

# Preliminary Results FY 2014

23 September 2014



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# Agenda

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1. Introduction – Preben Prebensen, Group Chief Executive
2. Financial review – Jonathan Howell, Group Finance Director
3. Business update – Preben Prebensen, Group Chief Executive
4. Q&A

# Introduction

FY 2014 highlights

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- **Excellent results**
  - Adjusted operating profit<sup>1</sup> up **20%** to **£201 million**
    - › All three divisions contributing to improved performance
  - Adjusted earnings per share<sup>2</sup> up **25%** to **104.1p**
- **Strong capital and funding position**
  - Common equity tier one capital ratio of **13.1%** and leverage ratio of **9.2%**
  - **£7.1 billion** of available funding well diversified by source and tenor
- **Increasing returns** for shareholders
  - Return on equity<sup>3</sup> improved to **18%**
  - **10%** uplift in final dividend
- Well positioned with **growth opportunities** in **all of our businesses**

Notes:

<sup>1</sup> Adjusted operating profit ("AOP") excludes the effect of exceptional items and amortisation of intangible assets on acquisition.

<sup>2</sup> Adjusted earnings per share excludes exceptional items and amortisation of intangible assets on acquisition and the tax effect of such adjustments.

<sup>3</sup> Return on opening equity ("RoE") calculated as adjusted operating profit after tax and non-controlling interests on opening equity less non-controlling interests.

# Agenda

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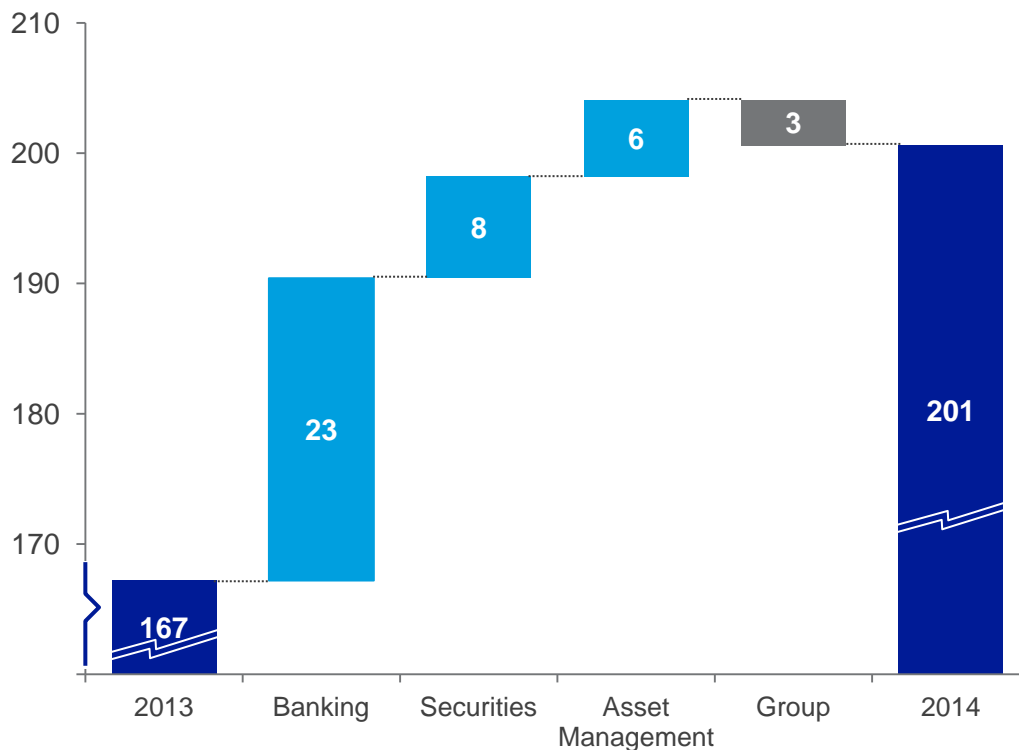
1. Introduction – Preben Prebensen, Group Chief Executive
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# Adjusted operating profit

Fifth consecutive year of adjusted operating profit growth

## Growth in AOP

£ million



- **20% growth in AOP to £201 million**
- **Banking AOP up 15% to £182 million**
  - Improved **loan book growth** and **bad debts**
- **Securities AOP of £34 million**
  - **Winterflood AOP up 57% to £27 million** from stronger trading conditions
- **Asset Management AOP of £10 million**
  - Improved **net inflows**
- **Group net expenses of £24 million**
  - Increased performance related compensation

# Summary income statement

Good growth in earnings and dividend

## Summary income statement

£ million	2014	2013	% change
<b>Adjusted operating income</b>	<b>659.2</b>	<b>582.9</b>	<b>13%</b>
Adjusted operating expenses	(414.5)	(365.1)	14%
Impairment losses	(44.1)	(50.6)	(13)%
<b>Adjusted operating profit</b>	<b>200.6</b>	<b>167.2</b>	<b>20%</b>
Exceptional income <sup>1</sup>	-	1.6	
Tax	(45.5)	(42.7)	7%
<b>Basic EPS</b>	<b>101.5p</b>	<b>82.0p</b>	<b>24%</b>
<b>Adjusted EPS</b>	<b>104.1p</b>	<b>83.5p</b>	<b>25%</b>
<b>Dividend per share</b>	<b>49.0p</b>	<b>44.5p</b>	<b>10%</b>

- **13% increase in income**
  - Strong growth in **Banking** and improved trading for **Winterflood**
- **Expenses up 14%**
  - **Group expense/income ratio** stable at **63%**
- **Tax charge of £46 million**
  - Effective tax rate of **23%**
- **25% increase in adjusted EPS**
- **10% growth in dividend to 49.0p**
  - Continued to build dividend cover

Note:

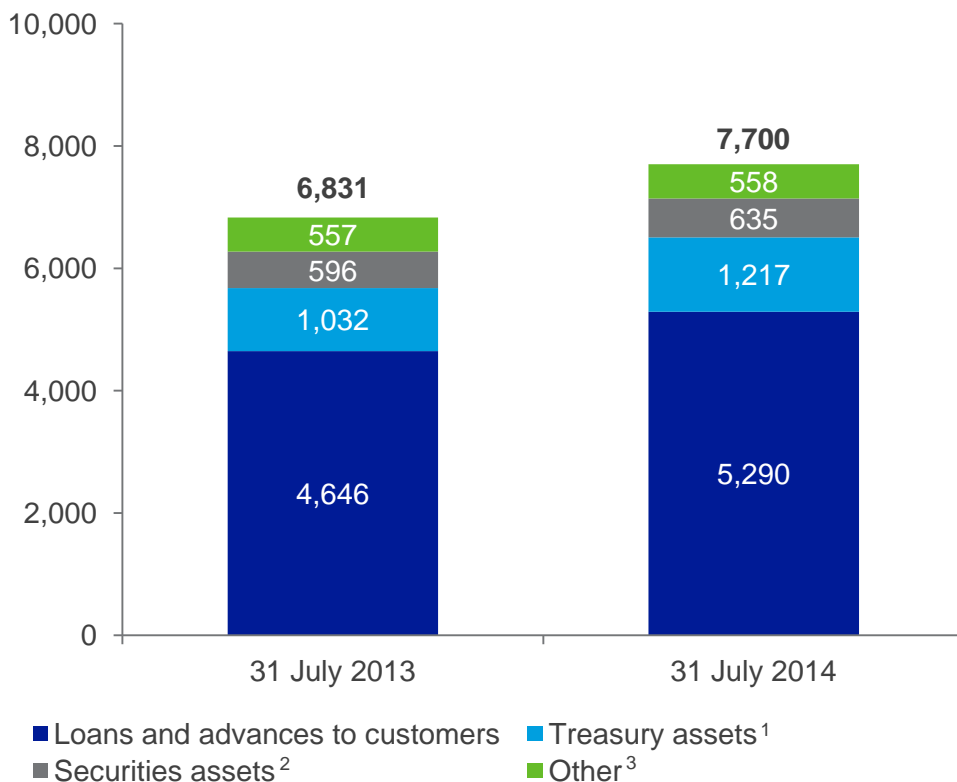
<sup>1</sup> Exceptional income of £1.6 million in 2013 relates to disposal of Mako.

# Balance sheet assets

High quality balance sheet assets

## Total assets

£ million



- **Transparent and straightforward balance sheet**
  - **Loan book and treasury assets now 85% total assets**
- **13% asset growth to £7.7 billion**
  - Principally driven by **14% loan book growth to £5.3 billion**
- **£1.2 billion high quality liquid treasury assets**
  - **Bank of England deposits and gilts**
  - Well ahead of regulatory requirements
- **Securities assets largely unchanged at £0.6 billion**

Notes:

<sup>1</sup> Treasury assets include £1,217.3 million (31 July 2013: £982.0 million) gilts and deposits with the Bank of England, £nil (31 July 2013: £10.1 million) certificates of deposit and £nil (31 July 2013: £39.4 million) floating rate notes.

<sup>2</sup> Securities assets include long trading positions, settlement balances and loans to money brokers related to the market making activities of Winterflood and Seydler.

<sup>3</sup> Other assets include loans and advances to banks, intangible assets and other assets.

