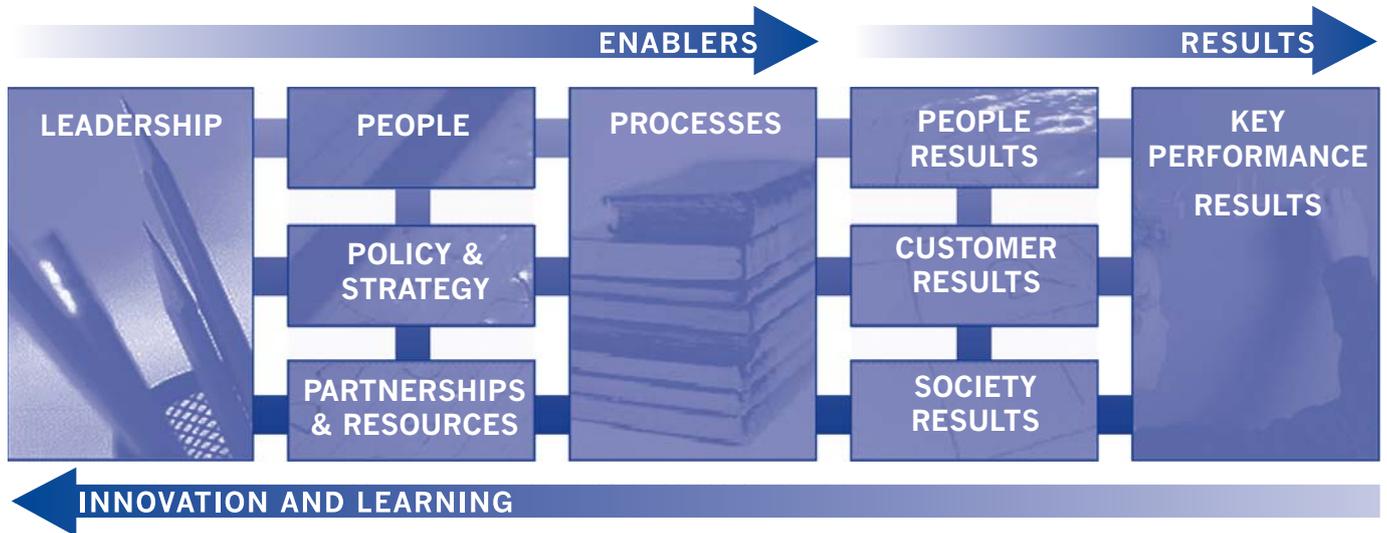




## About this report



### We have been developing a management approach to corporate responsibility (CR) that ensures we have:

- a clear and constant purpose, helping us to focus on the delivery of results;
- a focus on customers and how we can create value by better meeting their needs;
- a systematic application of processes and fact-based assessments to manage our business and to make our strategic decisions;
- the ability to identify what we need to do to develop our people and maximise their potential;
- the scope to derive value from meeting our responsibilities to the communities we serve.

In this, we have adopted use of the European Foundation of Quality Management's CR Framework. It is ideally suited to the purpose: it is business driven; aligns corporate responsibility with business strategy, balanced scorecard strategic and tactical priorities; delivers internal and external benchmarking opportunities; and facilitates stakeholder engagement at all levels of the organisation.

Lloyds TSB has been integrally involved in development of the EFQM CR Framework. We were represented on the Working Group which devised it and were the first organisation to test it through high-level self-assessment in 2003.

In 2004, the Group's corporate responsibility team undertook a full-company self-assessment against the Framework. In 2005, a number of representatives from key business units contributing to the Group's corporate responsibility profile participated in a more comprehensive self-assessment. We identified areas for improvement which have been built into the balanced scorecard priorities of the corporate responsibility team.

One of those priorities was to formalise a network of senior managers across the business who report into members of the Group's Corporate responsibility steering

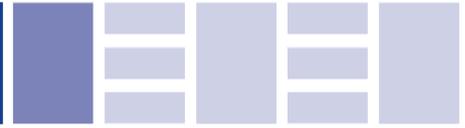
group of senior executives. In March 2006, based on 2005 performance, 28 of this enablers' network undertook the most in-depth self-assessment yet against the EFQM CSR Framework, validated by CSE Associates, EFQM licensed consultants.

This report is based on the self-assessment findings. Consequently, the report is divided into nine sections referenced to the nine separate criteria of the EFQM CR Framework. The criteria are divided into enablers and results. The enablers – what an organisation does – cover leadership, people, strategy, partnerships and resources and processes. The results – what an organisation achieves – are separated into people, customer, society and business results.

In this report, we set out each criteria in a separate section, defined by standard EFQM terms. The enablers sections are further sub-divided into the key topics of the Framework and relevant evidence given under each one. The results criteria are divided into perception and performance measures and data is provided against each of these.

The next step is for the areas for improvement, identified in the self-assessment, to be translated into prioritised objectives and the development of key performance indicators to measure performance against these objectives. Working with colleagues across the business, bringing their particular knowledge and expertise to bear on the process, those objectives will inevitably reflect key business unit priorities. That is the intention. We are committed to delivering corporate responsibility performance that reflects the key strategic priorities of the business and aligns the organisation's corporate responsibility priorities with the business strategy and priorities of individual business units.

**Please see our CORPORATE RESPONSIBILITY REVIEW for case studies and other examples of our work.**



Excellent leaders ensure the mission, vision, values and ethics of the organisation reflect a socially responsible culture, which they role model and reinforce with the organisation's people. They ensure the management system addresses current and future social, environmental and economic issues as well as all relevant stakeholders on these topics. The leaders ensure that any change takes into account the organisation's CR commitments.

## Reflection of socially responsible culture in the mission, vision, values and ethics of the organisation

Our corporate vision is to make Lloyds TSB the best financial services company, first in the UK then across borders.

