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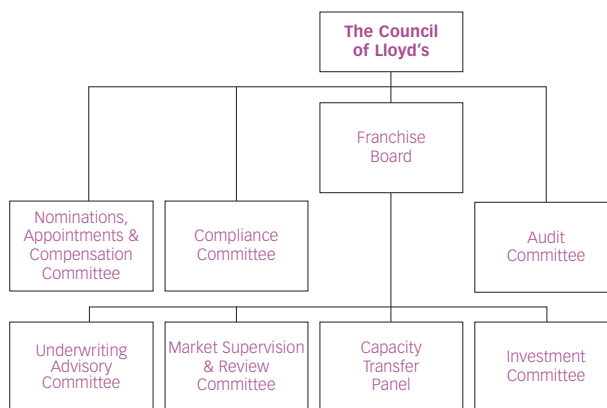
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## Governance structure



# THE COUNCIL

## THE COUNCIL IS THE SOCIETY'S GOVERNING BODY.

Under the Lloyd's Act 1982, the Council of Lloyd's is responsible for the management and supervision of the market.

The Council normally has six working, six external and six nominated members. The working and external members are elected by the working and external members respectively. The Chairman and Deputy Chairmen are elected annually by the Council from among the working members of the Council. All members are approved by the FSA.

Although the Council discharges some of its functions directly, it acts by the Franchise Board in respect of the majority of those functions.

### Lord Levene of Portsoken

Chairman of Lloyd's  
(Working member)

### John Coldman

Deputy Chairman of Lloyd's  
(Working member<sup>†</sup>)

### Bronek Masojada

Deputy Chairman of Lloyd's  
(Working member<sup>†</sup>)

### Bill Knight

Deputy Chairman of Council  
(Nominated member<sup>††</sup>)

### Nick Prettejohn

Chief Executive Officer of  
Lloyd's (Nominated member)

### Steven Burns

Representative of Limit (No.2)  
Limited (External member<sup>\*</sup>)

### Sean Dalton

Representative of Liberty  
Corporate Capital Limited  
(External member<sup>\*</sup>)

### Christine Dandridge

(Working member<sup>†</sup>)

### Quentin Davies

Representative of SUMAC  
Underwriting (UK) Limited  
(External member)

### Celia Denton

(Nominated member<sup>\*</sup>) with  
effect from 16 March 2005

### Nigel Hanbury

(Working member) with effect  
from 16 February 2005

### Judith Hanratty

(Nominated member<sup>†</sup>)

### The Honorable Philip Lader

(Nominated member<sup>†</sup>)

### Peter Morgan

Representative of AJSLP 9  
(External member<sup>††</sup>)

### Charles Philipps

Representative of Amlin  
Corporate Member Limited  
(External member<sup>††</sup>)

### Preben Prebensen

Representative of Wellington  
(Five) Limited (External  
member) with effect from  
25 February 2005

### Andreas Prindl

(Nominated member)

### David Shipley

(Working member<sup>\*</sup>)

‡ Member of Compliance  
Committee

\* Member of Audit Committee

† Member of Nominations,  
Appointments and  
Compensation Committee

# THE FRANCHISE BOARD

**THE GOAL IS TO CREATE AND MAINTAIN A COMMERCIAL ENVIRONMENT IN WHICH THE LONG TERM RETURN TO ALL CAPITAL PROVIDERS IS MAXIMISED.**

The Board is chaired by the Chairman of the Council of Lloyd's. The Chief Executive Officer, Director, Finance and Risk Management and the Franchise Performance Director are also members. The Board currently has six non-executive directors appointed for their specialist knowledge and expertise.

**Lord Levene**

Chairman, Lloyd's

**Nick Prettejohn**

Chief Executive Officer of Lloyd's

**Roy Brown**

**Steven Burns\***

**Stephen Catlin**

**Edward Creasy**

**Stephen Hodge\***

**Luke Savage**

Director, Finance and Risk Management,  
Lloyd's

**Jim Stretton**

**Rolf Tolle**

Director, Franchise Performance, Lloyd's

\* Member of Audit Committee

Franchise Board as at 6 April 2005

## CORPORATE GOVERNANCE

The Council is committed to the principle of good corporate governance and supports the application of the principles of the Combined Code on Corporate Governance as far as they can be applied to the governance of a Society of members and a market of separate, competing entities.

