

Corporate Governance

Application of the Combined Code

The directors have reviewed the Group's corporate governance procedures and have chosen to comply with the relevant requirements of the revised Combined Code on Corporate Governance ("the Combined Code"), as issued by the Financial Reporting Council in July 2003. The directors consider that throughout the period, the Group complied with all relevant provisions of Section 1 of the Combined Code. The principles of the Combined Code have been applied as detailed below.

Organisational structure

The organisational structure of the Group is clearly defined by reference to business units, including subsidiary companies and branch operations. Authority for managing the Group is delegated to the executive directors and senior managers. For each subsidiary, the appropriate senior managers have been appointed as directors. The boards of key subsidiary companies also include an appropriate number of independent non-executive directors. The management of each business unit is the responsibility of the relevant directors and senior management.

The Board of Directors

The roles and responsibilities of the Board are set out in a formal Board Charter. The Charter also identifies certain matters which are specifically reserved for decision by the Board. These include approval of the objectives and strategies of the Group and its subsidiaries and branches, and approval of significant changes in the Group's capital or corporate structure or in its structures of management or internal control as well as the approval of specific transactions, communications and appointments. In addition, the Charter specifies the role of the Group Chief Executive to manage the Group's business on a day-to-day basis, subject to the matters reserved.

The Board, comprising the Chairman, four executive directors and eight independent non-executive directors (in 2005), meets on a monthly basis to consider key business issues. When necessary, the Board will meet more frequently, and during the year, met on a further two occasions. Directors receive relevant briefing papers in advance of Board and committee meetings, and receive regular reports on the Group's financial position, key areas of the Group's business operations and other material issues.

The Roles of the Chairman and the Group Chief Executive

The division of responsibilities between the Chairman and Group Chief Executive is clearly defined and the roles are separate. The responsibilities are documented in the approved Board Charter. The Chairman is responsible for the leadership of the Board and the Group Chief Executive for the management of the Group. In discharging his responsibilities, the Group Chief Executive is advised by the executive directors and senior managers of the business units.

Directors' Independence

The Board considers all of the non-executive directors to be independent in character and judgement. There are no relationships or circumstances which are likely to affect the independent judgement of any of these directors. The Chairman has been a director of the Company since 1993. Given the long-term nature of much of the Group's business, the Board considers that such length of service is important to the balance of the Board. He is also Chairman of Scottish & Newcastle PLC. The Board has considered the Chairman's commitments and is satisfied that he has sufficient time to devote to his position as Chairman of the Company.

Re-election

Directors retire by rotation every three years and are also subject to re-election at the first Annual General Meeting following their appointment.

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Professional development

Directors receive appropriate induction training when joining the Board and, on appointment, commit to continuing their development, allowing them to maintain the standard expected of directors. In addition, an ongoing programme of development and training is provided. During the period, Board training sessions took place on relevant topics including regulatory and financial reporting developments. At any time, in furtherance of their duties, the directors may seek independent professional advice at the Company's expense.

The Company Secretary

All directors have access to the advice and services of the Company Secretary. He is responsible for advising the Board, through the Chairman, on all governance matters, for ensuring that Board procedures are followed, and relevant rules and regulations observed.

Performance evaluation

The Board has, through the Nominations Committee, developed a formal annual review process to assess how well the Board, its committees and directors are performing and how their respective performances might be improved. This assesses performance against the relevant terms of reference. The process involves the use of questionnaires and interviews with all Board members to gather information, followed by a review discussion. The review also assesses the performance of each director and the contribution he or she makes against agreed performance objectives. The result of this process is the preparation of individual and overall Board action plans including agreed recommendations, objectives and timescales.

The Chairman and the non-executive directors met in the absence of the executive directors during the period. The non-executive directors, led by Hugh Stevenson, the Senior Independent Director, also met once during the period without the Chairman being present to consider the Chairman's performance.

Board committees

The Board has established a number of committees, each of which operates within specific terms of reference. Details of these committees, including membership and duties, are set out on pages 11 to 22.

The following table sets out the frequency of, and attendance at, Board and Board Committee meetings during the period:

	Group Board	Audit Committee	Remuneration Committee	Nominations Committee	Investment Committee	Demutualisation Committee
Number of meetings	14	7	7	2	10	18
Sir Brian Stewart	14	-	-	2	-	16
Executive Directors						
Sandy Crombie	14	-	-	2	-	17
John Hylands	14	-	-	-	-	18
Alison Reed (i)	9	-	-	-	-	-
Trevor Matthews	14	-	-	-	-	-
Non-Executive Directors						
Kent Atkinson (ii)	12	6	-	-	-	-
Lord Norman Blackwell	14	7	6	-	-	18
Gerry Grimstone	14	-	7	-	9	16
Alison Mitchell	13	-	-	-	9	-
Sir Nicholas Monck (iii)	3	2	-	-	2	-
David Newlands (iv)	14	7	-	2	-	17
Jocelyn Proteau	14	5	-	1	-	-
Hugh Stevenson	13	-	7	2	10	-

(i) Alison Reed was appointed on 13 June 2005, and since appointment has attended nine out of nine Board meetings.