Our CR strategy is to support our corporate vision by helping to build a great place for our people to work, a great place for our customers to do business, and generating great returns for our shareholders. In so doing, we believe we create value for all our stakeholders.

That is the value-based approach to CR: a business strategy that recognises that a brand and reputation which reflects the expectations of all stakeholders will create real business value. CR is no different from any other investment in the strategic assets and capabilities that drive business performance.

Our CR principles are a short form of our Group Code of Business Conduct, which is the umbrella under which all Group policies and behaviour principles sit. The full text of the Code and the Principles can be found at [www.lloydstsb.com/corporate\\_responsibility](http://www.lloydstsb.com/corporate_responsibility).

## Role model of responsible behaviour

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

Thousands of our employees are committed professionally and personally to a whole range of external organisations. This includes senior executives and directors who sit on the Group's CR steering group. For example, our deputy group chief executive is deputy chairman of Race for Opportunity, a member of

Business in the Community's rural action leadership team and a member of CSR Europe's chairman's advisory council. He is also chairman of the British Quality Foundation and a governor of the European Foundation of Quality Management. In his role as chair of our CR steering group, he speaks widely internally and externally on a range of CR issues.

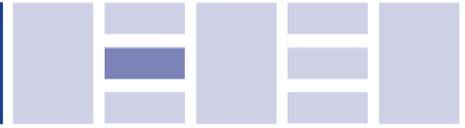
We are members of Business in the Community, CSR Europe, the European Academy of Business in Society, and the Environment Council. In the past 12 months we have participated in the FORGE working group exploring CR issues for the financial services sector and the Small Business Consortium of leading small business representative and non-governmental organisations seeking to promote CR in the small and medium-sized enterprise sector.

## Stakeholder engagement

Our customers, shareholders and employees are our key stakeholders and evidence of engagement is contained in this report. But we engage with a wide range of other stakeholders, including governmental and non-governmental organisations, community groups and policy and pressure groups. Senior executives and directors are often involved in leading this dialogue through face-to-face meetings or joint working groups fostered by external organisations such as the British Bankers' Association, Association of British Insurers, Confederation of British Industry and Business in the Community.

## Involvement in organisational change

We have a CR steering group, chaired by our deputy group chief executive, and comprising senior executives of all business divisions and relevant Group functions. The committee meets quarterly to recommend strategy and provide direction through a network of senior management 'enablers' across the business. The Group Board reviews overall CR performance annually and individual issues are subject to board discussion throughout the year.



Excellent organisations embed CR into their policy, strategy and day-to-day activities by integrating the mission and vision with policy and strategy, by involving internal and external stakeholders and their present and future needs and expectations in the development, review and updating of policy and strategy. They develop strategies to identify and address the current and future social, environmental and economic challenges the organisation faces and the current and potential markets in which they operate. They also have processes in place to develop and deploy the strategy.

## Stakeholder expectations

Our CR strategy underpins the corporate strategy and focuses on driving value for our key stakeholders through:

- enhanced brand perception, consideration and commitment;
- increased employee engagement;
- increased customer satisfaction;
- improved responsiveness to changes in patterns of customer behaviour;
- supporting development of new markets and innovation in existing markets;
- delivering competitive advantage through better CR management.

## Integration of CR issues in strategic planning and objectives

### *Enhanced brand perception*

We believe the value of our brand is determined by our reputation, the quality of our leadership and management, our people and their commitment to the company, and customer loyalty influenced by the quality of our products and services.

### *Increased employee engagement*

We have strong empirical evidence of the crucial link between employee satisfaction, customer satisfaction and financial performance. Employee engagement is a critical factor determining employee satisfaction and we know that CR is fundamental to employee engagement.

### *Customer satisfaction*

Studies reveal increasing importance of CR to customers both in terms of brand perception and consideration. There is significant evidence of changing customer attitudes and behaviours which will accelerate the importance of CR issues.

### *Development of customer markets*

Corporate responsibility also opens up new market opportunities. Regulatory or other external drivers create a requirement to explore new markets and how best financial return norms can be achieved while meeting increasing stakeholder expectations.

### *Managing corporate responsibility*

Our CR management approach aligns the interests of stakeholders with the Group's business strategy and balanced scorecard objectives. We recognise that CR issues bring both risks and opportunities. How we manage those risks and opportunities is fundamental to sustaining business value.

## Research on future trends affecting corporate responsibility

Fundamental to our CR strategy is the need to identify key stakeholder trends. We have developed a sophisticated business case for CR within Lloyds TSB which reinforces our value-based strategy. This business case is frequently refined through new research and articulated internally and externally, including public platforms in the UK and EU.

Our analysis of employee engagement is built on data from extensive customer and employee satisfaction surveys linked to financial performance data for individual business units. The views of 2,500 personal and 2,000 business customers surveyed each month are also critical to customer service and product development.

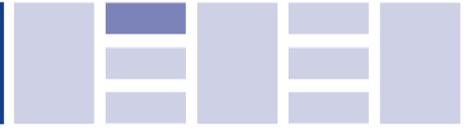
We monitor closely the public policy environment and track key developments in CR related issues. Benchmarking against peer companies and sector competitors is inherent in the EFQM approach and our membership of key business-led CR organisations – Business in the Community, CSR Europe, EABIS and the London Benchmarking Group amongst others – facilitates this.

## Communication with stakeholders

We have a CR communications approach, which supports our CR strategy by building on our position as one of the top UK CR performers. It requires delivery of a sustained internal and external communications campaign to raise awareness, underpin corporate values, demonstrate the logical linkages to the business at all levels, ensuring responsibility is consistently part of the business agenda and enhance the trust and commitment of key stakeholders in the company.

