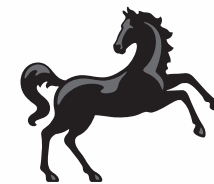


LLOYDS
BANKING
GROUP



CREATING THE UK'S LEADING FINANCIAL SERVICES COMPANY

CORPORATE RESPONSIBILITY REPORT 2008



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1 OVERVIEW

An introduction to our new bank, including an overview of our how Corporate Responsibility is supporting the Group vision.

4 CUSTOMERS

Deepening customer relationships is a key strategic goal. This section shows how we're taking our responsibilities to our customers seriously during the downturn with a view to securing a robust future, for them and for the wider economy.

12 COLLEAGUES

We believe that engaged colleagues will help us to deliver the superior customer experience that we think will differentiate us from our peers. We explore the factors that determine colleague engagement in this section of the report.

16 COMMUNITY

We touch communities in a multitude of ways – from providing financial services to hundreds of thousands of businesses, to the time our people invest in local projects. Here, we look at how this investment helps both communities and our business.

PRO-FORMA BASIS

In order to provide meaningful and relevant comparatives, this report is presented on a pro-forma basis as though the Lloyds Banking Group had been in existence throughout 2008.

20 CLIMATE CHANGE

Climate change represents a huge global challenge that will impact widely on business. Lloyds Banking Group's subsidiaries have made huge progress in this area in recent years; in this section, we reflect on these achievements and explain what more we can do.

24 MANAGEMENT

More on the future of CR at Lloyds Banking Group, information about governance and stakeholder engagement, plus the independent assurance statement provided by CSE.

HIGHLIGHTS DURING 2008

- **First bank** to enable customers to use their mobile phone to transfer money instantly between accounts
- **£14 billion** extra lending committed to businesses and mortgage customers
- Lloyds TSB was voted Britain's most trusted bank for the **ninth year running**
- Over **3,000 branches** throughout the UK
- Over **4,000 mentions** in 2008 retail best buy tables, significantly more than any other major UK bank
- Largest free-to-use ATM network in the UK with over **6,800 ATMs**
- **£4 million** committed to a new financial capability project working with the Government and FSA
- Provide finance and support to **30 million** personal customers and **800,000** businesses of all sizes
- The leading provider of **social banking accounts** and a substantial supporter of the community finance sector
- Employer of over **120,000 people** in the UK, most of whom live and work in the same community
- One of the UK's largest **community investors**
- **£4.5 billion** spent on goods and services from almost **30,000** suppliers

BENCHMARKS

Included in the FTSE4Good Ethical Index



FTSE4Good

Included in the Dow Jones Sustainability Indexes



Ranked Platinum in the Business in the Community CR Index



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INTRODUCTION FROM ANGIE RISLEY

OUR NEW JOURNEY

Our vision is to be recognised as the best financial services company by customers, colleagues and shareholders.

We will do this by building deep, lasting customer relationships which help our customers achieve what is important to them. Although the economic environment remains difficult, we are confident that we are well placed to address the near-term challenges and strongly positioned for long-term growth.



Fundamental to Lloyds Banking Group achieving its vision is the way we treat our colleagues. We are creating an organisation that aims to attract, retain and develop the best talent. We will do this through, developing skills and knowledge, creating a competitive reward package and ensuring our people have the right tools and resources to make their contribution effective. We also want to ensure that we have a diverse workforce that reflects the communities in which we operate. Succeeding in these areas will allow us to create a great place to work.

ACCESS TO FINANCIAL SERVICES

Represented in over 30 countries across the world the Group has a number of well known high street brands including Lloyds TSB, Halifax, Bank of Scotland, Cheltenham and Gloucester and Scottish Widows. We have the UK's largest branch network with approximately 3,500 branches, we are the UK's number one mortgage lender providing mortgages to one in three borrowers in the UK and one in five small and medium-sized companies bank with Lloyds Banking Group.

OUR COLLEAGUES

Our 120,000 colleagues are the public face of our business. Their continued commitment to great service and building relationships with our customers is critical to our future success. We know that having engaged and committed people is key, as they act as important ambassadors for our business. As well as having friends and family that have a relationship with Lloyds Banking Group, many are actively involved in their local communities, personally and on behalf of the bank. That is reflected in our continuing determination to be a significant influence in over 3,000 communities where we have a business presence. It is also supported by our partnership

with London 2012 where our vision is to inspire and support young people, communities and businesses all over Britain on their journey to the London 2012 Olympic and Paralympic Games and beyond.

INVESTMENT IN THE COMMUNITY

We make a significant financial investment in our communities – we are one of the UK's largest community investors. We are also the number one provider of social banking accounts in the UK; providing access to finance for four million social banking customers.

BUILDING THE UK'S LEADING FINANCIAL SERVICES COMPANY

In the long term our focus is on creating the UK's leading financial services company – a vision that is founded on a commitment to our customers, colleagues and the wider community. We will strive to do better for our customers each day. By taking personal ownership for our actions we believe the Group can consistently outperform in the long term, create value for our customers and shareholders and colleagues and deliver on the significant opportunities presented by our new business.

Angie Risley

Group HR Director and
Chair of Lloyds Banking Group's
Corporate Responsibility
Steering Committee

WHO WE ARE AND WHAT WE DO

BRANDS



CUSTOMER

	2008
Free-to-use ATMs	6,800
Branches	3,000
Small businesses banked	800,000

COLLEAGUES

	2008
Wages and salaries	£4.5 billion
Social security costs	£383 million
Pension costs	£503 million

COMMUNITY

	2008
Lending to small businesses in the UK's 5 per cent most deprived areas	£315 million*
UK social banking accounts	4 million
Support for independent advice services	£9 million

CLIMATE

	2008
UK carbon footprint (tonnes CO ₂ e)	207,328
Accounts moved to online, 'paperfree' statements	5.1 million

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STRATEGY

OUR VISION

OUR VISION IS TO BE RECOGNISED AS THE BEST FINANCIAL SERVICES COMPANY BY CUSTOMERS, COLLEAGUES AND SHAREHOLDERS.

OUR VALUES

WE TAKE OWNERSHIP

We each take personal ownership for our actions and see things through.

WE ACT WISELY

We use our good judgement, always considering the impact of our actions today and in the future.

WE MAKE IT SIMPLE

We take time to make the complex clear.

WE STRETCH OURSELVES

We strive to do better for our customers and our colleagues every day.

WE SUCCEED TOGETHER

Across the whole business, we think and act as one.

OUR CORPORATE RESPONSIBILITY STRATEGY

Our strategy is focused on building strong customer franchises based on deepening customer relationships. That, in turn, is rooted in building a high performance organisation – in terms of our processes, policies, products and services – which depends on our most valuable resource, our colleagues.

The coming together of two major banking and insurance businesses under the Lloyds Banking Group name gives us the opportunity to be the best: the best for our customers, the best for our colleagues and the best, ultimately, for our shareholders.

Rebuilding trust is fundamental to our business strategy and the cornerstone of our corporate responsibility strategy. Now, more than ever, we need to demonstrate the highest standards of responsibility.

We want to be recognised and recommended as a trusted brand by customers, a good employer by colleagues and a valued contributor to the community. For us, that means:

- demonstrating financial strength and stability;
- supplying the right products to the right customers at the right time;
- delivering great value, consistently;
- meeting and exceeding customer expectations whenever they touch one of our brands;
- being an employer of choice through reputation;
- handling difficult colleague issues sensitively;
- maximising our colleagues' potential;
- understanding, engaging, and investing in the communities in which our business is based;
- being committed to environmental protection and better managing our impacts.

In this report we have set out how we intend to pursue these strategic goals. In separate sections looking at customers, colleagues, community and climate, we set out the key issues influencing our strategic objectives, our current performance including 2008 data where appropriate, and aspects of our corporate responsibility performance where improvement priorities have already been identified.

CREATING THE UK'S LEADING FINANCIAL SERVICES BRAND

REBUILDING TRUST

Critical to the success of Lloyds Banking Group and sustaining the growth of our business will be the way we treat our customers, colleagues and the wider community. Serving over 25 million people is a great responsibility. We will be judged on how we do business and our prudent management of risk.

That is why we communicated a shared set of values on day one of the new organisation that we aim to develop throughout the Group and which will help us create an organisational culture we can be proud of. We have the opportunity to create one of the strongest and safest financial services companies in the world. That will create the basis for building trust in our Bank when confidence and trust in the finance sector, both in the UK and globally, has been so badly shaken by the events of 2008.

ROBUST APPROACH TO RISK

We have moved swiftly to roll-out Lloyds TSB's prudent risk and sanctioning processes throughout the Group. The Board and its committees – Risk Oversight and Audit – regularly review the Group's risk profile to ensure it is consistent with the Board's appetite for risk.

The Group's risk framework aligns with the corporate strategy, assessing the impact of risk emerging from legislation, new technologies and markets. More detailed risk principles and measures, supported by appropriate policy at Group and individual business levels, are overseen by the Group Executive Committee. All new lending is being made with the Lloyds risk criteria.