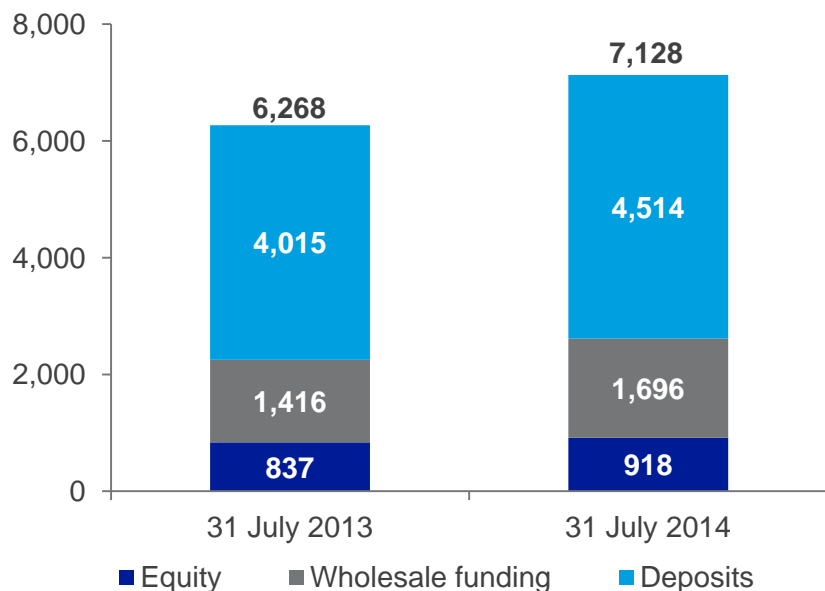


# Funding

Focus on diversity and maturity with limited interest rate exposure

## Diverse funding sources

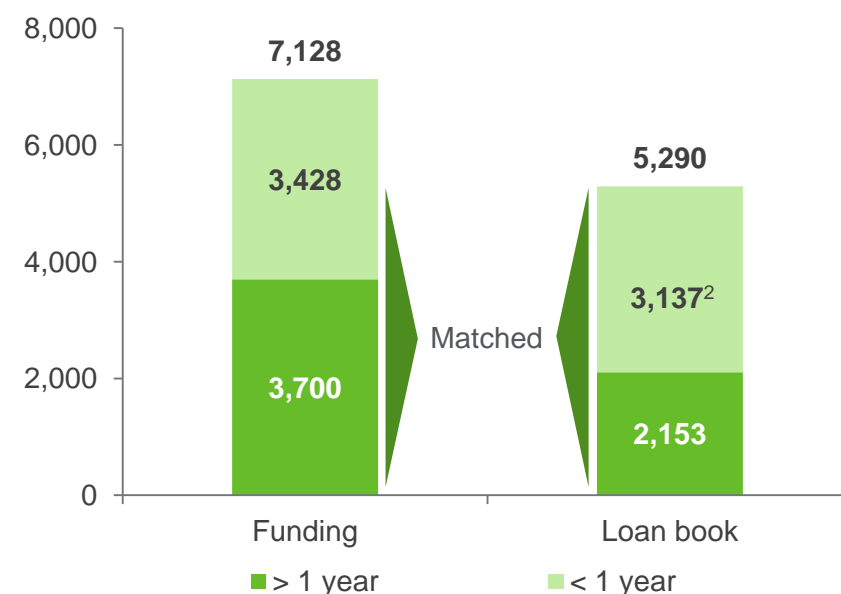
£ million



- Total funding of **£7.1 billion**<sup>1</sup>
  - Covers **135%** loan book

## Prudent maturity profile

£ million, at 31 July 2014



- **Prudent maturity profile**
  - Term funding<sup>3</sup> covers **70%** loan book
- **Limited interest rate exposure**
  - Existing loans **matched**

Notes:

<sup>1</sup> Includes £265.0 million (31 July 2013: £265.0 million) of undrawn facilities, £926.2 million (31 July 2013: £946.1 million) of drawn facilities, £505.4 million (31 July 2013: £204.9 million) senior unsecured bonds and excludes £4.4 million (31 July 2013: £19.3 million) of non-facility overdrafts included in borrowings in the group's financial statements.

<sup>2</sup> Full loan book maturity breakdown shown in note 7 of the preliminary results announcement. For the purposes of this chart, the £48.3 million impairment provision has been allocated to the loan book under one year.

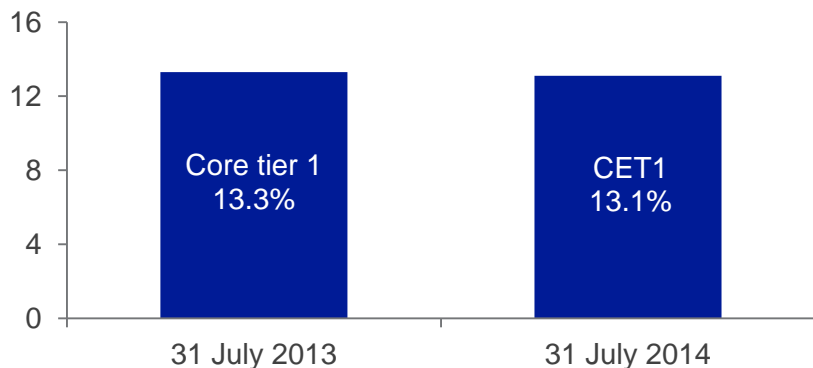
<sup>3</sup> Funding with a residual maturity > 1 year, including equity, wholesale facilities, customer deposits and group bond.

# Capital

Strong capital position maintained

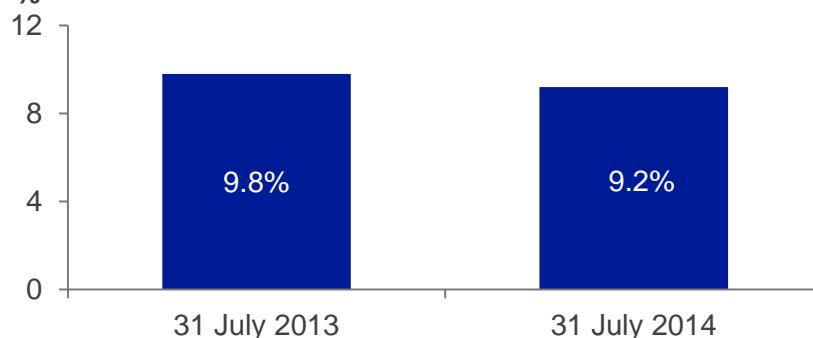
## Capital ratio<sup>1</sup>

%



## Leverage ratio<sup>2</sup>

%



Notes:

<sup>1</sup> The highest quality capital is now defined as "common equity tier 1" having previously been referred to as "core tier 1". Accordingly the comparative is based on the legislative definition of core tier 1 capital in force at that time.

<sup>2</sup> The leverage ratio is calculated as tier 1 capital as a percentage of total balance sheet assets, adjusting for certain capital deductions, including intangible assets, and off balance sheet exposures.

£ million	31 July 2014	31 July 2013	% change
Common equity tier 1 capital	711	688	3%
Total regulatory capital	780	759	3%
Risk weighted assets	5,446	5,185	5%

- **Strong capital position**
  - **CET1 ratio of 13.1%**
  - **Leverage ratio of 9.2%**
- **3% growth in CET1 capital**
- **5% increase in RWAs**
  - **Reflects loan book growth**
- **Both ratios comfortably ahead of regulatory requirements**

# Banking

Another strong result

£ million	2014	2013 <sup>1</sup>	% change
<b>Adjusted operating income</b>	<b>446.7</b>	<b>396.2</b>	<b>13%</b>
Adjusted operating expenses	(221.0)	(187.2)	18%
Impairment losses	(44.1)	(50.6)	(13)%
<b>AOP</b>	<b>181.6</b>	<b>158.4</b>	<b>15%</b>
RoNLB <sup>2</sup>	3.7%	3.6%	
RoE <sup>3</sup>	25%	24%	
Expense/income ratio	49%	47%	
Operating margin	41%	40%	

- **Income up 13% to £447 million**
  - Driven by **good loan book growth** across portfolio
- **Expenses of £221 million, up 18%**
  - Principally **volume driven**
    - › Headcount and loan book
  - **Continued investment** to support long-term growth
- **Bad debt charge reduced by 13% to £44 million**
- Overall **AOP up 15% to £182 million**
- **Return on Net Loan Book improved to 3.7%**

Notes:

<sup>1</sup> 2013 figures restated where applicable following adoption of IAS 19 (Revised) Employee Benefits.

<sup>2</sup> Adjusted operating profit before tax on average net loans and advances to customers.

