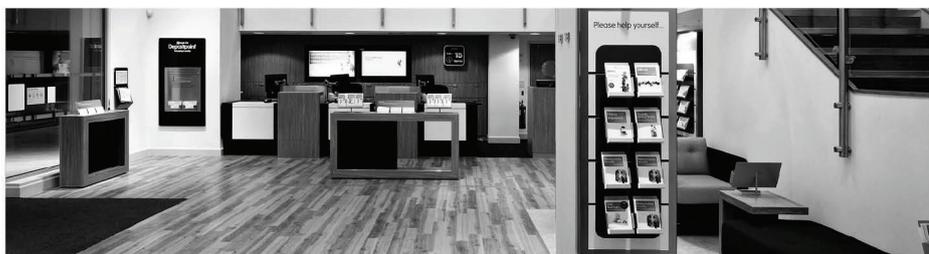




BECOMING THE UK'S BEST FINANCIAL SERVICES COMPANY

CORPORATE RESPONSIBILITY REPORT 2009



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CORPORATE
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OUR REPORT AT A GLANCE

We believe that corporate responsibility should be **ingrained in the way we do business**, as it is a key strategic driver of our success. We recognise that by **acting in the best interests** of all our stakeholders, we can make a sustained, **positive contribution** to the economy and to society. This report sets out how we **deliver on our responsibilities** to our stakeholders.

CUSTOMERS

In this section we report on our progress towards achieving our objective of building deep, lasting relationships to help customers achieve what is important to them. Our objective is to be recognised as the UK's best bank.

- In 2009, we wrote £34.7 billion of mortgages, representing one in four of all new mortgages in the UK
- We helped 53,000 people buy their first homes, making us the UK's largest provider of finance to first time home buyers.
- We increased our net business lending by £5.7 billion in the 12 months to March 2010 while the overall UK market actually decreased by £48 billion.
- Lloyds TSB has been named 'Corporate Bank of the Year' for the last six years at the Confederation of British Industry Finance Directors' Excellence Awards
- As the UK's largest savings institution we are playing our part in encouraging people to rediscover the habit. During 2009 we opened nearly 5 million savings accounts

COLLEAGUES

Our business success depends on engaged and motivated colleagues. They are the Group's ambassadors. Our objective is to be an employer of choice and maximise colleagues' potential. This section reports on our progress in creating a great place to work.

- Our overall colleague Engagement Index finished the year at 72 index points, two points above the target.
- Every Lloyds Banking Group employee has a 'balanced scorecard' that links individual objectives to the Group's business strategy. Through these, colleagues know what they need to do to contribute to the overall success of the business.
- In 2009, 82% of colleagues said they had a clear understanding of the goals of the Group and 89% said they had a very clear understanding of their job responsibilities.
- Lloyds TSB was named by the charity Working Families as one of the UK's Top 20 employers for working parents in 2009.

COMMUNITIES

This section reports on our objectives of engaging, participating and investing in the communities in which our business is based.

- We invested £113 million in communities across the UK last year, including support for financial inclusion, sponsorship of sports for young people and donations to our charitable foundations
- As one of the UK's largest corporate funders, we donated £29 million through our charitable foundations to thousands of charities across the UK last year.
- We contributed more than £11.4 million to independent money advice charities in 2009.

CLIMATE AND ENVIRONMENT

We believe banks have a key role to play in addressing climate change. We have a long standing commitment to managing our environmental impacts, and are increasingly engaging colleagues and customers in our efforts.

- We are investing an additional £5 million this year alone in energy saving and energy efficiency projects to help drive down the Group's carbon emissions
- Lloyds Banking Group is one of the leading global financiers of renewable energy. Our current portfolio stands at around £1 billion.

NOTES ABOUT THIS REPORT

Lloyds Banking Group was formed in January 2009 following the acquisition of HBOS by Lloyds TSB. Where we report data, we therefore report on our baseline year: 2009. In future years we will report against these KPIs, to show trends in our performance.

INTRODUCTION FROM SIR WINFRIED BISCHOFF

This is our first Corporate Responsibility Report as Lloyds Banking Group. It sets out how we are delivering on our obligations to our stakeholders, including our shareholders and the taxpayer, our customers, colleagues and communities.

We have a presence in almost every community in the UK and touch many millions of lives. We play a significant role in the financial services sector. This is a privilege and one that comes with important obligations. I firmly believe that we make our greatest contribution to society by being good at what we do, and doing it in a responsible way.

As a bank, we have long term, sometimes lifelong, relationships with our customers. In that respect, banks differ from most other businesses. We are entrusted with peoples' money – their savings, mortgages, their business bank accounts. Ensuring we maintain and build customers' trust is core to the sustainability of our business. We will deliver sustainable earnings growth for our shareholders – including the taxpayer – only with a strong brand and trusted reputation.

We believe that corporate responsibility should be ingrained in the way we do business as it is a key strategic driver of our success. We recognise that by acting in the best interests of all our stakeholders, we can make a sustained, positive contribution to the economy and to society. Our starting point is with our customers. Only by building deep and lasting relationships with our customers, helping them to achieve what is important to them, can we hope to achieve our aim of being recognised as the UK's best financial services organisation. That means making a significant effort to make finance available to businesses and households, while ensuring we only lend amounts customers can afford to repay or when customers meet financial difficulties, helping them. In short, we see corporate responsibility as being integral to our business strategy of supporting customers throughout the economic cycle.

LLOYDS BANKING GROUP AND THE BANKING INDUSTRY

With over 2.5 million private shareholders, we have the largest shareholder base of any company in the UK. Many of our shareholders are customers or colleagues. We therefore fully understand the financial hardships that many of them have been experiencing over the last two years and the concern that the lack of dividend and coupon payments has caused them.

The banking sector faces significant challenges as we emerge from the financial crisis and the economic downturn, especially in the light of the significant support given by taxpayers to our industry. We recognise the public concern surrounding the banking industry. Our stakeholders are understandably asking if we are lending enough to businesses and households to support the economic recovery. Are we treating customers fairly? Are we helping those experiencing financial difficulty because of the economic environment?

We know we have much work to do as an industry to rebuild trust and understanding. We also acknowledge the role that

we at Lloyds Banking Group must play in that process. We can only earn that trust by getting the basics right for all our stakeholders; and by being open, transparent and engaging in the broader debate about the role of banking in the UK. We need to demonstrate that we are meeting our obligations to customers and society by proactively – and responsibly – channelling the deposits we gather into productive enterprises and households.

SUPPORTING THE UK'S ECONOMIC RECOVERY

We know that there are those who believe the banks are not lending enough, and that it is difficult to obtain loans. However, I know that we at Lloyds Banking Group are playing an active part in the economic recovery. Indeed, as a UK-focused bank, we have a vital interest in supporting the UK's economic recovery. Last year, we extended over £70 billion of new lending to businesses and homebuyers.

We increased our net business lending by £5.7 billion in the 12 months to March 2010 while the overall UK market actually decreased by £48 billion. We did not quite meet our agreed net business lending target of £11 billion; however, the scale and reach of our lending programme was obscured by two factors. Firstly, during this time, our business customers made more than £32 billion in debt repayments. Secondly, the recession resulted in a significant drop in demand from small and medium sized enterprises for overdraft credit. On the other hand we exceeded our mortgage lending targets agreed with the UK Government by almost 50%. This took total gross mortgage lending to £35 billion, which represents 1 in 4 of all new mortgages in the UK.

In March 2010, we agreed further lending targets with the UK Government. We expect to lend £67 billion, excluding remortgages, to UK businesses and homeowners over 12 months. We know that our lending activities will continue to be subject to scrutiny and we are happy to improve our disclosure on this issue.

As a responsible lender, we also wish to ensure that we only lend to customers who can afford to repay their borrowing. We strive to lend to businesses that have a fundamentally sound business model. We have rolled out Lloyds TSB's conservative approach to risk across the entire Group. This prudent attitude to risk is core to our business model.

CREATING LONG TERM SHAREHOLDER VALUE

We are working diligently to create long term, sustainable shareholder value and restore our ability to pay dividends. We intend to resume dividend payments on ordinary shares as soon as market conditions and the financial performance of the Group permit, subject to the expiry, in 2012, of the restrictions arising from the European Commission's remedies. We have market leading positions, well recognised brands and a large customer base. This, coupled with our focus on customer relationships and prudent risk management, will provide a strong platform for growth. I am confident that by embedding corporate responsibility into the

way we operate we will be able to deliver superior, more sustainable shareholder value over time.

OUR PEOPLE

Our business success depends on engaged and motivated colleagues. They are the Group's ambassadors. Since joining the Group in September 2009, I have had the opportunity to meet many of them. It is clear we have a strong team who have shown an impressive degree of professionalism, enthusiasm, commitment and sheer hard work. There has been much debate recently around skills in the banking sector. We are committed to ensuring that all colleagues have the technical, management and leadership skills that will enable Lloyds Banking Group to be recognised as the UK's best bank. Last year we delivered an average 2.9 days of formal learning per full time employee.

What we do as a leading financial services organisation is important. But it is how we operate that will ultimately deliver our vision of being recognised as the UK's best financial services company by customers, colleagues and shareholders. We communicated a shared set of values on day one of the merged organisation to demonstrate how we operate as a company. They are straightforward, realistic and embedded into all of our people processes. Angie Risley talks about them in more detail in her introduction.

The integration of the two businesses of Lloyds TSB and HBOS provides the opportunity for significant cost synergies. Inevitably, some of these synergies come from a reduction in roles. 2009 was therefore a challenging year for our employees. We have endeavoured to deliver changes in a sensitive way, in accordance with our vision and values. Our aim has always been, where possible, to either redeploy people to other areas of the Group or to reduce numbers through natural attrition. Where it has been necessary for colleagues to leave the company, this has been achieved by offering voluntary severance and by making less use of contractors and agency colleagues. The overwhelming majority of role reductions in 2009 were achieved through re-deployment, natural turnover and voluntary redundancy. Only a small proportion of colleagues left via compulsory redundancy. Compulsory redundancies are always a last resort.

INVESTING IN COMMUNITIES

Our main contribution to society is our direct economic impact, as a major employer and purchaser of goods and services. We are one of the biggest private sector employers in the UK, employing around 125,000 people. We paid £4.4 billion in salaries last year and spent over £5 billion on goods and services all over the UK. Our economic contribution to society is supported by our active investment in these communities and our community giving programme. We invested more than £113 million in communities across the UK in 2009, including support for financial inclusion, sponsorship of sports for young people and donations through the Group's charitable Foundations.

We had to make some difficult decisions last year in relation to our community investment programme, given the economic backdrop and the financial hardship that our shareholders are experiencing. Our four charitable Foundations have traditionally received one per cent of the Group's pre-tax profits to distribute to charities. In this way

our Foundations have received £420 million over the last 23 years from us, to support their work in some of the most vulnerable communities in the UK.

Given our losses in 2009, we recognised that the Foundations would receive significantly reduced income. This could have forced them to cease giving grants for several years. We did not want this to happen.

Accordingly, we worked hard to find a solution that represented a fair balance - for the four Foundations and the charities they support as well as for our shareholders. We offered our Foundations significantly advanced funding in the early years, balanced with a reduction in later years, to give equal value over nine years of the covenant we have with them. Uniquely, under this arrangement, our Foundations would be protected from the recession, allowing them to continue their very good work at a time when many charities are experiencing severe funding challenges.

We are delighted to have reached a new accommodation with our Foundations for England & Wales, Northern Ireland and the Channel Islands. These three Foundations receive 80% of the total funds we donate to our Foundations. Sadly, the Lloyds TSB Foundation for Scotland chose not to accept our proposals. We are nevertheless committed to supporting charities in Scotland for the long term. We are therefore establishing a Bank of Scotland Foundation to take forward our long term community investment in Scotland in the event that we cannot reach agreement with the Lloyds TSB Foundation for Scotland.

THIS REPORT

This report sets out how we are delivering on our responsibilities to all of our key stakeholders. Our starting point is with our customers. Only by focusing on the needs of our customers, and by addressing those needs, can we expect to deliver benefit to all our stakeholders. We make a very significant effort to make finance available to households and small businesses. We also actively participate in all the Government schemes designed to encourage lending and help those experiencing financial difficulties. We see corporate responsibility as being integral to our business strategy. Long term 'through the cycle' relationships are at the core of this strategy.

We have made a great deal of progress in our first year. We have successfully embedded the basis for a responsible and sustainable business, which will enable us to be recognised as the UK's best bank: for customers, colleagues, communities and, ultimately, shareholders. We realise that there is more we can do and I look forward to continuing to build on our strong foundation at the same time.

I hope you will find this report an informative and helpful exposition of our commitment to our stakeholders and I would welcome any views which might help us achieve our aims.

Sir Winfried Bischoff
Chairman, Lloyds Banking Group Plc

FOREWORD FROM ANGIE RISLEY, CHAIR OF THE CORPORATE RESPONSIBILITY STEERING GROUP

We are a business based on building deep and lasting relationships with our customers through the efforts of our people. Colleagues are our most valuable resource: they are the Group's ambassadors. Managing our people effectively and helping them to develop is, therefore, fundamental to the success of the business and achieving our vision of being the best financial services organisation.

Last year was an uncertain time for many of our colleagues. The integration of two businesses has meant that we have had to restructure and integrate teams across our businesses, and inevitably this has meant we have had to make some difficult decisions about jobs. At the same time, many of our employees have been engaged in implementing one of the most complex integration and corporate restructurings ever undertaken. Throughout this time we have continued to rely on our employees to deliver good customer service, and build strong and lasting relationships with our customers.

We have aimed to communicate openly and sensitively with colleagues about the changes we have undertaken. Where we have needed to implement role reductions, we have worked to offer colleagues alternative opportunities within the Group. The vast majority of colleagues have either been able to take advantage of opportunities within the Group, or leave voluntarily to embark on new challenges. Only a very small proportion of colleagues left via compulsory redundancy.

The way we deal with our people directly influences whether they are advocates of the Group. We need our colleagues to be strong advocates of the Group, as it is our colleagues who will build relationships with our customers. Their interactions with customers will influence how customers see us. As Sir Winfried says, ensuring we maintain and build customers' trust is key. Ultimately, the extent to which our customers advocate the Group will impact the ongoing sustainability of the organisation.

OUR VALUES

What we do as a financial services company is important. But it is how we operate as an organisation that will ultimately deliver our vision of being recognised as the UK's best financial services company by customers, colleagues and shareholders. The way we aim to operate is articulated by a set of five simple values that shape our behaviour. Our values guide us in all our relationships – with colleagues, customers and communities. Recognising the importance of embedding our values across the organisation from the very start, we communicated them to all colleagues on day one of the new organisation. Our values are that we: take ownership; act wisely; make it simple; stretch ourselves; and succeed together. They are straightforward, realistic and embedded into all our people processes.

CREATING A GREAT PLACE TO WORK

Creating a great place to work is a core priority to enable the Group to be recognised, both within the financial services sector, but also more generally in the UK employment market, as the best organisation to work for. We aim to attract, retain and develop the best talent. We believe it is essential that employees are engaged, challenged and rewarded. This means providing colleagues with the tools they need for their jobs through learning and development, recognising health and well being issues and embracing diversity.

Our colleagues will be the judges of whether Lloyds Banking Group is a great place to work. Listening to colleagues' views, and taking action in response to their feedback, is key. Almost uniquely for a FTSE 20 company, we measure colleague engagement on a quarterly basis throughout our organisation via our colleague engagement survey. Testing colleague opinion during our integration programme is particularly important, as this is a time of great change for us all. We encourage managers to share results and their action plans with their teams each quarter. In 2009 we achieved a record response rate of 81% which is regarded as best in class.

HARMONISING TERMS AND CONDITIONS

In 2010 we have taken some important steps in harmonising employment terms and conditions across our businesses. As part of this initiative we made some changes to our pension schemes, to ensure they are sustainable and meet their obligations in future years. Pensions form a very important element colleagues' of reward packages. We make a major financial investment in all our colleague pension schemes, to help colleagues provide for their futures. This year we announced that we are keeping our final salary pension schemes open. This is a very positive commitment from the Group at a time when many companies are closing final salary schemes to existing members. More than 1,150 Defined Benefit schemes in the UK have closed to further contributions from existing members since 2000. To ensure they remain sustainable however, we have introduced a capped annual increase to the pensionable salary.

We are also introducing new arrangements for our Defined Contribution pension schemes. We believe our new Defined Contribution arrangement is one of the most competitive schemes available from any major UK company. The quality of our new arrangements has been recognised in the form of a 'Pensions Quality Mark Plus' kitemark award, which recognises schemes that have good contribution levels, meet high standards of administration and are effectively communicated.

DIVERSITY AND INCLUSION

Our goal is to position diversity and inclusion at the heart of our business and support our strategy of building trusted relationships with colleagues, customers and communities. Our people will be the differentiating factor in our success and embracing diversity is vital. We aim to build an organisation where we leverage and value difference.

Our executives are leading from the top, demonstrating visible commitment and support. As a demonstration of that commitment, members of our Group Executive Committee have become Executive Sponsors of the different strands of our diversity agenda. The purpose of their sponsorship is to provide leadership and to ensure that we can take any appropriate actions. Helen Weir is the Executive sponsor for sexual orientation, Carol Sergeant for gender and work-life balance, Mark Fisher for disability, and I am sponsoring race issues.

We also have four colleague diversity networks, which were formed by groups of colleagues to help overcome the specific challenges and barriers that they face at work. The networks support our diversity strategy with their unique understanding of their members' views and issues and by providing opportunities for colleagues to meet and focus on their own development.

We are proud of our diverse workforce. Equally, we have a diverse customer base, with customers from many different communities and that continues to change. We need to be ready to respond to these changes in order to meet the needs of the communities we serve, if we are to ensure that our customers recommend us as a great place to bank.

NURTURING STRONG LINKS WITH COMMUNITIES

Our colleagues are our strongest link with the local communities in which we operate. We support colleagues' engagement in communities to help nurture those links. Volunteering is one important way in which colleagues can give something back to communities. As one of the UK's biggest employers, our colleague volunteering initiatives can make a real difference locally.

In 2009, Lloyds Banking Group colleagues volunteered over 71,000 hours to charities and community groups across the UK. Donations of over £325,000 were made to these charities and community groups through our matched giving and volunteering programmes.

This year we have expanded volunteering opportunities. Through our new Groupwide volunteering initiative, 'Day to Make a Difference', every colleague can spend one day a year volunteering for a charity or community project of their choice.

MY OUTLOOK FOR THE FUTURE

Our colleagues are the Group's ambassadors. They continued to deliver great customer service throughout the year, supporting our customers through this challenging economic time, whilst experiencing significant uncertainty themselves. I would like to thank colleagues for their commitment and patience as we integrate and evolve.

