

# MYNERS CONSULTATION (INITIAL OFFICES ONLY)

## SUMMARY OF QUESTIONS

Note: Throughout our responses detailed below reference is made to the directors' duty to act for the benefit of policyholders, existing and future. This body is, in the Society's case, greater than the body of members (effectively members are a sub-set).

**Q1. To what extent does the current guidance on corporate governance particularly the Combined Code provide an appropriate framework for mutual life offices? Would another approach be more effective?**

We believe that the current guidance on corporate governance, particularly the Combined Code, does provide an appropriate framework for mutual life offices subject to the development of the Code to reflect policyholders' interests in place of those of shareholders. The Society's response to the Code is attached with both the current position and actions to achieve what we wish the future position to be detailed therein. We can think of no more powerful or alternative approach to corporate governance. However, policyholders' principal concern has been for the performance of their policies. Policyholders have shown little or no interest in the Society or the role of Corporate Governance.

**Q2. What is the best way of securing mutual life offices' compliance with corporate governance best practice?**

We believe the best way of securing mutual offices' compliance with corporate governance best practice is to require appropriate disclosure in the Annual Report and Accounts, possibly identifying ten key principles which the Board believe are central to policyholders' interests or a statement of the Society's compliance with a "Combined Code" adapted for mutuals. For this to have value however it is recognised that there are issues around the provision of the Annual Report and Accounts to policyholders and their engagement with the information provided therein.

**Q3. In your opinion, should the ownership structure or the nature of the business conducted by a life mutual affect the composition or structure of its board? If so, how?**

We do not believe that the structure or the nature of the business conducted by a life mutual should affect the composition or structure of the Board. We believe that as for any proprietary company the key requirement is for the Board to demonstrate a consistent track record for deploying the appropriate levels of skill, knowledge, and power of application to manage the particular business and in the case of insurance companies this is further underpinned by FSA rules (the approved persons regime). The other differences with Plcs are that clearly mutuals are not bound by the "listing rules" and directors are only responsible for policyholders while directors of Plcs have an overriding duty to shareholders, as well as policyholders.

**Q4. In your experience, is the information and advice (including actuarial advice) used by the non executive directors of life mutuals sufficient – in terms of quality and relevance – to enable them to exercise effective oversight of the executive? In what ways might it be improved? If more information and advice is needed, what are the resource implications? Do similar issues arise for the non-executives of other complex businesses, such as wholesale banking or science-based businesses?**

Yes, we believe from our own experience that the information and advice used by the non-executive directors are sufficient to enable them to exercise effective oversight of the executive.

The information should be kept under regular review and it must be the role of the non-executive director to challenge any information that he/she feels lacks clarity, relevance and/or coverage and which is not rigorously evaluated and soundly based.

While in any business resource implications are a constant restraint the Society's Board must incur such cost as is necessary to enable it to properly discharge its responsibilities to policyholders.

We cannot readily comment on similar issues for the non-executives directors of other complex businesses, such as banking or science-based businesses, but suspect the response would not be markedly different.

**Q5. What is the role of the non-executive director in a complex or technical business? In particular what is their capacity to understand and to challenge the executive over technical aspects of the business?**

The role of the non-executive director in a complex or technical business is to challenge. The capacity of the non-executive director to challenge is dependent on he/she giving the necessary time to the role and bringing both general and specific experience to the collegiate functioning of the Board.

With regard to challenge over technical aspects of the business we believe our response to be covered in our answers to Q3 and 4.

It is important to have a range of skills and experience amongst the non-executive directors. (For example the Society has had at least one non-executive director with an actuarial background for the last 20 years). Having regard to the state of the sector and the onerous role of a Director, the Society has benefited from retaining the significant capability of a Director after full time employment where there are so few appropriate candidates available for nomination to certain Board positions.

**Q6. What can the owners of a complex or technical business reasonably expect of its non executive directors? How would you characterise the practical limitations of a non-executive director? What steps might be taken to codify what is reasonable and realistic in this context? Should executives and non-executives have the same legal duties to the company?**

With regard to a mutual life office we prefer the word “policyholder” to owner. Policyholders have the right to change the rules at any time but they do not run the business which operates for the benefit of current and future policyholders.

Earlier answers have detailed what we believe can be reasonably expected of a non-executive director. The FSA rules regarding “due care in the role” codify the fundamental expectations and requirements.

We cannot readily characterise the practical limitations of a non-executive director other than to emphasise that their role is to see the Board runs properly and to challenge the executive and not run the day to day business of the operation.

We believe that executive directors and non-executive directors should continue to have the same legal duties to the company.

**Q7. What role should policyholders play in the running of mutual life companies? Are there practical barriers to policyholder participation in UK life mutuals? What action would be needed to allow more effective engagement?**

It is no more the role of policyholders to run the business than shareholders.

