



MATERIALITY

This materiality report explains how we assessed and identified our most material issues. We identify these issues to inform our reporting on responsible business and financial performance, but also to highlight potential risks and opportunities that can inform the decisions the Group makes.

Why materiality matters

Our long-term success depends on creating value for our customers and wider stakeholders. Knowing the issues that concern them allows us to respond and to see ourselves in a wider context. We can also ensure that our reporting is relevant and evolve our strategy with stakeholders in mind.

Focusing on what is material is now accepted best practice for reporting and other corporate communications; but stakeholders' priorities and the social, environmental and regulatory context in which we operate, can change rapidly; so it is important that we improve our materiality processes every year.

To help us to continually evolve our integrated reporting approach, we use, or make reference to, a number of reporting frameworks, including the GRI G4 (Global Reporting Initiative); the IIRC (International Integrated Reporting Council); and the UN Global Compact, Sustainable Development Goals and Guiding Principles Reporting Framework.

About our 2016 materiality assessment process

This year, we completed a comprehensive materiality survey, the results of which were analysed and ranked to identify the issues that our stakeholders considered most important to our business.

Designing our materiality survey

With guidance from the appointed consultancy firm, MerchantCantos, we identified a 'universe' of 30 economic, social, environmental, and governance issues, 20 fewer than in 2015. These issues were clustered in eight categories for stakeholders to rank. We tested fewer issues this year to make the process more efficient and the survey and issues more accessible and understandable for stakeholders. Our universe of issues was informed by many different sources, including:

- General and sector-specific sustainability frameworks
- Sector analysis
- Media articles
- Current and future legislation
- Direct contact with internal and external stakeholders
- Ipsos Mori, Populus and insight from research conducted within the Group
- Lloyds Banking Group risk register
- Lloyds Banking Group's Helping Britain Prosper Plan

Engaging with our most important stakeholders

To make the 2016 materiality process more representative than in previous years, we increased the number of participants to 2,685 people (an increase of 32% on 2015). Almost all of these people (2,589) have a bank account.

We identified our most important stakeholder groups as:

- Colleagues
- Customers
- Investors
- Community groups
- Government and legislators
- Special interest groups and opinion formers

Identifying and prioritising the most important issues

We invited participants to complete an online survey. They were asked to rank the importance of both issue categories and specific issues. We also asked them a number of open questions.

In addition, we asked customers, opinion formers and representatives of some special interest groups to answer a number of extra questions about their views on our responsible business issues and performance. Their answers helped us to understand the Group's activities in a wider social context.

All participants ranked issue categories and specific issues from 'most important' to 'least important'. We 'weighted' their responses, taking into account the sample and data quality.

Our most material issues in 2016

The five issue categories and specific issues ranked 'most important' are listed below. The table also shows changes in ranking from 2015, reflecting changes in stakeholder sentiment.

Issue	Change from 2015
How we run our business	+ (up)
Robust governance and accountability	+ (up)
Legal and regulatory compliance	
Stakeholder engagement	
Building trust	- (down)
Responsible culture and ethical behaviour	+ (up)
Transparency	+ (up)
Responsible lending and investment	
Economic impact	+ (up)
Sustainable business performance and growth	
Economic contribution	+ (up)
Reaching and serving all customers responsibly	
Customer privacy and data security	+ (up)
Financial inclusion and access to products and services	+ (up)
Customer experience and satisfaction	- (down)
Support for businesses and entrepreneurs	
Human rights, diversity and wellbeing	+ (up)
Equal opportunities and diversity and inclusion	+ (up)

There have been some changes in ranking compared with previous years, but no highly significant shifts in overall stakeholder views.

'How we run our business' has overtaken 'Building trust' as the category ranked 'most important', although the increased interest in 'Transparency' (the highest climbing issue) and 'Responsible culture and ethical behaviour' indicates that trust and integrity are still, unsurprisingly, very important to stakeholders.

'Human rights, diversity and wellbeing' has also become more important to stakeholders. This reflects increased corporate and media focus as well as recent legislative changes. 'Support for communities and societies' has gone down in the ranking list, but stakeholders are still very interested in specific aspects of this category, such as 'Support for businesses and entrepreneurs' and 'Financial Inclusion and access to products and services'. These key areas of interest are reflected in our Helping Britain Prosper Plan.

Other changes worth highlighting are stakeholders' increasing interest in 'Economic impact' and 'Customer privacy and data security'. This last issue may reflect the increasing digitalisation of banking, as well as a number of high-profile security breaches involving businesses during the year.

We also asked stakeholders to rank three categories not included in the table above:

- People management and development
- Support for communities and society
- Environmental impacts and investment

These categories and the specific issues they include were not ranked as being most material to the Group; however they are continually monitored and managed as part of our responsible business approach. You can find out more about them in the [responsible business performance](#) section of our website.

How materiality is reflected in our 2016 reporting

The categories and issues ranked as most material directly inform the content of our 2016 Annual Report, in line with our continued move towards a more integrated reporting approach.

In addition, you can find out how many other issues relate to our performance as a responsible business by using our [comprehensive GRI G4 index](#).

Looking ahead

We plan to carry out a materiality assessment for 2017. We will also work to engage with all our stakeholders as frequently as possible and use their insight to inform our strategy and our reporting approach.

Tell us what you think

We welcome your thoughts and ideas about materiality. Please share them with us at Responsible.Business@lloydsbanking.com