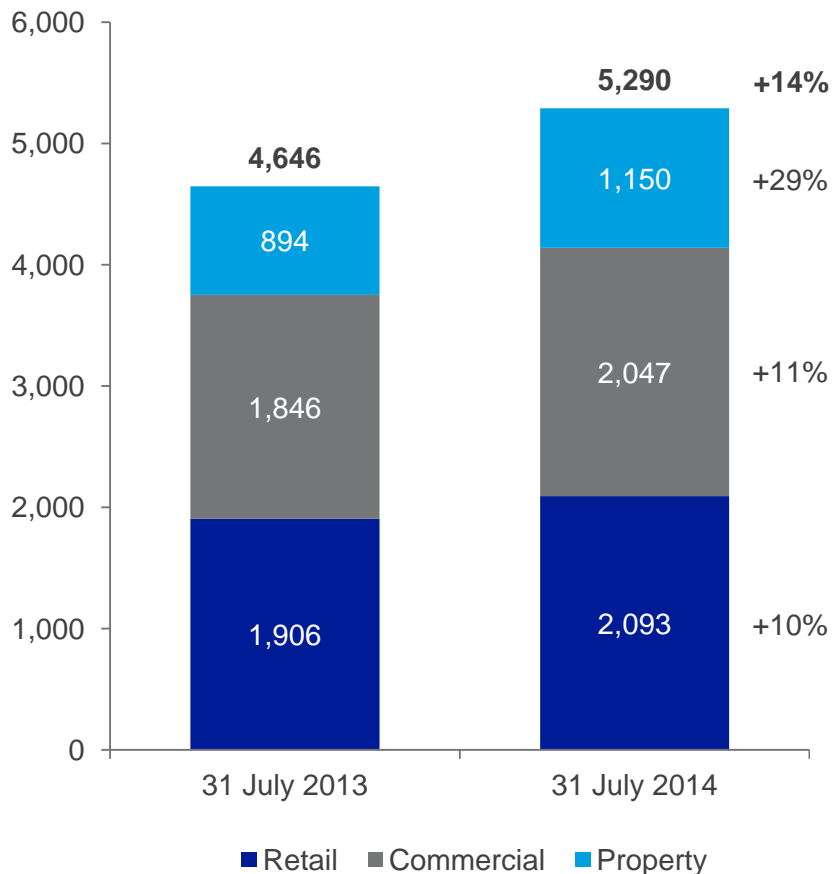
<sup>3</sup> Adjusted operating profit after tax and non-controlling interests on the Banking division's opening equity less non-controlling interests.

# Banking

Good loan book growth

## Loan book size by business unit

£ million



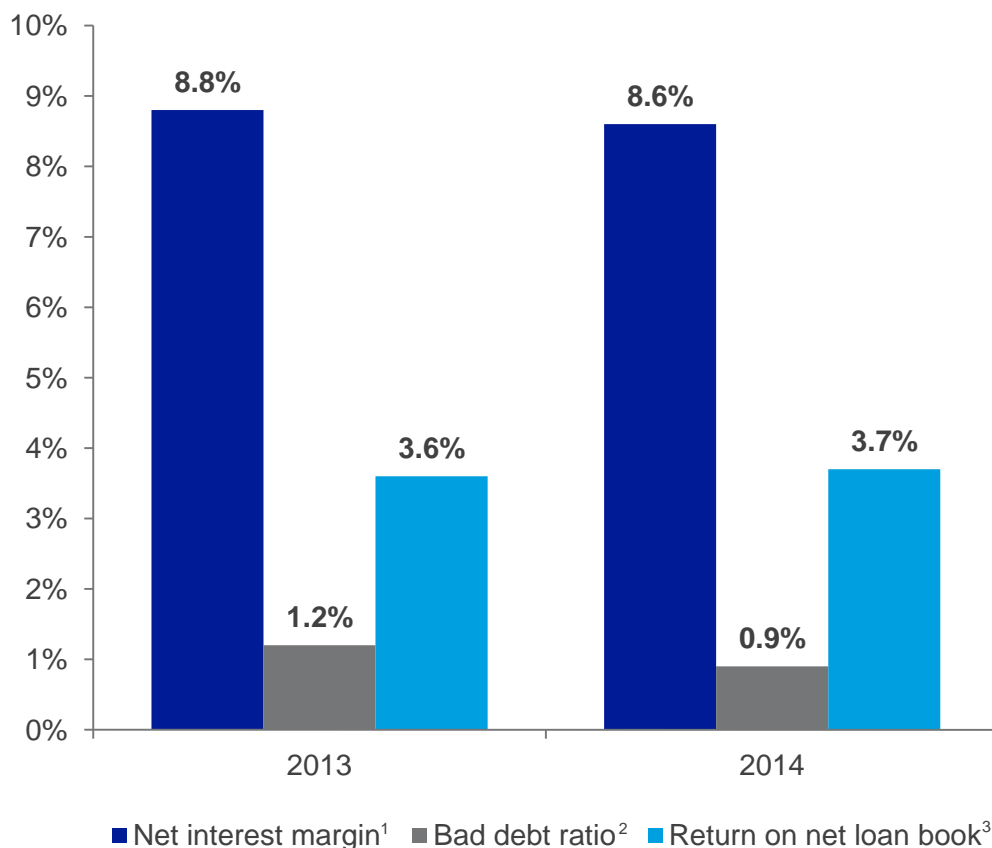
Note:  
A full breakdown by line of business is provided on slide 37.

- **14% loan book growth**
- **Retail increased 10%**
  - Strong demand in **motor finance** from existing dealerships
- **Commercial increased 11%**
  - Good new business volumes across **asset finance** sectors
  - New clients in **invoice finance**
- **Property increased 29%**
  - Strong demand from existing customer relationships
  - Maintained strict lending criteria and low impairment levels

# Banking

Maintained strong overall returns

## Performance ratios



Notes:

<sup>1</sup> Net interest and fees on average net loan book.

<sup>2</sup> Impairment losses on average net loan book.

<sup>3</sup> Adjusted operating profit before tax on average net loan book.

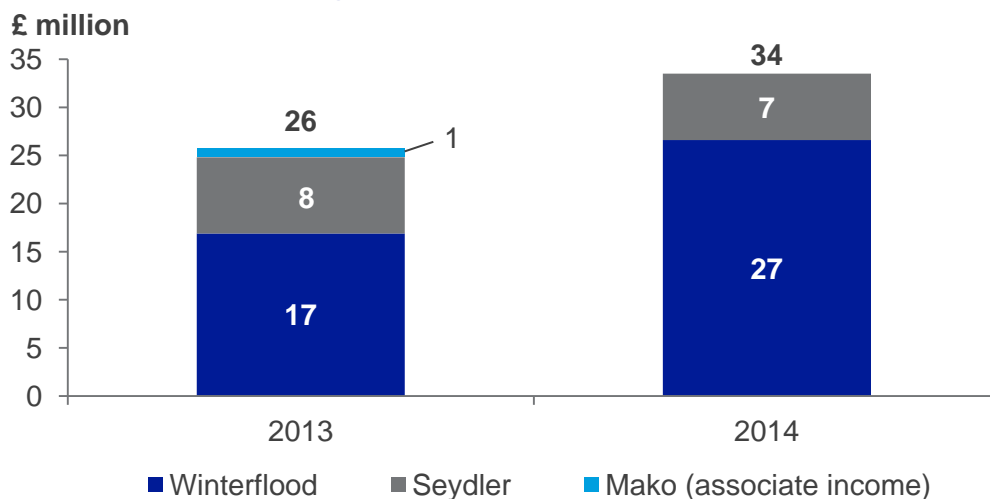
- **Net interest margin of 8.6%**
  - Slight decline as lower cost of funding offset by reduction in fees
- **Continued improvement in bad debt ratio to 0.9%**
  - Strong underwriting process and favourable lending environment
- **Return on net loan book increased to 3.7%**
  - Reflecting lower impairments

# Securities

Improved trading conditions

£ million	2014	2013	% change
Adjusted operating income	127.4	106.3	20%
Adjusted operating expenses	(93.9)	(80.6)	17%
<b>AOP</b>	<b>33.5</b>	<b>25.7</b>	<b>30%</b>
RoE <sup>1</sup>	26%	20%	
Operating margin <sup>1</sup>	26%	24%	

## Adjusted operating profit by business



Note:  
<sup>1</sup> RoE and operating margin calculations exclude associate income.

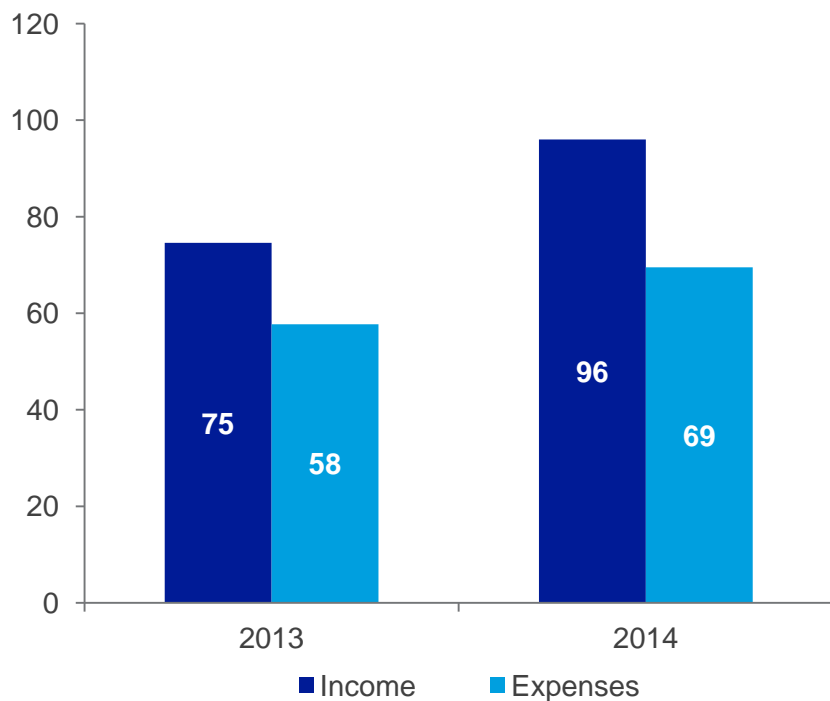
- **AOP up 30% to £34 million**
  - Reflects **57%** increase in **Winterflood's** profit to **£27 million**
- **Improved trading conditions** and investor risk appetite
  - **Higher margin trading** and **increased volumes** at **Winterflood**
- Consistent performance in **Seydler**
  - **Increased trading volumes** offset by modest decline in **capital markets fees**
- **RoE improved to 26%**