We do believe that there are practical barriers to policyholder participation in UK life mutuals and that the way to allow more effective engagement is to give policyholders more information, thereby improving understanding.

There is a clear role for professional scrutineers to stamp their authority on the performance of a mutual: auditors, regulators, consultant actuaries, strategy practices, lawyers. Their judgments might form part of the Code, published in the Annual and Interim Reports.

It is a fundamental role of the Board to ensure equity between different groups of policyholders, and the Board can take actuarial advice to assist it in discharging this responsibility.

**Q8. Lord Penrose says that in a life mutual “...it is the policyholders who are the source of the risk capital for the enterprise.” (chapter 20, paragraph 51). What does this mean for the relationship between a mutual life office and its policyholders?**

Access to new capital may be limited for a mutual and the attitude to risk is therefore dependent on financial strength.

The customer friendly PPFM is intended to help the relationship between a life office and its policyholders by giving information on the risks to which policyholders are exposed. However there are likely to be issues around whether sufficient numbers of policyholders take a real interest in the document. The established legal position of “caveat emptor” should apply and be clearly stated to policyholders. They have a duty to read the documents supplied to them .

There is a difficult balance to be struck between providing enough information to encourage policyholders to understand the business and giving them comprehensive information.

**Q9. Lord Penrose acknowledges that the FSA's work since 1997 "...has sought to anticipate many of the lessons that might be drawn by this inquiry, and it should come as no surprise that it has largely succeeded in that." (chapter 30, paragraph 3). In so far as corporate governance is concerned, do you agree?**

We have observed that FSA supervision has been focusing increasingly on the corporate governance of life offices. As an example the FSA are interested in how the Society currently complies with the relevant sections of the Combined Code.

**Q10. Is there a further role for the FSA to play in improving firms' corporate governance?**

The FSA has recently taken a formal interest in the corporate governance of the Society and has recommended that the Society review its processes, an exercise the Society was in any event already undertaking.

Lord Penrose suggests that the FSA is the only body that can ensure proper corporate governance of mutuals through the exercise of its powers and the Society believes that this is sensible. However, this does mean that the FSA will have the difficult task of striking the right balance of:

- Not being seen as taking responsibility for this aspect of the operation of the company but being seen to fulfill its responsibilities; and
- Not applying a "tick-box", "one size fits all" solution across the mutual sector, but focusing on the particular circumstances of individual firms looking at outcomes rather than stipulating methods.

However, we would consider it anti-competitive for the FSA to set down corporate governance rules for mutuals that were more onerous than for proprietary companies.

Nevertheless, we believe that this does fall within the FSA's remit.

**Q11. Listed companies are subject to the influence of their shareholders, particularly large shareholders, and the risk of takeover. What market forces are most relevant for mutual life offices? How effective are they in promoting good performance and how might they be enhanced?**

The market forces most relevant for mutual life offices are consumers, the IFA market, journalists and published tables.

In our opinion the key response to market forces is to deliver consistently superior policyholder returns. The organisation needs to be admired and trusted. There is plenty of personal finance coverage in the media and plenty of opportunity to promote through advertising and public relations. The issue for the sector is to obtain sufficient positive coverage.

**Q12. Do specific barriers exist to the success of mutual businesses in the UK? If so, how might they be addressed?**

The specific barriers to the success of mutual businesses in the UK are access to capital and the diminishing popularity of “with profits products”.

However managing capital is a key part of running a mutual life assurer.

**Q13. What are the forces that drive de-mutualisation? What are the implications of demutualisation for members and customers?**

The key forces that drive demutualisation are lack of capital and over ambition.

The implications of demutualisation for members and customers are typically a short term gain followed by poorer long term returns.

Please note that on 1 July 1997 Medical Sickness Annuity & Life Assurance Society was merged into the Society, the consequence of which was that services to the medical and dental market and the capital needed for the development of that activity were achieved through the merger of two mutuals rather than demutualisation.

**Q14. What specific governance arrangements currently apply to other financial mutuals? In what ways do their governance arrangements differ from those that apply to life mutuals? Which, if any, of the options for life mutuals could be applied more widely in the financial mutual sector? What would the consequences be?**

We do not have a detailed knowledge of the specific governance arrangements that currently apply to other financial mutuals although we are aware of committees of delegation of some friendly societies and the sending out of summary financial information to each account/policyholder.

We question the cost benefit value of this latter activity particularly given the increasing reference to websites by consumers.

**Q15. Do small, affinity group-based, mutual life firms face different governance issues from the largest firms in the sector?**

We do not believe that size is a particular issue in this context.

However from our own experience operating with a number of group-based affinities there is a clear and positive opportunity to involve members in advisory groups, both at national and regional level.

