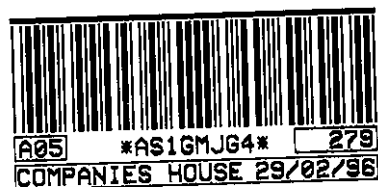


MIDLAND GENERAL LIMITED
ANNUAL REPORT AND ACCOUNTS
31 DECEMBER 1995



MIDLAND GENERAL LIMITED

**Annual report
for the year ended 31 December 1995**

	Pages
Directors' report	1
Statement of directors' responsibilities	3
Report of the auditors	4
Profit and loss account	5
Balance sheet	6
Notes to the accounts	7

MIDLAND GENERAL LIMITED

Directors' report for the year ended 31 December 1995

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 the receipt of profit share payments, resulting from improved 1994 underwriting performance, and higher sales of Loan Protection products.

Income generated from First Direct continues to grow, accounting for 12% of total commission income in 1995, compared with 7% in 1994, and with Loan Protection product sales particularly successful.

Midland Direct, a new telephone based service offering the new home insurance contract, was launched towards the end of 1995.

2. RESULTS AND DIVIDENDS

	£'000
Profit for the year available to shareholders	35,900
Dividends paid and payable	(36,000)
Transfer from retained profits	<u>(100)</u>

3. DIRECTORS

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

A J Ashford
S A Donohoe
M A O Ham
R G Hampton
D J Mills
N V Moss
J T Walker

MIDLAND GENERAL LIMITED

Directors' report for the year ended 31 December 1995

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				
	31.12.95		01.01.95	
	Ord Shares 75p each	Bonds of £1 each	Ord Share 75p each	Bonds of £1 each
A J Ashford	3,798		3,912	
S A Donohoe	1,263		1,823	
M A O Ham	7,522	3,710	7,251	3,710
D J Mills	3,490		2,450	
J T Walker	1,448	696	1,400	696

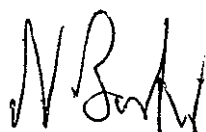
In addition, during the year the following directors were granted / exercised options to acquire the number of HSBC Holdings plc ordinary shares of 75p each set against their respective names:-

	Granted	Exercised
A J Ashford	6,000	
S A Donohoe	4,993	
D J Mills	8,993	2,094
N V Moss	6,933	
J T Walker	2,773	

5. DIRECTORS' LIABILITY INSURANCE

Liability insurance is maintained for the company's directors.

By order of the board



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

91 February 1996

Statement of directors' responsibilities

The following statement, which should be read in conjunction with the auditors' statement of their responsibilities set out 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

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 1995 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants
Registered Auditors

8 Salisbury Square
London
EC4Y 8BB

9 February 1996

MIDLAND GENERAL LIMITED**Profit and loss account
for the year ended 31 December 1995**

	Note	1995 £'000	1994 £'000
TURNOVER	1	58,422	42,677
Administrative expenses		(8,202)	(5,755)
OPERATING PROFIT		<u>50,220</u>	<u>36,922</u>
Interest receivable from group undertakings		3,362	2,670
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2	<u>53,582</u>	<u>39,592</u>
Tax on profit on ordinary activities	4	(17,682)	(13,065)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		<u>35,900</u>	<u>26,527</u>
Dividends	5	(36,000)	(26,000)
RETAINED (LOSS) / PROFIT FOR THE FINANCIAL YEAR	11	<u>(100)</u>	<u>527</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 £35,900,000 in the year ended 31 December 1995 and of £26,527,000 in the year ended 31 December 1994. A statement of total recognised gains and losses has therefore not been presented.

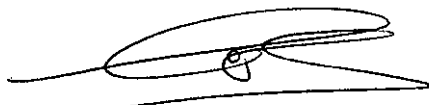
The notes on pages 7 to 12 form part of these accounts.

MIDLAND GENERAL LIMITED

Balance sheet at 31 December 1995

	Note	1995 £'000	1994 £'000
FIXED ASSETS			
Tangible assets	6	<u>2</u>	<u>5</u>
CURRENT ASSETS			
Debtors	7	1,154	1,276
Money market deposits and bank balances with group undertakings		<u>49,214</u> 50,368	<u>39,251</u> 40,527
CREDITORS - amounts falling due within one year	8	48,612	38,593
NET CURRENT ASSETS		<u>1,756</u>	<u>1,934</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,758	1,939
PROVISION FOR LIABILITIES AND CHARGES			
	9	623	704
		<u>1,135</u>	<u>1,235</u>
CAPITAL AND RESERVES			
Called up share capital	10	-	-
Profit and loss account	11	1,135	1,235
		<u>1,135</u>	<u>1,235</u>

The accounts were approved by the board of directors on 9 February 1996 and were signed on its behalf by :



N V MOSS

The notes on pages 7 to 12 form part of these accounts.

