

Our Stakeholder and Board Engagement

How Stakeholder Engagement Informs Our Decision-Making

At Close Brothers, we have a broad set of stakeholders with differing views and priorities, so it is important that we actively engage with each group to understand their perspective and take this into account when making decisions. We undertake a comprehensive programme of stakeholder engagement and consider the feedback provided, embedding this in the decision-making process both at a board level and throughout the group.

Our stakeholders and why we focus on them

Colleagues

Close Brothers has over 3,700 employees around the UK, Ireland, the Channel Islands and Germany. We have a diverse and motivated workforce which delivers the highest levels of service to our customers, clients and partners.

Engagement with employees helps to attract, build and retain a high calibre talent pool and ensure that our employees remain enthusiastic about their work and Close Brothers.

Stakeholders' key priorities

- A safe working environment
- A fair, supportive, diverse and inclusive culture where employee feedback is valued
- Ensuring appropriate rewards for their contributions
- Opportunities for training and development
- Long-term successful performance of the group

Customers, Clients and Partners

The needs of our customers, clients and partners are at the heart of our business and are core to our purpose of helping the people and businesses of Britain thrive over the long term. The group has customers, clients and partners in the UK, Ireland, the Channel Islands, Germany and the US and is focused on upholding reliable, high quality services and a personal approach.

Our long-term success depends on the strength of our relationships with customers, clients and partners, our specialist expertise and maintaining high standards of service. As such, central to all decision-making is understanding how our actions can help them and their businesses thrive.

- A customer-led proposition
- A focus on treating customers fairly and doing the right thing
- Strong personal relationships and specialist expertise
- Consistent and supportive customer service whatever the market conditions
- A responsive service with solutions that are flexible, responsive and executed with speed
- Relationships are built on quality and trust

Suppliers

Our business is supported by a large number of suppliers, enabling us to provide high standards of service to our customers, clients and partners, whilst also allowing them to access innovative products and services.

Engagement with our suppliers enables the group to develop and maintain long-term and sustainable relationships. This engagement enables our suppliers to better understand and align to our risk management requirements and operate responsibly.

- Strong and sustainable relationships with Close Brothers
- Fair and equitable conduct of business
- Appropriate and clear payment procedures
- An understanding of the group's purpose and strategy
- Robust risk management framework

Regulators and Government

The group values an open and transparent relationship with all our regulators, including the Financial Conduct Authority ("FCA") and the Prudential Regulation Authority ("PRA"), as well as government authorities and trade associations.

It is important that we maintain a culture that is focused on retaining and encouraging high standards of business conduct and regulatory compliance and openness. Engaging with the relevant regulators and associations helps to ensure the business is aligned to the evolving regulatory framework.

- Fair treatment of customers and clients
- Compliance with applicable regulation
- Recognition of the importance of resilience and risk management
- Provision of high quality information and regulatory reporting
- Active consideration of risks relating to sustainability and other climate matters
- Transparent group tax strategy

Communities and Environment

Close Brothers is committed to contributing lasting value and making a positive impact on the society in which we operate and the environment more broadly.

Engaging with local communities helps the board and our employees develop our understanding of our clients, customers and partners so that we can support them and help them to achieve their ambitions, whilst also building employee engagement. We firmly believe that environmental considerations should form an integral part of the decisions we make as a business and employees across the group are actively engaged on responsible behaviours and environmental issues.

- A suitable strategy for approaching sustainability issues
- Support for community initiatives
- Job creation and social mobility
- A long-term focus on addressing the impacts of climate change

Investors

The group is focused on generating long-term, sustainable value for its investors, while also maintaining a strong capital base and balance sheet.

Our investors are the providers of capital to our business so it is important that we engage actively with them and listen and respond to their feedback.

- Strong returns and financial resilience through the cycle
- Capital generation and distributions
- Sustainable and consistent business model
- Appropriate governance practices and regard to environmental and social responsibility

The table below outlines our key stakeholders, why they are important to us, their key priorities and some of the ways we are engaging with each group.