This we do and it is a great strength.

We have also had experience of affinity-based members being focused on “value for money” and not incurring apparently avoidable and significant expenditure. We believe this to be a clear recognition of the concept of “only one pot for all the members”; that underpins the mutual sector. Investment based policies are of intense interest to the owner, particularly where long term policies can benefit substantially from a mutuals low(er) cost base than those organisations which bear the burden of shareholder dividends and short-termism

Mutuals provide diversity in the market which helps to ensure customers have a wider range of choice.

**Q16. Are you aware of effective governance regimes for life (or other) mutuals in other countries? Is this the result of a formal (regulatory or government) requirement or is it voluntary, driven by the industry? Are there aspects of the arrangements in other countries that it would be desirable and practical to adopt in the UK?**

We have no knowledge or experience of effective governance regimes for life or other mutuals in other countries. The Society's business is all UK-based.

## Wesleyan Assurance Society Compliance with Combined Code

Ref	Determining compliance with provisions	Comply Yes/No	Explanation
A	Directors		
A.1	The Board		
A.1.1.1	Does the board meet sufficiently regularly?	Yes	The Board meets eight times a year with a ninth meeting held as appropriate if significant issues arise.
A.1.1.2	Is there a formal schedule of matters specifically reserved for its decisions?	Yes	Company Secretary will review current practice.
A.1.1.3	Does the annual report 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?	No	We will comply in future. Company Secretary to draft wording.
A.1.2	Does the annual report identify: <ul style="list-style-type: none"> <li>• the chairman;</li> <li>• the deputy chairman (if applicable);</li> <li>• the chief executive;</li> <li>• the senior independent director;</li> <li>• the chairmen and members of the nomination, audit and remuneration committees;</li> <li>• the number of meetings of the board and those committees and individual attendance by directors?</li> </ul>	Yes Yes Yes N/A  No  No	We also disclose the Vice-Chairman.     Audit Committee only. We will comply in future. Company Secretary to draft wording. We will comply in future. Company Secretary to draft wording.

<b>Ref</b>	<b>Determining compliance with provisions</b>	<b>Comply Yes/No</b>	<b>Explanation</b>
A.1.3.1	Does the chairman hold meetings of the non-executive directors without the executives present?	Yes	Telephone contact and one-to-one meetings as necessary and from time to time as a group.
A.1.3.2	Are there meetings, led by the senior independent director, of non-executive directors – at least, once a year - to appraise the chairman's performance (see A6.1.2)?	No	The Company Secretary will investigate processes at other companies to identify how appropriate appraisal of the Chairman's performance might be carried out.
A.1.4.1	Do the board minutes contain a record of any concerns of the directors that could not be resolved about the running of the company or about an action?	Yes	
A.1.4.2	For any non-executive director who has resigned and who had any such concerns, is there a written statement, which has been circulated to the board?	N/A	This has never happened but we will include in our new Board Process document (currently being drafted) to comply in future - Company Secretary to draft.
A.1.5	Is there appropriate insurance cover in place in respect of legal action against the directors?	Yes	
<b>A.2</b>	<b>Chairman and chief executive</b>		
A.2.1.1	Are the roles of chairman and chief executive exercised by different people?	Yes	
A.2.1.2	Is the division of responsibilities between them clearly established, set out in writing and agreed by the board?	No	The division of responsibilities is clearly established and will be set out for the Board in more detail and in writing.

<b>Ref</b>	<b>Determining compliance with provisions</b>	<b>Comply Yes/No</b>	<b>Explanation</b>
A.2.2.1	If a chairman has been appointed, did he meet the independence criteria (see A.3.1 below)?	No	The chairman is a former chief executive of the Society but he was considered by the Board to be the most appropriate appointment.
A.2.2.2	If a chief executive has gone on to be a chairman, did the board consult with major shareholders in advance and then set out its reasons to all shareholders at the time of the appointment?	No	As a mutual, there are no major members. We did not think that it was necessary to set out the reasons for members at the time of appointment.
A.2.2.3	If a chief executive has gone on to be a chairman, were the reasons disclosed in the annual report?	Yes	<p>Lowry Maclean's appointment as Chairman from April 1999 (he was previously Vice-Chairman and Managing Director) was signalled in his predecessor's Chairman's Statement in 1997, together with some detail of the skills and experience which made him an appropriate appointment. In retrospect, more detail could have been given.</p> <p>We will disclose the facts of his appointment in his Cv in future annual reports - Company Secretary to draft wording.</p>
<b>A.3</b>	<b>Board balance</b>		
A.3.1.1	Has the board considered the character and judgement of each non-executive director to identify those that are independent?	Yes	