(ii) Kent Atkinson was appointed on 26 January 2005, and since appointment has attended twelve out of thirteen Board meetings.

(iii) Sir Nicholas Monck retired on 22 March 2005 and prior to his retirement attended three out of three Board meetings.

(iv) David Newlands resigned on 6 March 2006.

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Relations with members

The Group communicates with members using a range of media. The Annual General Meeting (AGM), to which all eligible members are invited, allows members to discuss relevant business issues with the Board. Notice of the AGM, Summary Financial Statements and related AGM papers are issued before the meeting to allow members to consider the items of business. At the meeting, the level of proxies lodged and the numbers for and against each resolution are reported together with details of how the Chairman of the meeting has exercised his discretion in respect of proxies lodged in his favour.

The Group website at www.standardlife.com also contains up to date information on the Group and its Corporate Governance. The Annual Report and Accounts are available for view on the website or members can request a hard copy. A regular magazine, 'Update' is issued to all members, and this provides current information on the Group and answers frequently asked questions. Members' roadshow presentations provide additional information and the opportunity for members to discuss relevant business issues with directors and senior managers.

Risk identification and assessment

Scope and nature of risk reporting and measurement systems

The Board has approved the Group Risk Management Policy which sets out the overall framework through which risks are managed across the Group. The framework is designed to support the identification, assessment, monitoring and control of risks that are significant to the Group's business objectives. Risks are categorised as market, credit, liquidity, insurance or operational risk, and Group policies have been established for each of these categories. The policies are reviewed and approved annually by the Board. The policies define the Group's interpretation of these risks, detail the reporting requirements to the Group Risk Committees and the Board, and contain limits and structures approved by the Board to ensure that appropriate controls are in place and maintained over the risk exposures. Regular reports are submitted to the Board summarising the Group's overall exposure. The reporting systems are replicated at each business unit in the Group to allow the key risks to be filtered to the Board. Further information on how the Group manages and mitigates these risks is included in Note 31 of the financial statements.

Structure and organisation of the risk management function

The Group has an established risk management function whose role is to support the Board in meeting its risk management responsibilities. Group Risk Management has overall responsibility for reporting to the Board in relation to setting and controlling risk exposures. It drafts the Group risk policies for the Board's approval. It also supports and monitors the effective implementation of the policies at Group and business unit levels and supports the Risk Committees. Risk functions have also been established in each business unit. The role of these functions is to implement the Group policies as appropriate to each business unit.

Risk oversight

During 2005 the Group had two senior management risk committees, the Group Technical Risk Committee (GTRC) and the Group Operational Risk Committee (GORC); these committees had formal terms of reference and met regularly. Their role was to support the implementation and monitoring of the Group risk policies and to report to the Group Chief Executive and the Board on the effectiveness of the implementation of the policies. In January 2006, a Group Asset & Liability Committee (ALCO) was created to replace the GTRC. The Group ALCO's mandate is to ensure that the financial risks (credit, market, liquidity and insurance) inherent in the Group's activities are identified and managed in accordance with the appetite and limits approved by the Board. The Group ALCO is chaired by the Group Finance Director, and its members include senior finance representatives of the Group Companies. The GORC is chaired by the Director, Group Risk & Compliance and its members include senior managers with operational responsibilities at each Group company.

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Internal control framework

The directors have overall responsibility for the Group's system of internal control and for the ongoing review of its effectiveness. The system was in place throughout the period and up to the date of the approval of the Annual Financial Statements. It is designed to manage, rather than eliminate, the risk of failure to meet business objectives and can only provide reasonable, not absolute, assurance against material misstatement or loss.

The effectiveness of internal controls is reviewed regularly by Group Internal Audit and Group Compliance, which report their findings to the Audit Committee and the Board. As noted below, a specific annual review is also undertaken by the directors.

Review of internal controls

In accordance with the Combined Code, and the further guidance in the Turnbull Report, the Board has reviewed the effectiveness of the system of internal control. This incorporated a review of the Group's internal control framework and an assessment of the internal control issues raised during the period through the reports provided by Group Internal Audit, Group Compliance and Group Risk Management. It also included reviewing the results of the process of direct self-certification where directors and senior managers across the Group confirm their compliance with the relevant elements of the Group's internal control framework, including policies and minimum standards. The review covered material internal controls, including financial, operational and compliance risk controls. Where material control weaknesses were identified, corrective action plans were put in place and monitored regularly.