LLOYDS BANKING GROUP

Tax strategy and approach to tax

Lloyds Banking Group 2022

Tax strategy and approach to tax

Our purpose as the UK's largest retail and commercial financial service provider 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 important aspect of this is that the Group continues to be one of the largest contributors to UK tax revenues. We paid £2.6 billion of taxes for 2021, 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 reflects our belief that making our proper contribution to UK taxation is part of Helping Britain Prosper.

Robin Budenberg
Chair

Contents

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 Group policies, including our Tax Policy.

It also contains details of our tax payments in respect of 2021. For those who want more detailed information, we've provided useful links throughout the narrative.

Find out more

Further information can also be found in our 2021 Annual Report and Accounts and 2021 ESG Report. Supplementary information and disclosures are provided in the following documents.

Our 2021 ESG Report
Our 2021 Annual Report and Accounts

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 purpose of Helping Britain Prosper and through the taxes we pay.

We are currently the highest corporate payer of UK taxes[1] – paying £2.1 billion in 2020 and £2.6 billion in respect of 2021.

As a responsible business, we share the public's interest that 'big business' contributes its fair share to the UK government finance, and the stability of society provided by the government framework which taxes fund. We understand that our investors and shareholders want assurance that the value created by the Group is underpinned by appropriate, prudent and transparent tax behaviour. This 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 has been recognised in 2018, 2019 and 2022, when we were highly commended for our presentation of our tax position and in 2021, when we were voted the best UK-focused reporter of taxes in the FTSE 350 at 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.

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 bank
- 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

Helping Britain Prosper

People, businesses and communities across Britain are facing significant challenges. Although the outlook remains uncertain, our customer focused strategy and the strength of the Group's business model will allow us to continue to help Britain recover and play our part in helping to return the UK to prosperity.

We believe no other bank is better placed to do this. We already serve over 25 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, environmental and economic challenges such as Britain's housing shortage, the skills gap in key industries, social mobility and social disadvantage.

Helping Britain Prosper 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 Helping Britain Prosper online

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

Our Tax Strategy

Tax is one of the ways in which businesses contribute to the societies in which they operate. Appropriate, prudent and transparent tax behaviour is therefore a key component of corporate responsibility.

Lloyds Banking Group plc regards the publication of this Tax Strategy and Approach to Tax document as complying with its duty under paragraph 16(2) of Schedule 19 of Finance Act 2016 to publish its UK tax strategy in respect of the year ending 31 December 2022.

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

As a large 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.

Although our business is primarily UK-focused, our Tax Policy is applicable to all jurisdictions in which we operate.

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

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 Code of Responsibility

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?

1. Inaccuracies in the calculation, tax returns or payment of any tax liabilities or in reporting obligations to tax authorities including customer information reporting.
2. That tax law, regulation and advice is not reflected in day-to-day operations.
3. 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.
4. Inaccurate or non-compliant reflection of tax in accounting records, financial statements or customer tax certificates.
5. That transactions entered into or judgements made in respect of tax result in reputational damage for the Group.

All these extracts are from our Tax Policy

Our Tax Strategy continued

Managing our tax risks in practice

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

Q How do we manage our tax risks in practice?

A 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 the 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.

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

A The Group aims to manage risk in such a way that it keeps the bank safe, supports sustainable business growth and minimises losses within our risk appetite. To reflect our stakeholders' interests and the Group's overall risk appetite, while maintaining 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 the facilitation of 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, and provide training for all colleagues to ensure compliance.

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. Each year a mandatory Tax Policy training programme is delivered to finance and relevant business colleagues.

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

Q What does our Code of Responsibility say about tax?

A 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.

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

Q What does our approach to tax mean for colleagues?

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

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

Colleagues should not enter into transactions where the main purpose is to minimise or reduce tax cost.

Extract from our Code of Responsibility

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 there is ever any doubt concerning the tax implications of transactions or tax returns, this is discussed by members of the Group Tax team through a senior tax review committee.

The regulatory reporting of customer information by our business is supported by the Group Tax team to ensure that tax authorities receive the necessary information to ensure that the correct income is being declared and the correct tax is being paid by our customers across our full product suite.

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.

When there is uncertainty about whether a proposed transaction is contrary to the Banking Code of Practice, the senior tax review committee will document its conclusions and discuss them with HMRC. Transactions that do not clearly meet the Code of Practice criteria do not proceed.

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 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

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?

