



Lloyds TSB | Corporate Responsibility Report 2007



Who we are and what we do

Lloyds TSB is a major banking and insurance group, predominantly UK-based, but with operations in some 25 countries around the world. At the end of 2007, we were Europe's 15th largest bank by market capitalisation.

We have over 58,000 employees worldwide, serving a franchise comprising some 16 million personal and business customers. Our operation in the UK is probably the largest in terms of distribution reach, serving personal and corporate customers through a network of over 2,000 retail outlets in addition to other mainstream channels such as Internet and telephone banking.



16 million customers



30% CO₂ reduction target



2,000 High street branches

£2.9bn Employee salaries,
taxes & pensions



Wholesale & International
banking 40% of business



C&G

£102bn mortgage lending

£2.2bn Purchases



£41.5m Community investment



£4.0bn profits



570,000
Small business customers



25 Countries in which
Lloyds TSB operates

£97bn Funds under
management

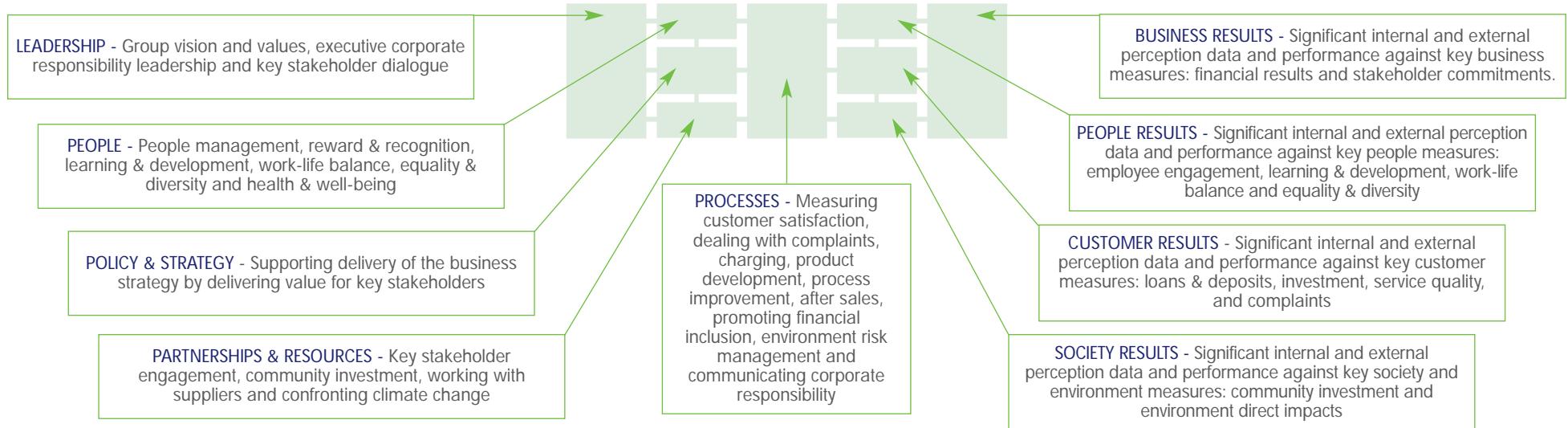
SCOTTISH WIDOWS
preparation is everything



£679m Tax paid

About this report

Corporate Responsibility Report 2007



A 2005 strategic review of our corporate responsibility communication, resulted in a decision to produce two separate publications: a Review for our customers and potential customers and this Report for those requiring more detail and data on our Corporate Responsibility performance.

This Report is an output of our corporate responsibility management approach. It is an approach based on self-assessment against the European Foundation for Quality Management's CSR Framework. The self-assessment identifies areas for improvement and prioritises improvement activity. To track progress against those priorities, we might develop a set of measures or indicators of improvement which are included in our external reporting when appropriate and material to our overall corporate responsibility performance.

We use the EFQM CSR Framework because it is based on a business model - the EFQM Excellence Model - that encompasses broad stakeholder issues. The Excellence approach is widely used - by around 30,000 private and public organisations across Europe – and has business credibility.

For us, it offers a robust process familiar to business managers who now drive our corporate responsibility activity. It also complements the Balanced Scorecard based performance management

system used across the company. That is why we have made substantial progress in integrating corporate responsibility into core business strategy.

This Report is based on a self-assessment against the Framework, involving around 60 senior managers around the business. It is validated by CSE Associates, EFQM licensed consultants.

The EFQM CSR Framework is divided into nine sections referenced to the nine separate criteria of the Excellence Model. The criteria are divided into Enablers and Results. The Enablers – what an organisation does – cover leadership, people, strategy, partnerships and resources and processes. The Results – what an organisation achieves – are separated into people, customer, society and business results. The Enablers produce the Results.

In this Report, we have set out the Enabler evidence under themed headings. Each heading reflects a key corporate responsibility strategic objective and details activity and progress in areas for improvement identified in the self-assessment process. Within each section, we have linked relevant performance and perception data – reflecting the standard EFQM CSR Framework Results criteria – to illustrate progress.

Demonstrating commitment from the top

Lloyds TSB has a long history of commitment to meeting the changing social and environmental expectations of the communities in which our business is based. That commitment engages people at every level but we recognise that to achieve great results we need the excellent leadership that delivers a responsible business environment and drives progress towards key corporate responsibility objectives which reflect the vision for the business.

Our vision

Our vision is to be the best financial services organisation in the UK. We will achieve this by building strong customer franchises based on deep customer relationships that give value to the customer and sustainable earnings growth to our shareholders. That means executing flawlessly for the customer and doing what we say we will do. It also means managing people as our most valuable resource.

Our vision is to be the best financial services company in the UK

To be a great place for our people to work...

To be a great place for our customers to do business...

To generate great returns for our shareholders...

The vision and our strategy are underpinned by a scorecard of performance measures – the balanced scorecard – agreed by the Board for the Chief Executive and other senior executives and translated for every team and individual. The Balanced Scorecard focuses on performance related to key stakeholder relationships, customers, employees and shareholders, but also incorporates objectives for managing relationships with wider stakeholder groups.

Our values

Delivery of scorecard objectives is supported by a set of clearly articulated organisational values which are strongly championed by our Chief Executive, Eric Daniels.

Putting customers first
Acting with integrity and respect
Taking personal responsibility
Working as a team

Individual businesses within the Group take these core values and, with their people, consider what they mean given their specific business priorities. For example, Scottish Widows, our investment and insurance business worked with

around 400 people from across the operation to pin down what the values really meant for them and to develop value language which would resonate with the majority of employees. Hence, Scottish Widows talk about 'wearing our customers' shoes' when they think about putting customers first, and see 'talking straight' – having honest and open conversations and the use of straightforward language – as critical to acting with honesty and integrity.

Our long-standing commitment to a wide range of stakeholders is set out in the Group's code of business conduct (see www.lloydstsb.com/corporate_responsibility). This is both an umbrella for the values of the Lloyds TSB group of businesses, but also a statement of our business ethics. The code was first published in 1997 as part of the creation of a common organisational ethos after the merger of Lloyds Bank and TSB. Minimal changes were made to the code to meet the requirements of the US Sarbanes-Oxley Act for US-listed companies; primarily the reinforcement of some existing commitments.

Leading performance

Our corporate values and code of business conduct provide a solid foundation for responsible behaviours throughout the organisation. At the same time, the Lloyds TSB top team takes a keen interest in progress with the Board regularly reviewing progress towards corporate responsibility objectives and the close personal interest of our Chairman, Sir Victor Blank, who receives quarterly updates on corporate responsibility performance.

Within the Lloyds TSB executive team, Mike Fairey, our Deputy Group Chief Executive, takes lead responsibility for the corporate responsibility agenda and chairs the Group's corporate responsibility steering group which brings together senior players from all key Lloyds TSB business divisions and functions to review strategy, develop and agree scorecard objectives and ensure they are achieved.

Delivery of our corporate responsibility strategy and objectives is informed by extensive stakeholder dialogue. We engage with governmental and non-governmental organisations, community groups and policy and pressure groups. Senior executives and directors are often involved in leading this dialogue through face-to-face meetings or joint working groups fostered by membership of external organisations such as the British Bankers' Association, Association of British Insurers, Confederation of British Industry and Business in the Community.

We are members of CSR Europe, the European Academy of Business in Society, and the Environment Council. We chair the FORGE working group exploring corporate responsibility issues for the financial services sector and participate in the Small Business Consortium of leading small business representative and non-governmental organisations seeking to promote corporate responsibility in the small and medium-sized enterprise sector.

Lloyds TSB is a signatory to the European CSR Alliance and co-leader of a CSR laboratory under the

Alliance process exploring the relationship between financial and non-financial performance and the improved communication of CSR performance to investors and other key stakeholders.