Executing our business strategy effectively will only be possible if we manage our most valuable resource, our people, well. Our people have the skills and capabilities to deliver the strategy and it is essential that we ensure we encourage, manage and develop our staff whilst creating a great place to work.

I am confident that we are making good progress against our objective of creating a great place for colleagues to work, and that this in turn will help ensure that we are a great place for customers to bank. I hope you enjoy reading this report and would welcome your feedback.

Angie Risley

HR Director and Chair of CR Steering Group

ABOUT LLOYDS BANKING GROUP

Lloyds Banking Group is a leading UK based financial services group providing a wide range of banking and financial services, primarily in the UK, to over 30 million customers. The Group was formed in January 2009 following the acquisition of HBOS by Lloyds TSB Group.

OUR VISION

Our vision is to be recognised as the best financial services company in the UK by customers, colleagues and shareholders. Our strategy to deliver this vision is focused on being a more conservative, relationship based business. Our prudent approach to risk is core to our business model and the 'through the cycle' approach means we support our customers throughout the economic cycle, in good and bad times.

We have leading positions in many of the markets in which we participate, a market leading distribution capability, well recognised brands and a large customer base. All our businesses are focused on building deep, lasting customer relationships to help our customers achieve what is important to them.

Our main business activities are retail, commercial and corporate banking, general insurance, life assurance, pensions and investment provision.

RETAIL

Lloyds Banking Group is the UK's largest retail bank. We are the UK's leading provider of mortgages, current accounts, savings, personal loans and credit cards. Services are offered through well recognised brands including Lloyds TSB, Halifax, Bank of Scotland, Scottish Widows, Clerical Medical and Cheltenham & Gloucester, via our extensive distribution capability.

WHOLESALE

Our Wholesale division serves in excess of a million businesses, ranging from start-ups and small enterprises to global corporations. It operates through our Lloyds TSB, Bank of Scotland, Black Horse and Lex Autolease brands. Its strategic goal is to be recognised as the UK's leading, relationship-led wholesale bank, supporting customers through the economic cycle. Its mission is to deepen customer relationships building on deep insight into customer needs to provide a broad range of banking, risk management and capital market products.

WEALTH & INTERNATIONAL

Operating in more than 30 countries around the world, the Wealth and International division comprises private banking, wealth and asset management businesses in the UK and overseas. The private banking businesses operate under the Lloyds TSB and Bank of Scotland brands. Our asset management business, Scottish Widows Investment Partnership (SWIP), is one of the largest asset managers in the UK, with approximately £142 billion of assets under management.

INSURANCE

Our Insurance division offers life assurance, pensions, investment products and general insurance, and operates under five main brands: Scottish Widows, Clerical Medical, Lloyds TSB, Halifax and Bank of Scotland. The UK Life, Pensions and Investment business is the leading bancassurance provider in the UK. It includes Scottish Widows which, for a number of years, has been a subsidiary of the Lloyds TSB Group and the provider of long term savings and investment products distributed through Lloyds TSB channels.

OUR DIVISIONS' RELATIVE CONTRIBUTION TO THE GROUP'S TOTAL INCOME*:



*Excludes central group items

OUR VALUES

What we do as a leading financial services organisation is important. But increasingly, our focus is on 'how' as much as 'what'. We aim to ensure that our values drive how we operate as a company. They are straightforward, realistic and embedded into all of our people processes including recruitment, induction, development, performance management and rewards.

We take Ownership. Relationships both with customers and colleagues are deep and lasting. Taking ownership for our actions and those of our organisation, as well as seeing them through, builds trust.

We act Wisely. Always considering the impact of our actions today and in the future is vital to the success of our business. We have a responsibility to our customers, our communities and our colleagues to act wisely, in both their, and our, interests.

We make it Simple. Our business is complex, and as a Group it is our responsibility to take time to make the complex clear for our colleagues and customers. Deep and lasting relationships require understanding on both sides.

We must cultivate and develop that understanding to grow our business.

We Stretch ourselves. Being the best means that we strive to do better for our colleagues and our customers every day. Our ambition is to deliver above and beyond expectations, and be surrounded by others who value and recognise that behaviour.

We Succeed together. Our business succeeds when we work together. We are one bank, with one vision, and one set of values that build strong relationships with our customers to achieve what's important to them.

KEY FACTS

INDICATORS	At year end 2009
FINANCIAL PERFORMANCE	
Earnings per share (on a statutory accounting basis)	7.5p
Cost: income ratio (combined businesses basis)	48%
Core tier 1 capital ratio	8.1%
ECONOMIC IMPACT	
Tax collected and borne	£2,273m
Salaries	£4,369m
Social security costs	£383m
Pensions and other post-retirement pension scheme payments	£744m
SOCIAL IMPACT	
Number of customers (approximately)	30m
Number of UK employees (average over the year)	125,109
Total community investment	£113m
Value of supplier payments	£5.22bn
ENVIRONMENTAL IMPACT	
CO2 emissions	449,895 tonnes
CO2 emissions per £m income	18.3 tonnes
Water use	1,292,063m ³
Recycling	54%

OUR APPROACH TO CORPORATE RESPONSIBILITY

Our objective is to be recognised as the best financial services company in the UK by customers, colleagues and shareholders. We want to be recognised and recommended as a trusted brand by customers, a good employer by colleagues and an active, valued participant in our communities. Our corporate responsibility strategy is helping us to deliver this objective.

That means:

- Building deep, lasting customer relationships; aiming to meet and exceed our customers' expectations; and dealing openly and fairly with them if we fall short
- Being an employer of choice and maximising our colleagues' potential
- Engaging, participating and investing in the communities in which our business is based; and
- Managing our environmental impacts as well as grasping the opportunities and managing the risks of climate change.

We believe that corporate responsibility should be ingrained in the way we do business as it is a key strategic driver of our success. We recognise that by acting in the best interests of all our stakeholders, we can make a sustained, positive contribution to the economy and to society. This report sets out our progress against our objectives.

EMBEDDING CORPORATE RESPONSIBILITY ACROSS THE GROUP

Embedding corporate responsibility across the Group ensures that we promote the Group's success whilst managing and mitigating the risks. We have a strong governance framework that ensures that colleagues are accountable for the decisions they take. We integrate environmental, social and reputational considerations, including the impact on all our stakeholders, into our decision-making to ensure that we have a positive impact on society.

BOARD LEVEL

The Board considers individual corporate responsibility issues throughout the year, and reviews our performance on an ongoing basis.

THE CORPORATE RESPONSIBILITY STEERING GROUP

In 2009, we established a new Corporate Responsibility Steering Group, comprising senior executives from across the Group. Chaired by Angie Risley, Group HR Director, and reporting to the Group Chief Executive, the steering group meets on a regular basis to review strategy, monitor progress and make sure we achieve our objectives.

DAY TO DAY CORPORATE RESPONSIBILITY

Most of our corporate responsibility activity takes place in the business divisions. It is driven by a network of senior managers, who act as corporate responsibility champions. They ensure that we conduct our business in a responsible way and inform our corporate responsibility strategy.

Our formal policies and procedures set minimum requirements for all our business activities and support our Code of Business Conduct.

In 2009, the former Lloyds TSB Group Code of Conduct was adopted across all of our operations. The Code of Conduct sets out the core values and standards that govern the way we conduct our business. The Code is underpinned by individual corporate responsibility policies which set minimum requirements for all our business activities. A rolling review process is also underway, benchmarking our corporate responsibility policies against best practice. In 2009, for example, we issued a revised Environmental Policy.

Our policies integrate external principles where appropriate. For example, our Human Rights Policy incorporates the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, as well as the UN's Universal Declaration of Human Rights.

OUR PERFORMANCE IN CORPORATE RESPONSIBILITY BENCHMARKS

We are included in the FTSE4Good Ethical Index; the Dow Jones Sustainability Index; the Carbon Disclosure Project's Leadership Index and we are ranked Platinum in Business in the Community's Corporate Responsibility Index.

OUR STAKEHOLDERS

Our key stakeholders are those who are impacted significantly by the business or who might impact on it. These include our shareholders, customers, colleagues, suppliers and wider society and the environment.

Communicating and engaging with our key stakeholders, seeking their views, feedback and input is the only way we will achieve our objective of becoming the UK's best bank. We have highly developed programmes for engaging with our stakeholders, and through these programmes, we are also able to tell them about how we have acted on their feedback. The many ways that we engage with them are described in the table below, according to each main stakeholder group:

CUSTOMERS

- We communicate face to face with many of our 30 million customers, in our extensive branch networks. We focus on providing traditional customer service and advice to build deep and enduring relationships with customers. We also encourage our branch staff to play an active role in their local communities.
- Every month we contact 75,000 customers across Lloyds TSB, Halifax and Bank of Scotland to understand the likelihood that they would recommend us and, more importantly, why they would recommend us so that we can gain good insight on what we need to do to improve the customer experience.
- This new approach to measuring customer advocacy provides more insight into the service we deliver, and helps us identify where we can improve.
- We also carry out more traditional customer surveys – reviewing service standards and getting feedback on specific products and services.
- Last year we implemented a new complaints handling system, to better capture customers' feedback, and identify the root causes of complaints. Capturing this feedback provides us with important insight as to where we can improve.
- We talk to consumer groups like the National Consumer Council and the Consumers' Association, and consumer advocacy groups like Which? to provide different perspectives on how we do business.

COLLEAGUES

- Our Groupwide colleague engagement survey, which runs every quarter, invites colleagues to share their views on Lloyds Banking Group as a place to work. We publish the results, and use them to ensure we take action to address issues that matter most to colleagues.
- Our bi-monthly colleague magazine, 'Talk' goes to every member of staff, contains features and news stories on corporate responsibility events and issues. Talk recently won an Award of Excellence at this year's Communicators in Business (CiB) awards in the 'new publication' category.
- We provide support, and budget, for four diversity networks. These are : WIN – Women in Networking; GEM – Group Ethnic Minority Network; ACCESS – Disability Network; and RAINBOW– Lesbian, Gay, Bisexual and Transgender Network.
- Our Group intranet site has extensive information on corporate responsibility matters, which we update regularly. Stories on employees' activities in their local community and updates on our Charity of the Year fundraising regularly appear in the Retail division's internal 'business television' broadcasts.
- Our business leaders have discussions with colleagues in person, at roadshows, and as part of regular intranet dialogues.
- We support every colleague's right to join a union. All colleagues are able to join one of our recognised unions – Accord, GMB, LTU and Unite.
- For those working in the EU, we hold a yearly European Employee Forum where key employment issues are discussed.

COMMUNITY

- Much of our charitable giving is channelled through the Lloyds TSB Foundations – covering England, Wales, Scotland, Northern Ireland and the Channel Islands - which engage with, and distribute hundreds of grants to, charities in some of the most vulnerable communities in the UK. In 2009 the Foundations received £29 million to support their work.
- We engage colleagues, customers and shareholders in fundraising activities for our Charity of the Year. Funds raised for our current Charity of the Year, the British Heart Foundation, are being used to fund 15 specialist Heart Nurses in communities across the UK.
- Through our sponsorship of the London 2012 Olympics we are supporting the next generation of sporting talent. Last year over three million young people took part in the Lloyds TSB National School Sport Week.
- As one of the UK's biggest employers, our colleague volunteering initiatives can make a real difference locally. To encourage colleagues' volunteering, the LTSB Foundations operate a Matched Giving scheme, which matches volunteering with donations to their chosen charities.
- We also work with Business in the Community to deliver team challenges and volunteering, encouraging colleagues to get involved with projects in their local communities.

SHAREHOLDERS

- Our Investor Relations team is responsible for communicating the Group's strategic messages and results to existing shareholders, holders of the Group's debt, potential investors and other relevant stakeholders such as rating agencies and analysts. In addition to developing the Group's external results documentation the team's responsibilities include undertaking briefings for institutional shareholders and analysts ensuring they are appropriately informed on the Group's strategy, changes and developments within the Group and performance. We follow a structured programme of meetings to ensure we communicate effectively with all investors and analysts on a regular basis. During 2009 we held over 500 institutional shareholder meetings.
- In addition to individual meetings with institutional shareholders, our Annual General Meeting provides all of our investors with an opportunity to speak to our Board members about the Group's performance and strategy.
- Our Annual Report and Accounts provides a detailed analysis of the performance of the organisation and an overview of the Group's strategy. The report also explains how our approach to responsible business management is helping us to deliver our strategic objectives.

GOVERNMENT

- We have a crucial role to play in shaping financial regulation and responding to the latest consumer and regulatory issues. Our dealings with the Government, the Treasury, UK Financial Investments, the Financial Services Authority, the Bank of England and the Financial Ombudsman Service are more important today than ever before. We have a highly developed engagement programme with each of these bodies; primarily consisting of face to face meetings.
- We work closely with Government bodies to develop programmes to tackle consumer issues. Last year for example we worked with the Council of Mortgage Lenders, Department of Communities and Local Government, Ministry of Justice, the Civil Justice Council and the financial advice sector on the development of Government initiatives for customers facing difficulty.
- We also have an extensive engagement programme with MPs. Through our regional ambassador programme our Executives engage with MPs throughout the UK, to address local issues and help develop close links with our heartland communities.

SOCIETY

- Our media and press relations programme is our main tool for communicating with society in general. We have a proactive media contact programme, and offer a 24 hour press office service to engage with journalists. When stakeholders need to engage with us on important issues, such as our Results, we conduct media briefings where public, two way dialogues can take place.
- Another important way in which we communicate is through our Corporate Responsibility Report. In this, we report transparently on issues affecting each of our main stakeholders, as well as describing the ways in which we ensure that we have a positive social impact. We seek feedback from stakeholders, to ensure that we are reporting on issues that are important to them.
- We lever the significant insight that we gain through our market leading positions in key product offerings to produce economic and social research, which champions consumer interests and ensures we play a positive role in society. We deliver briefings on our research to interested parties. For example, we deliver an annual briefing on the Halifax House Price Index. Our research is used by Government and other stakeholders to inform policy.
- We evaluate the impact of our media contact programme through MORI surveys, and through the awards we receive.

RISK AND REGULATION

Serving over 30 million people is a great responsibility. We are judged on how we do business, and how we respond to our stakeholders' issues and needs. Rebuilding their trust in financial institutions will be central to us achieving our aim of being recognised as the UK's best bank.

We have already rolled out Lloyds TSB's conservative approach to risk across the entire Group. This prudent attitude to risk is core to the new Group's business model. It is the foundation for responsible business management.

Our approach to risk is founded on robust corporate governance practices and a risk management culture which guides the way all employees approach their work, the way they behave and the decisions they make. This helps us deliver our focus on building and sustaining long-term relationships with customers, through good and bad economic times.

Reflecting the importance that we place on risk management, risk is included as one of the five principal criteria within the Group's balanced scorecard on which individual staff performance is judged. Business executives have specific risk management objectives, and incentive schemes take account of performance against these.

All new lending is being made under the Lloyds TSB risk criteria. Our lending is supported by a robust core tier 1 capital ratio of 8.1% as at the end December 2009.

GOVERNMENT SUPPORT

We welcomed the Government's interventions to stabilise the banking system, provide liquidity and encourage more lending. This led to us raising capital from the UK Government, which became a significant shareholder of the Group. Our, and the Government's, objective is that in time the Group will operate as a wholly privately owned, self-supporting, commercial enterprise. We have already made progress against this objective through our highly successful capital raising and debt conversion programme. As at July 2010, the Government's shareholding stood at 40.6%.

REGULATION

The Group's main UK regulator is the Financial Services Authority (FSA). The FSA's regulatory approach aims to focus and reinforce the responsibility of senior management of a financial institution to ensure it takes reasonable care to organise and control its affairs responsibly and effectively, and that it develops and maintains adequate risk management systems. The FSA Handbook sets out rules and guidance across a range of issues with which financial institutions are required to comply. A key theme running through most of the FSA's business conduct rules is the concept of Treating Customers Fairly (TCF).

As at December 2009, there were approximately 50 UK authorised institutions across the Group which were regulated by the FSA on both an individual and consolidated basis. As a major retail group, Lloyds Banking Group has a dedicated relationship team at FSA which coordinates the regulator's oversight activities for the Group.

The Government has recently announced plans to revise the UK regulatory structure, which will see FSA's responsibilities reassigned to other bodies, such as the Bank of England and a new Consumer Protection and Markets Authority. These changes are expected to come into place in 2012.

OTHER BODIES IMPACTING ON THE REGULATORY REGIME

There are a range of other bodies which have an influence on the regulatory environment in the UK, including:

- HM Treasury, the UK finance ministry;
- The Bank of England, which will take over responsibility for prudential regulation from the FSA in 2012;
- The UK Financial Ombudsman Service, a free and independent complaints resolution service;
- The Lending Standards Board (UK), which monitors compliance with the Lending Code (the successor to the Banking Code);
- The UK Office of Fair Trading, the UK consumer and competition authority;
- The UK Information Commissioner's Office, which oversees the Data Protection Act 1998 and the Freedom of Information Act 2000; and
- European institutions, such as the European Commission, and the forthcoming European Supervisory Authorities, which are supra-national agencies due to be introduced in 2011.

CUSTOMERS

BUILDING DEEP, LASTING CUSTOMER RELATIONSHIPS TO HELP OUR CUSTOMERS ACHIEVE WHAT IS IMPORTANT TO THEM

We want to be recognised and recommended as a trusted brand by customers. Only by building deep and lasting relationships with our customers, helping them to achieve what is important to them, can we hope to achieve our aim of being recognised as the UK's best financial services organisation.

As a bank, we have long term, sometimes lifelong, relationships with our customers. In that respect, banks differ to most other businesses. We are entrusted with peoples' money – their savings, their mortgages, their business bank accounts. Ensuring we maintain and build customers' trust is core to the sustainability of our business.

This section of the report shows how we are taking our responsibilities to our customers seriously during the downturn to help secure a stable future: for them, for us, and for the wider economy. We look at the key issues in each of our business divisions.

OUR STRATEGY

Our aim is to become the UK's best and most recommended bank. We can only achieve this through focusing on great customer service to build our reputation and increase customer recommendation of our products and services. We will know we have achieved our objective of becoming the UK's best bank when customers recommend us more than any other bank.

Our approach is centred on building deep and lasting relationships with customers to help them achieve what is important to them. We offer a broad range of brands which provide unparalleled customer choice and which are relevant to an unrivalled cross-section of customers. Customers can access our products and services via our unique distribution capability comprising the UK's largest branch network and intermediary channels.

We continually strive to innovate in response to customers' evolving needs. We invest in building the right culture and processes to enable our colleagues to meet customers' needs and build deep and lasting relationships.

Our strategy is underpinned by our prudent risk management, clear governance framework and high customer treatment standards, which help ensure we operate in the best interests of our customers as well as the Group.