As a consequence we have focused on a much greater segmentation of our CR communication by audience. Our Corporate Responsibility Review is a short CR profile - with case studies and illustrative examples of policy, programmes and activity - aimed specifically at customers and the public. It supplements a customer leaflet made available in our branches in 2005. The more detailed technical data and results of interest to analysts, commentators and opinion formers is contained in this report. Both Review and Report are supplemented by additional material on our website at [www.lloydstsb.com/corporate\\_responsibility](http://www.lloydstsb.com/corporate_responsibility).

Our employees are a major focus. Both the Review and the Report will feature on our comprehensive CR Intranet site and be widely accessible in print. We also plan a specific employee magazine to be published in July 2006. This is in addition to regular CR features in all our internal employee communications and over 200 CR-oriented stories appearing on our daily Group intranet 'news' service *Upfront News* in 2005.



The organisation is socially responsible to its people through managing, developing and releasing the full potential of people at individual, team based and organisational level, by involving and empowering them in discussions on CR and related activities and planning. People's knowledge and competencies are identified and developed. The organisation rewards, recognises and promotes people in all fairness and equality and has a dialogue with them.

## People management

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

Employee performance is measured using a balanced scorecard that takes account of the needs of customers, employees and shareholders. All staff have objectives which, in addition to financial performance measures, include building the business in the longer term, customer service, risk management and people development. Management remuneration and incentives are linked directly to specific areas of CR, such as service quality.

Career Paths supports individual performance and development by creating a structured forum for understanding our people, their achievements and development needs. The process is focused around regular meetings between employee and line manager in which they will work through four steps: a review of performance, behaviours and experience; an individual's objectives; and development plans for the next year. Over 8,000 employees, 85% of those in relevant grades, were covered under Career Paths in 2005.

All other employees have a personal development plan to support achievement of individual balanced scorecard objectives. Our human resources call centre answers an average of 1,300 enquiries a day from managers and staff seeking policy advice, guidance and learning support.

Based on our analysis of long-term employee satisfaction, customer satisfaction and individual business unit financial performance data, we know that improved employee satisfaction drives: lower employee turnover; increased staffing adequacy; lower overtime commitments; and higher employee engagement.

### We have identified six primary determinants of employee engagement:

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

We measure employee engagement with the quarterly Engagement Index. It was launched in 2005 and an average of almost 70% of employees participated in the four surveys in 2005.

We also conduct frequent employee forums and focus groups to test opinions on a range of issues, from company strategy and employee benefits to product development. Our confidential "whistleblowing" telephone line is available to all employees to report concerns that they feel unable or unwilling to raise with their line manager.

## People knowledge and competencies

Our training framework enables employees to develop a clear learning plan that reflects their specific learning and career needs. This is embedded in the annual performance assessment process.

The University for Lloyds TSB (UfLTSB), one of the largest corporate universities in Europe, provided over 45,700 training days and nearly 25,000 delegate places in addition to online learning through a Group-wide network of 2,000 multimedia personal computers, and 26 dedicated 'cyber-cafes'. The UfLTSB's students can gain recognised qualifications and accreditation.

Most of our business units are committed to Investors in People, a standard for ensuring staff have the opportunity to reach their full potential.

## Recognising and empowering people

We recognise that one of the main drivers of employee engagement is the degree to which our people understand where they fit in the organisation and the contribution they make. A performance and development model, based on a common balanced scorecard framework, is designed to meet this key need. Every individual's annual objectives and performance measures are linked to the Group's core strategy.

Career Paths and people development planning linked to balanced scorecards are intended to support the self-management of personal progression.

To create an inclusive working environment we have put initiatives in place to address the specific needs of groups of employees. These include women in management, ethnic minorities, disabled, age diverse, lesbian, gay and bisexual, parents and those with other caring responsibilities. We routinely undertake research to identify key issues and build activities into our work programmes. Examples include:

- A comprehensive package of policies to support working parents; guidance packs for pregnant women and their line managers; information booklets to support fathers.
- We participate annually in the Race for Opportunity national benchmarking survey and use the feedback to inform our race work programme for the forthcoming year. We provide a career progression programme for ethnic minority managers and support an employee-led network for ethnic minority staff.
- We work closely with the Employers Forum on disability to help inform and shape our disability work. This includes a personal development programme for disabled staff, a process to make work-place adjustments for disabled staff who need them, accessibility standards as an integral part of all IT developments and we support an employee-led network for disabled staff.
- In 2005 we undertook Group-wide research with our lesbian, gay and bisexual (lgb) employees to help develop a sexual orientation work programme. We are now working with a group of lgb employees and external organisations such as Stonewall, to raise the profile of lgb issues and address the research findings. This includes a new employee-led network and ensuring we respond, as a business and employer, to the implications of the Civil Partnership Act.

Recognition and reward schemes are widely used throughout the organisation to celebrate team and individual achievement. While our emphasis is on everyday actions - listening, noticing, acknowledging and appreciating our colleagues' contribution - we also formally recognise those who have exceeded expectations and pushed boundaries in areas such as colleague support, customer service or community commitment.

For example, there are individual 'Stars' awards schemes in our UK Retail Banking and Group Operations, recognising inspiring performances on a monthly basis leading to an annual awards ceremony. The Group Operations scheme has three levels - Gold, Silver and Bronze - reflecting the degree to which an individual has helped colleagues over and above existing responsibilities, added value to the business in terms of income generated or costs saved and excelled in customer service.

The Making a Difference business and community awards are a Group-wide scheme focused on team and individual contributions to the business and to community organisations. In 2005, 10 community award winners each received a £1,000 cheque for their chosen organisation.

## Human rights and fair terms of employment

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

We are committed to achieve the highest standards of safety for our employees, customers who visit our branches, and contractors who work on our sites.

Our human rights and general statement of Group health and safety policies are on our website at [www.lloydstsb.com/corporate\\_responsibility](http://www.lloydstsb.com/corporate_responsibility).

Many employees in the UK are represented by two recognised trade unions which are consulted regularly. For those working in the EU, we hold a yearly European Employee Forum where key employment issues are discussed.

