

STRATEGIC REPORT

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

The directors provide the following statement pursuant to the Companies Act 2006 (as amended by Companies (Miscellaneous Reporting) Regulations 2018) (the "Act") to describe how they have acted in accordance with their duty under Section 172 of the Act ("Section 172") to promote the success of the company for the benefit of its member(s) as a whole, and in so doing, how they have had regard to those factors set out in Section 172, (1) (a) to (f) during the financial year.

Furthermore, in compliance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting Regulations 2018), the directors provide the statement which follows to describe how they have engaged with employees, and how they have had regard to employee interests and the need to foster the company's business relationships with suppliers, customers and others, and in each case, the effect of that regard, including on the principal decisions taken by the company during the financial year.

Section 172(1) of the Companies Act 2006 requires the directors of a company to act in a way that they consider, 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 of the company is collectively responsible for managing the affairs of the company to achieve its long-term prosperity by making important decisions, monitoring the underlying performance of the company, as well as being a means for establishing ethical standards. Understanding the interests of key stakeholders is an important part of the company's strategy and helps inform the directors' decision making throughout the year.

Board meetings are held as required where the directors will consider the company's principal activities and make decisions. Meetings are scheduled to provide adequate time for consideration and discussion by the directors of the interests of stakeholders, and for the directors to seek further information from management, as required. As a part of those meetings, the directors receive information in a range of different formats to assist them in discharging their responsibilities under Section 172 when making relevant decisions. This information may include, among other things, reports and presentations on financial and operational performance, business updates, budget planning and forecasts, HR matters, as well as specific areas of engagement, such as employee opinion surveys. When making decisions, the board seeks to understand the impact on each of its stakeholders, including the likely consequences of a decision in the long term, whilst acknowledging that a decision will not necessarily be favourable for all stakeholders, as there may be competing interests between them.

The company is part of the wider Group, and as such it follows a range of group-wide policies in place to protect employees and provide a safe working environment, to ensure compliance with all regulatory requirements and adherence to the highest professional and ethical standards in dealing with customers, suppliers and colleagues, as well as ensuring that it continues to be cognisant of its social and environmental responsibilities. In doing so, and by balancing the interests of the company's stakeholders when making decisions, the board seeks to maintain a reputation for high standards of business conduct. Further information on these group-wide policies can be found in the Annual Report and Accounts of the company's ultimate holding company, CBG.

The directors seek to engage directly with stakeholders wherever possible on certain issues, though the size of the Group means that stakeholder engagement often takes place at an operational or Group level. This approach creates greater efficiency and facilitates a greater positive impact on environmental, social and other issues that may be possible at an individual company level, as well as ensuring consistency of approach across the Group. Where engagement has taken place at operational level, the outcome of that engagement has been brought to the board for its consideration where relevant throughout the year. During the financial year, the company has continued to engage with stakeholders both in-person and virtually, including holding 'hybrid' events to widen participation. Additional details on engagement at Group level with stakeholders, including employees, suppliers, customers, the community and environment can be found in the Strategic Report section of the Annual Report and Accounts of CBG.

The table and case study below set out further examples of the ways in which the board has engaged directly and indirectly with stakeholders during the financial year, as well as detailing how the Directors have had regard to 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 throughout the year, as well as matters set out in Section 172 (1)(a)-(f) when discharging their duties under Section 172.

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OUR STAKEHOLDERS	WHY WE FOCUS ON THEM AND THE IMPACT OF ENGAGEMENT	STAKEHOLDERS' KEY PRIORITIES	HOW THE BOARD AND MANAGEMENT HAVE ENGAGED AND CONSIDERED STAKEHOLDER INTERESTS DURING THE YEAR
Colleagues	<p>With approximately 4,000 employees around the UK, in 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. We are committed to the development of our colleagues, ensuring they are supported and engaged.</p> <p>Listening to our colleagues enables us to build an engaged workforce, allowing us to develop and retain high levels of expertise. We are able to ensure we are considering the views of all colleagues and making sure everyone feels included.</p>	<ul style="list-style-type: none"> • A safe working environment. • A fair and inclusive culture where employee feedback is valued. • Being appropriately rewarded for their contributions. • Opportunities for training and development. 	<p>Our engagement</p> <p>We conducted a pulse employee opinion survey, which closed in February 2024, to gather feedback from our colleagues anonymously. The results of this survey gave us insight into key topics including customers and clients, culture, a sense of belonging, and comfort in speaking up.</p> <p>Follow-up focus groups were conducted with different teams to understand more around colleague sentiment, with action plans created to ensure we are focusing on the areas that matter most to our colleagues, as well as ensuring we are meeting the needs of other stakeholders.</p> <p>We have eight employee-led inclusion networks which act as a voice for our minority colleague groups.</p> <p>We held regular town halls, providing employees with updates from across the business.</p>

