

## **Statement of Corporate Governance Arrangements**

### **Approach to Corporate Governance**

In accordance with the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018) (the "Regulations"), the directors of the company are required to provide a statement stating which corporate governance code has been followed during the year, including how the company applied the code, and whether it departed from any aspects of the code. For the year ended 31 July 2022, the company has applied the Wates Corporate Governance Principles for Large Private Companies (the "Principles") in its corporate governance arrangements. The following section explains the company's approach to corporate governance, and its application of the Principles.

High standards of governance and effective board oversight play an important role in supporting the company's performance, the successful delivery of its strategy and its long-term sustainable success for the company's shareholder and other stakeholders. The company's own corporate governance arrangements are also key to ensuring that it operates effectively. Whilst the company forms part of the wider Group, it is a separate legal entity and, as such, it has its own board of directors and maintains its own corporate governance arrangements which form part of the broader Group's corporate governance framework. That framework includes a range of different policies, processes and standards which together set out the Group's approach to corporate governance.

At the highest level of the Group, the board of Close Brothers Group plc ("CBG") provides effective leadership for the Group as a whole, including in relation to strategy, purpose, culture, values and risk management. As a company listed on the London Stock Exchange, CBG applies the principles and provisions of the UK Corporate Governance Code (the "Code"). Further detail on its compliance with the Code in the financial year ended 31 July 2022 can be found in the Corporate Governance Report within CBG's 2022 Annual Report and Financial Statements (the "CBG Annual Report"). Among other things, that report also provides information on the role and activities of the CBG board (including its oversight of matters relating to the company) and the Group's overarching corporate governance arrangements.

As at the date of this report, all members of the company's board also serve as directors of CBG. This continues to be an important part of the Group's corporate governance framework and reflects the significant contribution of the company to the wider Group.

As part of the Group's corporate governance arrangements, the CBG board is supported by four board committees: the Audit Committee, the Nomination and Governance Committee, the Remuneration Committee and the Risk Committee, which have oversight of matters across the Group,

including relevant items relating to the company. Each committee has written terms of reference setting out its delegated responsibilities. The membership of the CBG board committees comprises individuals with the appropriate skills and experience from among the non-executive directors of CBG. Further information on the role, activities and operation of each of the CBG board committees, including their consideration of matters relating to the company, can be found in their respective reports in the CBG Annual Report.

### **Principle One - Purpose and Leadership**

An effective board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.

The board's primary role is to provide effective leadership and to ensure that the company is appropriately managed and delivers long-term shareholder value, thereby making a contribution to wider society. The board also supervises the company's operations, with the aim of ensuring that it maintains a framework of prudent and effective controls which enables risks to be properly assessed and appropriately managed.

A key function of the board is to establish, within the wider strategy of the Group, the company's strategic objectives, values, strategy and purpose in alignment with its culture. The board also monitors management's performance against those objectives and provides direction for the company. During the year, a range of activities enabled the board to focus on these areas. These included two strategy sessions held with senior management which covered a broad range of strategic issues, including matters connected with the pandemic, opportunities for individual businesses, and people-related issues, including the results of employee opinion surveys and transition to new, more flexible ways of working post pandemic.

In addition, the board considers strategic issues as part of regular meetings throughout the year. At each meeting, Group and divisional executives provide updates on performance against strategic goals and relevant developments in the wider market, including from a competitor or regulatory perspective. During the year, the board has also held a number of 'deep-dive' strategy sessions, each focused on an individual business.

Consistent with that of the Group, the company's strategic approach focuses on three objectives: to protect, grow and sustain the company's business model. The company's purpose is helping the people and business of Britain thrive over the long term. The company has a long-established, proven business model that is focused on driving sustainable outcomes and business performance, creating value for its stakeholders.

A key responsibility of the board is to define, promote and monitor the company's culture. The board

recognises the importance that culture and values play in the long-term success and sustainability of the company, and the role of the board in monitoring and assessing culture. The board also acknowledges the importance of individual directors and the board as a whole acting with integrity, leading by example promoting the desired culture, and setting the “tone from the top”.

During the year, the board has spent time monitoring and overseeing the alignment of the company’s business to its values, strategy and culture. Examples include the board’s consideration of the role and impact of culture as part of individual decisions and its oversight of the company’s operations, including in the context of investment planning, the challenges presented by the broader macro-economic outlook, and the transition to new, more flexible ways of working post-pandemic. Considerations relating to culture and values have also formed an important part of the board’s discussions on the company’s strategy, model and purpose, including in the context of potential M&A opportunities.