<b>Ref</b>	<b>Determining compliance with provisions</b>	<b>Comply Yes/No</b>	<b>Explanation</b>
A.3.1.2	<p>Has the board identified where the following counter-indicators are present and identified why it still thinks the director is independent?</p> <ul style="list-style-type: none"> <li>• Employee of group or company within last five years.</li> <li>• Material business relationship in last three years directly or as partner, shareholder, director or senior employee of a body with such a relationship.</li> <li>• Additional remuneration apart from fee; member of share option or performance-related pay scheme; member of pension scheme.</li> <li>• Close family ties with any of the company's advisors, directors or senior employees.</li> <li>• Cross-directorships or significant links with other directors through involvement with other companies or bodies.</li> <li>• Represents a significant shareholder.</li> <li>• Has served on the board for more than nine years from date of first election.</li> </ul>	Yes	The Board has identified Michael Worley as independent, even though he has been a director for more than nine years.

<b>Ref</b>	<b>Determining compliance with provisions</b>	<b>Comply Yes/No</b>	<b>Explanation</b>
A.3.1.3	Has the board disclosed the names of the independent non-executive directors in the annual report?	No	We will disclose Michael Worley and Mike Christophers as independent directors in future (it should be noted that Sir James Birrell was considered independent up to his retirement in April 2004). Company Secretary to draft wording.
A.3.1.4	Has the board disclosed in the annual report the reasons it still considers a director independent when any of the above contra-indicators are present?	No	We will consider complying in future. Company Secretary to draft wording.
A.3.2	For small companies (below FTSE350 for whole of year before reporting year), consider the non-executive directors – do at least two of them meet the criteria for independence? For all other companies, does at least half the board comprise non-executive directors who are independent?	Yes	The board consider the Society to be a small company.
A.3.3.1	Has the board appointed a senior independent director from amongst the independent non-executive directors?	No	
A.3.3.2	Has the senior independent director been available to shareholders?	N/A	

<b>Ref</b>	<b>Determining compliance with provisions</b>	<b>Comply Yes/No</b>	<b>Explanation</b>
A.3.3.3	Consider the contacts between shareholders and the senior independent director – did they take place after the normal channels of chairman, chief executive and finance director failed or where they were inappropriate?	N/A	
<b>A.4</b>	<b>Appointments to the Board</b>		
A.4.1.1	Is there a nominations committee?	Yes	
A.4.1.2	Does the nominations committee lead the process for board appointments, making recommendations to the board?	Yes	
A.4.1.3	Do independent non-executive directors make up the majority of the members of the committee?	No	We involve in the selection process non-executive directors who have relevant skills and experience in the area of the appointment but the Society does not have enough independent non-executive directors for them to be a majority on every occasion.
A.4.1.4	Is the chairman either the 'chairman of the company' or an independent non-executive director?	Yes	
A.4.1.5	If it is the chairman, did he refrain from chairing the committee when it discussed a successor?	N/A	

<b>Ref</b>	<b>Determining compliance with provisions</b>	<b>Comply Yes/No</b>	<b>Explanation</b>
A.4.1.6	Have the terms of reference of the committee been made available for inspection? (NB The Combined Code includes Suggestion for Good Practice from the Higgs Report – Summary of the Principal Duties of the Remuneration Committee, which provides further ideas.)	No	We will consider whether this is a practical and appropriate thing to do.
A.4.2	Did the committee evaluate the balance of skills, knowledge and experience on the board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment?	Yes	Our committee also establishes the remuneration package and other key components such as contracts of employment.
A.4.3.1	If a chairman has been appointed, did the committee prepare a job specification, including an assessment of the required time commitment and the need for availability in a crisis?	N/A	
A.4.3.2	Were the chairman's other significant commitments disclosed to the board before appointment (and included in the Annual Report)?	Yes	
A.4.3.3	If the chairman's commitments changed, were they reported to the board (and included in the Annual Report)?	Yes	
A.4.3.4	Does the chairman hold the chairmanship of another FTSE100 company?	N/A	

<b>Ref</b>	<b>Determining compliance with provisions</b>	<b>Comply Yes/No</b>	<b>Explanation</b>
A.4.4.1	Are the terms and conditions of appointment of non-executive directors available for inspection by any person at the company's registered office during normal business hours?	No	We will comply in future.
A.4.4.2	Were the terms and conditions of appointment of non-executive directors made available for inspection by any person for 15 minutes prior to and then during the meeting?	No	We will comply in future.
A.4.4.3	If a non-executive director was appointed, did the letter of appointment set out the expected time commitment?	No	The chairman did this verbally and informally. Company Secretary will review the correspondence with the last appointee and issue a letter to formalise the issue. We will comply in future.
A.4.4.4	If a non-executive director was appointed, did he undertake that he will have sufficient time to meet what is expected of him?	No	The chairman did this verbally and informally. If necessary, the last appointee will be asked to reply formally (see above). We will comply in future.
A.4.4.5	If a non-executive director was appointed, were his other significant commitments disclosed to the board before appointment, with a broad indication of the time involved?	Yes	
A.4.4.6	If the significant commitments of any non-executive director changed during the year, was the board informed of the changes?	Yes	