Our lending is supported by a robust core tier 1 capital ratio of 6.3 per cent as at end June 2009 and we continue to benefit from some of the strongest credit ratings of any major financial institution in the UK or Europe.

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 43.4 per cent shareholder in the Group.

A key aim is to work towards a situation where state aid is no longer required. Rebuilding our franchise is key to achieving this. We remain committed to UK businesses and homeowners, and under the proposed terms of the Government Asset Protection Scheme we are committed to extend a total of £14 billion in additional lending to creditworthy borrowers; £3 billion in mortgage lending and £11 billion in business lending.

£14 billion

ADDITIONAL LENDING COMMITMENT TO
HOMEBUYERS AND SMALL BUSINESSES

FAIRNESS

We are signatories to the Banking Code and the Business Banking Code; we go beyond the commitments in those Codes to treat all customers fairly and reasonably, give clear information on products and services, and be sympathetic and positive when dealing with customers in financial difficulty. We are committed to proactively identifying customers facing financial difficulties and offer support to avoid more serious problems. You can read more about this on page 7.

In 2008, Lloyds TSB was voted Britain's most trusted bank by Reader's Digest Readers for the ninth year running and Real Finance/CBI Finance Directors' Bank of the Year for the fifth year. Halifax was awarded best overall lender in the Your Mortgage Awards. This recognition is important to us and a clear signal of our commitment to customers.

1st

LLOYDS TSB VOTED BRITAIN'S MOST TRUSTED BANK BY READER'S DIGEST READERS FOR THE NINTH YEAR RUNNING



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TRANSPARENCY

We want to be transparent in our interactions with key stakeholders. We continue to improve the quality and accessibility of information for customers on products and services and will build on our industry lead in clearly setting out the costs and conditions. A culture in which open and honest conversations are the standard in colleague relationships is central to our approach.

FINANCIAL CAPABILITY

We recognise that we are one of the most important sources of financial information and advice for all our customers. Our investment in dedicated customer advisers specifically trained to help those customers confronting financial difficulty is one aspect. Our contribution to independent advice organisations – £9 million in 2008 – is another. And our recent agreement to fund a financial capability project in partnership with HM Treasury builds on existing financial capability projects.

£9 million
CONTRIBUTED TO INDEPENDENT ADVICE ORGANISATIONS

WIDENING ACCESS TO FINANCIAL SERVICES

With around 3,000 branches, Lloyds Banking Group is represented in every community in the UK. We have a market share of over 40 per cent 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. Our strategy is aligned with the Government's aims to increase access to banking and credit while developing consumers' financial capability.

TACKLING FINANCIAL CRIME

The Group has developed a Group-wide Financial Crime Policy supported by detailed policies and procedures covering areas such as money laundering and fraud. These policies reflect our obligations under relevant anti-crime legislation and regulation. They include minimum standards for compliance in a number of key areas, including the roles and responsibilities of all colleagues, customer identification and verification, and product delivery and development.

COMMUNITY INVESTMENT

We understand the responsibility we have to support households and businesses in difficult economic times and the contribution we can make to the recovery. We make a substantial contribution to society more widely as a major employer, purchaser of goods and services and as a significant player in thousands of local communities. We are intent on building our community commitment to the thousands of charities and local community organisations with which we interact.

WHAT WE NEED TO DO

- Review and refresh the Group Code of Business Conduct, roll-out Group-wide, and set Key Performance Indicators against it

CUSTOMERS

DEEPENING CUSTOMER RELATIONSHIPS

Lloyds Banking Group is playing a substantial role in the recovery and growth of the UK financial sector. This is critical for the future of the UK economy. To do that we have to be successful as a business in what continues to be a competitive global marketplace.

Our strategy is focused on our deepening the relationships with our customers – personal and business – differentiating ourselves from competitors by the quality of our products and services. Building on trusted brands, award-winning products, good service and competitive pricing, we are well placed to do that.

Some of the biggest challenges right now are supporting our customers through the downturn and becoming a source of trusted advice and solutions to the problems they face. This extends to increasing financial capability across all our markets.

Despite the economic conditions, our underlying business performance shows those fundamental building blocks are in place. We know that we have to continually do more to meet the high and growing expectations of our customers, at the same time developing products and services to meet new challenges in new markets.

LENDING TO SMALL BUSINESSES

In April 2009 we committed to lend a further £11 billion to small businesses in 2009 and at least a further £11 billion in 2010. That is, above and beyond existing lending. 90 per cent of our business customers are small businesses with a turnover of under £1 million.

£11 billion

**NEW LENDING COMMITTED TO
SMALL BUSINESSES**

LLOYDS TSB SME CHARTER

Around 600,000 Lloyds TSB Commercial customers benefit from our charter for SMEs. In 2008 we committed to:

- pass on base rate reductions in full;
- make overdrafts available and fix the price for the period of a customer's agreement;
- agree to any reasonable request for short-term finance caused by temporary difficulties;
- run small business information seminars.

BANK OF SCOTLAND SME CHARTER

Bank of Scotland similarly committed to support its 200,000 SME customers with agreements to renew or extend lending for at least 12 months. Agreed interest rates will be linked to the Bank of England's base rate. We are also supporting initiatives to provide further funding including the Government-backed Enterprise Finance Guarantee and the European Investment Bank scheme for lending to small businesses with less than 250 employees. Our strategy for 2009 is to carry on supporting and lending to SMEs and to look for new opportunities to win more business in this important market.

SMALL BUSINESS SEMINARS

Over 12,000 small businesses have attended the 80 small business information seminars held by Lloyds TSB and Bank of Scotland throughout the UK. A further 70 are planned. We have worked with the Chartered Institute of Marketing, the Institute of Credit Management 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 identified in research as critical for small business in the current market – getting and keeping customers, business planning, cash flow management and building local advice and support networks. Feedback from the attendees at each event has been very positive with most feeling more in control of their business prospects as a result.

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. Our total lending to small businesses in the 5 per cent most deprived areas of the UK increased to £315 million in 2008.

£315 million

**LENDING TO SMALL BUSINESSES IN THE
5 PER CENT MOST DEPRIVED AREAS**



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LENDING TO HOMEBUYERS

Lloyds Banking Group is a significant UK mortgage lender, with a 28.5 per cent market share of outstanding mortgage balances at the end of 2008. In Halifax and C&G, we have two of the best-known and strongest mortgage brands in the UK. The businesses making up Lloyds Banking Group delivered a strong performance in their mortgage business in 2008, achieving a combined 30 per cent market share of gross new lending, compared to 28 per cent in 2007. We have undertaken to make available an additional £3 billion of new mortgage lending in both 2009 and 2010 to support the house purchase market.

We remain very much open to new mortgage business and to supporting our customers through difficult economic times. We will maintain our commitment to the active marketing and availability of competitively-priced products in the key mainstream segments of the market, including first-time buyers.

FIRST-TIME 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. Lloyds Banking Group had over a 30 per cent market share of the first-time buyer market during 2008.

Halifax is 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.

Lloyds TSB has recently launched an innovative product for first-time buyers, designed to help them overcome the key hurdles of size of deposit and affordability. The 'Lend a Hand' mortgage allows first-time buyers with a small deposit to get on the housing ladder.

DEBT ADVICE

Despite successive base rate cuts made by the Bank of England, the change in the economic situation has put pressure on the finances of many households and businesses. We proactively contact customers who look like they may be having financial problems to help them address them. For example, we might help them budget better, or reschedule their borrowing with us.

DEDICATED SUPPORT TEAMS

In Lloyds TSB, we've trained around 1,500 customer advisers over the past year to counsel customers who are worried about their financial situation. Lloyds TSB, Halifax and Bank of Scotland have dedicated Customer Support and Money Management units that can offer more specialist help. Halifax and Bank of Scotland's Money Management Unit earned the 2008 Credit Today 'Responsible Lender of the Year' award for its handling of customers experiencing financial difficulty. This included guidance and support for frontline colleagues and the innovative use of scenario examples to ensure appropriate referrals for more specialised help.

1,500

LLOYDS TSB CUSTOMER ADVISERS RECEIVED
NEW TRAINING IN COUNSELLING CUSTOMERS
WORRIED ABOUT THEIR FINANCES



We have increased the number of colleagues who are helping customers who are struggling to meet payments. If a customer does fall behind with payments, we work out a payment plan that they can afford in the long term. We can offer a number of solutions to help get them back on track, including recalculating their loan to reduce monthly payments, or temporarily switching the loan to interest-only. Our mortgage businesses only consider repossessing someone's home as a last resort, and only after in-depth discussions that typically last at least six months.

COMMUNITY AND MICROFINANCE

We support community finance initiatives and credit unions which offer small amounts of credit that customers would be otherwise unable to obtain – these loans cover a wide range of uses from home improvements to business start-ups. Although open to all, they tend to focus on low income individuals many of whom feel daunted by the prospect of going into a bank.

In total, we committed around £18 million to the community finance sector in 2008, on top of our normal commercial lending direct to small businesses in deprived areas. We have sponsored several research projects looking into the long-term sustainability of community finance and ways in which the sector can be effective in reaching more people.