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Customers, clients and partners	Our long-term success depends on the strength of our relationships with customers, clients and partners, our specialist expertise and the maintenance of high standards of service. Central to all decision-making is doing the right thing for customers, clients and partners, by helping them access financial solutions to meet their needs across all market conditions. We engage with our customers throughout their end-to-end journey and actively seek their feedback.	<ul style="list-style-type: none"> • Building and maintaining strong personal relationships based on trust, understanding and specialist expertise. • Understanding, treating and valuing them as individuals. • Fair and equitable conduct of business. • Receiving consistent, responsive and supportive service delivered with simplicity, clarity and ease. • Meeting their needs throughout changing economic cycles. • Implementing customer-led propositions that meet their individual needs. 	<p>Our engagement</p> <p>We have extended the reach of our “Operational Excellence Academy” customer-focused training programme to further enable a culture of continuous improvement to streamline processes and enhance the customer experience.</p> <p>We continued to hold customer forums, with feedback proactively reviewed and areas of improvement identified, as well as actions being taken to meet our customers’ changing needs and support better outcomes.</p> <p>Our Vulnerable Customer working group is establishing a charter that articulates our commitment and approach.</p> <p>We continue to invest in strengthening our capability to capture, consolidate and act upon customer, client and partner feedback by extending experience measurement to more interaction points.</p>

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Regulators and Government	<p>We are committed to sustaining high standards of business conduct in line with regulatory, governmental and legal expectations and operate prudently within the laws and regulations that apply to us.</p> <p>We foster an open, transparent and cooperative relationship with all our regulators, government authorities and trade associations in the jurisdictions in which we operate. Active engagement helps to ensure we are aware of and adapting to the evolving regulatory framework.</p>	<ul style="list-style-type: none"> • Customer outcomes. • Operational and financial resilience. • Financial crime prevention. • Diversity and inclusion. • Digitisation and analytics. 	<p>Our engagement</p> <p>We have engaged constructively with our regulators during this period of heightened regulatory scrutiny. We have provided information in support of the FCA's focus on the cost of living and their market-wide review of Borrowers in Financial Difficulty, as well as in connection with the FCA's review of historical motor finance commission arrangements.</p> <p>To align our approach with regulatory expectations, we have actively monitored the FCA's formal and informal guidance of Consumer Duty including monitoring of consumer outcomes management information metrics and the annual assessment of consumer outcomes.</p> <p>We continued to engage actively with the PRA on our IRB approach application.</p> <p>We undertook reporting and analysis as requested, enabling these stakeholders to better understand our business activities and how we are operating in a controlled and prudent manner in line with their expectations.</p>

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Suppliers	Our business is supported by a broad range of suppliers, enabling us to provide high standards of service to our customers, clients and partners. We are focused on ensuring we have transparent and sustainable working relationships with our suppliers. Engagement is focused on driving an open and collaborative approach with our suppliers, as we work together to ensure services support us to meet our goals, whilst considering areas for improvement.	<ul style="list-style-type: none"> • Strong and sustainable relationships with Close Brothers. • Fair and equitable conduct of business. • Appropriate and clear payment procedures. • An understanding of the Close Brothers purpose and strategy. • Robust risk management framework. 	<p>Our engagement</p> <p>We conducted our annual supplier survey to engage with our suppliers on topics such as how they feel about doing business with us, how likely they would be to recommend us as a client and the transparency of our strategies and priorities. This year's survey has indicated that:</p> <ul style="list-style-type: none"> • 80% of our suppliers have described feeling "Very Satisfied" or "Satisfied" by our approach to supplier management. • 30% of our suppliers have described our transparency and fairness in doing business as "Extremely Clear", with an additional 45% voting "Very Clear". <p>Our Code of Conduct has been updated to reflect feedback from our key strategic suppliers.</p> <p>Held regular review meetings with our suppliers, with strategic meetings taking place at least quarterly with our top-tier suppliers.</p>

