

LLOYDS
BANKING
GROUP



BECOMING THE BEST BANK FOR CUSTOMERS

Lloyds Banking Group
Materiality Report

2014

Why materiality is important

The nature of responsible business reporting has changed in line with an increased emphasis on the need for organisations to focus their responsible business reports on those issues that are 'material' to their business and their key stakeholders. Lloyds Banking Group is committed to best practice reporting and on a journey towards integrated reporting. In line with our commitment, we conduct regular materiality reviews.

This review is our third, following those completed in 2011 and 2013. The 2013 Materiality Report is available [online](#).

Materiality is integral to best practice reporting and central to the universally accepted sustainability Global Reporting Initiative G4 reporting framework. Focusing on materiality enables the bank to have a greater understanding of what our stakeholders expect from us. It helps us to shape our reporting in a way that is more relevant and credible. This in turn, allows us to better inform markets and society on responsible business issues.

About our 2014 materiality review

Our 2014 materiality review was conducted to inform the selection of content for our 2014 Responsible Business Review and the Responsible Business section of [our corporate website](#). Our Responsible Business Committee reviewed and approved the material issues identified during the review.

This review was designed to identify, assess and rank stakeholder opinion on the most material issues: those issues that we should report on for stakeholders and address in our operations. The importance of issues raised was assessed in terms of both stakeholder concern and risk to our business.

The review has enabled us to prioritise and direct our actions to areas that will produce the most significant positive impact for our Group and for wider society – supporting significant change, by avoiding a 'tick box' approach to sustainability. We hope this will make our reporting more relevant and credible, enabling us to provide more accurate and relevant information about sustainability and responsible business matters to markets and wider society.

Our 2014 report is the first year we have aligned our responsible business reporting with the new GRI G4 reporting guidelines and consequently we are in a period of transition. The scope of key issues assessed through our materiality process remained largely unchanged from previous reviews, although we improved the descriptions and explanations of some issues to improve clarity for stakeholders. The outcomes of the materiality review however, have changed from last year.

We also simplified and improved the clarity of our responsible business reporting for 2014 by prioritising the reporting of material issues. For example, our Responsible Business Review 2014 focuses on the four 'top tier' issues identified by stakeholders, while the Responsible Business section of our [website](#) covers a broader range of 'mid tier' issues and standard business practices relevant to responsible business, under five pillars: Customers, Colleagues, Community, Stakeholders and Environment.

Our Responsible Business Review 2014 provides a list of material issues (pages 26 and 27) to help readers understand our materiality process. A full GRI G4 Content Index, that enables users to access information on the basis of both materiality issues categories – 'top tier' and 'mid tier' issues, is available online. Information about 'other issues' that were not selected as either top or mid tier material issues, but were listed in the questionnaires for participants to rank and are considered important to our business, can also be found [online](#).

The materiality review 2014 was the primary source used to support our responsible business reporting, but we also took into account information gained from ongoing stakeholder engagement throughout the reporting year.

How we selected the issues covered

As part of the 2014 materiality review we asked stakeholders to share their views on a pre-determined set of issues. This set has evolved over several years. It takes into account previous stakeholder engagement and current internal opinion. To ensure participating stakeholders were not limited by the set of issues provided, we also invited them to share any other issues that concerned them.

The stakeholders who participated

To ensure we canvassed a broad range of opinion we included the following stakeholders in the 2014 materiality review:

- ▶ *The Lloyds Banking Group Responsible Business Committee – chaired by an independent director, Sara Weller, and comprising senior leaders from across the Group, including members of the Group Executive Committee.*
- ▶ *An independent Stakeholder Panel – acting independently of Lloyds Banking Group and comprising members with broad experience to reflect stakeholder interests, including corporate responsibility, sustainability, academia, NGOs and supplier and investor businesses. The Panel was selected by the Virtuous Circle Ltd.*
- ▶ Lloyds Banking Group employees, including graduate trainees – participants were sourced via our Employee panel and Graduate programme.
- ▶ Investors
- ▶ Sustainability commentators and experts
- ▶ Suppliers and customer bodies
- ▶ Trade Unions

Due to time and resource restrictions we did not directly invite customers to participate directly in the review. However, when deciding on material issues, we referred to an independent wide ranging customer survey on trust, which canvassed almost 5,000 customer opinions.

