

LLOYDS
BANKING
GROUP



2012 RESPONSIBLE BUSINESS REPORT

**DOING MORE...
TO HELP BRITAIN
PROSPER**

CONTENTS

ABOUT LLOYDS BANKING GROUP 02

A discussion with António Horta-Osório, Chief Executive of Lloyds Banking Group	03
Introduction from Anita Frew, Non-Executive Director, Lloyds Banking Group and Chair, Responsible Business Steering Group	05

OUR APPROACH 06

DOING MORE FOR OUR CUSTOMERS 09

How we support the UK's economy	10
How we respond to customer needs	13
Responding to customer complaints	15
Customer lending	16
Protecting customers' finances	18

DOING MORE FOR COLLEAGUES 20

Colleague engagement	21
Diversity & inclusion	22
Nurturing individuals' talents	24
Rewarding and incentivising colleagues	26
Health and wellbeing	27

DOING MORE FOR UK COMMUNITIES 29

Community investment	30
Community programmes	31
Colleague engagement in communities	33

DOING MORE FOR THE ENVIRONMENT 36

Supporting the low carbon economy	37
Managing the environmental risks in lending	39
Running a low carbon business	41
Involving colleagues and suppliers	43

DOING MORE FOR OUR STAKEHOLDERS 46

Our work with the UK Government	47
Our work with suppliers	49
Our work on employee relations	50
Stakeholder representation and engagement	51
Our approach to managing tax	53
Responsible business governance	54
Key target table	58
Materiality	60
Assurance	61

ABOUT LLOYDS BANKING GROUP

Lloyds Banking Group is a leading UK based financial services group providing a wide range of banking and financial services, primarily in the UK, to personal and corporate customers.

The Group's main business divisions relate to: retail banking; commercial and corporate banking; general insurance; and life, pensions and investment provision. The Group operates the UK's largest retail and commercial bank and has a large and diversified customer base.

Services are offered to more than 30 million customers through a number of iconic brands including Lloyds TSB, Halifax, Bank of Scotland, and Scottish Widows, through a range of distribution channels. This includes the largest branch network in the UK and a comprehensive digital, telephony and mobile proposition.

At the end of 2012 we employed around 90,000 colleagues (on a full-time equivalent basis) mostly in the UK, and recorded underlying profit of £2.6bn, with a statutory loss of £570m.

Lloyds Banking Group is quoted on both the London Stock Exchange and the New York Stock Exchange and is one of the largest companies within the FTSE 100. The Group is headquartered in the UK.

This report is for the year ended 31 December 2012 which is aligned to our financial year end. The report is prepared annually with the last report having been prepared for the year end 31 December 2011.

For more information on our business and financial performance, please take a look in our annual report: <http://2012.lloydsbankinggroup-annualreport.com/>

SIR WINFRIED BISCHOFF



“

We make a positive difference by assisting the UK's households, businesses and communities – which in turn means we're helping Britain prosper

Sir Winfried Bischoff
Chairman, Lloyds Banking Group

A DISCUSSION WITH ANTÓNIO HORTA-OSÓRIO,

Chief Executive of Lloyds Banking Group



ANTÓNIO HORTA-OSÓRIO

António Horta-Osório, our Chief Executive, gives his perspective on the last few months and what responsible business means to him.

Can you tell us a bit more about the direction you've taken the bank in since 2011?

As a bank, and as a business, we rely on people and reputation. A reputation is something that takes years to build and can be lost overnight. Our stakeholders want a bank that has better service, clearer products and responds to customer needs, but is also doing the right thing. We are trying to rebuild this reputation among our customers and other stakeholders – whether through Lloyds Banking Group or our customer-facing brands.

Yet over the years, many banks in the UK have lost customer focus – you can see that in the service people receive, like unsuitable customer products and a lack of relationship managers. At Lloyds Banking Group we are taking a different approach. We designed a strategy in June 2011 to become the best bank for customers, with a focus on the UK and its communities.

We're concentrating on retail and commercial banking, including small and medium sized business (SME) banking. We're creating a low-cost base, which means that we can offer better value for money for our customers by sharing those cost advantages with them. In addition, we will provide a better return for shareholders.

We can also draw on a strong tradition of lending and taking deposits – looking after people's financial health prudently, without the predominance of an investment banking culture. That's what makes us different to other UK banks.

What changes have you seen in the bank since introducing your new strategy in 2011?

Our customer satisfaction scores for our retail brands are going up, while our complaints have nearly halved in two years – we have a third of the complaints of our major competitors for every 1,000 customers.

At the same time we are taking steps to improve our service offering to customers. For example, we have committed to not closing a single branch if it is the last in town, and we are the only bank in the UK with this commitment. This shows that our cost savings will not impact on our capacity or desire to serve customers in the way that they want to interact with us – in branches, online or with newer banking services, like mobile.

We are the largest bank in the community and the largest contributor of community investment for the financial services sector in the UK. In 2012, we invested £85m to UK communities and are continuing with the same level of investment in 2013.

However, we are still dealing with legacy issues of the past like Payment Protection Insurance (PPI). We were the first bank to offer compensation to customers who were mis-sold PPI and we are working hard to resolve these issues for our customers. We are also careful about who we lend money to – ensuring that the money is used in the best possible way – and have clear policies on risk, with our risk framework reviewed regularly.

But a reputation is hard to rebuild and will take time. We also know that external recognition of these changes to the Group will absolutely take time, but we're heading in the right direction.

A need for a change of culture within the banking sector has been much debated within the media. How has the Group changed its culture to be a more responsible bank?

Changing the culture of the bank inevitably follows from our strategy. We now have the right strategy which is customer focused. We've put in place the right leaders in the organisation who are leading by example and can communicate that strategy.

We're working on designing even better products and services for customers. Products that are clear and transparent, and reviewed at the highest level of the organisation to ensure that they are right for customers.

And we're creating the right incentives for our customer-facing colleagues, so that they fully serve and fulfil our customers' needs.

In 2013, our incentives will shift from the sales based model that has been common in the financial sector, to a mix of rewarding a low-risk culture and really meeting the needs of customers. It means that half of our service incentives will be based on our colleagues' behaviours – this will be measured independently by what our customers tell us about our service. We also have our annual scorecard that will be evaluated on a broader basis.

How does responsible business impact on the Group's strategy?

We take responsible business very seriously because we know that the impact we can have on people's lives is enormous. We want to be recognised as a responsible business, but it is a journey. While we are making great progress, we still have more to do.

I'm pleased about our progress and focus on responsible business during the past year. We have a clear responsible business strategy and targets that align with the strategy of the bank. The Responsible Business Steering Group (RBSG) informs me of its progress and senior leaders from almost every division of the bank are represented on the Steering Group.

Our commitment to responsible business in 2012 is evident by being the bank that donated the largest amount to UK communities. Our colleagues are playing a key part. Their behaviour is underpinned by our Codes of Responsibility and they are also supporting the UK's communities. For example, we've committed to 60 Business Connectors, over three years, as part of Business in the Community's programme. These are people who spend a year on secondment, bringing the best of the bank to help their communities.

In essence, we are trying to do the right thing, based on the right judgements. Being legal is not enough. There is the right way to do things and the wrong way to do things. For us, what is important is that our choices meet the test of morality.

What is your outlook for the UK's economic recovery?

I think that we have a long and difficult recovery ahead of us. The economy is beginning to grow but the UK needs to increase employment and exports. As a Group, we are experiencing strong growth in our lending to SMEs, while lending to mid and large companies is also growing.

The financial sector is important to the UK economy as it accounts for 10 per cent of the economy. So, the future of banks is tied to the future of the UK economy. As a Group, we are focused on individuals and the growth of small to medium-sized businesses, which are so critical to the UK economy. Our aspiration is to help Britain prosper across the UK's households, businesses and communities. This is a vision that we are starting to bring to life.

INTRODUCTION FROM ANITA FREW

Non-Executive Director, Lloyds Banking Group and Chair, Responsible Business Steering Group



As Chair of the Responsible Business Steering Group (RBSG), I am delighted to introduce our Responsible Business Report for 2012. This report is our year in review, documenting our journey to become a leader in responsible business by doing more for the UK's households, businesses and communities. I'm very honoured to be leading the Steering Group that is setting the direction for responsible business at the bank.

With a background in industry, I've seen the importance of well-run banks to the manufacturing sector. Banks fund industry and growth, supporting businesses, consumers and communities alike. In short, healthy banks are essential to prosperous economies. As a bank with 30 million customers and around 90,000 colleagues, we're a key part of the UK economy, and take this responsibility seriously.

Responsibility inside the Group

During 2012, we did more to embed and monitor responsible business across the Group. The Steering Group is now comprised of representatives from all of our business units and functions, including board level involvement. These senior representatives are able to guide their individual business units to implement the responsible business approach among colleagues, supported by the Codes of Responsibility. In 2012, we also invested a lot of energy into reinforcing our governance structures – a vital building block to strengthen our reputation in this space.

We've been working to make responsible business more connected with our strategy and day-to-day work, so that it resonates more clearly inside the business. We've successfully elevated the discussion around responsible business to link it to our business strategy and asked ourselves how responsibility can help us be the best bank for customers.

Key discussions have included: how can we judge, both inside and outside of the business, that we are behaving responsibly? How can we improve as a business and measure that change? And how can we, as the Steering Group, direct and influence this change?

Every two months, the RBSG meets to examine one of the five 'pillars' of responsible business, that address customers, colleagues, communities, the environment and stakeholders. We investigate how the responsible business pillar can further help to deliver the bank's strategy to be the best bank for customers. Throughout this report, we explain our progress and measure against each of the five pillars.

For the first time this year, an independent stakeholder panel has helped us to shape our responsible business approach and reporting, and has provided assurance on this document.

Strengthening measurement

In 2012, we challenged ourselves as Steering Group to look at our own business area, along with the Group's ambitions, and set ourselves aspirational and relevant responsible business objectives. Our vision is to show how we are really making a difference, to be the best bank for customers.

As a result, we've been developing a 'responsible business internal scorecard' that will demonstrate our ambition. The responsible business scorecard is setting objectives and measures to show how well we are behaving responsibly as a business.

We also want to show how we're contributing to the broader economy of the UK. We're, therefore, developing new metrics for 2013 to demonstrate how our responsible business work is helping Britain prosper. This will validate how we're making a sustainable difference to the UK economy. These new measures will explicitly connect responsible business with our business strategy.

While we're improving and refining our measures, throughout this report we show you metrics relating to our five pillars of responsible business.

Helping Britain prosper

Over the coming year, we want our customers and other stakeholders to see the work we are doing. It's my hope that when a customer walks into a branch, or an employee says that they work for Lloyds Banking Group, they feel pride and a connection with a bank that passionately believes in being responsible.

We've a strong tradition that stems from the banking basics – of lending and taking deposits; of helping to fund industry and look after our customers' financial health. It is this tradition that built our strong brand and it's where we're returning to, responsibly, to become the best bank for customers.

OUR APPROACH

How we are Doing more to help Britain prosper

As the UK's largest retail and commercial bank, we can do more than any of our peers to help Britain prosper. Our vision is to do more to add societal value in the areas most closely connected to our products and services, and to create a business our stakeholders are proud of long into the future.

We do this in line with the Group's values – putting customers first, keeping it simple, and making a difference together – in order to be the best bank for customers. We know that proud colleagues will work harder for our customers, bringing greater returns for our shareholders.

In 2011, we created a responsible business strategy that supports these Group-level ambitions by focusing on doing more in the areas where we can make the biggest difference across UK households, businesses and communities. We do this under the banner of Doing More, which reflects our journey to be recognised as a leader in responsible business.

Our responsible business strategy

The strategy for responsible business was developed following internal and external consultation to ensure that it fits with wider business issues as well as those most material to the Group. It aims to meet the expectations of our key stakeholders including the UK Government, shareholders, investors, our customers, colleagues, suppliers and communities.

It is aligned to our core business strategy, 'being the best bank for customers', and aims to put Lloyds Banking Group in a leadership position in the UK. We also want to stand out as a bank that is trusted and recognised in the community as helping Britain prosper.

To meet this goal, our responsible business strategy sets and delivers Group-wide KPIs and targets – [see page 58](#).

“Our vision is to do more to add societal value in the areas most closely connected to our products & services and to create a business our stakeholders are proud of

Supporting households, businesses and communities

In 2012, the UK's households, businesses and communities continued to experience a difficult economic climate. For the Group, the economic uncertainty was also coupled with low trust among the UK public in the banking sector.

As a bank, we have to balance the needs of our customers with the needs of our other stakeholders. In 2012, we reviewed and re-defined our focus across households, businesses and communities as follows:

- ▶ **Households:** Helping generations of customers across the UK to feel secure about the future, by offering the right banking products at the right time, that look after their financial health. We also want to make banking accessible to UK households. In 2012, this included offering essential services to our customers, such as helping people to buy their first homes
- ▶ **Businesses:** Ensuring businesses, small and large, have access to the advice or funding they need to grow and thrive. In 2012, we increased our support for start-ups, social enterprises and small to medium-sized businesses (SMEs)
- ▶ **Communities:** Making a sustained and positive contribution to the communities in which we operate; supporting activities with outcomes that result in education, employability or enterprise. In 2012, we invested £85m in UK communities ✓

Developments in 2012

2012 has been a year of further strengthening the responsible business foundations across the bank – to be both part of the bank's business strategy and also part of our colleagues' day-to-day activities.

We now have senior level representation from key bank divisions on our Responsible Business Steering Group (RBSG), which oversees the governance of the strategy and informs the Board of any relevant business issues. The RBSG members are tasked with driving change through their business areas, to help embed responsible business within the Group. Day-to-day delivery of the strategy lies with the Group's Community and Sustainable Business team. More information on the RBSG can be found in the Governance section of this report.

At the same time, we reviewed and re-launched two new Codes of Responsibility, called the Code of Business Responsibility and the Code of Personal Responsibility. The Codes set common foundations for responsible behaviour across the Group, among colleagues and suppliers. The Codes of Responsibility take account of the material issues facing our business and hold us to high standards concerning our engagement with society and the environment. Working to the standards set out in the Codes means we can do more for households, businesses and communities, and help Britain prosper.

✓ Independently assured key performance indicators

RESPONSIBLE BUSINESS STRATEGY

Vision

Doing more to help Britain prosper

Working responsibly underpins our purpose as a business. Our vision is to do more to add societal value in the areas most closely connected to our products and services, and to create a business our stakeholders are proud of long into the future.

Values

Putting customers first, keeping it simple, and making a difference together – to be the best bank for customers

Our values guide the way we behave, give us standards to measure ourselves by and define how we operate as an organisation. They are the foundations of what we aspire to demonstrate in everything we do.

Focus areas

These are the areas where we make the biggest difference as a business

Households

Helping generations of customers across the UK to feel secure about the future by offering the right financial products and services at the right time.

Businesses

Ensuring businesses, small and large, have access to the advice or funding they need to thrive.

Communities

Making a sustained and positive contribution to the communities in which we operate; supporting activities with outcomes that result in education, employability & enterprise.

Measures

Codes of Personal & Business Responsibility

We measure performance against the five pillars of Responsible Business. The codes are built around our values and guide how we operate as a business and consider customers, colleagues, working with external stakeholders, communities and the environment. Working to the standards set out in the codes mean we can do more for households, businesses and communities, and help Britain prosper.

Customers

Colleagues

Stakeholders

Communities

Environment

Further development of our responsible business targets

We currently monitor our responsible business progress and performance against these five pillars of responsible business:

- ▶ put customers at the heart of our business
- ▶ be a great company to work for
- ▶ invest in communities to help them prosper and grow
- ▶ work to continually reduce our environmental impact
- ▶ work responsibly with our external stakeholders

The pillars underpin the Codes of Business Responsibility, which guide how we operate as a business and define ethical behaviour among colleagues and suppliers.

However, we want to go further. During 2012, we have been working to create a 'responsible business scorecard' that will mark the bank against its responsible business targets. This ties in with the 'helping Britain prosper' metrics that we are developing which will assess how the bank is contributing to helping Britain prosper, across households, business and communities. Our 2013 Responsible Business Report will include measures against these new metrics.

About this report

The aim of this report is to reach out to wider stakeholder groups including Government, shareholders, investors, our customers, colleagues, suppliers and communities. Fully embedding our responsible business approach across the Group, and other stakeholders, is a journey for the bank. It has full commitment from the Board and our colleagues, and its success is dependent upon this commitment.

We will be reporting on our progress each year through this report, while updating our responsible business website with regular news and features on developments across the business.

We welcome your feedback on this report at responsiblebusiness@lloydsbanking.com

DOING MORE FOR OUR CUSTOMERS

IN THIS SECTION

Doing more for our customers	09
How we support the UK's economy	10
How we respond to customer needs	13
Responding to customer complaints	15
Customer lending	16
Protecting customers' finances	18



DOING MORE FOR OUR CUSTOMERS

Our vision as a business is to become the best bank for customers, which we believe will help Britain prosper and deliver strong, stable and sustainable returns for our shareholders. With over 30 million customers, we do more than many other banks to make a difference in the UK's households, businesses and communities. In line with what our customers tell us, we believe offering great service and products are central to how we define a responsible bank.

How we are doing more for customers

In 2012, we worked hard to make banking more accessible. This resulted in new services like mobile banking; a commitment to longer branch opening hours, and providing better services for the financially excluded. We have also helped over 55,000 customers get on the property ladder with first-time buyer mortgages.

We've invested heavily to improve our products and services, in line with our goals of creating a simpler and more agile organisation. We're already seeing results and improvements in our customers' experience: complaints have halved in the past two years (excluding PPI related complaints) while customer satisfaction has increased over the last five years.

Supporting SMEs, social enterprises and larger businesses will also contribute to a prosperous UK economy. We helped 120,000 new small and medium enterprises get up and running in 2012, and have created a new Charter for our mid-market customers.

Our current challenges

External research undertaken by Ipsos MORI¹ on behalf of the Group showed that, through the eyes of our customers and potential customers, relationships and responsibility are inseparable. When it comes to responsible banking, our customers don't just think of the areas covered by a traditional 'corporate responsibility' programme. For them, taking responsibility more seriously means being a bank that offers better service, clear products and responds to customer needs (like longer opening hours) but also has policies in place on environmental protection, human rights and ethics.

Our challenge is to communicate to customers about the positive changes taking place, in a way that is appropriate to them. We will also continue to simplify our products and services, and have created a new Financial Inclusion Steering Group to review future opportunities to make banking more accessible.

Ethically minded customers are also challenging us to be better stewards of the companies in which we invest. Scottish Widows Investment Partnership (SWIP) has a dedicated team which engages with companies on directors' pay and environmental risks; and in 2012 became one of the first UK investors to bar cluster munitions companies from all portfolios.

2012 highlights

Our responsible business approach has led to us doing more for customers in 2012 by:

- ▶ supporting 120,000 new small and medium enterprises to start in 2012, helping a total of 350,000 businesses in three years
- ▶ adding mobile and voice recognition technologies to guide customer calls accurately and promptly to the right services
- ▶ making significant headway among our high street brands to achieve their highest ever scores for customer satisfaction
- ▶ interviewing 50,000 customers a month as part of our customer insights activity
- ▶ deploying a rapid response vehicle service during severe flooding incidents to better support our insurance customers

Doing more in 2013

Our vision challenges us to be the best bank for customers. In 2013, we've publicly committed to the following to make this happen. We will:

- ▶ make changes to ensure that all our reward structures adequately consider how well colleagues are serving our customers
- ▶ lend £6.5bn in 2013 to 60,000 first-time buyers
- ▶ reduce complaints to 1.0 complaint per 1,000 accounts (compared to 1.1 in the second half of 2012)
- ▶ help a further 100,000 new businesses start-up in 2013
- ▶ plan to launch an Enhanced Annuity product which pays customers more income in retirement

Customer complaints (FSA¹ banking complaints per 1000 a/c²) not including PPI related complaints



Through the Group's Simplification strategy and continued focus on becoming the best bank for customers, our Financial Services Authority (FSA) reportable banking complaints continued to fall.

