

LLOYDS
BANKING
GROUP



CLIMATE AND ENVIRONMENT REPORT



NOVEMBER 2010

OUR ENVIRONMENTAL AGENDA AT A GLANCE

Lloyds Banking Group is a **leading UK based** financial services group. Our **main business activities** are retail, commercial and corporate banking, general insurance and life, pensions and investment provision.

Our business strategy is to be recognised as the **best financial services company in the UK** by customers, colleagues and shareholders. We aim to do this by **building deep and lasting relationships** with customers to help them achieve what is important to them.

Managing our **environmental** impacts, as well as seizing the opportunities and managing the risks of **climate change**, is **directly linked** to the **successful** delivery of our **business strategy**.

OUR ENVIRONMENTAL STRATEGY IS CENTRED ON:

Driving down our use of resources Efficient use of resources helps reduce our environmental impact, as well as our costs, benefiting our shareholders – including the taxpayer.

Engaging our colleagues Colleagues play a key role in helping us to deliver our environmental agenda. Engaging them in our activities also helps build advocacy for the Group.

Collaborating with our stakeholders Working with our suppliers, other businesses and Government on environmental challenges such as climate change is fundamental to our objective of being recognised by them as the leading UK bank on environmental issues.

Engaging customers on climate change We provide advice and guidance to our business customers to help them respond to the challenges of climate change. This helps us build deep and lasting relationships with customers and play our role in facilitating the transition to a low carbon economy.

Seizing commercial opportunities and managing the risks of climate change Seizing the opportunities, such as in renewable energy finance, helps ensure we establish ourselves as a leading player in emerging market opportunities. Effectively identifying and managing the risks helps protect us from financial and reputational damage.

HIGHLIGHTS OF OUR ENVIRONMENTAL AGENDA:

- **Smart & Responsible** programme launched in 2010 to deliver environmental efficiencies
- **£5 million** invested in 2010 on energy saving and energy efficiency projects
- **Top UK bank** in the FTSE CDP Carbon Strategy Index Series
- **700 colleagues** in our groupwide Sustainability Network, who help catalyse positive change
- **Over 300 customer-facing business managers** trained this year in the science, opportunities and risks of climate change
- We are one of the **leading global financiers** of renewable energy
- We require **all business loans** to be screened for environmental risks
- **Equator Principles** signatory to help manage environmental and social issues in project finance
- **18 dedicated London 2012 seminars** hosted in 2010 for our business customers
- **Social, ethical and environmental issues** form part of our standard research process for investments in all listed equity funds
- Active member of the **Corporate Leaders Group on Climate Change, May Day Network** and **ClimateWise**
- We are included in the **FTSE4Good Ethical Index**, the **Carbon Disclosure Leadership Index**, the **Dow Jones Sustainability Index** and we are **Platinum** performers in Business in the Community's **Corporate Responsibility Index**.
- Lex Autolease won **Leasing Company of the Year Award 2010** at the annual GreenFleet Awards.

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FOREWORD FROM TRUETT TATE



Climate change is a huge global challenge, and one that will impact widely on our business. I, along with the rest of our Board, strongly believe that we have an important role to play in facilitating and financing the transition to a low carbon, resource efficient economy. We believe that by leading the way in seizing the opportunities, and managing the risks, we can gain a significant competitive advantage.

Our starting point should always be reducing the environmental impact of our own business operations. We have a strong track record: we were one of the first banks to introduce an environmental policy in 1996 and, over the years, have achieved significant reductions in our carbon emissions.

SMART & RESPONSIBLE

We recognise, however, that there is much more that we can do. We want to emerge from the financial crisis as a fitter, leaner organisation; one that will be recognised by our stakeholders as a leading UK bank on environmental issues. We have a great opportunity now, during the integration of our heritage businesses, to deeply ingrain environmental considerations into the fabric of the new business. That is why we have launched 'Smart & Responsible', our new targeted environmental programme which ensures that we maximise efficient use of resources across our business operations. Through the programme, we aim to deliver significant environmental and cost savings, as well as improving colleagues' work-life balance, to support the Group's overall strategic aim of being recognised as the UK's best financial services organisation.

