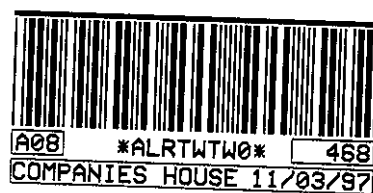


MIDLAND GENERAL LIMITED
ANNUAL REPORT AND ACCOUNTS
31 DECEMBER 1996



MIDLAND GENERAL LIMITED

**Annual report
for the year ended 31 December 1996**

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MIDLAND GENERAL LIMITED

Directors' report for the year ended 31 December 1996

1. PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The business of the company is the provision and administration of general insurance scheme business sold to customers of the HSBC group, and the company has entered into an agreement with its parent, Midland Bank plc, in this regard.

The improvement in turnover on the previous year is mainly attributable to higher sales of both Midland and First Direct Loan Protection products.

Income generated from First Direct continues to grow, accounting for 15% of total commission income in 1996, compared with 12% in 1995, with Loan Protection product sales particularly successful.

2. RESULTS AND DIVIDENDS

| | £'000 |
|---|----------------|
| Profit for the year available to shareholders | 41,393 |
| Dividends paid and payable | (50,000) |
| Transfer from retained profits | <u>(8,607)</u> |

3. DIRECTORS

Listed below are the names of all directors who served on the board during the year under review:

| | Resigned |
|-------------|----------|
| A J Ashford | |
| S A Donohoe | |
| M A O Ham | |
| R G Hampton | |
| D J Mills | 09/02/96 |
| N V Moss | |
| J T Walker | |

M A O Ham resigned as a director of the company on 30 January 1997.

MIDLAND GENERAL LIMITED

Directors' report for the year ended 31 December 1996

4. DIRECTORS' INTERESTS

All directors' interests which require disclosure in accordance with the requirements of the Companies Act 1985 are stated below.

| | HSBC Holdings plc | | | |
|-------------|-------------------|----------|------------|----------|
| | 31.12.96 | | 01.01.96 | |
| | Ord Shares | Bonds of | Ord Shares | Bonds of |
| | 75p each | £1 each | 75p each | £1 each |
| A J Ashford | 3,615 | | 3,798 | |
| S A Donohoe | 1,572 | | 1,263 | |
| M A O Ham | 9,909 | 3,710 | 7,522 | 3,710 |
| N V Moss | 3,385 | | | |
| J T Walker | 1,658 | 696 | 1,448 | 696 |

In addition, during the year the following directors were granted / exercised options to acquire the number of HSBC Holdings plc ordinary shares of 75p each set against their respective names:-

| | Granted | Exercised |
|-------------|---------|-----------|
| A J Ashford | 4,000 | |
| S A Donohoe | 5,165 | 1,392 |
| M A O Ham | | 2,088 |
| R G Hampton | 375 | |
| N V Moss | 6,500 | 3,342 |
| J T Walker | 3,000 | |

5. SUPPLIER PAYMENT POLICY

The company has subscribed to the Confederation of British Industry Prompt Payers Code for all suppliers. Information about the code may be obtained from the CBI.

6. DIRECTORS' LIABILITY INSURANCE

Liability insurance is maintained for the company's directors.

7. AUDITORS

KPMG resigned as auditors of the company on 27 June 1996 and KPMG Audit Plc were appointed auditors of the company in their place.

By order of the board



N Barker
Secretary
27/32 Poultry
London. EC2P 2BX

24 February 1997

MIDLAND GENERAL LIMITED

Statement of directors' responsibilities

The following statement, which should be read in conjunction with the auditors' statement of their responsibilities set out in their report on page 4, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss for the financial year. The directors are required to prepare the financial statements on the going concern basis unless it is not appropriate.

The directors consider that in preparing the financial statements (on pages 5 to 12), the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

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

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

MIDLAND GENERAL LIMITED

Report of the auditors, KPMG Audit Plc

To the members of Midland General Limited

We have audited the financial statements on pages 5 to 12.