PLAYING OUR PART IN THE UK'S ECONOMIC RECOVERY

We know that there are those who believe that the banks are not lending enough, and that it is difficult for people to obtain loans. We believe that at Lloyds Banking Group we are playing a very active part in the UK's economic recovery. As a UK-focused bank, we have a vital interest in supporting the UK's economic recovery.

We are primarily a retail and commercial bank and we are therefore very conscious of financial stresses that many households and businesses are experiencing as a consequence of the economic downturn. We are committed to helping our customers through these challenging times and are working to ensure that we continue to give our customers access to the finance they need.

In 2009 we extended over £70 billion of new lending to homeowners and businesses. As a predominantly UK bank, the vast majority of this lending was conducted in this country. We exceeded our commitment on additional mortgage lending by almost 50%, reaching £4.4 billion. This took total gross mortgage lending to £35 billion, including £10 billion in remortgages in the 12 months to March 2010. We increased our total business lending commitments by £5.7 billion in 2009 while the overall UK market actually decreased by £48 billion. Ensuring we play our role in rebuilding the economy is also good for our business. A stronger economy will support our business growth, and ongoing ability to provide customers with a broad range of products and services.

We actively participate in a wide range of Government schemes designed to support lending to businesses and homeowners aimed at: helping customers enter the housing market; helping small businesses start up; and helping customers in financial difficulty.

TREATING CUSTOMERS FAIRLY

Treating customers fairly, and ensuring that we are transparent in all our dealings with them, is central to our aim of building deep and lasting relationships with customers. We continuously review our policies and procedures to ensure fair treatment for customers.

We have developed and embedded a range of customer treatment standards that are aligned to the FSA's best practice standards. These ensure our customer treatment policies are embedded in the way we do business. We conduct regular testing and monitoring to check adherence with our customer treatment policies, and have linked relevant colleagues' remuneration to it.

We also have systems in place, such as our Whistleblowing helpline, which allow colleagues to identify and report behaviours which do not meet our high standards. 'Public Concern at Work', an independent third party, runs an annual colleague survey to check how well our policy is working in practice. In the latest survey, 89% of respondents said they were likely or very likely to raise a concern with their manager. Two thirds of respondents were also confident or very confident that the Whistleblowing line would deal with their concern properly. However, only 58% of colleagues felt confident or very confident that the Group would ensure they would suffer no reprisals as a result of them raising their concerns. This is one area where we need to improve, and we are currently considering follow up actions.

FINDING OUT WHAT OUR CUSTOMERS THINK OF US

During 2009, we implemented the Net Promoter Score as a measure of customer advocacy across the new Group. This metric measures customer recommendation of our products and services, rather than customer satisfaction, and, as a result, gives us a better insight into the service we deliver. It is now the only metric we use to measure customer advocacy.

Every month we contact 75,000 customers across Lloyds TSB, Halifax and Bank of Scotland to understand the likelihood that they would recommend us and, more importantly, why they would recommend us, so that we can gain good insight on what we need to do to improve the customer experience.

We have put in place several initiatives to improve customer advocacy this year. We have set targets to increase Net Promoter Scores for each of our main brands, against a December 2009 baseline. All of our customer-facing colleagues – and their line management – have performance measures linked to these targets. This ensures we aspire to deliver great customer service across all of our brands.

RESPONDING TO CUSTOMER COMPLAINTS

The vast majority of our customers are happy with the service we provide. In relation to the high number of accounts we hold, we receive a relatively low number of complaints.

When we do receive complaints, we take these very seriously, and ensure that they are dealt with fairly, quickly and consistently. Wherever possible, we aim to resolve customer complaints within five days. We increased the number of complaints resolved within 5 days by our specialist back office teams by more than 30 per cent between May and October 2009.

However, we know we have to work hard to reduce the number of complaints we receive in the first place if we are to achieve our goal of becoming the UK's best and most recommended bank.

At the end of 2009 we rolled out a new complaints system that will help us capture complaints data and conduct analyses of the root causes. Understanding the root causes of complaints will help us tackle them. We are also working to improve colleagues' complaint handling skills by delivering new training, development and communication in 2010 for all customer facing colleagues. We are currently testing a number of initiatives that will increase the ability of frontline colleagues to resolve complaints there and then.

From August this year, UK banks will be required to report their full complaints data publicly under new FSA rules. We welcome this initiative as it will greatly increase industry-wide transparency around customer complaints for all stakeholders.

HELPING PEOPLE BUY THEIR HOMES, MANAGE THEIR MONEY AND SAVE FOR THE FUTURE

Lloyds Banking Group is the largest retail bank in the UK and the leading provider of mortgages, current accounts, savings and credit cards. With our strong stable of brands including Lloyds TSB, Halifax, Bank of Scotland, Birmingham Midshires and Cheltenham & Gloucester, we serve over 30 million customers through one of the largest branch and fee free ATM networks in the UK.

Getting the basics things right will encourage customers to come back to us time and time again to meet their financial needs. They will hold more products with us, have deeper relationships with us – and we'll help them to build a more secure financial future.

As the UK's largest Retail bank, we provide financial products and services to people at all of the key stages in their lives. We help more people buy their homes, manage their money and save for the future than any other UK bank. We are very conscious of the financial stresses that many households are experiencing as a result of the economic downturn. We are committed to helping our customers and ensuring that we provide them with the finance and support that they need.

MORTGAGES

We are aware that many people are asking if banks are lending enough. As a UK focused bank, we have a vital interest in supporting the UK's economic recovery. We are committed to supporting homeowners and business- last year, we exceeded our commitment on mortgage lending by almost 50%. However, we have an equally strong interest in ensuring that we only lend to customers who can afford to repay, as this is in their best interests as well as ours.

HELPING HOUSEHOLDS

Through some of the best known and strongest mortgage brands in the country, we continue to be the UK's number one mortgage lender. The diversity of our brands and product offerings means that we write around 1 in 4 of all new mortgages in the UK. In 2009, we wrote £34.7 billion of new mortgages, representing a 24% market share of gross new residential mortgage lending.

In 2009 we launched a set of 13 Responsible Lending Principles for Mortgages, which should be applied to all mortgage lending across the Group. The Principles are supported by effective monitoring and control processes, to ensure that we adhere to them, and are able to effectively audit our compliance with them. A working group comprising senior executives has been established to identify any additional metrics that might be needed, and evidence that might be required, beyond our current processes, to ensure compliance. The Principles aim to ensure that customers are treated fairly; that their borrowing is appropriate to their circumstances; and that individual circumstances are taken into account, in line with our Principles, throughout the duration of the lending.

SUPPORTING FIRST TIME HOME BUYERS

We do more to support first time buyers than any other lender, by offering a range of market leading mortgage products to help customers onto the property ladder. Last year, we helped 53,000 people buy their first homes, making us the UK's largest provider of finance to first time home buyers.

Our Halifax brand is one of the few lenders to have maintained a dedicated range of first time buyer products throughout the period of market dislocation. Through the 'Easy Step' mortgage, Halifax pays half of customers' annual council tax bills, one of the largest monthly outgoings.

Lloyds TSB has launched the unique 'Lend a Hand' mortgage, enabling first-time buyers with a small deposit to get on the housing ladder with as little as a five percent cash deposit. Up to two family and friends can 'top up' the deposit to 25% of the property's value by opening a linked savings account. The savings continue to earn a competitive rate of interest. A third of Lloyds TSB's first-time buyer loans are made under the 'Lend a Hand' mortgage.

AFFORDABLE HOUSING

We also support various schemes which support first time buyers, including Right to Buy, Shared Equity and Shared Ownership. Halifax remains one of the leading participants in the Government's shared-ownership and shared-equity schemes for first-time buyers. These schemes are designed to help people get on the housing ladder by providing the opportunity to buy a share of a home, often in partnership with a housing association.

FUNDING HOUSING ASSOCIATIONS

We are the biggest provider of finance to the social housing sector. Our funding helps housing associations improve existing housing stock, as well as build new affordable housing, both for rental and shared ownership. By the end of 2009 we had committed £14 billion to social housing and had a market share of around 23 per cent.

ACTIVELY HELPING HOMEOWNERS FACING DIFFICULTY

We worked with the Council of Mortgage Lenders, Department of Communities and Local Government, Ministry of Justice, the Civil Justice Council and the financial advice sector throughout the year on the development of Government initiatives for customers facing difficulty. We are now participating in the Homeowner Mortgage Support Scheme, the Mortgage Rescue Scheme and the Support for Mortgage Interest scheme. We are fully committed to doing everything reasonably possible to support customers in financial difficulties and keep them in their homes. Through this focus, the level of Lloyds Banking Group repossessions has remained well below the Council of Mortgage Lenders industry average.

HOUSING ASSOCIATIONS: WHAT ARE THEY AND HOW DOES OUR FUNDING HELP?

Housing Associations are 'not for profit' social businesses, regulated and partly funded by the Government. They meet a range of housing needs from inner city regeneration to building new homes in areas of housing need.

While primarily providing housing for those who cannot otherwise afford it, they often do much more by having a wider involvement in the community such as tackling anti-social behaviour, community development, and offering sheltered housing for the elderly and vulnerable.

Last year we provided finance to Spire Homes, part of the Longhurst Group, and a leading provider of quality and affordable social housing in Rutland, East Northamptonshire, to acquire 3,500 homes from the local District Council. The lending enabled them to improve the homes they provide to their tenants, as well as give more people access to an affordable home and making a positive difference to their lives.

Robert Griffiths, Executive Director Financial Services, Longhurst Group:

"Lloyds TSB Corporate Markets has an excellent understanding of the business needs of Spire Homes and the rest of the Longhurst Group. Our business strategy was readily understood by the team.

This new loan facility will enable Spire Homes to deliver on the promises to tenants in Rutland over the next five years and to continue investing in the provision of new homes. The expertise and experience within the team at Lloyds has helped us progress our business objectives and ultimately deliver better services to our customers."

BANKING

We are the biggest provider of current accounts in the UK. We offer a competitively priced, comprehensive range of accounts to serve a broad range of customers; including full service, packaged, student current accounts and social banking accounts.

In 2009, we opened nearly 2 million new current accounts. In total, we have approximately 22 million current account customers and provide social banking to over 4 million people through basic banking or social banking accounts.

We have a presence in almost every community across the UK. We offer 15,000 points of access through almost 3,000 branches, access to a further 12,000 Post Office counters and around 6,900 ATMs across the UK. We also invest in alternative ways for customers to do their banking, such as internet and mobile banking.

INTERNET AND MOBILE BANKING

More than 7.1 million of our customers make use of our websites to bank online. Customers log in to our online banking websites on average nearly 60 million times each month. We continue to invest in internet banking facilities to meet increasing demand from customers and improve customers' online banking experience. This year we have further improved our internet banking service with enhanced functionalities; including simplified menus, improved navigation around the site, quick links to take customers straight to payments and transfers and new help and support features.

We have also launched a dedicated section on our award winning Lloyds TSB website providing customers with free, impartial advice and guidance on personal finance, to help improve customers' financial capability and help them manage their money. This dedicated section provides:

- explanations of products to help customers determine which ones best suit their needs;
- practical guidance for managing money and keeping track of money;
- guidance on the importance of financial planning;
- help and advice for dealing with financial difficulties.

We won four of the top ten positions in the 2009 Experian Hitwise UK Online Performance Awards. Our Lloyds TSB online banking site won first place and three other Lloyds Banking Group sites were featured in the top ten.

In 2008 Lloyds TSB was the first bank to enable customers to transfer money between accounts using their mobile phones, and request and receive an up to date balance on demand via their mobiles. Customers are able to better control their finances through weekly balance and transaction alerts, advance notices when they approach their overdraft limits and notification when their debit card is used abroad.

We are the only bank to provide customers with the choice of using their keypads or voice recognition when using our telephone banking service. This means that our customers who have disabilities can do their banking by telephone more easily.

PROVIDING BANK ACCOUNTS TO EXCLUDED GROUPS

We continue to play our part in ensuring that all adults have access to a bank account. We are the biggest provider of social bank accounts to customers who cannot otherwise access mainstream banking. Social bank accounts are a simple form of current account that offer basic money transmission facilities, but do not provide overdrafts or cheque books.

We have a 48% share of all social bank accounts in the UK and a 30% share of new accounts opened in 2009. Our social bank account offering is covered in more detail in the Financial Inclusion chapter on page 25.

PROTECTING CUSTOMERS AGAINST FINANCIAL CRIME

We take protecting our customers and their assets extremely seriously. And with increasing numbers of customers banking online, ensuring they are protected is a key priority for us.

We continue to invest in activities to deter, detect and prevent fraud and we operate systems designed to ensure that our products and services are not abused for the purposes of laundering the proceeds of crime or for facilitating terrorism. These include transaction monitoring tools to identify and analyse suspicious account activity; and processes to verify customers and check the transactions that they make.

We also work to ensure our customers are aware of how to protect themselves from financial crime. Our various brand websites contain information to assist customers in understanding how to mitigate the risks of common types of internet fraud. We run regular financial crime awareness campaigns, support industry education initiatives and sponsor the charity Crimestoppers.

CURRENT ACCOUNT OVERDRAFTS

The vast majority of our customers bank for free, and never incur charges. Most of them do not pay unarranged overdraft charges as they either run their accounts in credit or keep within arranged overdraft limits. We offer our customers a range of options and tools to arrange overdrafts and believe that our charges for unarranged overdrafts are fair, transparent and proportionate.

We, along with the other major UK banks, have been challenged on the fairness of unarranged overdraft fees. We therefore jointly entered a High Court test case with the Office of Fair Trading (OFT) to obtain a firm legal position on whether unarranged overdraft fees are fair or not. It was ruled that - provided we clearly explain our prices to customers - the unarranged overdraft charges cannot be challenged for fairness.

We have led the industry in making customer communication easier to understand, and we work closely with the OFT to identify how we can make further improvements. Last year, we confirmed that we would be implementing all of the OFT's transparency initiatives; including enhanced monthly information on statements and an annual summary to ensure customers fully understand the charges and interest rates that have been applied to their accounts.

CREDIT CARDS

We offer a competitive range of credit cards which consistently appear in best buy tables. We offer a broad range of products, from reward based and introductory offer cards to low rate and student cards.

CHARITY CREDIT CARDS

In 2009 Lloyds Banking Group customers using Halifax and Bank of Scotland charity credit cards raised around £1.1 million for Cancer Research UK, the NSPCC and the SSPCA.

We won Best Charity Card Programme at the Card Awards in 2010 for our Halifax Cancer Research UK Charity Card. Halifax and Cancer Research UK celebrated 20 years of partnership in 2008. The Charity Credit Card has now delivered £13 million in royalty donations to support the great work done by Cancer Research UK to save lives and achieve their vision to beat cancer.

BREATHING SPACE INITIATIVE

The Breathing Space Initiative was launched by the credit card industry at the end of 2008 for customers struggling to make repayments on their credit cards. Under this initiative, we do not contact customers who are being helped by free debt advice companies, such as Consumer Credit Counselling Service and Payplan, to collect payments for up to 60 days. We offer 'Breathing Space' for all unsecured products – not just credit cards. This gives customers time to implement repayment plans, with the help of debt advice organisations. The vast majority of plans are resolved in the first 30 days.

RESPONSIBLE LENDING AND ADVICE

As a responsible lender, we wish to ensure customers only borrow what they can afford to repay. We have a responsible lending programme with internal management reporting and accountability. Our customer-facing employees are trained to offer the necessary advice and support to help customers manage their borrowing.

Each customer's circumstances are different and we use an affordability model, to better assess a customer's ability to repay, in order to achieve this. We take into account customers' current and past management of financial products, and their ability to make repayments both at the time at which the account is opened, and throughout the duration of the lending, to ensure that the borrowing remains suitable to their circumstances. We proactively contact customers showing signs of financial distress to discuss a range of solutions to help them manage short term difficulties.

HELPING CUSTOMERS MANAGE THEIR BORROWING

Lloyds TSB, Halifax and Bank of Scotland have dedicated Customer Support and Money Management units to provide specialist help to customers who are concerned about their financial situation. We have an ongoing programme to train colleagues to provide guidance and support to customers on managing their borrowing. We help them find an appropriate solution, either through more effective budgeting, or by rescheduling their borrowing with us. In 2009 we handled over a million calls with customers in difficulty.

Where appropriate, we refer customers to free and independent money advice charities. We also support independent money advice networks. In 2009 we contributed more than £11 million to the financial advice sector, including the Money Advice Trust and the Consumer Credit Counselling Service.

SAVINGS

As the country's largest private sector savings institution, we also played a commensurate part in encouraging people to rediscover the savings habit, an essential component of the economic recovery. We help over 21 million people save for the future. Across the Group we offer over 100 savings products – including ISAs, regular saving accounts and children's saving accounts – across 9 different savings brands. During 2009, we opened nearly 5 million new savings accounts. At the end of the year, we held £185 billion of savings deposits.

INNOVATIVE SAVINGS PRODUCTS

We work hard to continually introduce new and innovative savings products. Our groundbreaking "save the change" product automatically rounds up debit card transactions to the nearest pound and the balance is placed in a savings account. Through this product feature, customers are able to save as they spend. 460,000 customers have registered so far and have saved over £30 million through this product.

Halifax offers the highest paying children's account. The Halifax Children's Regular Saver currently pays 6% interest, fixed over a twelve month period. Accounts are opened by adults saving on behalf of children under 16. At the end of the savings period the money saved and interest earned is automatically transferred into the customer's nominated account.



- Halifax's Children's Regular Saver won us 'Best parent friendly bank' at the 2009 Tommy Awards

REUNITING CUSTOMERS WITH THEIR 'FORGOTTEN' FUNDS

Lloyds Banking Group has taken the lead in reuniting customers with money they have left in 'forgotten' accounts. Accounts are classified as being forgotten if customers have not accessed them for 15 years. We have operated the largest and most proactive programme in the UK to locate dormant account holders. To date we have reunited £32.8 million with their rightful owners through our tailored advertising campaigns, proactive customer mailings and utilising the expertise of external tracing companies.

HELPING SOCIAL BANKING CUSTOMERS TO SAVE FOR THE FUTURE

As the UK's largest savings provider, we aim to make savings as accessible as possible to those who have previously not had access. Regular saving enhances long-term independence and opportunity by providing a pool of assets to draw on during periods of financial difficulty. Halifax was the first major UK bank to offer a tailor made Christmas Savings Account for our social banking customers, and the only bank to pilot the Saving Gateway, a Government-led savings initiative to encourage those on low incomes to save. More details on these are included in the Financial Inclusion chapter on page 25.