“With over 30 million customers, we do more than many other banks to make a difference in the UK's households, businesses and communities

¹ The full research findings for the Ipsos MORI research are available at www.ipsos-mori.com

² The FSA was disbanded in April 2013. Since our engagements in 2012 were with the FSA, we use this terminology throughout this report.

³ Accounts.

HOW WE SUPPORT THE UK'S ECONOMY



**BIGGEST PROVIDER
OF BASIC BANK
ACCOUNTS – IN
2012 OVER 100,000
CUSTOMERS
UPGRADED/OPENED
A MAINSTREAM BANK
ACCOUNT**

Introduction

The success of the Group is inextricably linked to supporting the UK economy. Our goal as a Group is to help Britain prosper focusing on UK households, businesses and communities. In 2012, we confirmed our commitment to helping Britain prosper through a number of initiatives for personal and business customers.

We underlined our support to the UK housing market by continuing to be the UK's largest mortgage provider to first-time buyers, helping over 55,000 customers take their first steps onto the property ladder. We support businesses of all sizes to help them grow, create jobs and, ultimately, help Britain prosper and currently serve over one million SMEs.

Supporting households

Part of the Group's business strategy, that impacts upon households, is to make banking more simple and accessible. This means being financially inclusive as well as offering tailored saving and investment options to customers. We know that personal saving and investment is key to ensuring the stability of the UK economy.

We're also supporting households by enabling first-time buyers to get on the property ladder. In 2012, we committed to lending £6.5bn to help 60,000 customers make their first property purchase in 2013.

Lloyds Banking Group number of First-Time Buyer loans completed per year	2012	2011	2010
First-Time Buyers	55,900	52,800	51,300

Supporting small and medium sized businesses

In 2012, we made significant progress in simplifying the lending process and the time taken to complete lending transactions for SMEs. We worked closely with external stakeholders and the UK Government to support growth in this sector:

- we committed to SME and Mid Markets by issuing our full funding allocation of £1.4bn under the National Loans Guarantee Scheme (NLGS). The scheme was launched in March 2012. Within the scheme we offer discounts of 1 per cent per annum to all SME customers, on their interest rates for term loans and hire purchase lending across all sectors for the life of the loan
- we were also the first bank to participate in the UK Government and Bank of England's Funding for Lending Scheme, which is designed to boost lending to the real economy

Encouraging savers

Supporting savers is crucial to stimulating the UK economy. The latest report by Scottish Widows http://reference.scottishwidows.co.uk/docs/2013_sandi_report.pdf on people's saving habits (based on 5,000 individuals), reflected steady progress. However, it indicates people are still taking a cautionary approach to which saving products they use.

We can do more to show customers the benefits of saving for the long-term, and to incentivise people to save. Our retail brands are continuing to develop product offerings and incentives to encourage customers to save. The Halifax Savers Prize Draw has been very popular, with over one million customers taking part.

We have a market leading range of children's accounts covering Junior ISAs, regular savers, variable and fixed rates. These regularly feature in best buy tables and are popular with children and their parents, which are a great first way to develop the savings habit.

Financial inclusion

We have been working to combat the issues of financial exclusion as it is important to our goal to help Britain prosper. Our Money for Life programme link: www.moneyforlifeprogramme.org.uk focuses on financial education for people who may be disadvantaged and financially excluded. We have doubled our investment in Money for Life to £8m.

We are also the UK's biggest provider of basic bank accounts which help to bring people into the banking system, people who have been in financial difficulty in the past or prisoners who have no access to a bank account once released (excluding those with a history of financial crime). These accounts permit transactions such as receiving income, paying bills and purchasing goods. Research shows that prisoners with a basic bank account are more likely to integrate into society and not reoffend.

We currently provide over three million basic bank accounts. In 2012, we opened around 225,000 new accounts and over 100,000 customers who previously had a basic bank account either upgraded to or opened a mainstream bank account.

HIGHLIGHT

COMMITMENT TO LEND AN ADDITIONAL £1BN TO THE UK MANUFACTURING SECTOR

However, we still need to do more to include wider groups who may be financially excluded especially in the current economic climate. We have a Financial Inclusion Steering Group that is chaired by Sara Weller, a Non-Executive Director, with expertise from across the business. It will also join up various products, services and initiatives related to financial inclusion across the bank, and seek to make financial inclusion part of our wider customer diversity agenda.

Breakdown of basic bank accounts for end of 2012

Open accounts as of 31 December 2012

	Total number of basic bank accounts	Number living in deprived area
Lloyds TSB	674,914	51,033
Halifax	2,800,715	196,134
Bank of Scotland	446,667	9,907
Total	3,922,296	257,074

Making banking accessible is important to be the best bank for customers. Around 15 per cent of the UK population has a disability. We were the first bank to introduce a British Sign Language (BSL) sign video service for customers with hearing impairments, allowing them to contact us via video link with the help of a sign language interpreter. We also have a Disability Services Support team that is available to provide help and support to front line colleagues with disability related queries.

We are currently leading the financial services industry in its response to the Prime Minister's challenge on dementia and the creation of dementia friendly communities. The aim is to create a 'Dementia Friendly Financial Services Charter' which will help all banks, building societies and insurance companies provide an improved and consistent service to people affected by dementia.

Banking in deprived areas

Financial exclusion is common to low income areas. We recognise the importance of making our services accessible to those in most need of them. We have also committed to not closing a branch if it is the last in town.

As of December 2012, the Group had some 26,000 active small business customers in the most deprived areas of the UK. It is important that we do more in these areas to offer lending support and make banking more accessible. Lloyds TSB's loan facilities for such businesses increased to £504m from £491m as of December 2011.

Helping customers during difficult times

With many households affected by the recession, we have a responsibility to help our customers get their finances back on track. In 2012, we had 7.3 million interactions with customers focusing on their financial challenges. This was managed by our Credit Operations Business Unit of around 2,500 colleagues.

Within Credit Operations we have a further specialist team of 200 experts that works with customers just before they enter into the arrears process, helping them by tailoring solutions to their financial needs. In 2012, around 462,000 customers were offered support and advice by this team before their accounts fell into significant arrears. The results were consistent with that of the previous year with 87 per cent of interactions with customers resulting in a positive outcome.

A specialist team within our Business Support Unit works with any business in financial difficulty to try and restore it to a financially viable position. This specialist support is part of our strategy to put customers at the centre of everything we do. A number of options can be employed, such as advice on how to develop and implement turnaround strategies, or restructuring debt and forbearance. We work closely with the Institute of Turnaround (IFT) and external professionals from legal and accountancy firms, when needed.

In 2012, the UK experienced the worst weather on record with many regions across the UK suffering from extensive flooding. Although flood claim volumes increased by 500 per cent we delivered our normal level of service. We also sent our Rapid Response vehicle to the more severe incidents so our advisors could see customers at their homes at a very stressful time for them. Therefore not only was making a claim hassle free but we could help customers take practical action to deal with the aftermath of their home being flooded.

Encouraging enterprise and manufacturing

In 2012, we hosted the first Lloyds TSB Enterprise Awards for businesses that are run by university students or by those who have graduated in the last five years. All businesses which had been trading continually for at least one year, and which were based in England, Scotland or Wales were eligible to enter. The Awards, which offered funding and mentoring prizes, were a great success and took place across Great Britain with regional heats and finals being run to allow as many participants as possible the opportunity to compete. We will host the Awards again in 2013.

In September 2012, we made a one-year commitment to pledge an additional £1bn of lending to the UK manufacturing sector. This commitment applies the Lloyds Funding for Lending Scheme offer of up to 1 per cent reduction in the interest rate for new business loans. This is for the full term of the loan to businesses of all sizes. In the six months since September 2012, we have given £700m of funding and are on target to reach our lending goal.

We have worked in partnership with the University of Warwick, the Engineering Employers' Federation and the Manufacturing Technologies Association to provide accredited training for our dedicated manufacturing team. We have trained more than one hundred managers across the UK. These managers provide tailored financial support to manufacturing businesses.

Workplace Pensions Initiative – Auto Enrolment

The introduction of automatic enrolment means that for the first-time employers are required, by law, to enrol eligible workers into a workplace pension scheme. Starting with the largest UK employers and rolling out to all businesses over the next four years, this represents a major change to workplace legislation.

Through our Scottish Widows brand we are committed to supporting employers through automatic enrolment, giving them access to tools, guidance and communications support designed to help them meet their employer duties. For those wishing to use alternative providers we have developed an innovative framework with 'The People's Pension' enabling employers to give workers access to the best solution for them, all managed through our AssistMe platform.

Scottish Widows Investment Partnership (SWIP) bars investments in cluster munitions

The Oslo Convention on Cluster Munitions came into force in 2010 and is ratified by the UK Government. As signatories to the Convention, the UK Government will not use these munitions, and prohibits their manufacture within the UK. However, unlike some other governments in Europe, the UK has not introduced legislation prohibiting investment in companies manufacturing these munitions overseas. This means that investment institutions with exposure to these companies must make their own voluntary decisions about how to respond to the Convention.

In 2012 SWIP and the other investment businesses of Lloyds Banking Group have worked to divest their portfolios of cluster munitions companies, in line with the Convention. We are one of the first major investment institutions to do so in the UK. We have a similar divestment policy in place for companies that are breaching the Ottawa Treaty on Anti-Personnel Landmines.

London 2012 Olympic and Paralympic Games

As a proud partner of the London 2012 Olympic and Paralympic Games, during 2012, we helped our customers maximise the opportunities presented by the Games. One in three contracts awarded for London 2012 were awarded to our business customers, and our report on the Games' Economic Impact shows that in the period up to 2017 there could be a £16.5bn contribution to UK GDP from the Games, with SMEs generating more than half of this. And more than 1,500 of our personal banking customers won tickets to the Games through in-branch and online promotions.



We recognise the importance of making our services accessible to those most in need of them. We have committed to keeping a branch open if it is the last in town

HOW WE RESPOND TO CUSTOMER NEEDS

HIGHLIGHT



**HIGHEST-EVER
CUSTOMER
SATISFACTION
SCORES DURING 2012**

Introduction

Responding to our customers' needs is central to our transformation of becoming the best bank for customers. In 2012, we made further progress to simplify our products and services for customers and we are changing our incentive model among customer-facing colleagues in our retail branches so that they are rewarded for exceptional customer service.

We carry out different kinds of research among our customers and colleagues to help us improve the customer experience. In 2012, we made changes at numerous different customer connections – from online and mobile services to better support for customers with disabilities. In 2013, we will be introducing more positive changes for customers such as longer branch opening hours.

Listening to our customers

We work to constantly improve our services, responding to customer feedback ensuring we stay ahead of the competition.

Our product and channels teams (including branch, online and telephone) are best placed to understand what is important to our customers and which areas can be improved. We also conduct ongoing customer insight activity; this research indicates that there has been a significant improvement in channel service over the last few years.

We measure each of our branches' customer experience ratings to help our channel teams coach our colleagues who are customer facing and reward them for excellent service. António Horta-Osório, our Chief Executive, also visits a branch every six weeks to meet with colleagues and attend a business customer breakfast to gain a better understanding of their needs and concerns.

Ongoing improvement of the customer experience

We conduct regular insight into product and service level satisfaction, assessing experience at various points of contact with both new and existing customers. Our research helps us to understand what is important to our customers; where the opportunities lie to improve, as well as competitor and industry comparison. We also measure our service levels in the following ways:

- ▶ with customer surveys, interviewing 50,000 customers a month
- ▶ benchmarking our performance in the marketplace for both channel and products with an independent syndicated survey (GfK's Financial Research Survey)
- ▶ conducting focus groups
- ▶ in-depth interviews

This insight gives us honest feedback from customers about whether the service in our channels has improved significantly over the last few years.

A key way for us to track the reputation of our retail brands and overall customer satisfaction is with the 'Net Promoter Score' (NPS). This is a standard business metric that rates the likelihood of customers recommending us to others. The NPS asks customers how likely that they would be to recommend the bank (or a particular product or service) to a friend or colleague on a zero-to-10 scale.

HIGHLIGHT

**50,000 CUSTOMERS
INTERVIEWED A
MONTH AS PART
OF OUR CUSTOMER
INSIGHTS ACTIVITY**

New technologies that make our products and services simpler

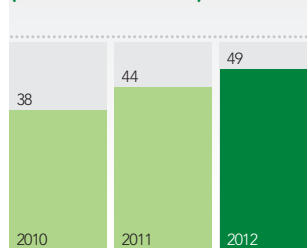
We have worked hard to ensure that our products and services respond to the evolving needs of our customers. In 2012, we enhanced our internet banking so that customers can do more online – this increased the number of customers who use both online services and mobile banking. Internet banking also gives us the opportunity to communicate directly with our customers and offer simple tools they can use to manage their money better.

For example, Lloyds TSB's online Money Manager tool helps people to track, record and categorise their monthly transactions. The results are displayed in simple pie charts, divided into meaningful categories like entertainment, food and travel. This helps customers to identify spending and, at a glance, see where they could be saving.

We also made improvements to our mobile banking service in 2012. Not only can it be used to access internet banking, it can also be used to find the nearest cash machine or branch and to look up useful contacts, for example, the number to report a lost or stolen card. Through our Halifax brand we launched a pioneering smartphone app that helps people with everything they need when moving home or taking their first steps into the property market. Packed full of features it enables searches for properties, shows properties for sale while out and about using the phone's camera, helps users estimate how much they might be able to borrow and stores pictures, comments and ratings.

While developing our digital services is important to our customers, so is retaining a local branch presence. We have committed to keeping a branch open if it is the last branch in town.

Customer satisfaction (Net Promoter Score) %



In 2012, our high street brands achieved their highest-ever NPS scores, with the Group-wide score rising from 38 in 2010, to 44 in 2011. In 2012, we achieved an increase in our NPS to 49. In 2013, we will continue to invest in our customer insight activity using the same methods.

Supporting customers with digital skills

We are also a founding partner of Go ON UK which has been set up to help the estimated 16 million adults in the UK who lack basic online skills to fully benefit from the internet. We want our 30 million customers across our Lloyds TSB, Halifax and Bank of Scotland brands to be able to benefit from the extra choice and control available from the internet. We'll be encouraging our customers to Go ON line and continue to support them with new tools and guidance materials.

We will also make sure digital skills development is available for our entire workforce by the end of 2013. Digital skills learning will be extended to up to four of our colleagues' friends and family, free of charge, with our internet based learning platform. Our colleagues are also encouraged to volunteer to support and guide our customers and those in local communities to have basic online skills.

We're also a founding partner of Go ON Gold, the sister project of Go ON UK. The project aims to address the fact that only 43 per cent of disabled people in the UK are online.

RESPONDING TO CUSTOMER COMPLAINTS

HIGHLIGHT

**FSA COMPLAINTS
PER 1,000 ACCOUNTS
HAVE ALMOST
HALVED IN THE LAST
TWO YEARS**

Introduction

We are constantly looking at better ways to serve our customers and reduce the number of complaints. To date, we have successfully reduced complaints by 50 per cent in two years which gives an indication of improvements made to simplify our processes – a clear strategy for the bank.

However, we are still affected by legacy issues, such as former PPI mis-selling. This continues to pose a challenge to our reputation and we are committed to resolving the issues in the fairest way for our customers.

Handling complaints

Our complaints have reduced by around a half in the past two years. Based on a unit of 1,000 accounts, we achieved a reduction from 1.5 complaints in 2011 compared to 1.1 in the second half of 2012. We aim to reduce this further to 1.0 complaint per 1,000 accounts in 2013.

This progress has been achieved by simplification of our processes, which are now faster, more automated and less complex. For example, our Commercial Banking customers now receive loans in half the time; our retail banking has improved with mobile and voice recognition technologies and our insurance division have a quicker claims process.

We also have a dedicated specialist support team and the extensive training we provide to some 40,000 frontline colleagues. Our high 'Net Promoter Score', which reflects our customer satisfaction levels, shows that our customers are advocates.

How we address legacy issues that impact on the bank

We refer to 'legacy issues' as actions taken prior to the Group's Strategic Review in June 2011.

Our focus in 2012 continued to be on providing certainty for customers affected by PPI mis-selling. We were the first bank to offer compensation to customers who were mis-sold PPI and remain committed to resolving the issues and treating our customers fairly.

To help us achieve our commitment to investigate and manage all customer queries to a fair outcome, and within FSA timescales, we increased our PPI operation and significantly improved the efficiency of the complaints review process. This occurred despite an upturn in PPI related complaints in the first half of the year.

In 2012 the Group also began its Past Business Review, in which we are proactively contacting customers who we believe may have been mis-sold PPI.

We have continued to work closely with the FSA in 2012 to make further improvements to our PPI complaints process where needed and ensure we have set aside sufficient funds to compensate customers. As a consequence of high numbers of PPI payments, we have made a further provision of £1,500m in the fourth quarter, which brings the amount provided for PPI in 2012 to £3,575m, and the total amount provided to £6,775m. This was higher than we expected, as announced in our Annual Results in early 2013 and we continue to work to resolve these issues. The total costs incurred to the end of 2012 were £4,344m, which included approximately £700m of related administration costs and fees.

**Customer complaints (FSA¹
banking complaints per 1000 a/c²)
not including PPI related
complaints**



Through the Group's Simplification strategy and continued focus on becoming the best bank for customers, our FSA reportable banking complaints continued to fall.

¹ The FSA was disbanded in April 2013. Since our engagements in 2012 were with the FSA, we use this terminology throughout this report.

² Accounts.

CUSTOMER LENDING

1 in 4 of the UK's new residential mortgages to first-time buyers provided by Lloyds banking group



Introduction

As the UK's largest mortgage lender we are committed to lending responsibly and fairly to our customers. Our mortgage lending is carried out within a robust risk framework of credit checks as well as fair customer treatment.

To help Britain prosper, our lending is focused on supporting UK home owners. In 2012, we provided a total of £26.2bn of new mortgage lending to our customers, which included £10.3bn of new lending to home movers and more than £6.1bn of new lending to over 55,000 first-time buyers. We are the industry leader in our support for first-time buyers.

Our commitment to lending

Our customers' homes are important to them, reflecting more than just an asset. We are committed to lending to first-time buyers to support the housing market – an important part of helping Britain prosper. Our commitment is to lend £6.5bn in 2013 to help 60,000 first-time buyers get on to the property ladder. As in 2012, we aim to provide 1 in 4 of all new mortgage loans advanced to first-time buyers in the UK.

We were the first UK bank to participate in the Funding for Lending scheme. Since its launch in mid 2012, we have committed in excess of £11bn across all of our customer segments (including commercial) to help personal and business customers.

Mortgages

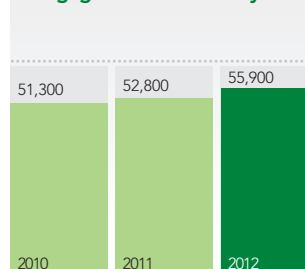
We are an industry-leader in our support for shared-equity and shared-ownership schemes, and we support key Government initiatives.

Through our Halifax brand, we provide 1 in 3 of all mortgages completed under the NewBuy scheme, a Government initiative launched in 2012 to help first-time buyers and home movers acquire a new-build home in England with a deposit as low as 5 per cent. Through our Halifax and Bank of Scotland brands, we are participating in a similar scheme called MI New Homes, a Scottish Government initiative launched in 2013 to support the new-build market in Scotland.

We are also helping customers with smaller deposits to buy their homes through Lloyds TSB's innovative Lend a Hand and Local Lend a Hand mortgages. Our Lend a Hand mortgage offers support to first-time buyers and home movers who find it hard to put together a deposit. Customers can secure a mortgage with a deposit as low as 5 per cent but can access rates usually available only to borrowers with larger down-payments. Under Lend a Hand, deposits are backed by the savings of a family member or friend, whilst under Local Lend a Hand additional security is provided by means of an indemnity from the Local Authority participating in the scheme. In this way, we are making mortgages more affordable for UK first-time buyers.

