31 October)	Great Britain	100%	
Trinkaus & Burkhardt KGaA #*	West Germany		70%

\* registered in Scotland

† unlimited company

• minority shareholding listed

# limited partnership

All the above subsidiaries are engaged in the business of banking and related or ancillary 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.

# NOTES ON THE ACCOUNTS CONTINUED

## 18 PREMISES AND EQUIPMENT

Group	Freehold land and buildings	Leasehold land and buildings		Furniture, fittings & equipment	Total
		50 years and over unexpired	under 50 years unexpired		
Cost or valuation	650	45	154	547	1,396
At 1 January 1986	8	—	—	2	10
Currency translation adjustments	12	4	14	124	155
Additions	(7)	(1)	(2)	(43)	(53)
Disposals - Other	(128)	—	(48)	(109)	(285)
Crocker	53	38	118	521	1,223
At 31 December 1986	(14)	(5)	(42)	(262)	(323)
Accumulated depreciation					
Net book amount	522	43	76	259	900
At 31 December 1986	626	41	111	278	1,056
At 31 December 1985					
Midland Bank plc					
Cost or valuation	351	32	94	282	759
At 1 January 1986	11	2	7	71	91
Additions	(4)	(1)	(2)	(19)	(26)
Disposals	358	33	99	334	824
At 31 December 1986	(8)	(2)	(37)	(170)	(217)
Accumulated depreciation					
Net book amount	350	31	62	164	607
At 31 December 1986	345	29	63	135	572
At 31 December 1985					
Cost or valuation of premises and equipment at 31 December 1986 comprises					
				Group	Midland Bank plc
Land and buildings at valuation 1983				461	336
at cost				241	154
				702	490
Furniture, fittings and equipment, at cost				521	334
				1,223	824

The depreciable amounts for leaseholds under 50 years unexpired for the Group and for Midland Bank plc were £118m (1985 £154m) and £99m (1985 £94m) respectively.



Amounts in £ millions

## 19 CURRENT DEPOSIT AND OTHER CUSTOMER ACCOUNTS

	Group	Midland Bank plc 1986	Group	Midland Bank plc 1985
<b>Sterling</b>				
Current and demand accounts	12,092	9,930	9,594	7,696
Deposit and savings accounts	3,457	2,553	3,501	2,635
Money market and other time deposits	8,107	4,141	7,119	4,053
Accrued interest	283	198	216	144
Items in transit and other customer accounts	348	242	159	62
	<u>24,287</u>	<u>17,064</u>	<u>20,589</u>	<u>14,590</u>
<b>Currency</b>				
Current and demand accounts	3,924	1,448	9,920	1,592
Deposit and savings accounts	2,951	2,338	3,641	2,164
Money market and other time deposits	13,890	9,734	17,286	9,403
Accrued interest	398	296	527	350
Items in transit and other customer accounts	632	155	498	41
	<u>21,795</u>	<u>13,971</u>	<u>31,872</u>	<u>13,550</u>
	<u>46,082</u>	<u>31,035</u>	<u>52,461</u>	<u>28,140</u>

Included in the Group figures above are secured bank overdrafts of subsidiaries amounting to £197m (1985 £20m).

## 20 OTHER LIABILITIES

	Group	Midland Bank plc 1986	Group	Midland Bank plc 1985
Taxation	136	40	55	27
Creditors and securities trading liabilities	1,798	196	724	214
Dividend	36	36	34	34
	<u>1,970</u>	<u>272</u>	<u>813</u>	<u>275</u>

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

# NOTES ON THE ACCOUNTS CONTINUED

21 DEFERRED TAXATION	Potential deferred tax	Provided in accounts 1986	Potential deferred tax	Provided in accounts 1985
<b>Group</b>				
Short-term timing differences	—	—	(3)	(3)
Accelerated capital allowances	31	31	37	37
Leasing transactions	352	259	360	269
Premises revaluation	74	2	73	2
Other items	12	3	13	2
Advance corporation tax recoverable	(15)	(15)	(14)	(14)
	<u>454</u>	<u>280</u>	<u>466</u>	<u>293</u>
<b>Midland Bank plc</b>				
Short-term timing differences	(12)	(12)	(11)	(11)
Accelerated capital allowances	21	21	25	25
Premises revaluation	60	—	60	—
Other items	—	—	6	6
Advance corporation tax recoverable	(15)	(15)	(14)	(14)
	<u>54</u>	<u>(6)*</u>	<u>66</u>	<u>6</u>

\*included in debtors

22 LONG-TERM BORROWINGS	1986	1985
<b>Subsidiaries</b>		
9.9% Mortgage repayable 1987/97*	3	3
Borrowings at fixed rates between 8½% and 8¾% repayable 1987/2002 (1985 US \$140m)	—	97
Borrowings at fixed and variable rates between 6½% and 16% repayable 1987/96* FrFrs 1,912m (1985 FrFrs 1,480m)	202	136
3¾% Bonds repayable 1991/92 SwFrs 20m	8	7
6% Bonds repayable 1996 DM 100m†	35	—
13½% Note repayable 1997	25	25
	<u>273</u>	<u>268</u>
<b>Repayable within 1 year</b>	—	3
2 years	—	4
3 years	3	7
4 years	17	22
5 years	74	118
6 to 10 years	152	47
thereafter	27	67
	<u>273</u>	<u>268</u>

\*repayable by instalments

†with warrants attached exercisable into bearer shares each of  
DM 50 par value in Trinkaus & Burkhardt KGaA.

Amounts in £ millions

## 23 SUBORDINATED LOAN CAPITAL

## Midland Bank plc

7½% Subordinated Unsecured Loan Stock 1983/93	5	5
10½% Subordinated Unsecured Loan Stock 1993/98	31	31
Subordinated Floating Rate Notes 2001	250	—
14% Subordinated Unsecured Loan Stock 2002/07	100	100

386

136

## Subsidiaries

Guaranteed Floating Rate Notes 1989 (1985 US \$125m)	—	86
4.6% Capital Notes 1989 (1985 US \$6m)	—	4
Guaranteed Floating Rate Notes 1990 US \$15m	10	11
8½% Guaranteed Bonds 1980/90 (1985 DM 180m)	—	51
Guaranteed Floating Rate Notes 1991 US \$45m	30	31
Guaranteed Floating Rate Notes 1991 (1985 US \$150m)	—	104
8½% Guaranteed Bonds 1992* US \$50m (1985 US \$52m)	34	36
11½% Guaranteed Bonds 1992 US \$150m	102	104
Guaranteed Floating Rate Notes 1992 US \$150m	102	104
Guaranteed Floating Rate Notes 1993 (1985 US \$125m)	—	86
5½% Convertible Subordinated Debentures 1996 (1985 US \$4m)	—	3
6½% Guaranteed Bonds 1986/96 DM 200m	70	—
Guaranteed Floating Rate Notes 1986/98 DM 300m	105	—
Guaranteed Floating Rate Notes 1999 US \$200m	135	138
Guaranteed Floating Rate Unsecured Loan Stock 2001	17	—
Guaranteed Floating Rate Series A to C Unsecured Loan Stock 2001	1	—
12½% Guaranteed Notes 2003 US \$150m	102	104

708

862

1,094

998

## Repayable within 1 year

2 years	5	—
3 years	5	1
4 years	15	90
5 years	53	61
6 to 10 years	290	470
thereafter	723	376

1,094

998

\*repayable by instalments

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 notes are related to London interbank rates and at 31 December 1986 ranged from 5.4375% to 11.5375%.

On 9 February 1987 notice was given by a subsidiary of its intention to repay the Guaranteed Floating Rate Notes 1990 and the Guaranteed Floating Rate Notes 1991 during March 1987.

## NOTES ON THE ACCOUNTS (CONTINUED)

### 24 PERPETUAL FLOATING RATE NOTES

Midland Bank plc	1986	1985
Undated Floating Rate Primary Capital Notes US \$750m	509	519
Undated Floating Rate Primary Capital Notes US \$500m	339	346
Undated Floating Rate Primary Capital Notes (Series 3) US \$300m	203	
	<u>1,051</u>	<u>865</u>
<b>Subsidiaries</b>		
Convertible Undated Floating Rate Subordinated Notes FrFrs 300m	31	27
	<u>1,082</u>	<u>892</u>

The Undated Floating Rate Primary Capital Notes have characteristics which render them similar in certain circumstances to preferred shares. They rank as primary capital for Bank of England capital adequacy purposes and they may be redeemed at the option of the Bank, only with the prior consent of the Bank of England, on any interest payment date falling in or after the month specified in the terms and conditions of the notes. In no case is the specified month less than five years from the month of issue.

The Convertible Undated Floating Rate Subordinated Notes do not qualify as primary capital but form part of total capital for Bank of England capital adequacy purposes.