Many community finance initiatives are partnerships between social housing providers and local authorities who wish to provide access to finance for tenants and benefit recipients. Many of these partners are our customers – with over £12 billion committed to social housing in 2008, we are the largest funder to the social housing sector. We are involved in a number of community finance initiatives and credit unions, providing loans on both a commercial and semi-commercial basis as well as advice and our expertise.

£12 billion
COMMITTED TO THE SOCIAL HOUSING
SECTOR IN 2008



RESPONSIBLE LENDING

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

PROVIDING FUNDING FOR INDEPENDENT ADVICE ORGANISATIONS

We recognise that some customers may prefer to get independent advice. We support independent advice organisations like the Money Advice Trust, Christians Against Poverty, Consumer Credit Counselling Service and Payplan. In 2008, we made payments of nearly £9 million to these organisations to help them provide their services.

£9 million
CONTRIBUTED TO INDEPENDENT
ADVICE ORGANISATIONS

FINANCIAL CAPABILITY

Banks are one of the main sources of advice and guidance for both individuals and businesses. From helping people through the range of issues they confront at various life change situations such as leaving school, marriage, childbirth and retirement through to dealing with financial difficulties or long-term savings and investment decisions, we are always open and accessible. Each year we spend millions of pounds on support material including generic advice brochures as well as more product specific information.

However, we recognise that this guidance and support will often happen only when customers are confronted with immediate challenges. We accept our responsibility to do more to raise the levels of general financial understanding across the community we serve.

NEW £4 MILLION FINANCIAL CAPABILITY PROJECT

This year, Lloyds Banking Group has committed £4 million to a financial capability project working with the Treasury, Department for Business, Innovation and Skills and the FSA. The intention is to reach many of the 12 million young people and adults engaged in the further education sector, particularly those groups considered 'difficult to reach' by current financial capability initiatives. We plan to launch the scheme in 2010.

£4 million
COMMITTED TO NEW MAJOR FINANCIAL
CAPABILITY PROJECT

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LLOYDS BANKING GROUP SECONDED TO THE FSA

We seconded a senior executive to develop, launch and manage the 'Financial capability in the workplace' element of the FSA strategy. Since launching in 2006, the scheme has provided educational material and training to over 2.8 million employees throughout the UK, and is well on track to reach the target of 4 million people by 2011.

BRANCH, ATM AND ONLINE BANKING ACCESS

BRANCHES AND ATMs

Customers can access our services in several ways, depending on what's most convenient for them. We have over 3,000 bank branches in the UK. As the first bank to develop a partnership with the UK Post Office, our personal customers can also use around 12,500 post offices to do their banking. And we provide 6,800 ATMs that are free to use. We now have seven Bank of Scotland mobile branches, and with them we can take a full banking service to around 40 of the most remote communities in Scotland.

6,800 ATMs
FREE TO USE THROUGHOUT THE UK

LEADING MOBILE BANKING SERVICE

The innovative Lloyds TSB mobile banking service, launched in 2008, provides our customers with a range of services to help our customers manage their money, including SMS text message alerts. Our free mobile service provides weekly text alerts advising of the account balance and recent transactions and text messages when a debit card is used abroad. Customers who want even more from mobile banking can choose text alerts when they're nearing their limit for a small monthly fee, and download a mobile banking application designed specifically for mobile phones.

1st
BANK TO LAUNCH 'ON DEMAND'
TEXT MESSAGE BALANCE SERVICE

ONLINE BANKING

More than 6.5 million of our customers bank online (14 per cent higher in 2009 compared with 2008), logging on 51 million times per month. Customers using Lloyds TSB's internet banking service transfer more than £1 billion each week between their own accounts or to other people and businesses. That is ten times more than just five years ago. Online customers tend to be more loyal, buying 50 per cent more products from us on average.



SERVICES FOR DISABLED CUSTOMERS

We are pleased that over 95 per cent of our branches fully comply with the Disability Discrimination Act. The remainder are exempt from the act as building or planning issues prevent us from upgrading access further. Lloyds TSB was the first major bank to give full information on disabled access at each of its branches and many of its cash machines through Direct Enquiries, the national accessibility database. It was also the first financial services organisation to be awarded the RNID Chartermark for all its major customer-facing businesses in recognition of services to its deaf or hard of hearing customers.

ETHNIC MINORITY BUSINESS

We work hard to support ethnic minority customers and businesses. For example, a 2008 Halifax review showed a 16 per cent market share among ethnic minorities. We publish product information in a wide range of languages including Hindi, Gujarati and Urdu.

In Lloyds TSB Commercial, senior business banking managers have received diversity training to help make them more culturally aware. In areas with a high concentration of ethnic minorities, we try to ensure our workforce reflects the local community and can serve customers whose first language might not be English. We also make sure we can offer products and services that ethnic minority customers want. For example, Lloyds TSB has developed Shariah mortgages, the UK's first Islamic business account and can offer Islamic bonds.

PRODUCTS

CURRENT ACCOUNTS

HALIFAX REWARD ACCOUNT

Halifax's Reward account is a new kind of current account, offering consumers an alternative to traditional current accounts. The account replaces traditional interest and fee structures with a simple flat net cash monthly payment for customers who fund their account with at least £1,000 a month, regardless of their balance, and a fixed daily overdraft fee when customers use the overdraft facility.

BANK OVERDRAFT FEES

The vast majority of banking customers never incur charges and bank for free. Arranging an overdraft, or increasing a limit, in advance can be done 24 hours a day, online or over the phone, and need take no more than five minutes.

However, to obtain a firm legal position on overdraft charges the major high street banks and Office of Fair Trading jointly entered into a High Court test case. The Court has issued a judgment that the fees are not penalties, but that they are assessable in UK law for fairness. The Court has not yet ruled on whether the charges are fair or not – this will be decided at a future hearing. We believe the fees customers pay for unarranged overdrafts are fair and that the charges will, therefore, be upheld by the Court at the next phase.

SOCIAL BANKING

Social bank accounts offer basic banking facilities like direct debits and standing orders, but do not provide a credit facility. Halifax was the first bank to offer a social banking service when it launched its Cardcash account back in 1983. This has since been replaced with the fuller featured Easycash account. We have opened 590,000 Easycash accounts. In 2009, the remaining 3.1 million Cardcash account holders will benefit from changes to the product that bring it in line with Easycash. Halifax and Bank of Scotland saw an increase of 19 per cent in social bank accounts in 2008.

LLOYDS TSB CASH ACCOUNT

Lloyds TSB's social banking account, the Cash Account, has also been very successful – by the end of 2008 we had over 540,000 accounts. Across Halifax, Lloyds TSB and Bank of Scotland we have over 4 million social banking accounts – more than any other provider.

PRODUCTS

SAVINGS

We are the UK's leading savings provider, helping over 21 million people save for the future. We offer a wide range of accounts including Individual Savings Accounts, regular savings and children's savings accounts. Lloyds TSB's Savings Calculators allow savers to rapidly compare accounts and identify those which most suit their needs. And our groundbreaking 'Save the change' product automatically rounds-up debit card transactions to the nearest pound with the balance placed to a savings account.

21 million

PEOPLE SAVE FOR THE FUTURE WITH
LLOYDS BANKING GROUP

PROMOTING SAVINGS TO SOCIAL BANKING CUSTOMERS

In May 2007, Halifax became the first major bank to offer a special Christmas Savings Account. It can be opened with just £5 and funded with a minimum of £5 per month. In April 2008, the account was offered to more than 70,000 customers. Account holders saved an average of £215 towards the cost of Christmas 2008, an increase of 100 per cent on the year before.

THE SAVING GATEWAY

Halifax piloted the Saving Gateway with the Government last year, when 23,000 accounts were opened. The Saving Gateway aims to encourage those on low incomes to save by matching their savings with funds from the Treasury. In the 2008 Budget, the Government confirmed it will roll-out the Gateway nationally from 2010 with both Halifax and Lloyds TSB brands supporting its delivery.

PERSONAL LOANS

PAYMENT PROTECTION INSURANCE

Lloyds TSB was one of the first major providers to launch a monthly PPI product as an alternative to the single premium approach back in January 2008. The Competition Commission has recommended that single-premium products be replaced in favour of alternatives. As the recession continues and unemployment increases, PPI can provide a valuable solution to worries about credit commitments. The Lloyds TSB PPI product has been awarded five stars by independent assessor Defaqto.

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SERVICE IMPROVEMENTS

We continually seek to improve the way we deliver our service.

SERVICE EXPECTATIONS

At Halifax and Bank of Scotland, we use customer contracts to set out the principles that govern how we interact with our customers. Senior managers make sure we use them throughout the business. The contract also includes a commitment to carry out an annual review of products to check they still meet the customer's needs. At Lloyds TSB, we measure how well we meet customers' service expectations in nearly 180 million transactions every month. The results feed back into continuous service improvements. Over 99 per cent of transactions met customer expectations in 2008.

SUMMARY BOXES

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.

AWARDS

The range of awards we have won over the past 12 months underlines our track record in understanding what our customers want and translating that into good product and service design.

