

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**”), for the year ended 31 July 2020, 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 are important to the company's performance, the successful delivery of its strategy and the creation of long-term value for the company's stakeholders. As such, the company's corporate governance arrangements form part of the wider Group's corporate governance framework. This 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. CBG applies the principles and provisions of the UK Corporate Governance Code (the “**Code**”) and further detail on its compliance with the Code in the financial year ended 31 July 2020 can be found in the Corporate Governance Report within CBG's 2020 Annual Report and Accounts (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 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, and is drawn from 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.

Whilst it forms part of the wider Group, the company 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. The company's own

corporate governance arrangements play an important role in ensuring that the company operates effectively.

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 primary role of the company's board 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 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.

Another 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 and to monitor management's performance against those objectives and provide direction for the company.

Consistent with that of the Group, the company's purpose is to help the people and businesses 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, setting the “tone from the top”. The ongoing assessment of the contribution of culture and values to the company's long-term success remains a key focus for the board and during the year, the board spends time monitoring and overseeing the alignment of the company's business to its values, strategy and culture. It 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 ten members: the chairman, three executive directors and six 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.

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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 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 board considers that its current size and composition are appropriate for the scale and complexity of the company's activities.

Board appointments are made on merit against objective and defined criteria, following a recommendation by the CBG Nomination and Governance Committee. The Committee's consideration of individual appointments includes an assessment 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 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, three of the ten members of the board are women. The board remains committed to seeking to improve further its position on gender 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. Together with the CBG board, the board acknowledges the importance of cultural and ethnic diversity and the benefits this can bring. The board aims to have at least one director of colour by 2024. 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. The chairman also ensures that the individual 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. The annual evaluation undertaken

in the year ended 31 July 2020 confirmed that the board continued to operate effectively.

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. The schedule enables the board and executive management to operate within a clear governance framework. The schedule of matters reserved to 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.

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

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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 ensuring that they keep updated their skills, knowledge and familiarity with the company to enable them to fulfil their role on the board and relevant committees. 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 its 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.

As described above, the board 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, 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.

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 centre around the interests of key stakeholders and other factors set out in section 172(1) of the Companies Act 2006. The directors are conscious of

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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, and the directors have had regard to these 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.

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.

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.