OUR BANK MANAGERS IN LOCAL COMMUNITIES

Many customers feel the traditional role of the bank manager has disappeared. Lloyds TSB is changing this. We are redefining the role, focusing on traditional customer service and advice. We have over 1,500 bank managers across the UK dedicated to providing skilled guidance and helping customers look after their long-term financial health. Our bank managers have, on average, more than 19 years banking experience with Lloyds TSB. Over the last 18 months we have given our bank managers training to ensure they can help customers who are experiencing financial difficulty. Lloyds TSB bank managers can:

- Provide expert assistance to get customer's finances back on track, plan budgets or save for the future
- Provide practical tips on how to better balance incomings and outgoings
- Help customers cope with major events like moving home, new baby, retirement or redundancy
- Make expert introductions where the customer wants to start a new business, move home, or save and invest for the future.

HELPING PEOPLE INVEST AND PROTECT THEIR FUTURE

Our Insurance division provides general insurance, life assurance, pensions and investments to 11.6 million people in the UK. As the largest Insurance business in the UK, we help more people protect their assets and plan for the future than any other provider. Last year we brought together the best products from our businesses to create one market leading product range that is available to customers throughout our extensive retail branch and intermediary sales network.

With the current economic situation being very difficult for our customers it is important, now more than ever, that we can provide security for our customers' futures through our long-term investment products. Our new range will help more customers plan and save for the future than any other UK provider.



- Scottish Widows won best personal pension provider at the 2009 Moneywise Pension Awards
- Scottish Widows received a 5 star default rating for each of its three flagship products in 2010: Our Retirement Account; Our Investment Bond; and for Our Clerical Medical CMI Global Investor product

LIFE ASSURANCE, PENSIONS AND INVESTMENTS

PLANNING FOR THE FUTURE

We launched a new range of products in June this year which customers can access through their everyday banking relationships with Lloyds TSB, Halifax and Bank of Scotland. We have combined Clerical Medical's market-leading investment products with Scottish Widows' market-leading life assurance and pension products to deliver a single set of enhanced products for our customers and colleagues. We have also developed improved financial planning tools so that our colleagues can show customers how our products can meet their needs and plan for the unexpected.

RESPONSIBLE INVESTMENT

Lloyds Banking Group's asset management arm, Scottish Widows Investment Partnership (SWIP) is one of the largest asset management companies in the UK. At the end of 2009, SWIP managed £142 billion worth of funds in total. In addition to specialist ethical, environmental and Socially Responsible Investment (SRI) funds - totalling £534 million, as at 31st December 2009 - consideration of a company's approach to social, ethical and environmental issues forms part of the research process for all funds. In the UK, SWIP manages £160 million in environmental funds.

SWIP is a signatory of the Principles of Responsible Investment, an investor initiative in partnership with the United Nations Environment Programme Finance Initiative and the UN Global Compact to help investors integrate consideration of environmental, social and governance issues into investment decision-making and ownership practices. SWIP is also a member of the Institutional Investors Group on Climate Change.

SWIP recognises that sustainability is core to its business and that it must constantly evolve and develop. As a result, SWIP commissioned a sustainability audit of its operations and funds under management early in 2010. The purpose of this audit was to understand where SWIP currently stands on managing sustainability issues; to benchmark SWIP against competitors and to undertake a gap analysis with recommendations on how to improve SWIP's position with respect to sustainability. The outcomes of the audit highlighted many opportunities for SWIP to build on its leading practices to further drive sustainability throughout the business.

GENERAL INSURANCE

Lloyds Banking Group serves over 5 million insurance customers. We hold a top three market position for home insurance.

During the course of last year we worked to combine the strengths of our Insurance businesses to produce one strong product set, one sales process and one claims process. This means that our new customers have access to a wider range of products and services, and our colleagues can help them find the right product more quickly and easily. Existing customers will also benefit from a simpler renewal and claims process. Most customer complaints the Group receives are in relation to our policy decisions – however, we are proud to say that we have not, so far, received any complaints in relation to this new approach.

VALUE FOR MONEY

We cover one in five insured homes in the UK. We understand that value for money matters to our customers. We are currently offering new Halifax Home Insurance customers 52 days of free cover. Customers that remain claim-free will benefit from this period of free cover every time they renew their policies. We are also waiving the excess for Lloyds TSB home insurance customers who are victims of burglary until May 2011.

MAKING CLAIMING SIMPLE

We have launched a new model this year for our insurance claims process. Each claiming customer is allocated a Personal Claims Consultant – a single point of contact who works with them throughout the claims process. This new model means that customers benefit from a more personal service, at a time when they need it most.

SUPPORTING BRITAIN'S BUSINESS

Our Wholesale division serves in excess of a million businesses, ranging from start-ups and small enterprises to global corporations.

We support corporate and commercial customers throughout the economic cycle to ensure their financial health, growth and prosperity. Through this approach we are able to build deep and lasting relationships with customers, and help support their ongoing contributions to the UK economy.

Our relationship led approach means that we work closely with customers; providing products, services and expertise that help them achieve their goals – whether it is boosting access to finance, increasing our lending to businesses in deprived areas, delivering small business seminars or helping customers reduce the carbon emissions of their company car fleets.

LENDING TO UK BUSINESSES

We increased our net business lending by £5.7 billion in 2009 while the overall UK market actually decreased by £48 billion. We did fall short of our agreed net business lending target of £11 billion; however, the scale and reach of our lending programme was obscured by two important points. Firstly, during 2009 our business customers made more than £32 billion in debt repayments. Secondly, the recession was much worse than expected. As a result, there was a significant drop in demand from small and medium sized enterprises for overdraft credit.

In March this year, we agreed further lending targets with the UK Government. We expect to lend £67 billion, excluding remortgages, to UK businesses and homeowners over the 12 months to March 2011. We know that our lending activities will continue to be subject to scrutiny. We can, and will, improve our disclosure on this issue.

LENDING TO SMALL AND MEDIUM SIZED ENTERPRISES

We are committed to helping small to medium sized enterprises (SMEs) in the difficult current economic climate. As the biggest provider of start up finance, we play a very active part in developing the entrepreneurial culture of the UK.

We grew our market share in lending to SMEs in 2009. We extended £35 billion in new lending last year to businesses of all sizes, £10 billion of which was for SMEs. Bank of Scotland has returned to lending and is open for business, while Lloyds TSB continues to outpace the market in terms of lending support. We approved over 59,000 overdrafts and over 47,000 loans for small businesses with a turnover of less than £1 million. During the year we opened in excess of 100,000 new accounts for SMEs, including a 23 per cent share of the start-up market.

LENDING TO SMES IN DEPRIVED AREAS

We are making good progress in supporting HM Treasury's long-standing goals for increasing credit to small businesses in deprived areas. We lend more to businesses in deprived areas than the industry average. Our lending to businesses in deprived areas increased to £364 million in 2009. We track and publish our lending to small businesses in deprived areas – see the Financial Inclusion chapter of this Report on page 25.

2012 SME CHARTER

We have put in place a range of measures to ensure businesses are aware of the availability of funds.

In November 2009, we launched a 2012 SME Charter, setting out a series of commitments that form a three year programme of support for SMEs to help them grow as the recovery gains momentum. The Charter makes pledges with three key aims: encourage enterprise, boost access to finance and provide clear and fairer pricing for customers. We have also pledged to help encourage and support 300,000 new start-ups across the country by 2012. Our SME Charter won the award for 'Innovation in the SME Finance Sector' at the Business MoneyFacts Awards in 2010.

We will be running 200 nationwide seminars every year for the next three years, providing expert guidance and support for up to 90,000 SMEs on starting up, employment, exporting, bidding for London 2012 contracts, sustainability and finance.

BUSINESS SEMINARS

Over 10,000 small and medium sized businesses attended over 120 business information seminars held by Lloyds TSB and Bank of Scotland throughout the UK in 2009. We have worked with The Chartered Institute of Marketing, the Institute of Credit Management, Microsoft and Croner Consulting and other business adviser and representative groups such as accountants, Business Link, Chambers of Commerce, and the Federation of Small Businesses. The focus was on four key issues for small and medium sized businesses in the current market – getting and keeping customers, business planning, cash flow management and building local advice and support networks. Sustainability themes were incorporated in all 120 events, focusing on the risks and opportunities of climate change and natural resource depletion. Feedback from the attendees at each event has been very positive. Of 2,000 attendees asked to rate how valuable they found our events, the majority of respondents rated the event 4 or 5 out of 5.

Bradford-based heating, plumbing and ventilation firm, Process Mechanical, was represented at one of our events by Managing Director Alan Howarth. He said "The bank has given us a lot of support and it was good to appear at the event and explain the steps we have taken as a business to cope with the recession. It was also really helpful to have the chance to get answers to any questions we had".

LONDON 2012 OLYMPIC AND PARALYMPIC GAMES

We are the official banking and insurance partner to the London 2012 Olympic and Paralympic Games. There are £6 billion worth of business contracts associated with the 2012 Games and we are ensuring our customers right across the UK can take advantage of the opportunities available.

Our "Winning Business Guide" shows the steps that UK businesses can take to win 2012 Games contracts. It also offers practical financial advice and lists useful sources of support. More than 1,300 guides have been downloaded to date from www.lloydstsb.com/london2012business

We have also made £1 billion of lending available to enterprises that are doing business connected with the London 2012 Olympics.

HELPING BUSINESSES MANAGE THE RISKS AND SEIZE THE OPPORTUNITIES OF CLIMATE CHANGE

As part of our programme of business seminars we run dedicated sustainability events, focusing on the risks and opportunities for businesses in an environment of growing climate change related regulation and natural resource depletion. As pressure grows on businesses to take action to tackle climate change, there is increasing demand for knowledge on how to respond to the challenges. We provide guidance to customers on how to manage risks and maximise business opportunities as we move to a low carbon, resource efficient economy. This provides an opportunity for us to deepen relationships with our customers. More information on this is available in the Climate Change chapter on page 45.

PARTICIPATION IN GOVERNMENT SCHEMES

We are actively participating in all the main Government lending programmes designed to help small businesses access the finance they need. We are involved in the Enterprise Finance Guarantee, Export Credit Guarantees, the Working Capital scheme and European Investment Bank funding scheme which have strengthened the supply of finance available to UK businesses. We have contributed to these schemes in several ways – by helping design the schemes, by investing in them, and by making them available to our customers.

We are one of the most active participants in the Enterprise Finance Guarantee Scheme, offering almost a third of the total loans made under the Scheme so far. We have offered more than £220 million to over 3,000 businesses which represents over 29% of loans made under the Scheme.



- Lloyds TSB has been named 'Corporate Bank of the Year' for the last six years at the Confederation of British Industry Finance Directors' Excellence Awards.

OUR DEDICATED UNIT TO SUPPORT BUSINESSES

Our dedicated Business Support Unit provides bespoke help to our business customers facing difficulty. Wherever possible, we work to turn these businesses around and restore their financial stability so that they are able to return to mainstream banking. The Unit conducts an in-depth analysis of where things have gone wrong and then develops a tailored solution with the customer. Measures include providing finance to maintain cash flow; management advice on how to improve business performance; and capital restructuring.

This approach is a critical part of our support for businesses through the economic cycle. By focusing on effectively turning these businesses around, there is the opportunity to deepen relationships and retain loyal customers.

In recognition of Business Support's success, two of our customers recently won awards at the prestigious 'Institute for Turnaround' Annual Ceremony (Private Company turnaround 2009 and SME Company Turnaround 2009).



- Bank of Scotland Corporate won 'Best online banking provider' at the 2009 Business Moneyfacts Awards.

SUPPORTING BUSINESSES THROUGHOUT THE RECESSION

Delima, a North East-based independent fashion retailer which operates 18 stores under the trading names of Van Mildert, Box Clothing and Tucci, suffered a fall in trade in 2007 and 2008 as consumer spending dropped and the UK slipped into recession. In March 2009, when Tucci's other business partners backed out of the enterprise, the company had to fully incorporate the business as part of Delima. The move saved 70 jobs and four stores but meant that Delima needed to quickly restructure to manage the enlarged group, as well as refocus its business plan to reflect the changed economic environment. Lloyds TSB's specialist team worked closely with Delima so that it was able to access the guidance and working capital facilities it needed, helping it to refocus its offering and restructure operations.

Sue Sparrow, Relationship Manager for Lloyds TSB said "Delima is a well-run company and its solid business plan and pricing strategy ensured it grew steadily over a period of two decades.

However, due to the pressures of the wider economic environment and the unforeseen acquisition of the previously part-owned Tucci brand, the company was put in a challenging position.

By building a strong relationship with Delima and through regular dialogue, we've worked together to navigate the company through this period of change."

Now, Delima is recording a 15 per cent increase on like-for-like sales compared to last year and is set to open three new stores this year.

"Lloyds TSB's support has been invaluable over the past 12 months.

Sue quickly understood our business and our ambitions and is always on hand when we need her. She believed in the business from the beginning and gave us the confidence to make some difficult decisions.

We're now seeing a real turnaround in trading and we're keen to capitalise on the new opportunities the improving economic conditions are expected to bring." Ken Campling, Group Accountant at Delima

FINANCIAL INCLUSION

Our approach to financial inclusion is aligned with the Government's aims to increase access to banking and credit while, at the same time, developing consumers' financial understanding and literacy.

OUR PRESENCE ON THE HIGH STREET

We aim to make our banking services convenient and accessible to all our customers. We operate the largest branch network in the UK- nearly 3,000 branches, almost a quarter of all bank branches in the country. We have the largest free-to-use ATM network, with 6,900 ATMs across the UK, including 100 we have installed in areas of social deprivation that previously did not have free cash machines. In Scotland, we operate seven Bank of Scotland mobile branches to ensure that some of the most remote communities can benefit from the service our branches offer.

OUR PARTNERSHIP WITH THE POST OFFICE

We believe that our branches will continue to be the main way in which our customers choose to interact with us, but providing other convenient points of contact is also vital. We were the first bank to partner with the UK Post Office, so that our customers can use around 12,000 Post Offices across the UK to do their banking.

SOCIAL BANKING

Social bank accounts are a simple form of current account that customers can use to receive payments and to set up direct debits and standing orders. They offer basic money transmission facilities, but do not provide overdrafts or cheque books. They are open to anyone, regardless of credit rating, as long as they have not been convicted of fraud or declared bankrupt.

We are the biggest provider of social bank accounts in the UK. We have a 48% share of all social bank accounts and a 30% share of all new accounts opened in 2009.

We offer social bank accounts under our Halifax, Bank of Scotland and Lloyds TSB brands. We offer Easycash and Cardcash accounts under our Halifax and Bank of Scotland brands and Cash Accounts under our Lloyds TSB brand. Social bank accounts enable customers to pay household bills by direct debit, which saves them money when compared with other methods of payment. Over time, as customers improve their credit ratings, we can help them move to a full facility current account. In 2009 we upgraded over 100,000 customers to full facility bank accounts.

SOCIAL BANKING IN DEPRIVED AREAS

8.2% of our social banking customers across the Group (almost 10% in England) live in the 5% most deprived areas in the UK. In total, 1.27 million of our bank account holders live in deprived areas.

SOCIAL BANKING DATA, AS AT DECEMBER 2009

	No. social bank accounts	No. social bank accounts in deprived areas
England	2,999,998	294,458
Wales	148,748	10,530
Scotland	601,369	11,827
NI	65,552	N/A
Not stated ¹	41,861	N/A
Total	3,857,528	316,815

¹ For some accounts, particularly those opened some years ago, customers were not required in the application process to state which of the home nations they live in.

OUR SUPPORT FOR THE POST OFFICE CARD ACCOUNT

We have invested heavily in building the capacity of the Post Office to offer a social banking facility. We have contributed £55m over 5 years toward the cost of running the Post Office Card Account. The account is a basic account that allows state benefits to be paid directly into individual accounts. Unlike social banking accounts, it does not allow deposits or direct debits - but account holders can withdraw their benefits over the counter at any Post Office branch.

ENCOURAGING SAVING

We aim to make savings as accessible as possible to those who have previously not had access. Regular saving enhances long-term independence and opportunity by providing a pool of assets to draw on during periods of financial difficulty.

Halifax was the first major UK bank to offer a tailor made Christmas Savings Account for our social banking customers. At the end of the savings period, each October, customers are able to take out their savings in the form of either cash or high street vouchers. This is an important part of our work to help close the savings gap. We believe that this bespoke product for our social banking customers helps people identify an 'end goal' to save for and thereby encourages a savings habit.

Halifax was also the only bank to pilot the Saving Gateway in 2007, a Government-led savings initiative to encourage those on low incomes to save. During the pilot in 2007, 23,000 accounts were opened.

BANKING BUSINESS

We support businesses across the UK through our network of regional teams, offering a range of products and services to businesses of all sizes, from start ups to large companies.

SUPPORTING SMALL BUSINESSES IN DEPRIVED AREAS

We are committed to providing support to the businesses in every area of Britain, including in deprived areas. We track and publish our lending to small businesses in deprived areas.

Our lending to small businesses in the 5% most deprived areas of the UK increased to £364 million in 2009. We currently have over 28,000 small business customers, with a turnover of up to £1m, in deprived areas across the UK. We lend more money to businesses in deprived areas than the industry average. Businesses in deprived areas benefitted from 4.1% of our lending, in terms of loans and overdrafts, in 2009, compared to an industry average of 3.9%.

SUPPORTING NOT FOR PROFIT ORGANISATIONS AND SOCIAL ENTERPRISES

We have a specialist team that provides tailored support, products and services to charities, educational and not for profit organisations. Our dedicated not for profit and charity banking team specialises in understanding organisations' priorities, finances and challenges: such as irregular cash flows and unreliable income sources. All our charity and not for profit customers benefit from this kind of experience as well as direct access to a support team specialising in finance for the sector. Through our focus on building strong relationships with these customers, and providing advice and help that they need, we can help to support their success and growth.

Our new banking initiatives for the not for profit sector won two of the industry's most prestigious awards. 'Best Charity Account Provider' and 'Most Innovative Product' for our Bank of Scotland Interest First Account – an account which offers an advance payment of up to 12 months' interest, at a guaranteed fixed rate. In addition, we support small not for profit organisations with a turnover of up to £50,000 with free transactional banking.

CREDIT UNIONS, MICRO FINANCE AND CDFIS

We make a significant contribution to community finance initiatives and credit unions, which offer small amounts of credit that customers would otherwise be unable to obtain. These loans tend to be focused on low income individuals. We operate over 100 accounts for credit unions across the Group.

Our support for the sector also includes the provision of technology to enable credit unions to setup online accounts for their members. We have sponsored research projects looking into the long-term sustainability of community finance and how it can reach more people.

GRAND CENTRAL SAVINGS - A BANKING LIFELINE

GrandCentral Savings (GCS) is a Glasgow based charity that provides people who are financially and socially excluded, and who may not have access to high street banking, with a safe place to keep their money.

Lloyds Banking Group has supported GCS since its launch as part of the Big Issue Foundation in 2001. The Big Issue helps homeless people gain a source of income, but without having a bank account it is difficult for people to save. GCS changed that and now, almost a decade later as an independent charity, continues to provide an invaluable service to customers who often lack the right identification and confidence to open an account at a mainstream bank. GCS provides a safe place for their money and help with managing budgets. Once customers have a regular income and get used to managing an account, they can be supported in moving to a credit union or bank, where it is appropriate. Lloyds Banking Group hosts the bank accounts for GCS, as well as providing advice and guidance.

