

LLOYDS  
BANKING  
GROUP



# UN GLOBAL COMPACT COMMUNICATION ON PROGRESS 2017

Period covered 1 January to 31 December 2017  
Date submitted to UN Global Compact website 3 May 2018

## About us

We are a UK financial services provider with around 27 million customers and a presence in nearly every community.

Our main business activities are retail and commercial banking, general insurance and long-term savings, provided under well recognised brands including Lloyds Bank, Halifax, Bank of Scotland and Scottish Widows.

Our active supply base comprises approximately 4,000 suppliers, the majority of which are in professional services sectors and are located in the UK, other European countries or North America.

More information about the Group and our strategy is available in the **2017 Annual Report**.

## Our purpose

Our purpose is to help Britain prosper. We are creating a responsible business that better meets our customers’ needs and a culture where our colleagues put customers first. This is key to our long-term success and to fulfilling our aim to become the best bank for customers, colleagues and shareholders.

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## Statement from the Chief Executive

Our strategy is to be the best bank for customers, colleagues and shareholders. As a UK focused bank, our success is inextricably linked to the UK economy, which is why we remain committed to our purpose to help Britain prosper. Operating sustainably and responsibly is integral to creating long-term value and helping people, businesses and communities across 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. This second Communication on Progress shares an update on the progress we have made in integrating the principles into our business strategy, culture and daily operations.

I look forward to providing you with a further update on our progress in 2019.

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.



## Our 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 associated 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. You can read more about our approach in our 2017 [Anti-Slavery and Trafficking Statement](#).

**“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 (‘UN’)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, to define our responsibility and approach to respect human rights, and to guide the development of our [Human Rights Policy Statement](#). 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. Our corporate governance structure ensures that colleagues are supported to work responsibly and manage risk effectively. This structure includes our Board and our Board-level Responsible Business Committee. It extends to every part of our business through our Group Executive Committee and Executive-level Committees. 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 Group Policies including our Ethics and Responsible Business, Colleague, Sourcing, Speak Up and Anti-Bribery Policies, and our Code of Responsibility and Code of Supplier Responsibility.

**Our Code of Responsibility** provides clear guidelines for doing business fairly and responsibly, in line with our Group Values: putting customers first; making a difference together; and keeping it simple. The Code encourages colleagues to report, through Speak Up or to the Group’s Colleague Conduct Management team, any actions that are unsafe, unethical, unlawful, or not in line with Group Policies. We revised the Code in 2017 and it will be subject to a further annual review in 2018. All employees are required to review the Code and complete Speak Up (whistleblowing) training every year as part of the mandatory training curriculum. After training they are expected to understand their responsibilities and to adhere to them every day.

Our Code of Supplier Responsibility highlights the importance we place on respect for human rights across all our business relationships. We expect our suppliers to have their own whistleblowing policy and facility but suppliers and their workers can also report any incidents through our confidential Speak Up line.

An independent supplier, Expolink, manages the Speak Up line and we have worked with Expolink to ensure that, if instances of modern slavery or other human rights abuses are reported, they would be identified, and effectively and sensitively investigated.

### Outcomes

- During 2017, colleagues reported 372 Speak Up concerns, of which 181 were progressed to investigation. 57% of the concerns investigated were upheld and remedial action taken where appropriate
- Zero cases identified of human rights abuses in 2017
- No reported incidents of human rights breaches, slavery or trafficking from our suppliers in 2017
- Annual Anti-Money Laundering mandatory training completed by 98% of colleagues in 2017. This training included references to human trafficking as a predicate crime and provided a specific modern slavery case study as an example
- Introductory training was rolled out to all Group Sourcing colleagues on the requirements of the Modern Slavery Act and the risks of slavery and human trafficking. The content from this training is also available for colleagues to replay and to download for future reference
- A mandatory e-learning course for Supplier Managers, which includes content on modern slavery and human trafficking
- Modern slavery and human trafficking masterclass sessions were delivered to specialist Financial Crime colleagues and Lloyds, Halifax and Bank of Scotland branch colleagues

## 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.



## Our 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 of employment and occupation. We recognise that everyone is different and we are 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.

