

# Banking Division Presentation to Investors and Analysts

24 November 2010

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Regarding information in this presentation

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# Agenda

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- 1. Introduction – Preben Prebensen, Group Chief Executive**
- 2. Banking Division overview – Stephen Hodges, Banking Division Chief Executive**
- 3. Commercial – Mary McNamara, Commercial Managing Director**
- 4. Retail – Bob Golden, Retail Managing Director**
- 5. Treasury – Malcolm Hook, Treasurer**
- 6. Conclusion – Stephen Hodges, Banking Division Chief Executive**
- 7. Q&A**

# Introduction

Banking - a leader in specialised finance in the UK

- **Banking** is a **very significant** contributor to the group
- **Specialised** and **disciplined** approach to **niche** lending
- 25 year history, **tested robust model**
  - Current favourable **environment** - actively growing market share
  - **Investment to maintain share** through cycle and **retain margins**
- **Strengthened management** team
- Continue to review **growth opportunities**
  - Focus on UK

## Close Brothers Group - Adjusted operating profit (continuing operations)

£ million	2010	2009	% change
<b>Adjusted operating profit</b>	121.3	113.7	7%
Of which:			
Banking	79.5	54.0	47%
Securities	59.3	64.9	(9)%
Asset Management	3.3	12.0	(73)%
Group	(20.8)	(17.2)	21%

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# Banking Division

Leading independent provider of specialist, expertise based finance in the UK

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## Key metrics

- **Loan book of over £2.9bn<sup>1</sup>**
- **Over 1,400 employees<sup>1</sup>**
- **Longstanding and loyal customer base**
  - Over 1.6 million customers<sup>1</sup>

## Key Attributes

1. **Distinctive business model**
2. **Focus on growth**
  - **Sustainability** and **quality** of earnings
3. **Operational efficiency**
4. **Credit quality**
5. **Conservative funding and liquidity**

*Note:*  
(1) At 31 July 2010

# 1. Distinctive business model

Operating through four streamlined divisions

## Retail

Premium Finance  
Motor Finance

- £1,202m loan book<sup>1</sup>
- **Intermediated lending** to over **1.4 million consumers** and **200,000 SMEs**
- **3,000 insurance brokers** and **5,800 motor dealers**

## Commercial

Asset Finance  
Invoice Finance

- £1,163m loan book<sup>1</sup>
- Commercial vehicles, equipment, light aircraft, and trade receivables
- **Direct and indirect lending** to over **17,000 SMEs**, in the UK, Ireland and Germany

## Property

Property Finance  
Commercial Acceptances

- £548m loan book<sup>1</sup>
- **Short-term** residential development and bridging finance
- Over 500 **property developers**

Treasury  
Funding and liquidity

Finance, HR, Procurement, Legal/Compliance, IT infrastructure

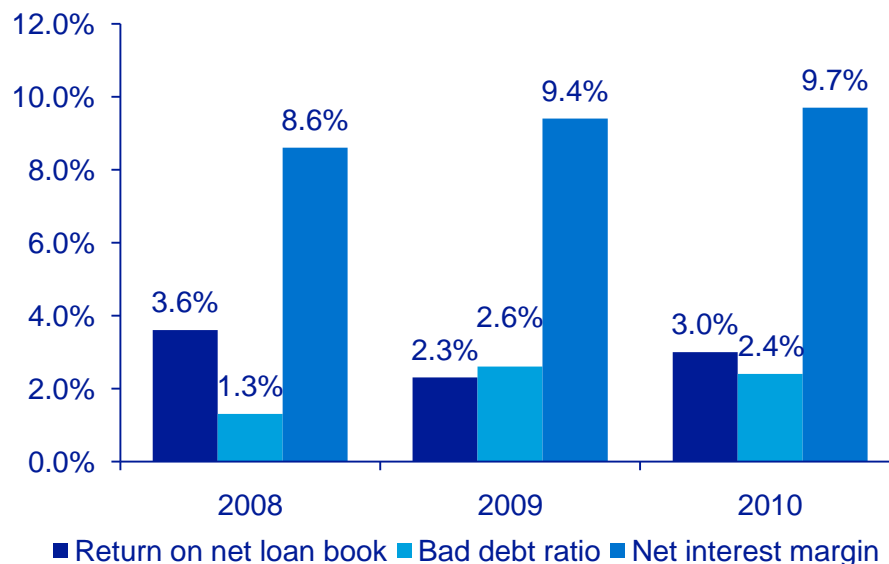
## 2. Focus on growth

Consistently strong financial performance in existing markets

- **Strong result in 2010 - sustainable growth** across all businesses, with demonstrable **growth in market share**
  - **47% increase in adjusted operating profit**
  - **23% growth in loan book to record £2.9bn**
- **Robust interest margin of 9.7%** - good demand for specialist lending services
- **Bad debt** – improved in FY 2010, **underlying trend is positive**
  - **Headroom** through the cycle
- **Lower expense/income ratio** – whilst investing in infrastructure

£m, 31 July	2008	2009	2010
Operating income	207	236	272
Operating expenses	(105)	(122)	(129)
Impairment losses	(27)	(60)	(63)
<b>Operating profit</b>	<b>75</b>	<b>54</b>	<b>80</b>
<b>Closing loan book</b>	<b>2,232</b>	<b>2,365</b>	<b>2,913</b>
Return on equity	18%	12%	20%
Expense/income ratio	51%	52%	47%

### Margin and bad debt analysis

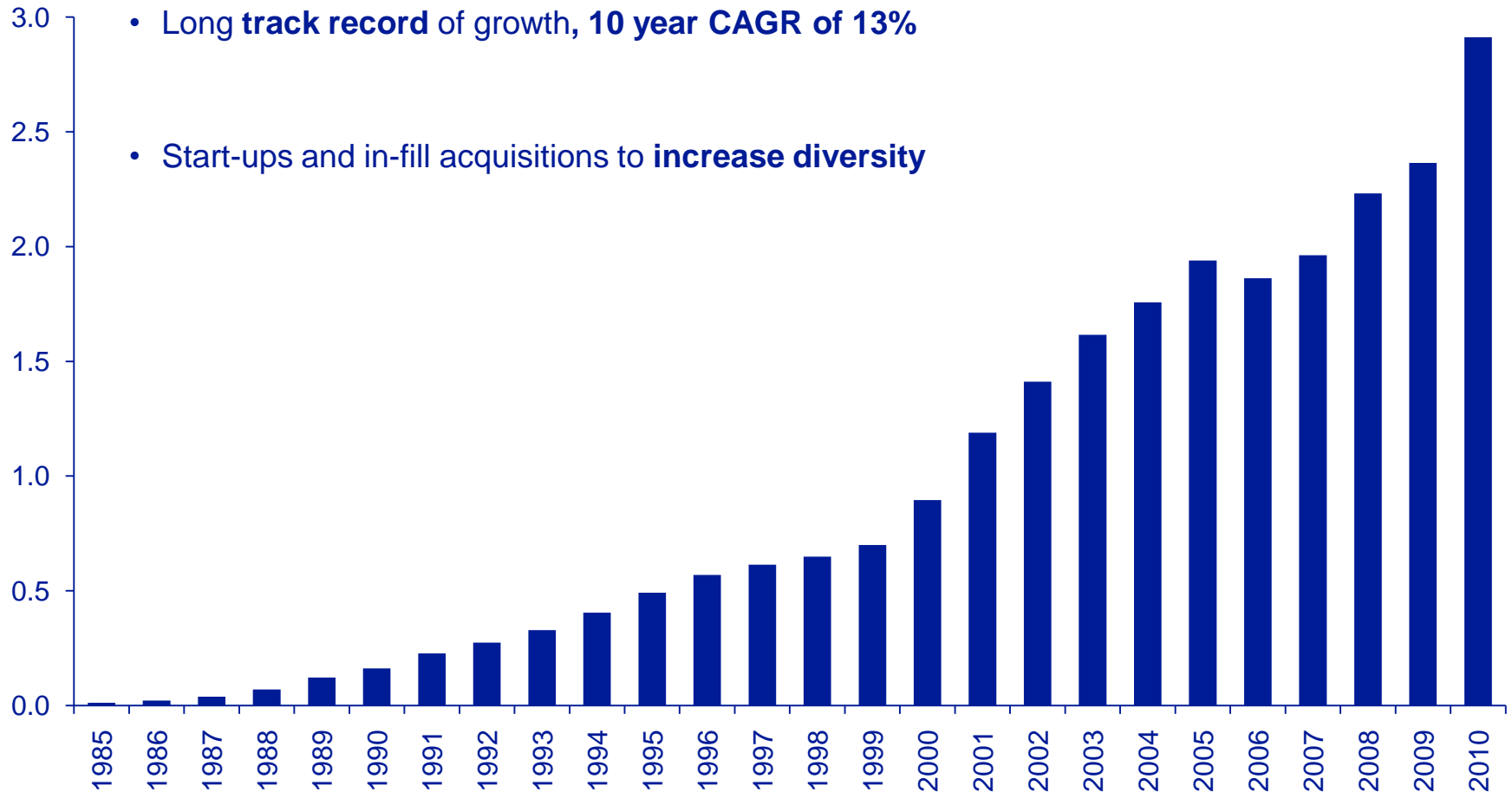




## 2. Focus on growth

Proven, sustainable growth

Loan book at 31 July (£bn)