ENVIRONMENTAL LEADERSHIP

As the Board champion for climate change and environmental issues I have a professional, as well as a personal, interest in ensuring that Lloyds Banking Group leads the UK banking sector in facilitating and directly financing the transition to a low carbon, resource efficient economy. I am proud to say that this year, Lloyds Banking Group was rated the top UK bank in the new FTSE CDP Carbon Strategy Index

Series, on account of our performance in managing climate risks and grasping the emerging opportunities.

I believe it is essential that we work closely with expert partners, other leading businesses and our large stakeholder base to drive positive environmental change. We aim to promote greater understanding and capability in dealing with climate change, natural resource depletion and loss of biodiversity in natural ecosystems; as well as enable others to manage the risks and seize the opportunities. In 2009, we chaired an initiative with Business in the Community and the Cambridge Programme for Sustainability Leadership to create a guide for Carbon Management in the Supply Chain. This guide has helped inform our own approach in engaging suppliers to drive down carbon emissions in our own supply chain.

As the Group's representative on the Prince of Wales's Corporate Leaders Group on Climate Change, I work closely with a group of leading businesses to lobby governments worldwide to reach an agreement on tackling climate change. We released the 'Cancun Communiqué' ahead of the UN Climate Change talks in 2010, calling on governments to re-double their efforts towards securing a comprehensive, international legally binding climate framework.

SUMMARY

I strongly believe that international agreement will deliver the market conditions that are needed to create commercial opportunities on a scale that will drive the necessary reductions in global CO₂ emissions. I also believe, however, that we can make significant in-roads by leading the sector on these issues, and by acting now. Reducing our own environmental footprint is essential if we want to be recognised as the UK's best financial services organisation. By grasping the emerging opportunities, we can gain a competitive advantage. In renewable energy, we are already one of the leading global financiers. We are also currently the only major UK bank to help small businesses manage environmental risks and identify commercial opportunities that could give them a competitive edge, and are putting in place a network of several hundred Business and Environment managers to support them. I am both personally and professionally committed to ensuring that Lloyds Banking Group builds on its strong foundation to lead the banking sector in tackling climate change and natural resource depletion.

This is our first Climate and Environment Report. It sets out our approach, our performance and our future agenda. I hope you enjoy reading it and welcome any comments.

Truett Tate
Group Executive Director, Wholesale

DRIVING DOWN OUR USE OF RESOURCES

The starting point of our environmental agenda is reducing our use of resources. Efficient use of resources, including office space, energy, paper and water, helps minimise our impact on the environment as well as keeping our costs under control.

We have a long standing commitment to managing and reducing the environmental impact of our business operations. Lloyds TSB was one of the first banks to introduce an environmental policy in 1996 and achieved a 31 per cent reduction in carbon emissions from its property estate between 2002 and 2008.

We are now seizing the opportunity, during our three year integration programme, to ensure that environmental considerations are fully embedded into our decision making – both in relation to our integration as well as our business as usual activities, to ensure that we deliver long term efficiencies. Our vision is to be recognised as a leading environmentally responsible financial services organisation.

SMART & RESPONSIBLE

This year we launched our new groupwide environmental action plan to ensure that environmental efficiencies are fully ingrained in our decision making. The action plan, called 'Smart & Responsible' is linked to one of our core values of 'acting wisely'. The way we aim to operate as an organisation is articulated by a set of five simple values: 'we act wisely' sits alongside 'we take ownership', 'we make it simple', 'we stretch ourselves' and 'we succeed together'. By acting wisely, we aim to reduce our impact on the environment and reduce our costs by making more effective use of our resources. Our Smart & Responsible aims and targets are set out on page 3.

REDUCING OUR CARBON EMISSIONS

With around 3,000 branches, offices and call centres across the UK, our use of energy has our most significant environmental impact. We are therefore focused on tackling the energy consumption of our large UK estate and are investing almost £5 million this year in dedicated energy saving measures across the Group.

We have already achieved significant CO₂ reductions in our property estate. We are currently working towards achieving the Carbon Trust Standard for the Group. This standard recognises organisations that are genuinely measuring and

reducing CO₂ emissions on an ongoing basis. The introduction of the Carbon Reduction Commitment Energy Efficiency Scheme (CRC) this year provides further financial and reputational incentives for reducing our energy-related CO₂ emissions.