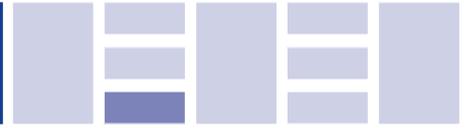
## People benefits and services

We employ almost 70,000 people worldwide. Our competitive working conditions include: basic pay; territorial allowances where applicable; a company car scheme; pension schemes; bonuses based on performance; and an employee share scheme. Over 4% of Lloyds TSB shares are held by over 78,000 staff and pensioners, or on their behalf by the trustee of the staff share schemes.

*Flavours* is our flexible benefits programme - over 60% of employees participated in 2005 - and we give an opportunity to obtain free company shares and savings-linked share schemes.

We contribute to the health and well-being of employees through our people and health and safety policies. For example, we offer guidance on healthy lifestyles and gym membership discount schemes. We have a code of practice - *Assessing and Managing Stress* - that outlines the causes and steps to take to reduce and minimise stress at work. A special internal website on healthcare and wellbeing offers guidance on managing stress.

Our work options policy gives staff the opportunity to adopt flexible working practices, job sharing, varied hours, teleworking and reduced hours where it is practicable for our business.



**Excellent organisations plan and manage partnerships and resources to support policy and strategy and CR objectives, balancing the current and future needs of the organisation with those of society and the natural environment. The economic, social and environmental impacts of external relationships, finance, buildings, equipment and materials, technology and information are taken into account in their management**

## Management of external partnerships

We operate in an intensely competitive market and we need to explore options to improve our efficiency and effectiveness in delivery of services, for the benefits of customers and shareholders alike. This means we constantly review our options including the outsourcing of functions, joint ventures and strategic partnerships.

When outsourcing is identified as the most appropriate option we have a defined Group policy supported by a dedicated team ensuring that best practice is applied. This includes ensuring fully informed decision making to maximise benefits and opportunities, risk management and regulatory compliance. Outsourcing often involves difficult decisions and we are always mindful of our responsibilities as a major employer.

This is particularly relevant whenever we offshore a process or operation. By the end of 2005, we have created a total of 2,000 roles in India - for Group Operations, Telephony, Cheltenham & Gloucester, Lloyds TSB Insurance and Scottish Widows - through partnerships with IBM, ICICI Onesource and Xansa. A proportion of these jobs were new roles, increasing our telephony and processing capacity. Any affected UK employees are offered redeployment within the Group. Anyone who decides to leave has access to a bond of up to £2,000 towards retraining. Our redeployment and outplacement approach is recognised as a model for the sector by the trade union, Amicus.

We are one of the largest purchasers of products and services in the UK. We have a well-developed process for assessing the environmental impacts and management of our suppliers. We extended the supplier review process to encompass social and ethical performance. Our supplier relationships are governed by a Code of Purchasing Ethics that defines the way we do business. The Code provides guidance and sets appropriate boundaries in areas such as anti-competitive behaviour, the misuse of inside and confidential information, and conflicts of interest.

As part of our efforts to control travel, our supplier management team works with business units to analyse travel patterns and suggest alternative approaches such as teleconferencing and videoconferencing.

The University for Lloyds TSB works with external providers to come up with “blended learning” programmes, where information delivered online is supplemented with face-to-face training using the resources of institutions such as the Chartered Institute of Management and Nottingham Business School. Programmes are also accredited by external organisations, such as Ashridge College, providing

employees with external performance benchmarks and qualification portability.

Lloyds TSB has long supported independent money advice networks. In 2005, we committed to provide £1.5 million funding to the Money Advice Trust over three years. We also provide a contribution to the Consumer Credit Counselling Service - in 2005 this amounted to £1.1 million - based on the value of repayment plans agreed with customers who are counselled by the Service. Similarly, we made a contribution of £350,000 last year to the Payplan service.

Lloyds TSB has one of the largest community investment programmes in the UK valued at just over £37 million in 2005, including £31.2 million which was distributed by the Lloyds TSB Foundations. Since 1997, the four independent Lloyds TSB Foundations – covering England and Wales, Scotland, Northern Ireland and the Channel Islands - have received over £259 million as shareholders in the Lloyds TSB Group. Together they receive one per cent of the Group’s pre-tax profits averaged over three years, in lieu of their shareholder dividend.

We partner with a major charity as the Group’s charity of the year – in 2005 this was Marie Curie Cancer Care. We work with Caring the Sharing to promote payroll giving through the Give As You Earn scheme among our UK employees.

## Management of finance

In addition to statutory obligations, the Group’s Code of Business Conduct commits us to keep shareholders informed of the broad strategy and financial performance of the Group; public communications that include full, fair, accurate, timely and understandable disclosure; and keep accounting records which accurately disclose the financial position of the Group. From 1 January 2005, the Group implemented International Financial Reporting Standards. The company’s 2005 Report & Accounts were audited by PricewaterhouseCoopers LLP.

## Management of buildings, equipment and materials

Banks have a direct impact on the environment – such as energy used for heating, cooling and travel – and can affect the environment indirectly through the actions of their customers.

Effective environmental management reduces business risks, cuts costs and improves our efficiency. We have had a formal environmental policy (see [www.lloydstsb.com](http://www.lloydstsb.com)) since 1996 and use a recognised environmental management system. Our environmental reporting is verified by a specialist independent environmental consultant.

With over 2,000 buildings and around 70,000 employees, our direct impacts are confined mainly to energy use (air conditioning, computer systems, lighting), executive travel, paper use and office waste. These are our four key performance indicators (KPIs) reported under society results.

Our direct impacts are largely in the UK. Our environmental management system (EMS) follows the ISO 14001 standard, which includes the identification of significant environmental impacts, the setting of key objectives and targets, and their management. Each business unit is responsible for managing its significant impacts. The management of our facilities is audited internally to check that the systems are working properly. We gather data and these, plus the systems that collect and generate the data, are verified annually by an independent third party.