### The Lloyd's market

Lloyd's is not an insurance company. Its members, both corporate and individual, underwrite in syndicates on whose behalf professional underwriters accept risk. Supporting capital is provided by investment institutions, specialist investors, international insurance companies and individuals.

Lloyd's brokers bring business to the market. The risks shown to underwriters originate from clients and other brokers and intermediaries all over the world. The global results, which are an aggregation of the accounts of all syndicates operating at Lloyd's, provide information about the financial performance of the market as a whole.

Together, the syndicates underwriting at Lloyd's form one of the world's largest commercial insurers and a leading global reinsurer. For the 2005 year of account, they have the capacity to accept insurance premiums of £13.7bn.

### Governing body: The Council

Under Lloyd's Act 1982, the governing body of the market is the Council of Lloyd's. Under that Act, the Council has the management and superintendence of the affairs of the Society and the power to regulate and direct the business of insurance at Lloyd's. In addition, the Council also has the power to make Byelaws for the proper and better execution of the Lloyd's Acts and the furtherance of the objects of the Society, and for various specific purposes set out in the 1982 Act.

Council members as at 6 April 2005 are listed on page 30. The Council comprises six working and six external members, together with six nominated members. Nominated members are usually appointed for three year terms which can be renewed and working and external members are generally elected for terms of three years by the working and external members of the Society respectively. Under the Lloyd's Act, 1982 the Chairman and Deputy Chairmen of Lloyd's are elected annually by the Council from among the working members of the Council.

The Chairman of Lloyd's commits as much time as is necessary to successfully undertake the role. The Council acknowledges that the Chairman has other commitments outside Lloyd's and is satisfied that these can be accommodated with the Chairmanship of Lloyd's.

The nominated members of Council may be regarded, for the purposes of the Combined Code, as independent members of Council with the exception of the Lloyd's Chief Executive Officer who is included within their number. One nominated member who retired from Council at the end of 2004 served as a

member of Council for 14½ years. This was split between a five and a half year period of office and a second and final period of nine years which started three years after the end of the first period. Although the concept of a senior independent director does not strictly apply to the Council, Bill Knight (a nominated member) was elected a Deputy Chairman of the Council by Council.

In the elections for working members of the Council, voting operates on a one-member, one vote basis. In the elections for external members of the Council, the voting entitlement of an external member of the Society is based on the member's allocated underwriting capacity as determined under the Council and Committee Byelaw. The Council reports to the members annually at the Annual General Meeting. Voting entitlement at general meetings is capacity-based for both external and working members, except at general meetings called on the requisition of members under section 6(4) of the Lloyd's Act 1982 for the purpose of revoking or annulling Byelaws, at which each member has one vote.

The Council met 11 times in 2004 (including two joint meetings with the Franchise Board).

Attendance record:

Council member	Number of meetings attended
Peter Levene (Chairman)	11/11
Julian Avery	9/11
Steven Burns	9/11
Stephen Catlin	10/11
John Coldman	7/11
Sean Dalton	10/11
Christine Dandridge	9/11
Quentin Davies	11/11
Judith Hanratty	7/11
Bill Knight	10/11
Philip Lader	8/10
Bronek Masojada	8/11
Peter Morgan	11/11
Charles Philipps	9/11
Brian Pomeroy	10/11
Nick Prettejohn	9/11
Andreas Prindl	11/11
David Shipley	10/11

The Council in some cases discharges its functions itself. Only Council can exercise those powers requiring a special resolution – for example, the making and amending of Byelaws, setting the level of contributions to the New Central Fund and the amount of the annual subscription. Amongst other matters, Council also reserves to itself the right to appoint members of the Franchise Board and other committees of Council, on recommendation from the Nominations, Appointments and Compensation

Committee, and to review the budget and the Franchise Board's plan. Council must also approve all expenditure above a specified amount.