The interest rates on the Undated Floating Rate Primary Capital Notes are related to London Interbank Offered Rates and at 31 December 1986 were 6.5625% in respect of the US \$750m issue, 6.3125% in respect of the US \$500m issue and 6.225% in respect of the US \$300m issue. 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 first interest payment covering the period from 19 December 1985 to 31 December 1986 was determined at FrFrs 65.48 for each FrFrs 1,000 note.

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 three ordinary shares of Midland Bank SA each with a nominal value of FrFrs 100 for each FrFrs 1,000 note.

### 25 SHARE CAPITAL AND SHARE PREMIUM

The authorised share capital of Midland Bank plc is £315m.

The movements in issued share capital and share premium were as follows

	Share capital		Share premium	
	1986	1985	1986	1985
At 1 January	231	230	275	277
Shares issued under share option schemes	1	1	2	1
Share and loan capital issue expenses	—	—	(1)	(3)
At 31 December	<u>232</u>	<u>231</u>	<u>276</u>	<u>275</u>

Amounts in £ millions

## 26 RESERVES

	Midland Bank plc and subsidiaries	Associated companies	Group	Midland Bank plc
At 1 January 1986	1,299	42	1,341	1,341
Currency translation adjustments	15	—	15	(3)
Retained profit for the year	167	12	179	101
Premium written off on acquisition of subsidiary and associated companies	(22)	—	(22)	—
Increase in net tangible assets of subsidiary and associated companies	—	—	—	74
At 31 December 1986	1,459	54	1,513	1,513

## 27 CONTINGENT LIABILITIES

	1986	1985
There were the following contingent liabilities in respect of		
Acceptances		
Group	1,933	1,449
Midland Bank plc	1,471	995
Engagements		
Group	4,792	6,810
Midland Bank plc	3,412	4,107
In addition there were outstanding financial futures contracts, contracts for the sale and purchase of foreign currencies and bullion, currency option contracts, forward rate and interest rate swap agreements.		
Midland Bank plc has guaranteed		
Subordinated loan capital and short-term borrowings of certain subsidiaries	695	813
Lendings to customers by certain subsidiaries	210	283

## 28 CAPITAL AND OTHER COMMITMENTS

	1986	1985
Contracts for outstanding capital expenditure not provided for in these accounts amounted to		
Group	59	27
Midland Bank plc	34	20

In addition, the Board has authorised capital expenditure amounting approximately to £78m (1985 £72m) for the Group and £64m (1985 £56m) for Midland Bank plc.

## NOTES ON THE ACCOUNTS CONTINUED

### 29 PROFIT SHARING

There is a profit sharing plan based upon the profits of the Group. All employees of the Bank, including executive directors and UK staff seconded to overseas operations, and most of its subsidiary companies in the United Kingdom are eligible to participate in this plan. 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. In 1986 in respect of 1985 profit sharing, shares were purchased in the market for employees who elected to take up shares. No new

shares were issued. It is not yet possible to quantify the number of shares which will be issued in 1987 in respect of 1986 profit sharing.

When the 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.

### 30 SHARE OPTIONS

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

Options	Period	Price 1986
7,183,867	1987/96	£2.6752/4.7520
		1985
8,586,454	1986/95	£2.6752/3.9400

### 31 DIRECTORS' AND OFFICERS' LOANS

In accordance with the requirements of Sections 233 and 234 of the Companies Act 1985, the aggregate amounts outstanding at 31 December 1986 from persons who were directors (or connected with directors) or officers during the year, and the number of persons concerned, were as follows

	Aggregate amount outstanding		Number of persons	
	1986 £m	1985 £m	1986	1985
<b>Directors</b>				
Loans	0.7	0.6	18	14
Quasi-loans	*	*	31	19
Credit transactions	—	—	—	—
<b>Officers</b>				
Loans	—	0.8	—	2
Quasi-loans	—	—	—	—
Credit transactions	—	—	—	—

\*aggregate amount outstanding was £11,807 (1985 £8,233)

### 32 CROCKER NATIONAL CORPORATION

Following Midland shareholder approval in April 1986, the sale of Crocker was completed on 30 May 1986 for a cash consideration which has now been established at US\$1,117m. The contribution to Group profit before taxation for 1986 in respect of Crocker, after a profit on disposal of £10m offset by sale expenses of £18m, amounted to £22m (1985 £34m). In connection with the disposal, Midland Bank plc has given indemnities which could apply if certain representations and warranties were found to be inaccurate or in the event of a breach of certain covenants given by Midland Bank plc under the stock purchase agreement for Wells Fargo & Company to acquire the Group's 100% interest in Crocker.

Amounts in £ millions

## 32 CROCKER NATIONAL CORPORATION - CONTINUED

Summarised below are the consolidated balance sheets of the Group at 31 December 1986 and 1985 together with a pro forma consolidated balance sheet at 31 December 1985 substituting liquid assets for the net assets consolidated in respect of Crocker.

	Group 1986	Pro forma Group excluding Crocker 1985	Group 1985
<b>Assets</b>			
Liquid and other short-term assets	15,476	12,070	15,401
Advances and other accounts	36,641	32,560	41,473
	52,117	44,630	56,874
Premises and equipment and other assets	1,052	976	1,200
	53,169	45,606	58,074
<b>Liabilities</b>			
Current, deposit and other customer accounts	46,082	40,383	52,461
Other short-term liabilities	2,247	971	1,080
Deferred taxation	280	291	293
Long-term borrowings, subordinated loan capital and perpetual floating rate notes	2,449	2,054	2,158
Minority interests	90	60	235
Shareholders' funds	2,021	1,847	1,847
	53,169	45,606	58,074

The results of Crocker to date of sale, 30 May 1986, have been consolidated in the Group figures on a line-by-line basis. The 1986 Group profit and loss account, restated to show the net Crocker contribution on a one line basis, is as follows

Interest receivable	4,948
Interest payable	3,449
Net interest income	1,499
Other operating income	
Service charges, fees and other banking income	756
Foreign exchange earnings	109
Travel income	87
Income from trade investments (listed)	2
Profit on sale of investments	42
Profit on sale of interests in subsidiaries and associated companies	16
Profit on disposal of fixed assets	5
	1,017
Operating income	2,516
Operating expenses	
Staff (excluding pensions)	952
Pension costs	148
Premises and equipment	310
Other	402
	1,812
Trading profit before charge for bad and doubtful debts	704
Charge for bad and doubtful debts	320
Trading profit	384
Share of profits of associated companies	28
Crocker National Corporation	22
Profit before taxation	434

# FIVE YEAR SUMMARY

Historical cost convention	Amounts in £ millions				
	1986	1985	1984	1983	1982
<b>Profit before taxation</b>	434	351	135	225	221
<b>Taxation</b>	172	207	160	100	81
<b>Profit attributable</b>	242	122	45	114	145
	Amounts in £ millions				
	1986	1985	1984	1983	1982
<b>Shareholders' funds</b>	2,021	1,847	1,685	1,899	1,562
<b>Minority interests</b>	90	235	486	485	460
<b>Perpetual floating rate notes</b>	1,082	892	—	—	—
<b>Subordinated loan capital</b>	1,094	998	1,204	971	861
<b>Total capital resources</b>	4,287	3,972	3,465	3,355	2,883
<b>Current, deposit and other customer accounts</b>	46,082	52,461	56,598	48,207	44,231
<b>Advances and other accounts</b>	36,641	41,473	44,858	39,106	35,962
<b>Total assets</b>	53,169	58,074	61,483	52,613	47,999
<b>Return on average shareholders' funds</b>					
– before taxation	21.2%	17.5%	12.0%	12.5%	14.5%
<b>Return on average equity</b>					
– profit before taxation	20.8%	16.4%	5.9%	10.3%	13.2%
– profit attributable	12.5%	6.8%	2.5%	6.6%	9.5%
<b>Free capital ratio</b>	7.2%	5.9%	4.4%	4.6%	4.0%
<b>Loan capital ratio</b>	48.1%	41.8%	33.3%	26.8%	28.8%
<b>Average shares in issue (millions)</b>	231	230	229	195	177
<b>Earnings per share</b> <sup>a</sup>	104.2p	53.0p	27.1p	60.6p	82.4p
<b>Dividends per share</b>	27.0p	25.5p	25.5p	25.5p	25.5p
<b>Dividend cover</b> <sup>b</sup>	3.9	2.1	1.1	2.4	3.4
<b>Shareholders</b> <sup>c</sup>	104,494	110,331	98,750	90,818	86,367
<b>Average base rate</b>	10.9%	12.2%	9.7%	9.8%	11.9%

## Notes

a 1982 adjusted for 1983 rights issue

b Dividend cover is calculated by dividing adjusted earnings per share by adjusted dividends

c Number of shareholders registered at year-end



# SUPPLEMENTARY FINANCIAL INFORMATION

Amounts in £ millions

## Analysis of Group profit before taxation by operating sector

	1986	1985
UK Operations		
UK Banking	305	246
Forward Trust	41	40
Thomas Cook	13	19
Investment Banking	65	51
International Banking	54	30
Crocker/Bracton	(44)	(35)
Profit before taxation	434	351

## Pro forma effect of sale of Crocker on 1986 and 1985 Group profit before taxation

Comparison of 1986 and 1985 Group performance is distorted by the disposal of Crocker, which was consolidated for 12 months in 1985, restructured in September 1985, and consolidated for the first five months of 1986. To provide a meaningful comparison, the 1986 results can be restated on to a consistent pro forma basis, in line with the 1985 figures included in the circular to shareholders dated 7 April 1986.

