

Close Brothers Limited

Section 172(1) statement and statement of engagement with other stakeholders including employees

The directors provide the following statement pursuant to the Companies Act 2006 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018) (the “Act”) to describe how they have acted in accordance with their duty under section 172 of the Act 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) of the Act during the financial year.

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), this statement also provides details of how the directors 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 requires a director to have regard to the following matters, among others, when discharging their duty: 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 with members of the company.

The board is collectively responsible for managing the affairs of the company to achieve its long-term prosperity by making important decisions, monitoring performance and establishing ethical standards. 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, while acknowledging that a decision will not necessarily be favourable for all stakeholders.

Throughout the year, both generally and in relation to specific matters, the board has had regard to the interests

of its stakeholders and has engaged with them in a range of direct and indirect ways. 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. Where engagement has taken place at operational level, the outcome of that engagement has been brought to the board for its consideration.

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. During the financial year, the terms of reference for the board were updated to remind the directors of their legal duties including under section 172 of the Act, and the directors also received updates on their section 172 duties and on new corporate governance reporting requirements.

The company is part of the Close Brothers 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 regulatory requirements and adherence to the highest professional and ethical standards in dealing with customers, suppliers and colleagues, and to ensure that it continues to operate in a socially responsible and compliant manner, and manages environmental sustainability. 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, Close Brothers Group plc.

The table and case studies below set out more details of the ways in which the board has engaged directly and indirectly with stakeholders during the financial year, 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.

Close Brothers Limited

OUR STAKEHOLDERS	WHY WE FOCUS ON THEM AND THE IMPACT OF ENGAGEMENT	STAKEHOLDERS' KEY PRIORITIES AND AREAS OF FOCUS	HOW THE BOARD AND MANAGEMENT HAVE ENGAGED AND CONSIDERED STAKEHOLDER INTERESTS DURING THE YEAR
Colleagues	<p>The board recognises the importance of the contribution made by our employees, who deliver the highest levels of service for our customers and clients</p> <p>Engagement with employees helps to build a deep and diverse talent pool, attract and retain talent and ensure that employees remain enthusiastic about their work and their organisation</p> <p>Regularly listening to employees' feedback ensures they feel valued with their views recognised and acted upon</p>	<ul style="list-style-type: none"> • A customer-led culture • A fair and open working culture • A supportive culture where employee feedback is valued and their views are recognised and acted upon • Appropriately rewarded for their contributions • A commitment to invest in training and development 	<ul style="list-style-type: none"> • 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 from individual directors (on behalf of the board) • Site visits by individual directors to meet employees and enhance their understanding of the company'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 non-executive directors in their capacity as members of the Remuneration Committee of CBG • Review of diversity and inclusion activities and initiatives by non-executive directors in their capacity as members of the Nomination and Governance Committee of CBG • Ongoing activity to encourage group employee's participation in

Close Brothers Limited

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Customers, clients and partners	<p>The board believes in putting our customers, clients and partners first, and remains focused on upholding our reliable, high quality services and personal approach</p> <p>Putting the interests of our customers, clients and partners at the heart of our business is critical to our success, and the group's purpose to help the people and businesses of Britain thrive over the long-term underlines the board's commitment in this area</p> <p>Engagement with customers, clients and partners allows us to understand their needs and receive feedback and insight that is essential to maintaining strong relationships across our business</p>	<ul style="list-style-type: none"> • A customer-led proposition • Strong personal relationships and specialist expert knowledge • Consistent customer service in all market conditions • High service levels and flexible solutions 	<p>the Group's SAYE and BAYE share schemes</p> <ul style="list-style-type: none"> • Consideration of employee views in individual decisions made by the board, including issues relating to ongoing transformation programmes, including the Motor Finance transformation programme • Director 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 non-executive directors in their capacity as members of the Remuneration Committee of CBG <hr/> <ul style="list-style-type: none"> • Updates to the board 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 group • 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 senior management • Monthly customer and operations updates to the board by the Group's chief operating officer and the Close Brothers customer insight teams • 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, oversight of the