We use energy for heating, cooling, lighting and running computer systems. Our energy use is a significant cost to the business and we strive to improve our energy efficiency. Each year we target specific buildings where we can improve energy efficiency. We have developed a set of energy-management tools (we call it our Energy Bible) to help our building managers calculate the financial and environmental savings from improved energy efficiency.

We report separately on the energy used in our buildings and that consumed in travel. Since 1999, we have followed UK Government guidelines on the assessment of our global warming (climate change) impact. In 2004, we agreed a contract that will result in five of the Group's main buildings using energy from sustainable sources (hydro).

## **Management of technology**

Technology offers us many advantages and has opened up new channels to market. By taking into account what our customers want, we have developed a multi-channel customer offering that allows our customers to choose how they wish to interact with us. They can do this through our branches, by telephone or over the internet.

Our internet banking operation is one of the most frequently visited websites in Europe with over two million registered users. Our customers can transact all their financial affairs through the internet.

Technology is enabling and empowering our employees. There is now a more direct relationship between each individual and the company as employer, with many of the previously centralised HR functions and processes delegated to line managers through our intranet system. The internet, intranet and video enable us to have a highly effective dialogue with our people. .

We are increasingly moving to internet-based purchasing and procurement, forging an online relationship with our main suppliers. We are also using 'e-auctions' so that suppliers can tender on a modern and fair basis.



Excellent organisations design and manage processes in order to fully satisfy and generate increasing value for all stakeholders. The processes are improved as needed and communicated to stakeholders. The organisation's products and services are designed, developed and improved in line with customers' and stakeholders' current and future needs and expectations. Customers are advised about the responsible use of the products and services.

## Process design and management

Lloyds TSB has some great assets:

- strong brands;
- our relationship with 16 million customers - and its by-product, the knowledge we have on their financial preferences and requirements;
- our mix of distribution channels, including more than 2,000 branches;
- one of the largest telephone and internet banking operations in Europe.

We have invested in new systems and processes to deliver a comprehensive operating model that focuses on welding the twin objectives of responding to customer need and delivering value for our customers. For example, we have provided online 'real-time' banking, with our customers' transactions instantaneously updated; re-routed basic telephone transactions to specialised call-centres and introduced customer relationship management-based information systems.

We have also delivered the ability for our customer-facing staff to access real-time information and key information on customers. It has meant interconnecting all our systems, so that they talk to one another across all the points at which our customers touch us - in person, by phone, through the internet - and across all our businesses. It allows us to have a single view of our customers.

We have sought to deliver to our staff the information they have always told us would be most valuable to them in developing the customer relationship. This shift has been supported by development of a fully integrated Group process framework which focuses on customer relationships, sales and service, business support, co-ordination and innovation.

## Process improvement and stakeholder communication

The Group process framework is underpinned by the use of continuous improvement processes such as Sigma and LEAN.

Sigma is a measure of how well we meet customer expectations in terms of timescales or standards of service delivery. Each month we measure our performance against these expectations for nearly 90 per cent of the average 230 million customer transactions we undertake every month.

Whereas Sigma looks at the effectiveness of our processes, LEAN is concerned with improved efficiency. It focuses on those elements of our processes that add value for the customer and seeks to identify those that don't. By redeploying resources from unproductive to productive activity, we will add further value for both the customer and the business.

## Product design and development

Lloyds TSB can identify examples of business development stimulated by CR or external stakeholder drivers where normal business value measures have been met by innovation in delivery.

With over 2,000 branches, Lloyds TSB has one of the largest branch networks in the UK. Our partnership with the UK Post Office also allows our personal customers to use around 16,000 post offices. We have over a 25% market share of those people belonging to the lowest income groups. We have also been at the forefront of developing alternative forms of financial provision and support for those communities where mainstream financial services have traditionally been considered inappropriate or inaccessible.

We have simplified as far as possible, within our legal obligations, the identification and application processes for Lloyds TSB's Basic Bank Account. Basic Bank Account is open to anyone over 18 years of age, regardless of credit rating, so long as they are not a declared bankrupt. By the end of 2005, over 348,000 accounts had been opened.

We have supported community credit unions which service identifiable geographic groups. Grants have also been made to a number of community credit unions to help with their modernisation and expansion programmes.

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

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

Most of our Cashpoints include features which are recommended by the Royal National Institute for the Blind, such as audible tone prompts and keyboards that allow easier orientation. Customers with visual impairments can order large print or Braille statements free of charge and we can also correspond with our customers in Braille and large print. We have developed

large cheque books and templates that make it easier to write cheques, addresses and sign plastic cards. Note gauges that identify at a touch which bank note is which can be supplied and our customer brochures are available in audiotape, Braille and large print.

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

Lloyds TSB has a strong focus on ethnic minority businesses and this is supported by significant staff awareness, sponsorship and promotional activity. Many of our senior business banking managers have undertaken a leading and managing diversity course to increase cultural awareness. In areas with a high concentration of ethnic minorities, we seek to recruit multi-lingual staff to ensure our workforce reflects the composition of the local community and serve customers whose first language is not English.

In more than 30 UK communities we are piloting a current account and home finance that complies with Shariah (Islamic) law.

### **Production, delivery and servicing of products and services**

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

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

### **Customer relationships are managed and enhanced**

Our customer relationships are vitally important to us and we link the quality of our service to the way we assess and pay all our staff, including senior executives.

We ask more than 2,500 personal and 2,000 business customers each month what they think of our service. We use the results to calculate our CARE Index, which is based on customer understanding, accessibility, responsibility and expertise. We also use 'mystery shoppers' to test the level of service across branches, telephony and internet banking.

Our *You First* brand strategy was implemented to enhance the service to our customers by encouraging customer-centred decision making. In 2005, we divided our retail network into four regional community banks to give more local control and speed of decision in responding to our customers' needs.

