

LLOYDS  
BANKING  
GROUP



# UN GLOBAL COMPACT COMMUNICATION ON PROGRESS 2016

Period covered 1 January to 31 December 2016  
Date submitted to UN Global Compact website 30 April 2017

About Lloyds Banking Group

We are a leading provider of financial services to individual and business customers in the UK. We have around 25 million customers and 1 million small business customers. Our main business activities are retail and commercial banking, general insurance, and long-term savings, protection and investment. We provide our services through a number of well-recognised brands, including Lloyds Bank, Halifax, Bank of Scotland and Scottish Widows, using a range of distribution channels, including the largest branch network and digital bank in the UK. More information about the Group and our strategy is available in the Strategic Report section of the 2016 Annual Report.

We employ approximately 73,000 colleagues. We have recognition agreements with two trade unions, Accord and Unite, which collectively negotiate on behalf of around 95% of colleagues.

Our supply base comprises approximately 4,000 companies, the majority of which are in professional services sectors such as management consultancy, legal, HR, IT, marketing and communication. In 2016 we paid £5.3 billion to our suppliers. 99% of our direct suppliers are located in the UK, other European countries or North America.

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Statement from Chief Executive

Our strategy is to be the best bank for customers and shareholders. Given our UK focus, our purpose is to help Britain prosper and we believe that operating sustainably and responsibly is the way to create long-term value and help the people, businesses and communities in the UK.

I am pleased to reaffirm Lloyds Banking Group’s support of the Ten Principles of the United Nations Global Compact in the areas of Human Rights, Labour, Environment and Anti-Corruption. In our first annual Communication on Progress we describe our actions to integrate the Global Compact and its principles into our business strategy, culture and daily operations.

I look forward to providing you with a further update on our progress in 2018.

Yours sincerely,

António Horta-Osório  
Group Chief Executive



# 1. Human Rights

## Principle 1:

Businesses should support and respect the protection of internationally proclaimed human rights; and

## Principle 2:

make sure they are not complicit in human rights abuses.



### Approach to human rights

We aspire to conduct business in a way that values and respects the human rights of our colleagues, customers, suppliers and those of the communities in which we operate. We understand that the financial system has a unique interaction with human rights and we have policies and governance processes in place to mitigate risks. In 2015, we welcomed the UK Modern Slavery Act and are committed to doing business responsibly and taking meaningful steps to ensure that workers’ fundamental rights and freedoms are respected. We have a zero tolerance approach to slavery, trafficking or forced labour in any part of our business or supply chain. We will publish our Modern Slavery and Human Trafficking Statement on or before 30 June 2017.

**“We have a zero tolerance approach to slavery, trafficking or forced labour in any part of our business or supply chain.”**

We aim to align our activities and policies with international best practice and recognised standards. We adhere to the United Nations Declaration of Human Rights as well as the rules and regulations of each country in which we operate. As signatories to the UN Global Compact, we align with its ten principles and also support the UN’s Guiding Principles on Business and Human Rights which we use as a framework to understand our human rights impacts and define our responsibility to respect human rights. In addition, we support the UN’s wider development agenda through the UN Sustainable Development Goals. For information on the more specific labour standards that we comply with, please refer to the Labour section in this report.

We understand that human rights encompass more than just the individual and take into account social, ethical and environmental issues in our investment, lending and service operations. We are signatories to the United Nations Principles for Responsible Investment and the Equator Principles which is a credit risk management framework for determining, assessing, and managing environmental and social risk in project finance.

We have a number of internal policies and procedures that reflect our commitment to operating responsibly and ethically both at a business and an individual level. These include our Ethical Policy Statement, Group Colleague Policy, Speak Up, Anti-Bribery Policy, Code of Supplier Responsibility and our Code of Responsibility. Our Code of Supplier Responsibility highlights the importance we place on respect for human rights across all our business relationships.

Colleagues are required to review the Code of Responsibility each year as part of the Mandatory Training curriculum, which also includes mandatory Speak Up (whistleblowing) training. Once the training is completed, it is expected that colleagues understand their responsibilities to work in line with our Code, and operate in line with our values every day.

Colleagues and other stakeholders can raise concerns through our grievance mechanisms, such as the Group’s Speak Up Line or Colleague Conduct Management Team. Should any human rights violations be identified, we will take the actions necessary to remediate the situation.