Thousands of our employees are committed professionally and personally to a whole range of external organisations.

Executive Commitment to Corporate Responsibility

- Chairman, Sir Victor Blank, is an advisor to the Oxford Environmental Change Institute.
- Eric Daniels, Group Chief Executive, is a trustee of Career Academies UK.
- Deputy Group Chief Executive, Mike Fairey, is Chairman of Race for Opportunity, a board member of Business in the Community, Chairman of the British Quality Foundation, a governor of the European Foundation of Quality Management, and non-executive board member of the Energy Saving Trust.
- Scottish Widows Chief Executive, Archie Kane, is Chairman of the Association of British Insurers and is involved with their 'ClimateWise' initiative.
- Board member, Truett Tate, is a member of the Prince of Wales's Corporate Leaders Group on Climate Change.
- Chief Executive, Lloyds TSB Scotland, Susan Rice, is a member of the Scottish Climate Change Business Delivery Group, President of the Community Development Finance Association, a member of the government's Financial Inclusion Taskforce, and a director of Charity Bank.
- Head of Corporate Responsibility, Richard Cooper, chairs the FORGE Group, a consortium of financial institutions that co-operated to produce guidance on climate change for the sector.
- Head of Sustainable Development for Wholesale and International Banking, Paul Turner, is a member of the Steering Committee of the United Nations Environment Programme Finance Initiative.

Communicating corporate responsibility leadership

Our responsibilities to our people, customers and other stakeholders are a regular feature of formal employee briefing from senior executive forums down. For example, the Wholesale and International Bank's annual 'Senior Leaders Forum' planned for early 2008 will be entirely devoted to exploring sustainability risks and opportunities.

This integrated approach is demonstrable within the Group's key communication channels. The employee magazine, *Upfront*, is published monthly and contains a range of features and news stories on key corporate responsibility events and issues. It builds on a daily Group intranet news service, *UpFront News*, which featured over 300 CR related news stories in 2007. These 'bulletin' news stories are supplemented by extensive information, regularly updated, on the Group's corporate responsibility intranet site which is also linked to information on other business units' intranet sites. Stories on employees' local community engagement and Charity of the Year fund-raising progress are regular content of the retail bank's internal 'business television' broadcasts.

Distribution of 20,000 copies of the Group's Corporate Responsibility Review to branches and the availability of both the Review and Report on our intranet and website has resulted in far wider distribution of customer-focused corporate responsibility information.

Results

Financial results (statutory)

	2005	2006	2007
Profit before tax (£ million)	3,820	4,248	4,000
Total income (£ million)	10,540	11,104	10,706
Post tax return on average shareholder's equity	25.6%	26.6%	28.2%

Investor indices

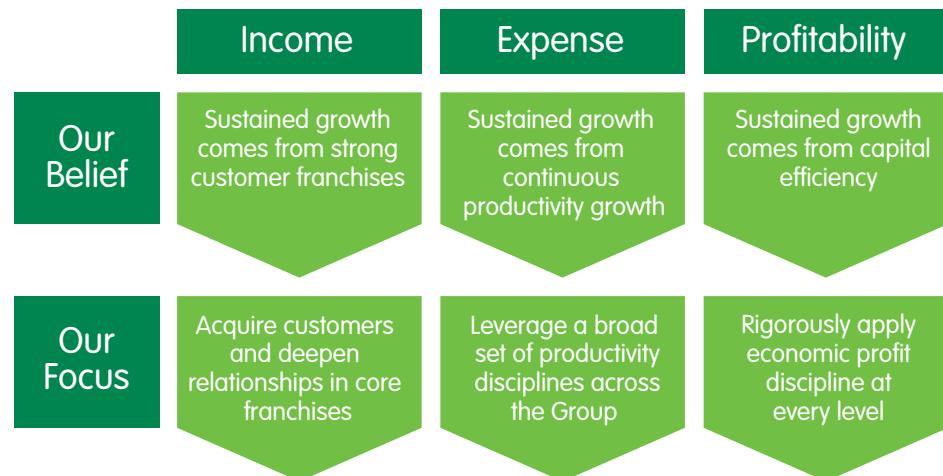
Index	Ranking
FTSE4Good	Component of index
Dow Jones Global Sustainability	Component World and STOXX indices

Business in the Community Corporate Responsibility Index

Score 2006	Score 2007
97%	98%

Supporting the business strategy

Our business model for high quality consistent growth



In an increasingly competitive market where customers are able to exercise choice among providers, shareholder value creation is closely linked to customer value creation. It is only by meeting our customers' needs that we will win the right to a bigger share of their total financial services spend. Consequently, our business strategy is based on building customer franchises: extending the reach and depth of customer relationships; enhancing product capabilities to build competitive advantage; improving processing efficiency and working our capital harder. Expanding from strength, we look to leverage our financial strength and enhanced capabilities to develop new product, customer and geographic markets.

Our corporate responsibility strategy is to support delivery of our business strategy by contributing to:

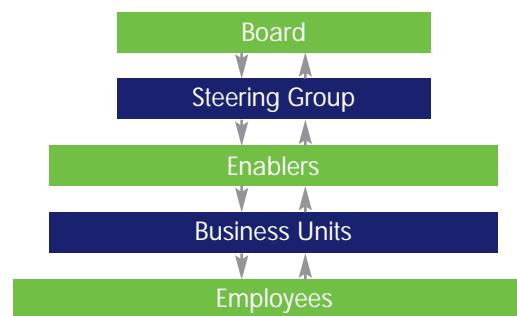
- increased employee engagement;
- increased customer satisfaction;
- improved responsiveness to changes in patterns of customer behaviour;
- support for development of new markets and innovation in existing markets;
- enhanced brand perception, consideration and commitment;
- delivery of competitive advantage through better corporate responsibility management;
- more effective risk management.

In so doing, we believe we create value for all our stakeholders. Corporate responsibility, focused on the creation of employee engagement, customer satisfaction and brand loyalty, has a major part to play in supporting our business strategy. It helps promote trust in the Lloyds TSB brand and reinforces customer loyalty and advocacy. This supports our customer-oriented strategy where we look to develop our business based on deep relationships as opposed to a product-led approach favoured by others.

By investing in the communities where we operate, and where our employees and customers often both live and work, we not only enhance employee engagement and customer satisfaction, creating economic value, but also make a positive social contribution.

Internally, we are intent on leveraging the impact of corporate responsibility on employee and customer advocacy – higher indicators of satisfaction and engagement that have a more direct link with sustained financial performance. Externally, through our co-leadership of the EU Commission-sponsored CSR laboratory exploring the links between non-financial and financial performance, we are seeking to identify the key corporate responsibility drivers of non-financial performance across markets and sectors and how these can be better communicated to investors.

Corporate responsibility management



We have formalised a network of senior managers across the business who report into members of the Group's Corporate Responsibility steering group and assume responsibility for local implementation initiatives. Around 60 individuals have so far been identified – line managers in the main business units and functional specialists in key corporate responsibility areas.

This enablers' network provides a direct link to the business units and individual employees. The priorities of the business units and the views of employees are reflected in their contribution to developing our corporate responsibility objectives and actions through annual self-assessment and regular reviews of activity.

We were involved, as a member of the EFQM working group, in developing the Framework in 2003. Since that time we have conducted four Group-wide self-assessments – focused examinations of our performance against the Framework criteria to identify strengths and areas for improvement.

By involving the enablers in this process we have deliberately brought in business unit managers with a business focus and introduced them to key corporate responsibility issues. This gives the self-assessment a business-led perspective with the enablers contributing detailed knowledge of their respective parts of the business and its performance. It means that the identified areas for improvement and consequent corporate responsibility priorities will more obviously reflect the priorities of the business. It makes alignment of corporate responsibility and business unit priorities much easier and encourages direct integration with the business strategy.

The connection of corporate responsibility strategy and management to the business units allows better communication of priorities and performance to staff through their normal management reporting lines. The sharing of results and progress will highlight achievements and gain wider buy-in to supporting improvement activity with staff right across the business.

Setting priorities

In early 2007, the Corporate Responsibility team undertook a series of review meetings with enablers to review progress against the areas for improvement identified in the 2006 self-assessment. From this review, and the self-assessment undertaken in March 2007, we developed a corporate responsibility scorecard to frame our objectives and activities going forward (see table right).

Several of the key priorities confront the business as a whole and the response has to be Group-wide. In some cases, it requires parts of the business working together which traditionally have little direct contact and this, in itself, presents a challenge. We took the self-assessment approach and adapted to focus in depth on specific key priorities. In 2007, we brought together relevant enablers and other key players, under senior executive sponsorship, to explore the issues, risks and opportunities related to both climate change and financial inclusion. These 'thought leadership forums' resulted in the Group's climate change strategy (see page 14) and developments in our approach to financial inclusion (see page 20).

