



NMBS QCA CODE ADOPTION

STRENGTHENING
INDEPENDENTS

NMBS QCA Code Adoption

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Preamble

The QCA has identified 10 principles that focus on the pursuit of medium to long-term growth in value for shareholders without stifling the entrepreneurial spirit in which a company was created.

Companies need to deliver growth in long-term shareholder value. This requires an efficient, effective and dynamic management framework and should be accompanied by good communication which helps to promote confidence and trust.

Deliver growth

Principle 1: Establish a strategy and business model which promote long-term value for shareholders

Application

The board must be able to express a shared view of the company's purpose, business model and strategy. It should go beyond the simple description of products and corporate structures and set out how the company intends to deliver shareholder value in the medium to long-term. It should demonstrate that the delivery of long-term growth is underpinned by a clear set of values aimed at protecting the company from unnecessary risk and securing its long-term future.

Evidence & disclosure

What is being done to evidence adoption of this principle:

- NMBS' has a 3-to-5-year strategy which is revisited each year.
- It is set out in its annual report and also communicated at all industry events held by the Society (e.g., NMBS Conference, Dinner Dance, Supplier Lunch).
- There is an annual presentation to all staff, outlining future plans and historic performance.
- The strategy is reviewed, assessed, and revised at the board's annual strategy days and, should it be deemed appropriate, at board meetings. This strategy is then filtered down to the internal management team so that departments can be managed with a view to achieving the strategy.

What further needs to be done to adopt this principle:

- The business model is currently less well communicated to external stakeholders.
- Consider including more information on this matter in the Annual Report and also establishing a communications plan with NMBS' PR company.

Principle 2: Seek to understand and meet shareholder needs and expectations

Application

Directors must develop a good understanding of the needs and expectations of all elements of the company's shareholder base.

The board must manage shareholders' expectations and should seek to understand the motivations behind shareholder voting decisions.

Evidence & disclosure

What is being done to evidence adoption of this principle:

- NMBS seeks to understand the needs and expectations of all of its stakeholders by means of internal and external communications and meetings.
- NMBS' directors participate in industry events throughout the year, representing NMBS at these events.
- The CEO and Executive Directors meet with existing shareholders throughout the year
- NMBS is currently in the process of improving its social media presence which seeks to keep all stakeholder groups informed on the Group's progress.
- NMBS welcomes all attendees to its Annual General Meetings ("AGMs") and seeks to engage with them both formally and informally on the day.
- To further understand and meet shareholder needs and expectations the Company retains a Public Relations partner.

What further needs to be done to adopt this principle:

- Consider holding NMBS Member days

Principle 3: Take into account wider stakeholder and social responsibilities and their implications for long-term success

Application

Long-term success relies upon good relations with a range of different stakeholder groups both internal (workforce) and external (suppliers, customers, regulators and others). The board needs to identify the company's stakeholders and understand their needs, interests and expectations.

Where matters that relate to the company's impact on society, the communities within which it operates or the environment have the potential to affect the company's ability to deliver shareholder value over the medium- to long-term, then those matters must be integrated into the company's strategy and business model.

Feedback is an essential part of all control mechanisms. Systems need to be in place to solicit, consider and act on feedback from all stakeholder groups.

Evidence & disclosure

What is being done to evidence adoption of this principle:

- NMBS has identified its stakeholders, both internal and external
- NMBS regularly revisits its identified stakeholders to consider any additions or changes
- NMBS is beginning its ESG journey and has appointed an external consultancy company to assist it in its aims

What further needs to be done to adopt this principle:

- NMBS' Annual Report needs to identify its key stakeholders within a Stakeholder Engagement and Responsible Business section of its Annual Report. The purpose of this is to outline the importance of and nature of its stakeholder relationships. If it were not regarded as a trusted and socially responsible organisation, its reputation would suffer, leading to a lack of confidence and reduced throughput of turnover.
- NMBS is just beginning its ESG journey; this principle will expand and be evidenced, particularly by means of inclusion in its annual report.

Principle 4: Embed effective risk management, considering both opportunities and threats, throughout the organisation

Application

The board needs to ensure that the company's risk management framework identifies and addresses all relevant risks in order to execute and deliver strategy; companies need to consider their extended business, including the company's supply chain, from key suppliers to end-customer.