We have an effective top-to-bottom governance structure providing an environment where colleagues are supported to work responsibly and manage risk effectively. This structure includes our Board and Board-level Responsible Business Committee and extends to every part of our business through our Group Executive Committee and Executive-level Responsible Business Management Committee.

- Outcomes
- Zero cases identified of human rights abuses in the period

→ Initial training on modern slavery and trafficking offered to supplier managers as part of our response to the UK Modern Slavery Act

→ During 2016, 286 concerns were raised with the Speak Up team and 171 progressed to investigations. Of the investigations completed by year end 57% were upheld and remedial action was taken where appropriate



## 2. Labour

### **Principle 3:**

Businesses should uphold freedom of association and the effective recognition of the right to collective bargaining;

### **Principle 4:**

the elimination of all forms of forced and compulsory labour;

### **Principle 5:**

the effective abolition of child labour; and

### **Principle 6:**

the elimination of discrimination in respect of employment and occupation.



### Approach to labour

At Lloyds Banking Group, our efforts to be a responsible business require building a culture on integrity and respect. We have a zero tolerance policy approach to all forms of discrimination, slavery, trafficking or forced labour in any part of our business or supply chain and our commitment to respect labour rights is guided by the United Nations Universal Declaration of Human Rights and the International Labour Organisation’s Core Labour Standards and its Tripartite Declaration of Principles.

As outlined in the human rights section of this report, we have a number of internal policies and procedures that reflect our commitment to operating responsibly and ethically. Our Code of Responsibility applies to all colleagues, contractors and temporary employees and provides an overarching framework to ensure the highest possible standards of behaviour each and every day, including in relation to diversity and inclusion. They also set out the Group’s commitment to colleague remuneration, and health and wellbeing.

We do not tolerate discrimination in respect to employment and occupation. We recognise that everyone is different and we’re working hard to build an inclusive bank that reflects the diversity of modern Britain. Our Group Inclusion & Diversity strategy is focused on the areas of gender, ethnicity, disability, LGBT and agility with each area sponsored by individual Group Executive Committee members.

**“We do not tolerate discrimination in respect to employment and occupation. We recognise that everyone is different and we’re working hard to build an inclusive bank that reflects the diversity of modern Britain.”**

We have sought to understand the level of risk in our supply chain and found that the majority of our direct suppliers represent a low risk for modern slavery and human rights abuses. Most of our suppliers are in low risk sectors and low risk geographies. Whilst we recognise that we are not immune to the risks of human rights abuse, we consider the risks to be considerably less than if these suppliers were located in other jurisdictions or sectors.

In 2017 we published our revised Code of Supplier Responsibility which defines what we expect from our suppliers to ensure responsible sourcing is an integral part of how we do business. We expect all suppliers to sign up to this Code and provide us with additional evidence to demonstrate their approach to responsible business issues.

The Code addresses seven specific issues including human rights and details the expectations we place on our suppliers and those in their supply chains. Our expectations are that suppliers:

- ➔ Respect the human rights of their employees and to comply with all relevant legislation, regulations and directives in the countries and communities in which they operate
- ➔ Prohibit forced labour (slavery) and human trafficking in their supply chain and give their employees the right and ability to leave employment if they choose
- ➔ Prohibit child labour
- ➔ Ensure that wages meet legally mandated minimums without unauthorised deductions
- ➔ Allow their employees to legally organise and join associations (such as trade unions)
- ➔ Provide clear and uniformly applied disciplinary and grievance procedures including prohibiting mental, physical or verbal abuse
- ➔ Ensure working hours are in accordance with local regulation and industry practice and voluntary overtime is at a manageable level

We provided introductory training to Group Sourcing colleagues in late 2015 covering the requirements of the Modern Slavery Act and the risks of slavery and human trafficking. Further training for Group Sourcing colleagues is being rolled out in 2017. Modern Slavery will be featured as part of our revised mandatory e-learning course for supplier managers from 2017 and guidance on Modern Slavery risks is provided on our online supplier management portal.

We want to ensure that every colleague feels valued and empowered to thrive. The Group has approximately 75,000 employees and recognition agreements with two trade unions, Accord and Unite, who collectively negotiate on behalf of around 95% of colleagues. We offer colleagues a competitive reward package that underpins a culture of performance and aims to strike the right balance between reward, risk management and performance.

