



## **NMBS Governance Policy – October 2018**

**It was agreed at an NMBS board meeting held on the 5<sup>th</sup> November 2015, to implement the proposal of a Governance Report dated the 1<sup>st</sup> September 2015, outlining how NMBS should adopt the UK Corporate Code of Governance (as updated April 2016), along with specific recommendations around board size and rotation.**

The Main principles of Leadership, Effectiveness, Accountability, Remuneration and Relations with Members/Shareholders have been adopted in the form set out in Appendix A.

The report includes a comment at the end of each key section, highlighting how it applies to NMBS and is highlighted in “Bold Blue Text”.

We are already compliant with most areas of the adopted Corporate Code. However, we have identified the following 3 key areas which need to be addressed:

- 1) Appointments to the Board
- 2) Reporting in the Annual Accounts
- 3) Dialogue with Members

### **Appointments to the Board**

**There should be a formal, rigorous and transparent procedure for the appointment of new directors to the Board and any appointments should be made, on merit, against objective criteria and with due regard to the diversity of the Board.**

Previously, NMBS used to simply request nominations from the membership to join the Board.

**The Board of NMBS has decided to adopt a new recruitment process for any new Board members**, very similar to that used when appointing a new chairman or any other executive officer.

**This will include NMBS formally writing to the members explaining how NMBS has adopted a Code of Governance and that, as part of that process, we will be seeking applications from the membership to join the NMBS Board.**

**Whilst actively encouraging members to apply**, we will also make it clear that it will entail a formal interview process and that successful candidates will be put forward as nominations by the NMBS Board, to be elected at the next AGM by the members.

**Members will no longer be invited to submit nominations.**

It would be envisaged that we start this process in early 2019, so that we can identify suitable candidates to put forward for nomination prior to our AGM.

It would be the intention to only put forward enough nominations to match the available spaces.

## **Reporting in the Annual Accounts**

It has already been identified that it would be good practice to incorporate more information in our Annual Accounts, to ensure greater transparency and accountability.

The Code of Conduct identifies specific areas that need to be addressed and these will be included in our Annual Accounts in future.

## **Dialogue with Members**

**There should be a dialogue with members based on the mutual understanding of objectives. The Board has responsibility for ensuring that a satisfactory dialogue with members takes place.**

It was identified at the recent strategy meeting that NMBS and the Board should look to proactively engage with the membership.

**The Board has decided to encourage more member input at the AGM in May**, by inviting those in attendance to discuss not only the Annual Accounts, but also to get an update on the future direction of NMBS.

The presentation of the AGM will look to use latest online media tools to allow remote access to the content such as a webinar and ask any questions.

## **Executive Summary**

The Board of NMBS has agreed to adopt the UK Corporate Governance Code, as included in Appendix A.

The code is very comprehensive and gives clear guidelines on how to most effectively govern the business.

This creates a very clear and transparent message to the NMBS members on how NMBS operates with regards to Governance and its commitment to best practise.

Full reference has been made to external advice in support of the changes to the nominations process and we believe this is a very positive move forward from the wider membership point of view, with greater transparency and a demonstration of the commitment by the NMBS Board to engage with the members.

## **Appendix A**

### **The UK Corporate Governance Code** **as adopted by NMBS September 2015**

The first version of the UK Corporate Governance Code (“the Code”) was published in 1992 by the Cadbury Committee. It defined corporate governance as “the system by which companies are directed and controlled”.

Boards of directors are responsible for the governance of their companies. The members'/shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. This remains true today, but the environment in which companies, their members/shareholders and wider stakeholders operate continues to develop rapidly.

Over the years, the Code has been revised and expanded to take account of the increasing demands on the UK's corporate governance framework and whilst it was primarily targeted at listed companies, the framework it provides is a very useful tool for companies wishing to adopt best practise.

**Whilst not all the Code is applicable to an organisation like NMBS, the Board agreed to adopt the main principles of the Governance Code as stated in September 2015 and as updated in April 2016.**

#### **The Main Principles of the Code**

Included below are references to the key parts of the UK Corporate Governance Code, with a Summary and Recommendation of any action required by NMBS to ensure compliance or relevancy to the organisation.

#### **Section A: Leadership**

Every company should be headed by an effective board which is collectively responsible for the long-term success of the company.

There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business.

No one individual should have unfettered powers of decision. The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role.

As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy.

**NMBS has a non-executive Chairman and a Board-appointed Managing Director and complies fully with the above.**

## Section B: Effectiveness

The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.

- There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.
- All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.
- All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.
- The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.
- The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.
- All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.