Note:

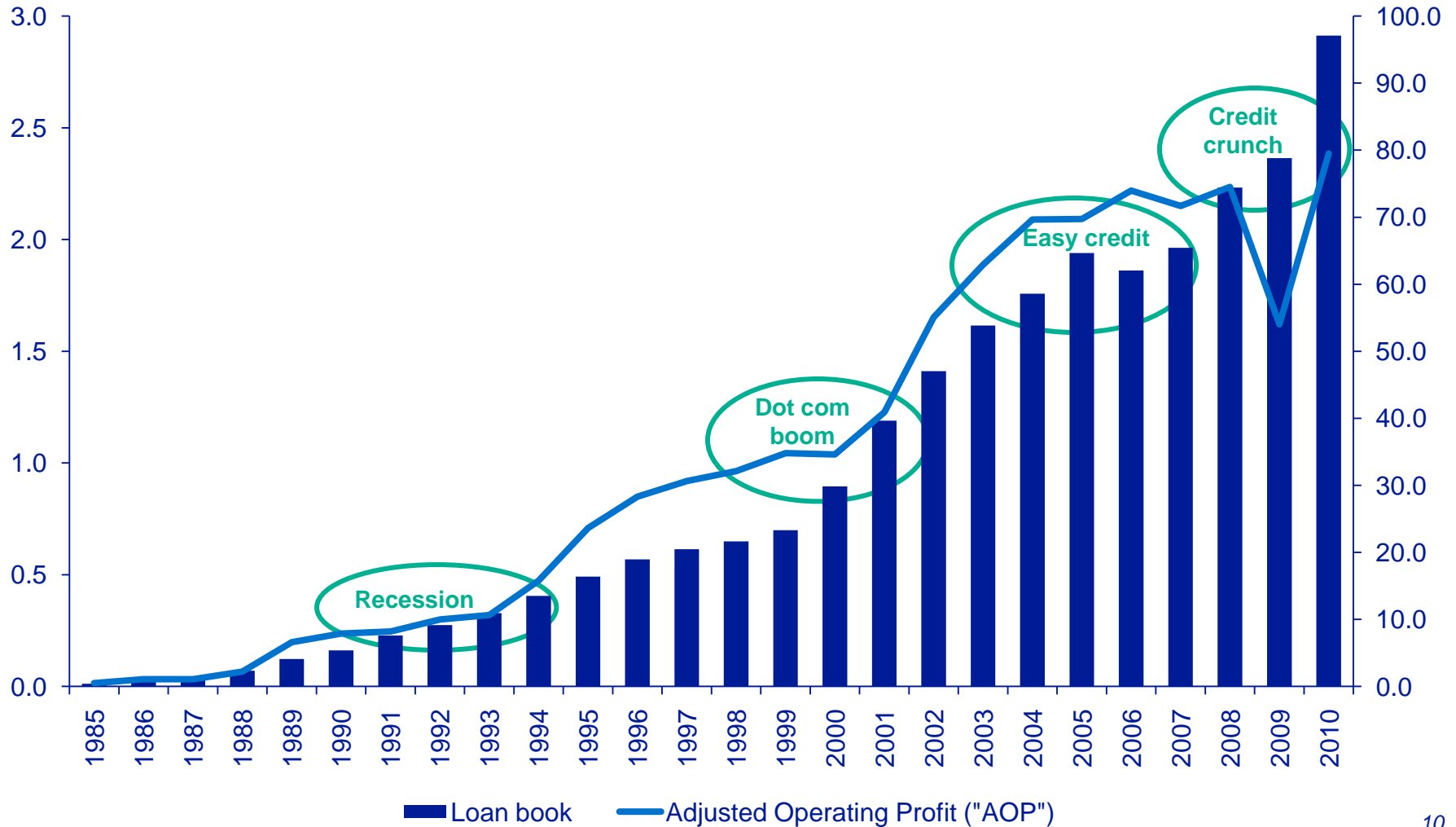
Reduction in 2006 loan book due to £0.2bn acquisition of Motor and Asset businesses in 2005.

# 2. Focus on growth

Throughout the cycle

Loan book at 31 July (£bn)

AOP (£m)



## 2. Focus on growth

Barriers to entry support sustainable growth

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- **Niche, expertise based lending**
- **Diverse loan book**
- **Bespoke IT systems**
- **Consistency of lending**
- **Customer loyalty**

## 2. Focus on growth

Actively positioning to grow market share

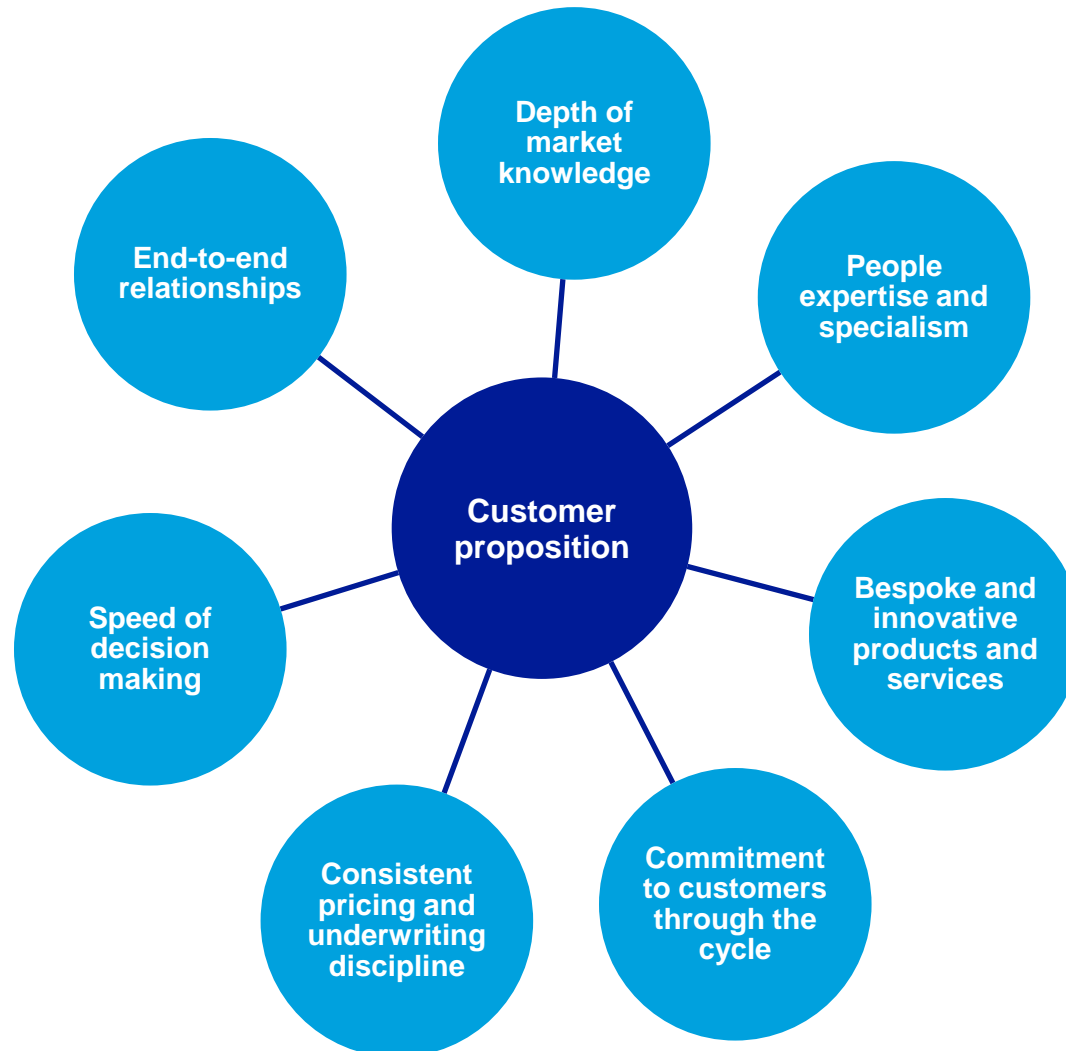
- **Growth outside** core business of **clearing banks**
  