The CRC is a new climate change regulation aimed at reducing the CO₂ emissions, and improving the energy efficiency of large public and private sector organisations. It forms a central part of the Government's commitment to reducing the UK's carbon emissions by 80 per cent from 1990 levels by 2050.

We registered for the CRC in September 2010 and will now be required to purchase allowances for each tonne of energy-related CO₂ we emit. Our performance relative to other organisations will be published in a league table. The CRC has significant cost implications for the Group which provides a further incentive to reduce our carbon emissions.

MEASURING OUR ENVIRONMENTAL FOOTPRINT

CO ₂ EMISSIONS (tonnes)	2009
Total UK CO ₂ emissions	449,895
Emissions per £m income	18
Scope 1 emissions	69,484
Scope 2 emissions	343,026
Scope 3 emissions	37,385
PAPER USE (tonnes)	
Total paper use	27,614
Sustainably sourced or recycled	100%
Tonnes paper/person (FTEs)	0.27
WATER USE (m3)	
Total water use	1,292,063
m3 per person (FTEs)	12.8
WASTE (tonnes)	
Total waste	38,712
% recycled	54%
Tonnes waste/person (FTEs)	0.38

Notes:

Our environmental data has been independently verified by environmental consultants RPS Group plc.

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

Scope 2 emissions: indirect emissions that result from the generation of the electricity we purchase.

Scope 3 emissions: all indirect emissions not covered by scope 2. This relates to business travel in vehicles not owned or controlled by us – i.e. other car travel, and rail and air travel.

FTEs: Full time equivalent employees

SMART & RESPONSIBLE: OUR ENVIRONMENTAL ACTION PLAN

Smart & Responsible consists of seven key pillars which ensure that the environmental impacts of our business operations are managed and minimised.

We have established an Environmental Steering Group, comprising senior management with responsibility for each of the pillars, to drive our strategy, set targets and make sure we achieve them. In 2010 we have introduced some initial targets. As the integration progresses we will look to introduce more long term targets.



WE ACT WISELY

BUILDwise

AIM: to embed sustainability and environmental standards into the construction process for all new building and refurbishment projects.

TARGETS: set key performance indicators and targets addressing waste minimisation, recycling and building specifications.



ENERGYwise

AIM: to reduce the energy consumption of our property estate.

TARGETS: reduce energy use by 3 per cent by end of 2010; set further reduction targets for 2011 – 2015.



PAPERwise

AIM: to reduce overall paper use across the Group, reduce the amount of paper stored by the Group and introduce further efficiencies to our printing processes.

TARGETS: reduce groupwide paper use by 10 per cent over the next 5 years.



TRAVELwise

AIM: to reduce the growth in business travel by improving travel efficiency, providing alternatives to travel and promoting improved work-life balance.

TARGETS: increase the use of virtual meeting technologies to reduce business flights by 20 per cent within 5 years; investigate ways to measure and demonstrate the positive impact of less travel on work-life balance and productivity.



WASTEwise

AIM: to reduce the amount of waste sent to landfill and increase the amount recycled and reused.

TARGETS: reduce total waste by 5 per cent by end of 2010; increase recycling to 55 per cent of all waste by end of 2010; set further reduction targets for 2011 – 2015.



WATERwise

AIM: to reduce water use across the Group.

TARGETS: reduce water use by 3 per cent by end of 2010; set further reduction targets for 2011 – 2015.



WORKwise

AIM: to reduce our property footprint by introducing new workplace practices to ensure that office space is used efficiently and colleagues have greater flexibility in their working environments.

TARGETS: make more efficient use of office space to reduce the overall amount of space we need to run our business; aim to use 5 desks for every 6 colleagues in 20 per cent of our office estate by end 2011; set further reduction targets for 2012 – 2015.



ENGAGING OUR COLLEAGUES IN OUR ENVIRONMENTAL AGENDA

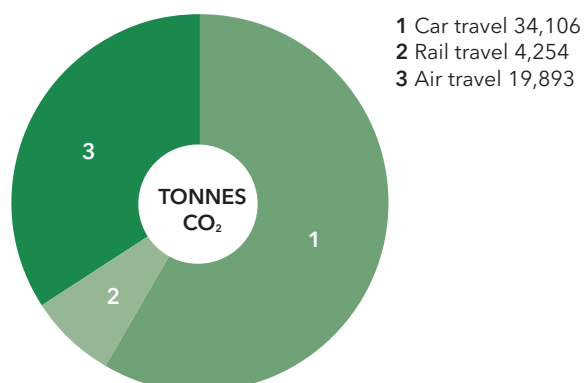
Colleagues play a key role in delivering our environmental agenda and are central to driving down our carbon emissions and use of resources across the Group. We strive to engage colleagues and enable them to make a contribution.