The board also ensures effective engagement with, and participation from stakeholders. The company’s culture and values are aligned with those of CBG, which are discussed in more detail in the CBG Annual Report.

## Principle Two - Board Composition

**Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company.**

At the date of this report, the board has twelve members: the chairman, two executive directors and nine independent non-executive directors. The board’s members come from a range of backgrounds and the board is structured to ensure that no individual or group of individuals is able to dominate the decision-making process and that no undue reliance is placed on any individual. Within the board’s overall risk and governance structure, the independent non-executive directors are responsible for contributing sound judgement and objectivity to the board’s deliberations and the decision-making process. They also provide constructive challenge and scrutiny of the performance of management and delivery of the company’s strategy. Further details of the directors and the changes to the board during the financial year can be found on page 31 of the Annual Report.

The chairman is primarily responsible for leading the board and ensuring that it is able to operate effectively and efficiently. The chairman’s role is to promote effective decision-making, challenge of executive management and constructive debate, including by facilitating contributions and engagement from all members of the board. His other responsibilities include setting the agenda for board

meetings, making sure that the directors receive information in an accurate, clear and timely manner, and ensuring that adequate time is available for discussion of relevant items by the board. The chairman is charged with ensuring that the directors continually update their skills and knowledge and that the performance of the board and the individual directors is evaluated on an annual basis.

The CBG Nomination and Governance Committee, which is concerned with the business of the Group including the company, reviews the structure, size and composition of the board and is responsible for identifying and recommending to the board new directors for appointment. The overall size of the board has grown slightly in recent years as new directors have been appointed to bring additional and complementary knowledge, skills and experience, and to ensure continuity of membership and knowledge as other directors approach the end of their terms in the years ahead. The board considers that its current size and structure remain appropriate given the scale and complexity of the company’s operations, which include regulated activities, and the need to ensure an orderly succession and transition between directors.

Board appointments are made following rigorous consideration by the CBG Nomination and Governance Committee of the balance of skills, experience, knowledge and diversity required for the board to operate effectively as a whole. When considering board composition and appointments, the board and the CBG Nomination and Governance Committee continue to have regard to relevant best practice and the findings of relevant industry reviews. Further detail is set out in the Corporate Governance Report within the CBG Annual Report.

The board acknowledges the importance of diversity in its broadest sense and its membership is made up of individuals from a range of different backgrounds and experiences. At the date of this report, six of the twelve members of the board are women (including a majority of the non-executive directors), and the composition of the board meets the recommendation of the Parker Review that a FTSE 250 board should have at least one director of colour.

The board remains committed to improving further its position on gender, cultural and ethnic diversity when appropriate opportunities arise, whilst continuing to make appointments based on merit, objective and defined criteria, and the particular skills and experience required for individual appointments. External search firms used by the CBG Nomination and Governance Committee will continue to be instructed to consider candidates from a broad range of backgrounds and experiences when preparing long-lists for review by the committee.

As part of its deliberations each year, the CBG Nomination and Governance Committee regularly considers diversity and inclusion matters relevant to the company and its business, including actions to encourage a diverse pipeline as part of discussions

around succession planning and talent management throughout the year.

The board undertakes an annual evaluation of its effectiveness. During the year ending 31 July 2022, the board undertook an internal process to review its effectiveness and performance. The review concluded that the board remains strong and effective, and that it has responded well to the challenges arising from the uncertain current economic situation. The evaluation also acknowledged that the board has addressed each of the recommendations made in the external evaluation in 2021. The board welcomes the findings and will work to consider opportunities for incremental improvements during the year ahead.

The chairman also ensures that the performance of individual directors is reviewed regularly. The board recognises these annual reviews as an important opportunity to consider the performance of the board and to identify strengths and opportunities to further enhance effectiveness.