In our internal operations, our Pre-employment Vetting policy and Group Wide Vetting Standards, apply to all permanent and non-permanent employees that we recruit, including temporary staff and contractors. The Pre-employment Vetting process upholds our respect for labour rights. It includes the review of individuals’ proof of identity, address, and right to work in the UK.

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

Building on our risk assessments undertaken in 2016, where we 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, in 2017 we mapped our supply chains to assess risk in particular geographies and sectors. Over 70% cent of our external supplier spend is in low risk sectors, such as management consultancy, legal, HR, IT, marketing and communication. The remaining spend is in operations, property and travel, and customer products. 94% of our direct suppliers are located in the UK, 4% in other European countries, 1% in North America and the remaining 1% in other countries, including India, Israel and Hong Kong. According to the Global Slavery Index 2016, 99% of our suppliers are in geographies that are considered low risk for modern slavery. 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 amended our Code of Supplier Responsibility, which defines what we expect from our suppliers in order to ensure responsible sourcing is integral to the way we do business. We simplified the format of the Code and revised the content to distinguish more clearly between what is expected from suppliers and what they are encouraged to do. We expect all suppliers to conform to the Code and provide us with evidence to demonstrate their approach to responsible business issues.

The Code addresses seven specific issues, including human rights and labour issues, 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 comply with all relevant legislation, regulations and directives in the countries and communities where 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 exercise their legal right to 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

Our suppliers are also asked to comply with specific Third Party Supplier Policies, where applicable to the services they provide to the Group. We include our standard modern slavery clauses in our supplier contracts and purchase orders’ standard terms and conditions. We go through an escalation and sign off process with the business to consider the risks of any particular supply contract from which these are removed. These clauses seek to manage modern slavery risks and ensure that we receive appropriate information on suppliers’ supply chains and organisations, including copies of their modern slavery statements, if applicable.

Our suppliers have a contractual obligation under our standard modern slavery clauses to ensure compliance with all applicable laws that apply to their supply of goods and services to us, regardless of the jurisdiction in which they operate. This includes the Modern Slavery Act and any local legislation that is aimed at combating modern slavery.

In 2017, to raise employees’ awareness of this priority area for our business, we developed and delivered the four training courses described in the outcomes section on pages 4 and 5. In addition, we delivered:

- Guidance on modern slavery risks which is available through our online supplier management portal
- Through our membership of Transparency International (TI), and in order to raise external awareness of the links between tackling modern slavery and anti-bribery, colleagues from our Financial Crime team delivered a presentation in November 2017 to fellow TI members

We want to ensure that every colleague feels valued and empowered to thrive. The Group has approximately 68,000 employees and recognition agreements with two trade unions, Accord and Unite, which collectively negotiate on behalf of 98% of our UK employees and approximately 95% of employees worldwide. The Living Wage Foundation has accredited the Group as a Living Wage Employer and we review our pay rates annually to ensure minimum rates are above statutory minimum wage requirements. We have worked, and continue to work with third-party contractors and suppliers to ensure that they operate in line with our commitments. We expect our suppliers to ensure that the wages they pay meet legally mandated minimums without unauthorised deductions.

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 have been looking closely at ways to become more agile as an organisation over the past two years. In 2017 we made further progress in this area and launched a workforce agility Line Manager toolkit to help teams implement new ways of working. At the end of 2017, approximately 41% of colleagues were working in a flexible way, compared to 33% two years before.

We are committed to being a more disability confident employer, with 2.6% of colleagues disclosing a disability in our 2017 colleague survey. The Department for Work and Pensions designated the Group as a Disability Confident Leader for our inclusive recruitment process and in November, we won a ‘Nothing about us without us’ Disability Smart Award, recognising the way we gather insights about disability from colleagues, customers and charities, and then use them to inform our decisions. As a member of the Business Disability Forum, we are proud to have retained our Gold accreditation in the Disability Standard. Our colleague disability network, Access, ran a successful national event, while more than 2,300 colleagues completed our industry leading workplace adjustment process.

We offer bespoke development programmes and recruitment processes for colleagues and job applicants with disabilities. We aim to appoint the best candidate into any role and give full and fair consideration to job applications from those with disabilities, and we are unbiased in the way we assess, select, appoint, train and promote people.