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Communities and Environment	<p>Close Brothers is committed to contributing lasting value and making a positive impact on the communities in which we operate and the environment more broadly. This underpins the growing range of programmes and initiatives we support that benefit society and the environment.</p> <p>Engaging with local communities helps the board and our employees develop their 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 our business decisions, and employees across the group are actively engaged on responsible behaviours and environmental issues.</p>	<ul style="list-style-type: none"> • A suitable strategy for approaching sustainability issues. • Support for community initiatives. • Take active steps to ensure equity of opportunity, regardless of background or experience. • A long-term focus on addressing the impacts of climate change. 	<p>Our engagement</p> <p>Colleagues completed numerous volunteering activities to positively impact local communities, including volunteering at food banks and supporting youth groups such as Guides, Scouts and Cadet groups and children's sports teams.</p> <p>Several colleagues, including members of our Group Executive Committee, continue to fulfil trustee roles for various charities to support local communities.</p> <p>Extended our partnership with the University of Sheffield AMRC Training Centre, with our 15 apprentices funded through the Close Brothers SME Apprentice Programme entering their second year of training.</p> <p>Continued to support social mobility programmes, hosting 35 interns across the group in partnership with the 10,000 Interns Foundation and upReach.</p>

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Investors	<p>Close Brothers has a proven and resilient business model and is focused on generating long-term, sustainable value for its investors, while also maintaining a strong balance sheet.</p> <p>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 through an established and comprehensive programme throughout the year.</p>	<ul style="list-style-type: none"> • Strong returns and financial resilience through the cycle. • Capital generation and distributions. • Sustainable and consistent business model. • Appropriate governance practices and regard for environmental and social responsibility. • Managing the potential impact on the group following the FCA's review on historical motor finance commission arrangements, while protecting our business franchise. 	<p>Our engagement</p> <p>We increased our comprehensive programme of communication throughout the year, providing regular market updates and, in total, hosting over 170 meetings in the year with equity and debt investors. We held two analyst presentations and attended sales desk briefings and conferences.</p> <p>We undertook investor roadshows covering the UK, Europe and North America, meeting more than 80 existing and prospective shareholders.</p> <p>Our chairman held a corporate governance roadshow, meeting with 10 of our largest shareholders.</p> <p>As part of the group's inaugural AT1 capital issuance in November 2023, we held a number of meetings with existing debt holders and prospective investors.</p> <p>Welcomed retail investors at our AGM where they had the opportunity to engage with board members.</p> <p>Following the announcement of the FCA's review of historical motor finance commission arrangements, we engaged with 50% of our shareholder base (by holdings) and all of our sell-side analyst followers, as well as our credit rating agencies.</p>

Furthermore, set out below is an example of the way in which the board of the company has engaged directly with key stakeholders during the financial year, how stakeholder interests have been considered in the decision-making of the directors, and how the Directors have had regard to the matters set out in Section 172 (1)(a)-(f) when discharging their duties under Section 172. The company is a wholly owned subsidiary of Close Brothers Group plc and, as such, the duty of directors to have regard to the need to act fairly as between members of the company is limited.

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Case study

Below is an example of the way in which the board has engaged directly with stakeholders during the financial year, how stakeholder interests have been considered in the board's decision-making and wider role, and how the Directors have had regard to the matters set out in section 172(1)(a)-(f) when discharging their duties under section 172.

Principal Board Decision: Loan Book Securitisation

In October 2023, the board received a proposal, which had already been scrutinised by the necessary governance committees, via its Treasury Committee. It was proposed to carry out a securitisation involving the sale of part of the motor finance loan book, by way of sale to a special purpose vehicle company and subsequent securitisation of those loans by that company by issuing notes in the capital markets.

The board committee weighed up the benefits and potential risks of the transaction and concluded that the proposed securitisation was likely to achieve its stated goals and to be in the best interests of the company and its stakeholders overall. The board committee therefore approved and delegated authority to its directors and certain specifically authorised individuals to agree the final terms of the securitisation and to arrange the execution of documents to effect it. Accordingly, the securitisation went ahead and was judged to have succeeded in achieving the predicted benefits.

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

- The impact of the proposed securitisation on the company and its stakeholders were considered, including any competing priorities that were identified.
- Having considered all factors in depth, the board agreed that proceeding with the proposed securitisation at the present time was in the best interests of the company overall.