Setting strategy includes determining the extent of exposure to the identified risks that the company is able to bear and willing to take (risk tolerance and risk appetite).

Evidence & disclosure

What is being done to evidence adoption of this principle:

- The Group's approach to risk management together with the principal risks and uncertainties applicable to NMBS are set out in the Group's annual report.
- NMBS' Executive, in conjunction with the Board, reviews, evaluates and prioritises risks to ensure that appropriate measures are in place to effectively manage and mitigate those identified.
- As a major provider of credit cover in the merchanting industry, NMBS strictly adheres to its Credit Policy, the operation of which is independently audited twice a year. **These audits are evidence of NMBS going above and beyond what is required.**
- Any changes to the Credit Policy are placed before the Audit and Risk Committee, whose remit is evolving to encompass not just financial risks but the Group's overall risk framework.
- The managing, processing handling and storage of significant quantities of data is a core function of NMBS. As such, the Group takes the threat to cyber security very seriously. It has recently appointed a Cyber Security Officer whose role it is to ensure the integrity and security of all systems.
- In addition, the Group is working towards the Cyber Essentials accreditation.

What further needs to be done to adopt this principle:

- Completion of and communication of the NMBS Risk Register
- Regular and inclusive review of the Risk Register by the Executive and Senior Management team
- Consider the requirement for an internal audit function within NMBS
- Greater consideration of risk is required at Board level

Maintain a dynamic management framework

Principle 5: Maintain the board as a well-functioning, balanced team led by the chair

Application

The board members have a collective responsibility and legal obligation to promote the interests of the company and are collectively responsible for defining corporate governance arrangements. Ultimate responsibility for the quality of, and approach to, corporate governance lies with the chair of the board.

The board (and any committees) should be provided with high-quality information in a timely manner to facilitate proper assessment of the matters requiring a decision or insight.

The board should have an appropriate balance between executive and non-executive directors and should have at least two independent non-executive directors. Independence is a board judgement.

The board should be supported by committees (e.g., audit, remuneration, nomination) that have the necessary skills and knowledge to discharge their duties and responsibilities effectively.

Directors must commit the time necessary to fulfil their roles.

Evidence & disclosure

What is being done to evidence adoption of this principle:

- The Statement of Board's Responsibilities, part of NMBS' Annual Report, details the composition of its Board and Committees.
- At the heart of all successful businesses are balanced teams. NMBS' Board comprises a Non-executive Chair, three Executive and eight Non-executive Directors, the latter being selected from the Group's member organisations.
- All the Non-executive Directors are considered to be independent by NMBS.
- All Non-executive Directors retire by rotation in accordance with the Society's rules
- Matters Reserved for the Board have been agreed
- The Board is frequently reminded of its requirement to adhere to the requirements of the Competitions Act 1998 and the Enterprise Act 2002.

What further needs to be done to adopt this principle:

- Matters Reserved for the Board need to be published on the NMBS website
- Non-executive Directors' letters of engagement and Board Service Agreement should stipulate the time commitment expected of them and the anticipated term of appointment (reviewed formally every three years and on an ongoing

basis as part of the review of the composition of the Board against the strategy of the Company).

- The Annual Report to include a Corporate Governance section and the attendance of each of the directors at meetings throughout the year

Principle 6: Ensure that between them the directors have the necessary up-to-date experience, skills, and capabilities

Application

The board must have an appropriate balance of sector, financial and public markets skills and experience, as well as an appropriate balance of personal qualities and capabilities. The Board should understand and challenge its own diversity, including gender balance, as part of its composition.

The board should not be dominated by one person or a group of people. Strong personal bonds can be important but can also divide a board.

As companies evolve, the mix of skills and experience required on the board will change, and board composition will need to evolve to reflect this change.

Evidence & disclosure

What is being done to evidence adoption of this principle:

- There is a regular undocumented review of the composition of the Board.