How we engage with them

Engagement with our colleagues takes place daily through line managers, with senior management regularly speaking at Town Halls and other business-wide forums. Listening to our colleagues and acting upon their feedback is essential to maintaining employee engagement, whether this is through undertaking regular employee opinion surveys or management leading engagement activities to provide updates on business performance. Training and mentoring programmes are in place to support the development of all employees.

Consistent delivery of high quality service for customers, clients and partners by our specialist, expert teams is core to our business model. We ensure this is built around the needs of our customers, clients and partners and is aligned to our refreshed customer principles by conducting extensive research and analysis of feedback, captured through our customer and partner operating framework. This enables us to improve experiences in the moment as well as plan for changes to our service and proposition into the future.

Our key supplier relationships are owned by dedicated relationship managers and are supported by our central third party management function, which includes regular meetings, as well as an annual survey to seek feedback on Close Brothers as a client.

We maintain a proactive dialogue with the PRA and the FCA and have a constructive relationship with HMRC to help ensure we are aligned with the relevant regulatory frameworks.


We regularly interact with the trade bodies and business associations we are affiliated with to ensure we are engaged with issues impacting our industry, and have built a strong relationship with the Financial Ombudsman Service.

Many of our employees participate in group-wide committees established to drive forward a range of initiatives around diversity and inclusion, helping the environment and charitable and community activities, with our employee volunteers the driving force behind our successful community and charitable events. We have a range of partnerships with leading organisations dedicated to creating positive impact via diversity, inclusion and social mobility schemes, while our regular interactions with industry bodies and third party consultants help inform our strategy towards climate change and the environment.


We have an established programme of engagement for shareholders, debt capital providers and other market participants through our investor relations team, which includes regular dialogue with the executive team and chairman.

Key group and business-level engagement during the year


As lockdown restrictions have changed, engaging with employees has been paramount. Throughout the year, our focus has been on employee wellbeing and morale, ensuring our employees feel supported and engaged, both at a team and business level given the challenges of remote working for many. An active programme of engagement has been in place that has included virtual wellbeing workshops, webinars and initiatives run by our internal networks, and online fitness classes. We also ran a full Employee Opinion Survey in February/March 2021 to gather feedback from our colleagues and ensure we are listening closely to their views.

 [Read more about the ways we have engaged with our colleagues: See pages 26 to 28.](#)

Maintaining close contact with our customers, clients and partners throughout the year has been paramount as we continued to support those who have found themselves in difficulty through forbearance and other Covid-19 concessions. We regularly discussed our customers' positions with them to ensure we were best supporting their needs as they evolved. We have continued to provide new processes and products to maintain our high levels of service in innovative ways as we support our customers, clients and partners through these uncertain times.

 [Read more about the ways we have engaged with our customers, clients and partners: See pages 28 and 29.](#)


Throughout the last year we have continued to maintain our frequent contact with our suppliers and conduct regular reviews of service. Our annual survey of key suppliers was last conducted in January 2021, focusing on how Close Brothers performs as a client and how our suppliers feel about doing business with us. We continue to share a strategic vision with our suppliers to help them understand our direction and provide clarity, while ensuring that we remain considerate of our suppliers and the impact of Covid-19 on our supplier relationships.

 [Read more about the ways we have engaged with our suppliers: See pages 29 and 30.](#)

We have had close engagement with the regulators as part of our preparations for applying to use the Internal Ratings Based approach, with our application submitted to the PRA in December 2020 and initial interviews conducted in 2021. We have maintained an active dialogue with the regulator in relation to customer forbearance and have closely followed relevant regulatory guidance. We have also consulted with the regulator ahead of making decisions on dividend payments.

 [Read about our decision to reinstate dividend payments: See page 40.](#)

During the year, we communicated our support for the ambitions of the Paris Agreement to reach net zero by 2050 and our target of reaching net zero by 2030 for our direct operational emissions (Scopes 1 and 2), alongside our plan to assess our indirect emissions impact (Scope 3). We continued to run our established social mobility programmes, supporting up-and-coming talent in local communities and providing access and opportunities for those from less-advantaged backgrounds.