### Principle Three - Director Responsibilities

**The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision making and independent challenge.**

The board's primary role is to provide effective leadership, to ensure that the company is appropriately managed, and delivers long-term shareholder value, thereby making a contribution to wider society. The board as a whole has a clear and effective understanding of its purpose, role and responsibilities. The board maintains a schedule of matters reserved for the board which sets out decisions which can only be made by the board. This schedule enables the board and executive management to operate within a clear governance framework. The schedule of matters reserved for the board is reviewed annually to reflect the requirements of applicable legislation and corporate governance best practice. The matters and decisions specifically reserved for the board include:

- responsibility for the overall direction and strategy of the company;
- oversight of the company's management, including setting the company's values and determining the risks it is willing to take to achieve its strategic objectives;
- significant changes to the company's corporate structure;
- review of performance in the light of the company's strategy, objectives, business plans and budgets;
- approval of the annual operating budgets and any material changes to them;
- the issuance of bonds or debt by the company; and
- approval of the Individual Liquidity Adequacy Assessment Process ("ILAAP").

The board has established formal and robust internal processes to ensure systems and controls are operating effectively, and that the quality and integrity of information provided to it is reliable. Board meetings are structured to ensure that there is sufficient time for consideration and debate of all matters. In addition to scheduled or routine items, the board also considers key issues that impact the company as they arise. The directors receive detailed papers in advance of each board meeting and the board agenda is carefully structured by the chairman in consultation with the chief executive and the company secretary. There is also an annual schedule of rolling agenda items to ensure that all matters are given due consideration and are reviewed at the appropriate point in the financial and regulatory cycle. This schedule includes regular 'deep-dives' into particular areas of importance to the board. A key feature of these 'deep-dives' is an assessment and consideration of relevant issues relating to key stakeholder groups, including the outputs from engagement by the board and senior management.

During the financial year, the continued to adapt promptly in response to Covid-19, to ensure that it continues to provide effective oversight of the company's operations, together with challenge and support for senior management, whilst maintaining its clear focus on stakeholder interests. Directors attended a number of ad hoc meetings remained elevated as the pandemic continued, enabling the company's response. The directors' focus and agenda evolved as the pandemic and its impact on the company moved into different phases. Although the board met predominantly via video-conference during the year, the regular flow of high-quality information to the board has been maintained.

The board has delegated responsibility for certain matters to its committees and is also supported by the board committees of its ultimate parent company, CBG, which consider relevant items relating to the company as part of the wider Group. Further information on the operation of the CBG board committees, including consideration of items relevant to the company, can be found in the Corporate Governance Report within the CBG Annual Report.

The management of committee meetings is consistent with the basis on which meetings of the board are managed, with open debate, and adequate time for members to discuss proposals which are put forward.

Directors are responsible for notifying the chairman and the company secretary of any actual or potential conflicts as soon as they become aware of them. A procedure has been established, whereby actual and potential conflicts of interest are regularly reviewed and appropriate authorisation sought.

The company secretary provides advice and support to the board, through the chairman, on all governance matters and on the discharge of their duties. Directors are able to take independent external professional advice to assist with the performance of their duties at the company's expense.

Individual directors receive training on appointment and on an ongoing basis thereafter, with the aim of keeping their skills, knowledge and familiarity with the company up-to-date, to enable them to fulfil their role on the board and relevant committees. Topics covered during the financial year include climate change, regulatory developments and horizon-scanning, corporate governance changes, accounting updates, people and culture updates, cyber security, changes in remuneration regulation and practice, and the Internal Ratings Based approach for the calculation of regulatory capital requirements for credit risk.

At least annually, the CBG Nomination and Governance Committee considers the training and development needs of the non-executive directors and suggests any particular topics to be covered during the year. The training provided to all directors on joining the board includes an overview of the role, duties and responsibilities of a director and of the company's corporate governance framework.

#### **Principle Four - Opportunity and Risk**

A board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks.

Together with the CBG board, the board retains overall responsibility for overseeing the maintenance of a system of internal control which ensures that an effective risk management framework and oversight process is in operation. The risk management framework and associated governance arrangements for the Group are designed to ensure a clear organisational structure with distinct, transparent and consistent lines of responsibility and effective processes to identify, manage, monitor and report the risks to which the Group (including the company) is, or may become, exposed.

Risk management across the Group (including the company) is monitored and overseen by the CBG Risk Committee. The Risk Committee is responsible for reviewing risk appetite, monitoring the Group's risk profile against this, and reviewing the day-to-day effectiveness of the risk management framework. In addition, the Risk Committee oversees the maintenance and development of an appropriate and supportive risk culture and provides risk input into the alignment of remuneration with performance against risk appetite. The company closely monitors its risk profile to ensure that it continues to align with the company's strategic objectives and those of the Group.