<b>Ref</b>	<b>Determining compliance with provisions</b>	<b>Comply Yes/No</b>	<b>Explanation</b>
A.4.5.1	How many non-executive directorships in FTSE100 companies do full time executive directors have? (should be a maximum of one)	0	
A.4.5.2	Do any full time executive directors have a chairmanship in a FTSE100 company?	No	
A.4.6	<p>Does the annual report contain a section describing the work of the nomination committee, including:</p> <ul style="list-style-type: none"> <li>• the process it has used in relation to board appointments; and</li> <li>• an explanation if neither an external search consultancy nor open advertising has been used in the appointment of a chairman or a non-executive director?</li> </ul>	No	We will comply in future. Company Secretary to draft wording.
<b>A.5</b>	<b>Information and professional development</b>		

<b>Ref</b>	<b>Determining compliance with provisions</b>	<b>Comply Yes/No</b>	<b>Explanation</b>
A.5.1.1	Have all new directors received a full, formal and tailored induction? (NB The Combined Code includes Suggestion for Good Practice from the Higgs Report – Induction Checklist, which provides further ideas.)	Yes	Nevertheless, we will review our procedures and also, following the Penrose report, we will consider training and competence, particularly in actuarial matters should it be necessary, and also in technical reporting matters such as accounting standards and regulation.
A.5.1.2	Did the company offer all major shareholders the opportunity to meet a new non-executive director?	N/A	
A.5.2.1	If any director felt it necessary to obtain independent professional advice, was it made available at the company's expense?	Yes	But it has never been requested.
A.5.2.2	Did board committees receive sufficient resources to undertake their duties?	Yes	
A.5.3.1	Did all directors have access to the advice and services of the company secretary?	Yes	
A.5.3.2	Is the company secretary responsible to the board for ensuring that board procedures are complied with?	Yes	
A.5.3.3	If a company secretary was appointed, was this decided by the board as a whole?	Yes	
A.5.3.4	If a company secretary was removed, was this decided by the board as a whole?	N/A	Should this happen, it would be decided by the Board as a whole.
<b>A.6</b>	<b>Performance evaluation</b>		

<b>Ref</b>	<b>Determining compliance with provisions</b>	<b>Comply Yes/No</b>	<b>Explanation</b>
A.6.1.1	Does the annual report state how the performance evaluation of the board, its committees and its individual directors has been conducted? (duplicate requirement, given that this is a principle)	No	No formal evaluation is carried out. The Company Secretary will investigate processes at other companies to identify what is appropriate.
A.6.1.2	Has the senior independent director led the non-executive directors in evaluating the performance of the chairman, taking into account the views of executive directors?	N/A	See above response
<b>A.7</b>	<b>Re-election</b>		
A.7.1.1	If there are any new directors, have they been elected by the shareholders at the AGM following their appointment?	Yes	For shareholders, read members.
A.7.1.2	Have all directors been subject to re-election at the AGM at intervals of no more than three years?	Yes	Except that, in accordance with the Society's rules, the Chairman, the Vice-Chairman, the Deputy Chairman and the Managing Director do not have to be re-elected.  We await the outcome of the Myners review.
A.7.1.3	For all directors to be elected or re-elected, were sufficient biographical details and any other relevant information provided to shareholders to enable them to take an informed decision on their election?	Yes	

<b>Ref</b>	<b>Determining compliance with provisions</b>	<b>Comply Yes/No</b>	<b>Explanation</b>
A.7.2.1	If a non-executive director was appointed, was the appointment for specified terms subject to re-election and to Companies Acts provisions relating to the removal of a director?	Yes	To age 70
A.7.2.2	If a non-executive director was appointed, did the papers accompanying a resolution to elect him explain why the board believed he should be elected?	No	Our rules do not require us to send resolutions or annual reports to members in advance.  We await the outcome of the Myners review.
A.7.2.3	If a non-executive director was proposed for re-election, did the chairman confirm that, following formal performance evaluation, the individual's performance continues to be effective and to demonstrate commitment to the role?	No	We will consider complying in future. Company Secretary to draft wording.
A.7.2.4	If an independent non-executive director is serving longer than nine years, has the board: <ul style="list-style-type: none"> <li>• considered why the director is still independent; and</li> <li>• disclosed this in the annual report (as set out in provision A.3.1.4)?</li> </ul>	Yes  No	We will comply in future. Company Secretary to draft wording.
<b>B</b>	<b>Remuneration</b>		
<b>B.1</b>	<b>The level and make-up of remuneration</b>		