 [Read more about how we engage with our local communities and consider our impact on the environment: See pages 30 to 33.](#)

We maintained our regular programme of communication including investor roadshows, analyst presentations and keeping the market up to date in line with regulation. We hosted an Investor Event in June 2021, with presentations covering the group and its businesses and providing investors an opportunity to ask questions of the management team. We also engaged potential and existing fixed income investors during roadshows throughout the year, as well as communicating regularly with credit rating agencies, and provided investors with a channel to submit questions in the absence of a full AGM due to Covid-19 restrictions.

 [Read more about engagement with our investors in the Corporate Governance Report on pages 76 to 88.](#)

Our Stakeholder and Board Engagement continued

Section 172 Statement and Statement of Engagement with Employees and Other Stakeholders

Section 172(1) of the Companies Act 2006 requires a director of a company to act in a way that he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other factors) to various other considerations and stakeholder interests:

- the likely consequences of any decision in the long term;
- the interests of the company's employees;
- the need to foster the company's business relationships with suppliers, customers and others;
- the impact of the company's operations on the community and the environment;
- the desirability of the company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the company.

The board is responsible for establishing and overseeing the company's values, strategy and purpose, all of which centre around the interests of key stakeholders and other factors set out in section 172(1).

The directors are conscious that their decisions and actions have an impact on stakeholders, including employees, customers, suppliers, communities and investors, and they have had regard to stakeholder considerations and other factors in section 172(1) during the year.

Regular engagement with stakeholders, both directly and indirectly via management, has continued to be an important focus for the board and has ensured that the directors are aware of and have effective regard to the matters set out in section 172(1). Throughout the year, the board receives and discusses stakeholder insight and feedback and it ensures that stakeholder considerations are taken into account in the board's deliberations and decision-making.

Whilst the board acknowledges that, sometimes, it may have to take decisions that affect one or more stakeholder groups differently, it seeks to treat impacted groups fairly and with regard to its duty to act in a way that it considers would be most likely to promote the success of the company for the benefit of its members as a whole, having regard to the balance of factors set out in section 172(1).

Considerations relating to the factors in section 172(1) are an important part of governance processes and decision-making both at board and executive level, and more widely throughout the group. For example, the Schedule of Matters Reserved to the Board and the terms of reference for each of the board's committees emphasise the importance of decision-making with regard to relevant factors under section 172(1) and broader stakeholder considerations.

Necessarily in a large and regulated group, some decisions are taken by management or the directors of subsidiary companies. These decisions are taken within parameters set by the board and there is a robust

framework that ensures ongoing oversight, monitoring and challenge by the board and its committees (including certain decisions and activities that are always reserved to the board or its committees). The board has regard to relevant factors set out in section 172 in its activities in these areas, including considerations relating to the potential impact of delegated decisions on the long-term success of the group as a whole, the group's reputation for high standards of business conduct and the consequences of local decisions on the group's stakeholders. Examples of the board's oversight of matters related to areas of delegated or subsidiary responsibility in the 2021 financial year include monitoring the development, strategy and performance of individual businesses and subsidiaries, considering management's response to regulatory initiatives and engagement, and oversight of activities relating to culture, conduct and employee engagement at local level. Once again during the year, the board's monitoring of the group's businesses and subsidiaries has been particularly focused on the impact of, and response to, Covid-19.

Further detail on the board's engagement with, and consideration of, the company's stakeholders can be found in the following pages, along with examples of decision-making that have had regard to the factors in section 172(1), employee interests, and the need to foster the company's business relationships with suppliers, customers and others, and the effect of that regard, including on principal decisions taken by the company during the financial year.

How the board engages with, and has regard to, each of our stakeholder groups

We have set out in the following pages examples of how the board engages with, and has regard to, the interests of stakeholders. Among other things, stakeholder considerations have been a key focus for the board during its oversight of the group's response to the Covid-19 pandemic.