The company's risk appetite forms a key component of the Group's risk management framework and is managed through an established framework that facilitates ongoing communication between the board with respect to the group's evolving risk profile. Appetite measures, both qualitative and quantitative, are applied to inform decision making and monitoring and reporting processes. Early warning trigger levels are also employed to drive required correction action

before overall tolerance levels are reached. The board undertakes a formal, annual review of the company's risk appetite statements for the year ahead. Adherence is monitored through the Group's risk committees on an ongoing basis, with interim updates to individual risk appetites considered as appropriate through the year. Further information on the Group's risk management framework including risk appetite, controls and governance can be found in the CBG Annual Report.

As the company's response to the Covid-19 pandemic has evolved, additional metrics and reporting have been provided to the board to ensure that it has access to all relevant information to enable it to effectively oversee the company's response and to assess the impact of the pandemic on the company's performance. Examples of additional information provided to the board have included regular reporting and data on customer forbearance and updates on the approach to home working and, subsequently, a gradual and safe return to the workplace.

As described above, the board also oversees the development and implementation of the company's strategy, within the context of the Group's overall strategy set by the CBG board. This includes consideration of strategic opportunities and the development of appropriate objectives.

#### **Principle Five - Remuneration**

A board should promote executive remuneration structures aligned to the long-term sustainable success of a company, taking into account pay and conditions elsewhere in the company.

The Remuneration Committee of the company's ultimate parent company, CBG, assumes responsibility for determining reward practices and the approach to remuneration on a Group-wide basis. This includes reviewing and making recommendations on remuneration policy for the Group, including the remuneration of directors, senior management and other employees across the company.

The Group's wider employee remuneration structure aims to attract, motivate and retain high calibre employees, reward good performance, and promote the achievement of the company's annual plans and its longer-term strategic objectives. It also aligns the interests of employees with those of other key stakeholders – including customers, clients and shareholders – and supports good risk management procedures and a positive client conduct culture.

The linkage between culture, purpose, risk and compensation remains important for the board, and each year the Group's Risk function provides input to the CBG Remuneration Committee to ensure that risk behaviours and the management of operational risk incidents over the course of the financial year are appropriately reflected in decisions taken about performance and reward. As part of the assessment of executive director variable remuneration, executive performance is assessed against a Group-wide

balanced scorecard, with variable pay subject to malus and clawback provisions.

### **Principle Six - Stakeholders**

Directors should foster effective stakeholder relationships aligned to the company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.

As mentioned above, the board is responsible for establishing and overseeing the company's values, strategy and purpose, all of which focus on the interests of key stakeholders and other factors set out in section 172(1) of the Companies Act 2006. The directors are conscious of both the effects on the company of changes in its operating environment, but also the impact that their decisions and actions may have on current and future stakeholders, including employees, customers, suppliers, communities and investors. The directors have had regard to these stakeholder considerations and other factors in section 172(1) during the year.

The company has a broad set of stakeholders with differing views and concerns, so it is important that it engages with each group, whether directly or indirectly via management, to understand more fully their priorities and take these into account when making decisions. As part of the wider Group, the company undertakes a comprehensive programme of stakeholder engagement and values the feedback provided, which is considered in the decision-making process both at a board level and throughout the company.

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). During the financial year, the board has met regularly via video-conference and engagement with stakeholders has taken place virtually where appropriate.

As part of the board's regular meetings and in sessions specifically focussing on strategy, the directors have spent considerable time assessing and having regard to the impact of individual decisions and the group's operations on different stakeholder groups. This has included extensive discussion of points arising from engagement with shareholders, customers, employees, regulators and other groups. A key priority for the board this year has been the consideration of the impact of the pandemic on key stakeholder groups, including employees, customers, clients, partners and suppliers, and the directors received regular updates on developments relating to individual stakeholder groups.

In the 2022 financial year, the board spent time considering its broader responsibility to help address the social, economic and environmental challenges facing its business, colleagues and customers. Throughout the year, the board has discussed the

connection between the company's responsibility, wider stakeholder considerations and its long-term positioning, including the link to attracting and retaining talent at all levels of its operations, supporting customers, clients and partners, and the Group's continuing efforts towards reducing its impact on the environment.

More information about the company's key stakeholders, why they are important, their key priorities and some of the ways the company has engaged with, and had an impact on, each group can be found in the section 172 statement and statement of engagement with employees and other stakeholders in the Strategic Report section of this Annual Report.