Over the years, GCS has expanded its service to provide a lifeline for people on benefits, pensioners, asylum seekers, immigrant workers and those with addictions or mental health issues, as well as homeless people. It regularly serves around 1,400 customers in Glasgow and, in April this year, opened a second branch in Greenock, Inverclyde where it already serves around 150 customers.

We are committed to supporting GCS as it expands its service to meet the financial needs of vulnerable and excluded people.

LLOYDS TSB'S SUPPORT FOR SOUTH COAST MONEYLINE

Lloyds TSB has supported South Coast Moneyline, a community development finance institution (CDFI), since its launch ten years ago. We partnered with Portsmouth Housing Association to launch the first CDFI of its type in the UK, providing affordable personal and micro-enterprise loans to people in Portsmouth and its surrounding communities. Lloyds TSB provides expertise, start-up finance and office space to South Coast Moneyline.

South Coast Moneyline is currently focusing on providing home improvement loans for people who have assets, but not cash. Their Home Trust Loan is a secured, fixed rate product that helps people to improve, repair or adapt their properties. Since July 2000, South Coast Moneyline has granted more than 4,000 loans to local people, to the value of £3 million.

SOCIAL INVESTMENT SCOTLAND

Lloyds Banking Group has a long standing commitment to Social Investment Scotland (SIS). SIS provides loan finance and business support to small community enterprises and social businesses which are unable to raise the loan finance they need from mainstream commercial sources. Its focus is to help grow the social business marketplace in Scotland. LBG was a key initial funder to SIS providing more finance to SIS than any other bank in Scotland, with £1.5m of the total of £3m of facilities committed.

SIS lends money to a wide range of organisations that operate across many business sectors, from community windfarms to local arts centres. All its borrowers set up their businesses in response to identified local needs and the businesses are non-profit-distributing, which means that profits are reinvested for community benefit.

An example of the type of social business that SIS supports is REQUIPIT, a social enterprise that refurbishes and recycles electrical appliances and sells them in charity shops raising much needed funds for these very worthy causes. REQUIPIT refurbishes approximately 8,000 appliances per year and now employs over 20 staff, providing training for vulnerable people in domestic appliance engineering. In refurbishing the electrical and electronic equipment, it also prevents it from entering the waste stream, reducing environmental costs. Without the finance to cover the extensive set-up costs and the business advice and support provided by SIS, REQUIPIT could not have begun operating.

BRIDGES VENTURES

Lloyds Banking Group has invested £8 million in two community development venture funds (CDVs) managed by Bridges Ventures, a privately-owned venture capital company with a social mission. All the funds raised aim to achieve a social purpose as well as financial returns to investors. Bridges' primary focus is investment in ambitious businesses located in under-invested inner city areas of the UK. To date, helped by the finance we provide, Bridges Ventures has invested £62.5m, helping to regenerate these areas, develop new entrepreneurs and, by last year, create or sustain 1,300 jobs. Each £1 invested by Bridges Ventures leverages an additional £2.50 into targeted areas.

Bridges Ventures has invested £3.8 million in New Career Skills (NCS) which provides vocation focused training to mature students who want to change careers. NCS delivers plumbing, electrical and green energy courses at their dedicated training facilities in Southampton and Doncaster.

NCS was able to open the training centre in Doncaster as a result of the investment, as well as being able to launch a number of new courses, including a training scheme for Domestic Green Engineers. There is currently a massive shortage of properly trained Domestic Green Engineers, whose job it is to help home owners and builders of new homes reduce their carbon footprints. Through this course students are trained to install and maintain solar hot water systems, ground source heat pumps, air source heat pumps, rain water and grey water harvesting. As students often go on to be self-employed, the courses also give training on how to set up a business, advertise and manage finances.

MONEY ADVICE AND FINANCIAL LITERACY

We recognise that we are one of the most important sources of financial information and advice for our customers. We take seriously our responsibility to do more to raise the levels of general financial understanding across the communities we serve and work closely with the Government, the FSA and other stakeholders to deliver this.

Financial capability is not the same as financial inclusion. An individual from a lower socio-economic background, for instance, might have some knowledge about bank accounts (literacy) but still not have taken one out (access). Financial capability is, however, equally high on our list of priorities. Not only do we fundamentally believe in the need to increase financial capability for social reasons; we do also have a very strong commercial interest in helping to create a nation of consumers who are both comfortable and confident in dealing with the financial services sector.

DELIVERING CONSUMER FINANCIAL EDUCATION

We work very closely with the FSA and Government to help improve financial capability across the whole of the UK. We have provided expertise to the FSA to help develop their strategy for financial capability, which is financed through a levy on the financial sector.

We were the only major UK bank to work with the FSA to pilot their Moneymadeclear guides, making these available through selected branches to test whether consumers use them. These guides form part of a range of initiatives designed to help consumers manage their money, keep track of their finances, plan ahead, make informed decisions about financial products and stay up to date about financial matters. The Moneymadeclear money guidance service is now being rolled out across the UK, to provide consumers with impartial information and tools for managing money.

We are supporting the Government's Financial Inclusion Taskforce with insights and data we gain from our significant market share of social bank accounts. The Government announced that its target of halving the number of unbanked adults in the UK had been met in late 2009. We are now helping the Taskforce to understand the financial behaviour of vulnerable customers, who are now banked and deemed to be 'financially included'.

HELPING CUSTOMERS UNDERSTAND OUR PRODUCTS

Through our websites, branches and product literature we strive to make financial guidance and advice easy to access and understand.

Each year we spend millions of pounds on support material to help customers understand financial products. Through our Halifax, Bank of Scotland and Lloyds TSB websites we offer advice and guidance on managing money, explanations of financial jargon, online calculators and debt advice. We have trained over 6,500 Financial Health Specialists who customers can speak to in our Lloyds TSB branches for budgeting and money management advice. Our Halifax and Bank of Scotland customers have a dedicated telephone support line with trained specialists able to guide them through financial issues.

We have led the industry in making customer communication easier to understand. We have extended summary boxes to our marketing literature and on a wide range of product information such as customers' credit card statements. These boxes give a clear summary of important information like product features, benefits, risks and commitments.

HELPING CUSTOMERS MANAGE THEIR BORROWING

Lloyds TSB, Halifax and Bank of Scotland have dedicated Customer Support and Money Management units to provide specialist help to customers who are concerned about their financial situation. We have an ongoing programme to train customer-facing colleagues to provide advice and support to customers on managing their borrowing. We proactively contact customers who are showing signs of pressure on their finances. We help them find an appropriate solution, either through more effective budgeting, or by rescheduling their borrowing with us. In 2009 we handled over a million calls with customers in difficulty.

OUR SUPPORT FOR INDEPENDENT MONEY ADVICE AGENCIES

We encourage customers in financial difficulty to seek support from fee free organisations such as the Citizens Advice Bureau, the Consumer Credit Counselling Service and the National Debt Helpline to get to grips with their finances. We provided over £11 million of support to these independent money advice networks in 2009.

£4 MILLION FUNDING FOR AN INNOVATIVE FINANCIAL CAPABILITY PROGRAMME

This year we have pledged £4 million funding for an innovative financial capability programme with the Government and the FSA. The programme will offer support to help further education students gain the skills they need to manage their money better. More information on this project is in the Community Investment chapter of this report, on page 39.

COLLEAGUES

OUR BUSINESS SUCCESS DEPENDS ON ENGAGED AND MOTIVATED COLLEAGUES. THEY ARE THE GROUP'S AMBASSADORS

We want to create a great place for people to work. We aim to attract, retain and develop the best talent.

We do this through offering competitive reward packages; investing in colleagues' skills and knowledge; and ensuring they have the right tools and resources to make their contributions effective.

OUR STRATEGY

We are a business based on building deep and lasting relationships with our customers through the efforts of our people. Colleagues are our most valuable resource. Managing our people effectively, and helping them to develop, is therefore, fundamental to the success of the business and achieving our vision of being the best financial services organisation.

The way we deal with our people directly influences whether they are advocates of the Group. We need our colleagues to be strong advocates of the Group, as it is our colleagues who will build relationships with our customers. Their interactions with customers will influence how customers see us. Ensuring we maintain and build customers' trust is key to the successful delivery of our business strategy. Ultimately, the extent to which our customers advocate the Group will impact the ongoing sustainability of the organisation.

Our approach is therefore centred on driving colleague engagement; through ensuring that:

- colleagues feel valued and that their contributions are recognised and fairly rewarded;
- we take into account their personal circumstances and offer them a flexible approach to work-life balance;
- colleagues have the right tools to carry out their jobs as well as adequate opportunities for learning and development and;
- we create a positive working environment that reflects the diversity of our colleagues.

We track colleague engagement through our quarterly colleague engagement survey.

"WE ARE A BUSINESS BASED ON BUILDING DEEP AND LASTING RELATIONSHIPS WITH OUR CUSTOMERS THROUGH THE EFFORTS OF OUR COLLEAGUES. WE NEED OUR COLLEAGUES TO BE STRONG ADVOCATES OF THE GROUP, AS THEIR INTERACTIONS WITH CUSTOMERS WILL INFLUENCE HOW CUSTOMERS SEE US. CREATING A GREAT PLACE TO WORK IS THEREFORE A CORE PRIORITY FOR THE GROUP, AND IT IS KEY TO ATTRACTING, RETAINING AND DEVELOPING THE BEST TALENT."

Angie Risley, Group HR Director and Chair of the Corporate Responsibility Steering Group.

COLLEAGUE ENGAGEMENT

Our colleagues will be the judges of whether Lloyds Banking Group is a great place to work. Listening to colleagues' views, and taking action in response to their feedback, is key.

Almost uniquely for a FTSE 20 company, we measure colleague engagement on a quarterly basis throughout our organisation via our colleague engagement survey. Testing colleague opinion during our integration programme is particularly important, as this is a time of great change for us all. We encourage managers to share results and their action plans with their teams each quarter.

In 2009 we achieved a record response rate of 81% which is regarded best in class. Almost 96,000 colleagues responded to the survey in the last quarter of 2009.

82%

**OF COLLEAGUES SAID
THEY HAD A CLEAR
UNDERSTANDING OF THE
GOALS OF THE GROUP**

89%

**OF COLLEAGUES SAID
THEY HAVE A VERY CLEAR
IDEA OF THEIR JOB
RESPONSIBILITIES**

Our performance management questions: 'I understand how my performance is judged' and 'my manager gives me regular feedback on my performance' continue to remain above the 2009 High Performance external benchmarks and further demonstrate our commitment to providing colleagues with regular feedback on their performance.

At the same time, the survey ensures that we take action to address the issues that matter most to colleagues. The results are used by line managers to support local action planning activities and are designed to encourage two-way dialogue to foster better working relationships across the Group.

At this early stage in the Group's development, the engagement scores have been promising. We are committed to using feedback from our surveys in 2010 to achieve our goal of making Lloyds Banking Group a great place for our people to work.

WHISTLEBLOWING

We offer a Whistleblowing helpline for instances when colleagues feel unable to raise their issues or concerns about possible unacceptable practices or behaviour at work through their line managers or via the Colleague Engagement Survey.

We embedded a common approach and single Whistleblowing helpline number across the combined Group last year. The helpline, which is managed independently of the Group, can be used to report any concerns about wrongdoing at work that may affect colleagues, customers or the company through one telephone number or email address.

COLLEAGUE STATISTICS

	2009
Number of UK colleagues (average over the year)	125,109
Full time employees	74%
Part time employees	26%
New starters (Headcount)	6,340
New starters (FTE)	5,909

All colleagues are able to join one of our recognised Unions – Accord, GMB, LTU and Unite. We believe that a strong working relationship with the unions supports good employee relations throughout the business and leads to higher colleague engagement. We always ensure that the unions are involved at an early stage in any change management process. We have worked particularly closely with our unions in negotiations about the harmonisation of employment terms and conditions across the new Group, and about the restructuring of our business.

RESTRUCTURING OUR BUSINESS

On 16 January 2009 Lloyds TSB and HBOS merged to become Lloyds Banking Group. The integration of the two businesses will take up to three years in total.

Last year was significant in relation to people integration. We worked quickly to establish a new organisational structure. Our top 400 leaders were in place by the third month of the combined Group, and over 35,000 colleagues went through selection for roles in 2009.

Inevitably, in bringing together two organisations, there has been a need to restructure and integrate teams, and this had led to a reduction in roles. Where possible we have either redeployed colleagues to other areas of the Group or reduced numbers through natural attrition. Where it has been necessary for colleagues to leave the company, this has been achieved by offering voluntary severance and by making less use of contractors and agency colleagues. Compulsory redundancies are always a last resort.

We have aimed to deliver changes in a sensitive way, in accordance with our vision and values. People have been at the heart of the integration programme, and a robust communications process has been followed to ensure that colleagues are aware of the changes before they happen.

PERFORMANCE MANAGEMENT

Our approach to performance management ensures that colleagues have a clear understanding of how their personal objectives relate to the Group's business strategy.

Every colleague has a 'balanced scorecard' that clearly explains what they need to do to contribute to the overall success of the business, and how their contribution will be measured. Balanced scorecards are linked to our business strategy and through these, individual objectives are set in each of the following areas: building the business; customer; risk; people development and finance.

Colleagues' performance is assessed by a combination of what they have achieved, and how they have achieved it, in line with our core values. Their performance is reviewed regularly throughout the year by line managers who, in addition to providing open and honest feedback, ensure that they understand how their performance impacts on colleagues, customers and our overall business success.

At the end of the year, colleagues are awarded a rating that reflects their performance over the past year. This performance rating is directly linked to how they are rewarded.

TOTAL REWARD

We are committed to offering a market competitive Total Reward package, which underpins a culture of high performance. Our offer is flexible in order to meet the needs of our diverse population.

Broad pay bands are aligned to the external market for each of our divisions. Basic salaries form a large proportion of colleagues' reward. We also offer incentive programmes and discretionary bonus schemes to encourage a focus on both the short and longer term success of the Group, including a mix of fixed salary and awards of shares, to reflect the risk profile of our businesses.

We offer colleagues a wide choice of benefits through our flexible benefits programme. Colleagues can choose from a range of cost-effective options that can be tailored to their specific needs. Benefits include medical and life assurance, additional pension and holidays and retail and childcare vouchers.



- In 2009 we won two industry awards for our benefits provision, including Most Effective Use of a Voluntary Benefits Plan and Most Effective All Employee Share Scheme Strategy.

REMUNERATION AND BONUSES

We recognise that remuneration in the financial services sector is a sensitive issue for shareholders and society in general. The focus has been on the link between business risk and individual reward arrangements.

We work very closely with the FSA and UK Financial Investments to ensure that our remuneration structure is aligned to prudent risk management. We have reviewed our governance arrangements to ensure they are best practice and comply with the FSA and G20 positions. They also ensure that our rewards are managed fairly and consistently, in line with our Group values.

We offer colleagues a competitive reward package that underpins a culture of high performance, and strikes the right balance between reward, risk management and performance. Base salaries form the largest proportion of colleagues' remuneration; bonuses are a modest proportion. Lloyds Banking Group is primarily a retail and commercial bank. Our bonus allocation is significantly lower than those of our competitors who have large investment banking operations. The typical annual bonus for employees is around £1,000 or less.

EXECUTIVE REMUNERATION

We made a number of changes to Executive remuneration structure in 2009 including: freezing base salaries at 2008 levels and introducing economic profit as a performance measure to replace total shareholder return. Economic profit measures profit relative to the risk taken to generate that profit. Its use in our incentive plans therefore encourages executives to take a prudent approach to risk. Half of the bonus opportunity is driven by the overall Group financial performance, based on stretching targets relating to profit before tax and economic profit, and the other half by business unit achievement driven through individual performance. Individual performance is judged against a number of non-financial measures, such as customers, people and risk management – factors that are crucial to the future success of the new Group, as well as the financial performance of the division or function.

COLLEAGUE PENSIONS

Pensions form a very important element of our Total Reward package. We make a major financial investment in all our colleague pension schemes, to help colleagues provide for their futures. We have made some changes this year to our pension schemes to ensure that they are sustainable and meet their obligations in future years.

We are committed to supporting our Defined Benefit (Final Salary) pension schemes. This is a very positive commitment from the Group at a time when many companies are closing their schemes to existing members. More than 1,150 Defined Benefit schemes in the UK have closed to further contributions from existing members since 2000. To ensure the ongoing viability of the schemes, we have introduced a capped annual increase to pensionable salary.

We are also introducing new arrangements for our Defined Contribution pension schemes. For the first time, all Lloyds TSB colleagues under the age of 25 and new recruits will be able to join our new Defined Contribution scheme. We believe our new Defined Contribution arrangement is one of the most competitive schemes available from any major UK company. The quality of the Group's new arrangements for its Defined Contribution Pension Scheme has been recognised in the form of a 'Pensions Quality Mark Plus' kitemark award. The standard, launched last year by the National Association of Pension Funds, recognises UK defined contribution schemes that have good contribution levels, meet high standards of administration and are effectively communicated.

SUPPORTING WORK-LIFE BALANCE

We want our colleagues to achieve a good balance between their work and their lives outside work. One important area where we can help is by providing an opportunity for colleagues to work flexibly.

Under our flexible working policy colleagues can ask to change their working hours or working patterns, work variable or compressed hours, or job-share. Over 30 per cent of colleagues work flexibly. In our most recent groupwide colleague engagement survey, 75% of colleagues said they believe they have a good work life balance.

We regularly review our policy to ensure it continues to meet the needs of colleagues as well as the needs of the business.

FAMILY POLICIES

We have an award-winning set of family policies which further support colleagues' work-life balance. These include, maternity leave, adoption leave, partners' leave, paternity leave, careerbreak and compassionate and emergency leave.



- Lloyds TSB was named by the charity working families as one of the UK's top 20 employers for working parents in 2009.

"I've had a flexible working arrangement in place for some time and have been able to flex my hours to meet my workload.

At present, I work from home four days a week, from 8.30am to 2.30pm, but when I'm away from home in meetings I work a full seven hour day.

Over the years, my two children have been born and my husband was made redundant and now works for himself. By having the flexibility to change my working pattern to meet the challenges of family life, a disability and today's working environment, I have been able to continue my career with the Group. I'm delighted that I can repay their flexibility by showing my continued commitment to them."

Jo Collinge, Assistant Manager, Banking Operations

INVESTING IN OUR PEOPLE

Investing in our people is crucial to retaining and developing talented individuals. We believe it is essential that employees are engaged, challenged and rewarded. We offer a comprehensive range of programmes and packages that fully support colleagues from induction and training through to promotion and retirement. This means providing colleagues with the tools they need for their jobs through learning and development, recognising health and well being issues and embracing diversity.