Respective responsibilities of directors and auditors

As described on page 3, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of the company's affairs as at 31 December 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditors

8 Salisbury Square
London
EC4Y 8BB

24 February 1997

MIDLAND GENERAL LIMITED

Profit and loss account for the year ended 31 December 1996

| | Note | 1996 £'000 | 1995 (restated) £'000 |
|--|------|----------------|-----------------------------|
| TURNOVER | 1 | 67,170 | 60,303 |
| Administrative expenses | | (9,261) | (8,202) |
| OPERATING PROFIT | | <u>57,909</u> | <u>52,101</u> |
| Interest receivable from group undertakings | | 3,873 | 3,362 |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAX | 2 | 61,782 | 55,463 |
| Tax on profit on ordinary activities | 4 | (20,389) | (18,303) |
| PROFIT ON ORDINARY ACTIVITIES AFTER TAX | | <u>41,393</u> | <u>37,160</u> |
| Dividends | 5 | (50,000) | (36,000) |
| RETAINED (LOSS) / PROFIT FOR THE FINANCIAL YEAR | 11 | <u>(8,607)</u> | <u>1,160</u> |

All Operating profits relate to continuing operations.

Recognised gains and losses

There are no recognised gains or losses other than the profit attributable to shareholders of the company of £41,393,000 in the year ended 31 December 1996 and of £37,160,000 in the year ended 31 December 1995. A statement of total recognised gains and losses has therefore not been presented.

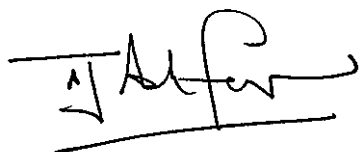
The notes on pages 7 to 12 form an integral part of these financial statements.

MIDLAND GENERAL LIMITED

Balance sheet at 31 December 1996

| | Note | 1996 £'000 | 1995 (restated) £'000 |
|--|------|------------------|-----------------------------|
| FIXED ASSETS | | | |
| Tangible assets | 6 | - | 2 |
| CURRENT ASSETS | | | |
| Debtors | 7 | 12,249 | 13,867 |
| Money market deposits and bank balances with group undertakings | | 61,732 73,981 | 49,215 63,082 |
| CREDITORS - amounts falling due within one year | 8 | 70,952 | 46,402 |
| NET CURRENT ASSETS | | 3,029 | 16,680 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 3,029 | 16,682 |
| PROVISION FOR LIABILITIES AND CHARGES | 9 | 502 | 5,548 |
| | | 2,527 | 11,134 |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 10 | - | - |
| Profit and loss account | 11 | 2,527 | 11,134 |
| | | 2,527 | 11,134 |

The accounts were approved by the board of directors on 24 February 1997 and were signed on its behalf by :



The notes on pages 7 to 12 form an integral part of these financial statements.

MIDLAND GENERAL LIMITED

Notes to the accounts

1. PRINCIPAL ACCOUNTING POLICIES

The accounts have been prepared in accordance with the Companies Act 1985 and with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently except as indicated, is set out below.

a. Basis of accounting

The accounts are prepared in accordance with the historical cost convention. Comparative amounts have been restated due to the change to the accounting policy for amounts due under profit sharing arrangements (note 13).

A cash flow statement has not been prepared as the company's parent undertaking prepares a consolidated cash flow statement.

b. Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental cost of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The rates used for this purpose are:

| | |
|----------------|-----|
| Motor vehicles | 25% |
|----------------|-----|

c. Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

d. Pension benefits

All staff are members of the Midland Bank Group Pension Scheme. Annual contributions are made to the pension scheme at the rate advised by Midland Bank plc and they are charged to profit and loss as incurred.

e. Turnover

Turnover comprises commission earned on general insurance scheme business and amounts earned under profit sharing arrangements with scheme underwriters, and arises in the UK.

The policy for accounting for amounts due under profit sharing arrangements has been changed in the year from a receipts to an accrual basis in order to more closely reflect the the income earned in the year. The effect of this change is detailed in note 13 to the accounts.

2. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

| | | |
|---|-----------|-----------|
| This is stated after charging : | 1996 | 1995 |
| | £'000 | £'000 |
| Depreciation charge for the year: | | |
| Tangible owned fixed assets | 2 | 3 |
| Auditors' remuneration - audit services | <u>12</u> | <u>12</u> |

The income and expenditure of the company relates primarily to revenue and expenditure originated by Midland Bank plc.

MIDLAND GENERAL LIMITED

Notes to the accounts

3. DIRECTORS' REMUNERATION

The chairman and five other directors who served during the year were remunerated by other companies which made no specific charge to this company for their services. Remuneration paid to directors in respect of their services to the company amounted to £78,000 (1995 : £75,000).

The chairman received no emoluments from this company (1995 : £nil).

The emoluments, excluding pension contributions, of the highest paid director, amounted to £69,000 (1995 : £66,000).

The following table shows the number of directors whose emoluments, excluding pension contributions, receivable from the company, fell within the bands stated :

| | 1996 | 1995 |
|--------------------|------|------|
| nil to £ 5,000 | 6 | 6 |
| £65,001 to £70,000 | 1 | 1 |

The company does not have any direct employees. The directors and staff are all employees of Midland Bank plc or HSBC Insurance Holdings Ltd.

4. TAX ON PROFIT ON ORDINARY ACTIVITIES

| | | |
|--|---------------|---------------|
| The charge for taxation comprises : | 1996 | 1995 |
| | | (restated) |
| | £'000 | £'000 |
| UK corporation tax at 33% (1995 : 33%) : | | |
| Current | 25,578 | 17,678 |
| Deferred | (5,189) | 625 |
| | <u>20,389</u> | <u>18,303</u> |

MIDLAND GENERAL LIMITED

Notes to the accounts

5. DIVIDENDS

| | 1996 £'000 | 1995 £'000 |
|--|---------------|---------------|
| First interim paid - £260,000 per share (1995 - £210,000 per share) | 26,000 | 21,000 |
| Second interim payable - £240,000 per share (1995 - £150,000 per share) | 24,000 | 15,000 |
| | <u>50,000</u> | <u>36,000</u> |

6. TANGIBLE FIXED ASSETS

| | £'000 |
|---------------------|----------|
| COST | |
| At 1 January 1996 | 16 |
| Disposal | (16) |
| At 31 December 1996 | <u>-</u> |
| DEPRECIATION | |
| At 1 January 1996 | 14 |
| Charge for year | 2 |
| Disposal | (16) |
| At 31 December 1996 | <u>-</u> |
| NET BOOK VALUE | |
| At 31 December 1996 | <u>-</u> |
| At 31 December 1995 | <u>2</u> |

7. DEBTORS

| | 1996 £'000 | 1995 (restated) £'000 |
|---------------------------------------|---------------|-----------------------------|
| Amounts falling due within one year : | | |
| Deferred tax (note 9) | 88 | - |
| Prepayments and accrued income | 12,161 | 13,867 |
| | <u>12,249</u> | <u>13,867</u> |

MIDLAND GENERAL LIMITED

Notes to the accounts

8. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 1996 | 1995 (restated) |
|------------------------------------|---------------|--------------------|
| | £'000 | £'000 |
| Trade creditors | 14,192 | 9,209 |
| Amounts owed to group undertakings | 769 | 938 |
| Dividend payable | 24,000 | 15,000 |
| Corporation tax | 25,578 | 17,678 |
| Accruals and deferred income | <u>6,413</u> | <u>3,577</u> |
| | <u>70,952</u> | <u>46,402</u> |