BUSINESS TRAVEL - TRAVELWISE

One of the main areas where colleagues can have a real impact is in business travel. In 2009, we introduced a common travel policy across the organisation which supports a focus on sustainable travel. It helped us deliver a reduction of 143,000 journeys compared with 2008. Across the combined Group, the volume of teleconferences increased by 40 per cent to over 1.1 million in 2009.

Through TRAVELwise, we aim to build on our initial successes to tackle growth in business travel. We know we must drive and support behavioural change if we are to deliver our reduction targets. We aim to do this by providing viable alternatives to travel and by demonstrating the positive impact of less travel on work-life balance. We will continue to promote virtual conferencing technologies to colleagues as an environmentally friendly, cost efficient alternative to travelling. In 2011, we are also launching a car sharing scheme. The scheme will introduce an online networking tool to facilitate car sharing by helping colleagues to find others who need to make similar business travel and commuting journeys.

BUSINESS TRAVEL CARBON EMISSIONS (TONNES CO₂) IN 2009



WORLD ENVIRONMENT WEEK

We ran a week long campaign in support of the UN World Environment Day on 5 June, to drive awareness amongst our employees of climate change and natural resource depletion. We highlighted the steps we are taking as a Group to reduce our environmental impact, including ways in which individuals can get involved. We also engaged our energy bureau and waste suppliers to host roadshows at key sites.

ENERGY SAVING WEEK

As part of our ENERGYwise programme, we delivered a range of activities and communications during Energy Saving Week on 25 - 31 October. The Sustainability Network collaborated with the ENERGYwise team to produce a 'Green Your Routine' guide - tips colleagues can follow to reduce the amount of energy we use - and, through a competition, colleagues were challenged to suggest a viable energy saving project for the Group.

SUSTAINABILITY NETWORK

Over 700 Lloyds Banking Group employees participate in our Sustainability Network. The Network was established by colleagues in 2008 and continues to be run by employees, with support from the Group's executives. The goal of the network is to provide a forum that can harness members' commitment to reducing the Group's environmental impact and using resources sustainably. The Network holds events, runs awareness campaigns and provides resources and tools to encourage colleagues to play their part. The Network is now officially supporting our Smart & Responsible programme, and members work to engage colleagues across the Group in our environmental action plan.

Over 700 employees in our Sustainability Network

COLLABORATING WITH OUR STAKEHOLDERS

We collaborate with expert partners and our wide stakeholder base to lead the banking sector in the debate and thinking around current and future environmental issues, and the steps that can be taken to mitigate, manage and adapt to the impacts of a changing environment.

We proactively identify opportunities to collaborate with external partners to drive positive environmental change. We aim to promote greater understanding and capability in dealing with climate change, natural resource depletion and loss of biodiversity in natural ecosystems; as well as enable others to manage the risks and seize the emerging opportunities.

Truett Tate, our Board member who leads on climate change and sustainability issues, represents Lloyds Banking Group on the Prince of Wales's Corporate Leaders Group on Climate Change. This brings together business leaders from major UK, EU and international companies who believe there is an urgent need to develop new and longer-term policies for tackling climate change.

We are a strategic partner of the Cambridge Programme for Sustainability Leadership (CPSL) and work closely with them on a range of initiatives and programmes. Our Head of Sustainable Development in the Wholesale division, Paul Turner, is a tutor on its Post Graduate Certificate in Sustainable Business.

We are working together with CPSL and other businesses to lead a programme that aims to mobilise international corporate action to address the emerging risks and opportunities faced by business and society from the depletion of the world's natural resources – biological, agricultural and mineral. The outputs of the programme will be published in 2011 and will ultimately feed into a seminar programme to build senior executive skills and expertise.