**NMBS complies with the above via the Chairman and Governance & Remuneration Committee.**

**It is important that NMBS maintains the right mix of Board members with at least one elected board member being a qualified accountant wherever possible and for that individual to serve on the Audit & Risk Committee.**

**Any new Board members are recruited to the Board of NMBS based on the experience and value they could bring to NMBS and the Board. Board members are recruited by the Board and asked to join the Board as observers in the first instance, to ensure the right fit between them and the objectives of the society and existing Board, before the Board formally puts them forward for nomination and election by the members at the appropriate time.**

**The current rules require the re-election of Board members every three years and the Board has agreed that any elected member, including the role of Chairman does not stand for more than 2 consecutive periods e.g. 6 years, without full consideration and a recommendation for their continuance by the Governance & Remuneration Committee.**

## Section C: Accountability

The board should present a fair, balanced and understandable assessment of the company's position and prospects.

- The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives.

- The board should maintain sound risk management and internal control systems.
- The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting, risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors.

**NMBS complies via the Audit & Risk Committee and its subsequent reporting back to the Board.**

## **Section D: Remuneration**

Executive directors' remuneration should be designed to promote the long-term success of the company. Performance-related elements should be transparent, stretching and rigorously applied.

There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.

**NMBS complies with the above via the Governance & Risk Committee and its subsequent reporting back to the Board.**

## **Section E: Relations with members/shareholders**

There should be a dialogue with members based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with members takes place.

The board should use general meetings to communicate with investors and to encourage their participation.

**NMBS is actively looking to encourage a wider participation at its AGM and to positively encourage more member attendance. It aims to achieve this by holding a more inclusive "Members Day" alongside the AGM to discuss future direction and give more detailed explanations of its performance.**

## Section A: Leadership

### A.1: The Role of the Board

#### ***Main Principle***

**Every company should be headed by an effective board which is collectively responsible for the long-term success of the company.**

#### ***Supporting Principles***

consistent with their statutory duties.

#### ***Code Provisions***

A.1.1. The board should meet sufficiently regularly to discharge its duties effectively. There should be a formal schedule of matters specifically reserved for its decision. The Annual report should include a statement of how the board operates, including a high level statement of which types of decisions are to be taken by the board and which are to be delegated to management.

A.1.2. The annual report should identify the chairman, the deputy chairman (where there is one), the chief executive, the senior independent director and the chairmen and members of the board committees. It should also set out the number of meetings of the board and those committees and individual attendance by directors.

A.1.3. The company should arrange appropriate insurance cover in respect of legal action against its directors.

**NMBS complies with the above and includes Board level attendance and number of meetings as part of the Annual Report.**

### A.2: Division of Responsibilities

#### ***Main Principle***

**There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.**

#### ***Code Provision***

A.2.1 The roles of chairman and chief executive should not be exercised by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established, set out in writing and agreed by the board.

**NMBS complies with the above.**

### A.3: The Chairman

#### ***Main Principle***

**The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role.**

#### ***Supporting Principles***

The chairman is responsible for setting the board's agenda and ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues. The chairman should also promote a culture of openness and debate by facilitating the effective

contribution of non-executive directors in particular and ensuring constructive relations between executive and non-executive directors.

The chairman is responsible for ensuring that the directors receive accurate, timely and clear information. The chairman should ensure effective communication with members.

#### ***Code Provision***

A.3.1. The chairman should on appointment meet the independence criteria set out in the code. A chief executive should not go on to be chairman of the same company. If exceptionally a board decides that a chief executive should become chairman, the board should consult major members/shareholders in advance and should set out its reasons to members at the time of the appointment and in the next annual report.

**NMBS complies with the above.**

## **A.4: Non-Executive Directors**

#### ***Main Principle***

**As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy.**

#### ***Supporting Principle***

Non-executive directors should scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. They should satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible. They are responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing and, where necessary, removing executive directors, and in succession planning.

#### ***Code Provisions***

A.4.1. The board should appoint one of the independent non-executive directors to be the senior independent director to provide a sounding board for the chairman and to serve as an intermediary for the other directors when necessary. The senior independent director should be available to shareholders if they have concerns which contact through the normal channels of chairman, chief executive or other executive directors has failed to resolve or for which such contact is inappropriate.

A.4.2. The chairman should hold meetings with the non-executive directors without the executives present. Led by the senior independent director, the non-executive directors should meet without the chairman present at least annually to appraise the chairman's performance and on such other occasions as are deemed appropriate.