LEARNING AND DEVELOPMENT

We are committed to ensuring that all colleagues have the technical, management and leadership skills that will enable Lloyds Banking Group to deliver the high performance needed to achieve our vision. During 2009 we delivered an average of 2.9 days of formal learning per full-time employee.

During 2009 we developed and launched our new Groupwide learning portal, 'Learning @ Lloyds Banking Group'. This portal, which is accessible both on internal and external websites, provides colleagues with access to a wide range of learning and development resources.

LEADERSHIP AND MANAGEMENT CAPABILITY

Line managers have a vital role to play in helping bring our values to life for colleagues. We are focusing on developing and strengthening their management and leadership skills. In 2009 we placed particular emphasis on performance management and leading during a period of rapid change.

During the year we completed an 'Organisational Capability Review' in which we identified our top 500 talented colleagues and reviewed capability gaps. As a result of the review, colleagues were able to agree targeted action plans with their line managers to help them progress to more senior positions. We also recruited 141 people into our Graduate Leadership Programme, offered 42 internships and 10 industrial placements. Our focus is on attracting top talent into the organisation who have the potential to be leaders of the future.

TECHNICAL CAPABILITIES

To deliver great service and results we need to equip our colleagues with a range of appropriate technical capabilities to enable them to support our customers effectively. Our business-focused learning programmes cover critical business skills such as risk, relationship and financial management.

As part of this we support a range of programmes linked to professional qualifications or relevant external certification. Such programmes enable us to develop our colleagues in line with recognised industry standards and provide confidence to customers and our shareholders.

This year the quality of our programmes has been recognised with two external awards; 'Best use of synchronous e-learning' at the annual E-Learning Age awards and the 2009 Security Training Initiative of the Year Award at the Security Excellence Awards.

DIVERSITY AND INCLUSION

Our diversity and inclusion strategy supports our objective of being recognised as a trusted brand by customers, a good employer by colleagues and a valued contributor in the communities in which we operate.

Our business success depends on building enduring relationships with all of these diverse groups.

As an organisation that values and leverages difference, we aim to understand and be responsive to the differing needs of all of our colleagues and customers, rather than just focusing on minority groups. This provides us with a unique opportunity to distinguish ourselves from our competitors and ensure we attract and retain the best talent.

GENDER

We have a strong track record in supporting and promoting gender equality. Traditionally, the focus has been on increasing the participation of women at all levels of the organisation. We have made significant progress: we have more women, for example, on our Executive Management team than the vast majority of FTSE 100 companies. We were ranked 2nd in the 2009 Female FTSE Report of female representation on executive committees.

However, there are additional workplace gender issues that we are committed to addressing. For example, we conduct annual salary reviews, and as part of this we monitor salary differences between genders. We share the outcomes of these reviews with our unions.

RACE

The percentage of ethnic minority managers has remained broadly the same across the Group since 2008.

However, we know there is more that we can do here.

Responding to feedback from colleagues, this year we are strengthening our focus on ensuring that we provide equal career progression opportunities for all talented people in our organisation. We have committed to the following areas of improvement:

- Increasing the number of graduate and senior level ethnic minority colleagues. We will be working closely with the recruitment agencies to ensure that there are no entry barriers, other than talent and experience.
- Supporting the Group Ethnic Minority Colleague Network (GEM), which provides opportunities for networking and support, to help us achieve our goals by encouraging members to focus on their career development.

DISABILITY

Our approach to disability focuses on:

- providing support to colleagues and customers with disabilities
- helping to meet disabled colleagues' aspirations through career development, mentoring and building public awareness.

We believe that supporting colleagues with disabilities and encouraging their aspirations benefits the business. Engaged, positive and valued colleagues will be more productive, contribute more to their teams and provide a better service to customers.

In 2009 we sponsored Doing Seniority Differently, a groundbreaking piece of research by RADAR into the career experiences of senior managers with a disability or long-term health condition. We will sponsor a new national network of senior disabled professionals in 2010 and will continue to support our ACCESS disabled colleagues network internally.

SEXUAL ORIENTATION

We have a great track record on promoting lesbian, gay and bisexual (LGB) equality. We have a comprehensive sexual orientation strategy which includes senior commitment, data monitoring, a colleague network and Groupwide communications. In addition, we undertake innovative activities such as:

- Groupwide research about sexual orientation in the workplace, resulting in responses from 14,000 colleagues
- recognising that lesbians and bisexual people have differing needs, views and experiences from gay men, and incorporating this into our planning and activities

In recognition of robust and leading edge approach, Lloyds TSB was awarded first place in Stonewall's Top 100 Employers Index 2009.

2009

GENDER

% of total colleagues that are female	61.4%
Female managers	43.7%
Female senior managers	25.0%

ETHNIC BACKGROUND

% of colleagues from an ethnic minority	6.4%
Ethnic minority managers	5.1%
Ethnic minority senior managers	2.4%

DISABILITY

% of colleagues who say they have a disability	1.7%
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SEXUAL ORIENTATION

% of colleagues identifying as lesbian, gay or bisexual	0.6%
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- In 2009, Lloyds TSB was named as one of the top 20 UK employers for working families. This award was in recognition of our innovative practices which help to support our working families and parents. Lloyds TSB was the only bank to be given this accolade.

HEALTH AND WELL-BEING

Our compliance with health and safety legislation is supported with extensive guidance, training and supervision throughout the organisation. We offer colleagues preventative treatment and support-based health and well-being services, including intranet guides on a range of issues, health screening, free eye tests and a full counselling service.

COLLEAGUE WELL-BEING

Our colleague well-being strategy aims to prevent work-related illness, promote a psychologically sound working environment through good people management and practices, and provide colleague support and health advice at times of need.

In 2009 we strengthened our Groupwide approach to colleague well-being. We provide information and support on our colleague well-being intranet site, which includes information on stress management awareness and prevention, advice and support on workplace health matters and a health risk assessment tool.

This year, we are working to further enhance and embed our Groupwide approach to colleague well-being. Our newly defined wellbeing strategy will focus on:

- Developing enhanced wellbeing metrics
- Analysing and acting on the links between wellbeing and engagement through a new set of wellbeing questions and data included in the Colleague Engagement survey
- Developing a new harmonised Lloyds Banking Group stress management policy.

We provide colleagues with a comprehensive Employee Assistance Programme. Provided by independent healthcare suppliers, the programme is a free and confidential counselling service. This includes debt counselling and information on personal money matters; legal information on areas such as consumer rights, neighbour disputes, divorce law and litigation; health and well-being information; guidance on issues related to younger members of the family, for example, childhood illnesses and finding a childminder; and support on matters relevant to the elderly and their carers.

HEALTH AND SAFETY

We have a fully documented health and safety management system based on HSG65. We are committed to achieving the highest standards of health and safety for our colleagues, customers and anyone who visits our premises.

All colleagues receive training in key aspects of Health and Safety within the workplace. In addition, around 6,000 colleagues are Health and Safety Managers and Coordinators, supporting the implementation of H&S policy and process within their business areas. They are trained to identify hazards, carry out risk assessments, and investigate and report accidents.

During 2009 we integrated health and safety standards, processes and systems across the Group. We took the opportunity to revise and improve health and safety training programmes, and improved our processes for accident management information. Throughout the course of 2009, there were 20% fewer accidents in Lloyds Banking Group compared with the national average of similar sized organisations. We also had around 80% fewer reportable accidents than comparable UK organisations.

GROUP ACCIDENT RATES 2009

	Total
Total accidents involving injury (colleagues only)	4,184
Slips, trips and falls (including members of public)	613
Total RIDDOR (reportable accidents) across the Group	292

**KIRAN BALI MBE JP,
SENIOR DEVELOPER, IT**

Kiran uses her language skills by translating conversations and information for colleagues and customers into Punjabi, Urdu and Hindi.

"My day job is working in IT. But on top of that I also help out on the Switchboard system, speaking to customers who have language issues. When a customer rings the helpline and has difficulties because English is not their first language, or when a customer goes into a branch and a colleague cannot fully understand their requirements, then at this point I receive a phone call asking for my assistance to translate. I've also translated letters and documents in my own time.

I've been helping out on the Switchboard for around 10 years now, and talking directly with the customer in their own language can be really valuable. It gives our customers confidence that we understand their needs and are doing our best to fulfil them. I feel that it's an important provision that allows customers to reap the benefits of our products and services even when they don't speak English as their first language.

It would be ideal to have a colleague in each branch who was able to speak the main language of the ethnic minority groups in the local community. But where this isn't feasible, the work I do to help out on the Switchboard sends a message to our customers that we do value them. Using my language skills is how I go the extra mile and make my unique contribution."

**LIZ GREEN & VICTORIA MORRISON, PAS TO HR
DIRECTOR, HR OPERATIONS**

"We started job sharing 12 years ago when we were finding it a challenge to balance the demands of our busy full-time roles and being able to spend quality time with our young families.

"Working part-time gives us the flexibility to allow our children to participate in out-of-school activities which otherwise they wouldn't be able to. And it gives us time to be with them as they grow up, which is very important to us as mums," says Victoria.

We've both worked in variety of roles and so we've brought a lot of knowledge and experience to our partnership and are great believers that 'two heads are better than one'. Our working relationship is built on hard work, communication and trust. We have different characters, but our range of skills and experience complements one another very well. "Our skills are the same but our strengths differ", explains Liz. "I'm good at numbers so deal with budgets and Victoria is good at minute taking so we tend to have team meetings on her working days. Our key word for a successful partnership is communication. We have a handover day each week and we talk to each other constantly outside of work so that we deliver a seamless service. If you ask any of our customers, they'll tell you that it doesn't matter who they speak to at whatever point of the week as we're both up-to-date on any issues."

Working in a job-share partnership is a win-win situation for all. The benefits are clear: we're happy with our work-life balance and the Group gets two highly motivated and dedicated members of staff with a wealth of experience and knowledge between them, and who cover each other's holidays and sick leave."

INVESTING IN COMMUNITIES

OUR STRATEGY IS TO HARNESS THE POSITIVE SOCIAL IMPACT OF OUR BUSINESS TO STRENGTHEN OUR COMMUNITIES

Our main contribution to society is as a major employer and purchaser of goods and services. We are one of the UK's biggest private sector employers and have a presence in almost every community.

Our economic contribution to society is supported by our active investment in these communities and our community giving programme.

"WE INVESTED £113 MILLION IN COMMUNITIES ACROSS THE UK IN 2009, INCLUDING SUPPORT FOR FINANCIAL INCLUSION, SPONSORSHIP OF SPORTS FOR YOUNG PEOPLE AND GRANTS THROUGH THE LLOYDS TSB FOUNDATIONS. WE ARE COMMITTED TO ENSURING THAT WE MAKE A POSITIVE CONTRIBUTION TO THE COMMUNITIES WE OPERATE IN."

Lord Leitch, Deputy Chairman.

OUR COMMUNITY INVESTMENT STRATEGY

Our main contribution to society is our direct economic impact, as a major employer and purchaser of goods and services. We are one of the biggest private sector employers in the UK, employing around 125,000 people. We paid £4.4 billion in salaries last year, which colleagues go on to spend in the economy. We collected £2 billion in various employment taxes on behalf of the Government – enough to fund over 600,000 teachers.

As a large company, we also make a significant contribution to the economy through our purchase of goods and services. Last year, we spent over £5 billion on goods and services all over the UK. We became signatories to the Prompt Payment Code in 2009. This enshrines our commitment to pay suppliers on time and not change the payment terms agreed at the outset of the contract.

PAYMENT OF SUPPLIERS

	2009
Number of payments	763,917
Value (£bn)	5.22
Average time to pay (days)	28.33
Number/amount of compensation payments for late settlement	No payments

OUR APPROACH TO COMMUNITY INVESTMENT

Our economic contribution to society is supported by our active investment in these communities and our community giving programme. We invested £113 million in communities across the UK in 2009, including support for financial inclusion, sponsorship of sports for young people and grants through the Lloyds TSB Foundations.

We believe we can achieve the biggest impact by focusing on issues that are consistent with our business and inspire our colleagues. We integrate our efforts into our everyday business activities, mobilising people, resources and expertise across the Group to deliver a positive contribution in all the communities we operate in. Investing cash and time in thousands of local communities not only helps build trust; it helps our understanding of the diversity of customers in communities across the UK. This in turn allows us to better adapt the way we do business to meet their needs.

Our active investment in communities focuses on the key themes of:

- community sponsorship and funding local charities working with disadvantaged community groups
- supporting colleagues with their local community engagement and fundraising
- improving levels of financial inclusion and literacy in the UK, particularly amongst vulnerable groups.

FUNDING LOCAL CHARITIES

Much of the Group's charitable giving is channelled through the Lloyds TSB Foundations, which cover England and Wales, Scotland, Northern Ireland and the Channel Islands. In 2009, the Lloyds TSB Foundations received £29 million from the Group to support their work in some of the most vulnerable communities in the UK.

THE LLOYDS TSB FOUNDATIONS

We had to make some difficult decisions last year in relation to our community investment programme, given the economic backdrop and the financial hardship that our shareholders are experiencing. The four charitable Foundations, for example, have traditionally received one per cent of the Group's pre-tax profits to distribute to charities. We have provided the Foundations with £420 million over the last 23 years, to support their work in some of the most vulnerable communities in the UK.

Given our loss making position in 2009, we recognised that the Foundations would receive significantly reduced income that may have forced them to cease giving grants for several years. We did not want this to happen.

We worked hard to find a solution that represented a fair balance – for the four Foundations as well as for our shareholders. We offered the Foundations significantly advanced funding in the early years, balanced with a reduction in later years, to give equal value over nine years of the covenant we have with them. Uniquely, under this arrangement, the Foundations would be protected from the recession. They could continue their very valuable work at a time when many charities are experiencing severe funding challenges.

We are delighted to have reached a new accommodation with the Foundations for England & Wales, Northern Ireland and the Channel Islands. These three Foundations receive 80% of the total funds we donate to the Foundations.

Unfortunately, the Lloyds TSB Foundation for Scotland declined to take part in the joint negotiations with its sister Foundations and has not accepted our proposals. Instead of the significantly accelerated payments offered by the Group, the Scottish Foundation has chosen to receive a de minimis payment of less than £40,000 in 2010.

We are proud of our track record as one of the largest corporate funders in the UK, including Scotland. We are very disappointed that the Lloyds TSB Foundation for Scotland has declined the Group's proposal. We believe that our offer was in the best interests of the Foundation and Scottish charities.

We are committed to supporting Scotland's charities for the long term. We are therefore establishing a Bank of Scotland Foundation to take forward our long term community investment in Scotland in the event that we cannot reach agreement with the Lloyds TSB Foundation for Scotland. The Bank of Scotland Foundation would eventually become the Group's sole community investment vehicle in Scotland. Scotland's charities will continue to benefit from our long term community investment.

LLOYDS BANKING GROUP'S CHARITY OF THE YEAR

Our Charity of the Year relationship with the British Heart Foundation (BHF) went from strength to strength in 2009. Over £2.5m has been raised through a variety of colleague, customer and shareholder fundraising initiatives. The funds are already being used to fund 15 specialist BHF Heart Nurses in communities across the UK, supporting over 8,400 heart patients.

Recognising the success of the relationship, we have extended our partnership with the BHF for a further 6 months to conclude at the end of 2010. During this time we are continuing to engage our colleagues in fundraising activities and raise additional funds for the BHF.

This year, for the first time, funds raised by colleagues for our Charity of the Year will be matched by our charitable Foundations through their Matched Giving Scheme, enabling colleagues to leverage and enhance their contributions to local communities.

COLLEAGUES AND CUSTOMERS IN LOCAL COMMUNITIES

In 2009, Lloyds Banking Group colleagues independently raised over £2.1million for many charities and community groups across the UK, in addition to the £1.2 million raised for the Charity of the Year.

To further support the fundraising activities of colleagues, Matched Giving of over £1.5m was provided to these charities and community groups through the Foundations' matched giving schemes.

COLLECTING FUNDS FOR HAITI

With approximately 3,000 branches across the UK, we are able to provide our customers and the wider public with extensive access to be able to support major charity appeals quickly. We make our extensive payments network available to support appeals free of charge.

Halifax, Bank of Scotland and Lloyds TSB branches collected funds for the Haiti Earthquake Appeal for two months after the disaster struck in mid-January. Funds donated through our network of branches to the Disasters Emergency Committee appeal, run in conjunction with the British Bankers' Association, totaled £2.5m.

BANKING FOR COMMUNITY ORGANISATIONS

We have an important role to play in providing banking facilities for local community organisations, clubs and societies. These are the lifeblood of many local communities and we are committed to supporting them. We provide free banking to support smaller clubs and charities with income under £50,000. Clubs and charities with an income of over £50,000 a year benefit from 18 months free day-to-day banking. We encourage giving time and resources to these groups, and use the local knowledge of our colleagues to identify where our efforts can make the biggest difference in a particular community.

COLLEAGUE VOLUNTEERING

Our colleagues are our strongest link with the local communities in which we operate. Volunteering allows colleagues to give something back to those communities. Our commitment to expanding opportunities to volunteer demonstrates the importance we place on deepening our local relationships.

As one of the UK's biggest employers, our colleague volunteering initiatives can make a real difference locally. In 2009, Lloyds Banking Group colleagues volunteered over 71,000 hours to charities and community groups across the UK. Donations of over £325,000 were made to these charities and community groups through our matched giving and volunteering programmes. The value of this volunteering equates to almost £900,000 of support in financial terms for these charities and community groups.

DAY TO MAKE A DIFFERENCE

We want our contribution to be even more significant in the future. Our new Day to Make a Difference volunteering initiative, launched in February 2010, gives colleagues across the UK the opportunity to volunteer and make a difference where they live by spending one day of the year volunteering for a charity or community project of their choice.

This initiative represents a key element of our plan to expand volunteering in our communities.

Colleagues can volunteer with our Charity of the Year, currently the British Heart Foundation, or other UK registered charities in which they have an interest. Colleagues can spend their Day to Make a Difference on projects as diverse as providing vital business, IT and organisational support to charities, giving job hunting advice to school leavers, planting sensory gardens in hospices, delivering sports coaching for disadvantaged children and running cookery clubs for the elderly.

COMMUNITY SPONSORSHIP

LONDON 2012 COMMUNITY PROJECTS

As the Official Banking and Insurance Partner of the London 2012 Olympic and Paralympic Games, our vision is to inspire and support young people, communities and businesses all over Britain on their journey to London 2012 and beyond. London 2012 will touch every person in Britain and our employees and branches have a vital role to play in this.

We support the next generation of sporting talent through our Lloyds TSB and Bank of Scotland Local Heroes Programmes, providing funding to more than 250 emerging young athletes each year across Britain, at a time when they need it most.