Further information on the operation of the board, including the matters regularly considered, can be found on page 80 of the Corporate Governance Report.

Colleagues

- Regular updates on employee issues arising from Covid-19, including the response to lockdowns, the continuation of home working, reviewing wellbeing issues, the discussion of employee opinion surveys and return to workplace planning.
- Discussion of the group's activities to identify optimal future working practices for employees, having regard to customer needs and the control environment alongside a desire to encourage team collaboration and enable greater flexibility for colleagues.

- Regular communications with employees on financial, strategic and operational matters via emails and videos, participation in Town Halls and Q&A sessions by individual directors.
- Director attendance at committees and forums below board level to understand and discuss employee-related issues.
- Extensive consideration of employee-related issues connected with major projects and transformation programmes across the group.
- Review and discussion of a quarterly culture dashboard, providing an overview of matters relating to culture and values.
- Support for and attendance at development and training programmes attended by employees at different levels.
- Consideration of compensation and employee-related matters by the Remuneration Committee.
- Regular discussion by the board and Nomination and Governance Committee on the group's approach to diversity, including the activities of specific networks and working groups.

- Ongoing activity to encourage employee participation in the group's Save As You Earn ("SAYE") and Buy As You Earn ("BAYE") share schemes.
- Board oversight of, and at least half-yearly updates on, whistleblowing activity, supplemented by the appointment of a non-executive director as the group's whistleblowing champion.
- Annual review and approval of the group's gender pay gap reporting by the Remuneration Committee.

Customers, clients and partners

- Updates on, and consideration of, the impact of Covid-19 on customers, clients and partners, including regular updates on operational matters and reviews of information relating to the provision of forbearance and Covid-19 related concessions to customers of the Banking division and the roll-off of this support.
- Quarterly in-depth customer deep-dives by the board including review of customer metrics and engagement scores, and updates on a wide range of matters relating to customer issues, including complaints.
- Review of refreshed customer principles.

- Customer, client and operations updates in monthly business reports presented to the board by members of the Executive Committee.
- Discussion of customer, client and partner considerations in individual decisions to be made by the board, including major investment programmes.
- Consideration of customer and conduct-related issues during the year in relation to particular projects, for example the Risk Committee's oversight of the programme for the transition away from LIBOR, and risk and control issues arising from home working and "hybrid" home and office working.
- Oversight by the Audit Committee of relevant customer, client and partner-related items arising from reviews undertaken by the group's internal audit function.
- Regular discussion on sustainable commercial opportunities being considered for our customers, clients and partners, including at dedicated Executive Committee meetings.
- Attendance by directors at meetings of the Banking division's customer forum.
- Consideration of conduct matters as part of the quarterly culture dashboard reviewed by the board, together with a conduct risk dashboard reviewed by the Risk Committee at each scheduled meeting.

Suppliers

- Updates on, and consideration of, the impact of Covid-19 and lockdowns on suppliers and partners.
- Annual deep-dive supplier update to the board.
- Consideration and approval of material contracts with suppliers in line with the Schedule of Matters Reserved to the Board.

- Annual review of the group's Modern Slavery Statement.
- Updates on supplier considerations as part of monthly updates provided by senior management to the board.
- Oversight of relevant policies and internal processes, including updates on the group's anti-bribery procedures.
- Consideration of supplier issues as part of updates on transformation and investment programmes.
- Oversight and monitoring of key supplier relationships by the board and its committees, including engagement between the Audit Committee and the group's external auditors.

Regulators and government

- Regular updates on regulatory developments and interactions during Covid-19, including guidance in relation to customer forbearance and guardrails on dividend payments for large UK banks.
- Discussion with the PRA ahead of the dividend decisions for full year 2020, half year 2021 and full year 2021.
- Regular engagement with the regulator in relation to the group's IRB application.
- Updates on regulatory requirements in relation to ESG and sustainability and regular appraisal of the group's response, including progress towards disclosure requirements, such as the Task Force on Climate-related Financial Disclosures ("TCFD").
- Regular direct engagement between individual directors and regulators.
- Attendance by directors at wider industry/sector events with regulators.