- Lloyds TSB was awarded the 2009 Bank of the Year in the Real Finance/CBI FDs Excellence Awards (in recognition of quality service and understanding customers), for the fifth year running.
- Lloyds TSB was awarded the 2009 Reader's Digest Readers' Most Trusted Bank for the ninth year running.
- Halifax was awarded Best Overall Lender at the 2007–2008 Your Mortgage Awards.
- Bank of Scotland received Best Overall Business Bank in the 2008 Business Moneyfacts awards.
- Halifax won the 2008 Moneyfacts Award for best online mortgage provider.
- Lloyds TSB's Acquisition Finance team was voted Debt Provider of the Year at the 2008 European Venture Capital Association Awards.

MEASURING CUSTOMER ADVOCACY

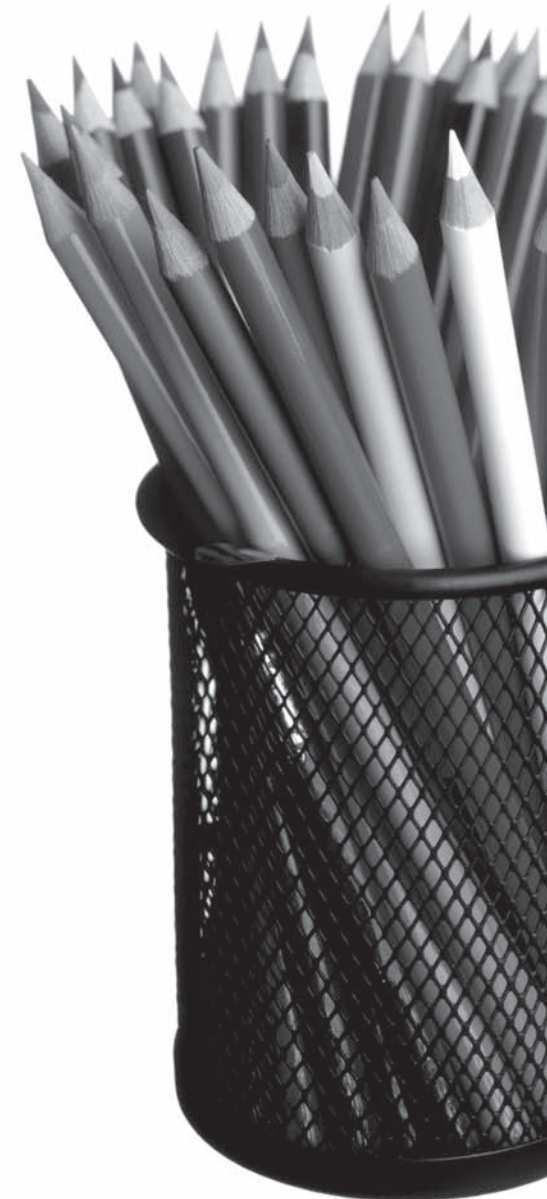
We know we're doing the right thing when customers recommend our services to their families, friends and colleagues. To help us ensure our products and overall service offering is meeting customer needs we introduced the Net Promoter Score across Lloyds TSB in 2008 and this year, we are rolling it out across the Group.

This new focus on customer recommendation gives us better insight into the service we deliver. We asked over 30,000 customers what they thought of the most recent service they received from us and over 2,000 people for a more detailed view of our service. To improve things further, we introduced changes to the way we used this information including:

- giving branch managers better information on their teams' performance;
- linking reward and recognition schemes to Net Promoter Scores;
- running quality assurance programmes in phone banking.

Over the course of 2008, Lloyds TSB's overall score increased by ten points.

In the Halifax and Bank of Scotland businesses, however it is clear there is more to do, with customer satisfaction scores having remained broadly static. As we introduce the new approach to measurement we will use the results to better diagnose and address these issues.



COLLEAGUES

GREATER
SUCCESS
THROUGH
OUR PEOPLE

Delivering our business strategy depends on our colleagues delivering a great customer experience. We are building on a heritage of strong colleague commitment across our brands.

Our key measure of that commitment is colleague engagement. Colleague engagement is dependent on a wide range of factors; the development of skills and knowledge, understanding how their contribution makes a difference, understanding how their performance is judged, terms and conditions of employment and ensuring that they have the right tools and resources to make that contribution more effective.

COLLEAGUE STATISTICS

	2008 Lloyds TSB	2008 HBOS
Number of UK colleagues (Full Time Equivalent)	58,756	57,507
Number of UK colleagues (headcount)	66,473	62,810
Full time employees	72%	77%
Part time employees	28%	23%
New starters	10,126	6,356

COLLEAGUE ENGAGEMENT

Colleague engagement has a direct influence on the performance of the business. Engaged colleagues believe in and support the goals of our Company. They genuinely want to work for us, and are willing to go the extra mile to contribute to our success.

Our research has identified key factors that affect how successfully we engage colleagues. We measure these through our new quarterly colleague engagement survey by asking:

- Whether people feel involved in the Company and understand how their work contributes to its overall success;
- How much scope there is for people to use their skills and take initiative;
- What learning opportunities are available;
- How well top management inspires as well as leads;
- Our commitment to customer satisfaction.

COLLEAGUE SURVEY

The first Lloyds Banking Group Colleague Survey took place in late February and early March, 2009 and continues to run every quarter. The survey invites colleagues from all UK and International teams to share their views on Lloyds Banking Group as a place to work.

The survey invites all colleagues from across UK and International teams to participate and we received more than 101,800 responses to the last survey – an overall response rate of 81 per cent.

83%

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

90%

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

The 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 benchmark norms 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 and to foster better working relationships across the Group.

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



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COMMUNICATING OPENLY AND HONESTLY

We recognise that it is an uncertain time for our colleagues as we continue to integrate our business. As part of the acquisition we have committed to annualised synergy savings in excess of £1.5 billion in 2011. These savings will be made by streamlining systems and processes, reducing our property portfolio and also from a reduction in the number of people who work for us.

We are committed to working through all changes that impact colleagues carefully and sensitively. We are consulting closely with the unions, Accord, Unite and LTU throughout the process. Our preference is to use natural turnover, make less use of contractors and redeploy people wherever possible. Where it is necessary for colleagues to leave the Company, we will look to achieve this by voluntary severance. Compulsory redundancy will always be a last resort.

CONNECTING AND LISTENING

Our senior leaders, lead by example and always try to reflect our five Lloyds Banking Group values:

- **We take ownership** – We each take personal ownership for our actions and see things through.
- **We act wisely** – We use our good judgement, always considering the impact of our actions today and in the future.
- **We make it simple** – We take time to make the complex clear.
- **We stretch ourselves** – We strive to do better for our customers and our colleagues every day.
- **We succeed together** – Across the whole business, we think and act as one.

Leaders of our business communicate with colleagues through one to one meetings, face-to-face briefings, podcasts, webcasts, branch TV broadcasts and working lunches. Our leadership team take time to meet colleagues individually, and support colleagues' personal development through coaching and mentoring.

UNION REPRESENTATION

All colleagues are able to join one of our recognised Unions – LTU, Accord and Unite. We believe that a strong working relationship with the unions supports good employee relations throughout the business. We always ensure that the unions are involved at an early stage in any change management process.

RECOGNISING COLLEAGUE CONTRIBUTION

We are developing common employment policies and practices and introducing them throughout the Group.

ROLLING OUT BALANCED SCORECARDS ACROSS THE ORGANISATION

We have set out our expectations of what it means to work and lead within Lloyds Banking Group. This is as much about people's behaviour as it is about our business aims. Every colleague, at every level, will have a 'balanced scorecard' that clearly explains what they need to do to contribute to the overall goals of the business, and how their contribution will be measured. A 'dashboard' of specific actions for individual parts of the business will make sure everyone understands their priorities. One of the main influences on colleague engagement is an understanding of how their contribution makes a difference and how it fits with the Company's strategic priorities. The balanced scorecards will apply to all colleagues across the Group by the end of 2009.

TOTAL REWARD

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, risk management, competencies and skills, the level of stretch and challenge presented by objectives, as well as factors such as flexibility, commitment, contribution to teamwork and being a role model for others. Those elements are reflected in individuals' balanced scorecards.

To recruit, retain and engage the best people, we aim to manage pay in line with the relevant market and differentiate according to differences in individual contribution. We also have incentive programmes to encourage colleagues to focus on the long-term success of the Company.

We intend to continue to balance fixed salary and long-term incentives. Fixed salary will remain the significant proportion of total remuneration.

FLEXIBLE BENEFITS

Most of our colleagues participate in our flexible benefits programmes. They are able to choose from a range of non-cash alternatives – including medical and life assurance, additional pension and holiday entitlement and education vouchers.

RECOGNITION

Recognition 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 supporting local communities.

CREATING WORK-LIFE BALANCE INVESTING IN OUR PEOPLE

We want our colleagues to have a good work-life balance. One big area where we can help is flexible working.

WORK OPTIONS SCHEME

Under the Lloyds TSB Work Options scheme, for example, colleagues can ask to change their working hours or working patterns, work variable hours, work from home, or job-share. Over 30 per cent of all staff make use of the scheme.

