LLOYDS BANKING GROUP

# TAX STRATEGY AND APPROACH TO TAX

# Tax strategy and approach to tax

This document summarises our approach to tax. In line with our ambition to be open and transparent in our stakeholder communications, it summarises our tax strategy and tax-related processes, providing extracts from a number of relevant policy documents, including our Tax Policy. It also contains details of our tax payments in the year 2017. For those who want more detailed information, we've provided useful links throughout the narrative.

Find it fast



**"We are not just a British bank – we take pride in being a bank for Britain, at the heart of the UK's economy."**

**Our purpose as the UK's largest financial services Group is to help Britain prosper. We are not just a British bank – we take pride in being a bank for Britain, at the heart of the UK's economy.**

One component of this is that the Group continues to be one of the largest contributors to UK tax revenues. We paid £2.5 billion in 2017, and were ranked as the highest corporate payer of UK taxes in the most recent PwC Total Tax Contribution Survey.

Our approach to tax set out in this document is in line with the HMRC Code of Practice on Taxation for Banks and the Confederation of British Industry's Statement of tax principles, and reflects our belief that making our proper contribution to UK taxation is part of Helping Britain Prosper.

**Lord Blackwell**
Chairman

# 1
# Why our approach to tax matters to us and our stakeholders

**We're a UK-focused bank with a clear and driving purpose: to help people, businesses and communities in Britain prosper. We do this by providing useful and affordable products and services, by going beyond business as usual through our Helping Britain Prosper Plan, and through the taxes we pay.**

In fact, we're currently the highest corporate payer of UK taxes[1] – paying £2.3 billion in 2016 and £2.5 billion in 2017.

As a responsible business, we share public interest that 'big business' contributes its fair share to the UK's prosperity, which is why we aim to be open and transparent about our approach to tax – including our overall strategy and payments.

Our success in explaining how we approach tax was recognised in 2016 when we were commended for our presentation of our tax position in the Building Public Trust awards.

We want to build on this success and the positive feedback we've received from many stakeholders, by going into more detail about the way we approach tax and how this ultimately helps Britain prosper.

1 As reported in the PWC Total Tax Contribution survey of the 100 Group.

## Lloyds Banking Group in brief

- **The UK's leading provider of financial services to individual and business customers**
- **The UK's largest branch and digital banking network**
- **Active in retail and commercial banking, general insurance, savings, protection and investment**
- **Iconic high street brands including Lloyds Bank, Halifax, Bank of Scotland and Scottish Widows**

## About our Helping Britain Prosper Plan

People, businesses and communities across Britain are facing significant challenges. We're helping to address them through our Helping Britain Prosper Plan.

We believe no other bank is better placed to do this. We already serve approximately 27 million customers and 1 million small businesses, but we want to be more than a bank. We want to go beyond business as usual and help address systemic social and economic challenges such as Britain's housing shortage, the skills gap in key industries, social mobility and social disadvantage.

The Plan is integral to our business strategy. We know from long experience that when Britain prospers we do too, so it's an investment in our collective long-term success.

**Read more about our Helping Britain Prosper Plan online**

# 2
# Our Tax Strategy

**In 2017 the UK Government introduced a requirement that large businesses publish their UK tax strategy. As the highest corporate payer of UK taxes we consider it important we set out our approach to tax.**

We want to pay the taxes due on the profits we make, in line with the letter and spirit of the law.

Because we are a very large, complex group, we document the way we deal with our tax matters in our Tax Policy, Group Risk Management Framework and Code of Responsibility. These cover both our tax obligations and the risks to our Group associated with tax matters.

Our Tax Policy forms part of our Group Risk Management Framework, which seeks to identify all of the risks that affect our businesses. We've included extracts from it in this section and also commented on these extracts to provide further insight.

The way we approach tax is in line with the way we see Lloyds Banking Group – as a responsible, sustainable UK business group.

### How do we define 'responsible business'?

We have an important role in society and take responsibility for acting in a fair and transparent manner towards all external stakeholders. We act in the spirit of relevant regulatory requirements, and are a role model in our industry.

We ensure business activities are consistent with our understood strategy and reasonable expectations of our stakeholders.

We have strong, open and transparent relationships with our regulators.