<b>Ref</b>	<b>Determining compliance with provisions</b>	<b>Comply Yes/No</b>	<b>Explanation</b>
B1.1.1	What proportion of the total remuneration package of executive directors is represented by the performance-related elements?	Less than significant	For many executive roles, we do not believe that this is appropriate.
B1.1.2	Are the performance-related elements designed to align the directors' interests with those of shareholders and to give these directors keen incentives to perform at the highest levels?	Yes	
B1.1.3	Has the remuneration committee followed the provisions in Sch. A to the Combined Code in designing the performance-related elements (see below)?.	Partly	
B1.1.4	Sch. A: If directors are eligible for annual bonuses: <ul style="list-style-type: none"> <li>• are performance conditions relevant, stretching and designed to enhance shareholder value?</li> <li>• are upper limits set and disclosed?</li> </ul>	Yes	

<b>Ref</b>	<b>Determining compliance with provisions</b>	<b>Comply Yes/No</b>	<b>Explanation</b>
B1.1.5	<p>Sch. A: Has the committee considered whether the directors should be eligible for benefits under long-term incentive schemes?</p> <ul style="list-style-type: none"> <li>• Have traditional share option schemes been weighed against other kinds of long-term incentive scheme?</li> <li>• Do shares granted or other forms of deferred remuneration vest and are options exercisable after three years?</li> <li>• Are directors encouraged to hold their shares, subject to financing and needs?</li> </ul>	N/A	
B1.1.6	<p>Sch. A: If new long-term incentive schemes have been proposed:</p> <ul style="list-style-type: none"> <li>• were they approved by shareholders?</li> <li>• did they replace existing schemes or at least form part of a well considered overall plan, incorporating existing schemes?</li> <li>• Are the total rewards potentially available not excessive?</li> </ul>	N/A	

Ref	Determining compliance with provisions	Comply Yes/No	Explanation
B1.1.7	Sch. A: Consider payouts or grants under all incentive schemes, including new grants under existing share option schemes: <ul style="list-style-type: none"> <li>• were they subject to challenging performance criteria reflecting the company's objectives?</li> <li>• did the criteria reflect the company's performance relative to a group of comparator companies in some key variables such as total shareholder return?</li> </ul>	 Yes  Yes	As a mutual, we cannot have share option schemes.
B1.1.8	Sch. A: Were grants under executive share option and other long-term incentive schemes phased rather than awarded in one large block?	N/A	
B1.1.9	Sch. A: Is only basic salary pensionable?	No	Bonuses are included in pensionable earnings unless specifically excluded by an individual's contract of employment.
B1.1.10	Sch. A: If basic salary increased or changes were made in other pensionable remuneration;, did the committee consider the pension consequences and associated costs to the company; especially for directors close to retirement?	Yes	

<b>Ref</b>	<b>Determining compliance with provisions</b>	<b>Comply Yes/No</b>	<b>Explanation</b>
B1.2	Are any executive share options offered at a discount only as permitted by the relevant provisions of the Listing Rules?	N/A	
B1.3.1	Do levels of remuneration for non-executive directors reflect the time commitment and responsibilities of the role?	Yes	
B1.3.2	Are share options excluded from remuneration for non-executive directors?	N/A	
B1.3.3	If, exceptionally, share options are granted to non-executive directors, were these conditions met: <ul style="list-style-type: none"> <li>• shareholder approval was sought in advance; and</li> <li>• any shares acquired by exercise of the options will be held until at least one year after the non-executive director leaves the board.</li> </ul>	N/A	
B1.3.4	Has holding of share options been taken into account in the determination of a non-executive director's independence (as set out in provision A.3.1)?	N/A	
B1.4	If the company has allowed an executive director to serve as a non-executive director elsewhere, does the remuneration report (as required by statute) include a statement as to whether or not the director will retain such earnings and, if so, what the remuneration is?	N/A	<p>We are not required to make the remuneration report required of listed companies.</p> <p>We await the outcome of the Myners report.</p>

<b>Ref</b>	<b>Determining compliance with provisions</b>	<b>Comply Yes/No</b>	<b>Explanation</b>
B1.5.1	If director has been appointed, has the remuneration committee carefully considered what compensation commitments (including pension contributions and all other elements) would be entailed in the event of early termination? (the aim is to avoid rewarding failure.)	Yes	
B1.5.2	If a director has left, has the remuneration committee taken a robust line with regard reducing compensation to reflect departing directors' obligations to mitigate loss?	Yes	But not formally recorded. We will comply in future. Company Secretary to draft wording.
B.1.6.1	Are notice or contract periods one year or less?	Yes	
B.1.6.2	If longer notice periods were agreed to recruit new directors, have the periods been reduced to one year or less after the initial period?	N/A	
<b>B.2</b>	<b>Procedure</b>		
B.2.1.1	Is there a remuneration committee?	Yes	
B.2.1.2	Are there at least three (or two for smaller companies) members?	Yes	
B.2.1.3	Are all members independent non-executive directors?	No	We do not have sufficient independent non-executive directors for the committee to be made up of such directors