We regularly review the scheme, and in 2008 more than 10,000 Lloyds TSB colleagues responded to a survey to help us find out if the scheme still met their needs, as well as the needs of the business.

TOP 20 EMPLOYER FOR WORKING FAMILIES

As part of its thirtieth anniversary celebrations, the work-life balance charity Working Families launched the first ever list of the UK's top 20 employers for working families in 2009. Lloyds TSB was the only bank in the list. The announcement of the list was timed to coincide with National Families Week, and highlighted organisations whose innovative practices help to create supportive working cultures for working parents and carers.

We believe it is imperative that every single employee is engaged, challenged and rewarded throughout their journey with the Company. We offer a comprehensive range of programmes and packages that fully support new joiners and graduates from induction and training through to promotion and retirement.

This means giving all colleagues the tools to do a more effective job through learning and personal development, recognising health and well-being issues, and embracing diversity. We will encourage all colleagues to follow their career path within our new organisation – and, where necessary, outside – and we will support them every step of the way as they develop and grow.

LEARNING AND DEVELOPMENT

Our investment in learning and development gives our colleagues the opportunity to develop the skills they need to excel. We deliver this through formal training and 'on the job' learning.

Our formal learning opportunities include a wide range of courses on key topics such as change, risk, and leadership. Learning options include face-to-face and online solutions, providing flexible access which enables colleagues to learn in ways that best meet their needs.

Face-to-face courses allow detailed exploration of a subject along with the ability to develop key capabilities. Short courses offer colleagues the chance to gain an overview of key subjects, while a range of Toolkits give Line Managers access to information on best practice and procedures. Regular podcasts from senior executives and expert external speakers together with 'Minute Masters' and 'Leadership Bites' give further insights into key issues.

During 2008 Lloyds TSB delivered an average of 2.9 days of formal learning per full-time employee (compared with 2.3 days in 2007; an increase of 26 per cent) and HBOS delivered 3.1 days per employee.

ACCREDITATION

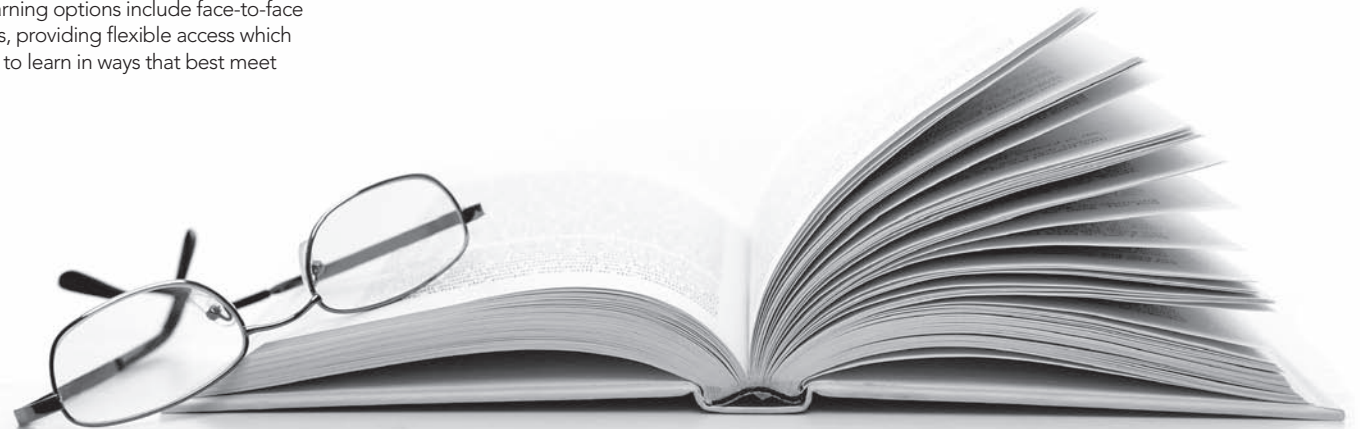
We believe that our key learning and development programmes should be formally recognised. This helps to ensure quality and enables colleagues meet internal and external licensing requirements. We often use accredited external providers, or deliver external courses linked to professional or industry qualifications in areas such as project management and customer service.

PARTNERSHIPS

We have a number of partners, giving colleagues access to a range of learning and development opportunities. We provide access to solutions such as Ashridge Management College's virtual learning resource and specifically tailored courses such as those from our Lean Sigma Academy on project and process management.

LEADERSHIP AND MANAGEMENT

We start preparing potential leaders early on in their careers, identifying specific needs during twice-yearly reviews and working with colleagues to create development plans. For senior leaders, learning can include external study, for example at major business schools and external leadership experts are also invited to deliver short programmes in-house.



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EQUALITY AND DIVERSITY

By attracting and retaining a diverse workforce, we can better understand the needs of all our customers and build lasting relationships with them.

We use focus groups and surveys to help us ensure our equality and diversity policies are appropriate and up-to-date. For example, we have carried out detailed research with disabled, ethnic minority and lesbian, gay and bisexual colleagues in HBOS to better understand their needs. Their insights have proved invaluable for our new Lloyds Banking Group diversity programme.

GENDER

Lloyds TSB received a special recognition award from Opportunity Now for the highest proportion of women on the executive committee of any FTSE 100 company. HBOS was a gold standard performer. A Cranfield University report on female representation at board level also placed Lloyds TSB first and HBOS sixth out of the FTSE 100 companies.

RACE

The number of ethnic minority colleagues has continued to increase in both Lloyds TSB and HBOS. The Group Ethnic Minority (GEM) Network provides opportunities for networking and support. We continue to work closely with external campaigning organisations, particularly Race for Opportunity.

EQUALITY AND DIVERSITY

	Lloyds TSB	HBOS
GENDER		
% of total colleagues that are female	62.0%	61.2%
Female managers	41.1%	44.7%
Female senior managers	23.4%	23.9%
ETHNIC BACKGROUND		
% of colleagues from an ethnic minority	5.7%	7.3%
Ethnic minority managers	5.1%	4.8%
Ethnic minority senior managers	2.6%	2.1%
DISABILITY		
% of colleagues who say they have a disability	1.9%	1.8%
SEXUAL ORIENTATION		
% of colleagues identifying as LGB	1.0%	

GROUP ACCIDENT RATES

	Lloyds TSB	HBOS
Total accidents involving injury (colleagues only)	1,839	1,154
Total slips, trips and falls (including members of public)	574	475
Total RIDDOR (reportable accidents) across the Group	157	121

DISABILITY

Both Lloyds TSB and HBOS support disabled colleagues with reasonable adjustments to help them remain effective in the workplace. The Personal Development Programme for disabled colleagues has made a positive difference to those who have attended. Research shows that attendees are more likely to be promoted or remain with the Group than disabled colleagues who have not attended.

We continue to work closely with external organisations like Employers Forum on Disability and will be the headline sponsor of RADAR's People of the Year Awards in 2009.

SEXUAL ORIENTATION

Lloyds TSB was awarded first place in the 2008 Stonewall Workplace Equality Index. The index ranks companies for lesbian, gay and bisexual equality in the workplace, and last year more than 300 of the UK's public and private sector employers took part. HBOS came 58th overall, its fifth year in the top 100.

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.

CONFIDENTIAL COUNSELLING

We provide colleagues with a comprehensive Employee Assistance Programme. Provided by an independent healthcare supplier, 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

All colleagues in Lloyds Banking Group 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. In April 2008, HBOS received a gold award for its health and safety standards for the third year running. The accolade, from the Royal Society for the Prevention of Accidents, recognises high standards in the management of health and safety.

WHAT WE NEED TO DO

- Baseline colleague perception in 2009 and track progress
- Harmonise work-life balance policies across the Group
- Continue to harmonise equality and diversity policies and programmes across the Group

COMMUNITY

BUILDING
STRONGER
COMMUNITIES

As a substantial provider of financial services to millions of individuals and hundreds of thousands of businesses, the role we play in the economic recovery and future growth is clear. Our wider economic role – as a major employer, purchaser of goods and services and supporting the prosperity of local households and businesses – traverses the role we play in wider society.

We are also a major community investor. Investing cash and time in the thousands of local communities in which our business operates, helps build trust. It also helps us develop our understanding of local communities and the diversity of customers and markets, allowing us to better adapt the way we do business to meet their needs. We believe we can achieve more effective and sustained results by integrating our efforts into business activity. Our priorities are to support colleagues with their local community engagement and fundraising, and funding local charities working with disadvantaged community groups.

LOCAL COMMUNITY
ENGAGEMENT

Many of our colleagues – we estimate around 30,000 – are active in local community organisations in and out of Company time. The positive relationships built, in turn, support our business in the local community.

600,000
LOCAL COMMUNITY ORGANISATIONS
BANK WITH US

COMMUNITY ORGANISATIONS

Over 600,000 local community organisations, clubs and societies bank with us, and this is a market we want to grow. So we will continue to encourage giving time and resource to these groups. We use the local knowledge of our colleagues to identify where our efforts can make the biggest difference in a particular community.