All these statements come from our Group Risk Management Framework

## What we mean when we talk about 'risks associated with tax'

Our Tax policy identifies five major risks associated with tax. These are all concerned with accuracy and with complying with the letter and the spirit of current tax legislation.

### What are our tax risks?

Inaccuracies in the calculation, returns or payment of any tax liabilities or in reporting obligations to tax authorities including customer reporting.

That tax law, regulation and advice is not reflected in day-to-day operations.

That changes to the business, structure or operating model with a tax impact are not identified and that tax costs, consequences, obligations and opportunities are not identified correctly or completely.

Inaccurate or non-compliant reflection of tax in accounting records, financial statements or customer tax certificates.

That transactions entered into or judgements made in respect of tax result in reputational damage for the Group as a consequence of the tax treatment followed.

All these extracts are from our Tax Policy

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# Our Tax Strategy **continued**

## Managing our tax risks in practice

Our Tax Policy sets out clear actions for colleagues to manage our tax risks.

### How do we manage our tax risks in practice?

The Group will ensure compliance with all statutory and regulatory obligations.

The Group will act in accordance with HMRC's Code of Practice on Taxation for Banks and the Group's Code of Responsibility.

Overseas operations are required to adopt similar tax behaviours and conduct as appropriate for local tax authorities.

The Group will not do anything that it believes would cause it reputational damage.

All these statements are from our Tax Policy

For example, we would not enter into a transaction purely to obtain a tax benefit, and separately we would not approve a business transaction where tax was a sole or main purpose of the transaction.

### Want to know more?

Read our Code of Responsibility

## Finding a responsible balance

Like any business, our success rests on maintaining a good brand reputation. We understand that the way we approach our tax obligations has a powerful impact on this reputation, so finding the most responsible balance is vital.

How we actually achieve this balance is explained in the Tax Policy.

### What do we mean by 'balance' when we talk about tax?

When managing the Group's tax position we will balance the management of the Group's tax costs and reporting of customer information with the maintenance of the Group's reputation.

Extract from our Tax Policy

### Corporate criminal offence: failure to prevent tax evasion

We are committed to preventing the offence of criminal facilitation of third party tax evasion. We comply with the relevant legislation and regulation in this area which covers both UK and foreign taxes.

## Making tax a Group-wide priority

Frameworks and policies are only effective if people work in line with them. That's why we cover tax in our Code of Responsibility – a code that applies to every colleague, team and business in our Group, day in and day out, with ongoing guidance and training provided to ensure it's followed.

The Code makes tax a personal responsibility for every colleague in our Group.

### What does our Code of Responsibility say about tax?

Our approach to tax is governed by our Tax Policy which is part of our Board-approved Group Risk Management Framework. We have discussed the Tax Policy with HMRC.

We comply with the HMRC Code of Practice on Taxation for Banks and the Confederation of British Industry's Statement of Tax Principles.

We do not interpret tax laws in a way that we believe is contrary to the intention of Parliament, and we do not promote tax avoidance products to our customers.

Extract from our Code of Responsibility

### What does our approach to tax mean for colleagues?

We should be aware of, and act in accordance with, the Group's Tax Policy.

We should engage collaboratively with Group Tax to ensure the Group complies with the letter and spirit of tax law.

Extract from our Code of Responsibility

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# Our Tax Strategy **continued**

## Group Tax – our in-house tax specialists

At the heart of all our tax matters is our Group Tax team. The team contains highly skilled and experienced tax specialists. Our Tax Policy assigns a great deal of the responsibility for managing tax risks to the team. Group Tax colleagues provide advice right across the Group. They also work closely with HMRC and other relevant regulatory, advisory and policy steering bodies, to make sure we're always up to speed with UK tax requirements and any planned changes that may affect us.

The team frames its advice to comply with the Banking Code of Practice, our own Code of Responsibility and the letter and spirit of the law. If we're ever in any doubt concerning the tax implications of transactions, members of the Group Tax team provide advice singly or collectively through a senior review committee. Team members frequently discuss concerns or uncertainties with HMRC too.

The tax team is not incentivised to reduce the tax we pay. In fact, our Tax Policy prohibits them from approving any transaction where the sole or main purpose is to minimise tax in a way that is contrary to the intention of Parliament.