Details of our charges are part of the welcome pack given to customers when they open an account. We publish *A guide to our rates and charges*, available in branches and there are full details available on our website. Our industry-leading initiative to improve credit card literature – using illustrative scenarios to demonstrate the true cost of borrowing on a credit card – has been included in Lloyds TSB credit card applications since July 2004.

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

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



**Excellent organisations comprehensively measure and achieve outstanding results with respect to their people.**

## Perception Engagement Index

2005	Q1	Q2	Q3	Q4
Engagement Index	73	72	74	74
ISR UK Financial Sector Norm	65	66	66	65
ISR High Performance Norm	71	71	72	71
Response Rate	68%	70%	70%	67%

Our engagement index survey is issued quarterly and attracts a consistently high response rate. In each quarter during 2005, the engagement index has outperformed both the ISR UK Financial Sector norm and the ISR High Performance norm.

## People Performance Indicators

### Women

Women in Management / Senior Management	2002	2003	2004	2005
Women in Management positions	34%	36%	37%	38.5%
Women in senior Management positions	16%	17%	19%	20.5%

We want to increase the number of women in middle and senior management positions and continue to make progress. In addition Lloyds TSB Group has 4 women board directors – no FTSE 100 company has more.

### Ethnic minority employees

Ethnic minority managers	2002	2003	2004	2005
Ethnic minority managers	2.4%	2.9%	3.5%	4.1%
Ethnic minority senior managers	1.0%	1.1%	1.2%	1.8%

We were assessed first in Business in the Community's Race for Opportunity benchmarking report in 2005.

### Disabled employees

1.5% of employees have identified themselves as having some form of disability.

### Health & Safety

	2002	2003	2004	2005
Absence from work 3+ days	98	155	171	142
Major injury	32	35	47	37
Fatality	0	2	1	2
Prescribed dangerous occurrences	60	1	11	47
Reportable diseases	22	34	48	25
Public taken to hospital from our premises	34	44	71	52

The two fatalities that had regrettably to be reported to the Health & Safety Executive relate to a member of staff who died suddenly of natural causes while at work and a customer who died from an existing medical condition while in one of our branches.

Dangerous occurrences are those events where notification is a legal requirement upon employers, not because they resulted in major injury or death, but because they may have had the potential to do so. Of the 47 reported in 2005, incidents ranged from multiple reports of the inadvertent release of a security dye to a person trapped in a lift.

Absences and major injuries are lower than the national average published by the UK Health & Safety Executive and, overall, the number of accidents is very small compared with the number of employees and customers visiting our premises. Nevertheless we take the health and safety of our employees and customers very seriously and work to avoid all accidents. Our general statement of Group health and safety policy can be found at [www.lloydstsb.com/corporate\\_responsibility](http://www.lloydstsb.com/corporate_responsibility).

### Training and development

We invested £45 million in training in 2005.

- Over 92,000 face-to-face training days across the organisation, including those provided by the University for Lloyds TSB;
- 15,156 training days through Multi-media PCs;
- Nearly 1.2 million hits on University for Lloyds TSB Intranet site;
- Over 1.9 million hits on University for Lloyds TSB Internet site.

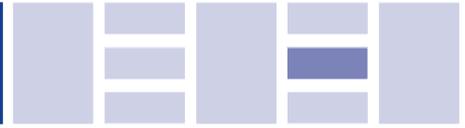
In 2005, 55,000 (81% of UK employees) worked for parts of the business that conform to the Investors in People standard.

### Work-life balance

By December 2005, over 34% of our workforce were working flexible hours.

### Human rights audit

In 2004, we conducted a self-assessment audit of compliance with our human rights policy across our International Banking division. The results confirm that we comply with the policy in all countries of operation.



## Excellent organisations comprehensively measure and achieve outstanding results with respect to their customers

### Perception

#### Customer satisfaction

The percentage of our customers rating our service as good or better:

Business Unit	Dec 2004	Dec 2005
Personal	92%	95%
Business Banking - Branch	90%	92%
C&G – Mortgage	89%	89%
Scottish Widows	87%	89%

Lloyds TSB Corporate won Bank of the Year at The Real Finance/CBI The FDs' Excellence Awards in April 2005. Finance Directors from across the UK were asked to rate their levels of satisfaction with the quality of service provided by their main Bank and the degree to which their relationship manager understood their business.

Lloyds TSB has been ranked top place for delivering customer service in a mystery shop exercise of the UK's high street banks. More than 1,000 bank branches were visited in November 2005 by GrassRoots, an independent research agency. Lloyds TSB achieved the highest overall score of 71%.

### MORI CSR Survey 2005

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

%	2004	2005	2005 ranking
Public	33	37	16 <sup>th</sup> of 48
Customers	53	55	N/A

In the 2005 MORI survey of Corporate Responsibility Attitudes of the British Public, Lloyds TSB was ranked 16th out of 48 companies. 37% of those members of the public who participated in the survey thought Lloyds TSB takes its responsibility seriously. This rises to 55% among our own customers.

### Customer Performance Indicators

At 31 December 2005 (statutory basis)

	2004	2005
Total Assets	£284,422 million	£309,754 million
Loans and advances to customers	£155,318 million	£174,944 million
Customer accounts balances	£119,811 million	£131,070 million

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

	2004	2005
Loans and advances to customers	£165 million	£206 million
Customer accounts balances	£159 million	£339 million

### Complaints

We are legally required to report on the volume of complaints, to the UK Financial Services Authority, every six months. In the six month period to October 2005 complaints were down 11% on the corresponding six months to October 2004.

### Environment (indirect impacts)

In 2005, 693 cases were referred to our environmental helpline (730 in 2004):

- 28% related to construction and associated building activities;
- 18% to petrol stations and car repair garages;
- 7% to waste management, refuse disposal, recycling and incineration;
- 51% required input from our panel of environmental consultants who provide technical advice;
- 29% of those required further professional investigation.