In respect of the majority of its other functions, however, the Council acts by the Franchise Board.

#### Franchise Board

The Council established the Franchise Board as from 1 January 2003 and has set it a goal 'to create and maintain a commercial environment at Lloyd's in which the long term return to all capital providers is maximised'. The Council has also set Franchise Principles within which the Board will operate to achieve the Franchise Goal. The Franchise Principles cover three main areas: the overriding principles (relating to legal, regulatory and corporate governance); the capital principles (which emphasise equity between capital providers and prudence in capital setting); and the operating principles (including setting the market supervision framework in accordance with the Financial Services Authority (FSA) requirements).

The members of the Franchise Board as at 6 April 2005 are listed on page 31. In 2004, the Franchise Board comprised the Chairman of Lloyd's, who was also its Chairman, the Chief Executive Officer, the Franchise Performance Director and the Director, Finance and Risk Management. The balance of the Board was made up of three non-executives connected with the Lloyd's market and four independent non-executives. The Franchise Board met 14 times in 2004 (including one all day off-site meeting and two joint meetings with the Council).

Attendance record:

Franchise Board member	Number of meetings attended
Peter Levene (Chairman)	14/14
Roy Brown	13/14
Steven Burns	13/14
Stephen Catlin	12/14
Edward Creasy	13/14
Judith Hanratty	10/14
Stephen Hodge	11/14
Andrew Moss	5/5
Nick Prettejohn	14/14
Luke Savage	5/5
Jim Stretton	13/14
Rolf Tolle	12/14

The Franchise Board has four main committees. These are:

#### Market Supervision and Review Committee (MSARC):

MSARC acts as a review body capable, where appropriate, of amending, modifying or withdrawing certain decisions taken by the executive affecting franchisees. MSARC also acts as the body that determines whether certain decisions can be referred

to the Lloyd's Appeal Tribunal and can also make certain business decisions itself. MSARC also takes decisions regarding the exercise of Lloyd's enforcement powers including the institution of disciplinary proceedings.

MSARC met on six occasions in 2004.

Attendance record:

Committee member	Number of meetings attended
Judith Hanratty (Chairman)	6/6
Ian Agnew	4/5
David Gilchrist	6/6
Brian Pomeroy	4/6

#### Capacity Transfer Panel:

The Capacity Transfer Panel has been established principally to exercise Council's powers in relation to mandatory offers and minority buy-outs. The Panel meets at appropriate times during the capacity transfer season and in 2004 met on five occasions.

Attendance record:

Committee member	Number of meetings attended
Andreas Prindl (Chairman)	5/5
Ralph Aldwinckle	3/5
Quentin Davies	4/5
Lady Delves Broughton	4/5
David Gittings	5/5
Ian Salter	3/5
Paul Swain	5/5

#### Underwriting Advisory Committee (UAC):

The UAC has been established to provide the Franchise Board and the executive with an internally and externally informed view on the insurance cycle and strategic underwriting and risk issues. It met on four occasions in 2004.

Attendance record:

Committee member	Number of meetings attended
Jim Stretton (Chairman)	4/4
Gary Bass	4/4
Andrew Carrier	3/4
Tony Holt	4/4
Christopher Klein	1/1
Robin Mitra	1/1
Nigel Roberts	1/4
Oliver Sparrow	4/4

## CORPORATE GOVERNANCE

### Investment Committee:

The Investment Committee reviews and approves investment parameters for all investment assets managed by Lloyd's centrally. It also reviews the investment activities and performance of the Lloyd's Treasury Department, approves all investment counterparties, and may make more general recommendations concerning investment activity at Lloyd's. It met on four occasions in 2004.

Attendance record:

Committee member	Number of meetings attended
Andreas Prindl (Chairman)	4/4
Lady Delves Broughton	4/4
Alex Foster	2/4
Richard Hextall	4/4
Andrew Moss	1/1
Luke Savage	1/1

### Other Principal Committees of Council

#### Compliance Committee:

The Compliance Committee's role is to examine the effectiveness of the Franchise Board in performing its functions and exercising its powers in accordance with its terms of reference. The objectives of the Compliance Committee are to ensure that the Franchise Board is in compliance with the Financial Services and Markets Act 2000 and the FSA Handbook and to ensure that the Franchise Board is operating in accordance with the Franchise Principles. The Compliance Committee met five times in 2004.