### What does our Group Tax team do?

- Preparing our UK Corporation Tax returns, submitting VAT returns, and paying tax liabilities
- Resolving any tax uncertainties with HMRC
- Calculating the tax figures that we report in our accounts
- Advising colleagues on the tax implications of transactions and business initiatives
- Keeping the Group up to speed with new tax legislation and guidance, and ensuring colleagues adhere to them
- Providing specialist support to colleagues responsible for employee tax and customer tax matters

## The role of external advisers

We sometimes ask for advice from external tax advisers to help us understand the implications of new or proposed legislation, or to provide opinion on the interpretation of existing law. We also use external advisers to provide additional resources for the Group Tax team when they're required.

## Our relationship with HMRC

We're pleased to report that we have a very open, co-operative and transparent relationship with HMRC. The Group works with HMRC in real-time (and before tax returns are filed, where possible) in accordance with the principles of the Framework of Co-operative Compliance. When occasional differences of opinion occur, usually concerning the 'fine detail' of tax legislation, we work together to resolve them quickly and professionally.

### How do we interact with HMRC?

- We submit hundreds of tax returns every year within the legal time limits
- We aim to make our tax returns accurate, transparent and easy to understand
- We proactively contact HMRC so they are aware of all significant transactions that could affect our tax obligations
- We meet HMRC regularly to discuss business issues and the status of our tax obligations

# 2
# Our Tax Strategy **continued**

## Good governance and our approach to tax

**As a responsible business, we're committed to strong and transparent governance in all aspects of our operations, from Board to branch – and that includes tax.**

### How do we ensure good governance?

#### 1

**Our Tax Policy** sets out what needs to happen to make sure we manage tax risks in line with our overall risk appetite and legal obligations.

- The Tax Policy is part of the Group's Risk Management Framework.

#### 2

**Our Code of Responsibility** also makes clear what we expect from colleagues regarding our tax-related activities.

#### 3

**Our Group Risk Management Framework** requires all of our businesses to certify that they've complied with our Tax Policy and to identify any failures to do so.

- Any failures that have a material impact are 'escalated' by our Divisional Risk teams to our Group Risk Committee, which discusses them and advises on appropriate action.

#### 4

**Board Supervision** Our Group Chief Financial Officer (CFO) is responsible to the Board for managing our tax position.

- Our Group Tax Director reports to the CFO
- The CFO raises any significant tax issues with the Board and with the Group Executive Committee (GEC)
- The Group Tax Director also regularly updates both Board and GEC about tax matters
- The Group's 'Tax strategy and Approach to tax' has been reviewed and noted by the Audit Committee.

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# How we're taxed and how much tax we pay

**As a bank with the purpose to help Britain prosper, and with 97% of our business subject to tax in the UK, we're proud to be one of the largest contributors to domestic tax revenues.**

## What taxes do we pay?

This section sets out the amounts of the different taxes we pay. The table on the right highlights the taxes we paid in the years 2014 to 2017. The data reported here forms part of the annual PWC Total Tax Contribution Survey for the 100 Group to which we contribute our tax data. The survey is independent and widely referenced by corporate reporters and commentators.

The 100 Group is made up of members of the FTSE 100 (which collectively account for 90% of its market capitalisation) along with a number of large private companies.

### UK tax contribution 2017

**£2.5bn**

Total tax contribution 2017

Here's a quick summary of the different taxes we paid in 2017.

### UK Corporation Tax

We pay UK Corporation Tax on our profits in the UK and also on profits from overseas branches of our UK companies.

97% of our Group profits (£5.1bn in 2017) are subject to tax in the UK. 3% (£154m in 2017) are taxed solely outside the UK.

You can read more about this on page 13.

Our UK taxable profits are actually higher than our accounting profits. This is because some of the costs deducted from our accounting profits such as those related to redressing PPI are not deductible as costs for tax purposes.