We offer a guaranteed interview scheme for candidates who declare a disability and meet the minimum requirements of the role. We continue to run a Disability Work Experience Programme in partnership with Remploy. This is one of the largest disability-focused work experience initiatives in the financial services sector; we have increased our number of candidates from 96 in 2016 to 392 in 2017.

- Outcomes
- 34% of senior roles held by 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 2017

→ Rated number 1 in the Stonewall Top 100 2017 LGBT employers, and included in the Stonewall inaugural list of Transgender Inclusive Employers 2018

→ Named the best bank in the world for diversity and inclusion by Euromoney; and once again, a Top 10 Employer for Working Families, and Times Top 50 Employer for Women

→ Approximately 41% of colleagues now working in a flexible way

→ 89% of colleagues believe the Group is committed to being a responsible business

# 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.



## Our approach to the 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.

As a lender and pension provider we play an important role in promoting responsible lending and investment decisions that take into account a broad range of environmental, social and governance factors. The Group remains a signatory to the Equator Principles, the Stewardship Code and the UN Principles of Responsible Investment. As an active and responsible asset owner, we consider our obligations during the selection, appointment, monitoring and retention of our fund managers. The management of risk for investment funds offered to customers by Scottish Widows is effected through a robust and comprehensive process, including our Responsible Investment Governance Framework. In 2017 we completed an initial assessment of the responsible investment capabilities of our lead asset managers and the majority of external fund managers, and we launched a social bond fund in addition to the ethical and environmental funds in our range.

We continue to develop products and services to support customers’ transition to a lower-carbon, more resource efficient economy. We are helping more of our commercial clients to understand and manage their sustainability risks and we complete an environmental risk assessment at the start of every new client relationship.

Key work:

- Following the launch of the Green Loan Initiative in 2016, which provides clients with loans at discounted margins to help incentivise energy efficiency and finance investment in green buildings, the Group has provided in excess of £0.5 billion of green lending, improving the energy efficiency of over 5 million square feet of real estate. Our target is to fund 5 million square feet of commercial real estate to become more energy efficient by 2020, the equivalent of five London Shards
- At the end of 2017, our UK team had financed renewable projects with a combined capacity of over 2.75GW (2016: 1.78GW) and internationally our existing investments in renewables exceed 8.9GW (2016: 7.4GW). Together, the projects have a total capacity of approximately 2.4GW, which is enough to power over 1.7 million homes and they will support a significant number of jobs across the UK through the supply chain and maintenance of the wind farms

We welcome the recommendations of the Financial Stability Board Taskforce on Climate-related Financial Disclosures (TCFD) and have mapped our approach to them. We are developing a strategy and implementing processes to:

- Assess the materiality of climate risk across our business
- Identify and define a range of scenarios, including relevant physical and transition risk
- Evaluate the business impacts
- Identify potential responses to manage the risks and opportunities

More information is available on page 26 and 27 of the [2017 Annual Report and Accounts](#)

“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.”

Delivering the science-based carbon reduction and climate resilience targets set out in the Paris Agreement will have significant structural implications for the economy and the businesses and communities we serve. That is why we are evolving our Groupwide sustainability strategy. 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 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. In 2017 we issued communications to colleagues on our progress and to encourage environmental good practice inside and outside the workplace.

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.

Outcomes

- 14% reduction in greenhouse gas emissions since 2016
- 4.6% reduction in energy consumption since 2016
- 14.5% reduction in the CO<sub>2</sub>e related to our business travel compared to 2016, by promoting our ‘No Travel Week’, encouraging travel alternatives, and the successful roll out of ‘WebEx’, Groupwide

# 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 27 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. 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 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.”**

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.

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

We have identified and developed clear position statements about sectors that feature heightened risk, which are publicly available online. These include defence, forestry, mining, oil and gas and power.

In all sectors, which may have heightened Ethical, Social & Environmental (ESE) risk, we aim to work with customers 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
- Align their operations with the principles of this framework and with the United Nations Global Compact Framework’s labour, environment and anti-corruption standards
- Assess the long-term impact of their activities across the entire supply chain and give specific consideration to impacts that affect indigenous people and local communities
- Show a clear commitment to robust ESE risk management, including Health & Safety, environmental and social impact, and evidence of a good track record for transparency in the way they manage these and other risks

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)

We measure our performance in this area on an ongoing 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 2017

→ 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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