A.4.3. Where directors have concerns which cannot be resolved about the running of the company or a proposed action, they should ensure that their concerns are recorded in the board minutes. On resignation, a non-executive director should provide a written statement to the chairman, for circulation to the board, if they have any such concerns.

**NMBS complies with the above via the Governance & Risk Committee and its subsequent reporting back to the Board. The role of senior independent director is designated to the Chair of Governance.**

## Section B: Effectiveness

### B.1: The Composition of the Board

#### ***Main Principle***

**The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.**

#### ***Supporting Principles***

The board should be of sufficient size that the requirements of the business can be met and that changes to the board's composition and that of its committees can be managed without undue disruption and should not be so large as to be unwieldy.

The board should include an appropriate combination of executive and non-executive directors (and in particular, have independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision taking.

The value of ensuring that committee membership is refreshed and that undue reliance is not placed on particular individuals should be taken into account in deciding chairmanship and membership of committees.

No one other than the committee chairman and members is entitled to be present at a meeting of the nomination, audit or remuneration committee, but others may attend at the invitation of the committee.

**NMBS generally complies with the above via the Audit & Risk and Governance & Remuneration Committees and their subsequent reporting back to the Board.**

**The rules of NMBS dictate that it has 8 elected members Directors.**

B.1.1. The board should identify in the annual report each non-executive director it considers to be independent. The board should determine whether the director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement. The board should state its reasons if it determines that a director is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination, including if the director:

- has been an employee of the company or group within the last five years;
- has, or has had within the last three years, a material business relationship with the company either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company;
- has received or receives additional remuneration from the company apart from a director's fee, participates in the company's share option or a performance related pay scheme, or is a member of the company's pension scheme;
- has close family ties with any of the company's advisers, directors or senior employees;

- holds cross-directorships or has significant links with other directors through involvement in other companies or bodies;
- represents a significant shareholder; or
- has served on the board for more than nine years from the date of their first election.

**NMBS generally complies with the above, however will ensure that in future reference to length of service of the Board members is included in the Annual Report.**

## **B.2: Appointments to the Board**

### ***Main Principle***

**There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.**

### ***Supporting Principles***

The search for board candidates should be conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the board, including gender.

The board should satisfy itself that plans are in place for orderly succession for appointments to the board and to senior management, so as to maintain an appropriate balance of skills and experience within the company and on the board and to ensure progressive refreshing of the board.

### ***Code Provisions***

B.2.1. There should be a nomination committee which should lead the process for board appointments and make recommendations to the board. A majority of members of the nomination committee should be independent non-executive directors. The chairman or an independent non-executive director should chair the committee, but the chairman should not chair the nomination committee when it is dealing with the appointment of a successor to the chairmanship. The nomination committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.

B.2.2. The nomination committee should evaluate the balance of skills, experience, independence and knowledge on the board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment.

B.2.3. Non-executive directors should be appointed for specified terms subject to re-election and to statutory provisions relating to the removal of a director. Any term beyond six years for a non-executive director should be subject to particularly rigorous review and should take into account the need for progressive refreshing of the board.

B.2.4. A separate section of the annual report should describe the work of the nomination committee, including the process it has used in relation to board appointments. This section should include a description of the board's policy on diversity, including gender, any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives.

**The role of Nominations Committee has been merged with that of the NMBS Governance & Remuneration Committee and noted accordingly in the Annual Report.**

The Governance/Nominations Committee has adopted the guidelines above for reviewing and refreshing the Board, with special focus on managing the succession of the current Board members as they retire in rotation.

Applications to join the Board will be actively encouraged from the membership and will be followed by a formal interview process, with successful applicants being put forward for nomination by the Board to the members.

A section describing the Board's policy on diversity and objectives will be added to the Annual Report.

## **B.3: Commitment**

### ***Main Principle***

**All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.**

### ***Code Provisions***

B.3.1. For the appointment of a chairman, the nomination committee should prepare a job specification, including an assessment of the time commitment expected, recognising the need for availability in the event of crises. A chairman's other significant commitments should be disclosed to the board before appointment and included in the annual report. Changes to such commitments should be reported to the board as they arise, and their impact explained in the next annual report.

B.3.2. The terms and conditions of appointment of non-executive directors should be made available for inspection. The letter of appointment should set out the expected time commitment. Non-executive directors should undertake that they will have sufficient time to meet what is expected of them. Their other significant commitments should be disclosed to the board before appointment, with a broad indication of the time involved and the board should be informed of subsequent changes.

B.3.3. The board should not agree to a full-time executive director taking on more than one non-executive directorship in a FTSE 100 company nor the chairmanship of such a company.