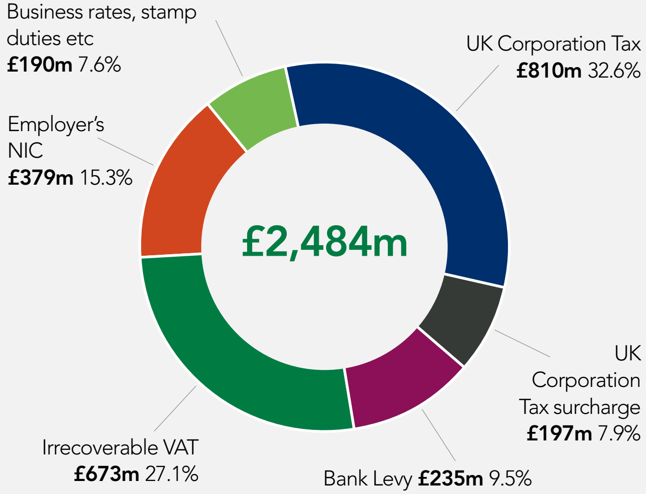
### Our total tax contribution (2014 to 2017)

| | 2014 bn | 2015 bn | 2016 bn | **2017 bn** |
|---|---|---|---|---|
| Tax paid | £1.7 | £1.8 | £2.3 | **£2.5** |
| UK position | 2nd | 1st | 1st | |

### Our total tax breakdown (2014 to 2017)

| | 2014 £m | 2015 £m | 2016 £m | **2017 £m** |
|---|---|---|---|---|
| UK Corporation Tax | | £165 | £676 | **£810** |
| UK Corporation Tax surcharge | | | £118 | **£197** |
| Bank Levy | £223 | £258 | £253 | **£235** |
| Irrecoverable VAT | £889 | £827 | £710 | **£673** |
| Employer's NIC | £375 | £375 | £375 | **£379** |
| Business rates, stamp duties etc. | £200 | £200 | £163 | **£190** |
| | £1,687 | £1,825 | £2,295 | **£2,484** |

### Total tax contribution (2017)



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# How we're taxed and how much tax we pay **continued**

The total UK Corporation Tax we pay has increased in the past few years due to changes made to UK tax rules which have limited the amount of losses from earlier years that banks can offset against profits. As of 1 April 2016, this offset is restricted to 25% of profits, annually.

**£810m**

In 2017, we paid £810m in UK Corporation Tax

### Bank levy

Banks pay a levy to the UK Government based on the value of the liabilities in their consolidated balance sheet. The levy rate in 2017 was 0.17% on short-term liabilities and 0.085% on long-term liabilities.

### Bank surcharge

From 1 January 2016, all UK banks pay an 8% surcharge on their UK taxable profits.

**£235m**

In 2017, we paid bank levy of £235m

**£197m**

In 2017, we paid bank surcharge of £197m

### Irrecoverable VAT

Like most businesses, we pay VAT on the goods and services we buy from suppliers. Many companies can recover the VAT they pay by offsetting it against the VAT they charge to customers on their own goods and services. Almost all of the products and services we provide are free from VAT, so we can't recover it in this way.

### Employer's National Insurance Contributions

We employ 67,905 employees in the UK and pay Employer's National Insurance contributions in respect of them.

**£673m**

In 2017, we paid irrecoverable VAT of £673m

**£379m**

In 2017, we paid Employer's NICs totalling £379m

### Business rates, stamp duty and other taxes

We pay business rates to local authorities across Britain. We also pay stamp duties on any transactions relating to land and shares.

**£122m**

In 2017, we paid £122m in business rates

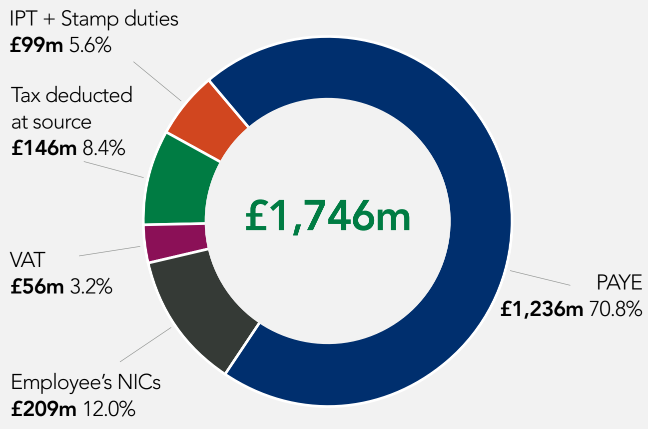
**£68m**

In 2017, we paid £68m in stamp duty and various other taxes

## We don't just pay taxes – we collect them too

In addition to the taxes we pay, we also collect taxes for the UK Government. These include the PAYE income tax and National Insurance contributions that our employees pay, the Insurance Premium Tax on general insurance products purchased by customers, and income tax deducted on some investment and savings products purchased by customers.