Better communication	Support brand positioning	Confront climate change
<ul style="list-style-type: none"> Wider distribution of Review and Report Improved internet and intranet corporate responsibility offering Higher internal and external awareness of our corporate responsibility profile Increased participation in external conferences and seminars Opinion former and investor recognition as a corporate responsibility leader 	<ul style="list-style-type: none"> Support brand message through wider corporate responsibility communication Develop corporate responsibility activity in support of London 2012 sponsorship Identify and promote corporate responsibility drivers for brand consideration and advocacy Enhance corporate responsibility contribution to business tenders and pitches 	<ul style="list-style-type: none"> Reduce CO₂ emissions by 30% by 2012 Achieve carbon neutrality by the end of 2007 Engage employees, customers and other stakeholders in reduction campaigns Manage risks and exploit emerging business opportunities
Develop Corporate Responsibility Management System	Increase financial inclusion	Key stakeholder engagement
<ul style="list-style-type: none"> Extend enabler network to all relevant business units Develop corporate responsibility balanced scorecard aligned to business unit priorities Extend self-assessment to action focused thought leadership programme on key issues Improve effectiveness of data collection for external reporting 	<ul style="list-style-type: none"> Identify all current financial inclusion activity across the Group Maximise internal/external awareness of current activity Identify risks and opportunities and stimulate cross business unit responses to identified gaps in activity Evaluate all forms of support for community development finance initiatives Work with business units to identify ways of increasing attractiveness of community development finance sector 	<ul style="list-style-type: none"> Work with business to develop stakeholder engagement programmes based on identified priorities Build key corporate responsibility messages in opinion former communications Develop stakeholder engagement intranet support site and database of best practice case studies Maximise Group benefits from Charity of Year and Foundations relationships

Supporting employee engagement

We know from our own long-term research within Lloyds TSB that employee satisfaction has a significant positive impact on employee retention, retained knowledge and experience and consequent customer service levels. We also know that motivated, enthusiastic employees directly influence customer perceptions and their experience of dealing with Lloyds TSB.

The link between employee perception and their performance is even stronger when measuring employee engagement – commitment to the organisation beyond satisfaction. Our research shows six primary determinants of employee engagement in Lloyds TSB:

- creating a culture where people feel involved and understand how their work contributes to the group's overall success;
- giving staff the flexibility and scope to use their abilities and initiative;
- providing staff with opportunities for training and development;
- inspiring leadership from top management;
- the extent to which staff believe Lloyds TSB is highly regarded;
- the extent to which the Group is seen as being socially and environmentally responsible and ethical in its operations.

We see all of these factors as indicative of a responsible employer. The people policies and programmes described in this section of the report detail our efforts to improve levels of employee engagement beyond finance sector and cross-sectoral high performance norms.

We measure employee engagement through our quarterly online Engagement Index. Launched in 2005, response rates have been consistently above 70 per cent.

Developing talent

One of our highest priorities is the recruitment, retention and development of talented people. We recognise that top performers are attracted to Lloyds TSB because of our reputation, strong brand and values in addition to the way we manage our people. In 2007, we recruited 9,500 people from the external market.

But, as important, is the focus on retaining and developing the people we already have. We actively track and manage retention of our highest performers, retaining approximately 96 per cent of top performers in 2007. This is critical in developing a talent 'pipeline' as part of succession planning for our future leaders.

People management

We recognise that one of the main drivers of employee engagement is the degree to which our people understand where they fit in the organisation and the contribution they make. Every individual's annual objectives and performance measures are linked, through the Balanced Scorecard, to the Group's core business strategy.

All staff have objectives which, in addition to financial performance measures, include building the business in the longer term, customer service, risk management and people development. Management remuneration and incentives are linked directly to specific areas of corporate responsibility, such as service quality.

Career Paths and people development planning linked to balanced scorecards are intended to support the self-management of personal progression. Career Paths supports individual performance and development by creating a structured forum for understanding our people, their achievements and development needs. The process is focused around regular meetings between employee and line manager in which they will work through four steps: a review of performance, behaviours and experience; an individual's objectives; and development plans for the next year. All employees have a personal development plan to support achievement of individual Balanced Scorecard objectives.

Most employee dialogue is through formalised personal relationships between individuals and their line managers. Regular performance reviews and development planning provide opportunities for staff to speak about their concerns and expectations.

We also conduct frequent employee forums and focus groups to test opinions on a range of issues, from company strategy and employee benefits to product development. Our confidential "whistleblowing" telephone line is available to all employees to report concerns that they feel unable or unwilling to raise with their line manager. Many employees in the UK are represented by two recognised trade unions which are consulted regularly. For those working in the EU, we hold a yearly European Employee Forum where key employment issues are discussed.

Reward & recognition

We believe an individual's reward should reflect their whole contribution to our success as an organisation. That takes account of performance against objectives, contribution in terms of knowledge, behaviours, competencies and skills, the level of stretch and challenge presented by objectives, as well as other factors such as flexibility, commitment, contribution to teamwork and being a role model for others.

In order to recruit, retain and engage the best people, we aim to manage pay in line with the relevant market but then differentiated to reflect real differences in individual contribution. Our pay management process, called 'Pay Zones', is designed to be simple, clear and transparent to all so that people feel their pay fairly reflects their efforts.

Once recruited there is a clear framework in which people's pay can be managed appropriately to ensure that their pay is correctly positioned in the market. Nearly 75% of our people now at market rate or above.

We also have a wide range of bonus and incentive programmes where our people share in the success of the company. In addition, we allocate up to 3% of people's salaries in 'free shares, based on the performance of the companies. These shares are tax free if held for a qualifying period. Over 4.8% of Lloyds TSB shares are held by over 61,000 staff and pensioners, or on their behalf by the trustees of the staff share schemes.

We also have a market leading flexible benefits programme. Some 67% of our employees currently participate in flexible benefits choosing from a range of non-cash alternatives – including medical and life assurance, additional pension and holiday entitlement and education vouchers. As part of this scheme we also provide people with an additional 4% of their annual salary as a cash allowance.

Recognition and reward schemes are widely used throughout the organisation to celebrate team and individual achievement. While our emphasis is on everyday line management, we also formally recognise those who have exceeded expectations and pushed boundaries in areas such as colleague support, customer service and building community profile. Stars in Our Eyes, the Retail Bank's reward and recognition scheme scooped three medals at the 2007 annual Questar awards in New York and was honoured with a 'Grand' award in the Best Employee Motivation category. Lloyds TSB is the first ever UK company to win a 'Grand' in this category.

Learning & development

Creating an enabling environment in which our people feel they have the right tools, skills and competencies to do their job effectively, is a key engagement issue. Our learning and development framework enables employees to develop a clear learning plan that reflects their specific learning and career needs.

Overall investment in people development has risen by 10 per cent in 2007. This is reflected in increases of 37% in formal learning delivery to 939,000 hours and 24 per cent in the ratio of formal learning days for each full-time equivalent employee.

The University for Lloyds TSB (UfLTSB) is one of the largest corporate universities in Europe. It works with

learning providers to deliver 'blended learning' programmes; where information delivered online through a network of over 2,000 multimedia personal computers and 20 dedicated 'cyber-cafes' is supplemented with face-to-face training. Programmes are also certificated by external organisations providing employees with performance benchmarks and portable qualifications – for example, over 1,800 people received financial study support during the year.

Online learning creates capacity for much broader access. UfLTSB delivers universally across the business supporting personal and career development for all employees. It facilitates informal learning as well as structured formal learning programmes. Modules include a self-assessment diagnostic against the 16 Lloyds TSB job competences, advice on presenting and marketing yourself in the internal job market, information on roles and business units and a mentoring toolkit and matching facility. For those progressing through managerial roles from supervisor to senior leadership, there are a range of programmes and access to internal and external resource libraries. In 2007, the University for Lloyds TSB website received over three million visits and facilitated almost 300,000 online assessments as part of course accreditation.

Results

Perception Engagement Index

	Dec 2005	Dec 2006	Dec 2007
Engagement Index	73	74.5	75.3
ISR UK Financial Sector Norm	65	68	71
ISR High Performance Norm	71	75	77
Response Rate	67%	70%	73%

The Employee Engagement Index is based on the results of a survey conducted quarterly, which asks Lloyds TSB employees to rate a series of questions which reflect both the drivers and outcomes of engagement. The data captures the percentage of total responses received which were favourable for each question and combines these to form a single overall score and employee engagement index.