**NMBS complies with the above via the Governance & Risk Committee and its subsequent reporting back to the Board. This is also covered in the NMBS Board member service agreement (Appendix B).**

## **B.4: Development**

### ***Main Principle***

**All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.**

### ***Supporting Principles***

The chairman should ensure that the directors continually update their skills and the knowledge and familiarity with the company required to fulfil their role both on the board and on board committees. The company should provide the necessary resources for developing and updating its directors' knowledge and capabilities. To function effectively, all directors need appropriate knowledge of the company and access to its operations and staff.

### ***Code Provisions***

B.4.1. The chairman should ensure that new directors receive a full, formal and tailored induction on joining the board. As part of this, directors should avail themselves of opportunities to meet major shareholders.

B.4.2. The chairman should regularly review and agree with each director their training and development needs.

**NMBS has introduced a formal induction process for new Board members and encourages training and development across the business.**

## **B.5: Information and Support**

### ***Main Principle***

**The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.**

### ***Supporting Principles***

The chairman is responsible for ensuring that the directors receive accurate, timely and clear information. Management has an obligation to provide such information, but directors should seek clarification or amplification where necessary.

Under the direction of the chairman, the company secretary's responsibilities include ensuring good information flows within the board and its committees and between senior management and non-executive directors, as well as facilitating induction and assisting with professional development as required.

The company secretary should be responsible for advising the board through the chairman on all governance matters.

### ***Code Provisions***

B.5.1. The board should ensure that directors, especially non-executive directors, have access to independent professional advice at the company's expense where they judge it necessary to discharge their responsibilities as directors. Committees should be provided with sufficient resources to undertake their duties.

B.5.2. All directors should have access to the advice and services of the company secretary, who is responsible to the board for ensuring that board procedures are complied with. Both the appointment and removal of the company secretary should be a matter for the board as a whole.

**NMBS complies with the above and has incorporated terms for the Company Secretary within its rules.**

## **B.6: Evaluation**

### ***Main Principle***

**The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.**

### ***Supporting Principles***

Evaluation of the board should consider the balance of skills, experience, independence and knowledge of the company on the board, its diversity, including gender, how the board works together as a unit, and other factors relevant to its effectiveness.

The chairman should act on the results of the performance evaluation by recognising the strengths and addressing the weaknesses of the board and, where appropriate, proposing new members be appointed to the board or seeking the resignation of directors.

Individual evaluation should aim to show whether each director continues to contribute effectively and to demonstrate commitment to the role (including commitment of time for board and committee meetings and any other duties).

### ***Code Provisions***

B.6.1. The board should state in the annual report how performance evaluation of the board, its committees and its individual directors has been conducted.

B.6.3. The non-executive directors, led by the senior independent director, should be responsible for performance evaluation of the chairman, taking into account the views of executive directors.

## **B.7: Re-election**

### ***Main Principle***

**All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.**

**NMBS complies with the above via the Chairman and Governance & Risk Committee and their subsequent reporting back to the Board.**

**The current rules require the re-election of Board members every 3 years and the Board has agreed that any elected member, including the role of Chairman, does not stand for more than 2 consecutive periods e.g. 6 years, without full consideration and a recommendation for their continuance by the Governance & Risk Committee.**

## Section C: Accountability

### C.1: Financial and Business Reporting

#### ***Main Principle***

**The board should present a fair, balanced and understandable assessment of the company's position and prospects.**

#### ***Supporting Principles***

The board's responsibility to present a fair, balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators as well as to information required to be presented by statutory requirements. The board should establish arrangements that will enable it to ensure that the information presented is fair, balanced and understandable.

#### ***Code Provisions***

C.1.1. The directors should explain in the annual report their responsibility for preparing the annual report and accounts, and state that they consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy. There should be a statement by the auditor about their reporting responsibilities.

C.1.2. The directors should include in the annual report an explanation of the basis on which the company generates or preserves value over the longer term (the business model) and the strategy for delivering the objectives of the company.

C.1.3. In annual and half-yearly financial statements, the directors should state whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and identify any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

**NMBS complies with the above via the Chairman and Audit & Risk Committee.**

### C.2: Risk Management and Internal Control

#### ***Main Principle***

**The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems.**

#### ***Code Provisions***

C.2.1. The directors should confirm in the annual report that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity. The directors should describe those risks and explain how they are being managed or mitigated.

C.2.2. Taking account of the company's current position and principal risks, the directors should explain in the annual report how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate. The directors should state whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their

assessment, drawing attention to any qualifications or assumptions as necessary.