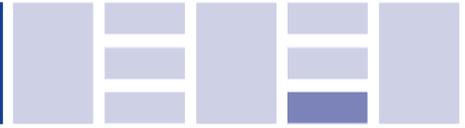
The environmental helpline has a service level agreement to respond to all referrals within 48 hours of receipt. In 2005, 90% of referrals were responded to on the day of receipt and the remainder the following day.

### Socially Responsible Investment (SRI)

Scottish Widows Investment Partnership (SWIP) is one of the largest asset management companies in the UK. At the end of 2005, SWIP managed £94.9 billion worth of funds in total.

In addition to specialist ethical, environmental and SRI funds totalling £786 million, as at 31st December 2005, consideration of a company's social, ethical and environmental performance forms part of the research process for all funds.

SWIP's policy on shareholder engagement can be found on [www.swip.com](http://www.swip.com).



## Excellent organisations comprehensively measure and achieve outstanding results with respect to society

### Perception

#### MORI CSR Survey 2005

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

%	2004	2005	2005 ranking
Public	33	37	16 <sup>th</sup> of 48
Members of Parliament	29	46	N/A

### Business in the Community Corporate Responsibility Index

Position 2004	Score 2004	Position 2005	Score 2005
14=	93%	10=	97%

### Society Performance Indicators

#### Community Investment

	2004	2005
Total contribution	£35,490,000	£37,050,000
Estimated capture of total data	95%	95%
Type of giving		
Cash	£32,240,000	£33,850,000
Estimated time	£2,400,000	£2,300,000
In kind	£250,000	£400,000
Management costs	£600,000	£500,000
Types of recipients		
Charitable donations	£340,000	£420,000
Independent Lloyds TSB Foundations	£31,450,000	£31,230,000
Community investment	£3,700,000	£5,400,000

### Environment (direct impacts)

Energy Consumption	2002	2003	2004	2005
Electricity GWh	369	352	358	337
Gas GWh	180	216	171	161
Oil GWh	13	11	9	7
Total	562	579	538	505
Premises CO <sub>2</sub> /m <sup>2</sup>	0.143	0.144	0.140	0.125

Target: Reduce energy consumption by 3 GWh

As part of our progressive building management programme we include energy audits, improvements to lighting and heating systems and general housekeeping initiatives in our key buildings. These have contributed to our significant reduction in energy consumption over the last two years. As energy costs rise, environmental improvements can also make a significant contribution to cost control.

We have benefited from warmer winters in the UK in the last two years. However, the protracted winter of 2005/06 is likely to affect consumption in 2006.

Business Travel	2002	2003	2004	2005
Road (million km)	97	105	106	103
Rail (million km)	24	34	41	45
Air (million km)	33	31	45	46
Total	154	170	192	194
Travel CO <sub>2</sub> /£m income	2.66	2.79	3.13	2.99

Target: Increase the number of audio-conference meetings by 10%

Business travel has increased although at a slower rate than income, leading to an improvement in the key performance indicator. We continue to promote alternatives to travel and, in 2005, the number of teleconference meetings almost doubled to 156,979. This saves both travelling time and costs as well as reducing our environmental impact.

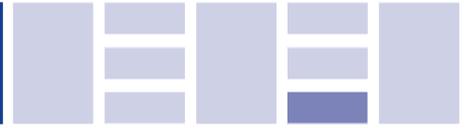
Tonnes CO <sub>2</sub>	2002	2003	2004	2005
Property	198950	195175	188624	177047
Property renewable	N/A	(730)	(4438)	(14606)
Travel	26333	26998	29499	29540
Total	225283	221443	213685	191981

We continue to buy more electricity from renewable sources and this, together with reductions in energy consumption, has contributed to a 10% reduction in carbon dioxide emissions in 2005.

As part of Group Environmental Policy, Group Property Management (GPM) has set a target of 30% CO<sub>2</sub> emissions reduction (from 2004 levels) to come from accredited renewable sources and other initiatives by 2010. Progress towards this target is currently above track.

GPM is further involved with demand management initiatives as well as conducting an in depth study with The Carbon Trust, to develop a robust Carbon Management Programme.

# Society results



Paper Consumption (tonnes)	2002	2003	2004	2005
Virgin	31,403	29,152	27,394	23,595
Recycled	1,175	1,226	2,420	3,519
Total	32,578	30,378	29,814	27,114
% recycled	4%	4%	8%	13%
Normalised (tonnes/FTE)	0.5	0.47	0.46	0.43

Waste (tonnes)	2002	2003	2004	2005
Waste to Landfill	19,129	17,665	16,566	16,575
Waste to Recycled	10,001	11,282	11,514	11,760
Total Waste	29,130	28,947	28,080	28,335
% recycled	34%	39%	41%	42%
Normalised (tonnes/FTE)	0.44	0.44	0.42	0.43

Target: Increase total recycled paper consumption by 5%

We met our target to increase recycled paper consumption and recycled paper now makes up 13% of all paper used within the Group. At the same time we have progressively reduced the total amount of paper used and the amount per employee.

Changes in the way we order our paper supplies have resulted in much more accurate data collection. To provide a true reflection we have adjusted previous years' figures in agreement with our verifier, RPS.

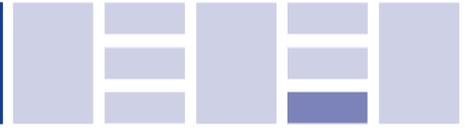
Overall, there has been a marginal increase in total waste, although the percentage of waste recycled has continued to grow. In a separate project (not included in the total waste figure), our document archive supplier has recycled a total of 936 tonnes of confidential waste.

### Legal Compliance

In 2005 we were fined £2,000 for a waste offence at one of our branches. Staff and contract cleaners at the branch have been reminded of their responsibilities for dealing with general and confidential waste. In addition, our branch guide to property management has been updated in an effort to make sure this does not recur.