# Securities

Improved trading in smaller cap stocks at Winterflood

## Winterflood's income and expenses

£ million



## Key figures

	2014	2013
Average bargains per day	56k	47k
Income per bargain	£6.81	£6.33
Loss days	4	8

- Benefited from increased **retail investor risk appetite**, particularly in **AIM** and **small cap** stocks
  - Improved **average bargains per day** of **56k**
  - **Income per bargain** increased to **£6.81** due to change in mix
- **Improved operational efficiency**
  - **Highly variable** cost base
- **AOP** increased to **£27 million**

# Asset Management

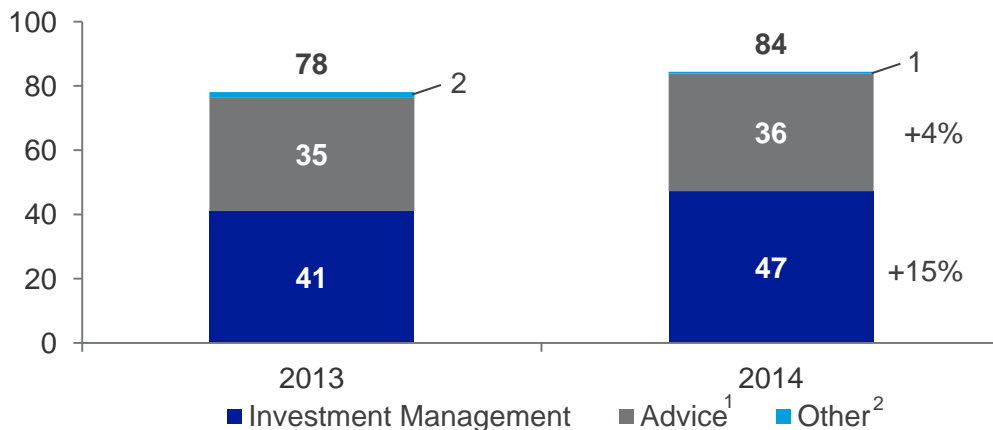
Good performance that builds on prior year momentum

£ million	2014	2013	% change
Adjusted operating income	84.4	78.1	8%
Adjusted operating expenses	(74.5)	(74.1)	1%
<b>AOP</b>	<b>9.9</b>	<b>4.0</b>	<b>148%</b>
RoE	25%	10%	
Operating margin	12%	5%	

- **Income up 8% to £84 million**
  - Reflects growth in **advice** and **investment management**
- **Expenses of £75 million**
  - Good operating leverage on **stable cost base**
- AOP more than doubled to **£10 million**

## Income

£ million



Notes:

<sup>1</sup> Income from financial advice and self directed services, excluding investment management income.

<sup>2</sup> Interest income and expense, income on investment assets and other income.

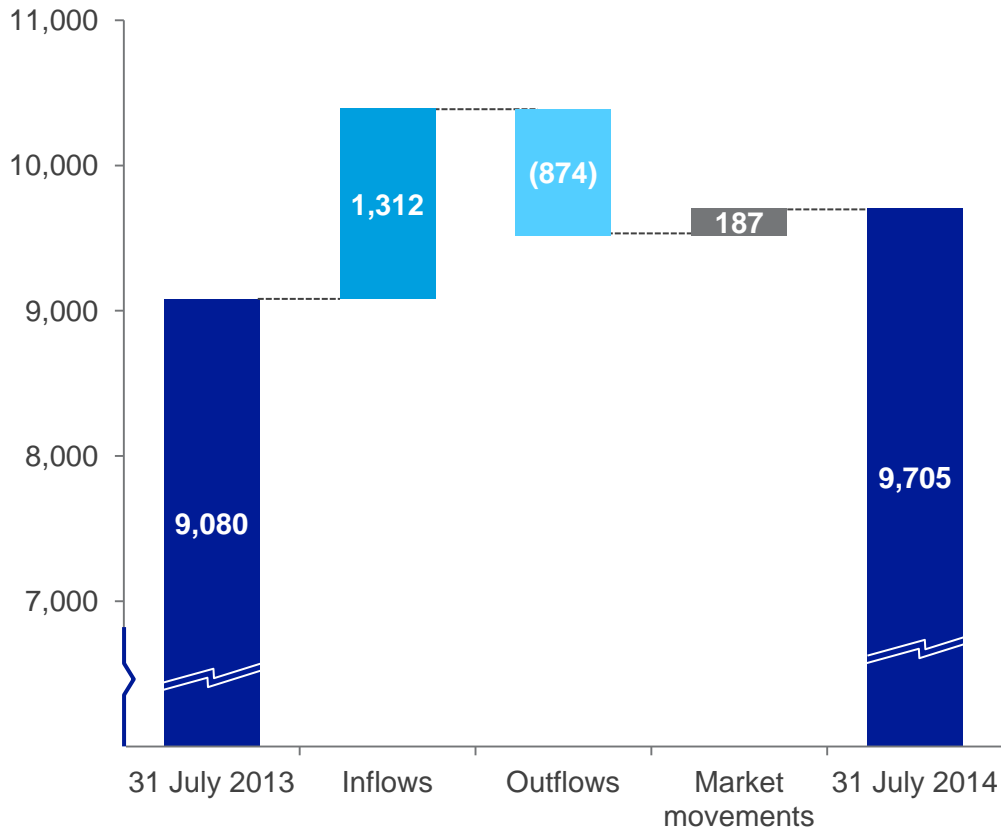


# Asset Management

Overall AuM increased with improved mix

## AuM

£ million



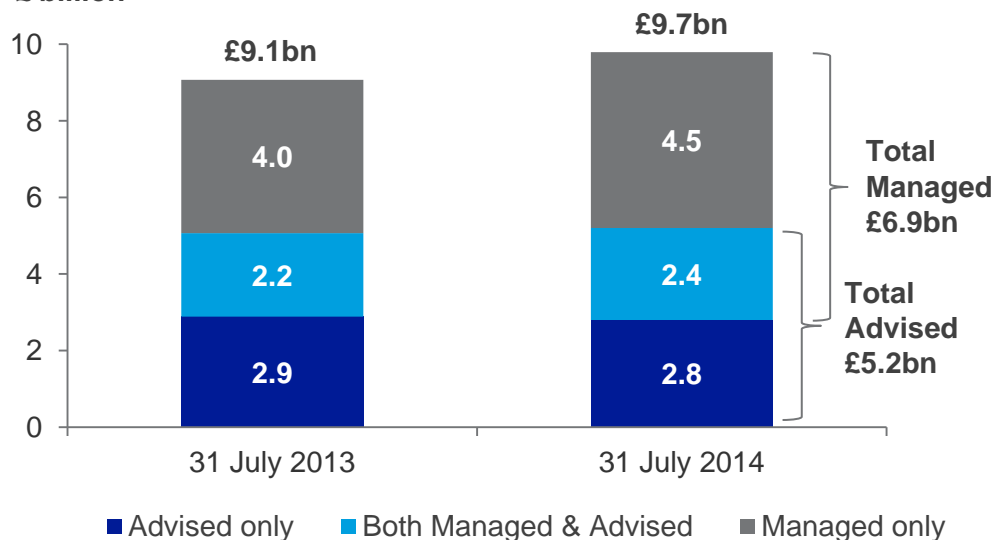
- **7% increase in total AuM**
  - Reflects high quality proposition and breadth of distribution
- **Net inflows of £0.4 billion**
  - 5% opening AuM
- **Gross inflows of £1.3 billion, up 9%**
  - Strong demand from 3<sup>rd</sup> party IFAs
  - Growing distribution network
- **Outflows reduced to £0.9 billion**
  - Client drawdowns in normal course of business
- Supported by **positive market movements**

# Asset Management

Income drivers – AuM and revenue margin

## Assets under Management

£ billion



## Revenue Margin

£ billion	AuM	Revenue Margin <sup>1</sup>
Advice and other services <sup>2</sup>	5.2	71 bps
Investment management	6.9	72 bps
<i>Managed and advised<sup>3</sup></i>	2.4	> 100 bps
<b>Total</b>	<b>9.7</b>	<b>89 bps</b>

Notes:

<sup>1</sup> Based on average AuM of £9.4 billion (2013: £8.7 billion).

<sup>2</sup> Includes financial planning and self directed assets.

<sup>3</sup> Included in Advice and other services and Investment management AuM above.