	1986	1985
Trading profit before charge for bad and doubtful debts	724	662
Charge for bad and doubtful debts	(320)	(319)
Share of profits of associated companies	28	23
Profit before taxation	432	366

- (i) The pro forma figures for 1985 were compiled on the basis that the restructuring and the disposal of Crocker were effected on 1 January 1985 and those for 1986 on the basis that the disposal of Crocker was effected on 1 January 1986.
- (ii) In addition, it has been assumed that the net proceeds of sale, taken as being £741m (US\$1,072m) for 1985 and £738m for 1986, were invested for the 12 months of 1985 and the 5 months of 1986 prior to the disposal at 8% and 6.5% respectively.

In the following supplementary financial information, the analysis by principal geographical areas of the Midland Bank Group is between Domestic and International operations. The geographic distribution of assets, liabilities, revenues and earnings is based upon the location of the lending office but includes allocations of loan capital interest, certain centralised income and expense, and taxation. These allocations are necessarily subjective. However, the businesses domiciled in the United Kingdom are allocated between Domestic and International sectors reflecting whether the majority of the business is recorded in sterling or another currency, and certain internal management responsibilities.

The fluctuations in the value of sterling relative to other currencies have a significant effect upon the sterling amounts of assets, liabilities, income and expenditure in such currencies and consequently on the overall allocation to Domestic and International business.

Interest on perpetual floating rate notes and subordinated loan capital is allocated between the Domestic and International sectors on the basis of the net assets employed in these sectors, except for the subordinated loan capital of certain subsidiaries which has been attributed to the sectors relating to those subsidiaries.

As set out in the accounting policies, income from dealing assets is now analysed between 'interest receivable and 'other operating income', as appropriate, rather than being reported in 'other income'. Average dealing assets are therefore now included under interest earning assets (and no longer under average non-interest earning assets) and 1985 and 1984 figures have been restated on a comparable basis. Earlier years have not been restated.

## Asset and profit before tax contributions

The asset and profit before tax contributions of the Group's Domestic and International operations over the past five years are set out in the following table

	1986	1985	1984	1983	1982
Average interest earning assets					
Domestic	20,844	17,794	15,845	14,860	14,159
International	30,256	34,060	38,300	31,610	26,666
	51,100	51,854	54,145	46,470	40,825
Average non-interest earning assets	5,917	5,576	6,286	6,363	5,439
	57,017	57,430	60,431	52,833	46,264
Profit (loss) before taxation					
Domestic	374	308	281	258	186
International	60	43	(146)	(33)	65
	434	351	135	225	251
Year-end US \$/£ exchange rate	1.3750	1.4455	1.1560	1.4502	1.6135

# SUPPLEMENTARY FINANCIAL INFORMATION CONTINUED

## Average consolidated balance sheet and net interest income

	Average Balance	Interest	1986 Average Rate %	Average Balance	Interest	1985 Average Rate %
<b>Liabilities and shareholders' funds</b>						
Interest bearing current accounts						
Domestic	3,042	286	9.4	1,987	212	10.7
International	2,372	160	6.7	4,584	358	7.8
	5,414	446	8.2	6,571	570	8.7
Money market – overnight and call deposits						
Domestic	2,072	216	10.4	1,674	184	11.0
International	3,053	212	6.9	2,841	255	9.0
	5,125	428	8.4	4,515	439	9.7
Deposit and savings accounts						
Domestic	3,454	242	7.0	3,620	313	8.6
International	3,743	262	7.0	3,478	317	9.1
	7,197	504	7.0	7,098	630	8.9
Money market – other deposits						
Domestic	7,022	726	10.3	5,695	658	11.6
International	17,410	1,455	8.4	19,383	1,866	9.6
	24,432	2,181	8.9	25,078	2,524	10.1
Long-term borrowings						
International	252	25	9.9	253	27	10.7
Subordinated loan capital (i)						
Domestic	531	58	10.9	522	58	11.1
International	474	47	9.9	616	61	9.9
	1,005	105	10.4	1,138	119	10.5
Perpetual floating rate notes (ii)						
Domestic	280	23	8.2	157	15	9.6
International	613	45	7.3	225	17	7.6
	893	68	7.6	382	32	9.4
<b>Total interest bearing liabilities</b>	<b>44,318</b>	<b>3,757</b>	<b>8.5</b>	<b>45,035</b>	<b>4,341</b>	<b>9.6</b>
Non-interest bearing current accounts						
Domestic	5,041			4,551		
International	1,691			2,664		
	6,732			7,215		
Customers' deposits of bullion						
International	506			545		
Other liabilities						
Domestic	1,561			1,412		
International	1,818			1,082		
	3,379			2,494		
Minority interests						
Domestic	1			1		
International	143			342		
	144			343		
Shareholders' funds						
Domestic	956			1,004		
International	982			794		
	1,938			1,798		
<b>Total average liabilities and shareholders' funds and interest payable</b>	<b>57,017</b>	<b>3,757</b>	<b>6.6</b>	<b>57,430</b>	<b>4,341</b>	<b>7.6</b>
Percentage applicable to International operations	58.0%			64.1%		
<b>Net interest income</b>		<b>1,671</b>			<b>1,783</b>	
<b>Net interest margin</b>						
Interest receivable as a percentage of average interest earning assets			10.6			11.8
Interest payable as a percentage of average interest earning assets			7.3			8.4
<b>Net interest margin</b>			<b>3.3</b>			<b>3.4</b>

Amounts in £ millions

	Average Balance	Interest	1986 Average Rate %	Average Balance	Interest	1985 Average Rate %
<b>Assets</b>						
Short-term funds (iii)						
Domestic	1,875	210	11.2	1,816	202	11.1
International	5,083	361	7.1	4,999	498	10.0
	6,958	571	8.2	6,815	700	10.3
Investments						
Domestic	965	99	10.3	1,036	118	11.4
International	1,044	79	7.6	838	75	8.9
	2,009	178	8.9	1,874	193	10.3
Lendings to customers and placings with banks (iv)						
Domestic	16,333	2,171	13.3	13,638	2,002	14.7
International	22,086	2,172	9.8	26,854	2,936	10.9
	38,419	4,343	11.3	40,492	4,938	12.2
Dealing assets (v)						
Domestic	408	44	10.8	292	29	9.9
International	1,957	156	8.0	1,287	146	11.3
	2,365	200	8.5	1,579	175	11.1
Equipment leased to customers						
Domestic	1,263	130	10.3	1,012	116	11.5
International (vi)	86	6	7.0	82	2	14.0
	1,349	136	10.1	1,094	118	11.5
<b>Total interest earning assets</b>	<b>51,100</b>	<b>5,428</b>	<b>10.6</b>	<b>51,854</b>	<b>6,124</b>	<b>11.8</b>
Coin, bank notes, balances with central banks and gold						
Domestic	554			498		
International	480			715		
	1,034			1,213		
Items in course of collection from other banks						
Domestic	792			641		
International	244			536		
	1,036			1,177		
Accrued interest and other accounts						
Domestic	493			523		
International	2,252			1,426		
	2,745			1,949		
Investments in associated companies and trade investments						
Domestic	81			72		
International	68			97		
	149			169		
Premises and equipment						
Domestic	713			694		
International	240			374		
	953			1,068		
<b>Total average assets and interest receivable</b>	<b>57,017</b>	<b>5,428</b>	<b>9.5</b>	<b>57,430</b>	<b>6,124</b>	<b>10.7</b>
<b>Percentage applicable to International operations</b>	<b>58.8%</b>			<b>64.8%</b>		

- (i) Subordinated loan capital is that part of the Midland Bank Group's loan capital which is fully subordinated to depositors and all other creditors.
- (ii) Perpetual floating rate notes have characteristics which render them similar in certain circumstances to preferred shares.
- (iii) Short-term funds comprise money at call and short notice, short-term certificates of deposit and British Treasury bills and other bills discounted.
- (iv) Interest earning placings with banks repayable within 30 days (£5,229m for 1986 and £4,804m for 1985) are included with short-term funds and those repayable beyond 30 days (£6,282m for 1986 and £6,091m for 1985) with lendings to customers.

- (v) Interest earning dealing assets are now included in interest earning assets and the income thereon is allocated between interest and other income, as appropriate. Comparative amounts for 1985 have been restated to correspond with the 1986 presentation.
- (vi) Lease financing yields for Crocker National Corporation for 1985 were calculated on balances net of deferred taxation liability.
- (vii) Intersegment balances and transactions between the Domestic and International operations are excluded. The average balance due to the Domestic segment from the International segment for 1986 was £482m and for 1985 was £400m. Interest paid by International for those periods was £17m and £36m respectively.