- **Market share increasing**
  - Asset – **6%** share of new business
  - Invoice – **13%** of independent market
  - Motor – **9%** share of used car independent dealership
  - Premium – **approaching 5%** of UK gross written premiums, share of independent space **very substantial**
  - Property – **leading provider** of residential development lending <£5 million
  
- Achieved by
  - **Active focus** on our existing niches
  - **New initiatives** and **strategic in-fill** acquisitions where model can be replicated
  
- **Whilst maintaining consistent and disciplined approach to lending**



## 2. Focus on growth

Our customer proposition – how we win business

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# 3. Operational efficiency

Infrastructure with capacity and capability

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## Infrastructure

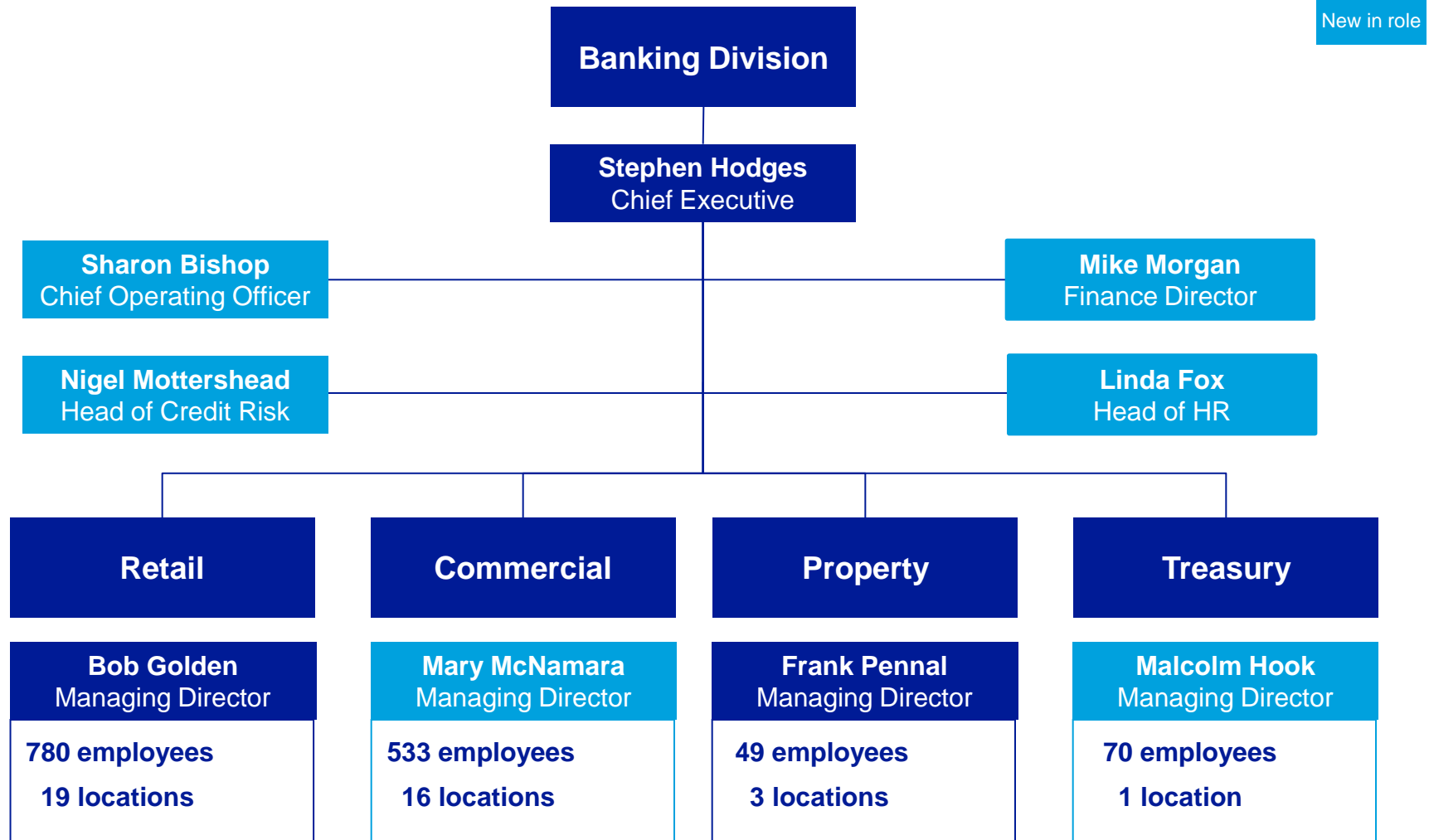
- Customer proposition supported by **enhanced central services** (e.g. HR, Finance, Legal/Compliance, IT, Procurement)
- **Breadth of distribution channels**
  - Tailored distribution strategy
- **Continuous investment** to achieve efficiency and **cost savings**
  - Benefit of experience
  - Group wide HR system
- **Scalable** operating model with **capability** and **capacity for growth**

## Governance

- **Conservative approach** to funding and liquidity management
- **Credit risk management** responsibility remains with local businesses, leveraging knowledge and experience
- **Strengthened** senior management **oversight**

# 3. Operational efficiency

Strengthened management team



Note:  
Headcount as at 31 July 2010

## 4. Credit quality

Disciplined and consistent approach to lending

- **Consistent** lending criteria unchanged through the cycle
  - **Local** underwriting expertise
  - High proportion of **secured lending**
  - **Conservative** loan to value ratios
  - **Low average loan size**
- **12 month average loan book maturity**
- **Diverse** loan book by business and asset class – **assets we know and like**
- **Highly responsive** approach to **collections** and **arrears management**
  - Work with customer and **act quickly**
  - **Knowledge** of asset, repossession value and ‘route-to exit’ prior to credit approval

### Typical lending statistics

31 July 2010	Typical LTV % at issue <sup>1</sup>	Average loan size <sup>2</sup>	Typical loan maturity <sup>3</sup>
Asset	80%	£21.0k	3 yrs
Premium	90%	£0.6k	10 mths
Property	50-60%	£754.4k	12-18 mths
Motor	75%	£4.5k	2-3 yrs
Invoice	80%	£222.7k	2-3 mths

Notes:

(1) Typical LTV on new business. Motor Finance is based on the retail price of the vehicle

(2) Net loan book on number of loans

(3) Typical loan maturity for new business on a behavioural basis

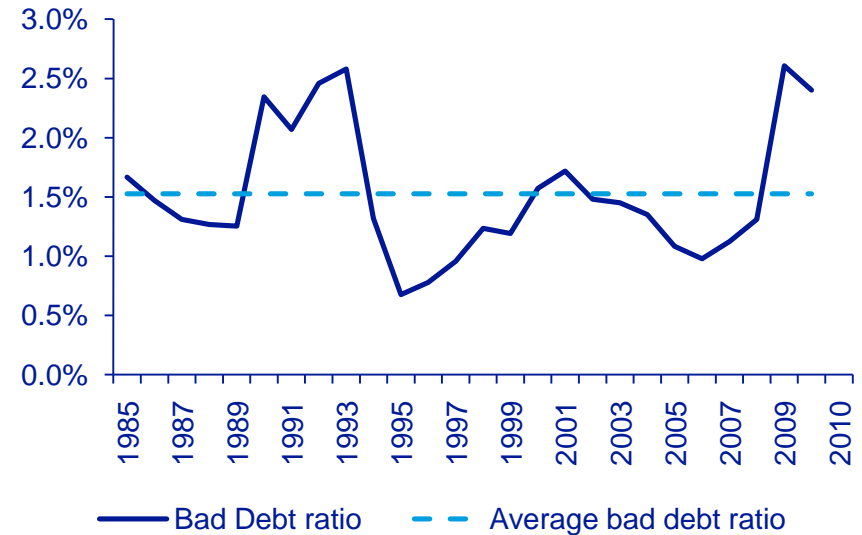


# 4. Credit quality

## Bad debt ratio trend

- **Disciplined underwriting** protects credit quality through the cycle
  - 1.5% average bad debt ratio over 25 years
  - 2.6% historical peaks
  