We support the UK Government's new Help-To-Buy scheme, believing it will provide a much needed boost to the UK housing market and, most importantly, help to address the issue of accessibility.

Mortgages to first-time buyers



We advanced more than £6bn of new lending to first-time buyers in 2012, helping over 55,000 customers own their own homes.

HIGHLIGHT

COMMITMENT TO LEND £6.5BN TO HELP 60,000 FIRST-TIME BUYERS DURING 2013

Improving our mortgage application processes

In 2012, we completed the roll-out of our mortgage technology platform, which helps to speed up mortgage applications, to our 800 Lloyds TSB mortgage advisers across England & Wales. The system was already in use in our Halifax and Bank of Scotland branches. This investment has improved our mortgage customer service and an initial mortgage promise can now be given in approximately 15 minutes. This roll-out happened to ensure consistency across our brands and to support our drive to simplify our processes and service to customers.

Exceeding our commitments: SME Charter and mentoring for business

Our SME Charter has been key in helping small and medium-sized businesses as it sets targets for the business. We launched the Charter in 2010 (it was updated in 2012) and pledged to support 300,000 new businesses to set up by the end of 2012. We exceeded the target; in 2012 we supported 120,000 new enterprises helping a total of 350,000 businesses in three years. Our 2013 Charter renews our pledge to help 100,000 new businesses to start up over the year.

The SME Charter also committed the Group to increasing our lending to £13bn of new gross lending to SMEs in 2012. In addition, our year-on-year net growth in advances to SMEs was 4 per cent as at the end of December 2012. This contrasted to a decline in net lending growth of 4 per cent across the industry as shown in Department of Business, Innovation and Skills figures. We have pledged to, again, deliver positive net lending in 2013.

Mentoring is also a key focus for SME support. In 2012, we exceeded our target to host at least 200 business seminars on issues that help to grow and develop SMEs, including exports, sustainability and the London 2012 legacy. We have pledged to do this again in 2013. We have also been leading the Business Finance Taskforce mentoring initiative, and developed a website that connects SMEs with mentoring organisations and networks across the UK. At the end of 2012, Lloyds Banking Group had 410 mentors for SME businesses. We will expand this network in 2013 by recruiting and training more of our colleagues.

Number of SME start ups



At the start of 2010 we launched our SME Charter in which we pledged to support 300,000 new businesses set up by the end of 2012. As the graph shows we exceeded this target helping 350,000 over the three-year period.

PROTECTING CUSTOMERS' FINANCES

HIGHLIGHT



CONTINUED INVESTMENT TO HELP PROTECT OUR CUSTOMERS, COLLEAGUES AND ASSETS FROM CURRENT AND EMERGING CYBER RISKS

Introduction

As one of the UK's largest financial organisations we are exposed to multiple cyber threats on a daily basis. These include: our customers being subject to phishing attacks in attempts to gain their account credentials; their PCs being targeted with malware designed to circumvent our security controls; criminals probing our infrastructure for vulnerabilities to gain access to our systems and information; and attempts to disrupt access to our online services.

How we protect customers from cyber threats

Lloyds Banking Group has always protected and secured its IT infrastructure. Since 2011, when the risk of cyber attack substantially increased, the Group has invested over £110m in increasing the security of our IT infrastructure. This level of investment continues to ensure that our customers, colleagues and assets remain protected against the latest and evolving cyber threats.

The Group's vision is to be the Best Bank for Customers. Protecting customers' information and finances whilst providing easy to use 24/7 services is a key part of that vision. We have over 10 million customers who bank with us online and our internet and mobile banking services use the latest technology to deliver both overt and covert layered controls. The majority of these controls do not detract from the customer experience as they are invisible. We have seen a significant year-on-year reduction in online fraud in our online retail channels last year as a direct result of investment in fraud controls.

We continue to help customers protect themselves online by providing advice and guidance on the steps they can take to make their online experience as safe as possible.

Training our colleagues

Our colleagues play a key role in keeping the Group secure; we equip our colleagues with the skills and knowledge they need to work professionally and securely in the online environment.

We do this through a combination of policy requirements, mandatory and on-demand learning/training. In 2012 we ran an innovative month-long Cyber Threat education & awareness campaign through the Group intranet around issues such as, not opening suspicious emails, care with downloading malware and leaving PCs unlocked when colleagues walk away from them. This was supported by face to face communication as well as extensive promotional material. The intranet campaign alone received over 165,000 views on its first day of launch with over a quarter of a million views throughout its month-long duration.

Year-on-year % Reduction in Fraud Loss



In 2012, we reduced total fraud losses by 12 per cent compared with 2011. This was a further improvement on the 20 per cent reduction from 2010 to 2011.

Financial crime and anti-money laundering

It is hugely important for our customers to have confidence in the financial system and, in particular, Lloyds Banking Group. This is why we have measures in place to prevent us from doing business with anyone with a history or association with fraud and financial crime.

We understand our customers so we can spot when there is unusual activity on their account. We have processes to check the identity of customers and use various tools to monitor the validity of transactions. Investment in the latest transaction monitoring technologies helps us to identify potential money laundering activity. In 2012, colleagues completed training aligned to the Group's Anti-Money laundering policy. The nature and frequency of training undertaken is appropriate to the colleague's role.

In 2012, 539 contacts were recorded by the whistle blowing helpline. Every incident was reviewed, investigated and resolved with appropriate action. We also work proactively with legislators and regulators to ensure that we meet financial crime requirements and achieve compliance. We work closely with an independent charity, Public Concern at Work, to ensure that our approach and systems continue to work effectively.

HIGHLIGHT

2012 CAMPAIGN TO RAISE AWARENESS OF CYBER THREATS AMONGST OUR COLLEAGUES

DOING MORE FOR COLLEAGUES

IN THIS SECTION

Doing more for colleagues	20
Colleague engagement	21
Diversity & inclusion	22
Nurturing individuals' talents	24
Rewarding and incentivising colleagues	26
Health and wellbeing	27



DOING MORE FOR COLLEAGUES

With colleagues who do more to put customers first, by keeping it simple and making a difference together, we'll deliver a service that will make us the best bank for customers.

How we are doing more for colleagues

We have around 90,000 colleagues (on a full time equivalent basis) across the bank and each of them plays an important role in building trust among our customers and the UK's communities. It's vital that we recognise and celebrate the contribution each can make to improve our business, and offer them the opportunity to grow and learn throughout their career.

In return, we need colleagues to help us uphold the highest standards, as set out in our Codes of Responsibility. Colleagues are also the impetus of our Sustainability Network, focused on reducing our environmental footprint. They are fundamental to our employee volunteering programme, which attracted around one in three of our people in 2012.

All of this helps colleagues to feel valued, recognise our purpose, and build pride in the bank.

Our current challenges

Colleagues are key to creating a bank that is customer centric – a bank better placed to help Britain prosper. This culture change will take time, but will be an essential component of our future success.

To do this, we need engaged colleagues – which is a challenge. Pride in the banking sector is low and changes in the bank to implement our business strategy can be unsettling for colleagues. Improving the culture of the bank and colleague engagement are now priorities for the Group Executive Committee (GEC).

In response to this challenge, we'll keep listening to colleagues' views on how to improve our service, and to help them to learn and grow. Our Doing More approach to colleague engagement will also help generate greater pride among colleagues by involving and informing them about our responsible business work.

2012 highlights

In 2012, we helped colleagues to do more by:

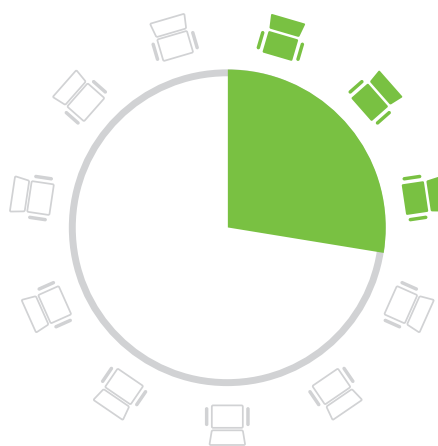
- ▶ increasing participation of volunteering to one in three colleagues, encouraged by our partnership with the London 2012 Olympic and Paralympic Games
- ▶ giving over 200 colleagues the opportunity to be an Olympic or Paralympic Torchbearer for London 2012
- ▶ establishing a taskforce on agile working, linked to a national initiative, headed by the Group's Chairman, Sir Winfried Bischoff
- ▶ improving our e-learning services, which enables colleagues to learn new skills
- ▶ increased our female representation on the Board to 27 per cent (Dec 2012)

Doing more in 2013

We want to be the best bank for colleagues. We aim to do more in 2013 by:

- ▶ involving colleagues in our responsible business work to build colleague pride and trust in the Group and our future
- ▶ building a diverse and inclusive workforce
- ▶ remaining on target to achieve one million colleague volunteer hours by the end of 2015 (since 2011)
- ▶ extending our 360-degree feedback from the top 200 leaders to the top 2,000 leaders
- ▶ expanding our National Apprenticeship Programme to 1,000 apprentices in 2013
- ▶ assessing 55,000 colleagues against the Chartered Banker Professional Standard for Bankers (CB:PSB)
- ▶ driving action plans across the business which actively address the issues raised in previous colleague surveys, and striving to become an increasingly high performing organisation

27% female representation on the Board



Our colleagues play an important role in building trust among our customers and the UK's communities

COLLEAGUE ENGAGEMENT

HIGHLIGHT

INTRODUCTION OF A NEW COLLEAGUE ENGAGEMENT MEASURE, THE LINE MANAGER INDEX

Introduction

Being the best bank for our colleagues means that we must continue to listen and act upon their feedback to create a positive and high performance culture. We are working to build trust among colleagues by creating an open working environment that encourages an honest exchange of views. We know that a business with inspired and satisfied colleagues will positively impact on our customers' experience.

Our responsible business approach supports our colleague engagement. Each colleague receives training on the Codes of Responsibility and our colleagues are also encouraged to use their skills to volunteer in the community.

Listening to colleagues

We use a number of methods to gather and act on feedback from colleagues. These include:

- ▶ forums for leaders, line managers and colleagues to share updates and issues
- ▶ regular colleague focus groups on popular topics
- ▶ blogs on our internal online forums to encourage two-way communications
- ▶ 'Back to the Floor' activities where senior leaders return to the branches to find out the challenges faced by customer service teams. 600 executives took part in 2012
- ▶ António Horta-Osório, our Chief Executive, visits a branch every six weeks to meet with colleagues

Each year we conduct our Annual Colleague Engagement Survey that is completed confidentially and anonymously by colleagues. Over 74 per cent of colleagues took part in the survey in 2012. The survey uses three main indices to measure engagement and performance in our workplace:

- ▶ **Performance Excellence Index** – shows how strongly colleagues believe the Group is delivering high quality products and services to customers
- ▶ **Employee Engagement Index** – shows the extent to which colleagues are motivated to contribute to the success of the Group
- ▶ **Line Management Index** – a key measure that shows how colleagues feel about their individual line manager and the level of support received to personally develop

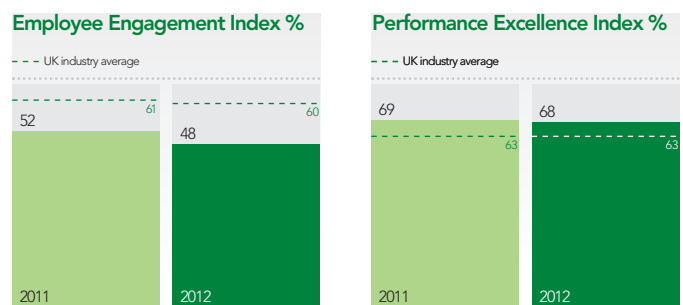
We set key priorities to improve colleague engagement and to implement changes across the organisation based on the survey data. Top line results are presented to the Group Executive Committee while detailed results are shared with team leaders so they can build action plans specific to their team's needs.

Our 2012 survey results

Over 74 per cent of colleagues took part in the survey in 2012 and the results show a strong Performance Excellence Index score (68 per cent), which is above the UK norm. However, the Employee Engagement Index has fallen to 48 per cent, reflecting a drop of 4 percentage points from the 2011 survey scores, and 12 percentage points behind the UK norm. The Line Management Index score for 2012 was 77 per cent.

The Employee Engagement Index is influenced by both internal and external factors. The lack of confidence and trust in the organisation felt by colleagues is affected by the current economic climate and the current scrutiny on our sector by key stakeholders. However, the score shows that we must do more to address the issues within our own business. Engaging colleagues' in our responsible business approach is one way to generate pride and trust in the Group and therefore a core focus for 2013.

Our high line manager score shows that the majority of colleagues feel that their line manager is effective and supportive. However we must continue to encourage a culture and workplace environment that gives colleagues the opportunity to learn new skills and also take responsibility for their own development.



The Employee Engagement Index (EEI) measures the individual motivation of colleagues whilst the Performance Excellence Index (PEI) measures how strongly colleagues believe the Group is committed to improving customer service.

DIVERSITY & INCLUSION

HIGHLIGHT



NAMED 'BEST PRIVATE SECTOR EMPLOYER' BY THE BUSINESS DISABILITY FORUM

Introduction

Being the best bank for customers involves understanding their diverse needs in the communities we serve across the UK. We also want to be the best bank for our colleagues in order to build a diverse workforce which treats everyone fairly, and with dignity and respect.

We have won awards for our sexual orientation programmes and are ahead of the UK target for female representation on the Board. We have also been working on services to help our colleagues and customers with disabilities. We recognise that there's more to do to improve our ethnic minority representation to reflect our diverse communities.

Diversity monitoring

Our diversity and inclusion activities are making a real difference. This is particularly reflected in higher engagement scores for female and ethnic minority colleagues. We are committed to continuing these activities, during 2013, to ensure we reflect the diverse needs of our customers, colleagues and communities. Role model programmes for ethnic minority, disabled, lesbian, gay, and bisexual colleagues are being developed to launch during 2013.

The Group has four diversity networks which were formed by colleagues to address the specific challenges they face at work. The members meet regularly to support and develop the diversity strategy. Our colleague diversity networks are:

- ▶ Breakthrough – Network for Women
- ▶ Access – Disability Network
- ▶ GEM – Group Ethnic Minority Network
- ▶ RAINBOW – Lesbian, Gay, Bisexual and Transgender Network

In 2012, we made good progress on our programmes, including:

- ▶ **Gender equality** In 2011, the Group committed to meet the Lord Davies Review recommendation that organisations have a target of 25 per cent female representation on the Board by 2015. We exceeded this goal during 2012 by achieving 27 per cent female Board representation – over two years ahead of schedule. One of our most successful programmes in 2012 was 'Footprints in the Snow' – a programme that showcases the career paths, or 'footprints', of the Group's most senior women, from which other women can find inspiration
- ▶ **Disability** A large part of our commitment to make banking more accessible has been to improve our approach to recruiting and developing people with a disability. In 2012, our disability programme was ranked joint second for achieving 'Gold Standard' and named 'Best Private Sector Employer' by the Business Disability Forum – a global leading employers' organisation on disability and business
- ▶ **Ethnic diversity** In 2012, we delivered ten career development programmes to over 120 colleagues who wanted to achieve their first management or senior management position. The courses have led to promotions and improved performance ratings
- ▶ **Sexual orientation** Our sexual orientation programme continues to be ranked among the best. In the Stonewall 2012 Top 100 Employers Index, the Group was named top Welsh Private Sector Employer, second-best Scottish Employer and our Rainbow Network was given 'star performer' status. Our Lloyds TSB and Halifax businesses are featuring gay couples in product advertising and we have run a series of anti-homophobia campaigns in local communities in partnership with the Stonewall Youth Volunteering Programme

HIGHLIGHT

STAR PERFORMER STATUS FOR OUR RAINBOW NETWORK IN THE STONEWALL TOP 100 EMPLOYER INDEX

Flexible working

Our approach to flexible working, particularly for working parents, is fundamental to the health and wellbeing of our colleagues. We provide a good package for working parents in the UK and introduced a number of improvements in 2012.

This has included better guidance for colleagues and line managers; e-learning modules to support new parents, and a parents' forum where colleagues can meet and share experiences and issues.

Diversity Data¹

	2012	2011
Gender		
% of total colleagues that are female	60.1%	59.5%
Female managers	44.6%	42.9%
Female senior managers	27.8%	26.2%
Disability		
% of colleagues who say they have a disability	1.5%	1.7%
Ethnic background		
% of colleagues from an ethnic minority	6.6%	6.6%
Ethnic minority managers	5.8%	5.7%
Ethnic minority senior managers	2.9%	2.7%
Sexual Orientation		
% of colleagues who say they are lesbian, gay or bisexual	0.7%	0.7%

¹ Data source HRIS: Apart from gender, the diversity data is self-declared and not 100 per cent complete. Our Colleague Engagement survey suggests that some numbers may be higher.

NURTURING INDIVIDUALS' TALENTS

HIGHLIGHT



**1,000 APPRENTICES
IN 2013 FOLLOWING
A 2012 PILOT**

Introduction

We promote a culture of learning across the Group to inspire and motivate colleagues. Our programmes help people extend their skills and capabilities, to provide the excellent service our customers expect. We also have training and development programmes to nurture talent and skills at all levels.

Our colleagues are also encouraged to undertake development opportunities in their local community or with our community partners, such as Business in the Community and its Business Connectors programme. We encourage our colleagues to share their skills and knowledge with the community by using their Day to Make a Difference.

Developing leaders: Executive leadership and our Executive Development Programme

We have talent programmes for senior managers, heads of function and executives to develop our current leaders and create the future leaders for the bank.

During 2012, we continued to deliver the following programmes:

- ▶ our Executive Leadership Programme which focuses on strategic thinking and personal leadership with teachers who include world-class experts and members of Lloyds Banking Group's Executive Board. We now have more than 100 alumni
- ▶ the Executive Development Programme is designed for those individuals that show potential to be future executives of the Group. Nearly 300 leaders have attended this programme
- ▶ over 3,000 managers attended internal leadership development programmes in 2012. These included newly launched programmes for senior and middle managers, and our Management Licences – a training programme for existing and aspiring managers – which are now accredited by the Open University

Insight and feedback for senior leaders is important for their development. The most senior 200 leaders in the business received assessments including interviews, 360-degree feedback, learning agility assessments and individual debrief sessions. During 2013, our 360-degree feedback will be extended to the top 2,000 leaders. This provides every leader in the Group with clear priorities for their development and encourages development discussions among the leaders.

Apprenticeships

Building on the early success of the 2012 National Apprenticeship pilot we are expanding our programme to 1,000 apprentices for 2013, primarily aimed at 16–24 year olds. Since October 2012 we have already seen over 400 apprenticeships undertaken.

The nationwide Apprenticeship Programme helps the Group further deliver a skilled and motivated workforce by providing nationally recognised qualifications for both existing and new joiners. The programme is key to our commitment to help Britain prosper. Indeed, the UK's National Audit Office reports that every £1 of public investment in apprenticeships delivers a return of £18 to the wider economy.

Learning Academies

Our award-winning Learning Academies are a hub for all Learning and Development in which colleagues can participate. Some are also open to friends and family. Our Academies give every colleague the opportunity to take ownership of their careers, by developing new skills.

The Academies enable colleagues to:

- ▶ self-assess their capabilities through the 'Plan Your Development' tool
- ▶ diagnose development needs and choose flexible ways to learn
- ▶ receive a clear, simple access route for learning
- ▶ gain access to professional qualifications

Our Academies are updated to reflect changes in the business structure so that the learning on offer is appropriate for the roles in the Bank. The content of the training is tailored to the needs of the colleagues within a division or function and is customised to particular roles. This means that colleagues can focus their development to enable career progression and accelerate their promotion.