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, is set out below.

a. **Basis of accounting**

The accounts are prepared in accordance with the historical cost convention.

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 costs 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 received under profit sharing arrangements with scheme underwriters, and arises in the UK.

2. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging :

	1995 £'000	1994 £'000
Depreciation charge for the year:		
Tangible owned fixed assets	3	1
Auditors' remuneration - audit services	<u>12</u>	<u>11</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 £75,000 (1994 : £60,000).

The chairman received no emoluments from this company (1994 : £nil).

The emoluments, excluding pension contributions, of the highest paid director, amounted to £66,000 (1994 : £53,000).

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

	1995	1994
nil to £ 5,000	6	6
£50,001 to £55,000	-	1
£65,001 to £70,000	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. TAXATION

The charge for taxation comprises :

	1995 £'000	1994 £'000
UK corporation tax provided at 33% (1994 : 33%) :		
Current	17,678	13,015
Deferred	4	50
Adjustments relating to prior years	-	-
	<u>17,682</u>	<u>13,065</u>

MIDLAND GENERAL LIMITED

Notes to the accounts

5. DIVIDENDS

	1995 £'000	1994 £'000
First interim paid - £210,000 per share (1994 - £150,000 per share)	21,000	15,000
Second interim payable - £150,000 per share (1994 - £110,000 per share)	15,000	11,000
	<u>36,000</u>	<u>26,000</u>

6. TANGIBLE FIXED ASSETS

	£'000
COST	
At 1 January 1995	16
At 31 December 1995	<u>16</u>
DEPRECIATION	
At 1 January 1995	11
Charge for year	3
At 31 December 1995	<u>14</u>
NET BOOK VALUE	
At 31 December 1995	<u>2</u>
At 31 December 1994	<u>5</u>

7. DEBTORS

	1995 £'000	1994 £'000
Amounts falling due within one year :		
Other debtors	-	230
Prepayments and accrued income	1,154	1,046
	<u>1,154</u>	<u>1,276</u>

MIDLAND GENERAL LIMITED

Notes to the accounts

8. CREDITORS - amounts falling due within one year

	1995 £'000	1994 £'000
Trade creditors	14,916	14,195
Amounts owed to group undertakings	938	296
Dividend payable	15,000	11,000
Corporation tax	17,678	13,015
Accruals and deferred income	80	87
	<u>48,612</u>	<u>38,593</u>

9. PROVISION FOR LIABILITIES AND CHARGES

	Deferred taxation £'000	Provision for returnable commission £'000	Provision for claims £'000	Total £'000
At 1 January 1995	172	494	38	704
Profit and loss account	4	(129)	44	(81)
At 31 December 1995	<u>176</u>	<u>365</u>	<u>82</u>	<u>623</u>

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

	Amount provided		Amount unprovided	
	1995 £'000	1994 £'000	1995 £'000	1994 £'000
Tax effect of short term timing differences	247	270	-	-
Other timing differences	(71)	(98)	(80)	(80)
	<u>176</u>	<u>172</u>	<u>(80)</u>	<u>(80)</u>

MIDLAND GENERAL LIMITED

Notes to the accounts

10. SHARE CAPITAL

	1995 £	1994 £
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

	1995 £'000	1994 £'000
At 1 January	1,235	708
Retained profit for the year	(100)	527
At 31 December	<u>1,135</u>	<u>1,235</u>

12. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1995 £'000	1994 £'000
Opening shareholders' funds	1,235	708
Profit for the financial year	35,900	26,527
Dividends	(36,000)	(26,000)
Closing shareholders' funds	<u>1,135</u>	<u>1,235</u>

13. 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.

MIDLAND GENERAL LIMITED

Notes to the accounts

14. 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
27/32 Poultry
London EC2P 2BX

HSBC Holdings plc
10 Lower Thames Street
London EC3R 6AE