

# Corporate governance

## Bradford & Bingley is committed to high standards of corporate governance in its business.

The Directors confirm that for the year ended 31 December 2003 the Company complied with the provisions of the Combined Code (the 'Code') as issued by the UK Listing Authority in June 1998. The Code contains both general principles of good governance and detailed requirements. This Corporate Governance Report coupled with the Directors' Remuneration Report, explains how the Company has applied the governance principles set out in the Code.

The new Combined Code, arising out of the Higgs review of the role and effectiveness of Non-executive Directors and a review of Audit Committees led by Sir Robert Smith, came into effect during 2003 for reporting periods beginning on or after 1 November 2003. The Directors will be reporting on compliance with the new Code in the Annual Report & Accounts for 2004. However, as evidenced by the commentary below, the Company is already compliant in most areas and, in the few areas where it is not, work is underway to put appropriate structures in place.

### The Board

The Directors apply principles of good governance by adopting the following procedures and policies:

- The Board meets a minimum of eleven times per year. This includes one meeting devoted entirely to strategic matters.
- The roles of Chairman and Group Chief Executive are distinct and the offices are held by different people - Rod Kent and Christopher Rodrigues respectively.

- The Board consists of a Non-executive Chairman, five independent Non-executive Directors and five Executive Directors. The five Non-executive Directors bring wide experience from varied backgrounds to the workings of the Board.
- The recognised Senior Independent Director is George Cox, who took over this role on the retirement from the Board of Trevor Lewis on 31 December 2003.
- The purpose of the Board is to govern the Group's strategic direction, supervise its operational management and define and monitor acceptable risk parameters for the Group. The Board has adopted a structure of mandates, granted to individuals and committees throughout the Group, whilst retaining specified matters for its exclusive decision. The specified matters include the approval of interim and final financial statements, the approval of recommendations in connection with the payment of dividends, approval of corporate governance arrangements, the approval of the Group's strategic direction and the approval of various policies to be adopted by the Group. The mandate structure enables authorised individuals to approve levels of expenditure and commit to contracts or other agreements in the normal course of business.
- The Board reviews its constitution at appropriate intervals and each Director is subject to re-appointment every three years in accordance with the Articles of Association.

- For new Directors an appropriate training programme is established to ensure that they are fully conversant with their responsibilities as a Director and with the business of the Group. Throughout their period in office all Directors are updated on Group business, the competitive and regulatory environment in which it operates and other changes as they occur.
- All Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures and applicable rules and regulations are observed. The Directors are able to take independent professional advice at the Company's expense.

### Principal Board committees

The Directors manage the Group through Board meetings and a number of committees, each of which has detailed terms of reference. The three principal Board committees are the Audit, Risk & Compliance, Remuneration and Nominations Committees. The Audit, Risk & Compliance and the Remuneration Committees comprise only independent Non-executive Directors. The terms of reference of these committees are available on request to the Registered Office and by visiting the Investor Relations section of [www.bbg.co.uk](http://www.bbg.co.uk)

The role of the Audit, Risk & Compliance Committee is to monitor the effectiveness of the Group's risk management process and its financial and other internal control systems, including effective internal audit, risk management and compliance functions. The committee also reviews the Group's accounting policies, financial statements and external reporting responsibilities. Its role extends to meeting the external auditors and receiving all reports by them addressed to the Group and to undertaking corporate governance and other duties as required under the Financial Services and Markets Act 2000 and applicable regulation made under it.

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The Audit, Risk & Compliance Committee also considers issues concerning auditors including any risk of conflict of interest. The Group recognises the importance of internal and external auditor independence and has adopted principles to safeguard this, as follows:

- the Group will continue, where appropriate, to use the external auditors for non-audit work;
- the Group recognises the need for transparency around the services being provided and for a central independent overview;
- there is appropriate approval for non-audit work to ensure the auditors' independence is not compromised; and
- the Audit, Risk and Compliance Committee monitors audit and non-audit fees paid.

The members of the committee, chaired by Stephen Webster, are Ian Cheshire and Nicholas Cosh.

The Remuneration Committee reviews the remuneration policy for the Group and contractual arrangements of the Executive Directors (and from 2004 onwards the Chairman's remuneration), and also the operation of share plans and options schemes established by the Company. The Directors' Remuneration Report is included on pages 32 to 40. The members of the committee, chaired by George Cox, are Nicholas Cosh and Louise Patten.

The Nominations Committee is responsible for reviewing the composition of the Board, recommending new appointments to the Board and reviewing re-appointments when they become due. During the year the committee met to consider the membership of the Board, decided upon changes to the Board and defined the requirements of new Directors. The Committee used external recruitment consultants to assist in locating suitable candidates to be considered for appointment to the Board as Non-executive Directors. The members of the committee,

chaired by Rod Kent, are Christopher Rodrigues, Nicholas Cosh and Louise Patten.