- **12% growth in managed AuM to £6.9 billion**
  - Strong 3<sup>rd</sup> party IFA sales and good inflows into bespoke
- **Advised AuM up 2% to £5.2 billion**
  - Driven by positive market movements
- **AuM both managed and advised up 9% to £2.4 billion**
  - Now **46%** total advised AuM
  - Benefiting the revenue margin
- Overall **revenue margin** improved slightly to **89 bps**

# Agenda

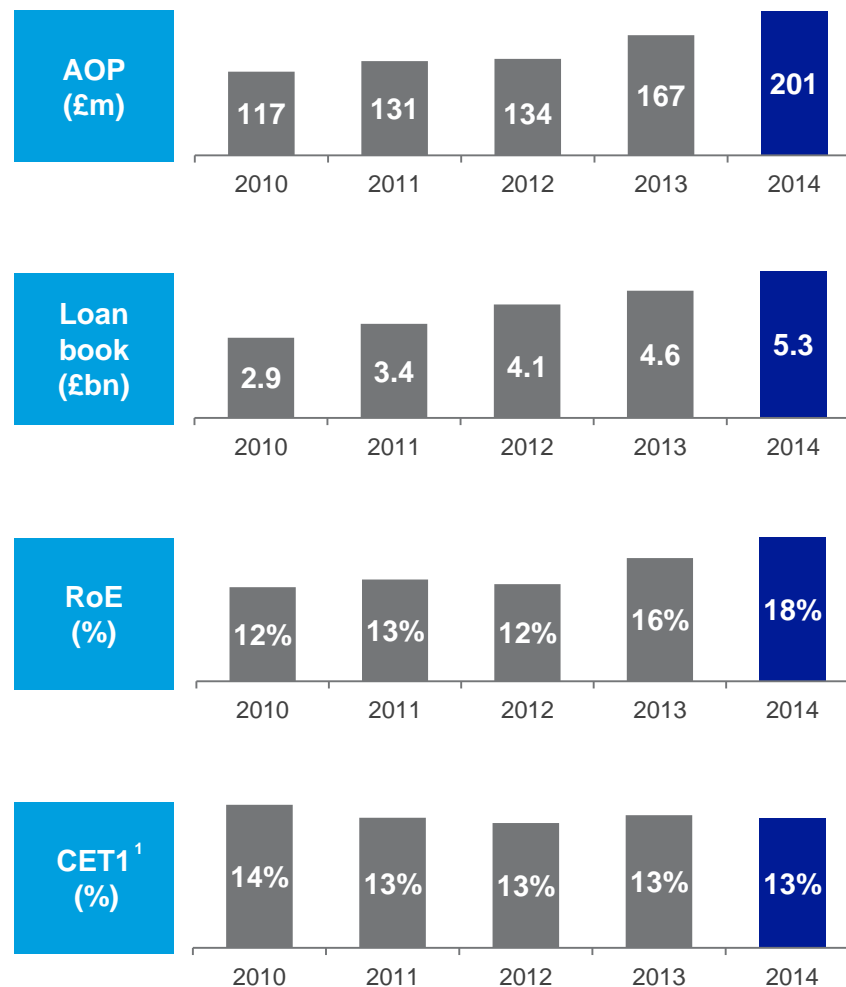
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1. Introduction – Preben Prebensen, Group Chief Executive
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# Close Brothers

Executing a well defined strategy

- **Strong top line growth**
  - AOP CAGR of 15% p.a. since FY 2010
- **Resilience to downside risk**
  - Diverse income streams maximise profitability in all conditions
  - Disciplined approach to lending
- **Excellent net returns**
  - **RoE up to 18%**
  - **Dividend up by 10%** in FY14
    - › 4<sup>th</sup> consecutive year of increase
- **Strong capital position**
  - Supports loan book growth
  - Enabled restructuring of Asset Management



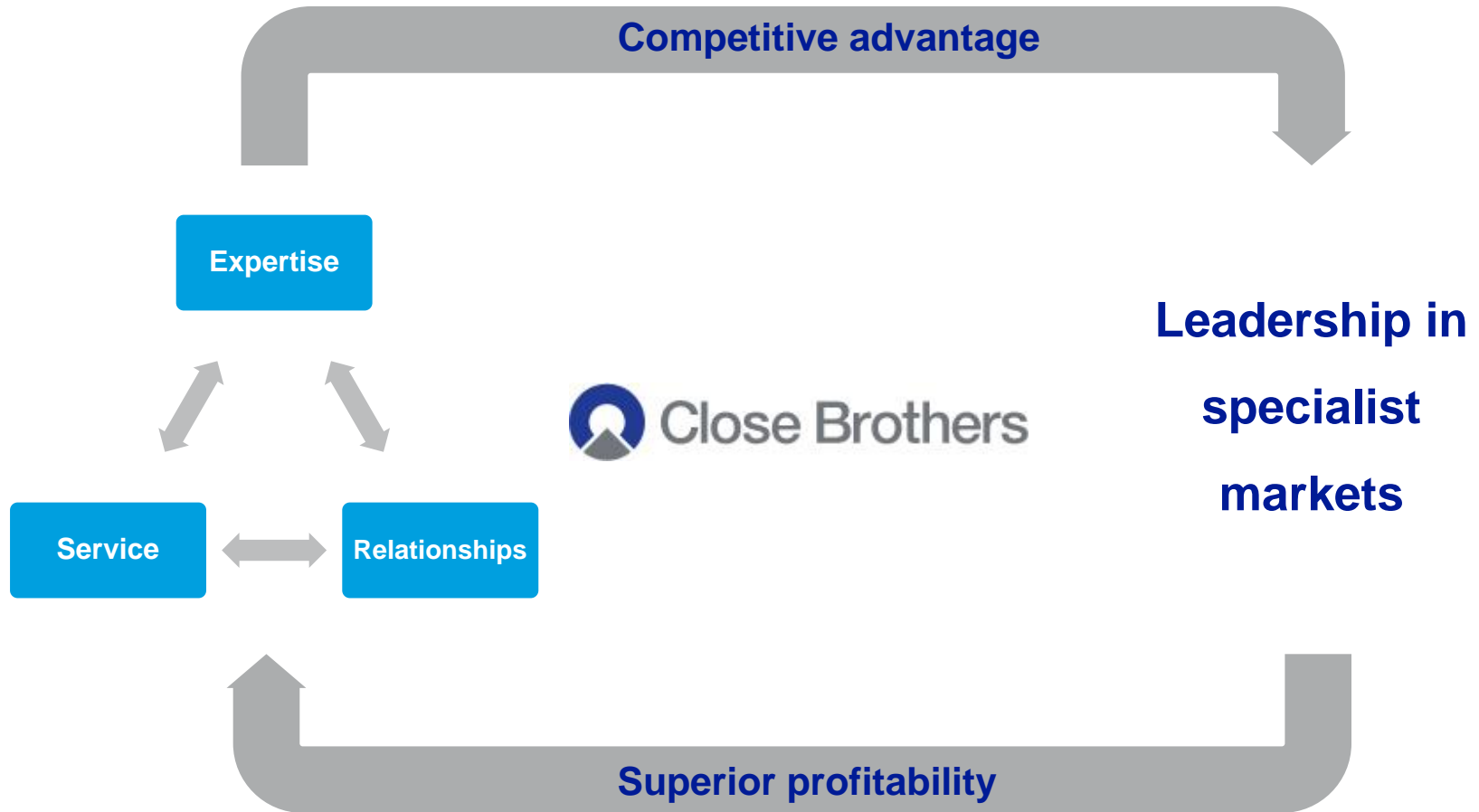
Note:

<sup>1</sup> The highest quality capital is defined as "common equity tier 1" ("CET1"). The comparatives are based on the legislative definition of core tier 1 capital at that time.