# SUPPLEMENTARY FINANCIAL INFORMATION CONTINUED

## Change in interest receivable and payable—volume and rate analysis

	1986 and 1985			1985 and 1984		
	Increase (decrease) due to changes in Average Volume	Average Rate	Net Change	Increase (decrease) due to changes in Average Volume	Average Rate	Net Change
Short-term funds, investments and dealing assets						
Domestic	12	(8)	4	54	(5)	49
International	97	(220)	(123)	(58)	(69)	(127)
Advances and other accounts						
Domestic	426	(243)	183	187	252	439
International	(520)	(240)	(760)	(452)	(340)	(792)
Interest receivable	15	(711)	(696)	(269)	(162)	(431)
Deposits						
Domestic	275	(172)	103	128	253	381
International	(342)	(365)	(707)	(477)	(411)	(888)
Long-term borrowings						
International	—	(2)	(2)	(1)	(1)	(2)
Subordinated loan capital						
Domestic	1	(1)	—	(10)	(4)	(14)
International	(14)	—	(14)	8	(8)	—
Perpetual floating rate notes						
Domestic	12	(4)	8	15	—	15
International	29	(1)	28	17	—	17
Interest payable	(39)	(545)	(584)	(320)	(171)	(491)
Net interest income						
Domestic	150	(74)	76	108	(2)	106
International	(96)	(92)	(188)	(57)	11	(46)
	54	(166)	(112)	51	9	60

Volume changes are caused by differences in the level of interest earning assets and of interest bearing deposits and borrowings. Rate changes result from differences in yields earned on assets and rates paid on liabilities. Changes attributable to a combination of both volume and rates have been allocated to rates.

## Average current, deposit and other customer accounts by geographical area

	1986	1985	1984	1983	1982
Domestic					
Current and demand accounts	10,155	8,212	6,219	5,036	4,608
Deposit and savings accounts	3,454	3,620	3,862	4,158	4,009
Money market and other time deposits	7,022	5,695	5,511	5,458	5,271
	20,631	17,527	15,592	14,652	13,888
International					
United Kingdom	16,173	16,453	17,454	15,964	13,194
United States	5,798	12,075	15,668	12,134	10,425
Europe	4,571	3,192	2,773	2,504	2,450
Rest of the World	2,233	1,775	2,711	2,452	1,917
	28,775	33,495	38,606	33,054	27,986
	49,406	51,022	54,198	47,706	41,874

Amounts in £ millions

**Average interest earning assets and net interest income**

The following table shows the levels of average interest earning assets and net interest income of the Domestic and International operations with the related gross and net returns obtained

	1986	1985	1984	1983	1982
<b>Average interest earning assets</b>					
Domestic	20,844	17,794	15,845	14,860	14,159
International	30,256	34,060	38,330	31,610	26,666
Group	51,100	51,854	54,145	46,470	40,825
<b>Net interest income</b>					
Domestic	1,103	1,027	921	871	840
International	568	756	802	555	499
Group	1,671	1,783	1,723	1,426	1,339
	%	%	%	%	%
<b>Gross yield (i)</b>					
Domestic	12.7	13.9	12.5	12.4	14.3
International	9.2	10.7	12.0	10.6	13.8
Group	10.6	11.8	12.1	11.2	14.0
<b>Net interest margin (ii)</b>					
Domestic	5.3	5.8	5.8	5.9	5.9
International	1.9	2.2	2.1	1.8	1.9
Group	3.3	3.4	3.2	3.1	3.3
<b>Interest spread (iii)</b>					
Domestic	3.3	3.3	3.7	3.8	3.3
International	1.3	1.5	1.3	1.6	1.6
Group	2.1	2.2	2.0	2.3	2.1

- (i) Gross yield represents the average interest rate on average interest earning assets.
- (ii) Net interest margin represents net interest income, divided by average interest earning assets.
- (iii) Interest spread represents the difference between the rates of interest earned and paid on average interest earning assets and average interest bearing funds respectively.
- (iv) The percentages above have been restated for 1985 and 1984 because income on dealing assets is now allocated between interest receivable and other income, as appropriate. Earlier years have not been restated.

(v) Interest earned on certain assets of US operating companies is exempt from US federal taxation. If adjustments had been made to bring income on to a taxable equivalent basis, the increases for 1986, 1985, 1984, 1983 and 1982 would have been £6m, £10m, £18m, £19m and £23m respectively.

	1986 %	1985 %	1984 %	1983 %	1982 %
<b>Average interest rates</b>					
Midland Bank plc base rate	10.9	12.2	9.7	9.8	11.9
London interbank offered rate					
Three months sterling	10.9	12.3	10.0	10.1	12.4
Six months eurodollar	6.7	8.7	11.2	9.9	13.6
United States prime rate	8.3	9.9	11.9	10.8	14.9

# SUPPLEMENTARY FINANCIAL INFORMATION CONTINUED

At 31 December					
Lendings to customers by geographical area and by type of customer					
	1986	1985	1984	1983	1982
<b>Domestic</b>					
Customers domiciled in the United Kingdom					
Loans guaranteed by government agencies	26	47	56	59	72
Local and national government and government-owned utilities	73	69	130	130	112
Agriculture, forestry and fishing	1,313	1,264	1,190	1,107	1,021
Manufacturing, construction and other production	3,091	2,825	2,968	2,645	2,743
Financial and services	4,183	3,923	3,566	3,328	3,436
Property companies	632	498	416	372	311
Individuals	6,718	4,978	4,323	3,802	3,246
	16,036	13,604	12,649	11,443	10,941
Overseas residents	123	415	375	380	354
	16,159	14,019	13,024	11,823	11,295
<b>International-United Kingdom</b>					
Customers domiciled in the United Kingdom					
Loans guaranteed by government agencies	1,285	1,236	1,224	1,162	1,132
Local and national government and government-owned utilities	75	35	10	59	33
Agriculture, forestry and fishing	3	2	2	2	2
Manufacturing, construction and other production	336	628	627	669	650
Financial and services	1,995	1,214	1,769	1,157	750
Property companies	118	94	58	29	18
Individuals	68	39	42	62	26
	3,880	3,248	3,732	3,140	2,611
Overseas residents	5,780	6,194	5,329	4,109	3,512
	9,660	9,442	9,061	7,249	6,123
<b>International-United States</b>					
Commercial, financial and industrial	855	3,957	4,866	4,061	4,164
Property construction	167	437	581	781	902
Property mortgage	—	1,961	2,492	1,966	1,770
Consumer instalment	—	2,439	2,788	1,684	1,260
Non-United States lendings	155	267	1,004	582	301
	1,177	9,061	11,731	9,074	8,397
<b>International-Europe</b>	2,957	2,249	2,255	1,769	1,643
<b>International-Rest of the World</b>	1,261	1,264	1,491	1,580	1,048
<b>International-Total</b>	15,055	22,016	24,538	19,672	17,211
	31,214	36,035	37,562	31,495	28,506

(i) Lendings to customers comprises advances and instalment finance to customers - see note 14 on the accounts.

(ii) The analyses by type of customer are based mainly on the requirements of the regulatory authorities in each country and, as such requirements are not wholly comparable from one country to another, a consolidated analysis cannot be presented.

Amounts in £ millions

## Lendings to customers by maturity and by interest sensitivity

At 31 December

	Domestic	International- United Kingdom	1986 International- Rest of World
<b>By maturity</b>			
Less than one year	10,059(i)	6,686	2,393
One year to five years	3,469	2,015	1,505
Over five years	2,631	959	1,497
	6,100	2,974	3,002
	16,159	9,660	5,395
<b>By interest sensitivity (over one year)</b>			
Fixed rate	858	208	1,471
Variable rate	5,242	2,766	1,531
	6,100	2,974	3,002

(i) includes overdrafts

## Placings with banks (over 30 days)

	1986	1985	1984	1983	1982
Domestic	285	329	236	201	345
International					
United Kingdom	1,666	1,728	2,221	2,703	2,328
United States	254	689	2,235	1,816	1,855
Europe	850	516	661	492	500
Rest of the World	376	352	470	840	984
	3,146	3,285	5,587	5,851	5,667
	3,431	3,614	5,823	6,052	6,012

# SUPPLEMENTARY FINANCIAL INFORMATION CONTINUED

## Provisions for bad and doubtful debts

Amounts in £ millions

	1986	1985	1984	1983	1982
<b>Movements in provisions</b>					
Provisions at 1 January	989	849	673	484	378
Currency translation and other adjustments	24	(93)	87	31	20
Charge for the year	357	431	616	318	196
Amounts written off	(236)	(215)	(534)	(165)	(130)
Less recoveries of amounts written off in previous years	16	17	7	5	20
	(220)	(198)	(527)	(160)	(110)
Less provisions relating to Crocker	167	—	—	—	—
Provisions at 31 December	983	989	849	673	484
<b>Comprising</b>					
Specific	756	561	426	429	376
General	227	428	423	244	108
Total	983	989	849	673	484
<b>Year-end provisions as a percentage of year-end total lendings</b>					
	%	%	%	%	%
Specific	2.31	1.50	1.10	1.31	1.28
General	0.70	1.15	1.10	0.75	0.57
Total	3.01	2.65	2.20	2.06	1.65

## Charge for the year by geographical area

<b>Specific provisions</b>					
Domestic	96	142	85	83	70
International					
United Kingdom	224	47	59	18	22
United States	71	150	306	113	51
Europe	21	6	5	—	14
Rest of the World	1	1	16	14	5
	317	204	386	145	92
	413	346	471	228	162
<b>General provisions</b>	(56)	85	145	90	34
<b>Total charge for the year</b>	357	431	616	318	196
	%	%	%	%	%
<b>Charge for the year as a percentage of average lendings</b>	1.07	1.21	1.69	1.03	0.74

The overall level of provision has been assessed on the same basis as in previous years.