<b>Ref</b>	<b>Determining compliance with provisions</b>	<b>Comply Yes/No</b>	<b>Explanation</b>
B.2.1.4	Have the terms of reference of the committee been made available for inspection? (NB The Combined Code includes Suggestion for Good Practice from the Higgs Report – Summary of the Principal Duties of the Remuneration Committee, which provides further ideas.)	No	We will make them available in future.
B.2.1.5	If remuneration consultants have been appointed, has a statement been made available of whether they have any other connection with the company?	N/A	We will consider making a statement available if such consultants are used at any time in the future.
B.2.2.1	Does the remuneration committee have delegated responsibility for setting remuneration for all executive directors and the chairman, including pension rights and any compensation payments?	Yes	
B.2.2.2	Does the committee 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.)	No	The committee monitors such remuneration and comments as appropriate.
B.2.3.1	Has the company complied with any statements in the Articles of Association for the shareholders to determine the remuneration of the non-executive directors?	N/A	

<b>Ref</b>	<b>Determining compliance with provisions</b>	<b>Comply Yes/No</b>	<b>Explanation</b>
B.2.3.2	<p>If there are no such statements in the Articles of Association, has the board:</p> <ul style="list-style-type: none"> <li>• itself determined the remuneration of the non-executive directors?</li> <li>• as permitted by the Articles, delegated the responsibility to a committee, which might include the chief executive?</li> </ul>	<p>No</p> <p>N/A</p>	The remuneration of the non-executive directors is considered by the Remuneration Committee.
B.2.4	If there were any new long-term incentive schemes or changes to existing schemes (as defined in the Listing Rules), were shareholders invited specifically to approve them?	N/A	
<b>C</b>	<b>Accountability and Audit</b>		
<b>C.1</b>	<b>Financial reporting</b>		
C.1.1	Have the directors explained in the annual report their responsibility for preparing the accounts?	Yes	
C.1.2	Have the directors reported that the business is a going concern, with supporting assumptions or qualifications as necessary?	Yes	
<b>C.2</b>	<b>Internal control</b>		

<b>Ref</b>	<b>Determining compliance with provisions</b>	<b>Comply Yes/No</b>	<b>Explanation</b>
C.2.1.1	Did the board conduct a review, covering all material controls, including financial, operational and compliance controls and risk management systems, of the effectiveness of the group's system of internal controls?	Yes	
C.2.1.2	Did the board report to shareholders that they had done so?	Yes	In directors' certificate attached to the FSA return but this statement is due to be removed. We will include a statement in the Annual Report in future. Company Secretary to draft wording.
<b>C.3</b>	<b>Audit committee and auditors</b>		
C.3.1.1	Is there an audit committee?	Yes	
C.3.1.2	Are there at least three (or two for smaller companies) members?	Yes	
C.3.1.3	Are all members independent non-executive directors?	No	The Chairman of the Board is a member of the Audit Committee. We consider that this is appropriate for an organisation of our size, notwithstanding the guidance (2.4) of the Smith Committee that the Chairman should not be a member.
C.3.1.4	Has the board satisfied itself that at least one member of the audit committee has recent and relevant financial experience?	Yes	

<b>Ref</b>	<b>Determining compliance with provisions</b>	<b>Comply Yes/No</b>	<b>Explanation</b>
C.3.1.5	What recent and relevant financial experience has that member had?		Mike Christophers BSc. FIA has been Finance Director and actuary of a life insurer for five years and Head of KPMG's Insurance Consulting Practice for five years.
C.3.2.1	Are the main role and responsibilities of the audit committee set out in written terms of reference?	Yes	

<b>Ref</b>	<b>Determining compliance with provisions</b>	<b>Comply Yes/No</b>	<b>Explanation</b>
C.3.2.2	<p>Do the written terms of reference include:</p> <ul style="list-style-type: none"> <li>• monitoring the integrity of the financial statements and any formal announcements relating to the company's financial performance, reviewing significant financial reporting judgements contained in them;</li> <li>• reviewing the company's internal financial controls its internal control and risk management systems;</li> <li>• monitoring and reviewing the effectiveness of the company's internal audit function;</li> <li>• making recommendations to the board in relation to the appointment, re-appointment and removal of the external auditor and approving their remuneration and terms of engagement;</li> <li>• reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;</li> <li>• developing and implementing policy on the engagement of the external auditor to supply non-audit</li> </ul>	Yes	