# Modern Merchant Banking

Reinforcing our credentials around our core competencies

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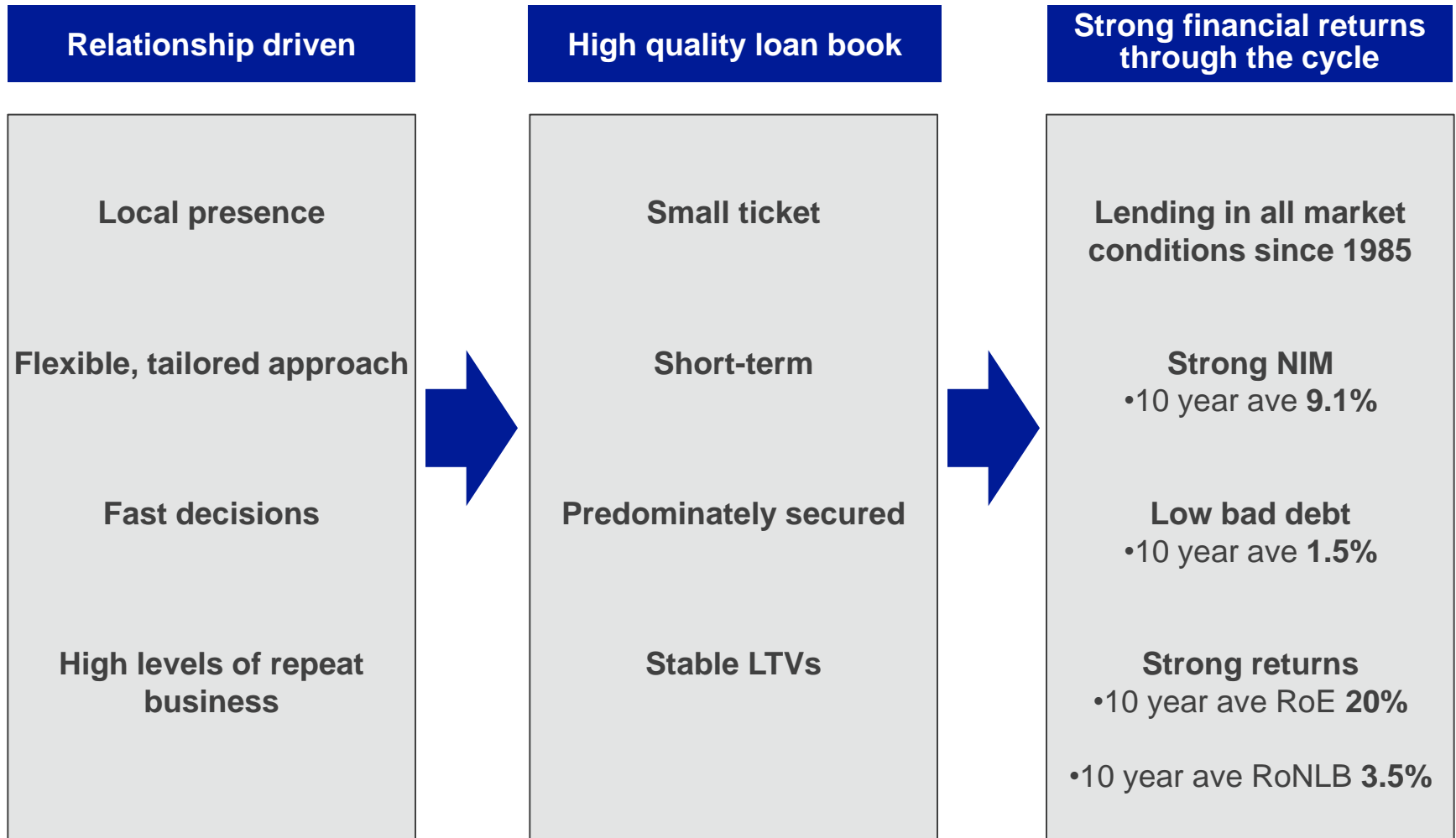
# Modern Merchant Banking

Prioritising investment to build our competitive advantage

	Strategic priority	Competitive advantage
People	<ul style="list-style-type: none"><li>• Provide a trusted, reliable service</li></ul>	<ul style="list-style-type: none"><li>• Long-term customer relationships</li><li>• Experts in pricing and managing risk</li></ul>
Regulation	<ul style="list-style-type: none"><li>• Offer straightforward and transparent products</li></ul>	<ul style="list-style-type: none"><li>• Simple structure and activities</li><li>• Strong balance sheet</li></ul>
Technology	<ul style="list-style-type: none"><li>• Adapt to a changing environment</li></ul>	<ul style="list-style-type: none"><li>• Scalable infrastructure</li><li>• Increased efficiency and enhanced processes</li></ul>

# Banking

Customer focused lending to SMEs and individuals in all market conditions



# Banking

Environment remains supportive of growth

## We will stick to our lending model

- Pursue existing opportunities
  - Competitive landscape remains **fragmented**
    - › Cyclical return of competition in some sectors
    - › Offset by improved demand in Property and motor finance
    - › No broad based increase in SME demand

## Where possible, we will expand into adjacent sectors or geographies

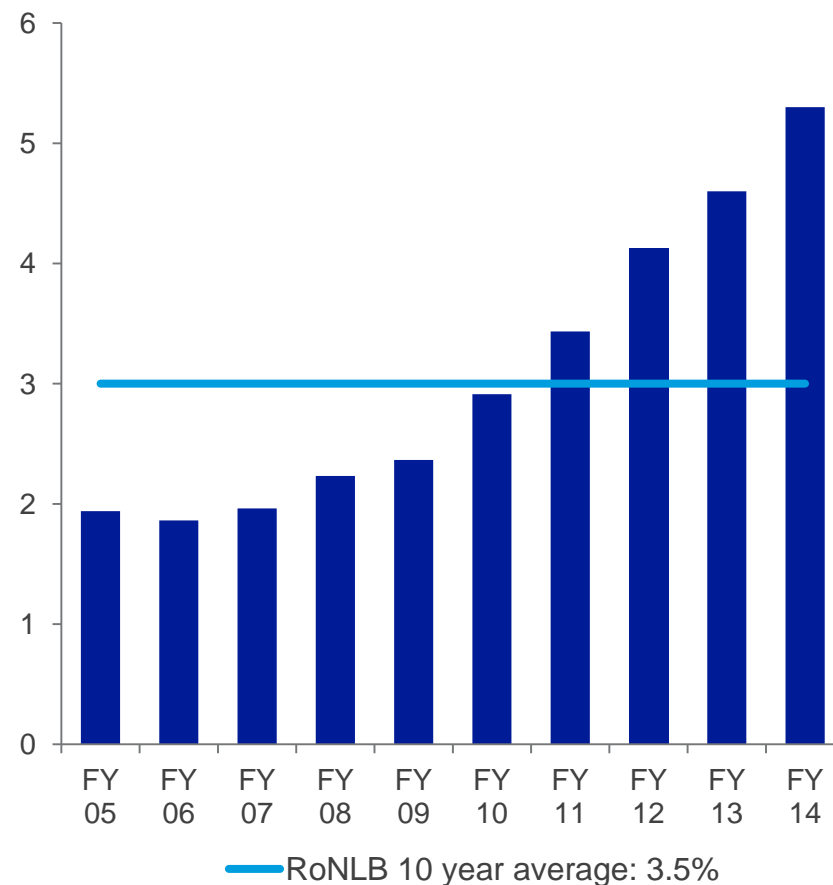
- Always been a key component of Bank growth
  - Close Brewery Rentals: 2007
  - Motor Key Accounts: 2009
  - Ireland: 2011

