

Lloyds Banking Group - Year ended 31 December 2016

The disclosures set out in the table are required by the Capital Requirements (Country by Country Reporting) Regulations 2013. The requirements originate from Article 89 of the Capital Requirements Directive (CRD IV).

The strategic focus of Lloyds Banking Group plc and its controlled subsidiaries (the Group) is on its core UK business and its international presence has reduced significantly since 2010.

Country	Entity established in the country ⁽¹⁾	Description of activity	Revenues (£m) ⁽²⁾	Profit (loss) before tax (£m)	Tax paid (received) (£m) ⁽³⁾	Number of Employees (average FTE)
United Kingdom	Lloyds Bank plc	Banking and financial services				
	Scottish Widows Limited	Life Assurance				
	HBOS plc	Holding Company				
	Bank of Scotland plc	Banking and financial services				
	Total:		16,671	3,938	820	71,173
Channel Islands and Isle of Man	Lloyds Holdings (Jersey) Limited	Banking and financial services				
	Total:		192	76	1	904
USA	Lloyds America Securities Corporation	Banking and financial services				
	Total:		59	33	10	28
Other ⁽⁴⁾			31	9	-	85
	Total:		16,953	4,056	831	72,190

Country	Branches ⁽¹⁾	Description of activity	Revenues (£m) ⁽²⁾	Profit (loss) before tax (£m)	Tax paid (received) (£m) ⁽³⁾	Number of Employees (average FTE)
Netherlands	Lloyds Bank plc - branch	Banking and financial services				
	Bank of Scotland plc - branch	Banking and financial services				
	Total:		93	74	21	83
Germany	Bank of Scotland plc - branch	Banking and financial services				
	Scottish Widows Limited - branch	Banking and financial services				
	Total:		66	39	-	288
Channel Islands and Isle of Man	Lloyds Bank plc - branch	Banking and financial services				
	Bank of Scotland plc - branch	Banking and financial services				
	Scottish Widows Limited - branch	Banking and financial services				
	Total:		10	10	-	-
USA	Bank of Scotland plc - branch	Banking and financial services				
	Lloyds Bank plc - branch	Banking and financial services				
	Total:		155	76	(28)	309
Other ⁽⁴⁾	Total:		(10)	(17)	(2)	-
	Total:		314	182	(9)	680
Total			17,267	4,238	822	72,870

Basis of preparation

The Group’s country-by-country disclosures have been prepared on the basis of the geographical location of the business unit booking the transaction. Overseas branches of UK companies are shown as separate business units for the purposes of this report. Income and expenses between business units in the same jurisdiction have been eliminated; transactions between business units in different geographical locations have not been eliminated. Dividend payments and other remittances of profits between business units are excluded.

Notes (unaudited)

(1) Entities

Principal entities only. A full list of the Group’s subsidiaries and their location is included in the Group’s Annual Report and Accounts. Where overseas activities are carried out through branches of UK companies these are separately analysed.

(2) Revenue

Reported revenues represent the Group’s total statutory income net of insurance claims. This comprises interest income less interest expense, fees receivable less fees payable and other income offset by insurance claims.

(3) Corporation tax

The tax paid numbers disclosed under CRD IV are corporation tax only. They do not include the wider tax contribution to the UK Exchequer or other tax authorities.

The Group continues to be one of the largest contributors to UK tax revenues. We were ranked as the highest payer of UK taxes in the 2016 PwC Total Tax Contribution Survey for the 100 Group which is broadly the FTSE100 and some large UK private companies, having paid £1.8 billion in 2015. In 2016, we paid £2.3 billion in tax.

Specific points to note in respect of the numbers above

- 3.1 In any given year tax paid will not directly relate to the accounting profits earned in that year – this is because there is often a difference between accounting profit and taxable profit (as a result of applying local tax legislation) and any tax due on taxable profits is usually payable across multiple years.
- 3.2 The Group is UK headquartered and is subject to UK tax in respect of overseas subsidiaries through the UK controlled foreign company rules. The UK’s controlled foreign company rules subject the profit of companies in ‘low tax’ countries to UK tax where they do not satisfy certain exemptions.
- 3.3 Profits arising from overseas activities carried out through branches of UK entities are subject to UK Corporation Tax as part of the taxable profits of the UK entity.
- 3.4 The amount of tax paid reflected the fact that the Group had losses incurred in prior periods that were offset against current year profits. Following the enactment of the Finance Act 2015, there is now a restriction in the UK on the amount of banks’ profits that can be offset by certain carried forward losses for the purposes of calculating corporation tax liabilities. This has the effect of accelerating UK corporation tax payments made by the Group.

As noted above, we are one of the largest contributors to UK tax revenues. Consequently, it is important that we explain our approach to tax clearly to reassure our stakeholders, including UK taxpayers, customers, colleagues and others, that we comply fully with the law and have a consistent approach to managing risk.

We do not interpret tax laws in ways that we believe are contrary to their intention; and we do not promote tax avoidance products to our customers. We comply with the HM Revenue & Customs (HMRC) Code of Practice on Taxation for Banks and the Confederation of British Industry’s Statement of tax principles. The tax system covering our activities is complex and wide ranging. As a result, any decisions and actions we take regarding tax are based on a considered assessment of long-term costs and risks, including their impact on our relationship with stakeholders and our reputation with our customers.

The Group’s approach to tax is governed by a Group Board-approved tax policy and strategy, which has been discussed with HMRC. Our Group Tax Team makes sure that our tax policies, procedures and controls are appropriate. The team liaises closely with HMRC regarding all significant transactions to understand their view.

As with any large group, we may occasionally have a different view to HMRC. These differences of opinion are discussed, with the intention of resolving them in a transparent, honest and professional manner.

(4) Other

Other includes a number of countries which individually had revenues of less than £15m in 2016 and are immaterial in the context of the Group.

(5) Public subsidies received

The Group did not receive any public subsidies during the year.

Independent auditors’ report to the Directors of Lloyds Banking Group plc

We have audited the accompanying schedule of Lloyds Banking Group plc for the year ended 31 December 2016 (“the schedule”). The schedule has been prepared by the directors based on the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Directors’ Responsibility for the schedule

The directors are responsible for the preparation of the schedule in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013, for the appropriateness of the basis of preparation and the interpretation of the Regulations as they affect the preparation of the schedule, and for such internal control as the directors determine is necessary to enable the preparation of the schedule that is free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on the schedule based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule. The procedures selected depend on the auditors’ judgement, including the assessment of the risks of material misstatement of the schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation of the schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the country-by-country information in the schedule as at 31 December 2016 is prepared, in all material respects, in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Basis of Preparation and Restriction on Distribution

Without modifying our opinion, we draw attention to the Basis of preparation and Notes to the schedule. The schedule is prepared to assist the directors to meet the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013. As a result, the schedule may not be suitable for another purpose.

Our report is intended solely for the benefit of the directors of Lloyds Banking Group plc. We do not accept or assume any responsibility or liability to any other party save where terms are agreed between us in writing.