HIGHLIGHT

**SELECTED TRAINING
MATERIALS ARE
MADE AVAILABLE TO
FRIENDS AND FAMILY
OF COLLEAGUES, TO
ENCOURAGE A CULTURE
OF LEARNING**

Flexible learning

We have different ways in which we provide learning. There is both face-to-face and virtual e-learning, so that colleagues can access learning at a time and place that works for them. Colleague development is available both inside and outside of work.

During 2012, we invested in new technology for virtual learning and made changes to the way we develop and deliver learning. This has altered the balance between e-learning and face-to-face programmes, with an uptake in e-learning in the past year – it now accounts for 50 per cent of the learning undertaken. In 2012, colleagues undertook an average of 6.9[✓] learning days each, maintaining the 2011 level, and increased from 5.3 days in 2010.

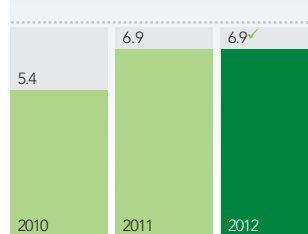
In 2013, our Learning Technology Platform will be improved, reducing the time it takes colleagues to find the right course and increasing the time they can spend learning. We are also exploring the use of video and learning technologies to reach more colleagues and significantly increase the opportunities for people to learn, both formally and informally.

Professional standards for bankers

The Chartered Banker Professional Standards Board (CB:PSB) has launched an industry-led initiative to establish professional standards for bankers for the first time. We are one of nine banks supporting the CB:PSB.

Our objective in 2013 is to assess more than 50,000 colleagues between July and December. This means that over half of our colleagues will be assessed for the qualification, with a focus on those that work in customer facing roles, such as branch managers. Achieving recognised professional standards is important to the Group as this will help build greater public confidence and trust in the banking profession in the long-term.

Average formal learning days per FTE



Colleagues received an average of 6.9 days formal learning in 2012 reflecting our ongoing commitment to learning and development.

[✓] Independently assured key performance indicators

REWARDING AND INCENTIVISING COLLEAGUES

HIGHLIGHT

OVER 200 COLLEAGUES GIVEN THE OPPORTUNITY TO BE AN OLYMPIC OR PARALYMPIC TORCHBEARER FOR LONDON 2012

Introduction

Remuneration within the financial sector continues to be an important and topical issue for our stakeholders. The Group takes into account the economic outlook and the views of our stakeholders when making decisions on remuneration and variable pay.

We continue to seek a balance that incentivises our colleagues to deliver strong, sustainable growth, while reflecting the work that is needed to reshape the Group. Consequently, during 2013, we will make changes to ensure that all our reward structures adequately consider how well colleagues are serving our customers. This is in line with our business strategy and the change of culture that we want to achieve to be the best bank for customers.

Remuneration Governance

We have a Remuneration Committee, chaired by Anthony Watson, Non-Executive Board member, which is responsible for overseeing the Group's reward arrangements, including compliance with the FSA's² Remuneration Code. At least six Board members including the chairman are on the Committee.

Pay, bonuses and pensions

Our salaries are positioned competitively but conservatively against the market. Across the business as a whole, the Remuneration Committee feels it is important to recognise the contribution of our colleagues in achieving success against our strategic goals. Any variable pay offered to our executives is directly aligned to the delivery of value to our shareholders. We generally pay smaller bonuses, compared to other UK banks, as a result of not having a large investment banking division. Cash bonuses are capped at £2,000 with additional amounts paid in shares and subject to deferral and performance adjustment.

The Group announced that its Directors' fixed pay would remain unchanged from the end of 2012 for a further 12 months. This takes into account the continuing economic climate and the need to deliver further, sustained economic growth to our shareholders. In 2012, we assessed the bonus pool in consideration of our relative, risk-adjusted performance for the year and ensured that reward was weighted towards our more junior colleagues. In 2012, the total bonus pool was £365m – down 3 per cent on 2011. The average value of bonus per colleague is similar to the prior year at £3,900.

Every colleague, including Executive Directors, has a balance scorecard which measures performance across five areas (customer, building the business, risk, people and finance). The scorecard is aligned to the Group's strategic priorities and reviewed on a regular basis.

Sharesave

Sharesave gives colleagues the opportunity to invest in Lloyds Banking Group and share in its collective success.

Eligible colleagues can save between £5 and £250 per month and at the end of the three years saving period colleagues have the opportunity to buy shares at the fixed option price, or take their savings as cash. The option price is set at a pre-determined date and a discount is applied for the purposes of the scheme.

Total employee bonuses £m



In 2012, the total bonus pool reduced by 3 per cent on 2011. The average value of bonus per colleague is similar to the prior year.

HIGHLIGHT

WE WILL MAKE CHANGES TO ENSURE THAT ALL OUR REWARD STRUCTURES CONSIDER HOW WELL COLLEAGUES ARE SERVING OUR CUSTOMERS

² The FSA was disbanded in April 2013. Since our engagements in 2012 were with the FSA, we use this terminology throughout this report.

HEALTH AND WELLBEING

HIGHLIGHT



**NUMBER OF
ACCIDENTS TO
COLLEAGUES
DECREASED IN 2012
TO 2,646 FROM 3,391
IN 2011**

Introduction

The Group realises the importance of our colleagues' wellbeing. We provide support for colleagues across a wide range of areas such as finance, health and work. We also help our colleagues during difficult times, often working with partners to provide the expertise.

Colleagues undertake mandatory training to make people aware of their personal role in ensuring the health and safety of the workplace.

Wellbeing benefits

We have a number of benefits, opportunities and services to aid colleagues and also build line managers' capabilities to deal with health and wellbeing related issues. For example, we are helping colleagues stop smoking by promoting the Department of Health 'Quitkits' and promote the Department of Health campaigns on the Group intranet.

We work with external organisations like BUPA, Health Management Limited and Validium to help deliver our Health and Wellbeing initiatives to colleagues. Validium is an Employee Assistance provider and we use them to offer support to colleagues in financial difficulties.

Wellbeing is also about supporting our colleagues on work-related issues. We recently developed a new mentoring scheme with leaders from across the Group who can share their own learning experiences with colleagues. Our business strategy to simplify our processes and procedures has also assisted colleagues by making things easier and reducing customer complaints.

Health & safety

Ensuring the health and safety of our colleagues is a priority. We identify risks in our day-to-day operations, and provide guidance in the form of Policies and Standards, to help protect our people from illness or injury. A mandatory health and safety training programme supports all colleagues and line managers working in the Group. Audits, inspections and maintenance programmes are all designed with safety front of mind.

A positive health and safety culture is promoted within the organisation. This includes actively encouraging all colleagues to report any health and safety concerns and issues so that they can be quickly and effectively resolved before an accident occurs. We also encourage people to be aware of their individual roles and responsibilities to ensure that we all have a safe working environment.

Reported accidents

In 2012, we worked to improve the customer and colleague environment with increased audits and inspections in our branch network. Improvements in standards and approach resulted in the Group being awarded the ROSPA (The Royal Society for the Prevention of Accidents) Gold standard (2011 Silver) for our approach to health and safety.

Group accident rates

	2012	2011	2010
Total recorded accidents involving injury	2,646	3,931	3,210
Slips, Trips & Falls (including members of public)	826	787	609
Total Riddor (reportable accidents) across the Group	200	254	235

These improvements have resulted in a reduction in the number of accidents occurring in the Group to colleagues. Although it is acknowledged that our reduction in FTE (full time equivalent) roles from 2011 to 2012 would also have contributed.

HIGHLIGHT

**AWARDED THE ROSPA
(THE ROYAL SOCIETY
FOR THE PREVENTION
OF ACCIDENTS) GOLD
STANDARD FOR OUR
APPROACH TO H&S**

DOING MORE FOR UK COMMUNITIES

IN THIS SECTION

Doing more for UK communities	29
Community investment	30
Community programmes	31
Colleague engagement in communities	33



DOING MORE FOR UK COMMUNITIES

We are the UK's largest retail and commercial bank with 30 million customers and branches across the UK. By doing more, we can make a long-term, positive contribution to UK communities, and help them to prosper. Our colleagues have skills and experience that can make a real difference to communities.

Doing more for UK communities

Our community involvement connects us to our customers and inspires our colleagues. Our partnership with the London 2012 Olympic and Paralympic Games enabled us to demonstrate our commitment to UK communities.

Our work with communities supports activities with outcomes that result in education, employability and enterprise. We can help communities with the skills of our colleagues and the bank. One of our big successes is our Money for Life programme which educates people to be financially capable in order to manage their own money more effectively. It's a model we've developed that trains community leaders to train others, reaching thousands of people who need it.

Our community involvement is shared by the enthusiasm of our colleagues. For at least one day each year, every colleague can volunteer for an organisation in their local community. In 2012, one in three colleagues registered to volunteer a day of their time. Not only that, but they raised £3.6m for our 2011 and 2012 Charity of the Year, Save the Children. In addition, they volunteered their time to run the Save the Children shops across the UK for a day in November 2012.

Our current challenges

We know that a visible community presence is important to both our customers and colleagues. But we want to do more to measure the impact of our community programmes, matched with what people in the community need. It will help us to understand how our work in communities is helping Britain prosper, so we're putting metrics in place to measure this more effectively.

We also need to let customers and others businesses in the finance sector know about our work – so that, together, we can do more to help Britain prosper.

2012 highlights

We've been working to make a difference to communities in the UK in the areas of education, employability and enterprises in the following ways:

- ▶ £85m[✓] was invested in communities across the UK
- ▶ 1,400 people trained to run money management sessions through our Money for Life programme
- ▶ 90 students joined the award-winning Lloyds Scholars Programme that partners with leading UK universities, supported by our £1.6m investment during 2012
- ▶ we launched our School for Social Entrepreneurs programme to support social enterprise

[✓] Independently assured key performance indicators

- ▶ our partnership with the London 2012 Olympic and Paralympic Games inspired thousands of our colleagues to volunteer in the five-year run-up to the Games
- ▶ seconding 20 senior managers from the Group to Business in the Community's Business Connectors programme

Doing more in 2013

In 2013, we want to do more to help Britain's communities prosper. We've set the ambition to:

- ▶ develop metrics that will help us understand the extent to which we help Britain prosper. We'll then use these measures to create KPIs and targets
- ▶ raise £2m among colleagues for our Charity of the Year partner by the end of 2014
- ▶ reach our target of one million colleague volunteer hours by the end of 2015 (since 2011)
- ▶ place 20 senior managers from the Group in BITC's Business Connectors programme in 2013
- ▶ train 1,400 people to run money management sessions with Money for Life and deliver 1,500 money management workshops to vulnerable families
- ▶ inspire 250 teams of 16–24 year olds to develop innovative money management projects as part of our Money for Life Challenge
- ▶ help over 1,300 social enterprises to start up between 2012 and 2017, under our School for Social Entrepreneurs programme



Our work with communities to support activities with outcomes that result in education, employability and enterprise

Total Community Investment (£m)



Despite the challenging economic environment the Group committed to keeping our investment at the same level for 2012.

COMMUNITY INVESTMENT

HIGHLIGHT



**£3.6 MILLION RAISED
BY COLLEAGUES IN
2011/2012 FOR SAVE
THE CHILDREN**

Introduction

We make one of the largest contributions to the UK communities through our flagship community projects and with in-kind volunteering. This investment also includes donations from our colleagues to charities and matched giving.

Our community investment total of £85m[✓] during 2012 included support for financial inclusion, community initiatives, colleague fundraising, sponsorship and support for grassroots charities. Our colleagues play a huge role in our continued investment in communities, by giving their time and raising funds. Every colleague is able to volunteer a day each year to a charity or community organisation through the Group's 'Day to Make a Difference' programme.

Our overall community investment is managed and measured using the London Benchmark Group's internationally recognised framework and standard. We use this model to record incoming donations, colleague and management time as well as the immediate and long-term impact of our projects.

The Lloyds TSB Foundations and the Bank of Scotland Foundation

In 2012 over a third of our Community Investment was to the Lloyds TSB Foundations and the Bank of Scotland Foundation. This equated to more than £29m, enabling them to make grants to local, regional and national charities across the UK. Many charities working in the UK's most deprived areas have received support, making a significant difference to the communities that need it most. In addition to making grants, the Foundations encourage our colleagues to become active in their community by providing Matched Giving for charities they support. Each colleague can claim up to £1,000 per year for their charitable fundraising efforts and time given to charities, which totaled around £2,380,000 in 2012.

[✓] Independently assured key performance indicators

Charity of the year

Our 2011 and 2012 Charity of the Year was Save the Children. Colleagues from across the Group raised over £3.6m, including Matched Funding, exceeding our original fundraising target of £2.5m. The Chief Executive of Lloyds Banking Group, António Horta-Osório, visited the Cardiff branch of Save the Children during a colleague volunteering day.

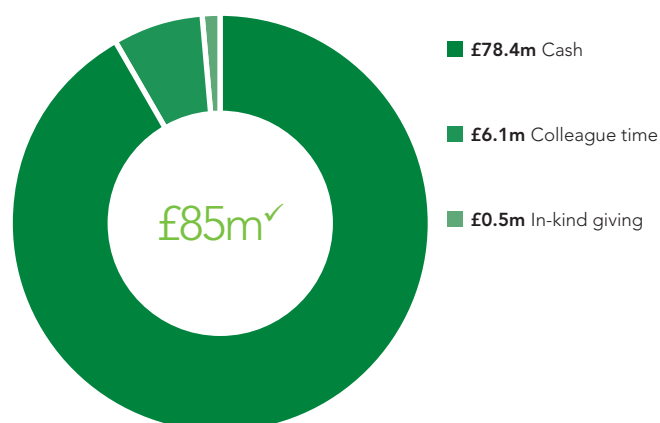
The funds raised will help over 12,000 children in our local communities through the Families & Schools Together (FAST) programme. FAST supports parents to participate in their children's education, with the aim of reinforcing family bonds and creating a supportive network between parents, children, schools and communities. Within just eight weeks, teachers reported a 5 per cent improvement in reading, writing and maths among the children enrolled in FAST.

Our 2013-2014 Charity of the Year, chosen by colleagues, is supporting the Alzheimer's Society and Alzheimer Scotland's Live Well Campaign – the first UK-wide dementia carer's programme.

Community Fund

The 2012 Community Fund provided grants to local community organisations supporting young people. Nominated by our colleagues and voted on by members of the public, 132 organisations across the UK each won a Community Fund award worth £5,000. The Group's partnership with the London 2012 Games allowed us to promote nominated organisations at Olympic Torch Relay events across the UK. This raised their profile and encouraged communities to support them by voting. We estimate 100,000 young people across the UK will be positively impacted as a result of the awards.

Breakdown of community investment



HIGHLIGHT

**132 GRANTS OF
£5,000 GIVEN BY OUR
COMMUNITY FUND
PROGRAMME IN 2012**

COMMUNITY PROGRAMMES

HIGHLIGHT



SCHOOL OF SOCIAL ENTREPRENEURS PROGRAMME LAUNCHED IN 2012

Introduction

We want to build thriving communities in the UK, both through direct investment and by encouraging our colleagues to support communities with their skills and knowledge. Our community programmes are themed around Education, Employability and Enterprise.

Our approach considers how colleagues can be involved in addressing the needs of the community. Some of these, such as Money for Life, have been developed by the Group from the ground-up; others, like Business Connectors work in partnership with community organisations.

Education

Personal money management is a fundamental life skill. While there is now support to introduce compulsory financial education in schools, many adults who have since passed through the education system lack money management skills, which can make them vulnerable to financial exclusion. Our response is Money for Life, an award-winning personal money management programme that targets young people and adults in further education, work-based learning and community learning sectors. The Group has invested £4m in the programme since 2009 and has committed a further £4m for 2013 and 2014.

The Money for Life Qualifications programme provides accredited training to enable organisations, ranging from charities and colleges, to embed money management skills at a local level. In 2012, we trained 1,400 people to run money management sessions in communities. We also run a national competition – the Money for Life Challenge – where 16–24 year olds compete to develop new money management projects that improve their communities. Building on the 110 projects that were funded by the Money for Life programme in 2011, a further 250 grants were awarded in November 2012.

In September 2012, we announced a partnership with Family Action to train our colleagues to deliver money management workshops to 1,500 vulnerable families by August 2013. Money for Life was highly commended at Business in the Community's (BITC's) Awards for Excellence 2012 where it was awarded a 'Big Tick!'

We are also a founding partner of Go ON UK, which helps the estimated 16 million adults in the UK who lack basic online skills to fully benefit from the internet. We have made a commitment to provide our colleagues online training so that they are able to teach our customers and those in local communities basic online skills. See more about the partnership within our Colleagues section – [see page 24](#).

HIGHLIGHT

1,400 TRAINED THROUGH OUR MONEY FOR LIFE PROGRAMME TO TEACH MONEY MANAGEMENT

Employability

Lloyds Scholars is a social mobility programme aimed at UK students which was established in 2011. In partnership with six leading universities across the UK, we offer students from lower income households a complete support package aimed to help them manage the financial strain of university.

The scholars receive both financial support to develop their skills and the opportunity to gain valuable work experience through paid internships and working with a Lloyds mentor. In return we ask that they volunteer for local causes. This enables them to enhance their CV while giving back to the community. We accept students from almost every discipline and, if they get a 2:1, encourage them to join our Graduate Leadership Programme following university. Lloyds Scholars was named Corporate Responsibility Project of the year at the 2012 Charity Times Awards.

Our legal team's CSR programme, Legal in the Community, launched the Lloyds Banking Group (LBG) Work Skills Programme in 2012 as part of our commitment to support the PRIME objectives – a UK legal industry initiative that promotes fair access to quality work experience. Lloyds was one of the first corporates to be part of PRIME.

The LBG Work Skills Programme encourages less privileged students who wouldn't otherwise consider a career in financial services or law to aspire to work in those sectors and develop relevant skills. Twenty students spent two days in head office participating in financial literacy and interview skills training, a competitive business challenge as well as work experience and networking sessions. The LBG Work Skills Programme also leveraged skills from other (Lloyds) programmes – colleagues from Money for Life and students on the Lloyds Scholars scheme delivered sessions.

In 2013 we aim to roll-out the LBG Work Skills Programme in Halifax, Bristol and Edinburgh and substantially increase the number of places available on the London programme.

Enterprise

In January 2012, we launched the Lloyds Banking Group Social Entrepreneurs programme in partnership with the School of Social Entrepreneurs. This enables social entrepreneurs to realise their ambitions and strengthen communities in the process. The aim is to help over 1,300 social entrepreneurs over five years to kick-start or grow their social enterprise, which will create jobs across the UK and help local communities support themselves. The programme offers grants of between £4,000 – £25,000 as well as a mentor from the Group who provides support on their journey. Additional funding for this project is provided by Big Lottery – [see communities](#).

Business Connectors is a programme that was developed in the wake of the UK riots in 2011. It was designed to use people's business skills and expertise to tackle local needs and counteract the devastating effect the riots had within the UK's most disadvantaged neighbourhoods. Lloyds Banking Group is a major sponsor of the Business Connectors programme in partnership with Business in the Community (BITC). In 2012, we made a three-year commitment to place up to 20 senior managers in the Business Connectors programme each year. The managers will then work in their local communities for a year to develop relationships between charities, community groups and local businesses. Many will continue their work with the community beyond the first year.

COLLEAGUE ENGAGEMENT IN COMMUNITIES

*1 in 3
colleagues
registered to
use their day
to volunteer*



Introduction

We know that many charities and community organisations rely heavily on volunteers and funding to keep them running. Our Day to Make a Difference programme gives every colleague within the Group the opportunity to volunteer at least one day a year in their local community. The day can be used either for skills development or to share a team-building day with colleagues. Our volunteering programme also helps foster a sense of community and rebuild trust among colleagues. The combined efforts equate to millions of pounds of in-kind giving for communities.

This is why our Group target is to achieve one million colleague volunteering hours between 2011 and 2015. So far 384,000 hours has been achieved. In 2012 over 32,000 of our colleagues (around 1 in 3) used their registered volunteering day, with 16,000 colleagues volunteering in 2011.