SMALL BUSINESS SEMINARS

Colleagues are involved in local chambers of commerce, enterprise agencies or town centre management committees. A number of them lead or sit on the boards of Local Strategic Partnerships and regeneration initiatives. Our small business information seminars (see page 6), for example, draw on these contacts to bring together local businesses.

PAYMENT OF SUPPLIERS

	Lloyds TSB 2007	Lloyds TSB 2008	HBOS 2007	HBOS 2008
Value (£ billion)	2.20	2.67	3.05	2.9
Average time to pay (days)	28.78	26.03	19.55	19.38

SUPPORTING POLICY

The alignment of business and community priorities is not just restricted to local communities. We also have colleagues involved on behalf of the Group in national organisations, trade bodies and policy groups. Such activities provide the opportunity to provide specific expertise while gaining a better understanding of specific market sectors and deepening our relationships in those sectors.

BUYING GOODS AND SERVICES

Last year, the Group bought around £4.5 billion worth of goods and services from an estimated 30,000 suppliers.

PROMPT PAYMENT CODE

Our suppliers are important to us. We want to ensure that we treat them fairly and pay them on time. In 2009 we became signatories to the new Prompt Payment Code. We commit to pay suppliers on time and not change the payment terms agreed at the outset of the contract. We will provide clear guidance on payment procedures, including redress for any disputes, and encourage similar good practice amongst our suppliers and other businesses.

We have procurement standards in place across the Group which take account of suppliers' policies and practice. In 2008 we strengthened and relaunched our supplier risk management process which governs how we consider our suppliers' social, ethical and environmental performance as part of the tendering process. In 2008, 105 supplier reviews were undertaken.

INDUSTRY COLLABORATION

We have been working with a number of other financial services companies to develop an industry-wide corporate responsibility survey which is available online and benefits suppliers who only have to complete one survey for all participating financial services companies. This scheme, launched in 2008 provides greater comparability between different suppliers and helps us make more informed supply choices.

30,000
SUPPLIERS

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LONDON 2012

As the Official Banking and Insurance Partner, we have a compelling vision: 'To inspire and support young people, communities and businesses all over Britain on their journey to the 2012 Olympic and Paralympic Games and beyond.'

COMMUNITY IMPACT

London 2012 will touch every single person in Britain and our employees and branches have a vital role to play in this. Every one of us will be offered a role in inspiring and supporting young people, communities and businesses across Britain to share the benefits of London 2012.

London 2012 provides a catalyst to help achieve our corporate vision. Our Partnership will help us to: build deeper relationships with existing customers; attract new customers; create trading opportunities with other London 2012 partners; and secure involvement with the many infrastructure, tourism and regeneration projects taking place across Britain. We are sharing these benefits with our customers and our stakeholders for everyone's benefit.

BENEFITS FOR SMALL BUSINESSES

We are using our sponsorship of London 2012 to promote the Games' benefits to British businesses, many of them our customers. The Lloyds TSB Official Business Guide for London 2012 is helping companies of all sizes and in all locations across the country seize the commercial opportunities. It offers practical financial advice and lists useful sources of support. It brings the scale of London 2012 down to a more practical level, following the money back through the supply chain to smaller businesses and, by extension, local communities.

More than 2,000 business guides have been downloaded and over 45,000 distributed.

LOCAL HEROES PROGRAMME

In partnership with SportsAid, our Local Heroes programme gives promising young athletes the chance to meet their peers and get advice from experts on how to manage their sporting and educational commitments. It also aims to provide them with the skills to prepare for life as an elite athlete. Last year, Lloyds TSB Local Heroes supported 250 young athletes. Of those, 24 have now moved on to the Talented Athlete Scholarship Scheme and 21 now receive World Class lottery support. This year, the scheme will support 271 young people across the UK.

LLOYDS TSB NATIONAL SCHOOL SPORT WEEK

In February 2009 we announced our part in the Lloyds TSB National School Sport Week, which saw schools across Britain being inspired by the vision and values of London 2012 to get more young people doing more sport. It is a partnership with the Youth Sport Trust supporting the Government's physical education and sports strategy for young people.



CHARITY PARTNERSHIPS

LLOYDS TSB CHARITY OF THE YEAR

The Lloyds Banking Group's main charity partnership is with the British Heart Foundation. We aim to raise £2 million by June 2010 to fund at least 15 new heart nurses, who will provide specialist care and support to improve the physical and emotional health of more than 8,400 heart patients and their families.

Lloyds TSB's previous charity partnership with Barnardo's ended in June 2008 and over £1.9 million was raised. Highlights included the One Big Quiz, which saw 22 sites across the Group competing in a quiz on the same night and Bernie Hollywood from Cardnet who raised over £20,000 by running from John O'Groats to Land's End in three weeks before taking the train to compete in the Flora London Marathon.

HBOS MILLION POUND CHALLENGE

The HBOS Foundation won the 2008 Institute of Fundraising Scotland Partnership Award for its 2007 Charity of the Year fundraising programme. It raised over £3.6 million for the British Heart Foundation, WRVS and RNLI in partnership with the Family Holiday Association.

In 2008 it exceeded this – Halifax and Bank of Scotland's partnerships with CLIC Sargent, Age Concern and Diabetes UK raised £4.4 million.



BEST BUSINESS-CHARITY PARTNERSHIP

Lloyds TSB's 2006 partnership with Breast Cancer Care won 'Best Business-Charity Partnership' at the Institute of Fundraising National Awards in 2008. A total of £2.1 million was raised; more than double the target.

250
YOUNG ATHLETES SUPPORTED BY
LLOYDS TSB LOCAL HEROES

£2 million
FUNDRAISING TARGET BY 2010 FOR
THE BRITISH HEART FOUNDATION

£4 million
RAISED FOR CLIC SARGENT, AGE CONCERN
AND DIABETES UK

CASE STUDIES

TIME BANKING WALES

Time Banking Wales, a charity based in Rhondda, has received a grant worth £30,000 from the Lloyds TSB Foundation for England and Wales. The charity manages a local currency of 'credits', which people earn for the time they donate to the community. These credits can then be exchanged for services and events. The funding will help with salary costs.

INSPIRING SCOTLAND

A 'venture philanthropy organisation', Inspiring Scotland brings together resources to tackle social issues in Scotland. Once part of the Lloyds TSB Foundation for Scotland, it is now a completely independent organisation. Through its 14:19 Fund, an initial group of 24 charities are receiving investment of up to £55 million over the next ten years. They're delivering programmes to help 14- to 19-year-olds who are struggling to make a successful transition from school to the next stage of their lives.

CITIZENS ADVICE

A £132,000 HBOS Foundation grant is paying for a national programme of training to help bureau advisers improve their knowledge of money advice issues.

SCOTTISH REFUGEE COUNCIL

The Scottish Refugee Council is collaborating with its sister organisation in England on a parallel three-and-a-half-year financial literacy project for refugees and asylum seekers. A £255,250 HBOS Foundation grant will enable the Council to provide financial literacy training for individuals, as well as build training capability for other refugee organisations.

YORKSHIRE AND HUMBERSIDE FINANCIAL INCLUSION FORUM

A three-year grant of £181,000 will pay the salary and costs of a permanent financial development officer for the Yorkshire and Humberside Financial Inclusion Forum. The development officer will support forum members, who work together to develop and deliver financial literacy partnerships.

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FOUNDATIONS

LLOYDS TSB FOUNDATIONS

Much of the Group'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 disadvantaged people in local communities. The Lloyds TSB Foundations together received £29 million in 2009 to support their work, bringing total contributions since 1997 to more than £390 million.

£390 million
CONTRIBUTIONS TO THE LLOYDS TSB
FOUNDATION SINCE 1997

HBOS FOUNDATION

The HBOS Foundation supports charitable funding, colleague fundraising and volunteering and financial inclusion activities. In 2008, it received £9.1 million from the HBOS; thanks to very successful fundraising efforts it donated £13.2 million to charities when contributions from colleagues and customers are included.

£9.1 million
CONTRIBUTED TO THE HBOS
FOUNDATION IN 2008

VOLUNTEERING

We estimate that around 30,000 colleagues regularly volunteer in their communities and raise funds for charitable and community causes. And over 10,000 colleagues make donations directly to charities using the UK's Give As You Earn scheme. This works through our payroll systems.

VOLUNTEERING IN HALIFAX AND BANK OF SCOTLAND

There were 12,500 registered volunteers in Halifax and Bank of Scotland in 2008, up 21 per cent on the year before. These colleagues volunteered more than 395,000 hours – including their own time – equivalent to almost £8 million worth of support.

VOLUNTEERING IN LLOYDS TSB

In Lloyds TSB, formal volunteering is managed within individual business units or by line managers and reflects local priorities. For example, Lloyds TSB Commercial's 'Bank an Hour' scheme encourages teams to work with their business customers and community organisations on local projects that help good causes and generate positive publicity. More than 50,000 hours were committed in 2008.