### Shareholder relations

The Company is committed to on-going, transparent communication across the shareholder base, whether to institutional investors, private or employee shareholders. The Summary Financial Statement, which details key facts about the Group's performance, is distributed to private shareholders. All announcements, presentations and press releases are available on our website at [www.bbg.co.uk](http://www.bbg.co.uk). The Company engages in two-way communication with institutional shareholders, fund managers and analysts to discuss publicly available information on its strategy, performance and policies. The Board receives feedback on these meetings from the Directors attending the meeting, and is also regularly apprised of comments from institutional shareholders and analysts.

At each AGM there is a review of the Group's performance in the preceding year and the Board welcomes the opportunity to gather the views and take questions from shareholders.

In connection with the AGM, the Company discloses the level of proxy voting (including for, against and abstentions), separates resolutions and ensures the attendance of committee chairmen. In addition, the Notice of the AGM is sent out to arrive at least 20 business days before the Meeting to ensure that shareholders have sufficient time in which to consider the items of business.

### Board Meeting and committee attendance 2003

The table below shows the attendance by Directors at the Board Meetings and at the principal committees of which they were members during the year:

	Audit, Risk & Compliance Committee			
	Board	Compliance Committee	Remuneration Committee	Nominations Committee
Rod Kent	11/11	4/5	8/8	5/5
Christopher Rodrigues	11/11	-	-	4/5
Ian Cheshire	3/4	2/2	-	-
Nicholas Cosh	9/11	-	1/1	3/5
George Cox	9/11	-	7/8	-
Steven Crawshaw	11/11	-	-	-
Ian Darby	4/4	-	-	-
Robert Dickie	4/4	-	-	-
Louise Patten	1/1	-	1/1	-
Rosemary Thorne	11/11	-	-	-
Stephen Webster	6/7	3/3	-	-
Trevor Lewis	10/11	5/5	7/8	5/5
Mark Smith	9/11	4/5	6/7	4/4
Diana Courtney	3/4	2/2	-	-

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for the year ended 31 December 2003**Internal control**

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. The system of internal control is designed to ensure effective and efficient operations and compliance with relevant laws and regulations. Such a system can only provide reasonable and not absolute assurance against material misstatement or loss, as it is designed to manage, rather than eliminate, the risk of failure to achieve business objectives.

Throughout the year ended 31 December 2003 the Group has operated a system of internal control, which includes an ongoing risk management process for identifying, evaluating and managing the significant risks faced by the Group. During the year the Board has continued to review and, where necessary, update the risk management process and the policies and procedures by which these significant risks are managed. The Board has also performed its annual assessment of the effectiveness of internal controls.

Changes in financial regulation continue within the industry, and the Group's risk management processes are designed to operate to ensure that the Group responds appropriately both to actual and proposed regulatory changes.

The Group's management operate a risk management process, producing a Group-wide risk profile that identifies the Group's significant risks, the probability of those risks occurring and their impact should they occur, and has the prime responsibility for the design and operation of suitable controls and mitigating actions. The risk management process is complemented by a formalised reporting and escalation process for control issues. Internal audit has a key role in maintaining the control environment by providing independent assurance on the effectiveness of the Group's internal control systems. The Group Risk Committee oversees the risk management

process, considers the Group-wide risk profile on a monthly basis and receives monitoring reports to update them on progress. Further information on risk management and control is set out on pages 20 to 21.

The Group is committed to developing and maintaining an appropriate risk management culture in all areas. This is achieved through an organisational structure with clear reporting lines and governed by appropriate business monitoring mechanisms, codes of conduct and policy statements.

The Board reviews the effectiveness of the system of internal control. The system has been in place throughout 2003 and up to the date of approval of the Annual Report & Accounts. It accords with the Turnbull Committee guidance. In reviewing the effectiveness of the system of internal control the Board takes into account the work of the Audit, Risk & Compliance Committee, which receives reports from the Group Risk Committee on the Group's significant risks and how these are being managed with any significant risk issues referred to the Board for consideration. It also considers reports from internal audit, external audit, compliance and management on the system of internal control, adherence to regulatory requirements, any material control weaknesses, and actions taken to address problem areas identified. The Chairman of the Audit, Risk & Compliance Committee reports on the outcome of each meeting to the Board, where appropriate, and the Board also receives minutes of these Committee meetings.

**Going concern**

The Directors confirm they are satisfied that the Company has sufficient resources to continue in operation for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Financial Statements.