Attendance record:

Committee member	Number of meetings attended
Bill Knight (Chairman)	5/5
Christine Dandridge	4/4
Paul Kelly	1/1
Philip Lader	2/3
Bronek Masojada	2/5
Peter Morgan	4/4
Charles Philipps	4/5
David Robson	0/1

#### Audit Committee:

The Committee's role includes ensuring that the financial activities of Lloyd's are subject to independent review and audit. The Committee also reviews Lloyd's annual financial statements, the global results and principal regulatory filings. The Chief Executive Officer, the Director Finance and Risk Management, the Financial Controller and the external and internal auditors attend meetings as appropriate. Reports from internal and external auditors on aspects of internal control are reviewed by the Audit Committee and appropriate action taken in response. The Committee met four times in 2004.

Attendance record:

Committee member	Number of meetings attended
Brian Pomeroy (Chairman)	4/4
Steven Burns	3/4
Sean Dalton	3/4
Stephen Hodge	3/4
Bill Knight	4/4
David Shipley	4/4

#### Nominations, Appointments and Compensation Committee:

The Committee is principally responsible for making recommendations to the Council on the appointment of the Chairman, Chief Executive Officer, new nominated Council members, Franchise Board members (including the Director, Finance and Risk Management and the Franchise Performance Director) and the members of a number of Council and Franchise Board committees. It also makes recommendations on the remuneration of the members of these bodies, including the Chairman, Chief Executive Officer, Director, Finance and Risk Management and the Franchise Performance Director. The Committee is also responsible for succession planning arrangements for these positions. The Committee met six times in 2004.

Attendance record:

Committee member	Number of meetings attended
Bill Knight (Chairman)	6/6
Julian Avery	5/6
Stephen Catlin	3/6
John Coldman	4/6
Judith Hanratty	3/6
Bronek Masojada	5/6
Peter Morgan	6/6

The terms of reference of the Audit Committee and the Nominations, Appointments and Compensation Committee are available from the Secretary to the Council on request.

#### Performance assessment

An evaluation of the 2004 performance of the Council and its principal committees (defined for this purpose as the Franchise Board, the Compliance Committee, the Audit Committee and the Nominations, Appointments and Compensation Committee) was undertaken. The evaluation also covered the performance of Council and committee members.

The assessment was conducted by the Secretary to the Council who met all Council and committee members on an individual basis to seek their views on 2004 performance. These discussions were based around the Performance Evaluation Guidance appended to the Combined Code.

The principal conclusion of the process was that the current governance arrangements were working well but that there was scope to redefine Council's role within the arrangements. To that end, the Council has concluded that it will devote more of its time to a consideration of the medium to long term strategy for the Society as developed by the Franchise Board.

Specific suggestions for performance improvements for individual committees subject to the assessment will be taken forward by those committees.

#### **Authority to act**

The Franchise Board may act through the Chief Executive Officer, directors and employees of the Corporation of Lloyd's save in respect of those functions and powers reserved to it, the Council and their committees. The Chief Executive Officer, the directors and the employees must act in accordance with the Franchise Goal and Principles and in accordance with the strategy, policy and principles set by the Franchise Board.

#### **Market services**

The Corporation of Lloyd's also provides services to the market including the development and protection of the Lloyd's brand and international trading licences, central accounting and reporting, market finance and treasury services, marketing, systems, property management and members' services.

#### **Corporate governance of the Lloyd's market**

The corporate governance of each entity within the Lloyd's market is the responsibility of that entity. The Council of Lloyd's provides, through the Corporation of Lloyd's, a framework for the governance of these businesses including the assessment of capital adequacy and market supervision (including inspections, visits and audits of market entities). Franchisees' governance arrangements are also reviewed on registration and as part of risk management assessments.