Performance Learning and development

	2006	2007
Number of days formal learning per employee (FTE)	1.8	2.3

Attracting and retaining talented people

Work-life balance

We have a comprehensive range of policies which enable employees to keep a healthy work-life balance. Work Options - our award-winning flexible working policy, launched in 1999 - gives all employees the right to apply for a change of work pattern or hours. Employees can choose from a number of work patterns - such as reduced hours, compressed hours, and remote working - or a combination to suit their needs. Applicants do not have to give a reason for the application - the key consideration is likely impact on the business. Management must be able to demonstrate a clear, detrimental impact on the business to decline an application. This unique approach has brought the option of flexibility and improved work-life balance within the reach of the widest possible audience and put the issue of work-life balance firmly on the agenda.

Under Life Event Leave, employees can take up to 35 hours paid leave for a major life event. There are no restrictions on what employees can choose to use their leave for and examples include additional paternity leave, and marriage or same sex partners celebrating their commitment (whether or not a formal ceremony is involved).

Our Holiday Banking Scheme allows employees to bank up to 35 hours holiday each year. In a future year the banked hours may then be used to take an extended holiday of up to 455 working hours. Compassionate and Emergency Leave entitles employees to take reasonable time off to cover unplanned urgent or serious situations affecting dependents and family.

We also have a number of policies specifically to support parents and carers leave which covers maternity, adoption and partners, giving more than the statutory minimum paternity leave. Career Break is an employment break of up to 5 years to care for dependants; there is no guaranteed right of return but every effort is made to re-employ.

We seek to ease the difficulties encountered by prospective job sharers. Lloyds TSB's updated Job Share Register can now be viewed externally through the University for Lloyds TSB website. For example, it can be used by those at home on parental leave or long term sickness absence looking to return to work on a reduced hours basis.

Equality & diversity

Equality and diversity is not just about regulatory compliance. For Lloyds TSB, going beyond compliance is a source of competitive advantage in attracting and retaining talented people. Drawing our employees from all the UK's diverse communities also enables us to better understand, deliver products and service for those communities.

We have been working to increase the number of women and ethnic minority managers and senior managers. This includes cross-cultural awareness courses for line managers to better understand the business case for improved workforce diversity, practical application of equal opportunities regulation and examination of potential barriers to ethnic minority employees' progression in the workplace. A mentoring scheme reinforces the focus on individual development plans. Our Women's and Ethnic Minority networks support these activities at local level.

Our disability strategy is based on a Group-wide assessment of our performance and recognises the wide-ranging needs of people with disabilities. Support includes the disability toolkit of resources for supporting people in their workplace. This includes advice on our Reasonable Adjustment Process and access to personal development planning courses.

Spectrum, the network for lesbian, gay and bisexual people, was launched in 2006. Mentoring has been identified as a critical issue for people confronted by sexual orientation issues and the network helps more specific delivery of the Group's mentoring programme. In total, 241 public and private organisations took part in the 2007 Stonewall benchmarking, which ranks organisations according to criteria ranging from implementation of an effective equality policy to demonstrating how they engage with their LGB staff and customers. Lloyds TSB was one of only three private sector companies to make it into the top 10 and the only financial services organisation.

Health & well-being

We contribute to the health and well-being of employees through our people and health and safety policies. For example, we offer guidance on healthy lifestyles and optimising health in the workplace. In addition, we offer a range of healthcare products and services including gym membership, private medical insurance, and health check-ups as part of the standard employee benefits package or as additional flexible benefits.

We have a code of practice – Assessing and Managing Stress – that outlines the causes and steps to take to reduce and minimise stress at work. A special internal website on healthcare and well-being offers guidance on managing stress. Our Employee Assistance Programme provides confidential counselling and emotional support, health advice and a line managers' occupational health advice line.

Results

Perception

- Chief Executive's Diamond Awards for vision and commitment on disability and for accessible information at the 2007 Employers' Forum on Disability's awards.
- Ranked first (of 116 participating organisations) in the UK by Employers' Forum on Disability in its biennial benchmarking exercise, the Disability Standard.
- Readers of the online Pink Paper, aimed at the lesbian, gay and bisexual community, voted Lloyds TSB the second best bank or financial institution in the UK in 2007.
- Ranked sixth in Stonewall's 2007 Workplace Equality Index benchmarking exercise, which showcases the top 100 employers in Britain for LGB people.

Performance

Work life balance

Type of working	% employees
Job Sharing	< 0.1
Home Working	0.7
Compressed Hours/Days	5.3
Reduced Hours	28.5
Term time only contracts	1.2
Flexi time	1.0
Sabbaticals	< 0.1
Career Breaks	0.3

Women

Women in management	2005	2006	2007
Women in management positions	38.4%	38.5%	40.1%
Women in senior management positions	20.3%	20.9%	21.7%

We were ranked sixth in the female FTSE 100 for the proportion of women on our Board, and first in the new female FTSE index of women executives.

Lesbian, gay, bisexual (LGB) employees

Percentage of employees identifying as LGB	2005	2006	2007
0.2%	0.2%	0.2%	0.8%

Ethnic minority employees

Ethnic minority managers	2005	2006	2007
Ethnic minority managers	4.1%	4.3%	4.9%
Ethnic minority senior managers	1.8%	1.9%	2.5%

Disabled employees

Employees identifying themselves as having some form of disability	2005	2006	2007
1.5%	1.5%	2.0%	

Delivering key stakeholder engagement

Community

In addition to our financial contribution we recognise that it is in our long-term interest to help improve the social and commercial fabric of local communities where we operate. That is why we have one of the largest community investment programmes in the UK, valued at over £41.5 million in 2007.

Lloyds TSB Foundations

The majority of Lloyds TSB's charitable giving is channelled through the four Lloyds TSB Foundations, which cover England and Wales, Scotland, Northern Ireland and the Channel Islands. Their mission is to improve the lives of people in local communities, especially those who are disadvantaged.

Through their shares in the Lloyds TSB Group, the Lloyds TSB Foundations together receive one per cent of the Group's pre-tax profits, averaged over three years, in lieu of their shareholder dividend. Since the Lloyds TSB Foundations were established in 1997, they have received over £360 million to distribute to local community causes.

The Foundations' core ethos is to support community involvement and engagement and the charities they support work at the heart of local communities, often with limited resources and staff. Finding funding for core running costs is becoming increasingly difficult for charities and the Foundations are one of the few grant makers who provide grants for core costs, including salaries, to ensure that charities can continue to operate. In 2007, the largest of the four Foundations, the Foundation for England and Wales, allocated 69% of total grant spend to core costs.

Charities have been asking the Foundations for longer term funding to enable them to plan for a sustainable future and in 2007 the Foundation for England and Wales began making three year grants appropriate to the size of the charity. The Foundation for Northern Ireland launched Creating Change, an innovative new programme of six year funding to support charities with an income of under £250,000, and 'Inspiring Scotland', the Scottish Foundation's new venture philanthropy fund, has already attracted considerable funding to provide long-term and tailored development support to charities.

Employee volunteering and fund-raising

In addition to the Foundations' support for local community causes, thousands of our employees volunteer to help in their communities, raise funds for the Group's Charity of the Year or make direct donations to charity using the UK's Give As You Earn system. In 2007, the Foundations provided matched funding for over 33,000 hours of time volunteered by Lloyds TSB employees to charities which meet the Foundations' grant-giving criteria.

The Group's main charity partnership is chosen by staff ballot. A team of Charity Champions across all parts of the Group leads the fund-raising; inspiring and motivating their colleagues to organise and take part in events, sell pin badges and find new and innovative ways of raising money. Barnardo's was chosen as the Charity of the Year for 2007 and the partnership is being extended into 2008 as part of a strategic shift to longer commitments with key community partners. However, individual businesses also have their own key partnerships; for example, Wholesale & International Banking support Opportunity International, a charity delivering microcredit and development programmes in Africa and Asia.

Contributing to employee engagement

In collaboration with Arts & Business, Scottish Widows' Arts & Work programme delivers a wide range of arts experiences from live music to team-building workshops inside and outside the working day and workplace. Founded on the principle that creating a culture of creativity makes for a more satisfying and attractive working environment that helps improve health, well-being and, ultimately, employee engagement. In 2007, the programme delivered 70 events and involved more than 3,000 employees and their family members.

Local stakeholder engagement

Our interaction with communities through local opinion formers, community organisations, local authorities, as well as major local employers and the wider business community, is a critical platform for developing our brand and reputation with key stakeholder groups.

Thousands of Lloyds TSB employees are involved with these local stakeholder organisations in some form. For example, we employ hundreds of school governors, local councillors and magistrates. Much is represented by personal volunteer activity but there is also significant interaction on behalf of the company or in time supported by the company.