Engagement on responsible business

To embed our responsible business approach across the bank, we update colleagues via our 'Doing More' website and regular articles on the Group's internal interchange system. In 2013, we will increase communications to encourage wider involvement from colleagues.

We have also started colleague engagement workshops to ensure their feedback can be used in future programmes and in deciding how we communicate with them.

Volunteering

We carefully select the organisations where colleagues can volunteer to help them find the community activity that will be best suited to their skills. They can select a project of their choice or recommend an organisation that they prefer, and also have the option to invite other colleagues or teams to take part.

We offer numerous volunteering opportunities within our community programmes, including Money for Life and Business Connectors. These give our colleagues the opportunity to utilise their business skills for the community. For many colleagues this is also an opportunity for personal development.

Some examples of our 2012 volunteering opportunities for Day to Make a Difference were:

- **Give and Gain Day** We are the largest participant in Business in the Community's (BITC) Give & Gain Day – the UK's single biggest day of volunteering. In 2012 more than 4,500 colleagues took part, which doubled participation from the previous year. We have committed to sponsor Give & Gain Day until 2014
- **Sewa Day** Our volunteers are able to take part in Sewa Day to experience the joy of giving to the community. Sewa Day is an international day of volunteering with the intention of making a meaningful difference to someone else's quality of life. Sewa is embedded in Indian traditions and is based around the concept of performing an act of kindness without expecting a reward

HIGHLIGHT

**LARGEST PARTICIPANT
IN BUSINESS IN THE
COMMUNITY'S (BITC)
GIVE & GAIN DAY – THE
UK'S SINGLE BIGGEST
DAY OF VOLUNTEERING**

London 2012 Games and National School Sport Week

Our vision for London 2012 was to inspire and support young people, communities and businesses all over Britain on their journey to the Games. Over 2,500 of our colleagues volunteered as part of a week-long sporting celebration for schools through National School Sport Week.

The Olympic Torch Relay was a nationwide event bringing communities across the UK together. Over 350 colleague volunteers supported the Colleague Advance Tour and the Evening Celebration Events. Our colleagues were also given places within the Olympic Games Volunteer Programme as Gamesmakers, with 500 colleagues involved in supporting the Games. A further 145 of our customer service colleagues worked in the Athletes Village and Media Centre branches at the Olympic Park during the Games.

In 2013 we will build on the legacy of the London 2012 Games by developing our National School Sport Week and Local Heroes programmes, as well as introducing new initiatives that use our network of branches across the UK to positively contribute to local communities.



We know that many charities and community organisations rely heavily on volunteers to keep running

Colleague volunteers



DOING MORE FOR THE ENVIRONMENT

IN THIS SECTION

Doing more for the environment	36
Supporting the low carbon economy	37
Managing the environmental risk in lending	39
Running a low carbon business	41
Involving colleagues and suppliers	43



DOING MORE FOR THE ENVIRONMENT

As a bank, we recognise the fact that financial security and environmental security are intrinsically linked. A changing climate represents a risk to households, businesses and communities so, like many other businesses, we aim to tread lightly when it comes to our direct impacts and manage indirect environmental risks where they are presented to us.

Doing more for the environment

As a bank we are in a position to play our part and influence other businesses to support the UK Government's goal of transitioning to a low-carbon economy. We do this through our membership of industry bodies such as the Corporate Leaders Group on Climate Change, Cambridge Programme for Sustainable Leadership, Banking Environment Initiative etc. As a responsible lender, we apply the industry's equator principles to our large project finance transactions, reducing investment risks.

We are also using our influence to do more for the environment – encouraging the large businesses in which we invest to reduce their carbon footprint; offering advice to small business customers on reducing their environmental impact, and incentivising people to buy new low carbon homes, by creating an exclusive mortgage product. This also helps us to be the best bank for customers.

We also encourage our c.90,000 colleagues (on a full time equivalent basis) working in 3,000 properties, our 30 million customers, and the tenants in our asset management portfolio to help us reduce our environmental impact. Efficiency is key and we've already had many successes – for instance, in 2012, we successfully reached two of our 2020 targets (for business travel and for diverting operational waste from landfill) and we are building a data centre that has received a BREEAM 'outstanding' rating for its design.

Our current challenges

Reducing our environmental impact to meet the demands of a low-carbon economy will continue to be an ongoing challenge for us, and for many UK businesses. To successfully reach our targets to further reduce emissions, we will be focusing on greater customer and supplier engagement, working with them to collaborate and share learning towards creating a low-carbon economy.

We'll continue participating in stakeholder discussions and stay informed on regulatory developments. Keeping updated on developments, in the understanding on climate change and how it could impact the UK, means we will make better informed decisions about the investments in our own business and for our clients.

2012 highlights

In 2012, we continued to do more to reduce our own environmental impact and influence other businesses. We did this by:

- ▶ reducing our reportable CO₂ emissions across the bank by around 9 per cent, including emissions from data centres. This is on a like-for-like basis from the 2011 reporting period
- ▶ increasing the amount of operational waste diverted from landfill to 94 per cent✓ – reaching our 2020 target, of 92 per cent, eight years early
- ▶ achieving our Business Travel reduction target for 2020 by reducing our business travel by over 25 per cent against the Oct 09 – Sep 10 reporting period
- ▶ engaging colleagues through our Sustainability network – around 1,000 participating members

Doing more in 2013

Reducing our environmental impact is a continuous process, and the complexity of the challenge requires many goals to extend for more than a year. In 2013 and beyond our goals include:

- ▶ achieving our 30 per cent energy usage reduction by 2020 as part of our Environmental Action Plan (in 2012, our energy consumption reduced by 12.9 per cent compared to our 2009 baseline)
- ▶ achieving our 20 per cent reduction of water by 2020 (in 2012 our water consumption reduced by 17.8 per cent compared to our 2009 baseline)
- ▶ undertake research in partnership with the property sector to further incentivise people to buy low energy homes
- ▶ involving our key suppliers in learning and collaboration to further reduce our environmental impact

UK carbon emission summary

	2012	2011	2010
Scope 1 emissions	49,414✓	58,572	60,302
Scope 2 emissions	290,726✓	308,844	324,007
Scope 3 emissions	34,221✓	42,821	41,687
Total	374,361	410,237	425,996

For scope definitions, please see <http://www.ghgprotocol.org/calculation-tools/faq>

We report those energy emissions arising from our own direct business activities where we hold the title to the energy supply contract directly with the energy supplier.

We have improved the accuracy of energy data for the 2011 reporting period, replacing estimates with actual data. We have also applied the latest DEFRA conversion factors to all reporting periods. Our reporting periods are from the 1 October to 30 September each year.

✓ Independently assured key performance indicators

SUPPORTING THE LOW CARBON ECONOMY

HIGHLIGHT

**RANKED NINTH IN THE
WORLD'S GREENEST BANK
2012 BY BLOOMBERG – THE
HIGHEST RANKED UK BANK
IN THE INDEX**

Introduction

The UK Government has committed to a low carbon economy with a 2020 target of meeting 15 per cent of the UK's energy demand from renewable sources. Our role as a bank is important in supporting this transition. We are able to create opportunities for the provision of finance for low carbon products, services and green technologies.

We are continuing to work with government and other external stakeholders, such as partners in the property sector, to influence the transition towards a low carbon economy.

Environmental responsibility in products

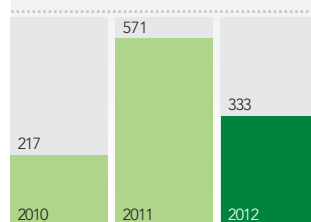
Renewable Energy Finance

We are playing a key role in infrastructure and energy finance by finding solutions to current and future funding requirements which moves the UK to a low carbon economy. In 2012, we added five new UK renewable energy deals totalling £196m. We currently have commitments to renewable energy projects in the UK with capacity totaling over 1,800MW, which could provide enough electricity to supply over two million homes in the UK.

In 2012, we also added nine renewable energy deals globally to take our global commitments to 55 deals. These commitments total £1,122m and the projects are capable of generating up to 10,194MW. The new commitments for 2012 totalled £333m.

A key factor in this reduction of general market activity in 2012 (as shown in the graph), is the pending Electricity Market Reform (EMR) which will be further developed during 2013/14 by the UK Government. This reform will introduce 'Contracts for Difference' (CfDs) which are designed to further stimulate investment in low-carbon technologies. The CfDs will help provide predictable revenue streams, which will make renewable energy projects more attractive to investors.

Renewable Energy Finance (£m)



A key factor in this reduction of general market activity in 2012 (as shown in the graph), is the pending Electricity Market Reform (EMR)

Lex Autolease

Lex Autolease is the UK's largest van and car leasing company and is part of the Group's Wealth, Asset Finance and International Division. The Division wants to be recognised as a leading environmentally responsible fleet leasing business with a key strategy targeted at reducing resources and minimising emissions.

Lex Autolease very much encourages environmental responsibility and actively designs its products and services to meet both the customer's fleet objectives and sustainability goals. Through offering expertise in fleet and tax consultancy, complemented by a range of products all available through its sustainability portal the Green link www.lexautolease.co.uk/thegreen

Whilst Lex Autolease has a dedicated Strategic Fleet Consultancy team, around 60 Customer Relationship Managers have also received formal training from the Cambridge Programme for Sustainability Leadership, and further colleagues attend focused sessions ranging from understand the wider environmental challenges through to specific green fleet training.

AIMC4

AIMC4 stands for the Application of Innovative Materials, Products and Processes to meet Code for Sustainable Homes Level 4. In 2012, we worked with the AIMC4 forum members to create an exclusive Lloyds Banking Group mortgage product to homebuyers of Barratt Homes, Stuart Milne and Crest Nicholson's new energy efficient properties.

We are also working with the forum's members to support research that demonstrates the financial benefit to customers of purchasing zero-carbon homes. This research will help model future sustainable mortgage products. In 2012, we provided £49m of mortgages from this product.

Scottish Widow Investment Partnership (SWIP)

Our asset management arm, Scottish Widows Investment Partnership (SWIP), is one of the largest asset management companies in the UK. At the end of 2012, SWIP managed £141.71bn worth of funds in total, with over £40bn invested in UK companies. SWIP uses its influence as a large investor to encourage best practice in corporate governance and the management of sustainability risks, with its main focus on climate change.

The UK companies in which SWIP invests are responsible for over 500 million tonnes CO₂ equivalent – this is nearly the same size as the UK's total emissions. The number is several times larger if product and supply chain emissions are included. As a big UK shareholder, SWIP works to use its influence with these companies to improve the energy and resource efficiency of their business activities. Ultimately, SWIP believes action on climate change must be led by governments, so SWIP works with other investors to support action by UK and EU governments to strengthen climate policies.

HIGHLIGHT

**WORKED WITH
AIMC4 MEMBERS TO
CREATE AN EXCLUSIVE
MORTGAGE PRODUCT FOR
HOME BUYERS OF NEW
ENERGY EFFICIENT HOMES**

MANAGING THE ENVIRONMENTAL RISKS IN LENDING

HIGHLIGHT

THE GROUP ASSESSES 600-700 TRANSACTIONS EACH MONTH THROUGH ITS ENVIRONMENTAL RISK SCREENING SYSTEM

Introduction

Lloyds Banking Group provides credit to businesses of all sizes in the UK and in selected international locations. As a responsible credit provider, the Group understands the importance of assessing the impact such decisions may have on the environment.

Our Credit Risk policy requires an assessment of material environmental risks and legislation for all business loans. To ensure consistent identification, assessment, mitigation and reporting of environmental risk, a dedicated team provides expert support to the decision-making process.

Environmental Risk Screening

Since 2011, the Group has used its Environmental Risk Screening Tool (ERST) as the primary mechanism for environmental risk assessment. ERST uses risk weightings derived from industry sector data and the geographical location of security situated in the UK. The Group's specialised Environmental Risk team apply detailed focus to the transactions ERST identifies with potentially heightened environmental risks. Additional support is provided by the Group's panel of environmental consultants as required. Transactions are dealt with on a case-by-case basis, with over 13,700 transactions assessed since the introduction of ERST.

The Environmental Risk team works closely with the Group's internal customer-facing teams and external stakeholders, raising awareness of environmental risk and improving its environmental policies. Their work includes:

- ▶ participating in industry-wide forums and discussion groups on environmental risk, such as the NGO Forum and the International Chamber of Commerce's Energy and Environment Committee
- ▶ working with external environmental consultants to develop sector-specific environmental briefings. These briefings flag key issues to the Group's customer-facing teams
- ▶ working with external legal advisers to develop a range of environmental legislative briefings. This knowledge helps the Group's business customers understand environmental legislation
- ▶ managing the Group's membership of the Equator Principles and ensuring appropriate embedding within its processes

Equator Principles

The Group is a signatory of the Equator Principles, a framework that manages environmental and social risk in project finance transactions. The Principles support the Group's approach to assessing and managing risk in this area and are currently applicable to project finance transactions above US\$10m.

Project finance often funds the development and construction of major infrastructure and industrial projects. The Group has a robust, Group-wide approach to assess, monitor and report Equator Principles transactions. Training on the Principles features for all lending officers, with more in-depth instruction provided to project finance teams.

Since 2011, the Group has participated in the Equator Principles Strategic Review process (Equator Principles III) which is examining the scope of application, transparency, implementation and governance of the Principles. The process is nearing completion and it is envisaged that Equator Principles III will be implemented in 2013. The Group is currently reviewing its approach to ensure that it will fully comply with the new requirements once introduced.

Our performance in 2012

For the full data set relating to the Equator Principles please see table below. Project finance transactions are rated as A, B or C depending on the level of perceived environmental and social risk and magnitude of impact they pose. The categories are as follows:

- ▶ **Category A** – Projects with potential significant adverse social or environmental impacts that are diverse, irreversible or unprecedented
- ▶ **Category B** – Projects with potential limited adverse social or environmental impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures
- ▶ **Category C** – Projects with minimal or no social or environmental impacts

Status of categorised projects (unaudited)

Projects in 2012	A	B	C	Total
Completed	2	13	5	20
In Progress	0	3	0	3
Not Completed	0	0	0	0
	2	16	5	23

Status of projects by industry (unaudited)

Projects in 2012	Renewables	Infra-structure	Energy and Utilities	Total
Completed	9	11	0	20
In Progress	2	1	0	3
Not Completed	0	0	0	0
	11	12	0	23

Table Commentary

The number of completed transactions reported under the Equator Principles reduced from 25 to 20 from 2011 to 2012. During 2012, no transaction were declined on environmental or social risk grounds, nor approved with exceptions.

RUNNING A LOW CARBON BUSINESS

HIGHLIGHT



**94 PER CENT✓ OF
OPERATIONAL WASTE
WAS DIVERTED FROM
LANDFILL IN 2012**

Introduction

As a large organisation we are able to improve the efficiency of our business to reduce our emissions. As of the end of 2012 we occupied over 3,000 properties in the UK (with around 90,000 full time equivalent job roles). The majority of these properties are retail branches across the UK.

We are working to be more environmentally efficient within our own business and also in the construction of our properties, such as retail branches, offices and data centres. In 2012, we reduced emissions within the bank and have reached some targets that have been set for 2020.

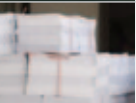
Running an efficient business

Our 2020 targets set out in our Environmental Action Plan (EAP) (see table) aim to reduce our impact in the areas of energy, paper, business travel, waste and water:

- ▶ **WASTEwise** – our programme has enhanced the Group's dry-mixed recycling process. In 2012 we exceeded our 2020 target – eight years early – to divert over 92 per cent of operational waste from landfill
- ▶ **TRAVELwise** – this reporting period is the first to capture the full benefit of our 'No Travel Week' policy (started in summer 2011) and is a significant contributing factor to our reduction in business travel. In 2012 we exceeded our 2020 ambition by reducing our business travel by over 25 per cent
- ▶ **PAPERwise** – we have also made significant progress in reducing our use of paper against our 2009 baseline. At the end of our 2012 reporting period we had achieved an 18 per cent reduction, only 2 per cent away from our 2020 target, which we achieved in early 2013

In 2013, our Environmental Steering Group will review our 2020 targets. The table below provides an update on each pillar within our Environmental Action Plan managed under the Smart & Responsible programme.

Smart and Responsible: Our Environmental Action Plan

	2020 Target	Progress to 2020 target	2011	2012
ENERGYwise 	30% reduction in energy consumption ¹	12.9%	746 GwH	676 GwH
PAPERwise 	20% reduction in paper consumption	18%	29,981 tonnes	26,565 tonnes
TRAVELwise 	20% reduction in our business travel	25%	392 million Kms	308 million Kms
WASTEwise 	92% of waste diverted from landfill	94%	58%	94%✓
WATERwise 	20% reduction in water consumption	17.8%	1,135,876 m ³	1,062,244 m ³ ✓
BUILDwise 	20% of m ² floor area environmentally accredited	1.5%	N/A	1.5%

¹ Target excludes IT Data Centres and the use of oil as a fuel

✓ Independently assured key performance indicators

HIGHLIGHT



**IN 2012 CO₂
EMISSIONS REDUCED
BY AROUND 9 PER
CENT FROM 2011**

CO₂ emissions

Our CO₂ emissions reduced by around 9 per cent from the previous reporting period. Our improvement in this area was recognised in the Carbon Reduction Commitment Performance league table.

The Group's main sources of emissions are generated by the energy we use and the business travel we undertake. Our reductions are due to energy reduction initiatives and the increased use of technology as an alternative to travel, as well as our 'No Travel Week' policy. This year, we have refined the scope of our energy reporting and have applied this approach to the previous reporting period to ensure that a fair comparison of our progress can be made. For more detail on what our reporting covers please see our 'Reporting Criteria' document available on – [Reporting criteria](#).

The Group welcomes the UK Government's incoming legislation on mandatory emissions reporting. Since the creation of Lloyds Banking Group we have reported on our emission data in our Annual Report and Accounts. As further detail about mandatory reporting becomes available we will assess whether our existing reporting criteria needs to be developed further to meet the new regulations.

Building management improvements

Our BUILDwise programme is our sustainable approach to the maintenance of our existing estate and new construction works. Sustainability is embedded in our construction standards and processes and validated by BREEAM and RICS Ska environmental. BREEAM is the world's leading and most widely used environmental assessment tool for buildings and sets standard for best practice and sustainable design. The Royal Institute of Chartered Surveyors (RICS) Ska framework measures best-practice for the 'fit-out' or refurbishment of construction works.

As the use of digital communications becomes commonplace within our industry – such as with call centres – UK businesses face the challenges of using and storing that information in an environmentally sustainable way. We are constructing a new data centre that includes sustainable features such as reducing energy consumption by incorporating 'Free Cooling' of the chilled water plant; harvesting rainwater for the cooling system, and advanced insulation with waste heat recovery to heat the office and support areas.

INVOLVING COLLEAGUES AND SUPPLIERS

HIGHLIGHT



**OVER 1,000
SUSTAINABILITY
NETWORK MEMBERS**

Introduction

We need to involve our supplier partners and colleagues if we are to meet our own emissions reduction targets and to support a low-carbon economy. We also participate in climate change and environmental discussions with NGOs and inter-governmental bodies, to influence other businesses in our sector to reduce their emissions.

Our Smart & Responsible programme sets targets to reduce our use of energy, waste and water across the Group. The involvement of our colleagues is core to reaching our 2020 targets. We also recognise the need to do more with our suppliers to achieve a low carbon business.

Collaboration

We work with external stakeholders to inform and influence environmental change, at the working group and leadership level within the Group. Andrew Bester, Group Director & Chief Executive, Commercial Banking, is the Group's representative on the Corporate Leaders Group for Climate Change. Lady Susan Rice has been a key and vocal supporter of Scotland's move to a low carbon economy, as a key note speaker at the Scottish Low Carbon Investment Conference and as a member of the influential 2020 Scottish Climate Group.