C.2.3. The board should monitor the company's risk management and internal control systems and, at least annually, carry out a review of their effectiveness, and report on that review in the annual report. The monitoring and review should cover all material controls, including financial, operational and compliance controls.

**NMBS complies with the above via the Chairman and Audit & Risk Committee.**

### **C.3: Audit Committee and Auditors**

#### ***Main Principle***

**The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors.**

#### ***Code Provisions***

C.3.1. The board should establish an audit committee of at least three, or in the case of smaller companies two, independent non-executive directors. In smaller companies the company chairman may be a member of, but not chair, the committee in addition to the independent non-executive directors, provided he or she was considered independent on appointment as chairman. The board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience.

C.3.2. The main role and responsibilities of the audit committee should be set out in written terms of reference and should include:

- to monitor the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance, reviewing significant financial reporting judgements contained in them;
- to review the company's internal financial controls and, unless expressly addressed by a separate board risk committee composed of independent directors, or by the board itself, to review the company's internal control and risk management systems;
- to monitor and review the effectiveness of the company's internal audit function;
- to make recommendations to the board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and to report to the board, identifying any matters in respect of which it considers that action or improvement is

needed and making recommendations as to the steps to be taken; and to report to the board on how it has discharged its responsibilities.

C.3.3. The terms of reference of the audit committee, including its role and the authority delegated to it by the board, should be made available.

C.3.4. Where requested by the board, the audit committee should provide advice on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.

C.3.5. The audit committee should review arrangements by which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The audit committee's objective should be to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

C.3.6. The audit committee should monitor and review the effectiveness of the internal audit activities. Where there is no internal audit function, the audit committee should consider annually whether there is a need for an internal audit function and make a recommendation to the board, and the reasons for the absence of such a function should be explained in the relevant section of the annual report.

C.3.7. The audit committee should have primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditors. If the board does not accept the audit committee's recommendation, it should include in the annual report, and in any papers recommending appointment or re-appointment, a statement from the audit committee explaining the recommendation and should set out reasons why the board has taken a different position.

C.3.8. A separate section of the annual report should describe the work of the committee in discharging its responsibilities. The report should include:

- the significant issues that the committee considered in relation to the financial statements, and how these issues were addressed;
- an explanation of how it has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, and information on the length of tenure of the current audit firm and when a tender was last conducted; and
- if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence are safeguarded.

**NMBS complies with the above via the appointment of the external Auditors, Audit & Risk Committee and their subsequent reporting back to the Board.**

## Section D: Remuneration

### D.1: The Level and Components of Remuneration

#### *Main Principle*

**Executive directors' remuneration should be designed to promote the long-term success of the company. Performance-related elements should be transparent, stretching and rigorously applied.**

#### *Supporting Principles*

The remuneration committee should judge where to position their company relative to other companies. But they should use such comparisons with caution, in view of the risk of an upward ratchet of remuneration levels with no corresponding improvement in corporate and individual performance and should avoid paying more than is necessary.

They should also be sensitive to pay and employment conditions elsewhere in the group, especially when determining annual salary increases.

#### *Code Provisions*

D.1.1. In designing schemes of performance-related remuneration for executive directors, the remuneration committee should follow the provisions in Schedule A to the UK Corporate Governance Code. Schemes should include provisions that would enable the company to recover sums paid or withhold the payment of any sum and specify the circumstances in which it would be appropriate to do so.

D.1.2. Where a company releases an executive director to serve as a non-executive director elsewhere, the remuneration report should include a statement as to whether or not the director will retain such earnings and, if so, what the remuneration is.

D.1.3. Levels of remuneration for non-executive directors should reflect the time commitment and responsibilities of the role. Remuneration for non-executive directors should not include share options or other performance-related elements. If, exceptionally, options are granted, shareholder approval should be sought in advance and any shares acquired by exercise of the options should be held until at least one year after the non-executive director leaves the board. Holding of share options could be relevant to the determination of a non-executive director's independence.

D.1.4. The remuneration committee should carefully consider what compensation commitments (including pension contributions and all other elements) their directors' terms of appointment would entail in the event of early termination. The aim should be to avoid rewarding poor performance. They should take a robust line on reducing compensation to reflect departing directors' obligations to mitigate loss.

D.1.5. Notice or contract periods should be set at one year or less. If it is necessary to offer longer notice or contract periods to new directors recruited from outside, such periods should reduce to one year or less after the initial period.