Some of the relationships are based on operational issues – maintaining our 'licence to operate' as a local business. Others reflect local business development priorities – the development of

business introducer networks or building profile in critical local markets, for example. Lloyds TSB Commercial bank around 280,000 local community organisations, clubs and societies.

In 2007, employees in Lloyds TSB Commercial set a goal of 50,000 hours volunteering to support local community projects under Commercial's 'Bank an hour' scheme. With the help of customers and local suppliers, they cleared acres of scrubland and created gardens, painted schools and community halls, worked with charities for the homeless, coached local sports teams and arranged day trips for under privileged children.

Suppliers

Each year we buy around £2 billion worth of goods and services. Our suppliers are important to us and we want to ensure that we treat them fairly and pay them on time. Our supplier relationships are governed by a strict Code of Purchasing Ethics that defines the way we do business. We also have an established supplier review process that allows us to assess our suppliers' social, ethical and environmental performance as part of the tendering process.

We are working with a number of financial services companies to develop an industry-wide corporate responsibility questionnaire which will include new questions on suppliers' carbon management and diversity. This will be available online in 2008, benefiting suppliers who will only have to complete one questionnaire for all participating companies. For us, it will also provide information comparable across different suppliers.

Inevitably, given the size and distribution of our business, many of our major suppliers are, themselves, large companies. However, we seek to support supplier diversity in Lloyds TSB and we have developed a high level policy statement which explains the background and our supplier diversity strategy. We have developed a diversity questionnaire which will be sent to our suppliers, allowing us to ascertain how diverse our supplier base, in terms of size, ownership structures such as ethnic minority business and social enterprise.

Results

Performance

Community investment

	2005	2006	2007
Total contribution	£37,050,000	£38,552,000	£41,513,000
Estimated capture of total data	95%	95%	95%
Type of giving			
Cash	£33,850,000	£34,852,000	£38,413,000
Estimated time	£2,300,000	£2,600,000	£3,000,000
In kind	£400,000	£500,000	£500,000
Management costs	£500,000	£600,000	£600,000
Types of recipients			
Charitable donations	£420,000	£202,000	£280,000
Independent Lloyds TSB Foundations	£31,230,000	£34,450,000	£37,133,000
Community investment	£5,400,000	£3,900,000	£4,100,000

Suppliers

Payment of Suppliers	2005	2006	2007
Number of supplier payments	379,613	344,422	320,579
Value (£ billion)	2.16	2.29	2.20
Average time to pay (days)	27.01	29.72	28.78
Number / amount of compensation payments for late settlement	None	None	None

Assessment of suppliers' corporate responsibility performance	2005	2006	2007
Total number of suppliers assessed	68	108	77

Developing environmental leadership

Climate change

The UK Government has stated its belief that climate change is the greatest long-term challenge facing the world today. Measures to tackle climate change will have potential implications for regulation, taxation and public policy and will carry both risks and opportunities for companies and the public.

As a primarily office based business, our direct environmental impacts are relatively low. However, the 2007 'thought leadership forum' on climate change (see page 7) engaged senior business unit managers across the Group in identifying the risks and opportunities that climate change presents and devising Lloyds TSB's strategic response.

Following this forum, we announced a target to reduce our carbon emissions by 30% by 2012 based on 2002 levels. This is a stretching target, the largest company-wide reduction so far planned by any company in the FTSE top 20. We also committed in 2007 to offset the CO₂ emissions we cannot eliminate.

We have established a carbon reduction committee, reporting to the Group's corporate responsibility steering group, to manage progress. In addition to measuring and monitoring our current carbon emissions, we have also calculated the environmental impacts of some major projects which has identified a number of property and IT related opportunities to deliver significant CO₂ reductions in 2008. These will involve working in partnership with a number of our key suppliers to change some of the ways we currently operate and we envisage a number of these changes will deliver significant cost saving over time.

Our staff have responded enthusiastically to these plans and are keen to contribute to their delivery. We will be launching a Group-wide sustainability network in 2008 to enable the sharing of experience, best practice and innovative ideas.

We are using a simple framework based on the word R.E.D.U.C.E. to help us manage our approach to environmental sustainability.

Examples	
R educe our own footprint	We have set a target to reduce our CO ₂ emissions by 30% by 2012.
E ngage and empower employees to play a part	We have created a sustainability network for staff.
D evelop appropriate products and services	Project Finance for renewable energy projects grew by 440% in 2007.
U nderstand and manage the risks	We have been assessing environmental risks in all our business lending since 1996.
C o-ordinate activities across the Group	By bringing together people from different business units we help create win-win situations.
E ngage with customers and other stakeholders	Through the Small Business Consortium we are developing advice for small businesses on reducing their environmental footprint.

In order to deliver sustainable long-term reductions, we will need to develop partnerships with a wide range of stakeholders. Our employees' engagement is critical to the strategy and we are exploring how best to involve customers in building on our long-term commitment to working with customers to minimise environmental risks (see page 22). We have involvement with a number of key environmental groups and agencies and will need to leverage these relationships to deliver our strategy.

Objectives for 2007

2007 Objective	Achieved/ On track	Comment
Reduce total CO ₂ emissions by 30% by 2012 from 2002 baseline	On track	We have replaced light bulbs across the entire estate and introduced energy efficiency measures including energy audits, improved lighting controls and energy management systems. The savings from these initiatives will begin to be felt from 2008.
Increase recycling rates by 2% within large premises	No	Due to the freeze on the destruction of confidential paper records.
Continue to investigate the feasibility of recycling used office furniture	On track	The Group is currently negotiating a central waste contract with one supplier to replace over 350 individual contracts. Recycling schemes for office furniture are part of the contract discussions.
Reduce water consumption to 7.5 cubic metres per capita by 2012	On track	Total water consumption in 2007 was 505,786 m ³ , equivalent to 8.27 m ³ /capita
Continue to develop the EMS for Lloyds TSB Autolease and Vehicle Remarketing to attain ISO 14001 accreditation by the end of 2008.	Below track	Progress towards ISO 14001 continues to be made. An audit to confirm accreditation to Level 2 of the Green Dragon standard will be conducted in May 2008, but it is considered unlikely that full ISO accreditation will be achieved in 2008.

Objectives for 2008

CO₂ emissions Reduce total CO ₂ emissions by 30% by 2012 from 2002 baseline	Environmental Management System Continue to develop the EMS for Lloyds TSB Autolease and Vehicle Remarketing to progress towards ISO 14001 accreditation	Waste Increase recycling rates by 2% within large premises
Water consumption Reduce water consumption to 7.5 cubic metres per capita by 2012	Paper consumption Continue to reduce paper consumption by a minimum of 0.1 tonnes per person.	

Results Environment (direct impacts)

	2002 Baseline	2005	2006	2007
Energy consumption (GWh)				
Electricity	369	337	351	350
Gas	180	161	150	151
Oil	13	7	6	5
Total	562	505	507	506
Premises tonnes CO ₂ /m ²	0.143	0.125	0.138	0.123
Business travel (million km)				
Road	97	103	107*	111
Rail	24	45	35	33
Air	33	46	45	49
Total	154	194	187*	193
Travel tonnes CO ₂ /£m income	2.66	2.99	2.87*	2.74
Carbon dioxide emissions (tonnes)				
Property	198,950	177,047	181,086	180,526
Green electricity	n/a	(14,606)	(18,944)	(18,164)
Travel	26,333	29,540	29,705	30,474
Total	225,283	191,981	191,847	192,836
Good Quality Combined Heat & Power (GQCHP)	n/a	n/a	(30,945)	(31,635)
Net Total	225,283	191,981	160,902	161,201
Paper consumption (tonnes)				
Virgin	31,403	23,595	18,818	17,259
Recycled	1,175	3,519	3,568	2,716
Total	32,578	27,114	22,386	19,975
% Recycled	4%	13%	16%	13.6%
Tonnes of paper/person	0.5	0.43	0.38	0.35
Waste (tonnes)				
Waste to landfill	19,129	16,575	15,273	14,047
Waste recycled	10,001	11,760	15,177	12,648
Total waste	29,130	28,335	30,450	26,695
% Recycled	34%	42%	50%	47%
Tonnes of waste/person	0.44	0.43	0.51	0.47

Total energy consumption has been broadly stable in 2006 and 2007 although the normalised data for energy usage has decreased by more than 10% since 2006. This is partly explained by improved recording of total floor area across the Group but it also reflects increasing energy efficiencies.

Overall travel mileage has increased compared to both the baseline year and 2006, which is not uncommon amongst large companies. We continue to promote alternatives to travel and the number of audio and video conferences has increased to 299,899. This has contributed to the 4.5% reduction in normalised data as travel growth has been at a lower rate than business growth.