We are also using the power of the London 2012 Games to inspire young people to understand the benefits of sport and take part in more sporting activity through the Lloyds TSB National School Sport Week – the UK's biggest community sport programme, delivered in partnership with the charity Youth Sport Trust.

In 2009, more than 10,500 primary and secondary schools and three million young people took part in the Lloyds TSB National School Sport Week, equating to over 40% of the schools in England and Wales. 71% of pupils tried a new sport and 91% of teachers said the week inspired young people to do more sport. In 2010 the programme is being launched in Scotland in partnership with sportscotland, under our Bank of Scotland brand.

Working with teachers, schools and young ambassadors across Britain, the programme uses the inspirational power of the Olympic and Paralympic Games, to encourage young people to try a new Olympic or Paralympic sport, take part in inter and intra school competitions and live the Olympic and Paralympic values. Sporting and PE achievements are celebrated and profiled as part of the programme to help maximise its impact and value for children, teachers and parents.

COMMUNITY PROJECTS IN SCOTLAND

In 2009 Bank of Scotland partnered with the Scottish Football Association, the Scottish Government's 'cashback for communities' scheme and the Scottish Sun newspaper to launch 'Coaches for Communities'; an initiative which aims to get more people involved in youth football in Scotland by providing free football coaching. 'Coaches for Communities' provided training to 1,250 people, including 30 of our employees, leading to a Level One Early Touches qualification. Once qualified, the Scottish FA will link participants up with a local community group or team in their area.

The initiative builds on Bank of Scotland's on-going support for grassroots football in Scotland. Through a partnership with the Scottish FA and the Scottish Schools' Football Association, the bank supports programmes which operate in all 32 local authorities across Scotland to deliver football training and leagues involving over 300 schools and 10,000 young people.

DELIVERING A £4 MILLION FINANCIAL CAPABILITY PROJECT

As one of the UK's leading financial services companies, we consider it to be part of our responsibility to tackle financial exclusion and to support improvements in financial capability across the country. To help ensure our work in this area provides support to some of the most hard to reach groups, we have committed £4 million to an innovative financial capability programme in the further education sector.

Further education providers across the UK serve over 3 million full-time and part-time learners who range in age from school leavers to retirees; come from a wide range of socio-economic backgrounds; and have differing and sometimes complex learning needs.

Further education providers are vital hubs of their local communities. They offer learners and employers an array of vocational training and academic qualifications. They also offer opportunities for recreational and life-skills learning. Providers fall into three broad categories: colleges, adult & community learning and work-based learning.

In England ethnic minority students make up 18% of college population compared to 12% in the general population. 13% of 16-18 year olds are from deprived backgrounds compared to 8% in schools and 68% of those receiving an Educational Maintenance Grant study at college. 81% of English for speakers of other languages (ESOL) students study at college. Overall 737,000 16-18 year olds chose to study in college compared to 487,000 in schools.

Financial and personal money management skills are an essential ingredient in preparing these learners for either moving to higher education (39% of entrants come from colleges) or entering the world of work confident and financially capable.

Working together with the Consumer Financial Education Body (CFEB) and HM Treasury and the Learning and Skills Improvement Service (LSIS), the funding we provide will be put towards helping further education tutors and lecturers in England, Wales, Scotland and Northern Ireland to improve the financial management skills of the young people and adults who attend their courses.

UNLOCK: WORKING WITH EX-OFFENDERS

Halifax is working in partnership with the National Offender Management Service (NOMS) and the charity UNLOCK to provide ex-offenders with access to banking facilities. Through the partnership, operating in three prisons, low category prisoners due for imminent release are provided with financial literacy training and help in opening a basic bank account. Their bank accounts are active and ready to be used before they are released from prison. Previous work by NOMS and UNLOCK has shown that having access to banking facilities helps ex-offenders resettle back into the community and avoid reverting to crime.

ADVOCACY IN WIRRAL

The Lloyds TSB Foundation for England and Wales provided a grant of £20,000 over two years to Advocacy in Wirral to help their work in supporting people with mental health issues to manage their finances and provide assistance in dealing with debts. The work by the charity builds on an initial pilot that responded to research by the Mental Health Foundation into the links between debt and mental health.

The research indicates that an inability to manage personal finances can directly lead to individuals experiencing mental health problems; and that personal debt can significantly exacerbate existing mental health problems.

The project will support 500 individuals each year to address issues of personal debt, develop the skills and confidence required to manage their personal finances effectively and support the training of two peer mentors.

PROVIDING COMMERCIAL EXPERTISE TO CHARITIES

Cerebral Palsy Care (CPC) has been a Lloyds TSB customer for many years. CPC is a charity that provides both special need services and educational support to people of all ages who suffer from a wide range of disabilities. The charity's relationship manager at Lloyds TSB, Martin Tyler, was so impressed by their work that he took a step back from working with them in a banking capacity, to become a trustee. Martin has taken a hands-on role helping to shape its business plans, offer commercial guidance and take difficult decisions with fellow Trustees. He is using his commercial experience to help with grant applications and prioritise spending to help ensure the charity maintains a healthy cash flow.

PROJECT ART WORKS IN HASTINGS

The Lloyds TSB Foundation provided £19,600 of funding over 2 years for the salary of the part-time Programme Manager for Project Art Works in Hastings. Project Art Works supports disadvantaged individuals aged between 4 and 70 who have profound neurological and physical disabilities. They develop groundbreaking visual arts projects helping their users communicate and express their opinions and ideas to help them have better opportunities and chances in life.

SOUTH BRADFORD COMMUNITY NETWORK

The Lloyds TSB Foundation for England and Wales is funding the South Bradford Community Network with a grant of £29,600 to deliver courses in financial literacy alongside basic skills in numeracy and literacy. Bradford ranks 32nd out of 354 local authority areas on the Index of Multiple Deprivation. The courses are aimed at families, unemployed people and those on low incomes who do not have the educational levels to enable them to understand and manage finances appropriately. The grant will fund a financial self-help pack on budgeting, how to open and manage a bank account, child trust funds, credit unions, and financial planning. The financial literacy and basic skills package is designed to address the financial mismanagement, alongside the more fundamental issue of low levels of numeracy and literacy. The charity will monitor a sample of clients to evaluate if the cycle of debt can be broken through the training. Data from the advice service will inform future courses.

THE NOW PROJECT

The Lloyds TSB Foundation for Northern Ireland has provided a grant of £23,745 to the NOW Project, a charity which provides personalised training and employment services for people with learning disabilities living in North and West Belfast. The NOW Project delivers an award winning vocational skills training course; an innovative service for school leavers to transition into employment; and an employment service which works with people with learning difficulties and local employers to get the perfect job match.

The Lloyds TSB Foundation for Northern Ireland's grant will enable the NOW Project to develop and deliver a Money Management training resource called Money Plus.

The Money Plus resource has three aims:

- To build the financial capabilities of people with learning disabilities, therefore enabling access to financial services.
- To promote economic activity through training activities, by providing core skills to enable people with a learning disability to 'get the job they want and to keep it'.
- To build the capabilities of financial institutions to provide a tailored service to those with learning disabilities.

THE LINK COMMUNITY ASSOCIATION

The Lloyds TSB Foundation for Northern Ireland funded the Link Community Association with a grant of £5,000 in 2009. The Link Community Association provides a professional welfare and benefit advice service; including training and education courses for computer literacy and information technology qualifications, essential skills training, stress management and child protection. The Association provides facilities and assistance to six local organisations including a Women's Group, pensioners group and residents group.

The Foundation's funding has helped support the Association's advisors to allow them extra hours to deal with the additional debt and money management queries that they are receiving. The funding also allowed volunteer advisors to attend further NVQ training and have their childcare costs covered while they were training. This helps ensure the ongoing sustainability of the Association and increase its advice capacity within the service.

CLIMATE AND ENVIRONMENT

WE BELIEVE BANKS HAVE A KEY ROLE TO PLAY IN ADDRESSING CLIMATE CHANGE

One of our biggest challenges is responding to climate change and managing our use of resources.

Climate change represents a huge global challenge, and one that will impact widely on our business. There will be many opportunities as we all move to a low carbon economy. But the changing climate also poses significant risks.

From managing our use of resources to incorporating environmental considerations in our lending activities, we believe we have a key role to play in grasping the opportunities and managing the risks of climate change.

OUR CLIMATE CHANGE STRATEGY

Our climate change strategy is centred on:

- **Driving down our use of resources.** Efficient use of resources, including energy, paper and water, is our starting point. It helps keep our costs under control, as well as being good for the environment.
- **Engaging our colleagues in our environmental agenda.** Colleagues play a key role in delivering our environmental agenda and are central to driving down our carbon emissions and use of resources across the Group.
- **Engaging customers on climate change.** As pressure grows on businesses to take action to address climate change, our business customers are increasingly seeking knowledge and guidance on climate change issues. We provide guidance on managing risks and maximising opportunities.
- **Grasping commercial opportunities and managing the risks.** There will be many commercial opportunities as we all move to a low carbon economy, such as renewable energy finance. We are seizing the opportunity to become one of the UK's leading financiers of renewables. Our commercial lending activities can also have impacts on the environment. We are committed to managing our environmental impact through our commercial lending.

"EVERYONE WILL FEEL THE IMPACT OF THE MOVE TO A LOW CARBON, RESOURCE EFFICIENT ECONOMY AND WE ARE COMMITTED TO HELPING OUR CUSTOMERS MANAGE THE RISKS AND SEIZE THE OPPORTUNITIES."

Truett Tate represents the group externally on climate change issues.

DRIVING DOWN OUR USE OF RESOURCES

Our direct impacts on the environment arise from our business operations. We are committed to managing and reducing these impacts and have a strong track record. Lloyds TSB was one of the first banks to introduce an Environmental Policy in 1996 and achieved a 31% reduction in carbon emissions between 2002 and 2008.

The starting point of our climate change agenda is reducing our use of resources. We believe we can have the most positive impact by reducing the amount of resources we use in the first place – rather than by offsetting our use. We do not purchase carbon offsets, for example, as we believe we can have a greater and more measurable impact by reducing the amount of carbon we generate through our business operations.

With over 3,000 branches, offices and call centres across the UK, our use of energy is our most significant environmental impact. We are therefore focused on tackling the energy consumption of our large UK estate. We have launched a range of initiatives designed to reduce the amount of energy we use and improve energy efficiency. More recently, we have taken a step further by beginning to help customers and suppliers manage their own environmental impact.

ENVIRONMENTAL MANAGEMENT AND TARGETS

Lloyds TSB was one of the first banks to introduce an Environmental Policy in 1996. Last year, we reviewed our Environmental Policy to ensure it is fit for purpose across the new combined Group. We launched a new enhanced Environmental Policy and successfully baselined our environmental impacts across the Group. Our priority now is to fully integrate our heritage environmental management systems and create a Group Environmental Action Plan to develop a harmonised approach.

We are currently developing a detailed five year plan and targets, covering the period 2011 -2015, for energy, water and waste reduction. However, to help focus our efforts this year, we have set stretching interim targets for 2010, against a 2009 baseline. In our next CR Report we will report on our performance against these targets and disclose our 5 year plan.

ENERGY USE

Our target is to reduce energy (electricity and gas) use by 3% by 2011, across the Lloyds Banking Group operational estate, excluding data centres.

WATER USE

Our target is to reduce water use by 3% by 2011.

WASTE AND RECYCLING

Our target is to reduce total waste by 5%; and increase recycling to 55% of all waste, by 2011.

REDUCING OUR CARBON EMISSIONS

Around 95% of our business operations are based in the UK. Our carbon footprint is therefore primarily in the UK. We are investing almost £5 million this year in specific energy saving and energy efficiency measures across the Group. In addition to this, energy efficiency and energy reduction considerations are now incorporated in all of our operational property related decisions and activities. These measures will not only drive down our carbon emissions, they will also help reduce our energy costs.

CARBON REDUCTION COMMITMENT ENERGY EFFICIENCY SCHEME

This year we are subject to new climate change regulation which will help us drive down our direct impacts further. The UK Government is committed to reducing the country's carbon emissions by 80% from 1990 levels by 2050. A central part of its strategy is the introduction of a mandatory climate change and energy efficiency scheme, the Carbon Reduction Commitment Energy Efficiency Scheme. The Scheme came into effect in April 2010. We will participate fully in the scheme.

We are developing a carbon management policy and strategy to deliver a single approach for the new combined Group. We have launched a '2010 Carbon Capital Projects' programme to identify where we can save energy and how we can deliver savings. We are committed to investigating and piloting emerging technologies.

We are committed to reducing our direct scope 1 and 2 carbon emissions. We are currently developing a Carbon Management Policy and associated carbon reduction targets for the period 2011 – 2015, which are due to be approved by the Group Executive Committee later this year.

Our target is to achieve the Carbon Trust Standard for the entire Group by mid 2011. The standard recognises organisations that are measuring, managing and genuinely reducing their carbon emissions; and are committed to reducing them year on year. We have already achieved significant carbon reductions in our property estate and are committed to allocating capital, and engaging our colleagues, to deliver year on year reductions.

SOME OF OUR ENERGY SAVING PROJECTS

We are rolling out new energy meters in as many sites as possible across our estate. The new "smart" meters will ensure that we further improve the accuracy of our energy data and help us understand where energy is being wasted. Identifying where energy is being wasted is the first step in putting in place measures to improve our efficiency.

This year we are developing and implementing a Groupwide standard lighting policy in our branch network. We already have a lighting policy in place in approximately half of our branches where lighting is controlled by "smart boxes". The smart boxes turn lights off outside branch opening hours.

We maximise the use of low energy light bulbs right across our estate and have launched a range of other initiatives to reduce the amount of energy we use, including motion sensors that switch off lights in unoccupied areas.

INSULATING OUR BRANCHES

We recently surveyed a sample of 100 of our branches to establish if they have adequate loft and water pipe insulation. The Energy Saving Trust estimates that if everyone in the UK installed adequate loft insulation we would save nearly 3 million tonnes CO₂ a year, the equivalent of taking nearly 1 million cars off the road. We found that 75% of the branches in our sample had insufficient or no insulation. Based on our findings, a project is now underway to increase insulation in up to 1,000 of our branches this year, to help save energy and reduce our carbon emissions. Initial estimates (based on Energy Saving Trust data) indicate that we could achieve energy savings of up to 10%, and an overall reduction in our carbon emissions of 1,600 tonnes. Insulating our water pipes will also help reduce the incidence of burst pipes, saving us money on property maintenance. Last winter, 211 water pipes burst in our properties. Each burst water pipe cost between £2,000 and £5,000 to fix, including all the associated remedial work.

WASTE AND RECYCLING

In 2009, 54% of our waste was recycled across the Group. Recycling facilities are already in place in the majority of our office buildings and, wherever possible, we work to ensure that office furniture is recycled, reused or broken down into constituent parts for repairs; rather than being sent to landfill. We also donate unwanted items to local charities. However, we know there is more that we can do here.

In 2009 we introduced a new "single bin" recycling system for all recyclable material – plastic, cans, paper and cardboard – at some of our larger sites. The new system has significantly improved levels of recycling at these sites, and as a result during 2010 we will be implementing the system in a further 22 key office sites.

During 2010 we are carrying out surveys at our onsite canteens to establish if there are further opportunities to reduce the amount of food waste that is sent to landfill. We have also implemented a Groupwide process for mobile phone recycling; and are exploring ways to reduce the carbon footprint of waste collections, by reducing the number of visits waste vehicles make to our sites.

Waste (tonnes)	2009
Waste to landfill	17,979
Waste recycled	20,733
TOTAL	38,712
% recycled	54%
Tonnes of waste/person (FTEs)	0.38

PAPER USE

Lloyds Banking Group directly consumed approximately 27,614 tonnes of paper in 2009, including paper used internally by colleagues and paper used for customers' statements and for marketing purposes.

We have put in place several initiatives to reduce paper consumption by the Group. In 2009, we rolled out multifunction devices – with printing, copying and fax capabilities – across the majority of Lloyds TSB sites, reducing the number of printers, fax machines and photocopiers from around 33,000 to 18,000. Replacing individual machines with multifunction devices has saved the Group around £19 million over the past five years. Multifunction devices also print double sided as standard. This has helped us to achieve a reduction of 11% in paper use between 2008 and 2009 at Lloyds TSB sites. We provide paper recycling facilities at all of our major employment sites and recycle 100% of our confidential paper waste across our entire estate.

We seek to minimise the environmental impact of our use of paper and ensure that wherever possible our paper is sourced from sustainable, accredited sources. Last year, for example, around 96% of paper used in our Halifax and Bank of Scotland businesses was from accredited or recycled sources. We encourage colleagues to reduce their use of paper, and recycle their waste paper appropriately.

We also need to ensure that the paper we use is suitable for its purpose. In the next year we will be reviewing how we source copier paper for the new enlarged Group. The environmental impact will be considered as part of any sourcing decision we make.

Paper consumption (tonnes)	2009
Sustainably sourced	25,238
Recycled	2,376
TOTAL	27,614
% recycled	9%
Tonnes of paper/person (FTEs)	0.27

WATER USE

The Group used 1,292,063 m³ of water in 2009. We have fitted water saving devices in over 85% of our buildings across the Group and are currently exploring a number of other initiatives to reduce water consumption, such as water recycling schemes and new emerging water saving technologies.

Water use (M3)	2009
TOTAL	1,292,063
m ³ per person	12.79

MEASURING OUR CARBON FOOTPRINT

	Total usage	CO2 emissions (tonnes)
SCOPE 1		
Gas (GWh)	255	46,812
Oil (litres)	653,275	1,804
Car travel (million km)	104	20,868
TOTAL SCOPE 1 EMISSIONS		69,484
SCOPE 2		
Electricity (GWh)	635	343,026
TOTAL SCOPE 2 EMISSIONS		343,026
SCOPE 3		
Car travel (other vehicles) (million km)	66	13,238
Rail travel (million km)	74	4,254
Air travel (million km)	120	19,893
TOTAL SCOPE 3 EMISSIONS		37,385
TOTAL		449,895
TONNES CARBON EMISSIONS PER £M INCOME		18.3

Notes

Scope 1 Emissions

Also known as direct emissions, these occur onsite or from sources that we own and control. Scope 1 emissions include combustion of fuels – gas and oil – and our vehicle fleet.

Scope 2 Emissions

Indirect emissions that result from the generation of the electricity we purchase.

Scope 3 Emissions

All indirect emissions other than those covered by scope 2. This relates to business travel in vehicles not owned or controlled by us – i.e. other car travel, and rail and air travel.