## While maintaining our strong overall returns

- Strict underwriting discipline

## Loan book growth

£ billion



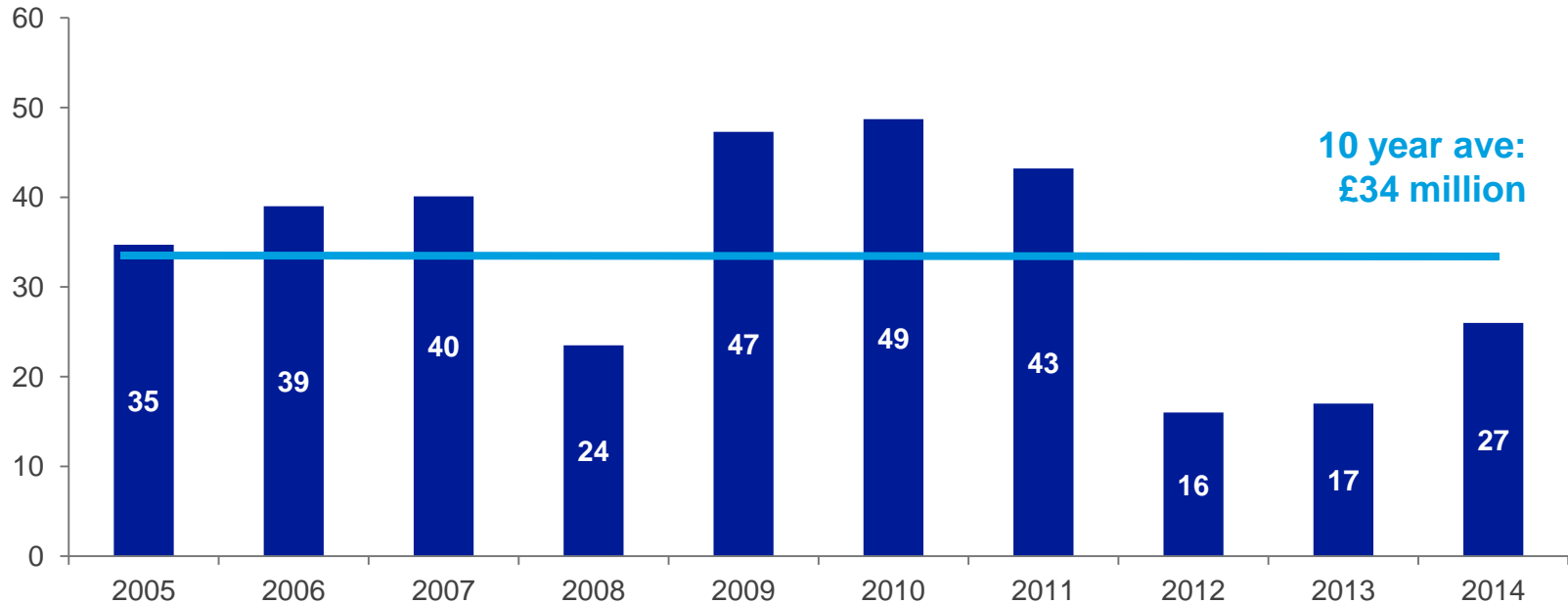


# Winterflood

Increased profitability as trading conditions improve

## AOP

£ million



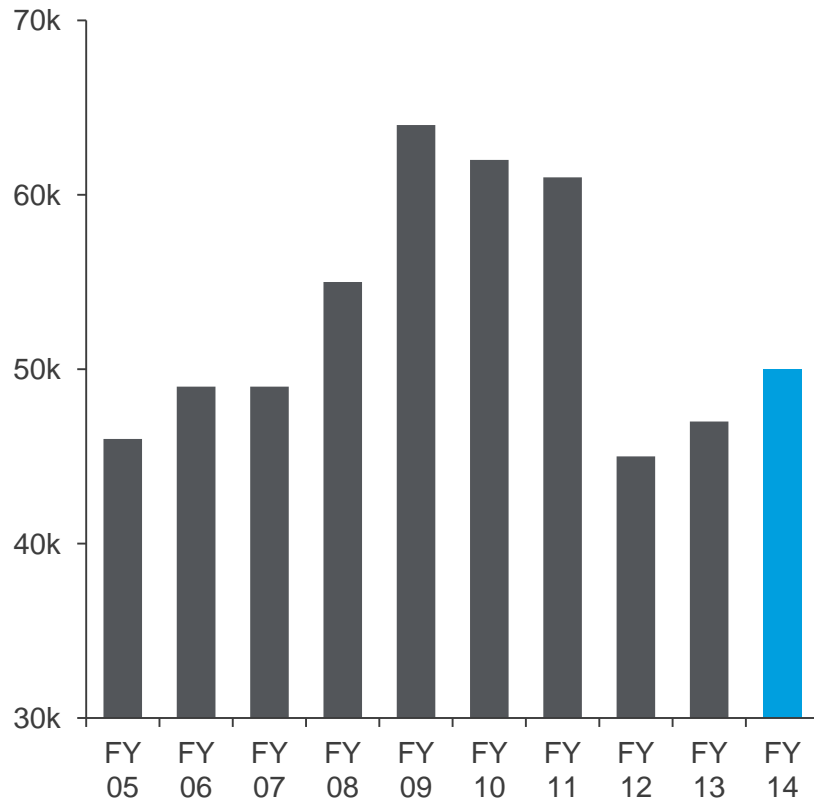
Loss days

5	4	1	14	7	4	1	13	8	4
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# Winterflood

Well positioned for a stronger cyclical recovery

## UK Retail trading volumes<sup>1</sup>

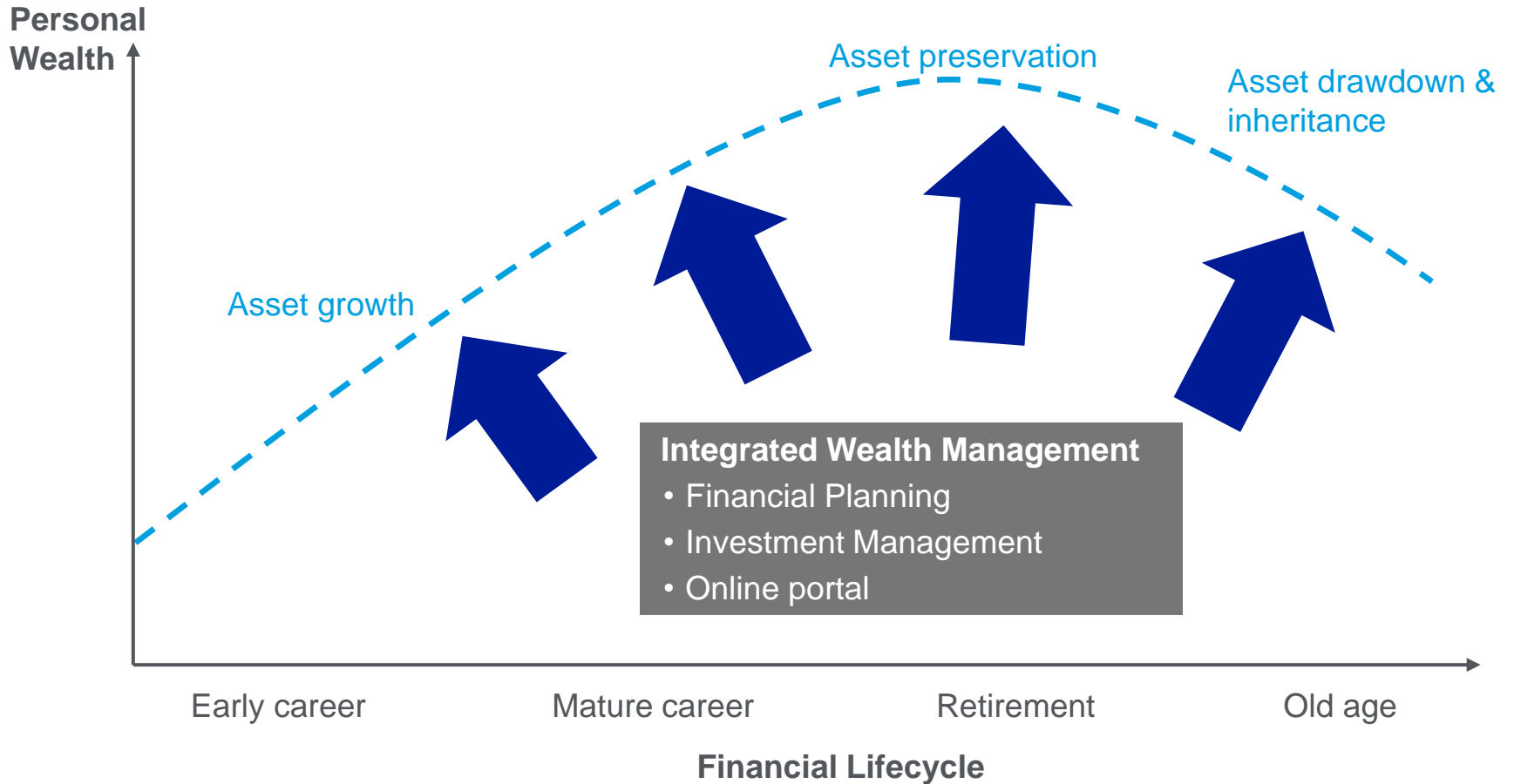


Note:  
<sup>1</sup> Retail market average daily volumes in respect of UK equity trading on a 'principal to agent' basis across the LSE and ISDX.

- Focused on maintaining **market leading position**
  - Maximise existing revenue opportunities
  - Guaranteed **best execution**
    - › Provide client led solutions
    - › Supported by proprietary IT technology
- New initiatives **build on our core capabilities**
  - Continued expansion of **international** offering
- Broad market coverage protects our returns

# Asset Management

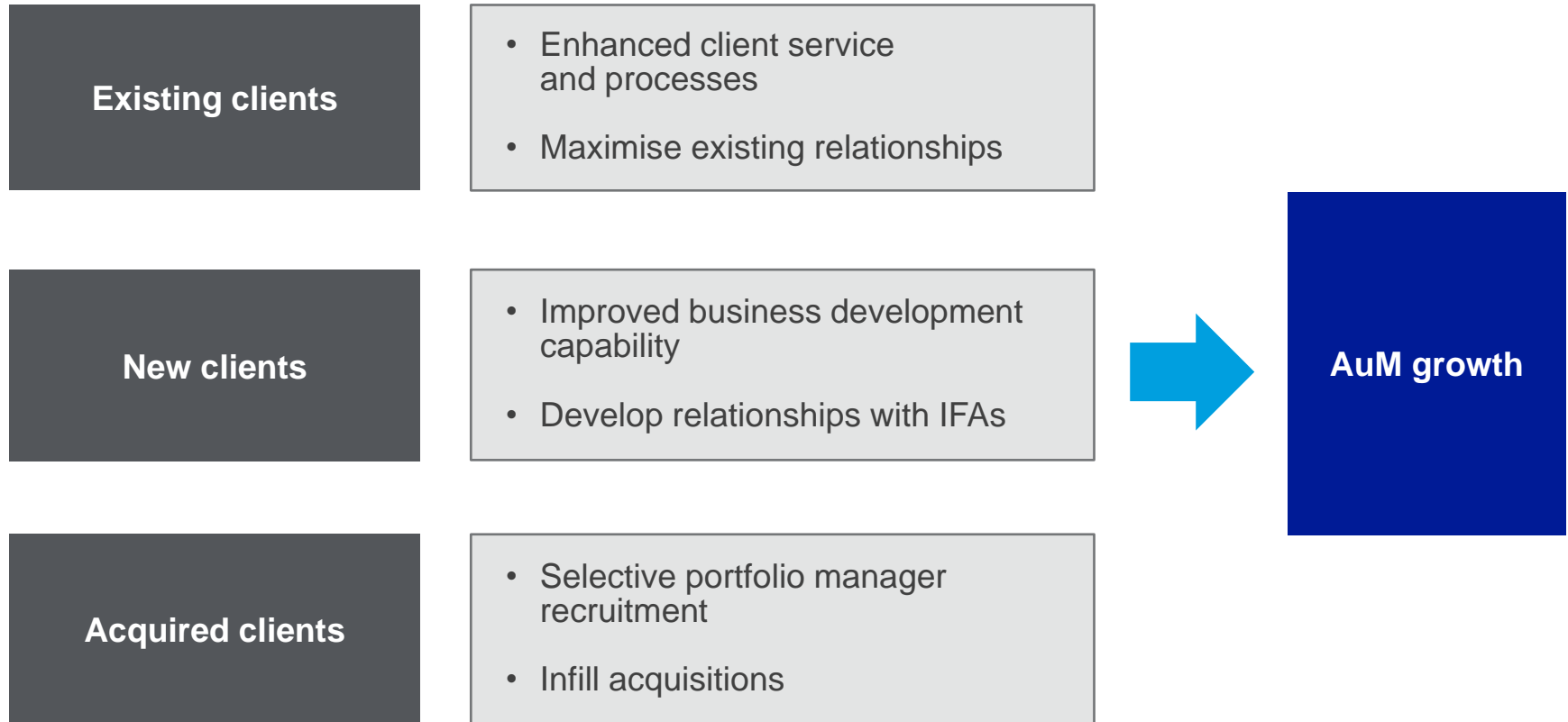
Propositions to help clients achieve their financial goals at every stage in life