### Tax collected in 2017 – £1,746m



# 4
# Tax in Our Financial Statements

## Tax Expense

We publish information about the Group's tax expense each year in our Financial Statements. The corporation tax rate applicable to profits of UK companies in 2017 was 19.25%, but our tax expense for 2017 was the equivalent of a tax rate of 32.8%. In this section we talk about the things that move our tax expense away from the standard rate of corporation tax.

## Rate Reconciliation

In note 13 of the Financial Statements section of our 2017 Annual Report and Accounts is a reconciliation of the tax expense for the year compared to the expense we would suffer if we just paid tax of 19.25% of accounting profit:

| | £'m | % |
|---|---|---|
| Accounting profit before tax | 5,275 | |
| **Expected tax expense at UK tax rate** | **1,015** | 19.2% |
| Banking profits surcharge | 452 | 8.6% |
| Deferred tax cost of tax rate changes | 9 | 0.2% |
| Conduct/PPI compensation tax cost | 352 | 6.7% |
| Bank levy add-back for tax | 44 | 0.8% |
| Other costs added-back for tax | 59 | 1.1% |
| Policyholder tax | 66 | 1.3% |
| Tax free gains | (128) | (2.4%) |
| Tax free income | (72) | (1.4%) |
| True-up of prior year tax returns | (85) | (1.6%) |
| Overseas taxes | 15 | 0.3% |
| Joint-venture tax costs | 1 | 0.0% |
| **Actual tax expense** | **1,728** | 32.8% |

### Banking profits surcharge

UK banks pay an additional 8% tax on top of the ordinary UK tax rate, which means they pay tax at 27.25% of banking profits each year.

### Deferred tax cost of tax rate changes

Deferred tax assets and liabilities are revalued each year based on the tax rates that will apply in the future when the tax is paid or the tax relief is given. The tax rate will reduce to 17% in 2020, and as a result in 2017 we reduced the amount of future tax benefits we expect to receive by £9m.

### Conduct/PPI compensation tax cost

The costs of compensation payments made to customers as a result of the Payment Protection Insurance mis-selling and similar matters of misconduct are not allowed to reduce the profits of the Group subject to tax. This means we add the cost back to accounting profits and tax the increased profit number.

### Bank levy add-back for tax

The bank levy is not allowed to reduce the profits of the Group subject to tax. In 2017, the bank levy expense included in accounting profit was £231m.

### Other costs added-back for tax

Tax laws say that companies cannot reduce their profits for tax purposes for many of the costs that companies spend while going about business. This includes such things as legal fees on investment activity, customer entertaining and expenses on some projects.

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# Tax in Our Financial Statements **continued**

### Policyholder tax

Policyholder tax is additional tax payable by our life insurance business relating to policyholders' investment returns. It includes the tax on profits made by open-ended investment companies in which policyholder funds are invested, and which are consolidated in our results.

### Tax free gains and income

Dividend income received by UK companies is tax free. In addition, capital gains on major investments in trading companies are not taxable (if they meet the requirements of the 'substantial shareholding exemption' rules).

### True-up of prior year tax returns

Tax law is complicated. As a result, the tax expense included in the Financial Statements is an estimate of the final liability that will be payable when the tax returns are agreed by HMRC or the tax authorities in the countries in which we do business.

In 2017, we recognised that prior year estimates of final tax return liabilities were too high by £85m. This included £42m resulting from finalisation of our review of conduct provisions charged in prior years.

### Overseas taxes

The Group operates in a small number of countries outside the UK and pays tax on the profits it makes there. In 2017, the charge for overseas tax paid is a mix of high tax rates in the US, low tax rates in the Channel Islands, plus our estimated additional UK tax charge on profits that have been taxed at rates below those of the UK.

### Joint-Venture tax costs

Profits after tax of joint ventures are shown within Group profit before tax in the Financial Statements. This accounting presentation results in a small reconciling difference each year.

**£2.3bn**

At 31 December 2017, the Group had a net deferred tax asset of £2.3bn.