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

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

- We deliver mandatory training programmes each year to ensure that colleagues understand their responsibilities
- The Group's whistle-blowing service (Speak Up) is available to give all colleagues a way to anonymously report any concerns, including those related to tax matters

Our Group Risk Management Framework
Requires all of our businesses to self-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

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

How we're taxed and how much tax we pay

As a bank with the purpose to help Britain prosper, and with most 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 respect of the years 2017 to 2021. 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.

Here's a quick summary of the different taxes we paid in respect of 2021.

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.

You can read more about this on page 14.

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.)

£938m

2021 UK Corporation Tax

£2.6bn

tax paid in respect of 2021

Total tax summary (2017 to 2021)

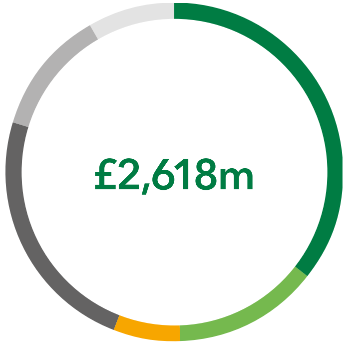
Our total tax contribution (2017 to 2021)

	2017 bn	2018 bn	2019 bn	2020 bn	2021 bn
Tax paid	£2.5	£2.6	£2.9	£2.1	£2.6
UK position	1st	1st	1st	1st	1st

Our total tax breakdown (2017 to 2021)

	2017 m	2018 m	2019 m	2020 m	2021 m
UK Corporation Tax	£810	£690	£874	£508	£938
UK Corporation Tax surcharge	£197	£314	£378	£205	£358
Bank Levy	£235	£224	£239	£208	£171
Irrecoverable VAT	£673	£797	£794	£632	£622
Employer's NIC	£379	£372	£365	£353	£315
Business rates, stamp duties etc.	£190	£202	£211	£204	£214
What taxes do we pay?	£2,484	£2,599	£2,861	£2,110	£2,618

Total tax contribution (2021)



UK Corporation Tax	**£938m** 35.8%
UK Corporation Tax surcharge	**£358m** 13.7%
Bank Levy	**£171m** 6.5%
Irrecoverable VAT	**£622m** 23.8%
Employer's NIC	**£315m** 12.0%
Business rates, stamp duties etc	**£214m** 8.2%

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

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 2021 was 0.10% on short-term liabilities and 0.050% on long-term liabilities.

UK Corporation tax surcharge
Since 1 January 2016, all UK banks pay an 8% corporation tax surcharge on their UK taxable profits.

£171m
Bank Levy

£358m
UK Corporation Tax Surcharge

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 58,197 employees in the UK and pay Employer's National Insurance contributions in respect of them.

£622m
Irrecoverable VAT

£315m
Employer's NICs

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.

£101m
Business Rates

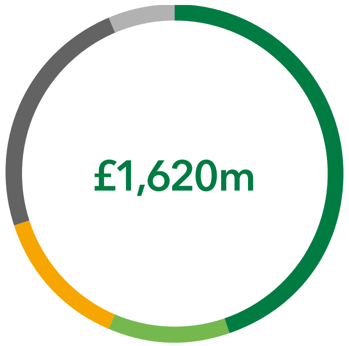
£113m
Stamp Duty and various other taxes

Tax collected in 2021

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 payments in relation to investment, savings, pensions and other products purchased by customers.