Approximately 75% of electricity purchased for our Halifax and Bank of Scotland operations is renewable electricity. This equates to almost 40% of electricity purchased for the entire Group. DEFRA introduced changes in 2008 to the way renewable energy is treated, meaning that renewable energy is no longer zero-rated for carbon emissions. The Group is now subject for the first time to climate change legislation – the CRC Energy Efficiency Scheme – which is focused on energy reduction and does not include incentives for purchasing renewable electricity. We currently pay a premium for renewable electricity. Given the current regulatory environment – which does not incentivise the purchase of renewable energy – and our focus on energy and cost reduction, we may reconsider our approach.

MANAGING THE CARBON IMPACT OF OUR SUPPLY CHAIN

Our procurement policies and procedures include social, ethical and environmental criteria which we expect our suppliers to meet, and colleagues are encouraged to work in collaboration with suppliers to drive continuous improvement. As a financial services company that does not manufacture or sell 'physical' goods, our supply chain is not our most significant impact. However, we build environmental issues into our procurement practices to help drive positive change, reduce our exposure to risk and help control costs related to environmental taxes, such as landfill and energy taxes.

In 2009, we launched a dedicated intranet site across the Group which provides colleagues with information, guidance and tools on incorporating social, environmental and ethical criteria in all of our sourcing activities; in the selection of suppliers and as part of supplier audits. This year, we are inviting around 200 of our top suppliers to become May Day companies by joining the Prince of Wales's May Day Network on Climate Change.

In 2009 we chaired an initiative with Business in the Community and the Cambridge Programme for Sustainability Leadership to create a Guide for Carbon Management in the Supply Chain. The guide has helped inform our approach and, as a freely downloadable resource, we are also encouraging our suppliers and customers to use it to help manage carbon risks in the supply chain.

REDUCING THE CARBON FOOTPRINT OF CASH DELIVERED TO OUR BRANCHES AND ATMS

Lloyds Banking Group has the most extensive branch and ATM network of any bank in the UK. The delivery of cash to our branches and ATMs nationwide is an essential service provided to us by G4S, and, given our extensive branch network, is a service that has a significant carbon impact. Recognising this, we have collaborated with G4S to understand the carbon footprint associated with the services they provide, and to understand how they are helping to manage adverse impacts and deliver solutions which have a positive environmental impact.

During 2009 G4S introduced several initiatives to reduce the environmental impact of their services, including:

- Reporting their carbon footprint, including the proportion related to Lloyds Banking Group services
- Adopting best practice within their fleet, including low resistance tyres and improving the aerodynamics of heavy goods vehicles
- Piloting enhanced vehicle scheduling software to calculate the most efficient routes between sites and telematic traffic management systems to highlight inefficient vehicles
- Piloting innovative new technologies on their vehicles such as photovoltaic panels to reduce idle time of vehicles and fitting lightweight Kevlar armour to vehicles to improve fuel efficiency
- Installing smart meters where appropriate to increase the accuracy of environmental data supplied to Lloyds Banking Group
- Running a national employee awareness campaign to encourage energy efficient behaviour
- Installing energy efficient lighting where appropriate to reduce electricity consumption

As a result of our engagement with G4S we now know the carbon impact of our cash delivery service. We are confident that a significant source of emissions in our supply chain is being managed effectively and that proactive steps are being taken to reduce them, as well as having developed a closer working relationship with a key supplier.

REDUCING THE CARBON FOOTPRINT OF OUR DOCUMENT AND MAIL DELIVERY SERVICE

TNT distributes much of our internal mail, stationery and branch marketing materials. In collaboration with Lloyds TSB and Barclays, TNT managed a project to identify how both companies could share the document and mail delivery service. The shared service has now been implemented and has resulted in a significant reduction in the number of vehicles needed to deliver to Lloyds and Barclays sites. As a result of the service, TNT has reduced its carbon footprint by 2,600 tonnes a year. The total miles travelled by TNT when delivering to, and collecting from, Lloyds TSB sites has been reduced by more than 2 million miles.

Lloyds TSB, Barclays and TNT jointly won the Premises & Facilities Management (PFM) award for Partners in Corporate Social Responsibility in 2009 for this initiative. The award recognises collaboration between organisations and their suppliers in meeting the objectives of their corporate responsibility strategies.

ENGAGING OUR COLLEAGUES AND CUSTOMERS

ENGAGING OUR COLLEAGUES

Our challenge this year is to drive colleague advocacy of our environmental agenda. Over the past year integration communications have taken precedence; however a priority in 2010 is to deliver a comprehensive internal communications programme on our environmental agenda to engage colleagues in our activities and improvement plans.

We already have a strong starting point. Over 700 Lloyds Banking Group employees participate in our Sustainability Network. The Network was established by staff in 2008 and continues to be run by members of staff, with support from the Group's executives. The goal of the network is to provide a forum that can harness members' commitment to improving environmental sustainability within the organisation. The network holds events, runs awareness campaigns and provides resources and tools to encourage colleagues to play their part. It tackles one theme per quarter – in 2009 these were: paper, travel, energy and waste.

BUSINESS TRAVEL

In 2009 we introduced a common travel policy across the organisation which supports a focus on sustainable travel and helped us deliver a 13 per cent reduction in the costs of travel.

We achieved a reduction of 143,000 journeys in 2009 compared with 2008. Across the combined Group, the volume of teleconferences increased by over 40 per cent to over 1.1 million. We will continue to promote virtual conferencing technologies to colleagues as an environmentally friendly, cost efficient alternative to travelling.

ENGAGING CUSTOMERS ON CLIMATE CHANGE

There are many ways we can help our customers as we all move to a low carbon economy; from traditional banking products and service to using our expertise to open up market opportunities, for example in renewable energy finance, where we are among the leading lenders. Across the Group, green issues are helping us to win more business.

Our business strategy is focused on deepening relationships with customers, differentiating ourselves from the competition by the quality of our products and services. We know that climate change is an important issue to our customers. It provides an opportunity to deepen relationships with customers. As pressure grows on businesses to take action to tackle climate change, there is increasing demand for knowledge from our business customers on how to respond to the challenges. We provide guidance to customers on how to manage risks and maximise business opportunities as we move to a low carbon, resource efficient economy.

We are a founding member of the Small Business Consortium. In 2008 we produced a resource to help small businesses take advantage of opportunities in the new 'green economy'. We launched it at the Prince of Wales's 2008 May Day Business Summit on Climate Change, which we also sponsored. In 2010 we are sponsoring the Prince of Wales's May Day Network on Climate Change for the third year running.

With around 3,000 branches in the UK, our branch staff play a key role in engaging customers in the shift to a low carbon economy. Our Wholesale Division has launched a new Sustainability Business Partner programme to establish a network of colleagues in customer-facing roles to engage with customers on risks and opportunities in a low carbon economy. By creating a network of skilled partners, trained in the science, business risks and opportunities of climate change, each area of the business will have local capability to support their customers on these issues. We have trained 80 people so far, and expect to train around 500 by the end of the year.

REDUCING THE CARBON IMPACT OF BUSINESS VEHICLE FLEETS

Lex Autolease, part of the Group's Asset Finance division, is the UK's largest and most experienced fleet management company. Four out of every ten vehicles used by FTSE 100 companies are supplied and managed by Lex Autolease, which currently has over 300,000 vehicles under management.

Lex Autolease is regularly recognised for outstanding service and was recently ranked first out of the UK's top ten leasing companies for delivering an excellent customer experience.

Lex Autolease works closely with customers to develop sustainable fleet strategies and drive down the carbon footprint of their car and commercial vehicle fleets. Lex Autolease has developed web-tools and best practice guidance to encourage drivers into lower emitting vehicles. Its industry leading solutions and consultancy services have helped its customers reduce fleet emissions by an average of 18% over the past three years, with some customers having reduced their fleet emissions by 21% in the past year alone. It is currently working to introduce electric vehicles and other fuel efficient technology into customers' fleets.

GRASPING COMMERCIAL OPPORTUNITIES AND MANAGING THE RISKS

RENEWABLE ENERGY FINANCE

We have a very strong track record in supporting the renewable energy sector. Lloyds Banking Group is a leading renewables bank globally (by debt underwriting capability). Over the past five years we have arranged or underwritten finance for 40 deals, with £2.4 billion committed. This equates to over 6,000MW of renewable generation, which is enough to supply over 3 million homes. In 2009, we won the Project Finance International 'European Portfolio Deal of the Year' Award for support we provided to Centrica in relation to the £340m refinancing of its 220MW Boreas offshore wind portfolio – the first major offshore wind project financing in the UK.

Renewable energy finance is a key area for the Group. Our current renewable portfolio stands at around £1 billion. Given our focus on the UK market, much of this finance is directed towards wind power; however we also have strong experience in the solar power sector, having successfully financed several solar photovoltaic and solar thermal plants across western Europe.

EXTERNAL LEADERSHIP ON CLIMATE CHANGE

Lloyds Banking Group is represented by Group Executive Director Truett Tate on the Prince of Wales's Corporate Leaders Group on Climate Change. This group of leading businesses released the 'Copenhagen Communiqué', widely viewed as the progressive voice of business, for the Copenhagen Climate Change talks in December 2009. The Communiqué set out the business case for an ambitious, robust, effective and equitable UN climate framework. Over 950 companies from across the world signed the communiqué which Truett Tate handed to the Prime Minister on behalf of the Corporate Leaders Group just prior to the Copenhagen conference.

MANAGING ENVIRONMENTAL RISK IN LENDING

We aim to reduce environmental impacts of our lending activities through effective risk management. In 2009 we implemented an enhanced Environmental Risk Policy across the new Group which requires transactions to be assessed for material risks as part of the credit sanctioning process.

This policy is supported by a robust process which ensures that there is a consistent approach to the identification, assessment, mitigation and reporting of material environmental risk. Lending officers are responsible for ensuring that environmental risk has been adequately assessed and that appropriate mitigating action is taken if a material risk is identified. They are supported by our in-house environmental risk team who review proposed transactions and advise on methods to mitigate material environmental and reputational risk exposure. Where appropriate, the team also seeks professional input from external environmental

consultants who work across a range of sectors and global locations.

TRAINING COLLEAGUES ON ENVIRONMENTAL RISK MANAGEMENT

We provide training for our lending managers on environmental risk management. In 2009, 72 delegates attended our three day credit risk training course, which includes a module on environmental risk management. This highly interactive module, incorporating case studies and videos, examines how a customer's activities may impact the environment, and the associated credit risks. During the module, delegates are introduced to a range of resources including the Group's Environmental Risk Handbook, which provides in-depth information on assessing environmental risk in lending transactions.

Feedback from delegates who have attended our environmental risk management training has been very positive:

"The most useful session was environmental risk – I now understand the issues and importance of these",
Jadie Almond, Senior Credit Officer.

"Environmental risk affects my role, [and I learnt] information I wasn't aware of", Charlotte Brooks, Assistant Credit Manager.

"I found the environmental risk session interesting and useful", Cole Parks, Relationship Manager.

EQUATOR PRINCIPLES: MANAGING SOCIAL AND ENVIRONMENTAL ISSUES IN PROJECT FINANCE

Lloyds Banking Group is a signatory to the Equator Principles. The Equator Principles are voluntary guidelines for the financial industry to manage social and environmental issues in project financing. The principles apply to all new Project Finance transactions above US\$10m.

During 2009 we implemented a harmonised groupwide approach to monitoring and reporting Equator Principles transactions, and training colleagues on the Equator Principles. An Equator Principles Review Group, comprising experts from both the Risk and Project Finance teams, is responsible for reviewing all new Equator Principle transactions, to ensure that each transaction is compliant and is consistent with the Group Environmental Risk Policy.

All Equator Principles projects are reviewed as part of an annual review process. In 2009, 20 Projects were reviewed. Of these, 14 were completed with a total value of over £500 million. Nine of the projects took place in Europe, four in the US and one in the Middle East.

EQUATOR PRINCIPLE TRANSACTIONS 2009

	A	B	C	Total
DEALS				
Completed	-	7	7	14
In Progress	-	4	1	5
Not Completed	-	1	0	1
	0	12	8	20

GEOGRAPHY OF COMPLETED TRANSACTIONS

	A	B	C	Total
DEALS				
US	-	2	2	4
Europe	-	4	5	9
Middle East	-	1	0	1
	0	7	7	14

INDUSTRY OF COMPLETED TRANSACTIONS

	No.	£m
Renewables	4	£89
Infrastructure	7	£376
Energy & Utilities	3	£72
	14	£537

Notes:

Category A is higher risk, category B is medium risk and category C is lower risk.

INSURING CUSTOMERS AGAINST THE IMPACTS OF CLIMATE CHANGE

We were a launch signatory to ClimateWise, a global initiative launched by the insurance industry to enhance members' approach to climate change risks in insurance. We are working with Partners in the insurance industry via ClimateWise and the Association of British Insurers (ABI) to enhance our understanding of the risks we face, and develop methodologies for addressing these.

We offer home insurance cover for products such as solar panels, wind turbines and generators as standard within our policies. During 2009, we took part in the FSA's thematic review of climate change related policy wording to ensure that our documentation supports climate awareness. We are now implementing the FSA's recommendations.

Furthermore, by asking customers about the energy efficiency of their homes in the process of selling home insurance, we hope to prompt customers into reviewing the action they can take to improve the energy efficiency.

ABI Research shows that when customers make claims after floods, only 30% of total costs relate to the building structure, whilst 70% of costs relate to matters of personal choice – for example fitted kitchens, skirting boards, internal doors, wall and floor finishes. As recommended by the ABI, when we receive a flood claim, we offer our customers the option of "resilient reinstatement". This means that we will pay for customers to have flood resilient repairs – where the cost is similar to like-for-like repairs – on their homes. This includes having electricity sockets fitted higher up the walls; replacing wooden flooring with concrete and using water resistant plaster. In the event that the customer is subject to further flooding, customers' homes would not be as badly affected.

REDUCING THE CARBON FOOTPRINT OF OUR IT SYSTEMS

We are working hard to reduce the carbon footprint of our data centres and IT infrastructure. As a large financial services company, our IT systems have a significant carbon footprint. Tackling this footprint is key to driving down our carbon emissions. Recognising this, we have launched a CO2 reduction plan, containing clear targets for reducing the energy consumption of our IT systems over the next 5 years.

We have already made good progress since the beginning of 2009. In our Peterborough data centre we undertook a project to identify and remove 1,200 redundant computers, which will result in a reduction of over 6,500 tonnes of CO2 every year. We have also reduced the number of computers needed in our West Yorkshire data centres by consolidating systems and decommissioning old equipment. This will save a further 2,500 tonnes of CO2 a year. Projects planned for 2010 will deliver further carbon savings of at least 6,000 tonnes a year. Reducing our energy consumption will also reduce our costs – so there are clear incentives to deliver savings on both fronts.

HOW WE ASSESS AND IMPROVE OUR PERFORMANCE

We have used the European Foundation for Quality Management's (EFQM's) 'Corporate Responsibility Framework' for several years to help us shape our corporate responsibility activities and check our performance.

As part of the process, we carry out an annual self-assessment of our performance, with the help of senior managers from all business divisions. We identify strengths and areas for improvement, and set objectives and actions for the future. We believe it is important to judge our performance against other companies, and the framework provides a benchmark to help us achieve this.

Independent consultants review our performance each year and give an independent assurance on this report. We measure our performance against our peers by comparing it to several benchmarks: the Business in the Community CR Index, the FTSE4Good Index and the Dow Jones Sustainability Indexes.

EXTERNAL ASSURANCE

Lloyds Banking Group commissioned the Centre for Sustainability & Excellence (CSE) to provide external assurance and commentary on our Corporate Responsibility Report 2009. CSE is a global advisory network of specialists, advising and coaching corporations and governments around the world that seek to improve their sustainability performance with practical solutions.

ASSURANCE STATEMENT

Lloyds Banking Group (LBG) has commissioned the Centre for Sustainability & Excellence (CSE) to provide external assurance and commentary on its Corporate Responsibility Report 2009

CSE is an global advisory network of specialists, advising & coaching corporations and governments around the world that seek to improve their sustainability performance with practical solutions.

We have performed an independent assessment on the Lloyds Banking Group and the underlying structures, procedures and performance results. We took into consideration the fact that LBG is a new organization, thus evaluating data based on its renewed structure and baseline.

We have based our approach on an annual CR Assessment through the use of the EFQM framework for CSR

On a sample basis, we gathered and assessed evidence using the RADAR (Results, Approach, Deployment, Assessment and Review) methodology, which is based on the assessment of CR Report key elements.

This work included an independent assessment through interviews, and the collection and validation of sample quantitative data for 2009, reflected in the Report.

We believe that our work provides an appropriate basis for our general conclusions mentioned below :

- The LBG 2009 CR Report focuses on material issues including Colleagues, Communities, Climate and Environment, Managing CR providing a very good representation of the existing CR initiatives and cases
- LBG has applied a systematic CR management System
- The CR Report presents key performance indicators in all CR Areas using as a baseline the 2009 figures.
- LBG has addressed the majority of key recommendations we made in our 2008 Feedback Report based on the CR Assessment
- LBG CR Report includes future priorities on CR objectives (Colleagues, Communities, Climate and Environment, Managing CR) and there is indication of measurable targets in some areas.

Nikos Avlonas
CSE Managing Director
www.cse-net.org

INDEPENDENT VERIFICATION OF OUR ENVIRONMENTAL DATA

In addition, we commissioned RPS Group plc to undertake an independent verification of our environmental data for the calendar year 2009. This included information relating to energy and carbon, paper, waste and water.

ENVIRONMENTAL DATA VERIFICATION STATEMENT

RPS Group plc was commissioned to undertake an independent verification of Lloyds Banking Group's environmental data for the calendar year 2009, as presented in the 2009 Corporate Responsibility Report. This included information relating to energy and carbon, paper, waste and water.

Following an interrogation of the data through data sampling and review of supporting databases, RPS is confident that the data presented accurately reflects the Group's current performance.

Most notably in 2009 the Group has successfully aligned the data collation processes for heritage HBOS and LTSB operations which has enabled a baseline for the Group as a whole to be established.

With regards to carbon emissions, the Group has adopted procedures for reporting in line with the GHG Protocol and has used the latest Defra guidelines on measuring greenhouse gas emissions. In preparation for the CRC Energy Efficiency Scheme, Lloyds Banking Group has undertaken a detailed internal review of the data collection process for property energy data to ensure the required accuracy of reporting. With ongoing participation in the scheme it is considered that data accuracy will further improve in coming years and that in the longer term there are likely to be energy efficiency schemes which will reduce the company's property related carbon emissions.

This year is considered to present an ideal baseline against which to set targets for future improvements. In addition to this, RPS recommends that the Group builds on the work already undertaken by further improving the accuracy of its data collation processes.

Charlotte Brewin
Principal Consultant
RPS Group plc June 2010

CONTACT US

We want to hear from you. We appreciate any feedback – good or bad.

You can give feedback online via our report, in the 'get connected' section or write to us at:

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Our Corporate Responsibility Report is also available online at
www.lloydsbankinggroup.com/cr/report2009