* 2006 travel figures have been restated to reflect the fact that C&G travel data is now included and to provide a more accurate comparison between 2006 and 2007.

The total property figure corresponds to the carbon emissions which would have resulted if all electricity was from standard energy tariffs. We have been purchasing green electricity since 2004 and, from 2006, we have also used some energy from good quality combined heat and power sources (GQCHP). This is a highly fuel-efficient technology that puts to use waste heat produced as a by-product of generating electricity. The impact of using GQCHP further reduces our net CO₂ emissions by over 31,000 tonnes. Some contracts for green electricity and GQCHP expire before 2012, so progress towards our long-term reduction target may fluctuate. The GQCHP figures were not included in our 2006 report as we were still awaiting confirmation of their treatment from DEFRA at the time of reporting. In 2007 we purchased carbon credits through our carbon trading desk to offset 160,902 tonnes and become carbon neutral and will purchase 161,201 tonnes in 2008 to offset 2007 emissions.

*amended to reflect C&G travel data (see above).

We continue to reduce the total amount of paper consumed across the Group. Paper consumption has fallen by more than 38% since 2002. Over the same period, the use of recycled paper has grown by 131%. 73% of A4 copier paper used in internal printers and faxes is recycled.

Total waste has reduced by over 12% since 2006. Although the amount of waste recycled has generally increased since 2002, the total has dropped in 2007. This is principally as a result of a project to review the storage of records which began in June 2007. Since the project began there has been a freeze on the destruction of confidential paper based records. As these records would normally all be recycled, this has reduced the volume of recycled waste and also prevented us from reaching our 2007 target to increase the recycled content to 52%.

Building on a trusted brand

We want to build a great organisation, which is recognised for operating to high standards and is built on strong customer franchises. Building on a trusted brand is essential to helping us achieve that goal and is one of the ways in which we can develop competitive advantage. In simple terms, we need to be fair, clear and straightforward in all our dealings with our customers.

The impact of technology and accessibility of information at a time when people have less and less time to make their own choices will drive an increased emphasis on trusted brands and trusted intermediaries. This is particularly true in an area as complex for consumers as financial services. These trends will have a major impact on the way businesses deliver their products and services and the importance customers attach to a business' brand and reputation.

Key to building the business and sustaining the growth we have enjoyed in recent years is the continued development of customer relationships. Our focus is on understanding our customers' needs and developing the products and services to meet those needs. In 2007, we attracted over one million new current accounts. We are now the UK's largest provider of current accounts, cards and personal loans while the sale volumes of bancassurance products to our customers rose 20 per cent. Our Corporate Markets business saw a growing number of new customers and increased cross-sales while we remain leader in terms of share of start-ups in the small and medium-sized enterprise Commercial market.

Customer satisfaction

We measure customer satisfaction – we ask more than 2,500 personal and 2,000 business customers each month what they think of our service – using the results to calculate our Customer Service Index based on assessment of customer understanding, accessibility, responsibility and expertise. We also use 'mystery shoppers' to test the level of service across branches, telephony and internet banking. In the retail network, this includes testing aspects of our employees' service-style which our customers tell us are critical in shaping their impressions of our brand at a very personal level – smiles and greetings, eye contact, and use of name.

Going beyond customer satisfaction measures, we seek to better understand the relationship between customer advocacy and business performance. Our research indicates an obvious correlation between a customer's willingness to advocate our brand to friends and colleagues – the primary source of new business – and our propensity to retain their business and cross-sell products. In the Corporate sector, this relationship is more obvious, particularly for larger businesses where a direct personal relationship is critical which is why our success in the CBI Finance Directors' awards in recent years has been so important. More challenging is our intention to shift our personal customers from high levels of passive satisfaction to active brand advocacy – to become the UK's most recommended bank. In 2008, we will be introducing a metric for customer advocacy, the Net

Promoter Index, which measures the likelihood of customers recommending Lloyds TSB to friends, family and colleagues.

Complaints

Our Customer Insight Systems (see page 18) have facilitated the development of a single complaints process. Without a single source of customer information, it was often impossible to deal with complaints in a satisfactory timeframe at the point at which the original contact was received. Customer satisfaction deteriorates significantly, the longer it takes to satisfy a complaint.

As soon as possible after we receive a complaint, we make every effort to contact the customer and move the complaints-handling process forward. We have an agreed, standard timetable across the Group for handling customer complaints. It runs from the day the complaint is received, up to the day we send our full response to the customer and, where appropriate, make restitution.

Charging

In September 2007, Lloyds TSB announced changes to its personal account overdraft rates and charges after extensive research with around 3,000 individual customers. The findings of that research revealed that most people overdraw or exceed their planned overdraft by accident and that these small slip-ups often cost them more than they expect. There was an appetite for a warning or text alert system among those surveyed, to help people avoid going into unplanned overdraft and almost 90 per cent supported the idea of a grace period.

Just 17 per cent of Lloyds TSB customers pay unplanned overdraft charges but the introduction of a 'grace period' means all customers going into unplanned overdraft have until 3:30pm the same day to pay money into their account to avoid incurring a charge. Customers continue to be prenotified of overdraft charges and the SMS text alert service has been introduced. The Group sent out 11.5 million customer mailings about the new charging structure during September.

Two significant issues have confronted the financial services industry in 2007; the debate over bank overdraft fees and profits on loan payment protection insurance (PPI).

Seven banks (including Lloyds TSB) and a building society have taken the initiative, working jointly with the Office of Fair Trading (OFT), to ask the UK courts to clarify the legal position regarding bank overdraft fees. The FSA has agreed to issue a waiver to suspend the handling of customer complaints on this issue pending a decision by the court. This means that we will record all existing or subsequent claims for refunds of bank overdraft charges but any potential refunds will be put on hold until after the outcome of the court case.

We welcome this move to achieve legal clarity. We are committed to treating our customers fairly and

this does not prejudice their right to complain in any way. We believe that overdraft fees are fair and reflect the service customers enjoy. UK banks and building societies offer a wider range of services around overdrafts tailored to individual needs which help customers manage their finances.

The Financial Services Authority (FSA) released its Thematic Report on PPI sales in 2007. The report acknowledged that PPI can provide valuable protection for consumers but has concerns about the way it is sold across the industry.

We are also confident that our people sell PPI well. We have significant experience amongst our front line and provide regular training to ensure they are well equipped to sell PPI. In addition, we have clearly documented end-to-end sales processes supported by significant improvements in the customer financial assessment, Your Finances, along with robust supervision through our accreditation schemes and monitoring. In terms of the product, it is one of the best on the market and was awarded a Defacto 5 star rating in 2007 (one of only five companies to receive this independent assessment). Our range of benefits is industry leading and every year we help a significant number of customers through successful claims meaning they receive valuable support when they need it. When a customer buys PPI we provide them with our assessment which clearly shows why the product is suitable for their needs; the customer then receives both a summary and a full policy document.

Results

Perception

Customer satisfaction

	Dec 2005	Dec 2006	Dec 2007
Customer Service Index	68.0%	69.7%	70.5%

The Customer Service Index is computed based on the results of a customer satisfaction survey performed monthly for Lloyds TSB by an external agency. Customers in each of six business units are asked to rate the service they receive on five bases – overall satisfaction, understanding of the customer's needs, accessibility of the service, and the responsiveness and expertise of the service provider. These scores are weighted to produce a Group score based on the proportion of total Group income each business unit represents.

- UK's Most Trusted Bank for the seventh year running in the 2007 Reader's Digest survey of 23,000 consumers.
- Corporate Bank of the Year at 2007 The Real Finance/CBI The FDs' Excellence Awards - third year running.
- 'Best UK Bank' in the 2007 Euromoney Awards.
- Scottish Widows was the most trusted choice for pensions in the IPSOS Brand Tracking Study in 2007.
- Our loan protection insurance product is one of the best on the market and was awarded a Defacto 5 star rating in 2007 (one of only five companies to receive this).

Performance

	Dec 2005	Dec 2006	Dec 2007
Complaints resolved within 8 weeks	86.0%	94.8%	97.0%

Innovating for our customers

Product development

Our Customer Insight System (CInS) delivers a high quantity of high quality, relevant information into the hands of our staff to enable them to better meet and satisfy customer need. CInS enables us to tailor our service more appropriately for the customer and ensure that the customer recognises the relevance of any proactive contact by us. We can establish, for each customer, which product or service is most likely to be relevant to them. For example, we can more accurately identify those customers who will generate the majority of our business or those most likely to close or stop using their accounts. CInS also allows us to recognise differences in people's income and lifestyles and offer products and services differentiated by the degree of active financial management required.

The wealth of customer information enables the delivery of new, innovative products and services that add real value to our customer relationships.

