

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 more fully their perspective and take this into account when making decisions. We undertake a comprehensive programme of stakeholder engagement and value the feedback provided, embedding this in the decision-making process undertaken both at a board level and throughout the group.

Our stakeholders and why we focus on them

Stakeholders' key priorities

Colleagues

Close Brothers has over 3,500 employees around the UK, Ireland, the Channel Islands and Germany. We want a diverse and motivated workforce so that they can continue to deliver the highest level 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.

- A safe working environment
- A fair, supportive, diverse and inclusive culture where employee feedback is valued
- Ensuring appropriate rewards
- A commitment to invest in training and development

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 and Germany 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. 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
- Strong personal relationships and specialist expertise
- Consistent and supportive customer service whatever the market conditions
- A responsive service with solutions that are flexible and executed with speed

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.

Engagement with our suppliers enables the group to develop and maintain long-term and sustainable relationships. This engagement also helps enable our suppliers to better understand and align to our key policies and procedures and operate responsibly.

- Appropriate and clear payment procedures
- Strong and sustainable relationships with Close Brothers
- Fair and equitable conduct of business

Regulators and Government

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

It is important 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.

Participating in 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 ambition, whilst also building employee engagement.

- 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

Key group and business-level engagement during the year


Engagement with our colleagues takes place daily through line managers, with senior management regularly speaking at Town Halls and other business-wide forums. Regular employee opinion surveys are undertaken and closely monitored and management frequently hold employment engagement activities to provide updates on business performance and gather real time feedback, which is listened to and acted upon. Training and mentoring programmes are in place to support the development of all employees.

During the Covid-19 pandemic, employee communication has been a priority for the business. Additional employee opinion surveys have been undertaken, with a focus on wellbeing and return to workplace planning, alongside regular communications from the executive committee and management teams.

 [Read more about the ways we have engaged with our colleagues: See pages 25 to 28.](#)


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 customer principles by conducting extensive research and analysis of feedback, captured through our “Voice of the Customer and Partner” programme. This enables us to improve experiences in the moment as well as plan for changes to our service and proposition into the future.

Throughout the Covid-19 pandemic, we have been in close contact with our customers, clients and partners to support those who have found themselves in difficulty during this challenging period. We remain in regular discussions with our customers to understand their individual circumstances and tailor the solutions and support we offer to ensure we best serve their needs.

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

Our key supplier relationships are managed centrally through our dedicated third party management function, which includes regular meetings, as well as an annual survey to seek feedback on Close Brothers as a client.

Our annual supplier survey has been expanded to cover sustainability matters including our suppliers’ environmental and social governance, to help inform our understanding of progress being made by our suppliers.

 [Read more about our annual supplier survey and the sustainability matters it looks at: See page 29.](#)

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.

This year, key engagement with our regulators has revolved around the appointment of the group’s new chief executive, our involvement in the UK government’s support schemes and as part of our preparations for applying to use the Internal Ratings Based approach. We have closely followed commentary from the PRA regarding capital and distributions in light of the evolving Covid-19 outbreak, as well as regulatory guidance in relation to customer forbearance.

We regularly interact with the trade bodies and business associations we are affiliated with to ensure we are engaged with issues impacting our industry.

 [Read more about the decision to cancel our interim dividend: See page 22.](#)

Throughout the year, we undertake various community, social and environmental initiatives, which are coordinated through our sustainability working group. 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.

This year, we became signatories to the Race to Work Charter, which will help drive our engagement on matters of racial equality, increase our awareness of the ethnic diversity of our employees and take action to support the career progression of ethnic minority colleagues. 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: See pages 29 to 31.](#)

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.

We maintained strong levels of engagement with our investors during the year that included a programme of meetings with our chairman focused on environmental, social and governance matters, a consultation with c.53% of the shareholder register on our Directors’ Remuneration Policy and engagement with credit rating agencies, alongside our regular programme of communication organised by our investor relations team including investor roadshows, analyst presentations and keeping the market up to date in line with regulation.

 [Read more about the review and consultation process for our Directors’ Remuneration Policy: See page 23.](#)

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 having regard to relevant factors under section 172(1) and broader stakeholder considerations. In addition, this year, training has been provided to the directors of subsidiary companies in the group reminding them of their duties under section 172(1) and on new reporting requirements.