In 1986 the charge to profit and loss account for specific provisions includes £160m for sovereign debt of which £100m was transferred from the general provision.



## Risk elements

The Securities and Exchange Commission requires the disclosure of four risk categories of loans – (i) non-accrual, past due and restructured loans, (ii) potential problem loans, (iii) foreign outstandings and (iv) loan concentrations. The Group's loan control and review procedures do not include the categorisation of loans by these risk elements. It makes provision for bad and doubtful debts in accordance with the accounting policy for bad and doubtful debts set out on page 25.

### (i) Non-accrual, past due and restructured loans and (ii) potential problem loans

For the purposes of attempting to comply with the requirements of the Commission, the management of the Bank has estimated the amount of loans which, had the Commission's classifications been followed, would have been classified as non-accrual, past due and restructured loans and as potential problem loans. These amounts at 31 December 1986 were £0.6 bn (1985 £1.4 bn) and £3.8 bn (1985 £0.7 bn), respectively. During 1986 specific provisions for bad and doubtful debts of £160m were made against lendings to certain rescheduling countries and, as a result, the total lendings to such countries have been included in the amount shown for potential problem loans at 31 December 1986.

No adjustment has been made to reflect the fact that a substantial proportion of such lendings is secured.

Management believes that the provision for bad and doubtful debts adequately covers anticipated losses.

### (iii) Foreign outstandings

The table below shows the geographical distribution of Group outstandings (amounting to £53 bn at 31 December 1986 and £57 bn at 31 December 1985) comprising lendings to customers, market placings, acceptances and certain other monetary assets.

The breakdown of Group outstandings is based on the country of domicile of the borrower or guarantor of ultimate risk.

	Percentage of Group Outstandings	
	1986	1985
	%	%
United Kingdom	54	46
Europe	20	14
United States	6	22
Rest of the World	20	18
	100	100

Some 80% (1985 82%) of total Group outstandings are in respect of customers in the United Kingdom, Western European countries and North America. Including the developed economies of Japan and Australia, this proportion rises to some 85% (1985 87%).

As shown in the above table, the Group's business is predominantly with countries with developed economies; outstandings to Latin American and Comecon countries account for 8% (1985 8%) and under 1% (1985 under 1%) of total outstandings respectively.

At 31 December 1986 cross-border outstandings to certain rescheduling countries which individually represented in excess of 1% of total Group assets (including acceptances) were limited to the following

	Cross-Border Outstandings		Percentage of Total Group Assets	
	1986	1985	1986	1985
	£bn	£bn	%	%
Brazil	1.4	1.4	2.5	2.4
Mexico	1.3	1.3	2.3	2.1
Argentina	0.7	0.6	1.3	1.1

Outstandings to the above three countries are virtually all in US dollars, with no significant amounts denominated in local currencies. In 1985, no material amounts were included in the amounts shown above for non-accrual, past due and restructured loans and potential problem loans.

In addition, cross-border outstandings to the following countries exceeded 0.75% of total Group assets (including acceptances)

	Cross-Border Outstandings		Percentage of Total Group Assets	
	1986	1985	1986	1985
	£bn	£bn	%	%
Japan	1.5	1.9	2.8	3.1
France	1.5	1.2	2.7	2.0
United States	1.4	3.2	2.6	5.4
Italy	0.9	0.9	1.6	1.5
West Germany	0.6	1.2	1.0	2.0
Switzerland	0.5	0.4	1.0	0.7
Australia	0.4	0.3	0.8	0.5

Cross-border outstandings comprise loans (including accrued interest), acceptances, interest bearing deposits with other banks, other interest bearing investments and any other monetary assets which are denominated in non-local currency.

### (iv) Loan concentrations

Loan concentrations, as defined by the Commission, are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities which would cause them to be similarly impacted by economic or other conditions. There was no loan concentration at 31 December 1986 which exceeded 10% of total lendings.

# MIDLAND BANK GROUP IN THE BRITISH ISLES PRINCIPAL ADDRESSES

## HEAD OFFICE

Midland Bank plc  
Poultry, London EC2P 2BX  
Tel: 01-260 8000  
Telex: 8811822

## RETAIL BANKING SECTOR

120 Cannon Street  
London EC4N 6AB  
Tel: 01-260 6000

I. Paterson: Chief Executive  
A. R. Cole-Hamilton: Chief Executive  
Clydesdale Bank PLC  
M. J. Fuller: UK Operations Director  
J. A. Harryman: Personnel Director  
D. C. Long: Delivery Systems Director  
D. G. McLachlan: Risk Management Director  
B. R. Norman: Chief Executive  
The Thomas Cook Group Limited  
J. D. Price: Finance Director  
J. A. Roberts: Chief Executive  
Northern Bank Limited  
A. E. Robinson: Financial Services Director  
J. C. Wathen: Card Products Director  
R. L. Wyatt: Chief Executive  
Forward Trust Group Limited

## REGIONAL MANAGEMENT CENTRES

**City and West End**  
Regional Director: R. E. Challinor  
122 Old Broad Street, London EC2N 1AE  
Tel: 01-260 8000

**London North**  
Regional Director: J. D. Massey  
33 George Street, London W1H 6BH  
Tel: 01-486 6696

**London South**  
Regional Director: P. S. Grainger  
Black Swan House, Kenner Wharf Lane  
London EC4V 3BT  
Tel: 01-248 8842

**East Anglia**  
Regional Director: C. D. Thom  
Castle House, Castle Meadow  
Norwich NR2 1PL  
Tel: 0603 628163

**East Midlands**  
Regional Director: D. W. Baker  
Beaumont House, 135/141 Granby Street  
Leicester LE1 6FF  
Tel: 0533 554222

**Home Counties**  
Regional Director: S. H. Torrents  
33 George Street, London W1H 6BH  
Tel: 01-486 6696

## North East

Regional Director: K. W. Rigby  
Midland Bank House, Bond Court  
Leeds LS1 1LL  
Tel: 0532 438191

## North West

Regional Director: S. P. Campbell  
56 Spring Gardens, Manchester M60 2RX  
Tel: 061 832 9011

## South East

Regional Director: D. J. Mills  
Concorde House, 10 London Road  
Maidstone, Kent ME16 8QG  
Tel: 0622 61191/5

## South West

Regional Director: E. N. Atkinson  
Cote House, The Promenade  
Clifton, Bristol BS99 7DF  
Tel: 0272 730060

## West Midlands

Regional Director: C. O'Brien  
Exchange Buildings, 8 Stephenson Place  
New Street, Birmingham B2 4NH  
Tel: 021 643 9241

## Wales

Regional Director: W. E. Roberts  
Churchill House, Churchill Way  
Cardiff CF1 4AX  
Tel: 0222 44351/6

## Subsidiaries

### CLYDESDALE BANK PLC

Head Office: 30 St. Vincent Place  
Glasgow G1 2HL  
Tel: 041 248 7070

Chief Office: 30 Lombard Street  
London EC3V 9BB  
Tel: 01-626 4545

### NORTHERN BANK LIMITED

Head Office: Donegall Square West  
Belfast BT1 6JS  
Tel: 0232 245277

### NORTHERN BANK (IRELAND) LIMITED

Head Office: Griffin House  
7/8 Wilton Terrace, Dublin 2  
Tel: 0001 601044

### FORWARD TRUST GROUP LIMITED

Registered Office: 145 City Road  
London EC1V 1JY  
Tel: 01-251 9090

Forward Trust House  
12 Calthorpe Road, Edgbaston  
Birmingham B15 1QZ  
Tel: 021 454 6141

## Griffin Factors Limited

Griffin House, 21 Farncombe Road  
Worthing, Sussex BN11 2BW  
Tel: 0903 205181

## THE THOMAS COOK GROUP LIMITED

Registered Office: 45 Berkeley Street  
Piccadilly, London W1A 1EB  
Tel: 01-499 4000

Administrative Headquarters:  
Thorpe Wood, Peterborough PE3 6SB  
Tel: 0733 63200