- **Currently towards high end of bad debt range**
  - **Underlying trend is positive**
  - FY 2011 bad debt ratio expected to be below prior year

**Bad debt ratio – 25 year trend**



# Strategic direction

Sustainable growth with high quality of earnings

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- **Distinctive business model**
  - Composition of loan book will remain largely unchanged
- **Focus on organic growth in core markets**
  - Grow and retain market share, principally in UK
  - Maintain strong margin
  - Explore adjacent areas
- **Retain growth and build further**
  - Maintain disciplined lending approach
- **Funding**
  - Focus on loan book and future growth
  - Diverse sources providing flexibility

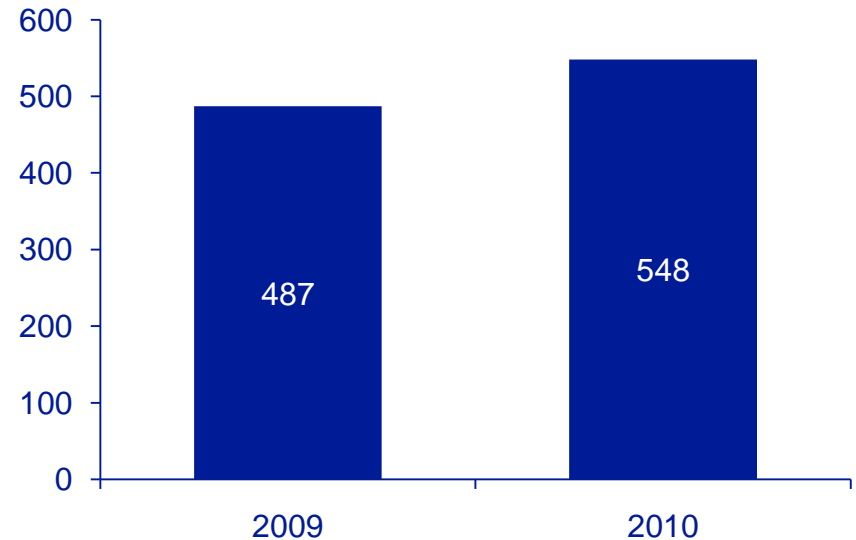
# Property – What we do

Specialist team, lending consistently to the market

- Part of Close Brothers for **over 25 years**
- Core market financing **short term** residential refurbishment / development
- **Other products include**
  - Commercial investment property portfolios
  - Commercial pre-let development
  - Residential investment
  - Bridging loans
- **UK coverage** from offices in City and West End, with recent expansion to Scotland
- **Remained profitable** with strong organic growth in FY 2010
  - **Loan book up c.12%** to £550m
  - **Customers up c.20%** to over 500



Loan book at 31 July (£m)



# Property

High quality service and disciplined lending

## What makes us different?

- **Specialist, experienced team**
- **Focus on our niche**
  - **Residential** refurbishment / development
  - Loans typically ranging from **£25k – £5m**
  - **Leading provider < £5m** lending
- **Relationship driven**
  - High levels of **repeat business**
  - **Bespoke, quick, flexible** solutions – **tailored** to customers
- **Consistent, disciplined lending** throughout the cycle, without compromising underwriting criteria
  - **Conservative LTVs** at 50% – 60% of completed development value
  - Independent lawyers / valuers



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# Commercial – What we do

40% of loan book and over 17,000 SME customers

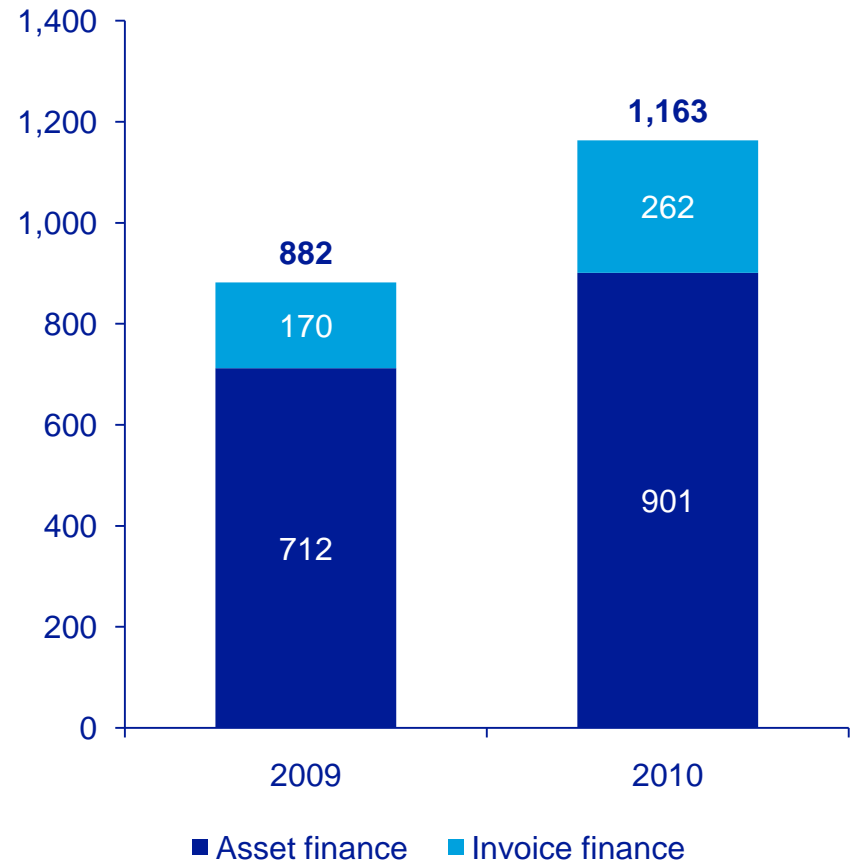
## Asset Finance

- Commercial vehicles, construction and manufacturing equipment and light aircraft
- Over **16,000 SME** customers
- Strong loan book **growth** with **improved credit profiles**
- **55% repeat business**

## Invoice Finance

- Invoice discounting and debt factoring
- **1,200 SME customers**
- Average loan size £220k over 2 - 3 months
- **Acquisition** of £94m **GMAC invoice financing**, providing access to larger-ticket deals

Commercial loan book at 31 July (£m)

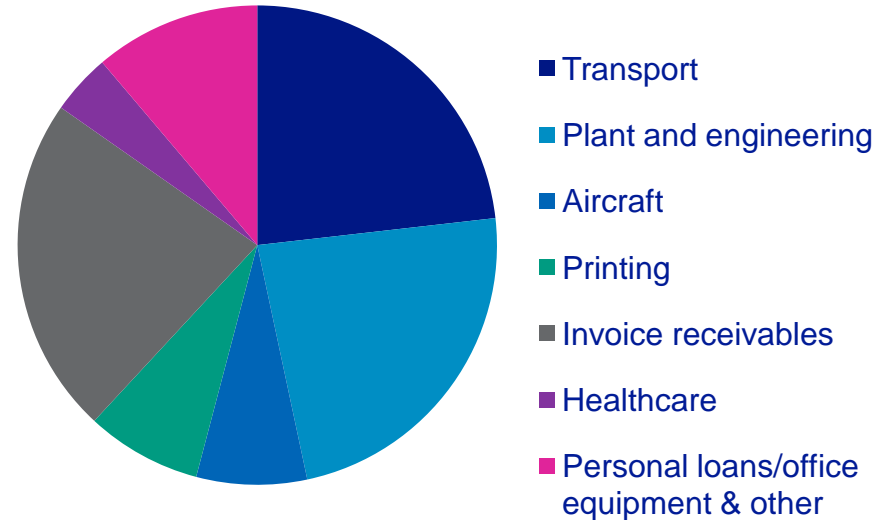


# Commercial

Award-winning provider of asset and invoice finance

- Majority **secured finance**
- **Flexible funding solutions**
  - Hire purchase, finance leases, operating leases and bespoke structured products
  - Invoice discounting and debt factoring
- **Loan book spread by asset and sector**
- **Market share increasing in a declining market**
  - Asset finance new business volumes: 6% (2009: 4%)
  - Invoice finance independent market: 13% (2009: 8%)
- **Supporting clients** through **difficult cycles**
- **Business partner** to **SMEs**