9. PROVISION FOR LIABILITIES AND CHARGES

| | Deferred taxation (restated) £'000 | Provision for returnable commission £'000 | Provision for claims £'000 | Total (restated) £'000 |
|---|---|---|-------------------------------------|------------------------------|
| At 1 January 1996 | | | | |
| As previously stated | 176 | 365 | 82 | 623 |
| Prior year adjustment | <u>4,925</u> | <u>-</u> | <u>-</u> | <u>4,925</u> |
| At 1 January 1996 as restated | 5,101 | 365 | 82 | 5,548 |
| Profit and loss account | <u>(5,189)</u> | <u>115</u> | <u>(60)</u> | <u>(5,134)</u> |
| At 31 December 1996 | <u>(88)</u> | <u>480</u> | <u>22</u> | <u>414</u> |
| Amounts categorised as Provisions for liabilities and charges | | | | 502 |
| Amounts categorised as Debtors (note 7) | | | | <u>(88)</u> |
| | | | | <u>414</u> |

Deferred taxation provided in the accounts and the amount unprovided of the total potential liability, are as follows :

| | Amount provided | | Amount unprovided | |
|---|-----------------|--------------------|-------------------|-------------|
| | 1996 | 1995 (restated) | 1996 | 1995 |
| | £'000 | £'000 | £'000 | £'000 |
| Tax effect of short term timing differences | - | 5,172 | - | - |
| Other timing differences | (88) | (71) | (80) | (80) |
| | <u>(88)</u> | <u>5,101</u> | <u>(80)</u> | <u>(80)</u> |

MIDLAND GENERAL LIMITED

Notes to the accounts

10. SHARE CAPITAL

| | 1996 £ | 1995 £ |
|--------------------------------------|------------|------------|
| Authorised : | | |
| Ordinary shares of £1 each | <u>100</u> | <u>100</u> |
| | | |
| Allotted, called up and fully paid : | | |
| Ordinary shares of £1 each | <u>100</u> | <u>100</u> |

11. PROFIT AND LOSS ACCOUNT

| | |
|-------------------------------|---------------|
| | £'000 |
| At 1 January 1996 | |
| As previously stated | 1,135 |
| Prior year adjustment | 9,999 |
| At 1 January 1996 as restated | <u>11,134</u> |
| Retained loss for the year | (8,607) |
| At 31 December 1996 | <u>2,527</u> |

12. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | |
|-------------------------------|---------------|
| | £'000 |
| At 1 January 1996 | |
| As previously stated | 1,135 |
| Prior year adjustment | 9,999 |
| At 1 January 1996 as restated | <u>11,134</u> |
| Profit for the financial year | 41,393 |
| Dividends | (50,000) |
| At 31 December 1996 | <u>2,527</u> |

MIDLAND GENERAL LIMITED

Notes to the accounts

13. PRIOR YEAR ADJUSTMENT

The prior year adjustment has arisen as a result of a change to the company's accounting policy for amounts due under profit sharing arrangements with scheme underwriters. The policy has been changed in the year from a receipts basis to an accrual basis in order to more closely reflect the income earned in the year.

The prior year adjustment can be analysed as follows:

| | |
|--------------------|----------------|
| | £'000 |
| Increase in income | 14,924 |
| Tax | <u>(4,925)</u> |
| | <u>9,999</u> |

The effect of the change in accounting policy on the comparative profit and loss account is to increase profit after tax by £1,260,000. The effect on the current year is to reduce profit after tax by £1,156,000.

14. CONTINGENT LIABILITY

The company is registered as a member of a group for VAT purposes and, accordingly, is jointly and severally liable on behalf of members of the group in respect of amounts of unpaid VAT.

15. ULTIMATE PARENT COMPANY AND PARENT UNDERTAKING OF LARGER GROUP OF WHICH THE COMPANY IS A MEMBER

The company is a subsidiary undertaking of HSBC Holdings plc which is registered in England and Wales.

The largest group in which the results of the company are consolidated is that headed by HSBC Holdings plc. The smallest group in which they are consolidated is that headed by Midland Bank plc which is registered in England and Wales. The consolidated accounts of these groups are available to the public and may be obtained from their registered offices at

| | |
|------------------|------------------------|
| Midland Bank plc | HSBC Holdings plc |
| 27/32 Poultry | 10 Lower Thames Street |
| London EC2P 2BX | London EC3R 6AE |