Susan Rice, Managing Director of Lloyds Banking Group in Scotland, is a member of the 2020 Climate Group. The Group brings together industry leaders and experts to ensure that all sectors of Scotland's economy and civic society contribute fully to achieving Scotland's target of cutting carbon emissions by 42 per cent by 2020. Susan also chairs the Finance sub-group which examines issues

and barriers to financing the low carbon economy and considers how finance can be used most effectively to achieve the greatest impact.

COLLABORATING WITH OUR SUPPLIERS

We consider our suppliers' social, ethical and environmental performance as a standard part of our supplier management processes – from the selection of suppliers to supplier audits. We actively encourage our employees to build strong working relationships with our suppliers to help drive continuous improvement and innovation in our supply chain. Last year, we further strengthened our approach to managing social, environmental and ethical issues in our supply chain by launching a dedicated website which provides information, guidance and tools on incorporating these issues in all of our sourcing activities.

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

We are on the leadership committee of the Prince of Wales's May Day Network on Climate Change – the UK's largest group of businesses committed to taking action on climate change. A number of our key suppliers are already members and we will be looking to promote the Network further in the coming year.

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

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

ENGAGING CUSTOMERS ON CLIMATE CHANGE



As pressure grows on businesses to take action to address climate change, our business customers are increasingly seeking knowledge and guidance on the issues.

We provide guidance to customers on how to manage the risks and maximise business opportunities of climate change. Through this, we can support them in the transition to a low carbon economy.

GOING GREEN

Independent research we published in October showed that whilst around 48 per cent of businesses believe that 'going green' would result in a positive reaction from customers, 37 per cent of businesses say they have not taken steps to improve their green credentials because they are concerned about the time and financial burden of doing so and 19 per cent of businesses say they do not understand the risks and opportunities. We aim to ensure that we can support business customers seeking to improve their environmental credentials. Ultimately, our aim is to become the first choice for businesses seeking support from their bank in responding to the challenges as well as the emerging opportunities.

BUSINESS SEMINARS

We delivered over 120 business information seminars in 2009, attended by over 10,000 small and medium sized businesses (SMEs). The events focused on key issues affecting SMEs in the current market, including sustainability – focusing on the business risks and opportunities of climate change and natural resource depletion.

SME CHARTER

In November 2009 we launched our award winning 2012 SME Charter setting out a series of commitments that form a three year programme of support for SMEs to help them grow as the recovery gains momentum. As part of this programme we are running 200 business seminars every year for the next three years, providing expert guidance and support for SMEs on starting up, employment, exporting, bidding for London 2012 Olympic and Paralympic Games contracts, sustainability and finance.

DEDICATED LONDON 2012 SEMINARS

We run dedicated London 2012 events as part of our programme of seminars for our business customers. These events focus on the environmental risks and opportunities facing small businesses in the UK, and, in particular, the business opportunities associated with the London 2012 Olympic and Paralympic Games. Through these events, we aim to ensure that our business customers understand and are able to respond to the environmental challenges facing their businesses, and prompt them to think strategically about how environmental responsibility can help give them a competitive advantage.

London 2012 will generate more than £6 billion worth of Olympic contracts, open to businesses that can demonstrate green credentials. As the Official Banking and Insurance Partner of the London 2012 Olympic and Paralympic Games, we are leading the way in ensuring that our small business customers can take advantage of the contracts that are available. We bank 1 in 4 of all small businesses in the UK and 1 in 3 London 2012 Olympic contracts are being won by our customers.

BUSINESS AND ENVIRONMENT MANAGERS

In 2010 we launched our Business & Environment Manager programme. The bespoke training programme, which was developed in association with Cambridge Programme for Sustainability Leadership, gives colleagues an in depth understanding of the relevance of sustainability issues for businesses. It enables our business managers to guide and support our customers in recognising environmental risks as well as grasping the commercial opportunities. We are the only UK bank to provide this type of support to its business customers. Over 300 managers across the country have been trained so far, with more planned for 2011.

Over 300 Business and Environment Managers trained to guide customers on climate change issues

SEIZING COMMERCIAL OPPORTUNITIES



Climate change represents a huge global challenge and one that presents our business with both risks and opportunities.

We believe banks have a key role to play in financing the transition to a low carbon economy. We are committed to seizing emerging commercial opportunities and firmly establishing ourselves as a leading player. Across the Group, opportunities related to climate change are helping us to support our customers.