We seek to enable colleagues to achieve a positive balance between their work and their lives outside of work and provide a number of opportunities, such as flexible working, to help them do this. We work to safeguard and promote colleague wellbeing, by ensuring a psychologically-sound working environment to help prevent work-related illness and by providing support and health advice in times of need. We are committed to achieving the highest standards of health and safety and fire protection for our colleagues, customers and anyone who visits our premises.

In 2016 we became the first UK company to include gender dysphoria in our Private Medical Benefit provision.

As a founder member of a group of leading employers supporting workforce agility in the UK, we’ve been looking closely at ways to become more agile as an organisation over the past 18 months. To bring agile working to life we launched a ‘Getting Smart about Agile Working’ campaign, which had a high profile across the whole Group. In 2016 we’ve also implemented a new job sharing website, a new approach to agile hiring and agile working training for all colleagues.

We are committed to being a more disability confident employer. More than 5,000 colleagues disclosed a disability in our most recent colleague survey. We also potentially serve around six million customers affected by disability or long-term health issues. We are recognised as a leading employer for disabled people with cutting edge practices for customers and colleagues; in 2016 we won a Business Disability SMART Award for the third year running for our workplace adjustments process and were highly commended for our colleague disability network. We have a range of programmes to support colleagues who become disabled or develop a long-term health condition. Our workplace adjustments process, which includes physical equipment, has supported over 18,000 colleagues to date. Since 2002 we have been running Personal Development and Career Development Programmes for disabled colleagues. 1,500 of our colleagues have completed this programme to date.

- Outcomes
- ➔ 32.4% of roles held by senior women, meaning we are on track to achieve our target of 40% by 2020
  - ➔ Zero fines, investigations, and legal cases connected to forced or child labour in the period
  - ➔ Ranked number one private sector employer in the Stonewall Top 100. The Group was also named a Times Top 50 Employer for Women and Top 10 Employer for Working Families
  - ➔ Supporting 26,000 colleagues to work in an agile way



# 3. Environment

**Principle 7:**

Businesses should support a precautionary approach to environmental challenges;

**Principle 8:**

undertake initiatives to promote greater environmental responsibility; and

**Principle 9:**

encourage the development and diffusion of environmentally friendly technologies.



### Approach to environment

As a leading provider of financial services to individual and business customers in the UK, we have an important role to play in facilitating and financing the transition to a more sustainable, low-carbon, resource efficient economy. Our success is linked to our environmental performance and how we respond to challenges such as resource scarcity, population growth and security of energy supply. We exercise the precautionary principle to environmental challenges which is supported by a range of activities to promote greater environmental responsibility and environmentally friendly products and services, such as renewable technology.

We seek to comply with the spirit, as well as the letter of applicable environmental laws and regulations with regards to the environment. Where none exist, we set ourselves appropriately high standards. We take account of environmental risks in our lending and investment activity and actively seek to provide finance to enable the transition to a more environmentally sustainable economy. Our environmental standards apply to all locations and aspects of our business.

“Our success is linked to our environmental performance and how we respond to challenges such as resource scarcity, population growth and security of energy supply.”

Our approach to environment has four dimensions including environmental performance, environmental risk, supporting the low carbon economy and influencing positive change. We state publicly in our **Group Environmental Statement** that we will work with stakeholders to ensure we run our operations in an efficient and responsible manner – minimising waste and improving energy, water, paper and building efficiency. This is monitored through our Environmental Action Plan (EAP) which sets reduction targets up until 2020.

We also strive to reduce CO<sub>2</sub> emissions which are mostly attributable to our consumption of gas and electricity. Scope 1, 2 and 3 emissions are subject to limited ISAE 3000 (Revised) assurance by Deloitte. **Deloitte’s Assurance Statement is available online.**

Stakeholder engagement is fundamental to creating lasting environmental change. We have a range of responsible sourcing initiatives in place including a focus on reducing environmental impact in our supply chain. As a minimum, we expect suppliers to:

- Have a written environmental policy or statement in place that addresses CO<sub>2</sub> emissions, waste and energy
- Abide by all rules and regulations related to the protection of the environment, the handling of dangerous and hazardous materials and any mandatory GHG emissions reporting
- Keep dangerous and hazardous materials to a minimum and make Material Safety Data Sheets available for all hazardous materials as required

We also encourage suppliers to have an environmental management system in place.