## MIDLAND BANK INSURANCE SERVICES LIMITED

32 Poultry, London EC2P 2BX  
Tel: 01-260 8000

## Corporate Broking Unit

32 Poultry, London EC2P 2BX  
Tel: 01-260 8000

## MIDLAND BANK TRUST COMPANY LIMITED

6 Threadneedle Street  
London EC2R 8BB  
Tel: 01-260 8000

## Corporate Services Branch

11 Old Jewry  
London EC2R 8DL  
Tel: 01-260 8000

## Midland Bank Group Unit Trust Managers Limited

6 Threadneedle Street  
London EC2R 8BB  
Tel: 01-260 8000

## CORPORATE BANKING SECTOR

47 Cannon Street, London EC4M 5SQ  
Tel: 01-260 8000

B. L. Goldthorpe: Chief Executive

R. P. Baker-Bates:

UK Corporate Banking Director

N. C. Barrett: Personnel Director

N. G. Blair:

UK Corporate Credit & Risk Director

I. C. Côtterill:

Business Resources Director

G. A. Freestone: Credit & Risk Director

A. I. Mullen:

Global Specialised Industries Director

D. R. W. Potter:

Global Corporate Banking Director

J. B. Willett:

Divisional UK Corporate Banking Director

## REGIONAL CORPORATE CENTRES

### City & West End

Corporate Banking Director: G. Cairns

### London North

Corporate Banking Director: B. Seymour

### London South

Corporate Banking Director: L. J. Hazael

### East Anglia

Corporate Banking Director: S. A. Goss

### East Midlands

Corporate Banking Director: P. G. Reid

### Home Counties

Corporate Banking Director: J. W. Burton

### North East

Corporate Banking Director: J. A. Fleming

### North West

Corporate Banking Director: J. Roberts

### South East

Corporate Banking Director: A. J. Jewell

### South West

Corporate Banking Director: A. R. Barber

### West Midlands

Corporate Banking Director: B. Wakefield

### Wales

Corporate Banking Director: G. S. Griffiths

## INVESTMENT BANKING SECTOR

10 Lower Thames Street

London EC3R 6AE

Tel: 01-260 9000

Until end of April 1987:

114 Old Broad Street

London EC2P 2HY

Tel: 01-588 6464

E. W. Brutsche: Chief Executive

Midland Montagu (Holdings) Limited

P. G. Axten: Investment Management & Venture Capital

P. E. Beale: Precious Metals

K. Brown: Equities

C. D. H. Bryant:

Chief Administrative Officer

L. F. Clyde: North America

E. F. Cole: UK Capital Markets

D. M. G. Gordon: Information Technology

D. J. Hughes: Japan & Asia-Pacific

B. N. Jolles:

International Capital Markets

R. H. Lawson: Audit & Compliance

B. J. Lind: Fixed Income

T. R. A. Lockett:

FX Trading & Treasury Sales

I. A. N. McIntosh: Corporate Finance

G. T. Pepper: Senior Adviser

C. J. Sheridan: Chief Executive

Samuel Montagu & Co. Limited

R. K. Simmons: Funding & Liquidity

R. Tickner: Capital Markets - Syndicate & Cross Markets

L. J. P. Trevelyan: Finance

A. J. Wadsworth: Company Secretary

J. R. Young: Personnel

## MIDLAND MONTAGU (HOLDINGS) LIMITED

10 Lower Thames Street

London EC3R 6AE

Tel: 01-260 9000

Until end of April 1987:

114 Old Broad Street

London EC2P 2HY

Tel: 01-588 6464

## Principal UK Subsidiaries:

Samuel Montagu & Co Limited

Midland Montagu Asset Management

Midland Montagu Ventures Limited

Greenwell Montagu Gilt-Edged

Greenwell Montagu Securities

Greenwell Montagu Stockbrokers

Smith Keen Cutler Limited

Galbraith Montagu Limited

Galbraiths Limited

Samuel Montagu & Co. (Jersey) Limited

## MIDLAND BANK PLC GROUP TREASURY

10 Lower Thames Street

London EC3R 6AE

Tel: 01-260 0600

Until end of August 1987:

Suffolk House

5 Laurence Pountney Hill

London EC4R 0EU

Tel: 01-260 0600

## INTERNATIONAL BANKING SECTOR

110 Cannon Street

London EC4N 6AA

Tel: 01-260 6000

Telex: 888401

H. P. de Carmoy: Chief Executive

R. Bogni: Finance & Support Director

J. de Mandat-Grancey:

Banking Network Director

D. A. Thornham: Credit & Risk Director

S. Toker: Business Development Director

## INTERNATIONAL SERVICE BRANCHES

### Birmingham

128 New Street, Birmingham B2 4JB

Tel: 021 632 4261

### Bradford

39/43 Bank Street, Bradford BD1 1LP

Tel: 0274 307249

### Bristol

44 Baldwin Street, Bristol BS99 7PR

Tel: 0272 294538

### Bromley

1 Elmfield Park, Bromley BR1 1TJ

Tel: 01-290 0500

### Liverpool

36 Castle Street, Liverpool L69 2BD

Tel: 051 236 9955

### London

17 Hanover Square, London W1A 2DB

Tel: 01-629 8884

### Luton

Midland House, 41 King Street

Luton LU1 2TX

Tel: 0582 45 3344

### Manchester

St Andrew's House, Portland Street

Manchester M60 1PX

Tel: 061 236 9741

## INTERNATIONAL PRIVATE BANKING UNIT

Westwood House, 13 Stanhope Gate

Mayfair, London W1Y 5LB

Tel: 01-493 1288

## Midland Bank Trust Corporation (Guernsey) Limited

22 Smith Street, St. Peter Port

Guernsey C.I.

Tel: 0481 23765

## Midland Bank Trust Corporation (Isle of Man) Limited

40 Victoria Street, Douglas

Isle of Man

Tel: 0624 23118/9

## Midland Bank Trust Corporation (Jersey) Limited

28/34 Hill Street, St. Helier

Jersey C.I.

Tel: 0534 72156

## MIDLAND BANK GROUP INTERNATIONAL TRADE SERVICES

Walker House, 87 Queen Victoria Street

London EC4V 4AP

Tel: 01-260 6000

## Midland Bank Aval Limited

135/141 Cannon Street, London EC4N 5AY

Tel: 01-623 8866

# MIDLAND BANK GROUP WORLDWIDE PRINCIPAL ADDRESSES

## THE THOMAS COOK GROUP LIMITED

Thomas Cook Group travel and related services are available from more than 1600 offices in over 145 countries.

## ASIA & AUSTRALASIA

### AUSTRALIA

Midland International Australia Limited  
Chief Executive: D. W. King  
Midland House, 171/175 Clarence Street  
Sydney NSW 2000  
Tel: 2 290 8888

Midland Bank Group Representative Office  
Regional Director (Australasia): D. W. King  
Group Representative: L. Handover  
Midland House, 171/175 Clarence Street  
Sydney NSW 2000  
Tel: 2 290 8800

Representation also includes:  
Associated Midland - Tel: 2 2 0243  
Dominguez Barry Samuel Montagu  
Tel: 2 236 0555

### CHINA

Midland Bank Group Representative Office  
Group Representatives: J. L. B. Browne  
11th Floor, CITIC Building  
19 Jianguomenwai Dajie, Beijing (Peking)  
Tel: 1-500 4410 Ext. 1130/1131

### HONG KONG

Midland Bank plc - Branch  
Group Country Manager: W. L. Rutherford  
35th Floor, Two Exchange Square  
8 Connaught Place, Hong Kong  
Tel: 5 844 2000

Representation also includes:  
Midland Finance (HK) - Tel: 5 844 2000  
Samuel Montagu (HK) - Tel: 5 844 2888  
Greenwell Montagu - Tel: 5 844 2888

### INDIA

Midland Bank Representative Office  
Representative for India and South  
Asia: N. L. Rands  
152 Maker Chamber IV, 14th Floor  
222 Nariman Point, Bombay 400 021  
Tel: 22 240303

### INDONESIA

Midland Bank Group Representative Office  
Group Representative: B. S'egar  
Skyline Building, 7th Floor  
Jalan M. H. Thamrin No. 9, Jakarta  
Tel: 21 324 907

### JAPAN

Midland Bank plc - Branch  
Group Country Manager: R. J. Soudah  
AIU Building, 8th Floor  
1-3 Marunouchi 1-chome  
Chiyoda-ku, Tokyo 100  
Tel: 3 284 1861

Representation also includes:  
Samuel Montagu - Tel: 3 502 3671  
Samuel Montagu Securities  
(Opening mid-1987)  
Tel: 3 502 4544

### KOREA (REPUBLIC OF)

Midland Bank plc - Branch  
Group Country Manager: Ho Yang  
Room 1408, 14th Floor  
Samsung Main Building  
250, 2-Ka, Taepyeong-Ro, Chung-ku, Seoul  
Tel: 2 757 2561