By its local nature, activity in Lloyds TSB is hard to measure but we estimate around 150,000 hours of Company time were committed in 2008. The Lloyds TSB Foundations matched giving scheme will match time spent and money raised (up to a limit of £500) by colleagues for registered charities meeting its grant-giving criteria. In 2008 it matched nearly 41,000 hours of time volunteered by Lloyds TSB colleagues in the community, as well as over £937,000 of funds raised for charities.



WHAT WE NEED TO DO

- Continue to support local community engagement through small business seminars
- Increase colleague participation in the Matched Giving Scheme

CLIMATE CHANGE

THE IMPORTANCE OF CLIMATE CHANGE

Climate change represents a huge global challenge and one that will impact widely on business. In recent years, both Lloyds TSB and HBOS made a lot of progress in managing their environmental impacts, as well as encouraging colleagues to do their bit, too.

More recently, both companies have taken things a step further by beginning to help customers and suppliers manage their own environmental impact. As we learn more from the experts and, as national and international regulation evolves, we are getting a better picture of likely impacts.

Although quantifying these impacts on an individual corporate level is difficult – especially as the full extent of those effects may not become clear for another 10, 30, 50 or even 100 years – we need to deal with some very obvious existing and emerging risks.

OUR APPROACH

Lloyds TSB was one of the first banks to give its managers advice on how to address the environmental impact of doing business. The focus 12 years ago was on very practical issues like pollution, waste management and transport. Today, we have to think about the effects climate change might have on our customers and, ultimately, our business.

We know there are credit risks, and we must make sure we have the policies and procedures in place to manage them. We also know we will face market, insurance and operational risks in the future as a result of climate change.

UK-WIDE EMISSIONS TARGETS

The UK Government is committed to reducing the country's carbon emissions by 80 per cent from 1990 levels by 2050. Clearly that means massive change for whole markets and sectors with high carbon emissions. But it also means all companies will have to reduce the carbon impact of their energy use, travel and transport. Businesses that react more effectively will be at an advantage.

BUILDING ON OUR TRACK RECORD

Tackling climate change needs everyone to pull together. Our senior managers have to show leadership. We need to get more of our colleagues on side. We have to have robust policies and processes in place, and clearly explain what they are. And we need to focus on results – results for colleagues, customers, wider society and, above all, our business.

Fortunately, we are building on a track record of environmental success:

- Both Lloyds TSB and HBOS were leaders in the 2008 Carbon Disclosure Project, the world's largest provider of corporate climate change information to investors, governments and other stakeholders.
- By the end of 2008, Lloyds TSB had cut emissions by 31 per cent on its 2002 figure, exceeding the target it set itself in 2007, four years ahead of schedule.
- In 2007, Halifax and Bank of Scotland launched a new climate change strategy for reducing its carbon emissions and giving customers clearer information on its performance. This included buying renewable energy for its whole property estate and displaying energy performance certificates in its buildings.

EXECUTIVE LEADERSHIP

Truett Tate, Group executive director for Wholesale, is a member of the Prince of Wales's Corporate Leaders Group on Climate Change. He dedicated the 2008 leadership conference for the top 140 leaders in Lloyds TSB's wholesale and international division to environmental sustainability. The conference helped senior managers build a clearer picture of the division's challenges and opportunities.

LEADERSHIP THROUGH COLLABORATION

Lloyds Banking Group is represented on the Steering Committee of the United Nations Environment Programme Finance Initiative. This initiative aims to encourage financial institutions to adopt best practice on environmental and sustainability issues throughout their operations.

We also chair the FORGE Group of financial services companies that developed guidelines for managing environmental issues and climate change in the sector. Susan Rice, managing director of Lloyds Banking Group Scotland, sits on the Scottish Government's Climate Change Business Delivery Taskforce.

SUSTAINABILITY NETWORK

One of our priorities is getting more of our colleagues involved. We are extending the existing Sustainability Network of 750 'environment champions' across the whole Group. The Network holds events and runs awareness campaigns to encourage colleagues to play their part. We know that colleagues respond enthusiastically: support for HBOS's commitment to the environment among colleagues increased from 24 per cent to 56 per cent following launch of its 2007 climate change strategy.

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MANAGING RISKS

Most of our exposure to environmental risks stems from our dealings with customers. Our customers operate in many different industries and locations around the world, and risks come from the impact of their activities on the environment, as well as the environment's own impact on their businesses.

Over the past decade, we have established a rigorous approach to reviewing environmental risks. In addition to providing environmental risk guidelines, our lending managers are given specific training as part of the standard credit risk course. During 2008, Lloyds TSB's environmental risk team screened more than 650 transactions and helped their lending colleagues review identified issues, referring to a standing panel of environmental consultants where necessary.

EQUATOR PRINCIPLES

We have adopted the Equator Principles. Supported by 67 financial institutions around the world, these principles set a benchmark to promote socially responsible conduct and sound environmental practices for project finance transactions valued at more than US\$10 million. We have tightened up our credit policies and procedures so we can manage these risks more effectively. Throughout 2008, we ran training and awareness sessions for project finance colleagues and others.

CLIMATEWISE

Lloyds TSB and HBOS were launch signatories to ClimateWise, a global initiative launched by the insurance industry to enhance members' approach to climate change risks in insurance. This approach has been continued in Lloyds Banking Group.

Work is currently in progress to develop and implement a single organisation-wide method of data capture and reporting of Equator Principles transactions across Lloyds Banking Group. In parallel, revised Environmental and Reputational risk policies are being drafted to strengthen the identification, assessment and management of these risks within the organisation.

In 2008, 25 Projects were reviewed (24 in Lloyds TSB and one in Bank of Scotland). Of these, 11 were completed with a total value of nearly US\$1 billion. Ten of the projects took place in Europe and the US and one in the Middle East. Only one was infrastructural, the remainder were in renewables, energy and utilities.

SEIZING OPPORTUNITIES

There will be 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 both Lloyds TSB and Bank of Scotland are among the leading lenders.

CUSTOMER INITIATIVES

5.1 million accounts have now moved to online statements. Not only does this save paper, but it also reduces cost. We have also begun extending expiry dates on debit and credit cards to save plastic.

5.1 million

CUSTOMERS MOVED TO ONLINE STATEMENTS

RESEARCH SHOWS LIMITED SUPPORT FOR GREEN PRODUCTS

There is understandable public and consumer cynicism over the growth of so-called 'green' products and the demand for such products is not clear – research undertaken in 2008 by Halifax showed that while 61 per cent of consumers said banks and building societies should do more, only 30 per cent would translate that into deliberately choosing a finance brand based on its environmental credentials. The 'green mortgage' and 'green loan' piloted by Halifax in 2007 were not extended due to poor take-up.

ADVICE FOR CUSTOMERS

One source of real difference is in our relationships with customers. Lloyds TSB Wholesale's Sustainability team has put sustainability advice and guidance for relationship managers online, providing a one-stop shop for information on market and sector issues, regulation and policy. Also, the team works closely with relationship managers to provide information for specific customers and sectors. And throughout 2008, we held dinners and conferences to explore the business impacts of climate change with our customers.

We are a member of the Small Business Consortium. Last year we produced an online guide to making small businesses greener (www.smallbusinessjourney.com). We launched it at the Prince of Wales's 2008 May Day Business Summit on Climate Change, which we also sponsored.

Across the Group we are using green issues to help us win more business. For example, Lloyds TSB Autolease is helping fleet operators take on more fuel-efficient vehicles. And for customers taking out car loans, it has created an online guide to help them choose a model with lower carbon emissions.

RENEWABLE ENERGY

The market for renewable energy in the UK is set to grow significantly, driven by government targets for carbon reduction, the need to ensure security of energy supply and price, and advances in renewable technology. We have a very strong track record, across both heritages, in supporting the renewable energy sector. We have arranged or underwritten finance for 37 deals, with £2.2 billion committed. Our lending supports over 6,000 MW of renewable generation, which is equivalent to approximately two times the total installed UK wind capacity or enough to supply over 3 million homes.

3 million
OUR LENDING SUPPORTS OVER 6,000 MW OF RENEWABLES – ENOUGH TO SUPPLY OVER 3 MILLION HOMES



MEASURING OUR IMPACT

GREENHOUSE GASES

As an office-based service business, our environmental impact is relatively low. But that has not stopped us setting ambitious targets to bring it down even more. We have focused particularly on cutting our carbon emissions from energy use and travel, and improving waste management and recycling. In cutting its carbon emissions by 31 per cent since 2002, Lloyds TSB has saved almost 70,000 tonnes of CO₂ each year

PROPERTY

Lloyds TSB and HBOS were carbon neutral in 2008. However, we have decided to stop purchasing carbon offsets from 2009 onwards; instead we will focus on the carbon performance of our own estate – over time reducing the overall carbon footprint of our buildings rather than offsetting.

TRAVEL

Lloyds TSB's One Less Journey campaign saved £3.6 million in 2008, well beyond the £1 million target, by asking colleagues to cut out one journey in ten. In Lloyds TSB there were 422,000 teleconferences in 2008, more than 30 per cent up on 2007.

WASTE

Across the Group, we were recycling around 50 per cent of all waste at the end of 2008. We also want to increase the proportion of recycled materials we use, as well as reduce the overall waste we create.