What further needs to be done to adopt this principle:

- NMBS' Annual Report should include a link to its website whereby a biography of each Board member within the Corporate Governance section is available. This should list current and past roles of each Board member and also describe the relevant business experience that each Director brings to the Board, plus their academic and professional qualifications.
- The biographies should show that all Directors have proven successful track records in their chosen fields. To ensure that the Directors maintain appropriate skills they are provided training when identified as appropriate by the Chair.
- An annual review of performance of each Board member and Chairman should be undertaken, to include compilation of a skills matrix to identify gaps which require to be filled by ongoing board recruitment
- Engagement of external advisers to be reported and commented upon in the Annual Report.

Principle 7: Evaluate board performance based on clear and relevant objectives, seeking continuous improvement

Application

The board should regularly review the effectiveness of its performance as a unit, as well as that of its committees and the individual directors.

The board performance review may be carried out internally or, ideally, externally facilitated from time to time. The review should identify development or mentoring needs of individual directors or the wider senior management team.

It is healthy for membership of the board to be periodically refreshed. Succession planning is a vital task for boards. No member of the board should become indispensable.

Evidence & disclosure

What is being done to evidence adoption of this principle:

- The Statement of Board's Responsibilities section of the Annual Report describes the function of the Board and its Committees.
- A Strategic Review was undertaken by BDO in 2021 its results were considered carefully by the Board. Key recommendations were published in the 2021 Annual Report.

What further needs to be done to adopt this principle:

- The Board should outline its objectives on an annual basis with identifiable and measurable objectives, together with a communication thereof in the Annual Report
- The Board should have a policy of having an external review undertaken on a periodic basis of no less than every 3 to 5 years

Principle 8: Promote a corporate culture that is based on ethical values and behaviours

Application

The board should embody and promote a corporate culture that is based on sound ethical values and behaviours and use it as an asset and a source of competitive advantage.

The policy set by the board should be visible in the actions and decisions of the chief executive and the rest of the management team. Corporate values should guide the objectives and strategy of the company.

The culture should be visible in every aspect of the business, including recruitment, nominations, training and engagement. The performance and reward system should endorse the desired ethical behaviours across all levels of the company.

The corporate culture should be recognisable throughout the disclosures in the Annual Report, website and any other statements issued by the company.

Evidence & disclosure

What is being done to evidence adoption of this principle:

- NMBS has Investors in People Platinum accreditation.
- The ethic of the business is communicated internally to all staff, setting out NMBS' purpose, values and culture.

What further needs to be done to adopt this principle:

- NMBS' Investors in People Platinum accreditation should be highlighted on the company's website
- Further the development of an ESG Strategy for NMBS, consideration should be given to creating a People, Culture, Values and Sustainability section of the Annual Report to include sections on Business ethics, Modern Slavery, Net Zero etc

Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision-making by the board.

Application

The company should maintain governance structures and processes in line with its corporate culture and appropriate to its size and complexity, and capacity, appetite and tolerance for risk.

The governance structures should evolve over time in parallel with its objectives, strategy and business model to reflect the development of the company.

Evidence & disclosure

What is being done to evidence adoption of this principle:

- The Statement of Board's Responsibilities section of the Annual Report describes the function of the Board and its Committees.
- The roles of Committees are described, along with their terms of reference and matters reserved by the Board for its consideration.

What further needs to be done to adopt this principle:

- NMBS website to include a Corporate Governance section with a high-level explanation of the application of the QCA Code
- The Annual Report to include a Corporate Governance section which specifies the roles and responsibilities of the Chair and Chief Executive Officer

Build trust

Principle 10: Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

Application

A healthy dialogue should exist between the Board and all of its stakeholders, including shareholders, to enable all interested parties to come to informed decisions about the company.

In particular, appropriate communication and reporting structures should exist between the Board and all constituent parts of its shareholder base. This will assist the communication of shareholders' views to the Board; and the shareholders' understanding of the unique circumstances and constraints faced by the company.

It should be clear where these communication practices are described (Annual Report or website).

Application & disclosure

What is being done to evidence adoption of this principle

- The Statement of Board's Responsibilities section of the Annual Report describes the function of the Board and its Committees
- The NMBS website contains regular updates of the performance of the Society and key personnel

What further needs to be done to adopt this principle:

- Consideration be given to including a Remuneration Report within the Annual Report
- Consideration be given to publishing Stakeholder communication practices.
- Should the results of the Society's AGM be published on the NMBS website?