The process

We conducted the review in three steps, utilising questionnaires, telephone and face to face interviews. The review was conducted by Lloyds Banking Group colleagues, The Virtuous Circle (a specialist management consultancy that undertakes stakeholder engagement activities) and MerchantCantos (an integrated communications agency who created our corporate reporting suite).

All questionnaires used in the review invited participating stakeholders to 'rate' the importance of issues using a five-point scale ranging from Very Low to Very High.

The three steps of the review were:

Step 1 – Initial questionnaire and interviews

covering the Independent Stakeholder Panel, Group employees, trade unions, investors and opinion formers. Conducted by The Virtuous Circle.

A structured questionnaire was sent to all 16 participants in advance. Participants were also sent the 2013 Responsible Business Report ahead of interviews which lasted approximately 60 minutes. The views of three main Trade Unions and 11 colleagues were also gathered during focus group discussions. See the questionnaire used in full in Appendix 1.

Step 2 – Second questionnaire

completed by members of the Responsible Business Committee and approximately 45 Group employees, including graduate trainees. See the questionnaire in full in Appendix 2.

Step 3 – Independent analysis and ranking of stakeholder responses

Independent analysis and ranking of stakeholder responses – completed by MerchantCantos

Because of variations in content between the two questionnaires used as well as the questions asked in interviews, MerchantCantos was unable to make 'like for like' comparisons of results. Instead, they weighted and mapped responses in line with the opinion of all stakeholders consulted, in order to prioritise the most material issues.

Findings

Step 1 findings

The Independent Stakeholder Panel identified six issues as being the most material to the stakeholder interests they represent:

1. Customer satisfaction (and legacy*– interlinked)
2. Colleagues' desired behaviours
3. Having an Responsible Business culture and set of values
4. Being trusted
5. Being seen to be transparent in its actions
6. Paying the correct levels of tax

*Legacy – relating to past mistakes and customer mistrust in the finance sector

Group employees, trade unions, investors and sustainability experts identified the following nine issues as being most material to them:

1. Having an Responsible Business culture and set of values
2. Being seen to be transparent in its actions
3. Governance and accountability
4. Protecting customer data
5. Enabling financial accessibility and inclusion
6. Managing customer complaints
7. Supplier sustainability practices
8. Supporting the transition to a low carbon economy
9. Having a business model linked to responsible business

Step 2 findings

The Responsible Business Committee and Group employees including graduate trainees, identified the following seven issues as being the most material to them:

1. Treating customers fairly: ensuring a positive customer experience, dealing with complaints and addressing past issues of miss-selling
2. Honesty and transparency on high profile issues such as addressing mistakes from the past and tax contributions
3. Responsible lending to homebuyers: supporting first time buyers and second steppers
4. Embedding a Responsible Business culture and set of values
5. Regulator relations: working with regulators to support out sector
6. Responsible lending: providing the right products and rates to all customers
7. Engaging colleagues and responding to feedback

The results

Having analysed the findings (using the methodology summarised above) MerchantCantos categorised stakeholder feedback in two categories: top tier material issues and mid tier issues.

'Top tier' material issues:

Four top tier issues were identified and prioritised for discussion in our 2014 Responsible Business Review. A range of other sub-issues and activities related to these four top tier issues were also included in the Responsible Business Review to provide context and support understanding. These four top tier issues were mapped to GRI G4 indicators.

The four top tier issues:

Six issues were originally identified as most material. However, as several were very similar, during Responsible Business Committee discussions these were condensed into the four issues opposite.

Treating customers fairly

- ▶ If we want to rebuild customers' trust in our bank, then we must treat them fairly, putting their wellbeing at the heart of every decision we make and every action we take.



Being honest and transparent

- ▶ We must do the right thing for customers when it comes to dealing with, and learning from, the mistakes of the past.