Close Brothers Limited

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Suppliers	<p>Our business is supported by a large number of suppliers who enables us to provide high standards of service to our customers, clients and partners</p> <p>Engagement with suppliers enables the company to develop and maintain long-term and sustainable relationships and helps ensure that the company purchases products and services from suppliers who operate responsibly and in line with our policies and standards</p>	<ul style="list-style-type: none"> • Appropriate and clear payment procedures • Strong and sustainable relationships with Close Brothers • Workable operating requirements 	<p>programme for the transition away from LIBOR by non-executive directors of the company, in their capacity as members of the Risk Committee of CBG</p> <ul style="list-style-type: none"> • Oversight by non-executive directors of the company, in their capacity as members of the Audit Committee of CBG, 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 group's Customer Forum • Consideration of conduct matters as part of the quarterly culture dashboard reviewed by the directors, together with review of a conduct risk dashboard by non-executive directors, in their capacity as members of the Risk Committee of CBG, at each scheduled meeting <hr/> <ul style="list-style-type: none"> • Updates on and consideration of impact of Covid-19 on suppliers • 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 s.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 company'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

Close Brothers Limited

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Regulators	<p>Engagement with regulators and applicable regulatory requirements helps the company develop and maintain open and transparent relationships with our regulators, maintain a reputation for high standards of business conduct and also helps the board ensure that the business is aligned to the evolving regulatory framework</p>	<ul style="list-style-type: none"> • Fair treatment of customers and clients • Awareness of evolving regulatory landscape • Recognition of the importance of resilience and risk management • Recovery Resolution Plan • Climate change • Sustainability strategy • Group tax strategy 	<ul style="list-style-type: none"> • 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 of CBG and the board • Engagement with regulators on the appointment of the company'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 annual update to the Audit Committee of CBG on taxation issues, including on the group's engagement with HMRC
Communities and Environment	<p>As part of the broader Group, the board is committed to contributing long-term value and making a lasting, positive impact on the society in which we operate and the environment more broadly</p> <p>Participating in local communities helps the board and our employees develop our understanding of the clients, customers and partners so that we can support them and help them to achieve their ambition</p>	<ul style="list-style-type: none"> • Strategy of approaching sustainability issues • Support for community initiatives 	<ul style="list-style-type: none"> • Director participation in sustainability working groups and other internal forums • 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 • Director participation in local charitable and volunteering activities • Actively encouraging employees to contribute to community and charity

Close Brothers Limited

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Shareholder	<p>The company is a wholly owned member of the Close Brothers Group, forming part of the Banking division; as such it operates as part of the broader Group in delivering its purpose and strategic objectives, in line with Group-wide processes, governance and culture</p> <p>Engagement supports the company's understanding of, and contribution to, broader Group activities and strategic aims, and ensures delivery of long-term sustainable value for our shareholder in line with Group policies and standards</p>	<ul style="list-style-type: none"> • Focus on broader Group purpose and strategic aims • Alignment with Group-wide risk, governance, compliance and financial priorities • Consistent approach to stakeholder considerations and outcomes 	<p>events and to fundraise and volunteer for charities, including the broader Group's charity partners</p> <ul style="list-style-type: none"> • Consideration of the Group's wider environmental strategy, activities and goals, and the contribution that the company can make to make a positive contribution to the world around us • Quarterly updates on environmental, social and governance ("ESG") matters and sustainability provided to non-executive directors as members of the Nomination and Governance Committee of CBG • Regular discussion by the Nomination and Governance Committee of CBG on sustainability targets and the group's progress in achieving them <p>Although the company has a sole shareholder, the company's directors, including in their capacity as directors of CBG, have appropriate oversight of, and regard to, wider Group investor interests and considerations when making decisions</p>

Case studies

Below are some examples of the ways 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: Cancellation of previously declared interim dividend

In April 2020, the board took the decision to cancel the payment of its previously declared second interim dividend, in light of the evolving Covid-19 pandemic, recognising the company would be in a stronger position to continue supporting both its employees and customers.

The company had paid a first interim dividend in November 2019 and had approved the declaration of a second interim dividend in March 2020. However, consistent with the decision by its ultimate parent, Close Brothers Group plc to cancel payment of its interim dividend, due to be paid in April 2020, the board considered whether it would be appropriate to cancel the payment of its previously declared second interim dividend.