- Updates on broader regulatory developments and compliance considerations during the year, including summaries of management's engagement with regulators, as part of the Head of Compliance's regular updates to the Risk Committee and the board.
- Engagement with regulators on non-executive director and senior manager appointments.
- Provision of regulatory correspondence to the board and relevant committees, including review by the board of resultant recommendations and actions.
- At least an annual update to the Audit Committee on taxation matters, including on engagement with HMRC.

Communities and environment

- Quarterly updates on matters relevant to our communities and the environment as part of broader ESG and sustainability updates provided to the Nomination and Governance Committee.
- Consideration of the significance of ESG matters to the group's activities, including the identification and assessment by the board of the significant ESG risks to the group, as well as consideration of opportunities that may arise.
- Regular discussion by the Nomination and Governance Committee on the group's sustainability targets and progress in achieving them, including those targets and initiatives relating to climate change and local communities.
- Regular updates to the Risk Committee on matters relating to climate risk and the group's response.



Our Stakeholder and Board Engagement continued

- Engagement with proxy advisers and other groups on ESG matters, including those relating to local communities and the environment, on which the Nomination and Governance Committee is updated.
- Consideration of environmental issues as part of board discussions on the group's London Property Programme.
- Updates to the board on the group's charity strategy, including individual donations during the year.
- Updates to the board on community engagement programmes, including the group's partnership with the social mobility charity, UpReach.
- Board participation in local charitable and volunteering activities.

Investors

- Frequent updates on shareholder engagement, results announcements and feedback as part of regular investor relations reporting.
- Comprehensive programme of investor engagement throughout the year including meetings between the chairman and major shareholders focusing on environmental, social and governance matters and engagement with current and potential investors and sell-side analysts following results announcements.
- Engagement with investors and sell-side analysts during the group's Investor Event, which included a Q&A session with the executive management team.
- Review of, and input into, the presentations for the Investor Event by the board, with feedback provided following the event.

- Remuneration policy consultation with investors as a result of CRD V requirements.
- Although this was not possible in 2020 due to Covid-19, directors typically attend the company's AGM in November each year, together with presentations from the chairman and chief executive, investor Q&A and voting on all resolutions.
- In the absence of a typical AGM in 2020, a review of company performance by the chief executive was made available on the company's website, with shareholders encouraged to submit questions ahead of the AGM.
- Extensive feedback on investor views and feedback in relation to the company's Tier 2 debt issuance completed in 2021.

Principal Board Decision: Resumption of Dividend Payments

In September 2020, the board took the decision to recommend to shareholders the resumption of dividend payments in respect of the 2020 financial year, following the group's resilient performance in the second half of the year. This reflected the board's confidence in the business model and strong financial position.

This follows the decision taken by the board in April 2020 to cancel the payment of the company's 2020 interim dividend in recognition of the significant challenges being faced by businesses and individuals in response to Covid-19, and consistent with the company's purpose of helping the people and businesses of Britain.

The board had many factors to consider when making this decision, balancing the views of all stakeholders alongside their assessment of the group's financial performance for the year and their confidence in the company to continue executing its business model in an uncertain external environment. Ensuring that the company had sufficient resources to continue supporting customers, clients, partners and colleagues, whilst maximising opportunities, was of paramount concern.

In line with the requirements of section 172(1), the board had regard to the different interests of stakeholders, but with an overarching focus on acting in the way that would be most likely to promote the success of the company for the benefit of its members as a whole.

The board also undertook a similar process when determining if an interim and final dividend payment should be made in respect of the 2021 financial year.

How the board considered, and had regard to, the interests of key stakeholders and the requirements of section 172(1)

The board engaged in extensive discussions with management ahead of making its decision and considered the long-term viability of the group's position.