Other collaboration by our business areas are:

- ▶ our asset management arm SWIP is a signatory of the UN principles for Responsible Investment and are members of the IIGCC (Institutional Investors Group on Climate Change)
- ▶ group Insurance is a member of Climatewise
- ▶ we are a member of AIMC4
- ▶ Ilex Autolease are co-chair of the Corporate Leaders Group on Climate Change: Low Carbon Transport Workstream
- ▶ the Group submit each year to the Carbon Disclosure Project
- ▶ we are a member of Business in the Community's Sustainability leadership team
- ▶ we are part of the Cambridge Programme for Sustainability Leadership (CPSL), banking and environment initiative
- ▶ we also participate in the Confederation of British Industry (CBI) Energy and Climate Change Board

Working with colleagues: Our Smart and Responsible programme

Our Smart and Responsible programme encourages colleagues to think about their own energy usage – from reducing travel to reducing paper waste. We also involve suppliers; for example MITIE (our Facilities Management partner) is a major contributor to our Smart and Responsible targets to reduce our use of energy and water, and to minimise the volume of operational waste we send to landfill.

As a responsible business we introduce programmes and policies that foster behavioural change among our colleagues that benefits the environment as well as communities. Our 'No Travel Week' policy was introduced in June 2011, to promote carbon-friendly travel alternatives during one week each month. Consequently, travel bookings have decreased by 130,000 during this period – and fewer journeys also mean that our colleagues can focus on their own wellbeing.

Along with meeting the WWF's (World Wide Fund for Nature) One in Five Challenge, we have made leaps forward in reaching our target to reduce business travel by 20 per cent by 2020.

Sustainability Network

The Sustainability Network is powered by the energy and enthusiasm of over 1,000 colleagues, who volunteer to encourage good environmental behaviour across the business. Colleagues are invited to be involved in green volunteering opportunities all year round and high profile events such as Climate Week.

The Network seeks to raise awareness of sustainability issues and targets; encourage activities across the Group, and communicates the need to address climate change and look after our natural resources. The Network also works in partnership with the Smart and Responsible programme to deliver the key actions in our Group-wide Environmental Action Plan. The Network has, to date, run webinars; produced the Green Times newsletter, encouraged environmental volunteering, set up regional focus groups and been involved in supplier engagement.

Working with our suppliers and customers

Involving our suppliers in our sustainability activities strengthens their impact and helps to build relationships. It is also important that we validate their sustainability credentials as part of the Group's supplier selection process and ongoing risk management. Our Group Sourcing Division is undertaking a review in 2013 to ensure we do this effectively.

During 2013, we are planning regional workshop based events and networking groups for our mid market customers to get them involved on sustainability issues, explore key themes relevant to the sector and apply best practices to different types of business. Topics will include resource efficiency, waste management and employee engagement.

DOING MORE FOR OUR STAKEHOLDERS

IN THIS SECTION

Doing more for our stakeholders	46
Our work with the UK Government	47
Our work with suppliers	49
Our work on employee relations	50
Stakeholder representation and engagement	51
Our approach to managing tax	53



DOING MORE FOR OUR STAKEHOLDERS

Building trusting and lasting relationships with our stakeholders is central to the success of our business. Working responsibly with our stakeholders is one of the five pillars of responsible business. Maintaining these good relationships will help us to become the best bank for customers.

Doing more for our stakeholders

We operate in a constantly changing market and economic climate, and sometimes need to look outside the bank to address challenges. We need to consult with stakeholders, as experts in their area, to give us insight about the market and to critique our approach. Equally, we share our views on how we see the sector moving and changing in the future.

Across the Group, we consult and collaborate with the UK Government, suppliers and others, such as industry bodies and trade unions. These relationships are managed across the Group at many levels, by the business area best suited to listen and respond to their needs. For example, our Employee Relations team manages the relationship with the trade unions, while our Head of Sustainability at our asset management arm Scottish Widows Investment Partnership (SWIP) works with the Institutional Investors Group on Climate Change.

Responsible business is a key theme for many of our external stakeholders. We work particularly closely with colleagues to involve their stakeholders in our work where appropriate. Our work with stakeholders is key to helping us to achieve our vision to be the best bank for customers and helping Britain prosper.

Our current challenges

We also have governance structures that escalate any significant issues or decisions relating to stakeholders. This will be raised at a relevant divisional leadership meeting, to the Group Executive Committee (GEC) or to the Board.

An issue in 2012, highlighted in our stakeholder data, has been a delay in paying our suppliers. We're aware of the need to pay our suppliers within the 30-day period. This increase in time to pay has been primarily due to changes in internal processes.

These are in the process of being reviewed, to improve payment times in 2013.

2012 highlights

In 2012, we developed several new relationships that are already helping us to do more. Some highlights from across the bank include:

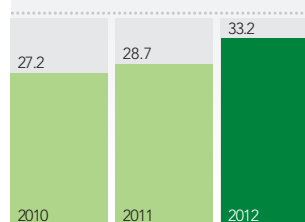
- ▶ creating an external stakeholder panel to shape our Responsible Business Report
- ▶ undertaking a review of our supply chain to explore opportunities to embed responsible behaviours
- ▶ becoming the first participant in the UK Government Funding for Lending Scheme
- ▶ sending a monthly economic insights report to all MPs

Doing more in 2013

We aim to continue to build trusting and lasting relationships with our stakeholders, including

- ▶ involving more suppliers in our responsible business approach
- ▶ collaborate further with government and industry bodies on our responsible business approach

Prompt Payment Code – Average time to pay (days)



This increase in time to pay has been primarily due to changes in internal processes. These are in the process of being reviewed, to improve payment times in 2013.

OUR WORK WITH THE UK GOVERNMENT

HIGHLIGHT



MONTHLY ECONOMIC INSIGHTS REPORT SENT TO ALL MPs

Introduction

During 2012 there was significant Parliamentary and regulatory interest in financial services in the UK:

- ▶ the Financial Services Bill made its way through Parliament, as part of the process to confirm a new regulatory framework and the replacement of the Financial Services Authority (FSA) with the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA)
- ▶ the Independent Commission on Banking (ICB) published its final recommendations on banking standards
- ▶ the Parliamentary Commission on Banking Standards (PCBS) was formed to report on professional standards and the culture of the UK banking sector, including governance. It continues its inquiry throughout the year

At the Group, we kept UK Financial Investments (UKFI) – the organisation that manages the Government's 39 per cent stake in Lloyds on behalf of HM Treasury – fully briefed on the progress of the divestment of part of our business under EU state aid rules.

Lloyds Banking Group did not knowingly make any political donations in 2012. It is the Group's policy not to make political donations (as defined in Companies Act 2006).

Transformation of the banking sector

It is imperative as a Group that we work effectively and directly with the UK Government and parliamentarians to address the serious issues around the evolution of banking regulation. For example, we engage on what a functioning banking sector looks like – one that offers consumers reasonable protection while allowing banks to innovate in a sensible regulatory environment.

We are also active members of a number of trade associations including the British Bankers Association and the Association of British Insurers. We work closely with them to help build industry consensus on a variety of topics from financial inclusion to Funding for Lending.

We will take industry-leading action where we feel it is important and in the interests of our customers. For example, we were the first bank to provide certainty for customers by offering compensation to those mis-sold PPI. Also, at the start of 2013, we were the first bank to publicly support the ring-fencing of financially separating retail banking from the investment arm of banks.

These moves were important steps in rebuilding public trust in the Group and in the banking sector in general.

During 2012, we worked with the following government bodies:

- ▶ Independent Commission on Banking – on ring-fencing and account switching
- ▶ Parliamentary Commission on Banking Standards – on culture, ethics and ring-fencing
- ▶ Treasury Select Committee – on basic bank accounts
- ▶ HMRC, US Treasury and IRS – FATCA – on mortgage forbearance
- ▶ European Commission and European Banking Authority – on the Capital Requirements Directive, which introduces a prudential framework to make EU banks more resilient in times of crisis
- ▶ European Commission and European Banking Authority – Crisis Management, which harmonises at EU level a set of rules for banks to recover or resolve with the least impact possible on customers and taxpayers
- ▶ European Commission, European Securities and Markets Authority, Financial Services Authority and HM Treasury – on the Markets in Financial Instruments Directive

The Independent Commission on Banking

The Independent Commission on Banking (ICB) published its final recommendations on UK banking standards in 2012. This will bring lasting change to the Group and we worked closely with members of the Commission to support their work.

We worked with the Commission on two important initiatives that will benefit our customers. The first was the seven day account switching programme, to ensure that customers are able to switch their accounts quickly, easily and securely. The second was working on the scope of activities within a ring-fenced bank e.g. to enable our business customers to hedge currency and other risks.

Parliamentary Commission on Banking Standards

The high profile Parliamentary Commission on Banking Standards (PCBS) was set up by the UK Government to review professional standards and culture in the UK banking sector, and to scrutinise the Banking Reform Bill.

Our Group Chief Executive appeared before the PCBS in 2012 acknowledging that banks had lost sight of their core values, but that Lloyds was now focused on better outcomes for customers and simpler transparent products and processes, designed from the customer's point of view.

The Commission's final report, which is due in May 2013, is likely to include measures to improve transparency, competition, standards and customers' trust in banking.

Nations and regions

We have a strong community focus and work at the regional level with local MPs to inform and involve them in our activities at a community level. Every UK region has a dedicated Ambassador from the Group who is charged with understanding the challenges facing their area. The Ambassador works with MPs and other appropriate authorities to inform them about our impact in the communities and to help overcome any challenges.

The Ambassador is kept informed by colleagues from our Retail and Commercial business and our Community and Sustainable Business team. Our work at regional level is part of strengthening our commitment to UK communities.

We also provide insights to politicians through parliamentary briefings and monthly economic insight reports.

OUR WORK WITH SUPPLIERS

HIGHLIGHT

MONTHLY BEST-PRACTICE FORUMS HELD FOR OVER 200 COLLEAGUES, WHO MANAGE THE DAY-TO-DAY RELATIONSHIP WITH SUPPLIERS

Introduction

Our suppliers can have a significant effect on the overall success of our business. They have the ability to grow our product and service offerings, and to work with us to implement our responsible business targets, such as reducing our environmental impact. We are working to build trust and lasting relationships with our suppliers to work collaboratively and drive change as well as competitive advantage.

We continually look to improve our policies and procedures to develop opportunities with our suppliers and to address issues in our supply chain. Our Group Sourcing function is responsible for managing our suppliers and has a Group Sourcing Policy.

Working with our sourcing teams

Our Group Sourcing function runs monthly best-practice forums with over 200 colleagues, who manage the day-to-day relationship with suppliers. The aim of the forums is to share the best way of working together.

We have a dedicated intranet site that has guidance, tools and policies to ensure that social, environmental and ethical criteria are incorporated into our sourcing selection and our ongoing audits. We have an annual Relationship Management Report (RMR) process for our top 150 suppliers to test and challenge the quality of our procedures.

Our aim is to govern all suppliers according to our Codes of Responsibility – see page 56. The Codes were revised in 2012 to define the way we do business. They underpin our Group's Ethics Policy and lay common foundations for responsible behaviour across the Group. This includes addressing the requirements of the UK Bribery Act 2010, and strengthens our commitment to all stakeholders, including our suppliers.

Review of our supply chain strategy

In 2012, we carried out a full review of our supply chain strategy and management, to see where we can improve alignment with our responsible business approach. Key recommendations were:

- ▶ the development of a new Supply Chain Framework which will introduce and establish a more robust management system and procedures to improve social and environmental impacts in our operations
- ▶ a revision of our existing Supply Chain Toolkit to include a more comprehensive screening of the supplier's responsible business credentials, supported by training and communications across the Group

Payment

We are a signatory to the Prompt Payment Code, committing to paying suppliers on time and keeping in place the payment terms agreed at the outset of the contract. Under the Code, we provide clear guidance on payment procedures, including redress for any disputes, and encourage similar good practice among our suppliers and other businesses. Our Group Sourcing Policy takes account of suppliers' policies and practice.

In 2012, the average time to pay was 33.2 days compared to 28.66 in 2011. This is an area we are working to improve in 2013. An update will be included in our report next year.

Payment of Suppliers	2012	2011	2010	2009
Number of payments	560,738	369,510	576,940	763,917
Average time to pay (days)	33.22	28.66	27.21	28.33
Number/amount of compensation payments for late settlement	nil	nil	nil	nil

OUR WORK ON EMPLOYEE RELATIONS

Introduction

Trade unions protect the rights and interests of their members. We believe in having a strong and close working relationship with our trade unions based on mutual respect for the bank and for each other.

We have agreements with four trade unions who collectively negotiate and consult on behalf of a large percentage of colleagues in the Group. Around 70 per cent of our colleagues belong to Accord, GMB, Lloyds Trade Union (LTU) or Unite. In 2012, we consulted and ran formal interviews with the unions on many areas including:

- ▶ our transformation programmes that will change the way our colleagues work
- ▶ the continued branch divestment as per EC mandate (Verde) of potentially 632 branches
- ▶ our responsible business approach and report

The unions have collective bargaining rights on a broad range of employment-related issues. These rights are broader than the legally defined minimum rights in statutory recognition situations.

How we work with the unions

As a Group, we are facing significant change to achieve our commercial and strategic objectives that were introduced in mid-2011.

We work closely with our trade unions to deliver this change to ensure that everyone understands the reasons and implications of the change and work together to mitigate the impact of that change on our colleagues.

Every effort is made to involve unions at an early stage in any proposed change that may affect colleagues. For example, in 2012, we consulted with the unions about the launch of the Codes of Responsibility. The unions are a channel for communicating colleagues' views and opinions, and play a role in helping them understand changes within the bank.

Our Employee Relations (ER) Division within the Group is responsible for managing our relationship with the trade unions. ER has representatives in each division across the Group, to create an effective working relationship between the unions and individual business units. Our Group ER function is responsible for providing strategic direction.

STAKEHOLDER REPRESENTATION AND ENGAGEMENT

It's vital to create and maintain two-way dialogue with our stakeholders, so that there is mutual understanding of issues and how to meet them. We know that we don't have all the answers and that collaborative working is the only way that we can solve common problems and create opportunities – after all our stakeholders are the experts by experience.

Stakeholder engagement is frequently a source of effective management and risk mitigation, ranging from customer and colleague engagement, to Government and supplier relations. We tailor engagement according to each stakeholder group. The table below provides some examples.

Focus area	Who we engage with	Method/s of engagement	Examples of outcomes
Doing more to put customers first	Customers (relationships)	Ipsos MORI survey	<ul style="list-style-type: none"> • Deeper insights into the issues and expectations of our customers • Presented to the Responsible Business Steering Group and its findings will influence our focus in this area
	Customers (satisfaction)	Customer research including 50,000 customer interviews a month to measure service experience Independent syndicated survey	<ul style="list-style-type: none"> • All our high street brands achieved increases in our Net Promoter Score • Improvement in Channel service (from customer feedback) • Intelligence for Product Management Teams • Reduction in complaints from 1.5 in H2 2011 to 1.1 in H2 2012 • Monthly competitor ranking for each of our channels (branch, telephony and Internet for satisfaction)
Doing more to be the best bank for our colleagues (engagement – responsible business)	Colleagues: customer facing, group functions, community and diversity representatives, and executive views	Focus group and interviews (conducted by the Stakeholder Panel)	<ul style="list-style-type: none"> • Findings will feed into stakeholder engagement and communications plan in 2013 • Findings will influence our 'Doing More Plan' and the work streams within the responsible business strategy
	All colleagues	Colleague engagement survey forums for leaders, line managers and colleagues. Colleague focus groups, blogs and other online forums	<ul style="list-style-type: none"> • Over 74 per cent of colleagues took part in the Colleague Engagement Survey in 2012 and our Performance Excellence Index score was above the UK norm at 68 per cent • Connected our 90,000 colleagues (on a full time equivalent basis) across the different brands and levels • We use results to influence new initiatives to improve performance

Focus area	Who we engage with	Method/s of engagement	Examples of outcomes
Doing more to work responsibly with other stakeholders	Unions: Lloyds Bank Trade Union, Accord. Unite and GMB	Interviews	<ul style="list-style-type: none"> Findings will feed into stakeholder engagement and communications plan in 2013
	Unions: Lloyds Bank Trade Union and Unite (Codes of Responsibility)	Direct consultation	<ul style="list-style-type: none"> Colleague views represented on policy review including Codes of Responsibility Helping the Unions to understand changes within the bank
	UK Government	Participation in the Government's Funding for Lending scheme	<ul style="list-style-type: none"> Increased lending to small and medium-sized enterprises (SME's)
	UK Government (HMRC/tax)	Direct consultation with HMRC	<ul style="list-style-type: none"> Improved openness and transparency Ensuring we operate within the law
	Investors (SWIP)	Ongoing dialogue with company Boards	<ul style="list-style-type: none"> Encouraging best practice in corporate governance
	Suppliers	MITE – involved in meetings	<ul style="list-style-type: none"> Utilising expertise to benefit our own responsible business programmes including energy efficiency, water and waste etc
Doing more to invest in our communities	Colleagues (engagement)	Volunteering and consultation/ voting on charity partners	<ul style="list-style-type: none"> Responding to feedback from colleagues who tell us they want to volunteer Positive involvement and empowerment of colleagues in decision-making
	Community organisations (Business Connectors)	Partnership working and consultation	<ul style="list-style-type: none"> Utilising business skills and expertise to tackle local needs Supporting high level/national programmes, i.e. Business in the Community, and encouraging other businesses to sign up Supporting BITC to achieve lottery funding
Doing more to reduce our environmental impact	Colleagues (Smart and Responsible programme)	Colleague engagement and Sustainability Network (over 1,000 colleagues)	<ul style="list-style-type: none"> A major contribution towards meeting our 2020 targets Awareness raising and colleague learning about ways to minimise impacts in their own lives
	Environmental Networks and Forums	Collaboration and representation e.g. Corporate Leaders Group for Climate Change, 2020 Scottish Climate Group, AIMC4, CBI Climate Change Board	<ul style="list-style-type: none"> Informing and influencing environmental change Understanding how we need to adapt as a business to reduce our own impact and improve products and services
	AIMC4 Partnership	Collaboration with members (on research, development and pioneering the volume of the low carbon homes for the future)	<ul style="list-style-type: none"> Created an exclusive Lloyds Banking Group mortgage Lloyds Banking Group support for research to help model future sustainable mortgage products

OUR APPROACH TO MANAGING TAX

Introduction

We have an important duty to our stakeholders to manage our tax position in full compliance with the law and in a way that is consistent with the Group's risk appetite. We aim to keep our stakeholders well informed as to our approach and the tax we pay.

The Group has a wide range of tax obligations, both for its own account but also as a collector of tax on behalf of the UK Government. There are a number of stakeholders who have an interest in how the Group manages these obligations: our shareholders, which include the UK taxpayer, but also our customers, our colleagues, the UK Government and tax authorities wherever we operate.

Our approach to tax

We act in accordance with HM Revenue & Customs' (HMRC) Banking Code of Practice and the Confederation of British Industry's Statement of tax principles. We are open and transparent in our dealings with HMRC (and all tax authorities), we do not adopt interpretations of the law that in our view are contrary to its intention and we do not promote tax avoidance products to our customers.

The tax system that applies to the Group is wide-ranging and complex. In spite of this complexity we are thorough and committed to ensuring that our decisions and actions always reflect a long-term assessment of the costs and risks of the options we face, and importantly the impact on our relationship with our stakeholders and our reputation.