We continue to develop products and services to support customers’ transition to a lower carbon, more resource efficient economy. This includes:

- Providing a free tool for SMEs to create a sustainability action plan and policy (which can also be used in contracts)
- Since 2014 we have launched two Environmental, Social and Governance (ESG) bonds totalling £500 million. Lloyds Bank became the first UK bank to develop an ESG deposit scheme in response to client demand to invest in products that create positive impacts
- In March 2016 Lloyds Bank launched its innovative £1 billion Green Loan Initiative for commercial real estate lending. The initiative – the first of its kind in the UK – provides clients with loans at discounted margins to help incentivise energy efficiency and finance investment in green buildings. We completed the first tranche of deals in the second half of 2016, totalling £72 million. We have now set a target in our Helping Britain Prosper Plan to fund 10 million square feet of commercial real estate to become more energy efficient by 2020, the equivalent of ten London Shards
- In 2016 our UK-based team was responsible for financing renewable projects with a combined capacity of more than 1.78GW
- Reduce the use of paper products such as cheque and credit slip books

We have colleague training and awareness programmes in place including a voluntary Sustainability Network comprised of over 800 colleagues to encourage environmental good practice inside and outside the workplace.

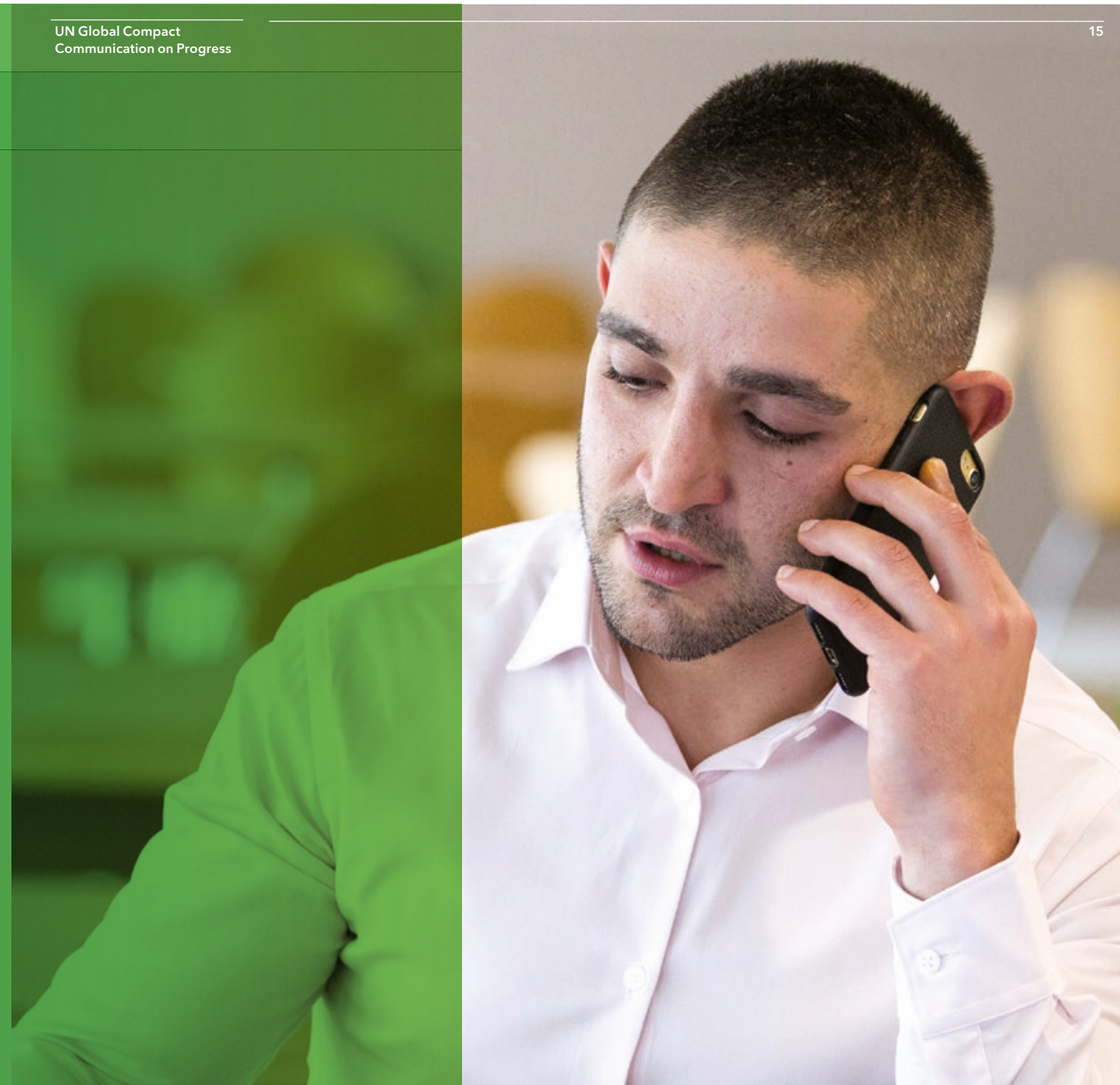
- Outcomes
- 12.95% reduction in greenhouse gas emissions since 2015
  - 2.9% reduction in energy consumption since 2015
  - Launched a £1 billion Green Loan Initiative to incentivise energy efficient commercial real estate
  - Funding of renewable energy projects reached 7.4GW in capacity, covering solar, offshore and onshore wind, waste to energy and biomass