**NMBS complies with the above via the Governance & Risk Committee.**

## D.2: Procedure

### *Main Principle*

**There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.**

### *Supporting Principles*

The remuneration committee should take care to recognise and manage conflicts of interest when receiving views from executive directors or senior management or consulting the chief executive about its proposals. The remuneration committee should also be responsible for appointing any consultants in respect of executive director remuneration. The chairman of the board should ensure that the committee chairman maintains contact as required with its principal shareholders about remuneration.

### *Code Provisions*

D.2.1. The board should establish a remuneration committee of at least three, or in the case of smaller companies two, independent non-executive directors. In addition, the company chairman may also be a member of, but not chair, the committee if he or she was considered independent on appointment as chairman. The remuneration committee should make available its terms of reference, explaining its role and the authority delegated to it by the board. Where remuneration consultants are appointed, they should be identified in the annual report and a statement made as to whether they have any other connection with the company.

D.2.2. The remuneration committee should have delegated responsibility for setting remuneration for all executive directors and the chairman, including pension rights and any compensation payments. The committee should also recommend and monitor the level and structure of remuneration for senior management. The definition of 'senior management' for this purpose should be determined by the board but should normally include the first layer of management below board level.

D.2.3. The board itself or, where required by the Articles of Association, the shareholders should determine the remuneration of the non-executive directors within the limits set in the Articles of Association. Where permitted by the Articles, the board may however delegate this responsibility to a committee, which might include the chief executive.

**The role of the Remuneration Committee is covered at NMBS by the Governance & Remuneration Committee. The current Governance & Remuneration Committee complies with the above criteria, especially with reference to D.1.3, D.1.5 and D.2.2.**

**Non-executive Board members receive an attendance allowance of £750 per designated Board or Committee Meeting.**

**Schedule A Provisions: The design of performance-related remuneration for executive directors**

### **Balance**

The remuneration committee should determine an appropriate balance between fixed and performance-related, immediate and deferred remuneration. Performance conditions, including non-financial metrics where appropriate, should be relevant, stretching and designed to promote the long-term success of the company. Remuneration incentives

should be compatible with risk policies and systems. Upper limits should be set and disclosed.

The remuneration committee should consider whether the directors should be eligible for annual bonuses and/or benefits under long-term incentive schemes.

### **Pensions**

In general, only basic salary should be pensionable. The remuneration committee should consider the pension consequences and associated costs to the company of basic salary increases and any other changes in pensionable remuneration, especially for directors close to retirement.

**NMBS complies with the above via the Governance & Risk Committee.**

## **Section E: Relations with shareholders**

### **E.1: Dialogue with Members/Shareholders**

#### ***Main Principle***

**There should be a dialogue with members based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.**

#### ***Supporting Principles***

Whilst recognising that most shareholder contact is with the chief executive and finance director, the chairman should ensure that all directors are made aware of their major shareholders' issues and concerns.

The board should keep in touch with member opinion in whatever ways are most practical and efficient.

#### ***Code Provisions***

E.1.1. The chairman should ensure that the views of members are communicated to the board as a whole. The chairman should discuss governance and strategy with major members. Non-executive directors should be offered the opportunity to attend scheduled meetings with major members and should expect to attend meetings if requested by major members. The senior independent director should attend sufficient meetings with a range of major members to listen to their views in order to help develop a balanced understanding of the issues and concerns of major members.

E.1.2. The board should state in the annual report the steps they have taken to ensure that the members of the board, and in particular the non-executive directors, develop an understanding of the views of major shareholders about the company, for example through direct face-to-face contact, analysts' or brokers' briefings and surveys of shareholder opinion.

**NMBS complies with the above via the Chairman and Governance & Remuneration Committee and their subsequent reporting back to the Board.**

**All members of NMBS have an equal number of shares and all members are, therefore, considered equally for feedback.**

**It is intended in future that more detailed information is contained within the Annual Report and that more members are encouraged to attend the AGM/Members' Day to ensure there is ample opportunity for feedback to and from the Board.**

**Appendix B**



**BOARD MEMBER  
SERVICE AGREEMENT  
February 2016**

## **INTERPRETATION**

In this Agreement, the following words and phrases shall have the following meaning:

“Agreement”	means Board Member Service Agreement
“Board Member”	mean the officers elected from the Members of the Society in accordance with rule 15.1.1 of the Society’s Rules or co-opted under rule 15.6
“Chairman”	means the chairman of the Society and the Board from time to time
“Executive”	means the Appointed Officers, having the meaning given in rule 15.1.2 of the Society’s rules
“Secretary”	means the Secretary of the Society from time to time
“Society”	means the National Merchant Buying Society Limited (Registered Number 16406R)
“Society’s Rules”	means the rules of the Society, as amended or replaced from time to time