## Deferred Tax

Tax expense in our Financial Statements is made up of two elements: current tax and deferred tax.

### Current tax

Current tax is an estimate of the cash tax to be paid in respect of the profits and losses that the Group has made in the year, plus any true-ups to the cash tax payable when tax returns are agreed with tax authorities.

### Deferred tax

Deferred tax is an accounting requirement that recognises the future tax consequences of tax laws expected to apply when assets and liabilities in the balance sheet are realised as income or paid as an expense.

For example, say the Group has an asset that it bought for £100m, and it decides that it is going to sell that asset. If the market value of the asset is now £150m, the Group will recognise the tax cost now that will arise on the gain when it sells the asset in future. The tax cost is accrued as deferred tax in the period when the Group decides to sell the asset.

When the asset is sold, the Group will accrue for the cash tax cost payable on the gain, and the deferred tax liability will be released.

If the asset is not sold before the date of the next Financial Statements, the gain is recalculated at current market value, and the deferred tax liability recalculated on the basis of the new gain.

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# Tax in Our Financial Statements **continued**

## Deferred Tax Assets in 2017

### Trading tax losses: £4,034m

UK companies that make losses for tax purposes are allowed to carry those losses forward to set against taxable profits of future periods. Our banking businesses made significant losses in the financial crisis, and we have recognised a deferred tax asset for the future tax benefits when we offset the losses against future profits.

Use of these losses is dependent on the Group making profits in the future, and we estimate that on the basis of the current tax laws we will use the assets by 2034 depending on performance. This is an area of significant accounting estimates and judgements, and we report on the use of these losses to the Audit Committee each year.

### Capital allowances £743m

Companies get tax relief on the equipment they use to carry out their businesses. This relief is given by adding-back accounting depreciation on the equipment, and replacing it with a deduction for tax depreciation (which in the UK is called 'capital allowances'), calculation of which is governed by tax law.

The group has claimed fewer capital allowances than its accounting depreciation add-back so far, and expects to get net deductions worth £743m in future periods.

### Share-based Payments £51m

Tax legislation gives relief to companies in respect of employee share awards when the shares are released to the employee. As a result, we recognise those expected future tax deductions in the balance sheet.

### Provisions and other temporary differences £71m

Tax laws will often require companies to defer tax deductions on provisions it makes until cash is actually paid in the future.

## Deferred Tax Liabilities in 2017

### Long-term assurance business £(799)m

Insurance accounting allows us to recognise an asset in respect of the future profits we might make over the lifetime of our products, and we record a deferred tax liability in respect of those future profits. In addition, we hold a liability for a tax basis change in 2013 that will unwind in future periods.

### Fair value of acquired assets £(879)m

When a company buys another company the values of the acquired assets are restated to their 'fair value' in the balance sheet, but the tax value does not change. Deferred tax liabilities are recorded on the changes to fair value where there is no corresponding change to the tax value.

The majority of this deferred tax arose on the acquisition of the HBOS Group in 2009, but an additional £157m was recognised on the acquisition of MBNA in 2017.

### Derivatives £(499)m

Derivatives are regularly revalued to their market value for accounting purposes. As a result, deferred tax is provided for the future tax we will pay when the income from the derivatives is recognised in accounting profit before tax.

### Available for sale assets £(207)m

This liability reflects the future tax we expect to pay when we dispose of these assets held for sale.

### Pensions £(91)m

UK companies recognise their employee pension liabilities at a value based on long-term actuarial forecasts, but only get tax relief when cash is paid into the pension funds. As a result, we recognise the future tax benefits we will receive when we pay cash to settle the pension liability in the balance sheet. Conversely, when pension schemes are in a net asset position, we recognise a deferred tax liability.

### Other temporary differences £(140)m

Tax laws sometimes allow companies to defer tax liabilities until the profit is recognised in the income statement, or to spread tax payments over a number of years.

This heading includes £71m of tax cost deferred over 5 years on a 2016 change in tax law for assets held for sale, and £31m relating to historic net capital gains rolled-over into the tax value of replacement assets.