Responsible lending to all customers

- ▶ We must focus on lending responsibly to all customers, including home buyers and businesses.



Building a more responsible culture

- ▶ We are continuing to change our culture to make sure that all colleagues are empowered, inspired and incentivised to do the right thing for customers.



'Mid tier' issues:

A number of issues were prioritised as being 'mid tier – of importance to stakeholders, although not top priorities. We report about our performance in relation to these issues in the Responsible Business section of our [website](#). These issues were mapped to GRI G4 indicators and reported on in line with GRI where possible.

Other material issues

CUSTOMERS

- ▶ **Financial inclusion**
.....
- ▶ **Financial accessibility**
.....
- ▶ **Serving the needs of SMEs and entrepreneurs**

COMMUNITIES

- ▶ **Colleague engagement with communities**
.....
- ▶ **Community investment**
.....
- ▶ **Job creation and employability**

ENVIRONMENT

- ▶ **Investor relations**
.....
- ▶ **Supporting the transition to a low-carbon economy**
.....
- ▶ **Environmental management in our products and services and lending decisions**

COLLEAGUES

- ▶ **Engaging colleagues and listening to feedback**
.....
- ▶ **Diversity and Inclusion**
.....
- ▶ **Attracting and retainzng talent**

STAKEHOLDERS

- ▶ **Supplier relations, payment terms and fairness**

Conclusion and next steps

The 2014 materiality review provided what we believe to be an accurate assessment of stakeholder opinion during the reporting year.

We have used its findings to rank material issues as top tier or mid tier and developed a reporting structure that makes it easy for stakeholders to access the issues that are of interest to them, with top tier issues covered in our 2014 Responsible Business Review and mid tier issues included in the Responsible Business section of our [website](#).

We are in agreement with MerchantCantos that we can refine the materiality review process in future years, focusing in particular on two improvements: widening the range of scale of the stakeholder 'samples' we engage with to make it more representative; and creating a single stakeholder questionnaire for use when asking stakeholders to rank material issues. This second improvement will enable us to make like for like comparisons across all stakeholder responses and to use a more accurate plotting process.

Appendix 1 First survey Questionnaire

The set of key issues used in internal and external stakeholder questionnaires sent to the Independent Stakeholder Panel, Group employees, trade unions, investors and opinion formers.

Materiality Survey – panel 2014

Definition of ratings & instructions

VH	This issue is incredibly important to me and I want to rate it as Very High as I would expect to see extensive coverage in the report. ONLY SELECT UP TO 3 ISSUES WITH THIS RATING PER PILLAR I.E. UP TO 3 CUSTOMER ISSUES, UP TO 3 COLLEAGUE ISSUES ETC...
H	This issue is of high importance to me and I would expect to see a significant section about this within the report
M	This issue is of medium importance to me and I would expect to see some coverage of this issue in the report
L	This issue is of low importance to me and I would expect to see limited coverage of this issue in the report
N	This issue is of no importance to me and I do not believe it should be addressed in the report
Optional	Optional sections – each Pillar has a free text box – please add any additional issues that you feel should be reported on – and include your rating

Responsible business pillar

Issue

Customer 1	Supporting customers in financial difficulty/financial inclusion
Customer 2	Financial crime and anti-money laundering (incl. cybercrime)
Customer 3	Business lending
Customer 4	Business banking – especially SMEs
Customer 5	Serving the needs of SMEs and entrepreneurs
Customer 6	Customer satisfaction (and legacy – interlinked)
Customer 7	The financial security of customers/mortgage lenders over the longer term
Customer 8	Protecting customer data
Customer – Optional	
Colleague 1	Employee remuneration (incl exec, equal pay and employment rights)
Colleague 2	Learning and development
Colleague 3	Health & Safety
Colleague 3	Wellbeing (Employee Care)
Colleague 5	Colleagues' desired behaviours
Colleague 6	Engaging colleagues
Colleague – Optional	
Community 1	Community Investment total (£)
Community 2	Financial capability (education)
Community 3	Social Enterprise
Community 4	Colleague engagement with communities (incl volunteering, mentoring etc..)
Community 5	Bank branch closures
Community 6	High street regeneration
Community 7	Job creation (employability, supporting young people)
Community – Optional	