RENEWABLE ENERGY FINANCE

Lloyds Banking Group is a leading renewable energy bank globally (by debt underwriting capability). Over the past five years we have arranged or underwritten finance for 40 deals, with £2.4 billion committed. This equates to over 6,000MW of renewable generation, which is enough to supply over 3 million homes.

Significant investment will be required in order to meet the UK Government's CO₂ reduction targets. We are seizing the opportunity to become one of the UK's leading providers of renewable energy finance. We already have a very strong track record. Our current renewable energy portfolio stands at around £1 billion. Given our focus on the UK market, much of this finance is directed towards wind power; however we also have strong experience in the solar power sector, having

successfully financed several solar photovoltaic and solar thermal plants across western Europe.

In 2009, we won the Project Finance International 'European Portfolio Deal of the Year' Award for support we provided to Centrica in relation to the £340 million refinancing of its 220MW Boreas offshore wind portfolio – the first major offshore wind project financing in the UK.

ENVIRONMENTALLY RESPONSIBLE INVESTMENTS

Lloyds Banking Group's asset management arm, Scottish Widows Investment Partnership (SWIP) is one of the largest asset management companies in the UK. At the end of 2009, SWIP managed £141 billion worth of funds in total. In addition to specialist ethical, environmental and socially responsible investment funds – totalling £534 million, as at 31st December 2009 – consideration of a company's approach to social, ethical and environmental issues forms part of the research process for investments in all equity listed funds. In the UK, SWIP manages £160 million in environmental funds.

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

REDUCING THE CARBON IMPACT OF BUSINESS VEHICLE FLEETS

The transport sector currently accounts for around 25 per cent of the UK's total CO₂ emissions. The sector is being increasingly regulated to reduce transport-related CO₂ emissions. Lex Autolease, part of the Group's Asset Finance Division, is the UK's largest fleet management company with around 300,000 vehicles. It supplies and manages four of every ten vehicles used by FTSE 100 companies. Lex Autolease won Leasing Company of the Year Award 2010 at the annual GreenFleet Awards.

Lex Autolease is helping its customers to tackle the carbon footprint of their vehicle fleets through its industry leading solutions and consultancy services. On average, its customers have reduced fleet emissions by 18 per cent over the past three years, with some customers having reduced their fleet emissions by 21 per cent in the past year alone.

£1 billion of renewable energy finance

MANAGING THE RISKS

We identify and assess environmental risks in business lending, project finance and insurance to ensure that we manage the environmental impact of our commercial activities, and in doing so minimise risks to our business and our customers.

MANAGING ENVIRONMENTAL RISKS IN LENDING

Our groupwide Environmental Risk Policy requires all business loans to be assessed for material environmental risks as part of the credit sanctioning process. Environmental risks primarily arise from our association with customers and their business activities which impact on the environment, or are impacted by environmental issues. Our policy is supported by a robust process which ensures that there is a consistent approach to identifying, assessing, mitigating and reporting environmental risks. Lending officers are responsible for ensuring that environmental risks are assessed and that appropriate action is taken where a material risk is identified.

Lending officers are trained in environmental risk management on our three day credit risk training course, which includes a highly interactive module on environmental risk management. Through case studies and videos we show how customers' activities can impact the environment and how their activities can become credit risks to the bank. In 2009, 72 delegates attended our credit risk training course. Lending officers are further supported by a range of resources, including our detailed Environmental Risk Handbook, and our in-house Environmental Risk team who review proposed transactions and advise on methods to mitigate material environmental and reputational risk exposure. Where appropriate, the team also seeks external input from a panel of environmental consultants.

PROJECT FINANCE: EQUATOR PRINCIPLES

Lloyds Banking Group is a signatory to the Equator Principles to further strengthen our approach to assessing and managing environmental and social risks in project finance. The Equator Principles are a benchmark for the financial industry to manage these risks in all new project finance transactions above US\$10 million.

During 2009 we implemented a harmonised groupwide approach to monitoring and reporting Equator Principles transactions, and training colleagues on the Equator Principles. Lending officers are responsible for undertaking

initial classification of transactions that qualify under the Equator Principles. Their assessments are subject to further review by our Equator Principles Review Group, comprising experts from both our Risk and Project Finance teams, to ensure that each transaction is compliant and is consistent with our Environmental Risk Policy. Over the past year we have trained over 100 colleagues on our Equator Principles procedures.