Commercial loan book by asset type at 31 July 2010



# Commercial

Working together to be the finance partner of choice

## What makes us different?

- **Market specialists**
  - **Depth** of knowledge – senior team has 27 years industry experience
  - **Diversity** of assets
- **Personalised, bespoke, responsive** service
  - **Cradle to grave** lending
- **Strong credit discipline**
  - **Asset value, quality and life**
  - **Clear exit routes**
- **Attractive returns** and **high quality loan book**

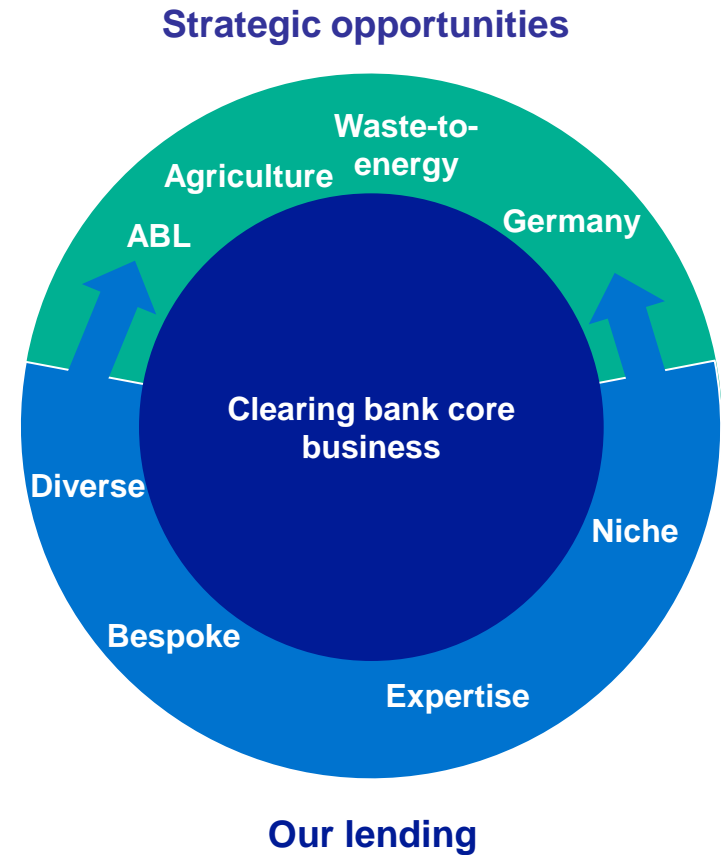




# Commercial

Platform for growth

- **Strong, sustainable** loan book growth
  - Organic growth
  - Complementary areas
  - Selective acquisitions
  
- Capability for **larger deal offering**
  
- **Investment in people**
  - Strengthened management
  - Improved front-line sales capabilities
  
- **Investment in IT**
  
- **Additional strategic initiatives**



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# Retail – What we do

Lending to over 1.4 million consumers and 200,000 SMEs

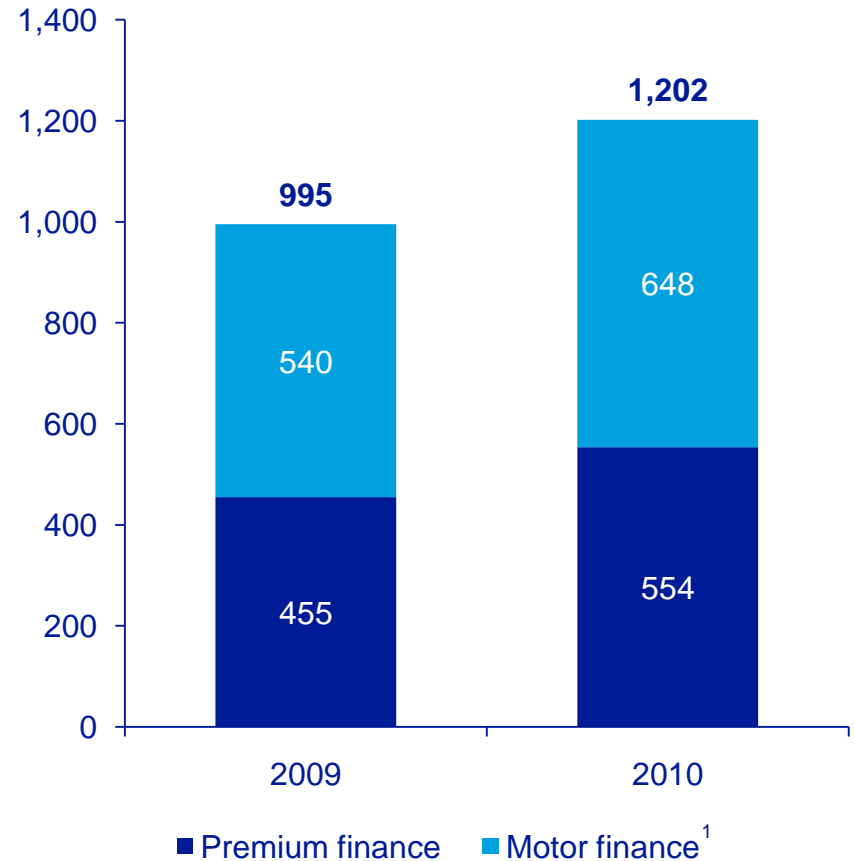
## Premium Finance

- Personal and commercial lines
- **Intermediated lending** – integration with **brokers** through **bespoke systems**
- Predominantly UK based, with small businesses in Spain and Ireland
- **Robust margin** and **increased volumes**, particularly in personal insurance lines

## Motor Finance

- Hire purchase agreements principally for nearly new cars, bikes and LCVs
- **Intermediated lending** – 12 regional branches providing dedicated, **local service to dealers**
- **Strong loan book growth** from good demand and growing dealer numbers

Retail loan book at 31 July (£m)



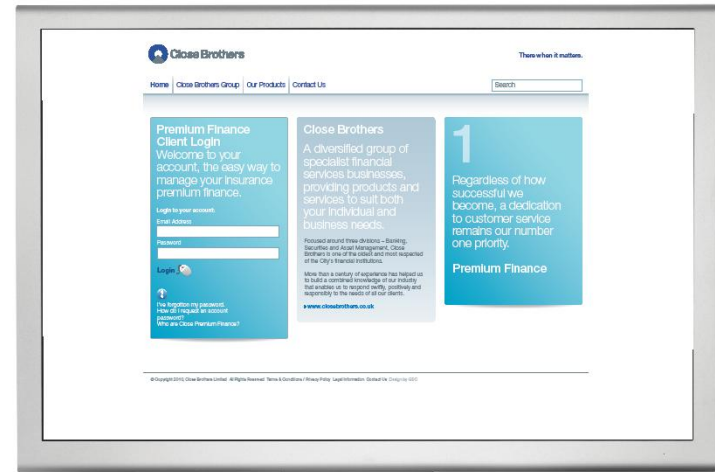
Note:

(1) Includes Channel Islands

# Retail – Premium Finance

Multi award-winning provider of premium finance products for general insurance market

- Personal and commercial borrowers all on **'roll-over'** loan agreements
- **Security over underlying insurance policy**
  - 30% of book **recourse to brokers**
- **Over 3,000 brokers**, including most of UK top 200
  - 70%+ of income tied **into long term broker contracts**
- Average commercial loan £10k and personal £500 with 10 month tenor - allows **quick re-pricing**
- **Bespoke IT system** - trading 99% online with automated transaction processing
- **80% of loans renew**
- **High barriers to entry**
  - Broker relationships
  - Contracts
  - Technology and processes embedded in brokers



# Retail – Premium Finance

Multi award-winning provider of premium finance products for general insurance market

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- **Strong market share**

- Share of UK gross written premiums market approaching 5%
- Share of independent space very substantial, with only one major direct competitor

- **Commercial lines:**

- 9% market share - over 200,000 loans completed per annum
- 1 in 10 trading company in UK has loan with Close Premium
- Relatively mature businesses, modest short term growth opportunities