<b>Ref</b>	<b>Determining compliance with provisions</b>	<b>Comply Yes/No</b>	<b>Explanation</b>
C.3.3.3	Are the terms of reference of the audit committee, including its role and the authority delegated to it by the board, made available?	No	We will make them available to members in future.
C.3.3.4	Is the work of the audit committee described in a separate section of the Annual Report?	No	We will comply in future. Company Secretary to draft wording.
C.3.4.1	Has the audit committee reviewed the arrangements for 'whistleblowing', particularly with regard to financial reporting but including other matters?	Yes	It is in the Terms of Reference of the Committee.
C.3.4.2	Are there arrangements in place for the proportionate and independent investigation of such matters and for appropriate follow-up action?	Yes	
C.3.5.1	Has the audit committee monitored and reviewed the effectiveness of the internal audit activities?	Yes	
C.3.5.2	If there is no internal audit function, has the audit committee completed an annual review of the need for an internal audit function and made a recommendation to the board?	N/A	
C.3.5.3	If there is no internal audit function, have the reasons for the absence of such a function been explained in the relevant section of the annual report?	N/A	
C.3.6.1	If changes have occurred in the external auditors, who recommended the change?	N/A	

<b>Ref</b>	<b>Determining compliance with provisions</b>	<b>Comply Yes/No</b>	<b>Explanation</b>
C.3.6.2	<p>If the audit committee has made any recommendations on the appointment, reappointment and removal of the external auditors:</p> <p>If the board did not accept the audit committee's recommendation, did the annual report, and any papers recommending appointment or re-appointment, include:</p> <ul style="list-style-type: none"> <li>• a statement from the audit committee explaining the recommendation; and</li> <li>• the reasons why the board has taken a different position.</li> </ul>	N/A	
C.3.7	If the external auditor provides non-audit services, does the annual report include an explanation to shareholders how auditor objectivity and independence is safeguarded?	No	We will comply in future. Company Secretary to draft wording.
<b>D</b>	<b>Member relationships</b>		
<b>D.1</b>	<b>Dialogue with institutional shareholders</b>		
D.1.1.1	What does the chairman do to communicate the views of shareholders to the board as a whole?	N/A	
D.1.1.2	How many discussions has the chairman had with major shareholders to discuss governance and strategy?	N/A	

<b>Ref</b>	<b>Determining compliance with provisions</b>	<b>Comply Yes/No</b>	<b>Explanation</b>
D.1.1.3	Have non-executive directors been offered the opportunity to attend meetings with major shareholders?	N/A	
D.1.1.4	Have major shareholders requested the attendance of any non-executive directors and, if so, have the non-executive directors attended?	N/A	
D.1.1.5	How many meetings with major shareholders has the senior independent director attended?	N/A	
D.1.2	Does the annual report include a statement by the board of 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 their company, for example through direct face-to-face contact, analysts' or brokers' briefings and surveys of shareholder opinion?	N/A	
<b>D.2</b>	<b>Constructive use of the AGM</b>		
D.2.1.1	Were all proxy votes counted?	N/A	We need to review the Society's rules on proxy voting but we will await the outcome of the Myners report before commencing.

<b>Ref</b>	<b>Determining compliance with provisions</b>	<b>Comply Yes/No</b>	<b>Explanation</b>
D.2.1.2	Except where a poll is called, did the company indicate the level of proxies lodged on each resolution, and the balance for and against the resolution and the number of abstentions, after it had been dealt with on a show of hands?	Yes	
D.2.1.3	How did the company ensure that votes cast are properly received and recorded?		Votes have been unanimous and counted by show of hands. See comments on proxy voting above.
D.2.2.1	At the AGM was there a separate resolution on each substantially separate issue?	Yes	
D.2.2.2	In particular, was a resolution proposed at the AGM relating to the report and accounts?	Yes	
D.2.3.1	Were the chairmen of the audit, remuneration and nomination committees available to answer questions at the AGM?	Yes	
D.2.3.2	Did all directors attend the AGM?	Yes	

<b>Ref</b>	<b>Determining compliance with provisions</b>	<b>Comply Yes/No</b>	<b>Explanation</b>
D.2.4	Was notice of the AGM and related papers sent to shareholders at least 20 working days before the meeting?	No	<p>The Society's rules require notice of the AGM to be advertised in two national daily newspapers at least 21 clear days in advance. We therefore do not send an individual notice to each member at least 20 working days before the meeting and thus we do not send papers to members either.</p> <p>We await the outcome of the Myners report.</p>

M J Rodhouse  
J A J Roderick  
Business Controls Director  
Company Secretary and Director of Financial  
12 May 2004  
Accounting

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