Policy into practice

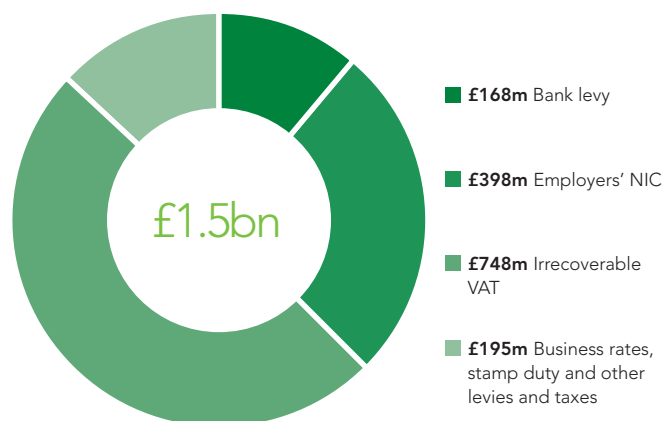
The Group's approach to tax is supported by a tax policy which has been approved by the Board and shared with HMRC. The Group Tax team supports the Group in ensuring that it has the right policies, procedures and controls to ensure that it fulfils its obligations and acts in the right way.

The Group engages with HMRC on significant transactions to ensure an open and quick assessment of the tax position. As with any large Group there are, from time to time, issues that may arise where we have a different view to HMRC and these are dealt with in an open and professional manner.

Contribution to tax revenues

The Group was a significant contributor to UK tax revenues in 2012 with taxes borne of £1.5bn. The tax borne in 2011 was at the same level, making the Group the third highest taxpayer in the PwC 2012 Total Tax Contribution survey for the Hundred Group.

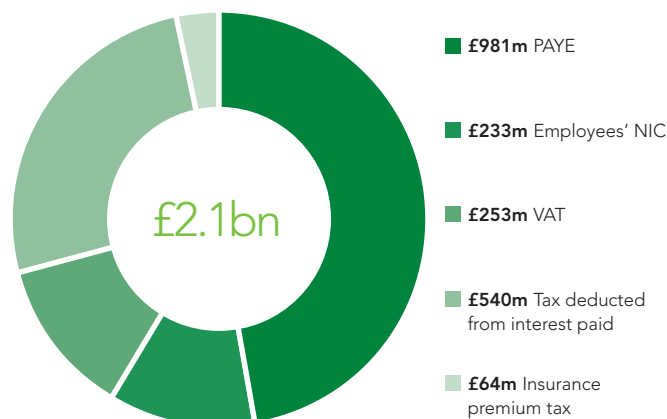
2012 taxes paid



Collection of taxes

The Group also plays a major role in the collection of taxes on behalf of the Government. In 2012, we collected £2.1bn of UK taxes. This was a small increase over 2011 when we collected £2bn.

2012 tax collected



RESPONSIBLE BUSINESS GOVERNANCE

The governance of responsible business within the bank is critical in our journey towards a leadership position. Our governance can help to embed our responsible business approach throughout the Group while keeping the bank's Board informed of progress and any issues relating to the business.

We have been working to make responsible business more connected with our overall strategy to be the best bank for customers. This is so it resonates more clearly in the business.

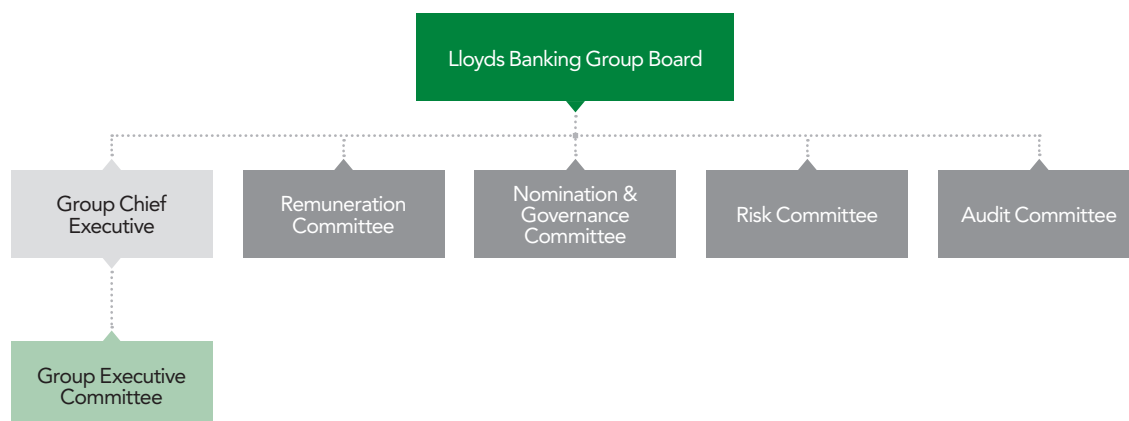
Our Responsible Business Steering Group (RBSG) is led by a non-executive Board member, Anita Frew, who reports on progress of the Steering Group to the Board. The senior level representatives are able to guide their individual business units to implement the responsible business approach across our c.90,000 colleagues (on a full time equivalent basis) across the Group. Our Codes of Responsibility and work across the Group's divisions support this implementation.

The RBSG bases its bi-monthly meeting agendas on our five pillars of responsible business that address customers, colleagues, stakeholders, communities and the environment. At each meeting, one of the five pillars – for example, colleagues – is examined from a responsible business perspective. The RBSG investigates how the responsible business pillar can further help to deliver the bank's strategy to be the best bank for customers. The aim is to be recognised as a leader in responsible business.



The Steering Group has invested a lot of energy into reinforcing governance structures – a vital building block to strengthening reputation

Anita Frew, Non-Executive Director, Lloyds Banking Group and Chair, Responsible Business Steering Group



The Group structure

Throughout 2012, we made changes to the Board and the senior management organisational structure. This was done to reflect what is needed to deliver on our strategy and move to the next phase of the Group's transformation and to create a more customer focused approach.

The Group Executive Committee (GEC) is chaired by António Horta-Osório, our Chief Executive. The Director of each of the Group's divisions is either a member or attends the GEC.

Our GEC structure provides updates on progress and key decisions from the divisions to Group level. Any key issues that arise are escalated to the Board of the bank.

There are also four Committees which are chaired and attended by Board members which focus on Audit, Nomination & Governance, Remuneration and Risk. More detail about our governance structure, including our Leadership team, can be found in the Annual Report and Accounts 2012 on page 94.

Responsible business governance and the Responsible Business Steering Group

Our Responsible Business Steering Group (RBSG) plays an important role in leading and integrating our responsible business approach within the bank. Implementation of our responsible business approach is led by the Group's Community & Sustainable Business team.

Key divisions and functions of the business are represented at the RBSG. These include Risk, Audit, Human Resources, Corporate Affairs, Retail, Commercial, Insurance and Group Operations, amongst others.

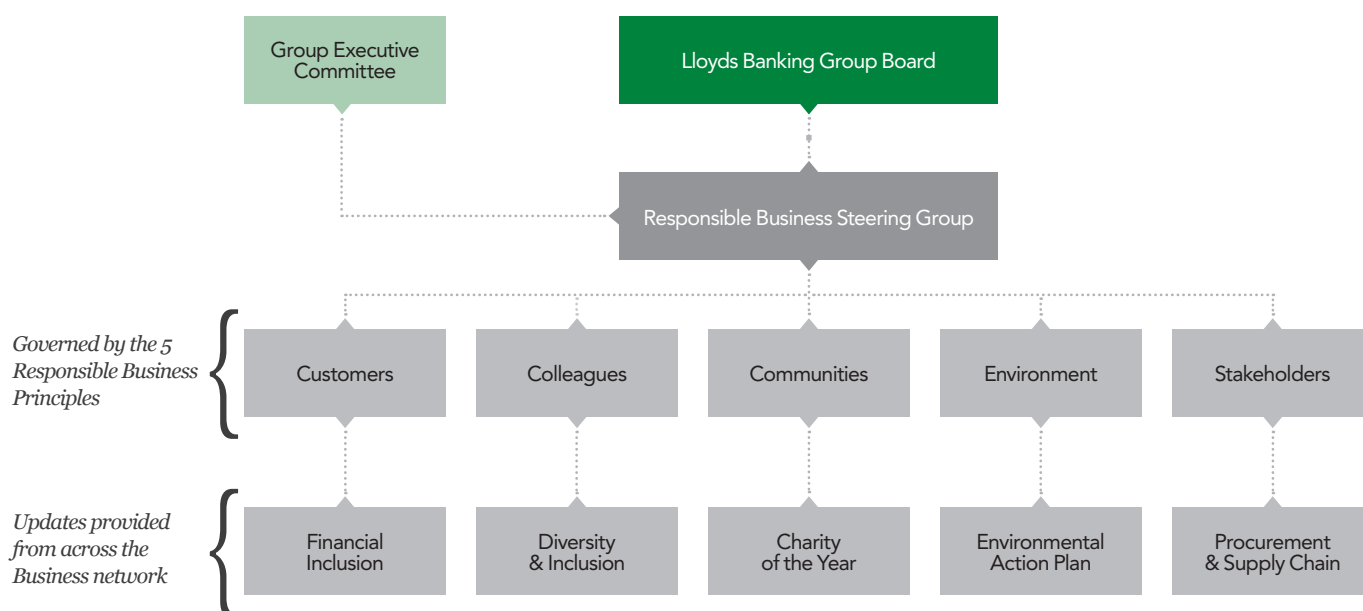
Each Steering Group member has been approved by the GEC. Some members of the GEC are also part of the RBSG, which means that any critical business issues raised by the RBSG can be taken to the GEC.

Discussions at the RBSG meetings are informed by senior representatives from each of the relevant business areas. Other Steering Groups from across the business will also provide input to the RBSG, including the Financial Inclusion Steering Group and our Environmental Steering Group.

The RBSG is currently working on a responsible business balance scorecard which will define the metrics by which we will track progress towards leadership in responsible business – see page 5.

The remit of the RBSG is to:

- ▶ review and advise the Group's Community & Sustainable Business strategy and provide direction to business units
- ▶ advise on responsible business risks and opportunities, drawing upon the expertise of senior executives within the business
- ▶ set and communicate priorities for responsible business to the relevant business units via the central Community & Sustainable Business team
- ▶ promote responsible business at all levels across the Group, ensuring that it is on the business agenda at all times including updating the GEC and Board on progress
- ▶ review responsible business performance based on indicators
- ▶ review the content of the Group's annual Responsible Business Report for recommendation to GEC and approval by the Board



External Experts

During 2012, the RBSG has worked with external experts and opinion formers who provide thought leadership and insights to the Steering Group. We also have an external independent panel of experts who challenge the responsible business strategy and implementation, to ensure that we are striving for leadership in this area.

Our Community and Sustainable Business team has also worked with a stakeholder panel who independently review and comment on both the 2011 and the 2012 Responsible Business Report. The role of the stakeholder panel is to provide independent analysis of the Group's responsible business performance and recommendations about how to improve both action and reporting in specific areas. The panel consists of:

- ▶ Robert Tate, Development Director, Membership, Business in the Community – Chair of the Panel
- ▶ Dr Graham Dietz, Senior Lecturer, Durham University Business School
- ▶ Polly Falconer, Chair of Trustees, Graft Thames Valley
- ▶ Philippa Foster Back, OBE, Director, Institute of Business Ethics
- ▶ Lynda Simmons, Head of Sustainability, MITIE Group plc
- ▶ Jennifer Walmsley, Head of UK Engagement, Hermes Fund Managers

Our Codes of Responsibility

In 2012, we launched our Code of Business Responsibility and Code of Personal Responsibility (referred to in the Report as the 'Codes of Responsibility'). The Codes underpin our Group's Ethics Policy and lay common foundations for responsible behaviour across the Group.

The Codes are consistent with our Group values of 'Putting Customers First, Keeping it Simple and Making a Difference Together'. The Codes are based around our five pillars of responsible business:

- ▶ putting customers first
- ▶ becoming the best bank for colleagues
- ▶ investing in communities
- ▶ reducing environmental impacts
- ▶ working responsibly with other stakeholders

The Code of Business Responsibility sets out what our stakeholders expect from us. It holds us to high standards concerning our engagement with society and the environment. It takes account of the material issues facing our business, including the requirements of the Bribery Act 2010.

Our Code of Personal Responsibility provides guidance to colleagues to help them carry out their roles against our five pillars of responsible business.

Mandatory training for all colleagues on the Codes started in late 2012 and will continue throughout 2013. This training features workplace scenarios to help guide colleagues when they face an ethical dilemma. In 2013, we will also be embedding the Codes into our human resources processes, including recruitment, induction, personal development, performance management and leadership development.

We will be reviewing the Codes of Responsibility annually to ensure they remain up to date and appropriate to our business and the environment in which we operate.

Risk policy framework and our procedures

We have a Group Policy Framework (GPF) that is a key component of how the Group manages risk. It ensures that we have a consistent approach and that everyone can understand their individual and collective responsibilities in relation to Policies. The framework details the rules, boundaries and risk appetite within the bank – it ultimately impacts on the way we treat and serve our customers.

The Framework meets our external and internal governance requirements (such as the UK Corporate Governance Code and our own Board Governance Framework) and is owned and managed by the Risk Chief Operating Office, Governance and Control team. All Group Policies are reviewed annually using an approach that combines consultation, research and management information. The Policies apply to all colleagues on a permanent or fixed-term contract as well as businesses, Group functions and legal entities.

Whistle blowing

Our whistle blowing helpline is for colleagues to speak out if they suspect any wrongdoing. In 2012, 539 contacts were recorded by the helpline. Every incident was reviewed, investigated and resolved with appropriate action. We also reviewed details of the Group's whistle blowing procedures and incidents in 2012.

Assurance

We have extended the scope of our responsible business assurance as well as engaged external experts to undertake a review of our internal controls. Our goal of helping Britain to prosper must be built on robust governance and reliable data. Using recognised external auditors is an indication of the Group's intentions and investment to achieve leadership in responsible business.

Sustainability league tables and indices

To succeed in reaching a leadership position in the area of responsible business, our external indices rankings are important to gauge our performance and progress.

In early 2013, Lloyds Banking Group was awarded BITC's Platinum 'Big Tick!' status. We were also ranked ninth in the 'World's Greenest Bank' 2012 rankings by Bloomberg and were the highest ranked UK bank in the index.

In 2012, we retained our position in the FTSE4Good socially responsible investment index and our overall scores remained broadly stable in the Dow Jones Sustainability Index (DJSI). We also maintained our position in the Carbon Disclosure Project (CDP).

We were the highest ranking bank in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme performance league table in 2012.

Money for Life was awarded a Business in the Community (BITC's) 'Big Tick!' and was highly commended in BITC's Awards for Excellence 2012.

Lloyds Scholars was named Corporate Responsibility Project of the year at the 2012 Charity Times Awards.



We can only be the best bank for customers by building a great reputation founded on the highest standards of responsible behaviour

*António Horta-Osório,
Chief Executive, Lloyds Banking Group*

KEY TARGET TABLE

	2012 Targets	Progress	2013 Target	Progress
Doing more to put our customers first	To reduce FSA reportable banking complaints per 1,000 accounts to 1.3 by the end of 2012 (excludes PPI)	<ul style="list-style-type: none"> This target was exceeded, the second half of 2012 complaints per 1,000 was 1.1 (excluding PPI) 	To reduce FSA reportable banking complaints per 1,000 accounts to 1.0 by the end of 2013 (excludes PPI)	
	To provide at least £12bn of gross lending in 2012 to small businesses within our core commercial business	<ul style="list-style-type: none"> This target was exceeded, £13bn of gross lending was provided in 2012 	New target: a one-year commitment (from Sep 12) to pledge an additional £1bn of lending to the Manufacturing Sector	<ul style="list-style-type: none"> In the six months since September 2012, we have given £700m of funding and are on target to reach our lending goal
	To help 300,000 SME's start up between 2010 and the end of 2012	<ul style="list-style-type: none"> We exceeded this target supporting around 350,00 SME's start up 	To help a further 100,000 SMEs start up in 2013	
	Not applicable	Not applicable	New target: To lend £6.5bn to 60,000 first-time buyers in 2013	
Doing more to be the best bank for our colleagues	Not applicable	Not applicable	New target: Minimum 85% compliance with the mandatory training for the Codes of Responsibility in 2013	<ul style="list-style-type: none"> Minimum target already achieved in Quarter one 2013
	To increase female representation on the Board to 25% by 2015	<ul style="list-style-type: none"> This target has been met early. As of 31 Dec 2012 the % of female representation on the Board was 27% 	New target: In 2013 – extend our 360-degree feedback from the top 200 leaders to the top 2,000 leaders in the Group	
	Not applicable	Not applicable	New target: 1,000 apprenticeships in 2013	
	Not applicable	Not applicable	New target: Assess 55,000 colleagues against the Chartered Banker Professional Standard for Bankers (CB:PSB)	

	2012 Targets	Progress	2013 Target	Progress
Doing more to invest in our communities	To achieve 22,000 colleagues volunteering during 2012	<ul style="list-style-type: none"> In 2012 32,000 colleagues, around 1 in 3 of our population registered for their Day to Make a Difference volunteering programme 	Reach our total of one million colleague volunteer hours by the end of 2015 (start 11 Jan)	<ul style="list-style-type: none"> At the end of 2012 we are on track with 384,000 hours completed
	Not applicable	Not applicable	New target: Second 20 senior managers from across the Group for the Business Connectors programme in 2013	
	For colleagues to raise £2.5m by the end of 2012 (starting Jan 2011) for the Group's Charity of the Year Save the Children	<ul style="list-style-type: none"> Target exceeded, colleagues raised £3.6m 	For colleagues to raise £2m by the end of 2014 (starting Jan 2013) for the Group's Charity of the Year partner; Alzheimer's Society and Alzheimer Scotland's Live Well Campaign	
	To train 1,400 people to run money management sessions as part of our Money for Life programme in 2012	<ul style="list-style-type: none"> We trained 1,400 people to run money management sessions in communities in 2012 	To train 1,400 people to run money management sessions as part of our Money for Life programme in 2013	
	Not applicable	Not applicable	New target: To help over 1,300 Social Entrepreneurs to start up by the end of 2017 (starting Jan 2012)	
Doing more to reduce our environmental impact	To reduce our core energy consumption by 30% by 2020 against a 2009 baseline (target excludes IT data centres and the use of oil as a fuel)	<ul style="list-style-type: none"> Energy: As of Sep 2012 (the end of our 2012 reporting period) we have reduced our in scope energy consumption by 12.9% against the 2009 baseline and remain on track for 30% by 2020 	To reduce our core energy consumption by 30% by 2020 against a 2009 baseline (target excludes IT data centres and the use of oil as a fuel).	
	To reduce CO ₂ emissions from business travel by 20% by 2020 against a 2010 baseline	<ul style="list-style-type: none"> Travel: As of Sep 2012 (the end of our 2012 reporting period) we have reduced our in scope business travel by 25% against the 2010 baseline 		
	Not applicable	Not applicable	New target: Meet the regulatory requirements for the new mandatory greenhouse gas emissions reporting by March 2014	
Doing more to work with our stakeholders	Not applicable	Not applicable	New target: To reduce the days it takes to pay suppliers to below 30 days as per the Prompt Payment Code	<ul style="list-style-type: none"> In 2012 it took us on average 33 days to pay the Group's suppliers

MATERIALITY

Our responsible business strategy aims to move beyond compliance towards improved performance and delighting, rather than merely satisfying, our stakeholders. To achieve this we know we must align our responsible business strategy to stakeholder concerns, and be clear about the issues that are most significant to the impact we make economically, socially and environmentally.