LTSB DATA AND COMMENTARY

Energy Consumption (GWh)	Baseline 2002	2007	2008
Electricity	369	350	335
Gas	180	151	177
Oil	13	5	9
Total	562	506	521

Business Travel (million km)	Baseline 2002	2007	2008
Road	97	111	101
Rail	24	33	31
Air	33	49	43
Total	154	193	175

Carbon Dioxide Emissions (tonnes)	Baseline 2002	2007	2008
Property	198,950	180,526	177,033
Green Electricity	n/a	(18,164)	(19,037)
Travel	26,333	30,474	26,479
Total	225,283	192,836	184,475

Good Quality Combined Heat and Power (GQCHP)	n/a	(31,635)	(28,823)
Net Total	225,283	161,201	155,652

In 2008 DEFRA introduced changes to the conversion factors to be used for calculating CO₂ emissions from energy consumption and travel. In addition, they introduced new guidelines for the treatment of 'renewable energy' in calculating total CO₂ emissions. The total CO₂ emissions reported above have been calculated using the old conversion factors to provide a more accurate like-for-like comparison against the baseline. Using the new guidelines our total emissions for 2008 would increase to 245,385 tonnes. In 2009 a priority is to baseline environmental impacts across the whole Group.

LTSB DATA AND COMMENTARY CONTINUED

Paper Consumption (tonnes)	Baseline 2002	2007	2008
Virgin	31,403	17,259	17,423
Recycled	1,175	2,716	2,694
Total	32,578	19,975	20,117
% recycled	4%	14%	13.4%
Tonnes of paper/person	0.5	0.35	0.36

Waste (tonnes)	Baseline 2002	2007	2008
Waste to landfill	19,129	14,047	10,573
Waste recycled	10,001	12,648	13,530
Total waste	29,130	26,695	24,103
% recycled	34%	47%	56%
Tonnes of waste/person	0.44	0.47	0.43

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HBOS DATA AND COMMENTARY		
Energy Consumption (GWh)	2007	2008
Electricity	325	328
Gas	107	119
Oil	n/a	n/a
Total	432	447
Premises tonnes CO ₂ /m ²	0.0191	0.0238
Business Travel (million km)		
Road	86	88
Rail	23	23
Air	99	78
Total	209	189
Travel tonnes CO ₂ /£m income	1.591	
Carbon Dioxide Emissions (tonnes)		
Property	163,650	
Green Electricity	(141,040)	
Travel	33,874	29,066
Total	53,577	51,676
Good Quality Combined Heat and Power (GQCHP)	n/a	n/a
Net Total	53,577	51,676

HBOS DATA CONTINUED		
Energy Consumption		
Paper Consumption (tonnes)	2007	2008
Virgin		
Recycled		
Total	17,664	16,619
% recycled	100	100
Tonnes of paper/person	0.297	0.289
Waste (tonnes)		
Waste to landfill	8,706	8,631
Waste recycled	9,238	10,675
Total waste	17,944	19,306
% recycled	51.5	55.3
Tonnes of waste/person	0.3	0.34

In 2008 DEFRA introduced changes to the conversion factors to be used for calculating CO₂ emissions from energy consumption and travel. In addition, they introduced new guidelines for the treatment of 'renewable energy' in calculating total CO₂ emissions. The total CO₂ emissions reported above have been calculated using the old conversion factors to provide a more accurate like-for-like comparison against the baseline. Using the new guidelines our total emissions for 2008 would increase to 231,408 tonnes. In 2009 a priority is to baseline environmental impacts across the whole Group.



WHAT WE NEED TO DO

- Baseline environmental impacts across the Group building on our track record

HOW WE MANAGE OUR CORPORATE RESPONSIBILITY

MANAGING A RESPONSIBLE BUSINESS

Whenever someone in the business makes a decision, corporate responsibility issues come into play. We therefore have good corporate governance in place, backed up with sound policies and procedures.

This approach balances the need to promote success with the need to manage and mitigate risk. It gives us and the outside world confidence that we have processes in place to ensure the smooth running of the business – and also that we are meeting our corporate responsibilities. As the Company changes over time, and as industry best practice and regulation move on, we refresh our policies, procedures and overall risk management approach to make sure it continues to keep pace with external developments and internal needs.

GOVERNANCE

BOARD LEVEL

The Board considers individual corporate responsibility issues throughout the year, and reviews our overall performance at the end of it.

THE CORPORATE RESPONSIBILITY STEERING GROUP

This steering group brings together senior people from all business divisions and from the relevant functions to review strategy, develop and agree scorecard objectives, and make sure we achieve them. It reports to the Group Executive Committee and makes recommendations. The group meets each quarter, and is chaired by Angie Risley, Group Human Resources Director.

DAY-TO-DAY CORPORATE RESPONSIBILITY

Most of our corporate responsibility activity takes place in the business divisions. We aim to conduct our business in a responsible way – from making lending decisions to managing our property estate. We have a network of senior managers across the business who act as corporate responsibility champions in their part of the business. They also contribute to the development of corporate responsibility strategy through our annual assessment process.

Our formal policies and procedures set minimum requirements for all our business activities and support our Code of Business Conduct. They 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. We review our policies and procedures regularly and update them as necessary.

REACHING OUR STAKEHOLDERS

CUSTOMERS

Understanding what the customer wants is at the heart of our business. Our new approach to measurement helps provide more insight into the service we deliver. We also carry out more traditional customer surveys – reviewing service standards and getting feedback on specific products and services. 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

At Lloyds Banking Group we have several ways to get our CR messages and stories to our employees. Both of our employee magazines – UpFront and Today – contain features and news stories on corporate responsibility events and issues. The Lloyds TSB daily intranet news service 'Upfront News' featured more than 400 CR related stories in 2008.

The Group intranet site has extensive information on corporate responsibility matters, which we update regularly. Individual business units have more specific information on their own intranet sites. 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.

Two-way discussions and central feedback channels are coordinated by Group Communications. Discussions between colleagues and our business leaders take place in person, at roadshows and as part of regular intranet dialogues. We benchmark ourselves against other high-performing organisations through the Colleague Engagement survey. We publish the results, and use them to draw up improvement plans. We support every colleague's right to join a union. We work particularly closely with the finance sector trade unions, Unite and Amicus, and the internal company-based unions. We consult them when making decisions that might affect large numbers of employees. We also host an annual European Employees Forum.

COMMUNITY

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, the Financial Services Authority, the Bank of England and the Financial Ombudsman Service are more important today than ever before.

SHAREHOLDERS

Our Investor Relations team is responsible for communicating with around 2.8 million private and institutional shareholders, and potential investors. The team's responsibilities include arranging briefings for institutional shareholders and analysts throughout the year, organising site visits for them, and setting up individual meetings between shareholders and Board members. This regular contact makes sure these stakeholders clearly understand our strategy, and that we answer their questions and address their concerns.

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FUTURE PRIORITIES

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.

The EFQM approach has helped us develop our corporate responsibility strategy and define our priorities: colleague engagement; customers and market innovation; community and suppliers; the environment and corporate governance. Our response to the challenges posed and our progress and performance in these priority areas form the basis of this report.

Those priority areas are also reflected in a model framework for better communicating with investors developed by a European Commission-sponsored working group we led in 2008. Major European businesses, business schools, consultancies and non-governmental organisations took part. The proposals were tested in focus groups of investors and companies in several European financial centres, with the help of the European Federation of Financial Analysts.

GETTING THE EXPERTS IN

We are used to independent experts taking a close look at every part of our business and reporting back – people like external auditors, diversity specialists, health and safety advisers and community investment specialists. The same goes for corporate responsibility.

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.

WHAT WE NEED TO DO

Improve communication and coherence of our CR approach across the Group

ASSURANCE STATEMENT

INTRODUCTION

Lloyds Banking Group (LBG) has commissioned the Centre for Sustainability & Excellence (CSE) to provide external assurance and commentary on its Corporate Responsibility Report 2008

CSE is an international advisory network of specialists, as well as a Think Tank, advising and coaching corporations and governments around the world that seek to improve their sustainability performance with practical solutions.

ASSURANCE STATEMENT

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 organisation, thus evaluating data based on its renewed structure.

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 CR Report's key elements.

This work included an independent assessment through interviews, and the collection and validation of sample quantitative data for 2008, reflected in the Report.

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

- The LBG 2008 CR Report focuses on material issues, including responsible lending, financial inclusion and climate change and provides a good representation of CR initiatives and performance information.
- LBG addressed all key recommendations we made in our Feedback Report in the 2008 CR Report (section: What we need to do.).
- LBG has applied a systematic CR management System supporting CR integration into people.
- LBG has set future priorities on Climate Change objectives, however clear priorities should be set for all other sections (Customer, Community, Colleagues).
- The majority of key performance indicators shown in the Report had positive trends although consolidation of metrics between Lloyds TSB and HBOS should be applied in the 2009 CR Report.

London, August 2009

Nikos Avlonas

CSE Managing Director
www.cse-net.org

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We want to hear from you. We appreciate any feedback – good or bad. You can e-mail us at:

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