INSURING CUSTOMERS AGAINST THE IMPACTS OF CLIMATE CHANGE

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

We ensure that our home insurance policies are aligned to FSA best practice guidelines in supporting climate awareness and offer cover for products such as solar panels, wind turbines and generators as standard. We also inform customers about climate change issues through communications to them during the life of their policy, as well as on our websites. In addition, as recommended by the ABI, when we receive a flood claim, we offer our customers the option of 'resilient reinstatement'. This means that we will pay for customers to have flood resilient repairs - where the cost is similar to like-for-like repairs - on their homes, to help defend against future flood damage.

EQUATOR PRINCIPLE TRANSACTIONS 2009

DEALS	A	B	C	Total
Completed	0	7	7	14
In progress	0	4	1	5
Not completed	0	1	0	1
GEOGRAPHY OF COMPLETED TRANSACTIONS				
US	0	2	2	4
Europe	0	4	5	9
Middle East	0	1	0	1
INDUSTRY OF COMPLETED TRANSACTIONS				No. £m
Renewables				4 £89
Infrastructure				7 £376
Energy & utilities				3 £72
TOTAL				14 £537

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

100 colleagues trained in our Equator Principles procedures over the past year

LOOKING TO THE FUTURE

We are committed to managing and reducing our environmental impact, and have a strong track record. We also recognise that we have a key role to play in addressing climate change; from financing renewable energy to helping our customers transition to a low carbon economy. Here, we set out our commitments for the future.

OUR COMMITMENTS

DRIVING DOWN OUR USE OF RESOURCES

- We will continue to invest in environmental efficiencies, and identify opportunities to save energy, to help reduce our use of energy across our UK property estate.
- We will launch a detailed five year plan, including challenging targets, to reduce our use of energy, water and waste, covering the period from 2011 – 2015. We will disclose our five year plan in our 2010 Corporate Responsibility Report.
- We aim to achieve the Carbon Trust Standard for the entire Group by mid 2011.
- We will continue to promote virtual conferencing technologies to colleagues as an environmentally friendly, cost efficient alternative to travelling.
- We will work to identify environmental efficiencies in our supply chain and collaborate with our suppliers to deliver these.

ENGAGING COLLEAGUES IN OUR ENVIRONMENTAL AGENDA

- We will seek to embed our Smart & Responsible approach into the way that we work across the Group.
- We will continue to engage colleagues in our environmental agenda by regularly communicating our environmental aims and objectives, and updating them on how we are doing.
- We will continue to promote our Business & Environment training to strengthen knowledge and understanding of these issues amongst our employees.
- We will facilitate colleagues' contributions to our environmental agenda by providing them with the information and tools they need through our Sustainability Network.

ENGAGING CUSTOMERS ON CLIMATE CHANGE

- We will build on our Business & Environment training programme, making available over 500 business managers around the country by early 2011 to support our customers.
- We will expand our Business Mentoring programme for emerging leaders in our Wholesale division. Through the programme, our leaders will use their professional skills and experience to provide dedicated support for social enterprises – not for profit organisations with a social or environmental mission.
- We will continue to run dedicated sustainability events as part of our business information seminar programme, focusing on the risks and opportunities for businesses in an environment of increasing climate change regulation and natural resource depletion.

SEIZING COMMERCIAL OPPORTUNITIES AND MANAGING THE RISKS

- We will continue to support the renewable energy sector and maintain our position as a leading global financier of renewable energy.
- We will use our position as a leading financial services organisation to lobby for greater understanding of the impacts of climate change on insurance.
- We will continue to build relationships with leading research groups and data providers to ensure we deepen our understanding of climate change and its impacts on our customers and our business.
- We will improve our disclosure of our process for managing environmental risks in our lending activities and publish our Environmental Risk Policy.
- We will launch an online screening tool which will enable lending officers to screen corporate and commercial transactions for environmental and reputational risks to replace our existing paper-based process.

CLIMATE CHANGE LEADERSHIP

- We will continue to identify opportunities to collaborate with external partners to develop and deliver initiatives that promote general knowledge and understanding of climate change, and the associated opportunities and risks, across the UK.



CONTACT US

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

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