### PHILIPPINES

Midland Bank plc - Offshore Banking Unit  
Vice President & Country Manager:  
J. S. Rogers  
9th Floor Metrobank Plaza Building  
Sen. Gil J. Puyat Avenue, Makati  
Metro Manila 3117  
Tel: 2 818 8391

### SINGAPORE

Midland Bank plc - Branch  
Group Country Manager: G. R. Ellerton  
65 Chulia St. 48-01, OCBC Centre  
Singapore 0104  
Tel: 535 6188

Representation also includes:  
Trade Finance - Tel: 532 2211  
Midland Bank Singapore -  
Tel: 535 6188  
Samuel Montagu - Tel: 535 0311

### TAIWAN

Midland Bank Group Representative Office  
Group Representative: Miss L. Y. F. Fu  
19th Floor, 30 Chung King S. Road  
Sec. 1, Taipei  
Tel: 2 3618 333

### THAILAND

Midland Bank Representative Office  
Representative: S. Eamegdool  
Thai Military Bank Building  
8th Floor, 34 Phaya Thai Road  
Bangkok 10400  
Tel: 2 246 4609

## CENTRAL & SOUTH AMERICA

### ARGENTINA

Midland Bank Group Representative Office  
Group Representative: A. J. Cleod  
25 de Mayo 140, Piso 5  
1002 Buenos Aires  
Tel: 1 30 2730

### BRAZIL

Midland Montagu Administração e  
Participações Limitada  
President & Senior Group Representative:  
D. D. Pearson  
Avenida Brigadeiro Faria Lima, 2020-  
4 Andar, 01452 São Paulo  
Tel: 11 814 4422

### CHILE

Midland Bank Group Representative Office  
Group Representative: A. P. Tacchi  
Edificio Financiero, 3rd Floor  
La Bolsa 81, Santiago  
Tel: 2 723 555

### COLOMBIA

Representative for Midland Bank  
and Midland Montagu in Bogota:  
Dr. H. Jaramillo

*All enquiries through Midland Bank plc  
International Banking Sector  
110 Cannon Street, London EC4N 6AA*

### MEXICO

Midland Bank Group Representative Office  
Group Representative: R. Obregon  
Edificio Omega  
Campos Eliseos 315-12 Piso  
Col. Polanco Chapultepec  
11560 Mexico City DF  
Tel: 5 596 8133

### VENEZUELA

Midland Bank Group Representative Office  
Group Representative: P. R. Wallin  
Edificio Cavendes, Piso 7  
Oficinas 701  
Avenida Francisco de Miranda  
Los Palos Grandes, Caracas 1062  
Tel: 2 261 6488

**EUROPE****AUSTRIA**

Midland Export - Creditbank AG  
Executive Chairman:  
H. Bohunovsky  
Kärntner Ring 5 (P.O. Box 643)  
A-1010 Vienna  
Tel: 222 514110

**FINLAND**

Midland Montagu Osakepankki  
Et. Esplanadi 22 A  
00 130 Helsinki  
Tel: 3580 601766

**FRANCE**

Midland Bank SA  
Executive Chairman: L. Bressler  
6 Rue Piccini, B.P. 4416  
F-75116 Paris, Cedex 16  
Tel: 1 4502 80 80

Representation also includes:  
Midland Bank plc - Branch Tel: 1 4502 80 80

**WEST GERMANY**

Trinkaus & Burkhardt KGaA  
Chairman of Managing Partners: H. H. Jacobi  
P. O. Box 1108, Königsallee 21/23  
D-4000 Düsseldorf 1  
Tel: 211 831-1

Representation also includes:  
Trade Finance - Hamburg  
Tel: 40 33 7383

**GREECE**

Midland Bank plc - Branch  
Country Manager: L. Hiliadakis  
1 Sekeri Street, GR-106 71 Athens  
Tel: 1 364 7410

Midland Bank plc - Branch  
Assistant Country Manager: N. Pilavachi  
93 Akti Miaouli, GR-185 38 Piraeus  
Tel: 1 413 6403

**ITALY**

Midland Bank plc - Branch  
Chief Manager: M. Cagliani  
Via Bigli 1-3, I-20121 Milan  
Tel: 2 790641

Midland Bank Group Representative Office  
Group Representative: F. Mastro  
Via Cola di Rienzo 162, I-00192 Rome  
Tel: 6 687 4195

**LUXEMBOURG**

Trinkaus & Burkhardt (International) SA  
14 Boulevard Emmanuel Servais  
P. O. Box 579, L-2015 Luxembourg  
Tel: 26351

**NETHERLANDS**

Midland Bank Representative Office  
Representative: H. Ester  
Rokin 9-15, 3rd Floor  
1012 KK Amsterdam  
Tel: 20 26 22 35

**NORWAY**

Samuel Montagu AS  
Karl Johansgate 45  
N-0162 Oslo 1  
Tel: 2 416350

**SPAIN**

Midland Bank plc - Branch  
Chief Manager: F. Gonzalez-Robatto  
Calle José Ortega y Gasset, 29-1º  
28006 Madrid  
Tel: 1 431 06 13

Representation also includes:  
Midland Servicios Financieros SA  
Tel: 1 431 00 10

**SWEDEN**

Montagu & Co. AB  
Box 7615, Birger Jarlsgatan 10  
S-103 94 Stockholm  
Tel: 8 145900

**SWITZERLAND**

Handelsfinanz Midland Bank  
Chief Manager: G. Persico  
3 bis, Place de la Fusterie  
CH-1204 Geneva  
Tel: 22 28 54 44

Representation also includes:  
Guyerzeller Bank AG - Tel: 22 47 37 00  
Samuel Montagu (Suisse) SA  
Tel: 22 28 32 83  
Trinkaus & Burkhardt (Schweiz) - Zurich  
Tel: 1 69 2100

**USSR**

Midland Bank Group Representative Office  
Group Representative: J. W. Burgess  
Leninsky Prospekt 148 Flat 21-22  
117571 Moscow  
Tel: 095 230 2603

**MIDDLE EAST &  
EASTERN MEDITERRANEAN****BAHRAIN**

Midland Bank plc - Offshore Branch  
Manager and Group Representative:  
S. N. C. Boreham  
Entrance No. 2, 4th Floor, Manama Centre  
Government Avenue, Manama  
Tel: 257 100

**TURKEY**

Midland Bank  
Group Adviser: C. S. Okray

All enquiries through Midland Bank plc  
International Banking Sector  
110 Cannon Street, London EC4N 6AA

**NORTH AMERICA &  
CARIBBEAN****CANADA**

Midland Bank Canada  
President & Chief Executive Officer:  
J. H. B. Nederpelt  
P. O. Box 411, Exchange Tower  
2 First Canadian Place, Toronto  
Ontario M5X 1E3  
Tel: 416 362 1551

**CAYMAN ISLANDS**

Midland Bank Trust Corporation  
(Cayman) Limited  
P. O. Box 2192, Transnational House  
West Bay Road, Georgetown  
Tel: 74063

Representation also includes:  
Samuel Montagu - Tel: 97755

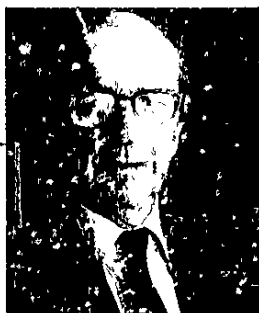
**UNITED STATES**

Midland Bank plc - Branch  
Regional Director: D. S. Werlinich  
520 Madison Avenue, New York  
NY 10022  
Tel: 212 759 8300

Representation also includes:  
Trade Finance - Tel: 212 758 2100  
Clydesdale Bank - Tel: 212 715 5839  
Midland Montagu Capital Markets Inc.  
Tel: 212 715 5800

# CHAIRMAN & NON EXECUTIVE DIRECTORS

**SIR JACK CAFFARID**  
Age 74, a Director since 1971, previously Chairman of ICI and British Home Stores, Sir Jack is due to retire at the forthcoming annual general meeting



**SIR KENNETH CORMEUD**  
Age 63, a Director since 1979, Sir Kenneth is an experienced industrialist, and at present a Director of Britoil



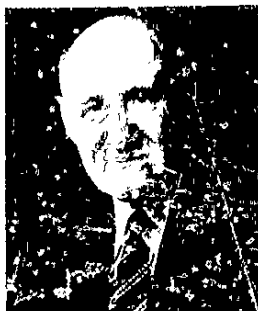
**SIR JOHN CUCKREY**  
Age 61, a Director since 1978, Sir John is Chairman of The Thomas Cook Group, a wholly-owned subsidiary of Midland. He is also Chairman of Royal Insurance and Westland, Deputy Chairman of T1 Group, a Director of Investors in Industry Group and Brixton Estate



**I HAY DAVISON**  
Age 55, a Director since 1986, Ian Hay Davison was Deputy Chairman and Chief Executive of Lloyd's of London, is a Director of Newspaper Publishing, and adviser to Chartered Accountants Arthur Andersen & Co