- On a regular basis, the board was updated on the company's performance and its capital, funding and liquidity position, as well as expectations for the group's financial resources in the following financial year, to understand the financial resources it had available and the impact a dividend payment would have in a range of scenarios.
- The board was regularly made aware of the position of customers and clients, including the evolution of the forbearance population and our provisioning levels.
- The board considered the broader market environment and the perception of UK banks resuming dividend payments, including the views of regulators, rating agencies and other stakeholders, and the guardrails on dividend payments provided to the UK's systemic banks. Dividend decisions of other FTSE 350 and high profile companies were also acknowledged.
- The board considered the position of the regulator and the group discussed its proposal with the PRA ahead of making any decision and recognised the regulator's interest in ensuring we could continue to support our customers and continue lending given the uncertainty and that any payment had to take into account stakeholder considerations.

- The expectation of shareholders was taken into account, with recognition given to the company's progressive dividend policy and strong track record of dividend payments prior to the cancellation of the 2020 interim dividend.
- The overall sentiment of employees was considered given the signal any decision would send and the impact a dividend payment may have on overall remuneration.
- The board acknowledges that a number of the group's employees are shareholders, whether through the SAYE, the BAYE or through general share ownership, and recognises the impact for them (and all shareholders) on whether a dividend is paid.
- In addition to these stakeholder groups, the board considered the broader economic uncertainty and its potential medium and longer-term impact on the group, as well as the commentary that should accompany any decision around future dividends.

The board's recommendation of a 40.0p per share dividend in respect of the 2020 financial year was submitted to shareholders for approval at the company's AGM in November 2020 and received approval from 100% of voting shareholders.

An interim dividend of 18.0p per share was declared at the half year 2021 results, reflecting the group's strong performance in the first half of the financial year and continued confidence in the business model and financial position.

The board has recommended a final dividend of 42.0p per share in respect of the 2021 financial year, resulting in a full-year dividend of 60.0p.

Principal Board Decision: Evolution of Strategic Narrative

Following the appointment of Adrian Sainsbury as Chief Executive in September 2020, a review was undertaken with the objective of evolving the group strategy to reflect the focus on growth in line with the Close Brothers model, as well as incorporating the group's approach to responsibility and sustainability.

The board was involved in discussing and agreeing the formulation and refinement of both the broader strategy and how it should be articulated. It debated and provided constructive feedback and challenge on different proposals and iterations to ensure it accurately captured the strategic direction of the group, whilst taking appropriate consideration of different stakeholder views and perspectives.

As a result of this review, the framework for articulating the group's future strategic priorities evolved from "protect, improve, extend" to "protect, grow, sustain" to reflect our commitment to the delivery of disciplined growth and the sustainability of our business model over the long term.

To support the articulation of how the group plans to deliver disciplined growth, the "Model Fit Assessment Framework" was discussed. This demonstrates how we review opportunities, assessing their fit with the group's model, culture and responsible way of doing business. Although the filters within the framework are not all mutually exclusive, they ensure that we are following a disciplined approach to growth and preserving the attributes that generate value for all stakeholders.

How the board considered, and had regard to, the interests of key stakeholders and the requirements of section 172(1)

When considering the evolution of the strategy, the board had regard to the views and perspectives of our key stakeholder groups, for example discussing how the language used to communicate the strategy may be perceived by different parties and ensuring that the strategic priorities were aligned to the group's objectives and business model.

The board considered the likely views of investors, debating the language used to ensure the approach was well articulated and the strategic priority of "disciplined growth" would be understood. The board also acknowledged feedback from shareholders and analysts on the group's proven and well-established model.

Recognition was also given to risk, control and governance issues, ensuring that the strategic priority of "disciplined growth" was aligned to the group's current approach and risk appetite.

The board acknowledged that incorporating "sustain" as one of the group's strategic priorities gave recognition to the considerations paid to key stakeholders in the group's decision-making and the importance placed on operating sustainably and making a positive impact across the business. The board also highlighted the importance of incorporating further references to customers and clients to reflect the group's regard for their interests.

The board also considered the perspective of employees, highlighting the need to appropriately communicate the evolution of the strategy internally so it was well understood and embedded at all levels of the group's operations.