## Environmental performance

2005 Objective	Achieved	Comment
Reduce energy consumption by 3GWh	Yes	Target achieved in specific buildings from energy audits and other reduction projects
Survey 250 offices and, where appropriate, manage water consumption down to our internal benchmark of 10 cubic metres per head	Yes	Improvements successfully applied to 250 buildings. This initiative will continue in 2006.
Increase the number of audio-conference meetings by 10%	Yes	Audio conference meetings increased 93% on 2004
Increase total recycled paper consumption by 5%	Yes	See paper consumption details
Undertake full energy audits at 6 of our main buildings	Yes	Energy reduction targets achieved
Incorporate renewable energy into tendering for buildings and increase the total amount of renewable energy if practicable	Yes	See energy consumption details
Investigate opportunities to install grey (recycled) water systems at key buildings	Yes	Unfortunately the investigation has shown that retro-fitting grey water systems into existing buildings is not a viable option
Roll out bespoke EMS for Dutton Forshaw and Remarketing	Partly	Progress has been made and further development will take place in 2006
Undertake waste audits at 10% of key buildings	Yes	The audits confirmed compliance with legal responsibilities and identified opportunities to recycle
Review EMS training and, where appropriate, integrate environmental training into existing induction and general training programmes	Partly	Environmental management and corporate responsibility links have been introduced to the Intranet Induction pages
Undertake audio-conferencing awareness programme	Yes	Highly successful as evidenced by the rise in audio-conferences in 2005



## Objectives for 2006

- Reduce energy consumption in targeted buildings by 3GWh
- 30% property related CO2 emissions reduction (from 2004 levels) to come from accredited renewable sources and other initiatives by 2010
- Conduct an in depth study with The Carbon Trust, to develop a robust Carbon Management Programme.
- Conduct studies with furniture recycling companies to assess the feasibility of recycling used office furniture
- Conduct a study to assess the feasibility of a national waste contract for Lloyds TSB
- Continue to develop the environmental management systems for Dutton Forshaw and Remarketing
- Undertake full energy audits at a further 6 of our main buildings
- Increase the number of audio-conference meetings by 25%

## Environmental Verification Statement

RPS Group plc has reviewed the integrity and accuracy of data and statements of target achievement included in the Environmental section of this report. Through a series of interviews at corporate level, document review, data sampling and the interrogation of supporting databases, RPS is confident that the data and supporting text is accurate, and is a fair reflection of the company's current environmental performance. Improvements have been made this year in the data collection process, resulting in some data from previous years being adjusted to present an accurate picture. RPS can verify that this has been a robust and honest approach.

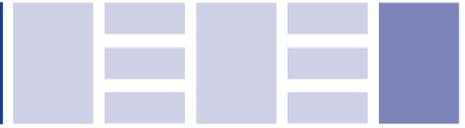
The improvements in CO2 emissions reflect the good work that has been undertaken during the last few years to improve efficiencies and use renewable sources. The long term objective to reduce emissions by 30% will be challenging but achievable. The Group has made tangible progress in the use of recycled paper. During 2006, the Group needs to introduce a clearer environmental management structure to ensure continued environmental improvements.

## Andrew Troup

April 2006

Executive Director

RPS Group plc



Excellent organisations comprehensively measure and achieve outstanding results with respect to key elements of their policy and strategy

## Financial results (statutory)

	2004	2005
Profit before tax	£3,477 million	£3,820million
Total income	£9,661 million	£10,540 million
Post tax return on average shareholder's equity	22.8%	25.6%

## Stakeholder commitments

	2005
Employees (salaries, NI, pensions)	£2,855 million
Government (tax)	£1,265 million
Community investment	£37 million
Shareholders (dividends)	£1,915 million

## Investor indices

	Rating	Ranking
FTSE4Good	x	Component of index
Dow Jones Global Sustainability	68%	Component of World and STOXX indices
Oekom	B -	5 <sup>th</sup> of 60
Ethibel	Pioneer	Component of Ethibel Register

## Suppliers

Payment of suppliers	2003	2004	2005
Number of supplier payments	360,533	360,257	379,613
Value	£2.1 billion	£2.2 billion	£2.16 billion
Average time to pay	29.63 days	28.02 days	27.01 days
Number/amount of compensation payments	2 compensation payments totalling £1,600 for late settlements	1 compensation payment totalling £25 for late settlement	No compensation payments for late settlement

## Assesment of suppliers' corporate responsibility performance

Total number of suppliers assessed	35	103	68

## Assurance Statement

We have performed an assurance engagement on the Lloyds TSB CR Report 2005 and the underlying structures, processes & performance data.

We have based our approach on emerging best practices for self-assessment & sustainability reporting, including the EFQM framework. On a sample basis, we have gathered and assessed evidence supporting conformity with the practices mentioned below.

This work included a third party assessment performed as necessary, through interviews, collection and validation of Lloyds TSB's 2005 quantitative performance data (including internal targets & comparisons), compiled from reporting units and reflected in this Report.

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

- the Report meets its objective, i.e. to provide a balanced representation of Lloyds TSB's material CR management and performance information in accordance with the EFQM framework;
- Lloyds TSB management has applied effective structures and processes to identify, understand and respond to key CR aspects, including stakeholder engagement, stakeholder expectations & key CR performance measures affecting business results;
- Lloyds TSB has developed a CR Management system that is on the way to full integration in the different business units and individuals within those business units.

London, April 2006

**Nikos Avlonas**  
CSE Executive Director  
EFQM Assessor



# Lloyds TSB

## We want to hear from you

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

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Report produced by Direct Design - [www.dda.co.uk](http://www.dda.co.uk)

Paper - Mega Matt manufactured from 50% totally chlorine-free pulps and 50% recycled fibre; a minimum of 10% of the total is de-inked