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. 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 during the pandemic, including the matters regularly considered, can be found on page 72 of the Corporate Governance Report.

Colleagues

- Regular updates on employee issues arising from the Covid-19 pandemic, including the response to lockdown and introduction of homeworking, review of wellbeing issues, discussion of Covid-19-related employee opinion surveys and return to workplace planning.
- Regular communications with employees via emails and videos, participation in Town Halls and Q&A sessions by individual directors.
- Site visits by individual directors to meet employees and enhance their understanding of the group's operations.
- Director attendance at committees and forums below board level to understand and discuss employee-related issues.
- Engagement with employees in board meetings on relevant topics.
- Presentation and discussion of regular employee opinion surveys and follow-up actions at board meetings.
- 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.
- Review of diversity and inclusion activities and initiatives by the Nomination and Governance Committee.
- Ongoing activity to encourage employee participation in the group's Save As You Earn ("SAYE") and Buy As You Earn ("BAYE") share schemes.
- Consideration of employee views in individual decisions made by the board, including issues relating to ongoing transformation programmes, such as the Motor Finance transformation programme.
- 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 to customers of the Banking division.
- Quarterly in-depth customer updates to the board including customer metrics and engagement scores, and updates on a wide range of matters relating to customer issues.
- Customer/client updates in monthly business reports presented to the board by members of the executive committee.
- Monthly customer and operations updates to the board by the group chief operating officer.
- 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.
- Oversight by the Audit Committee of relevant customer, client and partner-related items arising from reviews undertaken by the group's internal audit function.
- 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 on suppliers and partners.
- Annual deep-dive supplier update to the board, including, this year, discussion of the evolution of the group's third party management environment and associated stakeholder and section 172(1) considerations.
- 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 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 the Covid-19 pandemic, including guidance in relation to customer forbearance.
- 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 the appointment of the group's new chief executive and on non-executive director appointments.
- Provision of regulatory correspondence to the board and relevant committees.
- Training updates on regulatory developments and horizon-scanning.
- At least an annual update to the Audit Committee on taxation matters, including on engagement with HMRC.

Our Stakeholder and Board Engagement continued

Principal Board Decision: 2020 Interim Dividend Cancellation

In April 2020, the board took the decision to cancel the payment of the company's 2020 interim dividend, recognising 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.

Although Close Brothers entered the period of economic uncertainty brought about by the Covid-19 pandemic with a strong capital and liquidity position and with prudent funding, the board considered that cancelling the interim dividend would increase the ability of the company to execute its business model and maximise the availability of resources to support customers, clients, partners and colleagues in the early stages of the pandemic. This decision was not taken lightly given the group's long history of uninterrupted dividend payments and the expectation this has created among shareholders.

Stakeholder considerations, and the factors set out in section 172(1), were therefore at the heart of the decision-making process. As part of its decision-making the board had regard to the different interests of stakeholders but with an overarching focus, as required by section 172(1), 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. Among other things, the likely consequences (both in the longer and near term) of the decision to cancel the interim dividend were key considerations for the board.

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

The decision to cancel the interim dividend was taken following extensive discussions between the board and management.

- In advance of the decision, the board was regularly updated on discussions with customers and clients to understand the difficulties that they were facing and the introduction of a range of forbearance measures to support them.

- The board also had oversight of Close Brothers' participation in the support schemes introduced by the UK government and accreditation to lend under the Coronavirus Business Interruption Loan Scheme.
- The provision of UK government assistance to support the UK economy, as well as the uncertainty of the medium and longer-term impact of Covid-19 on both the UK economy and the group were taken into consideration.
- The board considered market developments including the decisions by the UK's systemic banks to suspend dividends, along with the actions of other FTSE 350 companies across different sectors. The board had particular regard to the regulatory environment and comments from the regulator during the period.
- The expectations of shareholders and the impact of any decision were a key consideration for the board, with a view to balancing investor priorities given the group's strong track record of uninterrupted dividend payments, with maximising resources given the unprecedented uncertainty.
- Employee sentiment and areas of interest to employees were frequently communicated to the board given the paramount importance of employee wellbeing and morale and their perception of the company's handling of the Covid-19 pandemic.
- Updates on supplier performance were also taken into consideration given their vital role in enabling the company to execute its business model.