Appendix 1 First survey Questionnaire Continued

Environment 1	Environment indicators (all of them listed, including supply chain management)
Environment 2	Environment (having a strategy or an environmental action plan)
Environment 3	Low carbon economy (including homeowners)
Responsible business pillar	Issue Your rating
Environment 4	Colleague engagement on Environmental Action Plan
Environment 5	Equator Principles – a framework for assessing environmental and social risk in project finance
Environment – Optional	
Stakeholders – Suppliers 1	Inclusiveness with suppliers (e.g. included in the culture survey)
Stakeholders – Suppliers 2	Diversity of suppliers (local, social enterprises etc..)
Stakeholders - Suppliers 3	Suppliers sustainability practices and policies
Stakeholders – Suppliers 4	Relationship with suppliers (how they are considered and how the bank engages with them)
Stakeholders – Suppliers 5	Supplier payment (how many fall outside, because of issues such as “incorrect” invoices”)
Stakeholders – Gov Relations	Government (incl engagement, political donations etc..)
Stakeholders – Media	Dealing with the Media
Stakeholders – Regulatory 1	Dealing with the regulators
Stakeholders – Optional	
Governance 1	Fairness (how they treat suppliers, etc.)
Governance 2	Being trusted
Governance 3	HBP plan – how well does it link to the economic needs of the country
Governance 4	Aligning HBP plan, Pillars, RB – having an RB strategy
Governance 5	Having Codes of Responsibility
Governance 6	Being seen to be transparent in its actions
Governance 7	Having Environmental, Social and Ethical Policies)
Governance 8	Communicating RB content effectively through its website
Governance 9	Having an RB culture and set of values
Governance 10	Paying the correct levels of tax
Governance 11	How impacts are achieved
Governance – Optional	

Appendix 2

First survey Questionnaire

The set of key issues used in the internal stakeholder questionnaire sent to the Responsible Business Committee and Group employees and graduates.

Culture, Values and Trust

1. Embedding a Responsible Business culture and set of Values
2. Strong governance and accountability; having robust management processes, systems and policies in place
3. Honesty and transparency on high profile issues such as addressing mistakes from the past, tax contributions etc
4. Executive rewards and remuneration; rewards at the top of the organisation

Customers; putting customers at the heart of our business

1. Financial inclusion: supporting customers with difficulties accessing funding (for example those on low incomes, with mental impairment (e.g. Alzheimer's), people on benefits or people who are out of work)
2. Financial accessibility: making our products and services accessible for all. (for example through digital services, an effective branch network and clear product descriptions)
3. Treating customers fairly: ensuring a positive customer experience, dealing with complaints and addressing past issues of miss-selling
4. Supporting business customers: including access to finance, quality of service, supporting local business, mentoring
5. Responsible lending: providing the right products and rates to all customers
6. Responsible lending to homebuyers: supporting first time buyers and second steppers

Colleagues: building a company that's great to work for

1. Colleague remuneration and reward
2. Attracting and retaining talent (including offering training)
3. Colleague Wellbeing
4. Engaging colleagues and responding to feedback
5. Embedding responsible behaviour: adherence to Values, compliance with Codes of Responsibility and Group Policies
6. Diversity and inclusion: creating a diverse workforce and having the right processes and policies in place to support colleagues

Communities: investing in communities to make them prosper and grow

1. Community investment and charitable giving
2. Supporting financial education and money management skills
3. Colleague engagement with communities (volunteering and mentoring)
4. Job creation (skills and employability, supporting young people and apprenticeships)
5. Social mobility: supporting low income households

Environment: working continually to reduce environmental impact

1. Colleague engagement on environmental issues
2. Managing environmental risk in our products, services and lending decisions: for example the Equator Principles
3. Supporting the transition to a low carbon economy through green products and services