Consideration of the company's responsibilities to its stakeholders, and therefore to the factors outlined in section 172(1), were central to the decision. The board took into account balancing the interests of different stakeholder groups, whilst having a primary 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, as required by section 172(1).

How the board considered, and had regard to, the interests of key stakeholders and the requirements of section 172(1) CA 2006

- The board took into account the decision by its ultimate parent, Close Brothers Group plc, to cancel its interim dividend, noting that although the company had entered the period of economic uncertainty brought about by the Covid-19 pandemic with a strong capital and liquidity position and with prudent funding, cancelling the interim dividend would increase its ability to execute its business model and support its customers, clients and employees.
- The board considered updates on discussions with customers and clients to understand the difficulties that they were facing during the pandemic and the introduction of a range of forbearance measures to support them, as well as the group's participation as a lender in the UK Government's support loan schemes.
- The board also considered the needs of its employees and how any decision may impact the ability to support them.
- Consideration was also given to wider market developments and the regulatory environment.

Following the group's resilient performance in the second half, the board has subsequently recommended a final

dividend of £50 million. Further detail can be found on page 65.

Principal Board Decision: Our response to Covid-19

Stakeholder considerations have been a key focus for the board during its oversight of the company's response to the Coronavirus pandemic. In the face of Covid-19, the company has focused on maximising its support for colleagues, customers and partners during this time.

Covid-19 has had a significant impact upon consumers, businesses and the economy. The impact of Covid-19 on the company's stakeholder groups and the support offered to stakeholders have been important considerations for the board when making decisions and overseeing the company's response to the pandemic. The longer-term consequences of the pandemic and decisions made by the company have been at the forefront of the board's deliberations.

How the board considered, and had regard to, the interests of key stakeholders and the requirements of s.172(1) CA 2006

- The impact of the Covid-19 pandemic on stakeholders and the company's response has been a key consideration for the board in the second half of the 2020 financial year. Since the beginning of the UK lockdown in March 2020, in addition to scheduled board meetings, the directors held a number of ad hoc meetings specifically to discuss the pandemic, including the impact on stakeholders and factors set out in s.172(1). The board's focus and agenda developed during the crisis, as the pandemic evolved and its impact on the company (and different stakeholders) moved into different phases.
- The directors oversaw, and engaged with management on, the support provided by the company to its customers, including, among other things, by introducing a range of forbearance and other measures to support those customers and clients who found themselves in financial difficulty during the pandemic. The board reviewed a range of management information and dashboards setting out the impact of the crisis on customers and the company's response.
- The board's approach to the pandemic was underpinned by the company's long-term strategy and purpose to "help the people and businesses of Britain thrive over the long term".
- In relation to the company's approach to customer forbearance and other support to stakeholders, the directors also had regard to the desirability of the company maintaining a reputation for high standards of business conduct, and to ensuring that the company continues to act as a responsible lender.
- During the crisis, the board was regularly updated on the company's participation as a lender in HM Government's Coronavirus loan schemes, including consideration of the customer journey for customers wishing to apply for different loan products.

Close Brothers Limited

- The board regularly discussed the guidance published by regulators during the pandemic, and received frequent updates on management's engagement with regulators. This ensured that the board was kept up to date on regulatory expectations and priorities in this area, including regulators' expectations for the support to be provided to other stakeholder groups during the pandemic.
- The board also had regard to the interests of its employees throughout the pandemic, ensuring close contact was maintained with employees, including via a series of employee opinion surveys, regular internal communications and opportunities for staff to engage with management and each other.
- The board's deliberations prioritised the safety and wellbeing of employees. It considered regular updates on the company's planning for the move to home-working during the lockdown and, subsequently, the gradual return to the workplace in line with Government guidance. A priority for the board has been ensuring that employees have been able to conduct their roles safely, while continuing to maintain high quality customer service for our clients and partners. The board was also updated on, and supportive of, wider Group initiatives offering employees access to virtual classes and webinars on topics such as emotional agility, mental health, nutrition and remote working.