These developments underline our strategic emphasis on meeting increasing customer expectations in the range and relevance of our product offering. They also enable identification of new or evolving markets where innovative approaches will create value for both customer and the business. Examples include our approach to differentiated personal added value current accounts, savings and investment products and specialised business services. They also include our approach to specific groups within the community such as ethnic minorities and low income households.

2007 saw the Retail Bank launch a number of enhanced savings products, an improved range of added value current accounts and the introduction of new credit card offers which drove strong savings and lending growth. Current account recruitment increased by 17 per cent including the Silver Account which is specifically targeted at foreign nationals.

The Euromoney 2007 'Best Bank' Award recognises the achievement of the retail and wholesale banks, with the judging panel making specific reference to innovation and leadership. Volume and quality of business carried out across the Group were also key factors as was the retail bank's ability to maintain asset quality and Corporate Markets successful securitisations.

Process improvement

The Group process framework is underpinned by the use of continuous improvement processes such as Sigma and LEAN. Sigma is a measure of how well we meet customer expectations in terms of timescales or standards of service delivery. Each month we measure our performance against these expectations for nearly 90 per cent of the average 230-250 million customer transactions we undertake every month.

Whereas Sigma looks at the effectiveness of our processes, LEAN is concerned with improved efficiency. It focuses on those elements of our processes where improvements can be made to the time it takes to deliver service. Often this means removing unnecessary complications in the process or reducing the risk of malfunction. Sometimes, these operational changes allow the redeployment of people and resources from less productive or satisfying parts of the job and allow them to focus more on activities that add further value for them, the customer and the business.

Set up in May 2006, our Lean Sigma Academy offers training and coaching in the principles, methodologies and tools to staff across the Group. In addition to classroom training and workshops from dedicated trainers and coaches, 'on-the-job' projects led by expert practitioners gives practical experience. The Lean Sigma Academy foundation programme received full City & Guilds of London Institute accreditation in 2007 and was chosen as one of four finalists in the Customer Service Training Team of the Year category in the National Customer Service Awards.

After sales service

We believe that sustained long-term customer relationships are based on both the sale of appropriate products and a commitment to continued support beyond the point of sale. Our Customer Insight System more rigorously supports this; it promotes the delivery of further product information and advice where relevant including recommendation of product upgrades. However, our after sales service is not simply systems based; it is a fundamental component of the customer experience delivered by our employees.

Following the devastating floods over the summer of 2007, Lloyds TSB announced a package of measures to help affected customers. Those insured with Lloyds TSB received emergency payments directly into their accounts. A dedicated flood claims helpline and a new consumer advice website www.helpimflooded.co.uk was set-up. Mortgage and loan customers could benefit from a repayment break of up to three months. They were also offered mortgage advances, free of further advance and valuation fees, to help with the costs of essential repairs.

Socially Responsible Investment

Scottish Widows Investment Partnership (SWIP) is one of the largest asset management companies in the UK. At the end of 2007, SWIP managed £97.6 billion worth of funds in total. In addition to specialist ethical, environmental and SRI funds - totalling £380 million, as at 31st December 2007 - consideration of a company's approach to social, ethical and environmental issues forms part of the research process for all 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's policy on shareholder engagement can be found on www.swip.com.

Communicating our corporate responsibility

In 2007, the Group's brand positioning saw the development of our 'For the journey....' message. The focus on long-term customer commitment, developing relationships through personal or business life-cycles, is supported by brand values of ease (of access and transaction), empathy and expertise.

The message and brand values support long-standing customer commitments in our Group code of business conduct. They also provide a communication platform aligning the Group's responsibilities

to our customers with business-as-usual delivery of products and services that meet the needs and expectations of customers now and for the long-term.

We seek to communicate our corporate responsibility performance to customers through making our Corporate Responsibility Review available in branches in addition to corporate responsibility content on the lloydstsb.com website. This complements the wide range of customer information on products and services, key life-stage financial guidance, business start-up and development, and regulatory advice such as the Banking Code. Moreover, through 2007, some of the key messages in our brand advertising have focused on aspects of our social, environmental and ethical commitments – sponsorship of the London 2012 Games, winner of The Readers Digest readers' most trusted bank award, and our community engagement.

Results

Perception

MORI CSR Survey

How seriously do you think Lloyds TSB takes its responsibility to society and the community?

%	2005	2006	2007
Public	37	33	36
Customers	55	51	52

Performance

At 31 December (statutory basis)

	2005	2006	2007
Total Assets (£ million)	309,754	343,598	353,346
Loans and advances to customers (£ million)	174,944	188,285	209,814
Customer accounts balances (£ million)	131,070	139,342	156,555

	2005	2006	2007
Service Quality Index	4.02	4.30	4.19

The Service Quality Index is based on SIGMA, deriving its provenance from the manufacturing world, where it measures Defects per Million Opportunities (DPMO). For the Group's purposes, a 'defect' is registered whenever there is a failure to deliver a process or product within a certain time period or to the required standard. The Lloyds TSB DPMO score is measured for over 150 end-to-end processes across eight business units, covering in excess of eighty per cent of transactions by volume.

Socially Responsible Investment (SRI) fund performance

	% 2006 Gross	% 2006 Net Return	% 2007 Gross	% 2007 Net Return
Scottish Widows Environmental Investor	23.78	21.32	-6.9	-8.08
Scottish Widows Ethical	20.99	19.97	-5.29	-6.69
SWIP Pan-European SRI Equity	18.96	15.82	11.64	10.77
SWIP Global SRI	3.11	1.16	11.38	8.60

The FTSE Allshare return in 2007 was 5.32%

Promoting financial inclusion

Accessibility

With over 2,000 branches, Lloyds TSB has one of the largest branch networks in the UK. Our partnership with the UK Post Office also allows our personal customers to use around 14,500 post offices. We have over a 25% market share of those people belonging to the lowest income groups. We have also been at the forefront of developing alternative forms of financial provision and support for those communities where mainstream financial services have traditionally been considered inappropriate or inaccessible.

We have simplified as far as possible, within our legal obligations, the identification and application processes for Lloyds TSB's basic bank account, the Cash Account. The Cash Account is open to anyone over 18 years of age, regardless of credit rating, so long as they are not a declared bankrupt. By the end of 2007, over 500,000 accounts had been opened.

Community finance

Community finance initiatives (CFI) offer a range of loans covering diverse requirements from debt refinancing to home improvements and business start-ups. We have supported a number of the early pilots with staff secondments and funding, using our expertise to develop appropriate processes. Lloyds TSB has also been involved in a wide range of projects on both a commercial and semi-commercial basis, providing capital for loan funds which are on-loaned to business start-ups, micro-businesses and social enterprises.

With our involvement in Change London, the Local Investment Fund, Bridges Community Ventures Fund, South Coast Money Line, South Hampshire Community Banking Partnership, Lincolnshire Loan Fund, One London Limited, Wessex Development Fund, Prime, South West Investment Group, and Arrow Fund, around £14 million was committed to the sector in 2007. This is in addition to our normal commercial lending direct to small businesses in the most deprived areas.

These partnerships have generally derived from long-standing commercial relationships. Some community finance initiatives are linked to enterprise agencies which work with our Commercial business centres in the incubation of small business start-ups. Others are partnerships between housing associations, other registered social landlords (RSLs) and local authorities who are customers. Our Public & Community Sector team within Corporate Banking is one of the largest funders of the social housing sector with £6 billion committed in 2007.

All of these businesses were represented at the thought leadership forum on financial inclusion (see page 7) along with business units responsible for consumer products such as current accounts and household insurance. One of the forum's key outputs was agreement on the need for research into promoting the long-term sustainability of community finance and enhancing the commercial attractiveness of lending to the sector. Projects now underway include:

- Community Financial Services (Salford University) review of CFI sustainability and future funding requirements with policy implications for government and finance sector – the report to be published in early 2008.

- The Community Development Finance Association research into long-term viability of CFIs and best operating model for delivery – results are due in March 2009.
- Through our membership of Business in the Community's Business Action on Economic Renewal team, we have funded research and a report into partnerships between business and social housing providers to be published in March 2008.

Furthermore, the forum also recognised the need to have better information on the needs of specific sectors of the community where the development of products and services to help promote greater financial inclusion may be relevant. These include:

- An analysis of patterns and trends in account holder usage over time amongst our own 500,000 Cash Account holders.
- Age Concern's 'Beyond financial inclusion' research looking at specific issues confronting the elderly, whether low income or not. The report is due in October 2008.
- Sponsoring Barnardo's research into life below the poverty line involving tracking 20 families across the UK over 2008.