## 1. Parties to the Agreement

This agreement is between:

National Merchant Buying Society Limited (hereinafter “the Society”)

And

Name and Address (hereinafter “the Board Member”)

## 2. Appointment

- 2.1 The Board Member has been appointed, by election or has been co-opted, to the NMBS Management Board.
- 2.2 The term of office commenced upon election and will terminate in accordance with the provisions on duration of appointment set out within the Society’s Rules and in accordance with clause 11 of this Agreement. A board member who has been co-opted shall hold office for a term of one year.
- 2.3 It is agreed that this is a Service Agreement and not a contract of employment

## 3. Role/Duties

- 3.1 The Board’s role is to:
  - 3.1.1 Establish the Society’s vision, mission and values
  - 3.1.2 Set the strategy and structures
  - 3.1.3 Delegate to the Executive
  - 3.1.4 Exercise accountability to the Members
- 3.2 In addition to the collective responsibilities of the Board as a whole the Board Member’s role has the following key requirements:
  - 3.2.1 **Teamwork:** The Board Member should conscientiously contribute to the role of the Board as a member with collective responsibility and at all times within the rules of the Society. In all matters concerned with the position on the Board, the Board Member should act in the interests of the whole membership to the exclusion of any other interests.
  - 3.2.2 **Strategy:** The Board Member should constructively challenge and participate in the development of the strategy of the Society
  - 3.2.3 **Performance:** The Board Member should scrutinise the performance of the Executive in meeting agreed goals and objectives and monitor the Society’s performance on key performance indicators.
  - 3.2.4 **Risk:** The Board Member should satisfy himself that information is accurate and that, via the Executive, controls and systems of risk management are robust and defensible.
  - 3.2.5 **People:** The Board Member should ensure, via the Executive, that the human resources (capacity and capability) are in place for the Society to meet its objectives and legal obligations.
  - 3.2.6 **Legal:** The Board Member should satisfy himself, via the Executive, that the Society’s overall arrangements to provide assurance of compliance with legal and regulatory requirements are adequate. The Board Member should take joint and several

responsibility for demonstrating high standards of governance and contribute to the development and maintenance of high standards within the Society. The Board Member should also ensure that the activities of the Society fall within the Society's permitted objects and are exercised in accordance with its powers. The Board Member also pledges to use his powers solely for the purpose for which they were conferred and that he has the same legal responsibilities to the Society as any other Board Member.

3.2.7 **Personal Development, Skills and Input:** The Board Member should prepare for, attend and participate in Board Meetings, seeking to maintain up to date knowledge of key challenges and risks faced by the Society, particularly contributing specialist expertise and experience where possible.

3.2.8 **Representation:** The Board Member should work to enhance the reputation and image of the Society at both internal and external events.

3.2.9 **Standard of Care:** The Board Member should act reasonably and prudently in all matters relating to the Society, always bearing in mind its interest and exercising the same degree of care as a prudent business person would exercise in managing their own affairs or those of someone for whom they were responsible.

#### 4. Time Commitment

4.1 By signing this Agreement, the Board Member confirms that he can allocate sufficient time to meet the requirements of the role of a Board Member, as given in section 3 of this Agreement and rule 17.1 of the Society's rules.

4.2 As part of your Board member role you may be invited by the Society to serve on other committees, working parties or panels. Appropriate terms of reference and specific responsibilities will be given in this instance.

4.3 The Board Member is expected to work with and through the Board. There is no expectation to undertake Executive duties or responsibilities

4.4 The Board Member is expected to familiarise himself with all matters relevant to the work undertaken by the Board, including any relevant regulatory and statutory provisions. It is expected that the Board Member fully prepares for all Board and other meetings, to include reading and considering prior to the meeting any papers that have been distributed in advance in reasonable time to enable you to do so.

4.5 The Board Member is expected to fully understand that all Board Meetings are held in accordance with the Competitions Act 1988 and the Enterprise Act 2002.

#### 5. Expenses

In accordance with rule 15.9 of the Society's rules, the elected and Co-opted Board Members will be reimbursed for all reasonable and properly documented expenses incurred in the performance of the duties of a Board Member. In addition, there will also be paid a daily attendance allowance of £750 for each full board and committee meeting attended as defined under rule 17.1. Each board member will be required to submit an invoice to the Society in respect of the daily attendance allowance (and Value Added Tax or any similar tax chargeable in respect of the attendance allowance).