**A W FORSTER**  
Age 59, a Director since 1986, Andrew Forster is Chairman and Chief Executive of Iwo UK, a Director of Rover and the American Chamber of Commerce (UK)



**SIR DONALD BARRON, DL**  
Age 66, a Director since 1972, he was Chairman of Rowntree Macintosh from 1966 to 1981. He has been Chairman of the Bank since 1982 and Chairman of the Committee of London & Scottish Bankers, 1985-1987. He is a Director of Investors in Industry and Canada Life Assurance Company. Sir Donald will retire at the conclusion of the forthcoming annual general meeting



**SIR ALEX JARRATT, CB**  
Age 63, a Director and Deputy Chairman since 1980, Sir Alex is Chairman of Smiths Industries and a Director of ICI and the Prudential Corporation



**SIR PATRICK MEANEY**  
Age 61, a Director since 1980 and a Deputy Chairman since 1984, Sir Patrick is Chairman of the Bank Organisation and a Director of R L and M Plc



**SIR DERRICK HOLDEN BROWN**  
Age 64, a Director since 1984, Sir Derrick is Chairman and Chief Executive of Allied Lyons, and Deputy Chairman of Sun Alliance & London Insurance



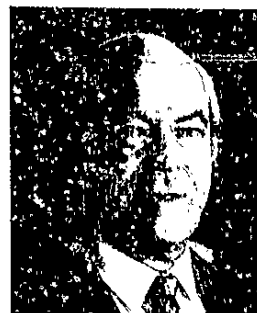
**SIR TREVOR HOLDSWORTH**  
Age 59, a Director since 1979, Sir Trevor is Chairman of GKN, Chairman of Allied Colloids Group and a Director of the Prudential Corporation and Thorn EMI



**G. MAITLAND SMITH**  
Age 54, a Director since 1986, Geoffrey Maitland Smith is Chairman and Chief Executive of Sears, and a Director of Asprey, Courtaulds and Mallett



**MISS D. O'CATHAIN**  
Age 49, a Director since 1984, Detta O' Cathain is Managing Director, Milk Marketing, of the Milk Marketing Board, and a Director of Tesco



**SIR ERIC POUNTAIN, DL**  
Age 53, a Director since 1986, Sir Eric is Chairman of Tarmac and a Director of Glynwed International and James Beattie

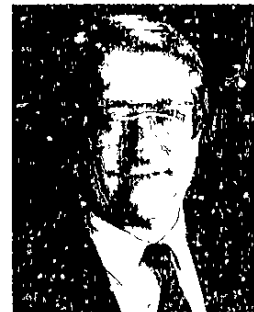
# GROUP EXECUTIVE COMMITTEE

## J A BROOKS

Age 58, John Brooks began his banking career with Midland in 1949, became a Director in February 1980, and was appointed Deputy Group Chief Executive in June 1981. He is also a Director of The Thomas Cook Group, Euro Travellers Cheque International and Mastercard International.



**SIR KIT McMAHON**  
Age 59, a Director and Deputy Chairman since April 1986 and appointed



**J G HARRIS**  
Age 52, a Director since 1981, John Harris joined Midland in 1950, and is responsible for Central Resources Management and Administration

Group Chief Executive later the same year. Sir Kit joined Midland from the Bank of England, where he had been a Director from 1970 to 1980 and Deputy Governor from 1980 to 1985.

When Sir Donald retires from the Board at the conclusion of the annual general meeting on 30 April 1987, Sir Kit will become Chairman and Group Chief Executive.

## I. PATERSON

Age 50, a Director since 1986, Ian Paterson joined Midland in 1953, and is Chief Executive, Retail Banking.



## B. I. GOLDTHORPE

Age 53, a Director since 1983, Brian Goldthorpe joined Midland in 1949, and is Chief Executive, Corporate Banking.



## H. de CARMOY

Age 50, a Director since 1986, Hervé de Carmoy was originally with Chase Manhattan Bank. He joined Midland in 1978 and is Chief Executive, International Banking.



## E. W. BRUTSCHE

Age 49, Ernst Brutsche joined Trinkaus & Burkhart in 1981 as a Partner and Chief Operating Officer, from Citicorp in New York. A Director of Midland since 1986, he is Chief Executive, Investment Banking.



## H. E. LOCKHART

Age 37, Gene Lockhart is Chief Executive, Information Technology and a member of Group Executive Committee. He joined Midland from First Manhattan Consulting Group, where he was a Managing Partner.



## I N TEGNER

Age 53, appointed a Director in 1987, Ian Tegner joined Midland as Director, Group Finance, from Bowater Industries, where he had been Finance Director since 1971.



## J THACKWAY

Age 50, John Thackway is Group Personnel Director, and a member of Group Executive Committee. He joined Midland from British Rail, where he was Director of Personnel Policy.

# NOTICE OF MEETING

Notice is hereby given that the 151st annual general meeting of Midland Bank plc will be held at the Head Office, Poultry, London EC2, on Thursday, 30 April 1987 at 12.00 noon for the following purposes:

## ORDINARY BUSINESS

- 1 To receive the report of the directors and audited accounts for the year ended 31 December 1986.

To reappoint the following directors:

- 2 J. A. Brooks.
- 3 E. W. Brutsche.
- 4 I. F. Hay Davison.
- 5 H. P. de Carmoy.
- 6 A. W. Forster.
- 7 Sir Trevor Holdsworth.
- 8 G. Maitland Smith.
- 9 I. Paterson.
- 10 Sir Eric Pountain.
- 11 I. N. Tegner.
- 12 To reappoint Ernst & Whinney as auditors and to authorise the directors to fix their remuneration.

## SPECIAL BUSINESS

- 13 To consider and, if thought fit, to pass the following resolution which will be proposed as an ordinary resolution:

'That the authorised share capital of the Company be increased from £315,000,000 to £400,000,000 by the creation of 85,000,000 shares of £1 each.'

- 14 To consider and, if thought fit, to pass the following resolution which will be proposed as an ordinary resolution:

'That the directors be and they are hereby generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 to allot relevant securities within the terms of the restrictions and provisions following, namely:

(i) this authorisation shall (unless previously revoked or varied) expire five years from the date of the passing of this resolution but shall allow Midland Bank plc to make before such expiry, offers or agreements which would or might require the making of allotments after such expiry; and

(ii) this authorisation shall be limited to the allotment of relevant securities up to an aggregate nominal amount of £77,286,628;

and the authority granted to the directors by resolution 9 passed at the annual general meeting held on 23 April, 1986 be and is hereby revoked.

For the purposes of this resolution, words and expressions defined in, or for the purposes of Part IV of the Companies Act 1985 shall bear the same meaning herein.'

- 15 To consider and, if thought fit, to pass the following resolution which will be proposed as a special resolution:

'That the directors be and they are hereby generally authorised in accordance with Section 95 of the Companies Act 1985 to allot equity securities wholly for cash, pursuant to the authority conferred by the foregoing resolution as if sub-section (1) of Section 89 of the said Act did not apply to such allotment provided that:

(i) this authorisation shall (unless previously revoked or varied) expire five years from the date of the passing of this resolution and shall be limited to the allotment of equity securities in connection with a rights issue in favour of holders of relevant shares and relevant employee shares in proportion (as nearly as may be) to their holdings of such shares or, in the case of securities convertible into shares, to the holding of shares which would fall to be allotted upon the exercise in full of the conversion rights, subject only to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements that would otherwise arise or with legal or practical problems arising under the laws of, or arising under the requirements of any recognised regulatory body in, any territory;

(ii) this authorisation shall be limited to the allotment (otherwise than pursuant to paragraph (i) above) of equity securities up to an aggregate nominal amount of £15,457,325 and shall (unless previously revoked or varied) expire at the end of the next annual general meeting of Midland Bank plc; and

(iii) such authorisation shall allow Midland Bank plc to make before such expiry, offers or agreements which would or might require the making of allotments after such expiry:

and the authority granted to the directors by resolution 10 passed at the annual general meeting held on 23 April, 1986 be and is hereby revoked.

For the purposes of this resolution, words and expressions defined in, or for the purposes of, Part IV of the Companies Act 1985 shall bear the same meaning herein.'

- 16 To consider and, if thought fit, to pass the following resolution which will be proposed as an ordinary resolution:

'That the directors be hereby authorised, subject to the approval of the Inland Revenue, to alter the Rules of the Midland Bank Group 1981 Savings-Related Share Option Scheme to permit early exercises of options by persons who cease to be in employment with the Group following any disposal of a Group subsidiary or the whole or part of a business carried on by a Group company.'

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  
31 March 1987

## Notes

- 1 Only holders of shares are entitled to attend or be represented at the meeting. A form of proxy is enclosed.
- 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 conclusion of the meeting.

## DISPLAY OF THE GROUP'S SERVICES TO ITS CUSTOMERS

A display illustrating services which the Midland Bank Group offers to its customers will be open from 11.15am on the day of the annual general meeting on the ground floor, Head Office, Poultry. Light refreshments will be available.