- **Personal lines:**

- 2% share of overall market
- 1.3 million clients, trebled since 2007
- Complete 1 loan every 4 seconds
- Greater opportunity for growth
- Benefitting from credit substitution

## What makes us different?

- **Experienced management team with strong broker relationships**
- **Broker contracts**
- **Innovative** products
- Bespoke, **user-friendly, embedded IT systems**

# Retail – Motor Finance

Leading, independent point of sale finance through 5,800 UK dealers

- **Hire purchase** agreements principally for nearly new cars, bikes and light commercial vehicles
- **Good security** over underlying vehicle – **no residual risk** as no guaranteed buy-back price
- Core market is **used dealership** network
  - **Local service** and **technology** are key differentiators
- 12 regional branches provide **dedicated, local service** – unique to industry
- **Rapid response point of sale systems**
  - 70% loans submitted online
- **‘Eyeball’** underwriting with credit scoring



# Retail – Motor Finance

Leading, independent point of sale finance company through 5,800 UK dealers

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- **Share of overall market growing**
  - **9% used car POS market** (2009: 5%)
  - **36% used LCV POS market** (2009: 25%)
  - **27% used motorcycle POS market** (2009: 18%)
- **Strong organic growth**
  - **Expansion of branch network** into South West and Northern Ireland
  - Increased **front line sales** by **30 people**
  - **New Key Accounts – strong pipeline of deals**

## What makes us different?

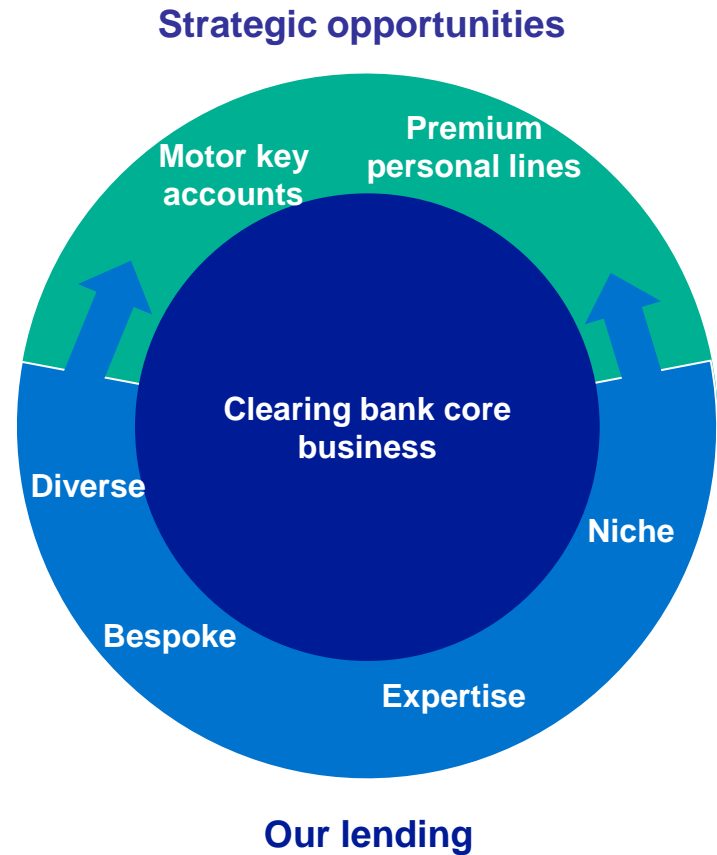
- Wide **network of dealers** – regional approach provides local service
  - Recent expansion into **Key Accounts**
- **Experts** in the car retail market for over 20 years
  - **Highly skilled people** with in-depth knowledge of industry, building long term relationships



# Retail

Platform for growth

- **Strong, sustainable** loan book growth
  - **Organic growth** as target additional market share
- **Continual investment in technology**
  - Broker systems and borrower Portal
  - New dealer facing PoS systems
- **Strategic opportunities**
  - Mainly organic with selective **adjacent growth**





# Agenda

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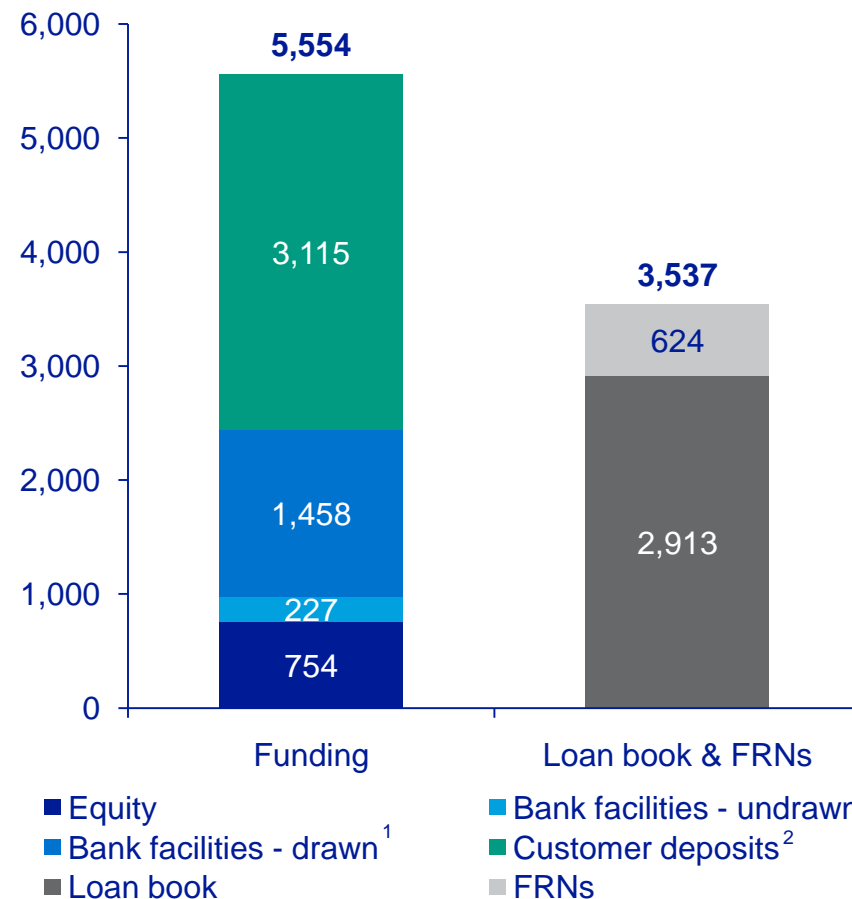
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# Strong funding position

Robust model with enhanced flexibility

- Maintained **conservative funding** model through
  - **Increased diversity** of funding
  - **Higher quality** of liquidity
- Purpose of Treasury is to **fund both existing loan book and future growth**, whilst **maintaining liquidity**
  - Strategic **focus** on **funding** the **loan book** efficiently
  - Additional residual FRN portfolio
- Strong funding position at **£5.6bn**
  - 22 month average wholesale facility and Group bond maturity exceeding average loan book maturity of 12 months
- **Robust capital position**
  - Expect no material impact from new Basel 3 regime

Close Brothers Group funding at 31 July 2010 (£m)



Notes:

(1) Bank facilities exclude £13.7m (31 July 2009: £27.2m) of loans and overdrafts included in total borrowings in the group's financial statements