# 4
# Tax in Our Financial Statements **continued**

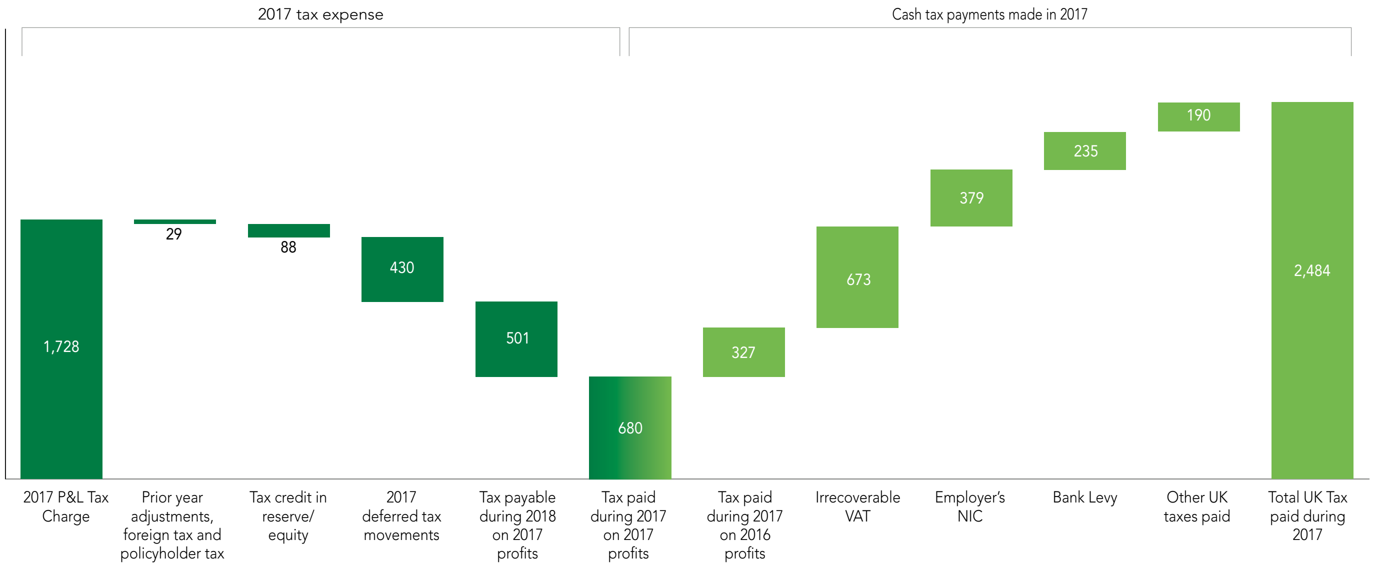
## Tax Expense vs Total Tax Contribution

As we have noted, tax expense in our Financial Statements is made up of two elements: current tax and deferred tax in relation to the year covered by the financial statements.

Deferred tax is an accounting entry made to recognise future cash tax effects. Only once the underlying asset or liability is realised will the tax be payable or recoverable as cash tax. To reconcile tax expense to the amount of profit taxes, we strip out any deferred tax expense and remove any prior-year true-ups.

The Group pays its profit taxes liability in quarterly instalments. Two estimated payments of corporation tax plus banking surcharge are made during the year, and two are made in the next year.

To those corporate profits taxes paid in 2017 we then add on cash tax costs included in accounting profit to get to our Total Tax Contribution for the year of £2,484m.



# 5 Where we pay tax

## We understand why people in the UK want to know where we pay tax.

### 97% of our profits are subject to tax in the UK.

We're proud to be the UK's largest financial services Group, and both our corporate strategy and our Helping Britain Prosper Plan are squarely focused on the UK domestic market.

Since 2014, we have published details of our turnover, profits before tax, tax paid and headcount in each of the significant locations where we have a business presence in our **Country by Country Report** published under Capital Requirements Directive IV.

In 2017, 95% of our profits taxed in the UK came from UK companies.