Responsible lending

We are committed to being a responsible lender. It is in our interest to help customers borrow only those amounts they can manage to repay. We have a responsible lending programme with internal management reporting and accountability. Our employees are trained to offer the necessary advice and support to help customers manage their borrowing. Lloyds TSB was the first bank to introduce additional affordability checks for customers requesting personal loans. The checks are in addition to the normal credit scoring process and take a detailed look at the customer's financial position giving them reassurance that they can afford to repay their borrowing.

Our Customer Support Unit provides help for customers, who are in financial difficulties, to find an appropriate solution through effective budgeting or rescheduling their borrowing. We also support independent money advice networks including the Money Advice Trust and the Consumer Credit Counselling Service. Payments totalling more than £3.4 million were made in 2007.

Financial capability

Improving consumers' financial capability is best described as creating a level playing field where consumers have access to a wide range of impartial tools and information, and are aware of the evolving financial challenges and responsibilities that they are increasingly being required to act on.

The National Strategy for Financial Capability is led by the Financial Services Authority (FSA) and brings together the financial services industry, consumer and voluntary organisations, government and media to work together to improve the UK's financial capability. Financial capability, from a consumer perspective, means being able to manage your money, keep track of your finances, plan ahead confidently, choose financial products sensibly and stay informed about financial matters.

Lloyds TSB welcomes and fully supports the FSA's approach, and has demonstrated this by

seconding a senior executive to develop, launch and manage the workplace workstream of the FSA strategy. Since launching 18 months ago, the workplace team has provided educational material and training to over 1.2 million employees throughout the UK, and is well on track to reach the target of 4 million, by 2011. Feedback from all parties has been very encouraging and is improving these employees' financial capability.

Services for disabled customers

All of our new and refurbished premises are designed with the needs in mind of our disabled customers. All of our branches have been audited for compliance with the Disability Discrimination Act (DDA). We were the first major bank to provide comprehensive information on disabled access at each of the branches in the network and many of our ATMs, via the national Accessibility database, DirectEnquiries.com.

We provide a range of services for customers who are deaf or hard of hearing, including hearing induction loops in all of our branches, and British Sign Language interpreters can be provided free of charge through the Royal National Institute for Deaf People. Customers can use a fax to contact any branch and Typetalk is accepted on all telephone lines. We are the first financial services organisation to be awarded the RNID Chartermark for all our major customer-facing businesses as recognition of services to our deaf or hard of hearing customers.

Ethnic minority business

Lloyds TSB has a strong focus on ethnic minority businesses and this is supported by significant staff awareness, sponsorship and promotional activity. Many of our senior business banking managers have undertaken a leading and managing diversity course to increase cultural awareness. In areas with a high concentration of ethnic minorities, we seek to recruit multi-lingual staff to ensure our workforce reflects the composition of the local community and serve customers whose first language is not English. Central support is available to relationship managers to assist with networking and cultural understanding. Key to the strategy is delivering services and products that customers want; for example, we have developed Shariah mortgages, the UK's first Islamic business account and the capability to deliver Islamic bonds. So, too, is increasing our visibility in ethnic minority communities and raising awareness of our commitment through sponsorship of events such as the Asian Jewel Awards and Asian Women of Achievement.

Results

Support for small businesses in deprived areas (poorest five percent defined by geography)

	2005	2006	2007
Loans & advances to customers (£million)	206	207	244
Customer account balances (£million)	339	265	264

More effective risk management

Environment (indirect impacts)

Our customers have the potential to affect the environment through their activities. We work with our business customers across all industry sectors to help them minimise environmental risks to their business. This makes good business sense to both parties because our returns depend on the commercial success of our customers.

Lloyds TSB first introduced a formal environmental policy in 1996 and was one of the first UK banks to develop an environmental risk assessment system for all of our business lending. All of our lending officers have online access to the Group's environmental lending risk guide and ongoing support from a central environmental helpline for more detailed advice on specific lending issues. Around 47% of referrals to the helpline last year required technical expertise from our panel of external environmental consultants. During 2007, we also delivered training to 107 lending officers.

In 2007 we became signatories to the Equator Principles – a framework for financial institutions to consider social and environmental impacts of the projects they finance. Our environmental risk assessment process covers all lending, not just project finance, and we are confident that we have met obligations under the Principles prior to signing them. However, we recognise that this part of our business is growing significantly and believe it appropriate that we now commit formally. Project Finance won the environmental deal of the year award at the 2007 PFI Awards as mandated lead arranger for renewable energy finance, including the award-winning £320 million Lancashire Waste facility that directly reduces greenhouse gas emissions.

As part of our strategic approach to climate change, we are intent on maximising the opportunities that being seen as an environmental leader presents. This is not just in terms of our customers' perceptions but how we can work with our customers, particularly our business customers, to add value to the relationships we have and attract new ones. Already we have plans to launch an SME guide to environmental issues for Lloyds TSB Commercial customers in 2008 and we are working as part of the UK Small Business Consortium to deliver authoritative advice and guidance to all small and medium-sized enterprises. In 2007, our project finance lending to renewable energy projects grew by 440%. Lloyds TSB Corporate Markets is lender to suppliers of around 2 Gigawatts of renewable energy; equivalent to the total installed UK wind capacity or enough to supply over 1 million homes.

Health & safety

We are committed to achieve the highest standards of safety for our employees, customers who visit our branches, and contractors who work on our sites. Our general statement of Group health and safety policy is on our website at www.lloydtsb.com/corporate_responsibility.

Human rights

In addition to obeying the law wherever we operate, our policy is to respect and support the United Nations Universal Declaration of Human Rights, together with the International Labour Organisation (ILO) Fundamental Conventions, covering equality, freedom of association and the elimination of forced labour and child labour.

Results

Environmental helpline

In 2007, 608 cases were referred to our environmental helpline (691 in 2005). The environmental helpline has a service level agreement to respond to all referrals within 48 hours of receipt.

Health & safety

	2005	2006	2007
Absence from work 3+ days	142	98	102
Major injury	37	27	28
Fatality	2	0	0
Prescribed dangerous occurrences	47	17	7
Reportable diseases	25	24	16
Public taken to hospital from our premises	52	6*	5

*Accidents involving members of the public being taken to hospital have been reclassified to report only those incidents relating to the condition of the premises where the incident occurred.

Assurance Statement

Corporate Responsibility Report 2007

We have performed an independent assessment of the Lloyds TSB 2007 Corporate Responsibility Report and the underlying structures, procedures and performance results.

We have based our approach on emerging best practices for self-assessment and sustainability reporting, including 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 the Report key elements.

This work included an independent assessment through interviews and the collection and validation of sample quantitative data for 2007, reflected in the Report.

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

- The Lloyds TSB 2007 Corporate Responsibility Report provides a balanced representation of initiatives and performance information, in accordance with its corporate strategy;
- Lloyds TSB has applied an effective Corporate Responsibility Management System supporting corporate responsibility integration into strategy with clear objectives;
- Lloyds TSB has adopted targets for reducing carbon emissions by 2012;
- Lloyds TSB's Employee Engagement Index and Customer Service Index show a steady positive trend over a three year period;
- Lloyds TSB has initiated large-scale programmes to improve its corporate responsibility status based on the annual self-assessment findings at all corporate levels. Important initiatives still in progress include stakeholder engagement, communication and improving financial inclusion;
- The majority of key performance indicators shown in the Report had positive trends over a three year period, although there were a few areas with negative or neutral trends that need further attention.

London, April 2008

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



Environmental Verification Statement

RPS Group plc has interrogated the information included within the Developing Environmental Leadership section of this report and is confident that it accurately reflects Lloyds TSB's current environmental performance and its achievements during 2007. This exercise has been undertaken through document review, data sampling and the interrogation of supporting databases throughout the year.

The total net carbon emissions have risen slightly (less than 0.5%) because of increased international activity. Business travel forms a material part of the company's carbon footprint and, whilst it is difficult to reduce travel in a growing business, the promotion of alternatives such as teleconferencing has helped to keep the increase below the rate of business growth. Emissions from the property portfolio decreased in 2007. Energy efficiency projects and initiatives are being put in place as part of a carbon management strategy and further improvements are anticipated over the coming years. Energy has continued to be procured from renewable sources and a significant percentage is also sourced from good quality combined heat and power (GCHP), a more efficient technology which reduces the UK's overall carbon emissions. Lloyds TSB has demonstrated its commitment to reduce carbon emissions by setting a stretching target for 2012.

Lloyds TSB also achieved notable reductions in paper usage and waste production in 2007. The single general waste contract due to come into force in 2008 should help identify further opportunities for improvements, including additional recycling schemes.

Andrew Troup
April 2008
Executive Director
RPS Group plc

RPS

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We want to hear from you

We appreciate any feedback – good or bad. You can email us at corporate.responsibility@lloydtsb.co.uk or write to us at:

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