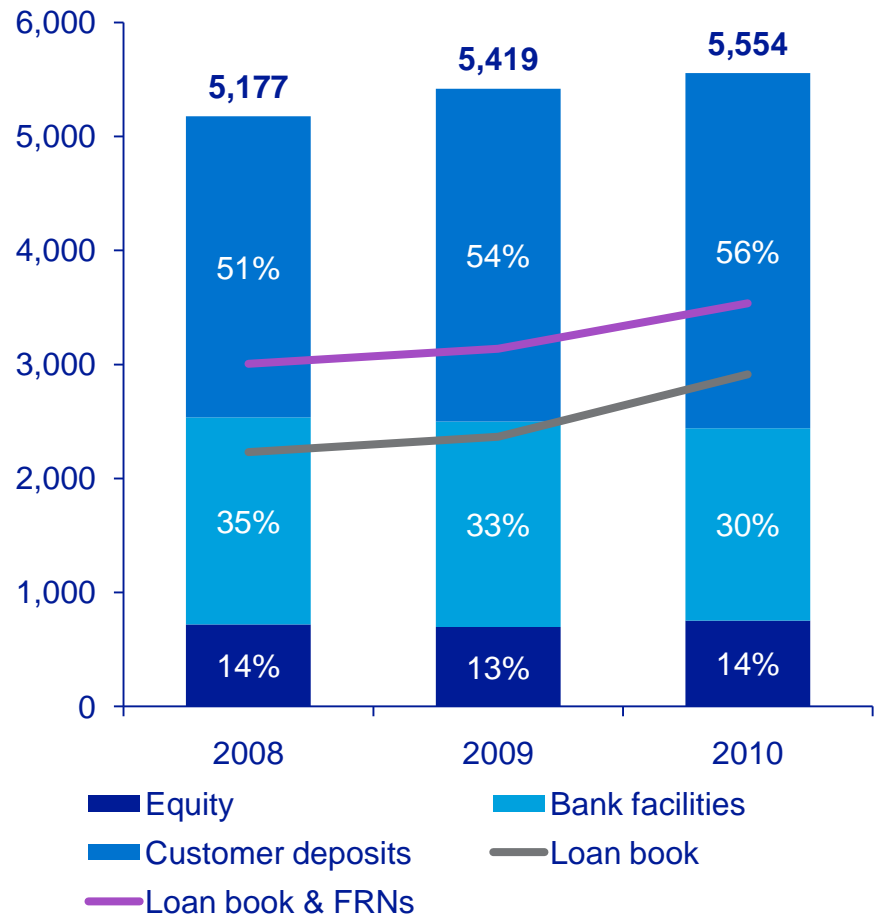
(2) Excludes £1.2m of deposits (31 July 2009: £1.1m) held within the securities division

# Diversity of funding

Increased depth and number of funding sources

- **More proactive approach**
  - Funding mix managed according to source, term and price
  - Improved access to funding delivers greater **flexibility**
- **Pre 2008**
  - **2 main sources** of funding, committed bank facilities and corporate and SME deposit taking
- **2008 – 2010**
  - Raised over £1.0 billion **term retail deposits**
  - In FY 2010, raised **£200 million**, 7 year **Group bond**
  - Post year end, additional c.£900 million of **term funding** raised through **syndication, securitisation and repo**
- Going forward, through **depth, flexibility and diversity, confident** of ability to access new sources
- **Funding costs are passed through**
  - Net interest margin increased from 8.6% to 9.7% over same period

Trend in Close Brothers Group funding (£m)

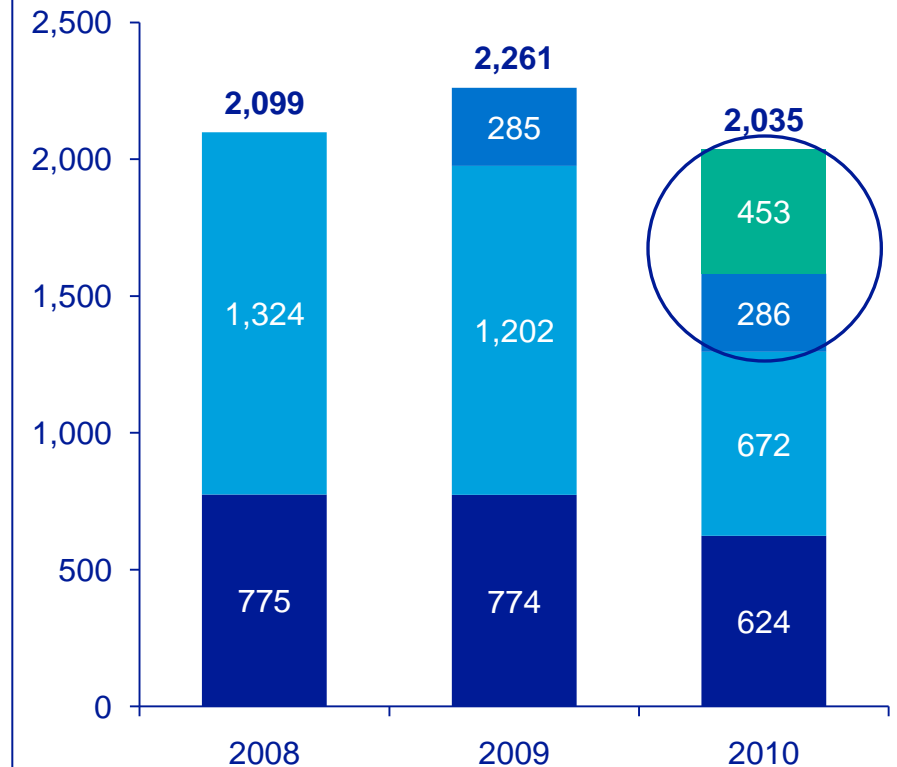


# High quality of liquidity

Enhanced through strategic positioning of balance sheet

- **Strategic focus on loan book**
  - Reinforced by managing down of FRN portfolio
  - Decline in treasury assets as % of Balance Sheet
- **Increase in high quality liquid assets** through Gilt holdings and deposits with the Bank of England, positioning the Bank well for new regulatory liquidity requirements (i.e. ILAS)

Treasury assets trend (£m)



% of total balance sheet	2008	2009	2010
	36%	38%	33%

■ FRNs ■ CDs ■ Gilts/GGD ■ BoE

# Guiding principles

## Funding, liquidity and capital

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- **Focus on funding loan book** from a **diverse** range of sources
  - Maintaining access to multiple sources to give flexibility
- Sensible level of **term funding versus term of assets**
- High quality stock of **liquid assets**
- **Well capitalised** with high quality core Tier 1 capital

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# Conclusion

Consistently high quality of earnings

- 10 year CAGR of 13%
- Margin **exceeding 8.5% per annum** over past ten years

Example<sup>1</sup>:

For **every £100,000** we lend

**9,700** = 9.7% income after finance costs

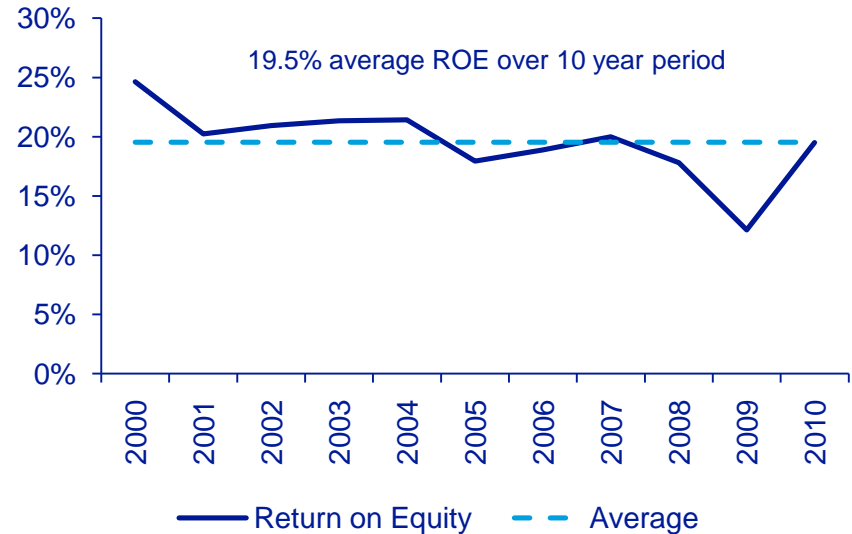
**(4,300)** = 4.3% salaries/overheads

**5,400** = 5.4% profit before bad debt

**(2,400)** = 2.4% bad debt

**3,000** = 3.0% pre-tax return on loan book

**Return on Equity trend (%)**

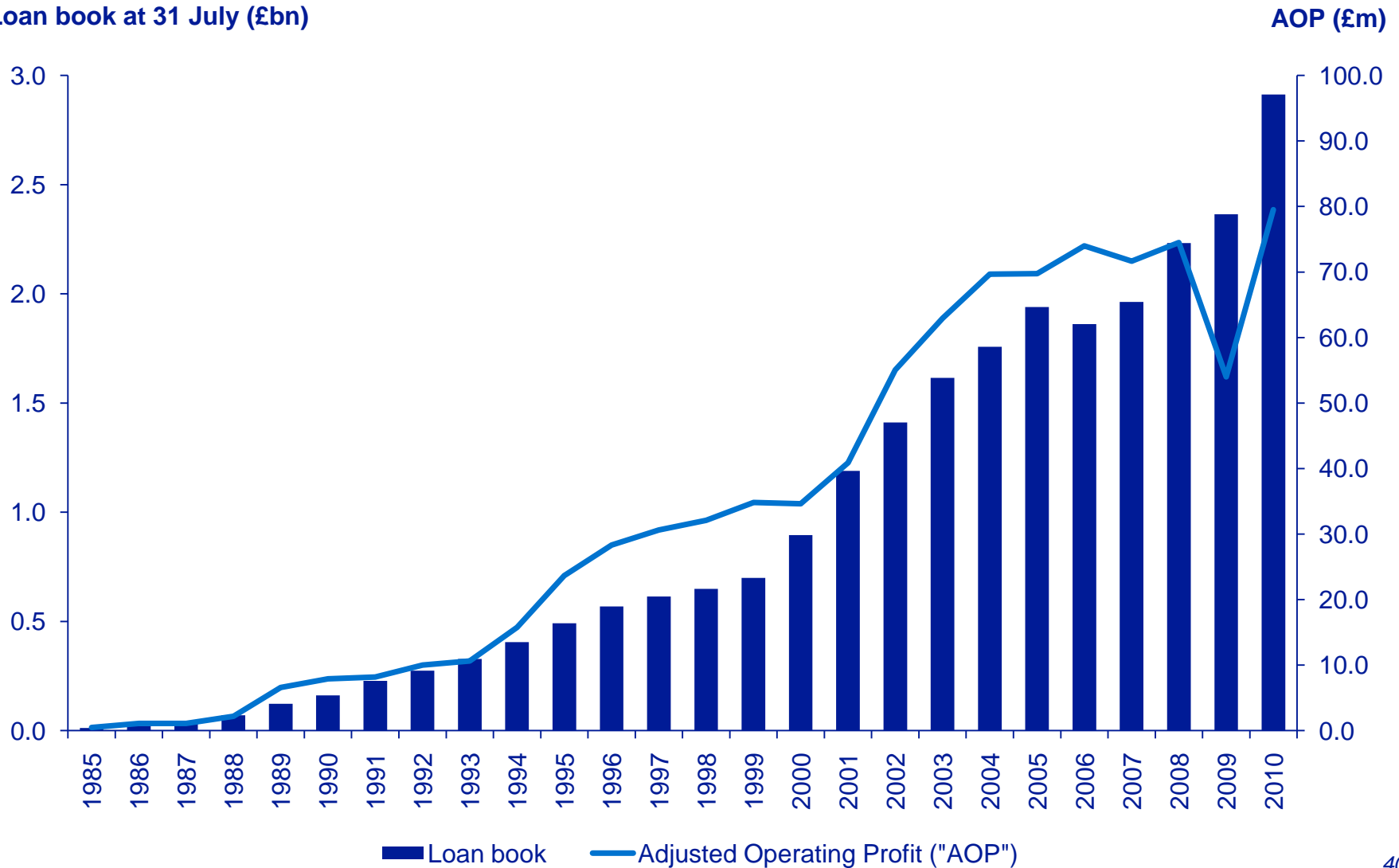


Note:  
(1) As at 31 July 2010

# Conclusion

Strong and successful track record – well positioned for future

Loan book at 31 July (£bn)





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# Appendices

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- 1. Biographies**
- 2. Funding maturity profile**

# Biographies

## Banking Division

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### **Stephen Hodges, Chief Executive**

Born 1954. Qualified as a Barrister in 1976. Worked at Hambros for 8 years, latterly, in the Project Finance and Shipping Division. Joined Banking Division of Close Brothers in 1985. Appointed a director of Close Brothers Group in August 1995 and became Managing Director of the Group in November 2002.

### **Mary McNamara, Commercial Managing Director**

Born 1960. Worked at GE for 17 years with leadership roles across the Consumer and Commercial Finance businesses, including UK CEO of their Equipment Finance business and later of their European Fleet Services. Moved to Skandia, part of Old Mutual, as interim Group COO for 1 year. Joined Close Brothers as Managing Director of the Commercial Division in April 2010.

### **Bob Golden, Retail Managing Director**

Born 1965. Joined Royal Bank of Scotland in 1994, in charge of personal and business lending as well as collections and recoveries. In 1997 became the Operations and Risk Director for the joint venture to set up the Tesco Bank. Joined Close Brothers in 1999 as Chief Executive of Close Premium Finance and during the following 9 years worked in a number of other functions across the Group. Appointed Managing Director of Close Brothers Limited in 2008 and of the Retail Division in 2009.

### **Frank Pennal, Property Managing Director**

Born 1959. Worked at Hill Samuel, part of TSB Group, becoming head of TSB Group's Property Finance Team in 1994. Joined Close Brothers in 1997 as a Senior Manager on the Property team, becoming a director of the Property Finance business in 2000. Appointed Managing Director of the Property Division in 2005.

### **Malcolm Hook, Treasurer**

Born 1960. Member of Association of Corporate Treasurers. Worked in various Treasury roles at HSBC and Woolwich before moving to GMAC-RFC in 2002. Spent 8 years at GMAC-RFC, culminating in the role of Treasury Director. Joined Close Brothers as Treasurer in July 2010.

# Biographies

## Banking Division

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### **Sharon Bishop, Chief Operating Officer**

Born 1964. Member of Police Force for 5 years. Joined Abbey National in 1991, working in their Retail Division. Joined Close Brothers in 2000 and subsequently appointed Managing Director of Close Brothers Private Banking. Moved to Commercial Division in 2003 as Operations Director before becoming Treasury Operations Director and then acting Treasurer. Appointed as Chief Operating Officer of the Banking Division in July 2010.

### **Mike Morgan, Finance Director**

Born 1965. Qualified as a Chartered Accountant in 1990. Worked at Scottish Provident, before joining Royal Bank of Scotland in 2001 as Financial Controller of the Retail Division. Appointed Head of Finance and Operations of the Bancassurance joint venture with Aviva, before becoming Finance Director of the Wealth Management Division in 2008. Appointed Finance Director of Close Brothers Banking Division in July 2010.

### **Linda Fox**

Born 1963. Joined Accor Hotels Worldwide in 1985, working in Hotel Management and later becoming a Human Resources manager. Moved to MWB Business Exchange in 2000, as Human Resources Director. Joined Close Asset Finance as Human Resources Director in 2007 and appointed Head of Human Resources for the Banking Division in 2009.

### **Nigel Mottershead**

Born 1958. MA (Oxon). Joined Royal Bank of Scotland in 1980, leading the Bank's Credit change programme in the 1990s, before becoming Head of Business Banking. Joined Close Brothers in 2000 as Deputy Chief Executive of Close Premium Finance and appointed Managing Director in 2006. Appointed Head of Credit Risk for the Banking Division in November 2010.

# Appendix

## Funding maturity profile

£ million	Total	<3 months	3-12 months	1-2 years	2-5 years	>5 years
Loans and overdrafts from banks <sup>1</sup>	762	397	215	150	-	-
Promissory notes	219	-	-	-	21	198
Subordinated loan capital	75	-	-	-	30	45
Loans against FRN portfolio	402	-	402	-	-	-
<b>Drawn facilities</b>	<b>1,458</b>	<b>397</b>	<b>617</b>	<b>150</b>	<b>51</b>	<b>243</b>
Undrawn facilities	227	62	50	95	20	-
Deposits by customers <sup>2</sup>	3,115	1,570	1,301	186	56	2
<b>Total available funding – 31 July 2010</b>	<b>4,800</b>	<b>2,029</b>	<b>1,968</b>	<b>431</b>	<b>127</b>	<b>245</b>
<b>Total available funding – 31 July 2009</b>	<b>4,721</b>	<b>1,684</b>	<b>723</b>	<b>1,819</b>	<b>399</b>	<b>96</b>
<b>Movement</b>	<b>79</b>	<b>345</b>	<b>1,245</b>	<b>(1,388)</b>	<b>(272)</b>	<b>149</b>

Notes:

(1) Drawn facilities exclude £13.7 million (31 July 2009: £27.2 million) of non-facility overdrafts included in total borrowings in the group's financial statements

(2) Excludes £1.2 million (31 July 2009: £1.1 million) of deposits < 12 months held within the Securities division