#### 6. Special leave of absence

If a Board Member is unable to attend Board meetings and/or undertake the duties of a Board Member for a period of time, the Chairman of the Society must be notified in writing and special leave of absence may be granted.

## **7. Outside Interests**

- 7.1 It is accepted and acknowledged that the Board Member may have business interests other than those of the Society. At the time of appointment the Board Member agrees to declare any actual or potential conflicts of interest affecting the Board Member, is family members and associated businesses or other organisations.
- 7.2 In the event that the Board Member becomes aware of any new actual or potential conflicts of interest, disclosure will be made to the Chairman as soon as this becomes apparent and notified to the Secretary in writing, whether in general or in respect of a particular agenda item. At which point, the Chairman's decision on any action necessary will be final and binding.
- 7.3 The Board Member agrees to act with integrity throughout the term of their appointment.

## **8. Confidentiality**

All information acquired by the Board Member during the term of office and following termination (by whatever means) is to be treated as confidential to the Society and should not be released to third parties.

## **9. Data Protection**

It is a condition of this Agreement with the Society that the Board Member consents to the processing of any personal data to support the performance of this Agreement.

## **10. Insurance**

- 10.1 The Society has officers' liability insurance in place that covers all Board members. A copy of the policy document is available from the Company Secretary. You are required to bring any potential claim under this policy to the attention of the Company Secretary immediately you become aware of it.
- 10.2 The Society agrees to:
- 10.2.1 maintain officers' liability insurance with a limit of indemnity of not less than £2m provided such insurance continues to be available to the Society in the insurance market at a price which is reasonably affordable; and
- 10.2.2 To inform you of any intention to reduce the limit of indemnity or to discontinue the cover.

## **11. Termination**

The Board Member's appointment will end immediately without any entitlement to compensation upon:

- 11.1 The effective date of resignation or vacation of the office of Board member
- 11.2 Appointment ceasing in accordance with the Society's Rules

## **12. Position on Termination**

Once the appointment under this Agreement has been ended by whatever means, then unless the Board determines otherwise, the Board Member will be required to immediately resign from all positions held as a sub-committee member of the Society. All property or documents provided to the Board Member during the term of office will be returned to the Society upon termination, unless otherwise agreed by the Secretary.

## **13. Notice**

- 13.1 If a Board Member wishes to service any notice in relation to this Agreement upon the Society, it must be in writing and sent to the Society's current registered office by recorded delivery, marked for the attention of the Chairman or Secretary, as appropriate.
- 13.2 If the Society wishes to serve any notice in relation to this Agreement upon the Board Member, will be delivered either personally or sent by recorded delivery addressed to the Board Member at the usual or last known address.
- 13.3 Any such notice, if so posted, shall be deemed to be served on the second day following that on which it was posted.

## **14. Status**

- 14.1 It is agreed and recognised between the parties that the Board Member is and will remain at all times for the duration of this Agreement a member of the Board, that there will be no employment relationship between the parties and that no one working for the Society has a comparative full time position.
- 14.2 This Agreement shall not be construed so as to create a partnership or joint venture between the parties. Nothing in this Agreement shall be construed so as to constitute either party as agent of the other or agent of any third party.

## **15. General**

This agreement and the documents referred to in it embody and set out the entire agreement and understanding of the parties and supersede all prior oral or written agreements, understandings and arrangements relating to the subject matter of this agreement. Neither party

shall be entitled to rely on any agreement, understanding or arrangement which is not expressly set out in this agreement.

This agreement shall not be amended, or modified, varied or supplemented except as agreed in writing and signed by the parties. No failure or delay on the part of either party to exercise any right or remedy under this agreement shall be construed or operate as a waiver nor shall any single or partial exercise of any right of remedy as the case may be. The rights and remedies provided in this agreement are cumulative and are not exclusive of any rights or remedies provided by law.

**16. Laws and Jurisdiction**

The terms of this Agreement shall be governed by the Laws of England and the parties agree to submit to this jurisdiction in the case of dispute.

**Declaration**

By signing this document the Board Member agrees and declares that he is not aware of any reasons like to render them ineligible to serve in the capacity of Board Member Society and in particular that the Board Member is not or has never been:

Bankrupt nor party to an arrangement with creditors

Convicted of an indictable offence

Disqualified for any reason from acting as a Company Director under the provisions of the Companies Act 2006

**SIGNED** on behalf of NMBS \_\_\_\_\_ Print name \_\_\_\_\_

**Dated** \_\_\_\_\_

**SIGNED** by the Board member \_\_\_\_\_ Print name \_\_\_\_\_

**Dated** \_\_\_\_\_