Following discussion with the directors, the company also took the decision to support the community by making a £1 million donation to NHS Charities Together and match fund donations from employees to this charity, in addition to personal donations made by directors.

Following the group's resilient performance in the second half, the board has subsequently recommended a dividend of 40.0p per share in respect of the financial year. Further detail can be found on page 35.

Communities and environment

- Quarterly updates on environmental, social and governance ("ESG") matters and broader sustainability developments provided to the Nomination and Governance Committee.
- Regular discussion by the Nomination and Governance Committee on the group's sustainability targets and progress in achieving them.
- Engagement with proxy advisers and other groups on ESG matters, on which the Nomination and Governance Committee is updated.
- Executive director participation in sustainability working groups and other internal forums.
- Consideration of environmental issues as part of board discussions on the group's London Property Programme.
- Discussion of climate change-related developments during the year.

- Updates to the board on community engagement programmes, including the group's partnership with social mobility charity, UpReach.
- Board participation in local charitable and volunteering activities.

Investors

- Engagement with shareholders through reports, announcements and other information available on the group website.
- Attendance at the AGM in November 2019 by all directors, with presentations from the chairman and chief executive, investor Q&A and voting on resolutions.
- Engagement with investors and sell-side analysts following results announcements.
- Comprehensive programme of investor engagement throughout the year including meetings between the chairman and major shareholders and meetings with the management team and a broad range of current and potential investors.

- Governance roadshow held by the chairman with major shareholders, focusing on ESG matters.
- Provision of ESG-related investor feedback to the board as part of regular investor relations reporting.
- Consultation on the triennial review of the Directors' Remuneration Policy.
- Engagement with investors, institutional shareholder groups and proxy agencies prior to the AGM.
- Provision of a monthly investor relations report to the board.
- Additional deep-dives for the board on investor feedback received during engagement meetings.

Principal Board Decision: Triennial Directors' Remuneration Policy Review and Consultation

The Remuneration Committee ("the Committee") is responsible for setting and implementing the remuneration policy for the executive directors of Close Brothers, on behalf of the board. The current Directors' Remuneration Policy was approved by shareholders at the 2017 AGM, with over 97% of shareholders voting in favour. No changes have been made to the structure since its approval and strong shareholder support has been received for the implementation of the policy over the last three years.

During this financial year, the Committee (on behalf of the board) undertook a detailed review of the policy to assess if any changes were required to ensure it is aligned with the strategic priorities of the group and in keeping with developments from a market, regulatory and corporate governance perspective.

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

During the year, the Committee's extensive review of the Directors' Remuneration Policy had regard to the interests of different stakeholders and relevant considerations under section 172(1), including the likely consequences of decisions relating to remuneration in the longer term, the need to act fairly between members of the company and the role that executive remuneration plays in promoting the success of the company for the benefit of its members as a whole.

In line with the company's practice during previous policy renewals, the Committee undertook a broad consultation process.

- The chair of the Committee wrote to the company's top 15 shareholders representing c.53% of the shareholder register, as well as the key institutional shareholder bodies, to communicate the proposed changes to the remuneration policy and invite comments or feedback on the proposals.

- The chair of the Committee also met or engaged in detailed discussions with representatives from five shareholders to hear their feedback on the proposed changes and discuss comments and suggestions provided.

Points of feedback from the consultation were shared with the Committee and were considered as part of the Committee's ongoing review and decision-making process.

Following this extensive consultation, the Committee has proposed a revised Directors' Remuneration Policy, which can be found in the Directors' Remuneration Report on pages 87-114.

The proposed policy remains largely unchanged, although amendments are included in the following areas:

- A reduction in executive pension contributions to align these with the general workforce.
- A change to the post-employment shareholding guidelines.
- An update to the financial performance measures for the annual bonus and LTIP scheme to ensure their alignment with the business performance and prevailing market conditions.

The strategic scorecard and risk management objectives, which are used to assess the performance and resulting remuneration of executive directors, are closely aligned with the strategic objectives of the business. They also incorporate measures around employee engagement, customer focus, sustainability and risk conduct and compliance to ensure that the views of our different stakeholder groups are taken into consideration when decisions are made. A full breakdown of the strategic scorecard and risk management objectives can be found on pages 105-106 and 108.

The revised Directors' Remuneration Policy will be submitted to shareholders for approval at the company's AGM later in 2020.