# 4. Anti-Corruption

## Principle 10:

Businesses should work against corruption in all its forms, including extortion and bribery.



### Approach to anti-corruption

Lloyds Banking Group is at the heart of communities, serving the financial needs of over 30 million customers in the UK. That is a great responsibility and one that we take very seriously. We have a moral and ethical duty to act with the highest standard of integrity and will not tolerate acts of bribery or corruption committed by any of our employees, including the Board of Directors, and any third parties who act on our behalf. Lloyds Banking Group is a member of the Transparency International Business Integrity Forum.

To tackle bribery and corruption, we have policies and procedures in place to comply with all applicable laws and regulation where we operate. This includes an Anti-Bribery Policy which prohibits the payment, offer, acceptance or request of any benefit which could be constructed as a bribe and takes a broad approach to defining corruption as misconduct associated with the abuse of power for private gain. This is informed by Guidance issued by the UK Ministry of Justice to support the UK Bribery Act 2010 which applies to us wherever we operate in the world.

All colleagues, including contractors, complete annual anti-bribery training and are encouraged to confidentially report any instances of suspected bribery via the whistleblowing service, Speak Up, or their line manager. Colleagues are also encouraged to speak out if they have any suspicions regarding violations to the standards in our Codes of Responsibility and other policies and procedures.

We have identified and developed clear positions about sectors that feature heightened risk, which is publicly available in our Statement on Controversial Sectors. These include defence, forestry, mining, oil and gas and power.

**“We have a moral and ethical duty to act with the highest standard of integrity and will not tolerate acts of bribery or corruption committed by any of our employees, including the Board of Directors, and any third parties who act on our behalf.”**

Across these higher risk sectors, we work with our customers in these sectors to:

- Implement effective market-based solutions that take into account any social and environmental concerns about their operations
- Operate safely and securely within a defined framework that upholds human rights
- Aligns their operations with the principles of UN Global Compact (including anti-corruption)
- Assess the long-term impact of their activities across the entire supply chain with consideration of indigenous people and communities

As a minimum, we expect our suppliers to:

- Adopt a Code of Business Responsibility or similar that covers adherence to local laws; bribery and corruption and business integrity (including improper payments, conflicts of interest, fraud, competition, gifts and hospitality and brand and intellectual property protection)

Our approach and governance is overseen by the Financial Crime Standards Committee which meets monthly to discuss and resolve issues in a semi-open forum.

We measure our performance in this area on an on-going basis by looking at:

- Number of incidents such as those involving a colleague or supplier offering or accepting a bribe
- Number of breaches in our policy such as risk assessments completed by businesses
- Number of completed training sessions
- Number of staff in financial crime roles
- Number of waivers submitted by business units in relation to our Group Policy

In relation to high risk sectors, businesses within the Group are expected to identify any higher risk sectors or jurisdictions and implement appropriate controls to address any bribery and corruption issues identified. This includes enhanced due diligence and also sign off from the business’ own risk area as well as a requirement that the Nominated Senior Manager within the business would be required to approve the relationship prior to any contracts or formal agreements being signed.

Outcomes

→ No fines or external legal cases involving the Group during 2016

→ All colleagues completed necessary mandatory training



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### Tell us what you think:

If you have any questions  
regarding any aspect of this  
report or our approach to  
doing business responsibly  
please contact us:

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