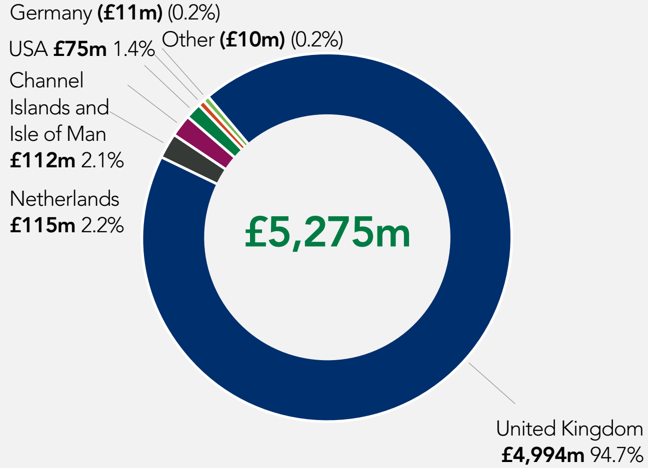
A further 2% of our profits came from activity in our overseas branches of UK companies. These are taxed locally and are also subject to UK Corporation Tax.

In addition, the Controlled Foreign Companies rules mean that where Group profits arise in overseas companies based in a low tax regime, those profits can also be subject to UK Corporation Tax. We have very few such businesses.

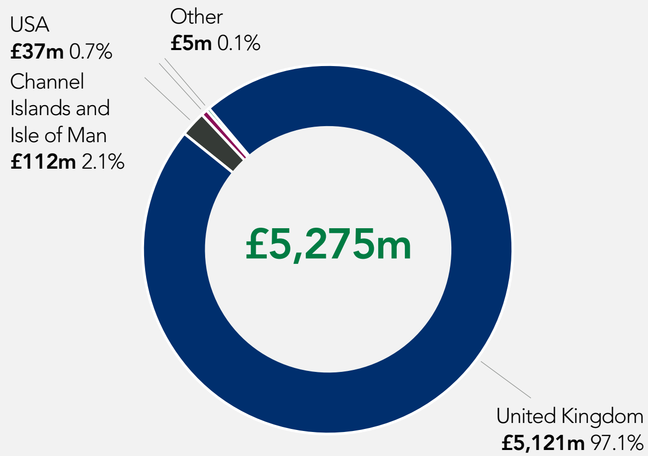
In total, 97% of our profits were subject to tax in the UK.

The other 3% of profits (£154m out of £5.3bn) are taxed in our US subsidiaries (£37m Group profits), and in our retail businesses in the Channel Islands and the Isle of Man (£112m Group profits). Across these two markets, we have 11 branches and employ more than 1,000 colleagues.

### Where Group profits/(losses) arise in 2017




### Where Group profits are taxed*




* Includes profits of the overseas branches of UK companies which are taxed in the UK as profits of the UK company with credit given for any local taxes paid on those profits.

# 5
# Where we pay tax – **continued**

## Lloyds Banking Group – Year ended 31 December 2017

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) (£m)[3] |
|---|---|---|---|---|---|
| **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:** | | **18,062** | **4,994** | **(1,007)** |
| **USA** | Bank of Scotland plc – branch | Banking and financial services | | | |
| | Lloyds Bank plc – branch | Banking and financial services | | | |
| | Lloyds Securities Inc | Banking and financial services | | | |
| | **Total:** | | **230** | **75** | **(9)** |
| **Netherlands** | Lloyds Bank plc – branch | Banking and financial services | | | |
| | Bank of Scotland plc – branch | Banking and financial services | | | |
| | **Total:** | | **133** | **115** | **(8)** |
| **Channel Islands and Isle of Man** | Lloyds Bank International Limited | Banking and financial services | | | |
| | **Total:** | | **177** | **112** | **(3)** |
| **Germany** | Bank of Scotland plc – branch | Banking and financial services | | | |
| | **Total:** | | **30** | **(11)** | **0** |
| **Other[4]** | **Total:** | | **27** | **(10)** | **(1)** |
| | | **Lloyds Banking Group Total:** | **18,659** | **5,275** | **(1,028)** |

## Basis of preparation

These 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

**(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 are corporation tax only. They do not include the wider tax contribution to the UK Exchequer or other tax authorities.

Specific points to note

3.1 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.

3.2 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.

3.3 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 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.

**(4) Other**
Other includes a number of countries which individually had revenues of less than £10m in 2017 and are immaterial in the context of the Group.

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# Find out more about our approach to tax

You can read more about our approach to risk, on pages 32–37 of our 2017 Annual Report and Accounts.

You can find out more about our responsible business activities in our Helping Britain Prosper Plan and the Responsible Business section of our website.

You may also be interested in more general information about corporate tax matters provided at: GOV.UK