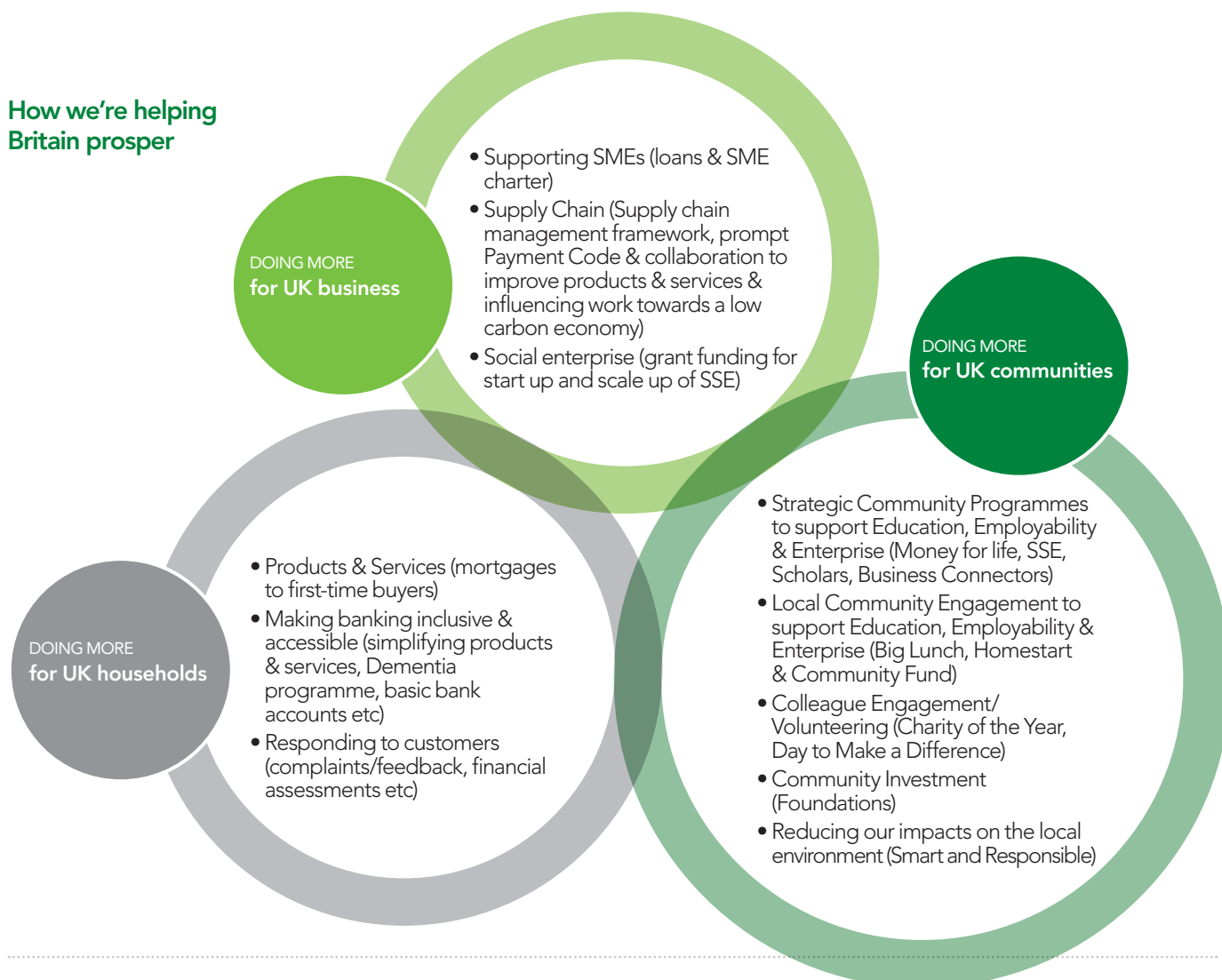
We are faced with a wide range of themes and many internal and external factors which affect how we make decisions on our responsible business priorities, and how we report them. We do this by listening and responding internally, through colleague engagement at all levels within our organisation, and externally through customer and other stakeholder feedback. We also take advice on prioritisation such as that provided through sustainability experts Radley Yeldar in 2012. In addition to this, we undertake a variety of engagement activities to consult and keep abreast of our stakeholder issues. More details of these can be found in the Doing more for our stakeholders of this report – [see page 46](#).

In response to reviewing our priorities in 2012, we have re-shaped our Responsible Business Strategy and prioritised the three key focus areas which are of the greatest importance to our stakeholders and our business. They are also areas where we know we can make a positive difference to help Britain prosper. These focus areas, and some of the ways we are supporting them are as described in the diagram below.

These three prioritised focus areas cover a broad range of environmental, social and Governance (ESG) issues and opportunities. Whilst distinctive in what they have set out to achieve, they do not stand alone and interact with each other.

Our Stakeholder Panel, appointed in 2012, was selected to reflect stakeholder interests covering the community, the supply chain, the investment community, as well as addressing issues of ethics, trust and sustainability, and representing the views of both retail and business customers. The panel were guided by the AA1000AS Standards, which includes the principle of materiality, and they considered this accordingly. Please see Assurance – [see page 61](#).

How we're helping Britain prosper



ASSURANCE

Statement from the independent stakeholder panel

The objectives and scope of the panel's activity

The panel's objectives were:

- ▶ to review the 2012 Responsible Business (RB) Report and provide a statement of the extent to which the panel feels it meets the needs of the stakeholder groups which they represent
- ▶ to be seen to take an independent stakeholders' approach so that the RB Report is seen to reflect and question Lloyds Banking Group's (LBG) performance against those banking sector issues that concern its stakeholders

The scope of the panel's review of the RB Report is limited to matters relating to its UK presence as the Group operates almost wholly in the UK. The panel's remit was limited to the published 2012 RB Report, and did not cover any other aspects that may be featured in the RB portal.

The composition of the panel

The panel was selected by The Virtuous Circle Ltd, (TVC) acting independently of LBG. TVC took responsibility for establishing, managing and facilitating the panel, including providing it with relevant research material.

The panel consisted of:

- ▶ Robert Tate, Development Director, Membership, Business in the Community – Chair of the Panel
- ▶ Dr Graham Dietz, Senior Lecturer, Durham University Business School
- ▶ Polly Falconer, Chair of Trustees, Graft Thames Valley
- ▶ Philippa Foster Back, OBE, Director, Institute of Business Ethics
- ▶ Lynda Simmons, Head of Sustainability, MITIE Group plc
- ▶ Jennifer Walmsley, Head of UK Engagement, Hermes Fund Managers

The panel was selected to reflect stakeholder interests covering the community, the supply chain, the investment community, as well as addressing issues of ethics, trust and sustainability, and representing the views of both retail and business customers.

To ensure their independent status, none of the panel received any remuneration from LBG, although, in recognition of both the time and effort involved for panel members, LBG made an honorarium payment on behalf of each panel member to a charity of their choice.

The basis for this statement and its limitations

The panel approached its work mindful of Accountability's AA1000AS Assurance Standard's key principles of materiality, completeness and responsiveness of reporting. In its review it sought to ensure itself that the RB Report met stakeholders' needs with reference to these principles. In this context, the panel was aware that LBG had appointed PwC to undertake a full verification of the data included within the RB Report and welcomed this appointment as a means of providing stakeholders with further reassurance for the report.

In its approach, the panel considered only the content of the 2012 RB Report and not other areas within LBG's RB reporting hub.

LBG's management took responsibility for the preparation and presentation of information and data within the RB Report. The panel's responsibility in undertaking its review is only to LBG's management, in accordance with the scope of work agreed with them, and not to any other person or organisation.

The process adopted by the panel

To enable the panel to develop views of the 2012 RB Report, it was provided with several research studies, undertaken by TVC on behalf of the panel:

- ▶ a review of the 2011 RB report, benchmarked against LBG's five major UK banking competitors
- ▶ an assessment of the extent of the RB visibility for stakeholders
- ▶ findings from focus group interviews with LBG's colleagues, together with interviews with the main unions that have representation in LBG, as a means of assessing colleagues' perceptions of RB within LBG
- ▶ findings from interviews with key executives responsible for RB elements to understand the range of activities undertaken from 2010 onwards, as well as those planned for 2013

Panel members identified what they considered to be the five key RB issues they expected to be covered in the RB Report. Members also assessed what they considered are the key behaviours a responsible business should encompass in order to be deemed trustworthy by stakeholders. These behaviours were based around an academic research study on organisational trustworthiness and showed that a trusted company would be seen to:

- ▶ act competently
- ▶ act with care and consideration
- ▶ act ethically and transparently
- ▶ act consistently and reliably

Following analysis by the panel, it held interviews with LBG's Chief Executive and the Non-Executive Director with Board responsibility for RB. These interviews helped the panel assess the level of board commitment to RB.

Subsequently, the panel assessed the report content and drew conclusions about the extent to which the 2012 RB Report met the principles of materiality, completeness and responsiveness.

In all, the panel held four meetings, all held in a LBG conference suite. Panel members achieved 92 per cent attendance, either in person or in teleconference.

The panel's conclusions

In this first statement by an independent stakeholder panel, the panel wishes to acknowledge the extensive support given to it by LBG's management with RB responsibility. The levels of transparency and co-operation offered meant the panel covered a wider range of RB activities than might be considered reasonable given the amount of time available.

In this respect, the panel was able to consider matters stretching back to 2010, as well as those currently in planning for 2013 and beyond. With the benefit of this insight it acknowledges that LBG's development of its RB strategy and agenda is an ongoing journey. In the panel's view there have been substantial improvements made in the 2012 report compared with those of prior years. The panel also recognises that LBG's RB development is dynamic and continues to expand to enable it to address both current and future issues.

The panel's brief was to consider the 2012 RB Report in terms of its materiality, completeness and responsiveness to the interests of stakeholders:

- ▶ **Materiality** – the panel mapped what it considered to be key issues against the behaviours that it considered essential for a company to be regarded as trustworthy by its stakeholders. The panel used these issues as the basis for its analysis of the contents of the report, and found that the report addressed them satisfactorily
- ▶ **Completeness** – during its work, the panel communicated to LBG's RB management matters that it expected to be included within the report. Where the initial report outline appeared to have potential gaps on key issues, these gaps were communicated by the panel. These gaps were addressed within the report to large extent in its later drafts, or were shown to be in the process of being addressed during 2013. The panel considers that the completeness of reporting of material issues within the report is fair and balanced
- ▶ **Responsiveness** – the panel judged the responsiveness of the reporting at two levels. Firstly, it found LBG's management responded highly proactively to its comments on issues that should be addressed within the report. Secondly, in the Group's operations, the panel recognises that LBG has a department that is dedicated to responding to customer complaints in a considerate and coherent manner and is also responsible for improving customer service standards. This department's activities are commented upon within the report. These areas of responsiveness led the panel to consider the report had been developed in a responsive manner

Nevertheless, there are areas which the panel recommends that LBG could usefully focus upon for further development or improvement. The panel welcomes the inclusion in the report of the link between the Responsible Business programme and the Group's business model and strategy but recommends that this link should be more visible in LBG's communications channels, in addition to the RB Report. This wider communication is particularly relevant since the RB Report shows strong links to LBG's five pillars for responsible business. The panel believes this is important to enable all stakeholders – investors, colleagues, customers, suppliers, communities, government and regulators – to appreciate that the group's Responsible Business programme fulfils a key role in the Group's journey to achieve its stated goal of 'being the best bank for customers'.

There is strong evidence of the RB management team offering proactive leadership in this area with material support from the Board, through the RB Steering Group, in asking for more information about RB targets and progress towards them. However, the panel recommends stakeholders would benefit from even greater transparency within future reports about those areas that pose challenges and offer opportunities for improvement and attention. This transparency would help develop the trust of its stakeholders and assist in rebuilding the bank's reputation.

The panel confirms that it acted in an independent manner and that it had open access both to LBG management and to relevant documentation. In conclusion, the panel considers that the report meets the principles of materiality, completeness and responsiveness to a high degree, with room for continued improvement. As a consequence, the panel considers the report to be a fair description of the RB activities being undertaken within LBG, and adequately describes LBG's intentions to continue with these programmes. Given the response of LBG to the panel's comments, the panel expects that the reporting quality will continue to improve.

18 April 2013

INDEPENDENT ASSURANCE REPORT TO THE DIRECTORS OF LLOYDS BANKING GROUP PLC

The Directors of Lloyds Banking Group plc ("LBG") engaged us to perform limited assurance on the information described below and set out in LBG's 2012 Responsible Business Report (the "Report").

What we are assuring ("Selected Information")

The Selected Information marked with the symbol ✓ presented in the Report. The scope of our work was restricted to the Selected Information set out in the Report and defined below and does not extend to information in respect of earlier periods or to any other information in the Report.

The data specified below forms the Selected Information:

- ▶ the selected total community investment and the selected average formal learning days per FTE for the 12 months ended 31 December 2012 presented in the Report; and,
- ▶ the selected UK carbon emissions performance data being Scope 1, Scope 2 and Scope 3, the selected total energy consumption, the selected water consumption, the selected operational waste and selected percentage of operational waste diverted from landfill for the 12 months ended 30 September 2012 presented in the Report.

How the information is assessed ("Reporting Criteria")

We assessed the Selected Information using LBG's Reporting Criteria as set out in LBG's website at <http://www.lloydsbankinggroup-cr.com/>¹

Professional standards applied² and Level of assurance³

We have used ISAE3000 (limited level of assurance) and we have complied with the ICAEW Code of Ethics.

Understanding reporting and measurement methodologies

There are no globally recognised and established practices for evaluating and measuring the Selected Information. The range of different, but acceptable, techniques can result in materially different reporting outcomes that may affect comparability with other organisations. The Reporting Criteria used as the basis of LBG's reporting should therefore be read in conjunction with the Selected Information and associated statements reported in the Report.

Work done

Considering the risk of material misstatement of the Selected Information, we:

- ▶ made enquiries of relevant LBG management;
- ▶ evaluated the design of the key structures, systems, processes and controls for managing, recording and reporting the Selected Information. This included analysing 57 sites, selected on the basis of their inherent risk and materiality to the Group, to understand the key processes and controls for reporting site performance data. This did not extend to testing that the controls operated as intended for the period under review;
- ▶ performed limited substantive testing on a selective basis of the Selected Information at corporate head office and in relation to 57 sites to verify that data had been appropriately measured, recorded, collated and reported; and,
- ▶ assessed the disclosure and presentation of the Selected Information.

LBG's responsibilities

The Directors of LBG are responsible for:

- ▶ designing, implementing and maintaining internal controls over information relevant to the preparation of the Selected Information that is free from material misstatement, whether due to fraud or error;
- ▶ establishing objective Reporting Criteria for preparing the Selected Information;
- ▶ measuring LBG's performance based on the Reporting Criteria; and
- ▶ the content of the Report.

Our responsibilities

We are responsible for:

- ▶ planning and performing the engagement to obtain limited assurance about whether the Selected Information is free from material misstatement, whether due to fraud or error;
- ▶ forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained; and
- ▶ reporting our conclusion to the Directors of LBG.

¹ The maintenance and integrity of LBG's website is the responsibility of the Directors; the work carried out by us does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the reported Selected Information or Reporting Criteria when presented on LBG's website.

² We have complied with International Standard on Assurance Engagements 3000 – 'Assurance Engagements other than Audits and Reviews of Historical Financial Information' issued by the IAASB, and with the applicable independence and competency requirements of the Institute of Chartered Accountants in England and Wales (ICAEW) Code of Ethics. To comply with those standards, our work was carried out by an independent and multi-disciplinary team of sustainability and assurance specialists.

³ Assurance, defined by the International Auditing and Assurance Standards Board (IAASB), gives the user confidence about the subject matter assessed against the reporting criteria. Reasonable assurance gives more confidence than limited assurance, as a limited assurance engagement is substantially less in scope in relation to both the assessment of risks of material misstatement and the procedures performed in response to the assessed risks.

Our conclusions

As a result of our procedures nothing has come to our attention that indicates the Selected Information in Lloyds Banking Group plc's 2012 Responsible Business Report has not been prepared in all material respects with the Reporting Criteria.

This report, including our conclusions, has been prepared solely for the Directors of LBG as a body in accordance with the agreement between us, to assist the Directors in reporting LBG's Responsible Business performance and activities. We permit this report to be disclosed in Lloyds Banking Group plc's 2012 Responsible Business Report, to enable the Directors to show they have addressed their governance responsibilities by obtaining an independent assurance report in connection with the Selected Information. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors as a body and LBG for our work or this report except where terms are expressly agreed between us in writing.

**PricewaterhouseCoopers LLP,
Chartered Accountants, London**

22 May 2013

DATA SHEET

Financial performance

	2012	2011
Cost:income ratio	54.8 per cent	50.5 per cent
Core tier 1 capital ratio	12.0 per cent	10.8 per cent
Earnings per share	– 2.0 pence	– 4.1 pence
Total underlying income (net of insurance claims)	£18,386m	£21,046m

Economic and social impact

	2012	2011
Gross new lending to SMEs	£13.2bn	£12.5bn
Gross new residential mortgage lending	£26.2bn	£28bn
Mortgages to first-time buyers	55,900	52,800
Staff costs: Salaries	£3,411m	£3,784m
Money contributed to the financial advice sector	£15.5m	£14.8m
Payment of suppliers – average time to pay (days)	33.22 days	28.66 days
Total community investment	£85m✓	£85m
Total amount donated to the LTSB Foundations and the BOS Foundation	£29m	£29m
Funds raised by colleagues for the Charity of the Year	£1.2m	£1.4m
Colleague volunteers	32,000	16,000

Environmental data

	2012*	2011*
Total UK carbon emissions (CO ₂)	374,361 tonnes	410,237 tonnes
Total scope 1 emissions (CO ₂)	49,414 tonnes✓	58,572 tonnes
Total scope 2 emissions (CO ₂)	290,726 tonnes✓	308,844 tonnes
Total scope 3 emissions (CO ₂)	34,221 tonnes✓	42,821 tonnes
Total energy consumption	769 GwH✓	833 GwH
Direct energy consumption by source – gas	199 GwH	230 GwH
Direct energy consumption by source – oil	7 GwH	5 GwH
In-direct energy consumption by source – electricity	562 GwH	597 GwH
Property-related CO ₂ emissions	329,403 tonnes	352,697 tonnes
Business travel CO ₂ emissions	44,958 tonnes	57,540 tonnes
Tonnes of CO ₂ per £m of Group's income**	20.4 tonnes	19.5 tonnes
Tonnes of CO ₂ per Full Time Equivalent (FTE)	4.0 tonnes	4.2 tonnes
Water consumption	1,062,244m³✓	1,135,876m ³
Water consumption per FTE	11.4m³	11.5m ³
Operational waste	25,159 tonnes✓	25,961 tonnes
Percentage of operational waste diverted from landfill	94 per cent✓	58 per cent
Total tonnes waste per FTE	0.3 tonnes	0.3 tonnes
Total tonnes paper used	26,565 tonnes	29,981 tonnes
Percentage of paper from sustainable sources	100%	100%
Tonnes of paper per FTE	0.3 tonnes	0.3 tonnes

* for environmental data our reporting periods are from the 1st October to the 30th September each year

** where income is 'total underlying income net of insurance claims'

✓ Independently assured key performance indicators

People data

	2012	2011
Employees (on a full-time equivalent basis) at 31 December	92,788	98,538
EEl – Employee Engagement Index	48 per cent	52 per cent
PEI – Performance Excellence Index	68 per cent	69 per cent
LEI – Line Management Index (new in 2012)	77 per cent	n/a
Average formal learning days per FTE	6.9 days ✓	6.9 days
Percentage of total employees that are female	60.1 per cent	59.5 per cent
Female managers	44.6 per cent	42.9 per cent
Female senior managers	27.8 per cent	26.2 per cent
Percentage of colleagues from an ethnic minority	6.6 per cent	6.6 per cent
Ethnic minority managers	5.8 per cent	5.7 per cent
Ethnic minority senior managers	2.9 per cent	2.7 per cent
Percentage of colleagues who say they have a disability	1.5 per cent	1.7 per cent
Percentage of colleagues who say they are lesbian, gay or bisexual	0.7 per cent	0.7 per cent

✓ Independently assured key performance indicators

**LLOYDS
BANKING
GROUP**



Contact us

We would like to hear from you.
Please get in touch with any
feedback and queries at
the following address:

Community and
Sustainable Business
Group Corporate Affairs
Lloyds Banking Group
25 Gresham Street
London
EC2V 7HN

You can also send an email to
Responsible.business@lloydsbanking.com

This Report is available in
alternative formats on request.