# Asset Management

Multiple opportunities to grow the business

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# Outlook

We see growth opportunities in all of our businesses

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- We are **well placed to deliver for our customers and our shareholders**
  - In **Banking** we see continued growth opportunities in our core markets
  - **Winterflood** is well positioned but will always be sensitive to market conditions
  - **Asset Management** is well placed to deliver growth at attractive margins as it builds scale
  
- **We enter 2015 with confidence**

# Agenda

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# **Preliminary Results FY 2014**

23 September 2014

# Appendix

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# Segmental analysis

## Summary income statement

£ million	Banking	Securities	Asset Management	Group	Total
<b>Full year to 31 July 2014</b>					
Adjusted operating income	446.7	127.4	84.4	0.7	659.2
Administrative expenses	(194.7)	(92.5)	(73.1)	(24.4)	(384.7)
Depreciation and amortisation	(26.3)	(1.4)	(1.4)	(0.7)	(29.8)
Impairment losses on loans and advances	(44.1)	-	-	-	(44.1)
<b>Adjusted operating profit/(loss)</b>	<b>181.6</b>	<b>33.5</b>	<b>9.9</b>	<b>(24.4)</b>	<b>200.6</b>
Exceptional items and other adjustments <sup>1</sup>	(0.5)	-	(4.4)	-	(4.9)
<b>Operating profit/(loss) before tax</b>	<b>181.1</b>	<b>33.5</b>	<b>5.5</b>	<b>(24.4)</b>	<b>195.7</b>
<b>Full year to 31 July 2013</b>					
Adjusted operating income	396.2	106.3	78.1	2.3	582.9
Administrative expenses	(168.2)	(78.7)	(72.6)	(22.5)	(342.0)
Depreciation and amortisation	(19.0)	(1.9)	(1.5)	(0.7)	(23.1)
Impairment losses on loans and advances	(50.6)	-	-	-	(50.6)
<b>Adjusted operating profit/(loss)</b>	<b>158.4</b>	<b>25.7</b>	<b>4.0</b>	<b>(20.9)</b>	<b>167.2</b>
Exceptional items and other adjustments <sup>1</sup>	(0.6)	1.6	(4.4)	-	(3.4)
<b>Operating profit/(loss) before tax</b>	<b>157.8</b>	<b>27.3</b>	<b>(0.4)</b>	<b>(20.9)</b>	<b>163.8</b>

Note:

<sup>1</sup> Includes exceptional income on the phased sale of Mako and amortisation of intangible assets.

# Segmental analysis

Summary balance sheet at 31 July 2014

£ million	Banking	Securities	Asset Management	Group	Total
Cash and loans and advances to banks	1,225.1	16.2	17.5	0.4	1,259.2
Settlement balances, long trading positions and loans to money brokers	-	634.8	-	-	634.8
Loans and advances to customers	5,289.7	-	-	-	5,289.7
Non-trading debt securities	45.6	-	-	-	45.6
Intangible assets	61.7	28.1	56.4	0.1	146.3
Other assets	251.6	19.6	34.0	19.6	324.8
<b>Total assets</b>	<b>6,873.7</b>	<b>698.7</b>	<b>107.9</b>	<b>20.1</b>	<b>7,700.4</b>
Settlement balances, short trading positions and loans from money brokers	-	522.4	-	-	522.4
Deposits by banks	49.6	-	-	-	49.6
Deposits by customers	4,510.3	3.4	-	-	4,513.7
Borrowings	1,229.7	6.0	-	205.3	1,441.0
Other liabilities	145.5	40.8	52.7	17.1	256.1
Intercompany balances	330.6	27.1	18.8	(376.5)	-
<b>Total liabilities</b>	<b>6,265.7</b>	<b>599.7</b>	<b>71.5</b>	<b>(154.1)</b>	<b>6,782.8</b>
Equity	608.0	99.0	36.4	174.2	917.6
<b>Total liabilities and equity</b>	<b>6,873.7</b>	<b>698.7</b>	<b>107.9</b>	<b>20.1</b>	<b>7,700.4</b>

# Segmental analysis

Summary balance sheet at 31 July 2013

£ million	Banking	Securities	Asset Management	Group	Total
Cash and loans and advances to banks	984.4	24.8	15.3	0.7	1,025.2
Settlement balances, long trading positions and loans to money brokers	-	595.5	-	-	595.5
Loans and advances to customers	4,645.6	-	-	-	4,645.6
Non-trading debt securities	96.2	-	-	-	96.2
Intangible assets	51.2	28.7	61.6	0.1	141.6
Other assets	251.8	30.6	24.9	19.7	327.0
<b>Total assets</b>	<b>6,029.2</b>	<b>679.6</b>	<b>101.8</b>	<b>20.5</b>	<b>6,831.1</b>
Settlement balances, short trading positions and loans from money brokers	-	491.7	-	-	491.7
Deposits by banks	66.6	-	-	-	66.6
Deposits by customers	4,014.8	0.6	-	-	4,015.4
Borrowings	954.0	11.4	-	204.8	1,170.2
Other liabilities	148.5	37.4	45.5	19.3	250.7
Intercompany balances	294.3	40.5	24.6	(359.4)	-
<b>Total liabilities</b>	<b>5,478.2</b>	<b>581.6</b>	<b>70.1</b>	<b>(135.3)</b>	<b>5,994.6</b>
Equity	551.0	98.0	31.7	155.8	836.5
<b>Total liabilities and equity</b>	<b>6,029.2</b>	<b>679.6</b>	<b>101.8</b>	<b>20.5</b>	<b>6,831.1</b>

# Funding maturity profile

## Prudent funding maturity

£ million	Total	<3 months	3-12 months	1-2 years	2-5 years	>5 years
Debt securities in issue	849	1	349	228	271	-
Subordinated loan capital	77	2	-	-	-	75
<b>Drawn facilities<sup>1</sup></b>	<b>926</b>	<b>3</b>	<b>349</b>	<b>228</b>	<b>271</b>	<b>75</b>
Undrawn facilities	265	-	115	150	-	-
Senior unsecured bonds	505	6	-	-	199	299
Deposits by customers	4,514	1,422	1,533	1,399	160	-
Equity	918	-	-	-	-	918
<b>Total available funding – 31 July 2014</b>	<b>7,128</b>	<b>1,431</b>	<b>1,998</b>	<b>1,777</b>	<b>630</b>	<b>1,292</b>
Total available funding – 31 July 2013	6,268	1,112	1,841	1,324	1,079	912
<b>Movement</b>	<b>860</b>	<b>319</b>	<b>157</b>	<b>453</b>	<b>(449)</b>	<b>380</b>

Note:

<sup>1</sup> Drawn facilities exclude £4.4 million (31 July 2013: £19.3 million) of non-facility overdrafts included in borrowings in the group's financial statements.

# Banking

## Loan book and lending statistics by business

Loan book, £ million	31 July 2014	31 July 2013	% change
<b>Retail</b>	<b>2,092.8</b>	<b>1,906.0</b>	<b>10%</b>
Motor finance	1,458.9	1,278.3	14%
Premium finance	633.9	627.7	1%
<b>Commercial</b>	<b>2,047.2</b>	<b>1,845.7</b>	<b>11%</b>
Asset finance	1,656.0	1,482.3	12%
Invoice finance	391.2	363.4	8%
<b>Property</b>	<b>1,149.7</b>	<b>893.9</b>	<b>29%</b>
<b>Closing loan book</b>	<b>5,289.7</b>	<b>4,645.6</b>	<b>14%</b>

Lending statistics	Typical LTV <sup>1</sup>	Average loan size <sup>2</sup>	Typical loan maturity <sup>3</sup>	Number of customers
Motor finance	75-85%	£6k	2-3 yrs	249k
Premium finance	90%	£500	10 mths	1.6m
Asset finance	85%	£35k	42 mths	26k
Invoice finance	80%	£314k	2-3 mths	1k
Property finance	50-60%	£1.1m	6-18 mths	900

Notes: Lending statistic figures are for illustrative purposes only.

<sup>1</sup> Typical LTV on new business. Motor Finance is based on the retail price of the vehicle financed. Premium finance LTV based on premium advanced.

<sup>2</sup> Approximations at 31 July 2014.

<sup>3</sup> Typical loan maturity for new business on a behavioural basis.



LENDING | DEPOSITS | WEALTH MANAGEMENT | SECURITIES

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