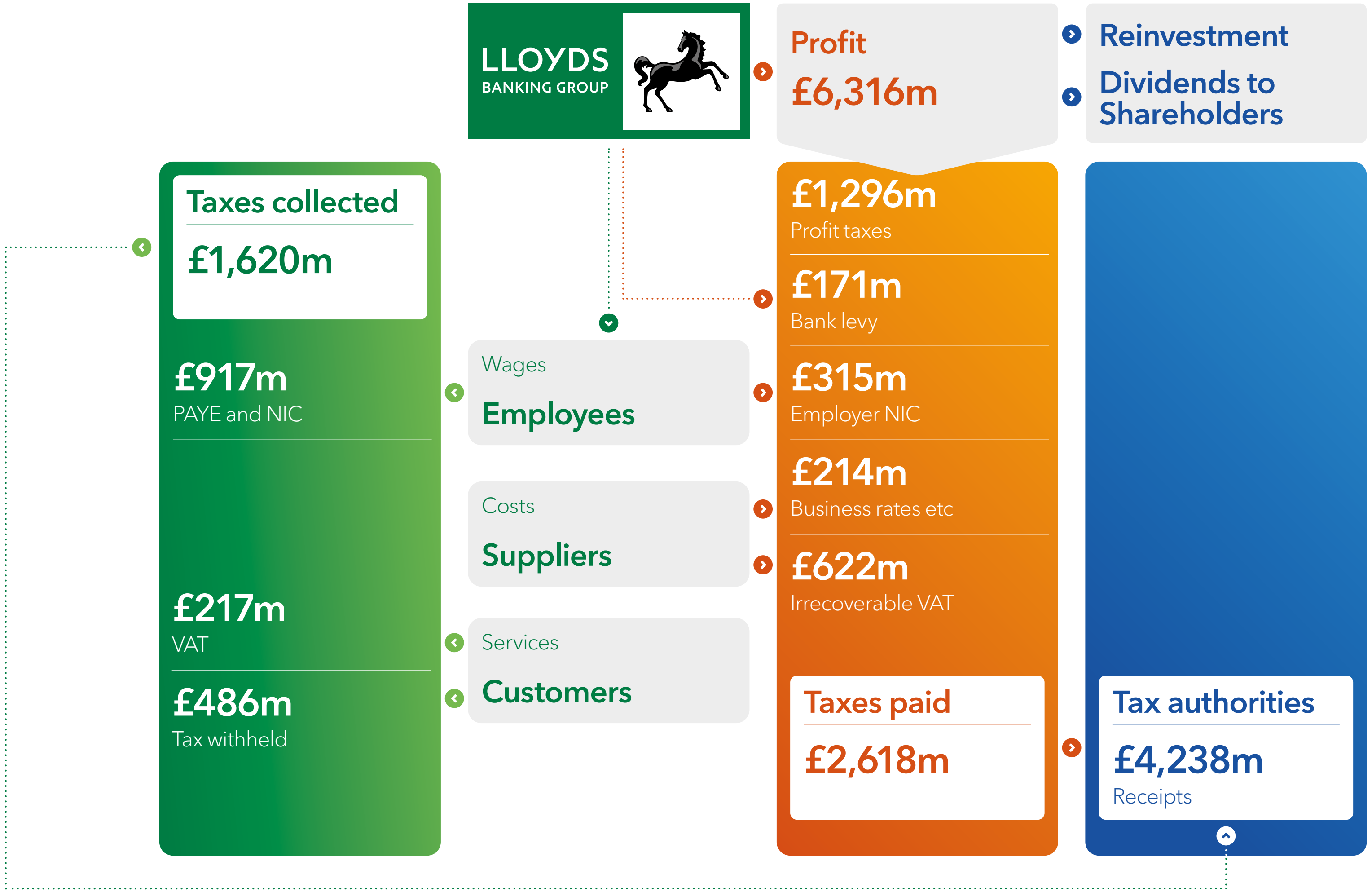
Tax collected (2021) – £1,620m



PAYE	**£728m**	44.9%
Employee's NICs	**£189m**	11.7%
VAT	**£217m**	13.4%
Tax deducted at source	**£386m**	23.8%
IPT + Stamp duties	**£100m**	6.2%

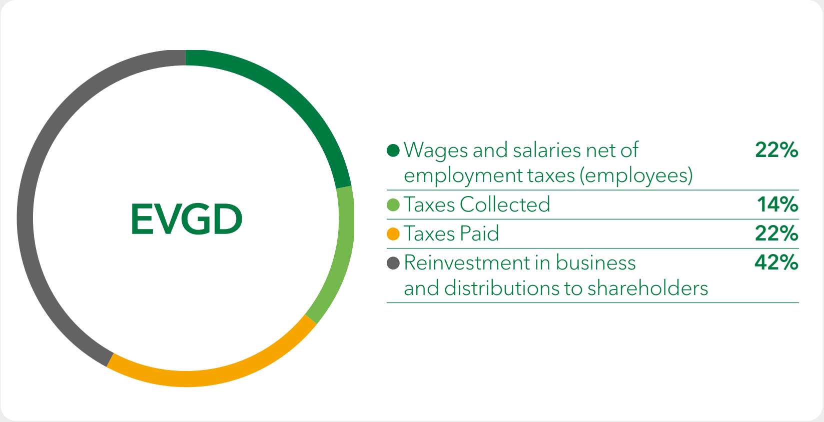
Economic Value Generated and Distributed

Economic value is distributed to government in taxes, to employees as wages paid, and as profits retained in the business for reinvestment or paid to shareholders as dividends. The tax paid to the government represents 36% of the economic value generated by the Group in the UK in 2021.

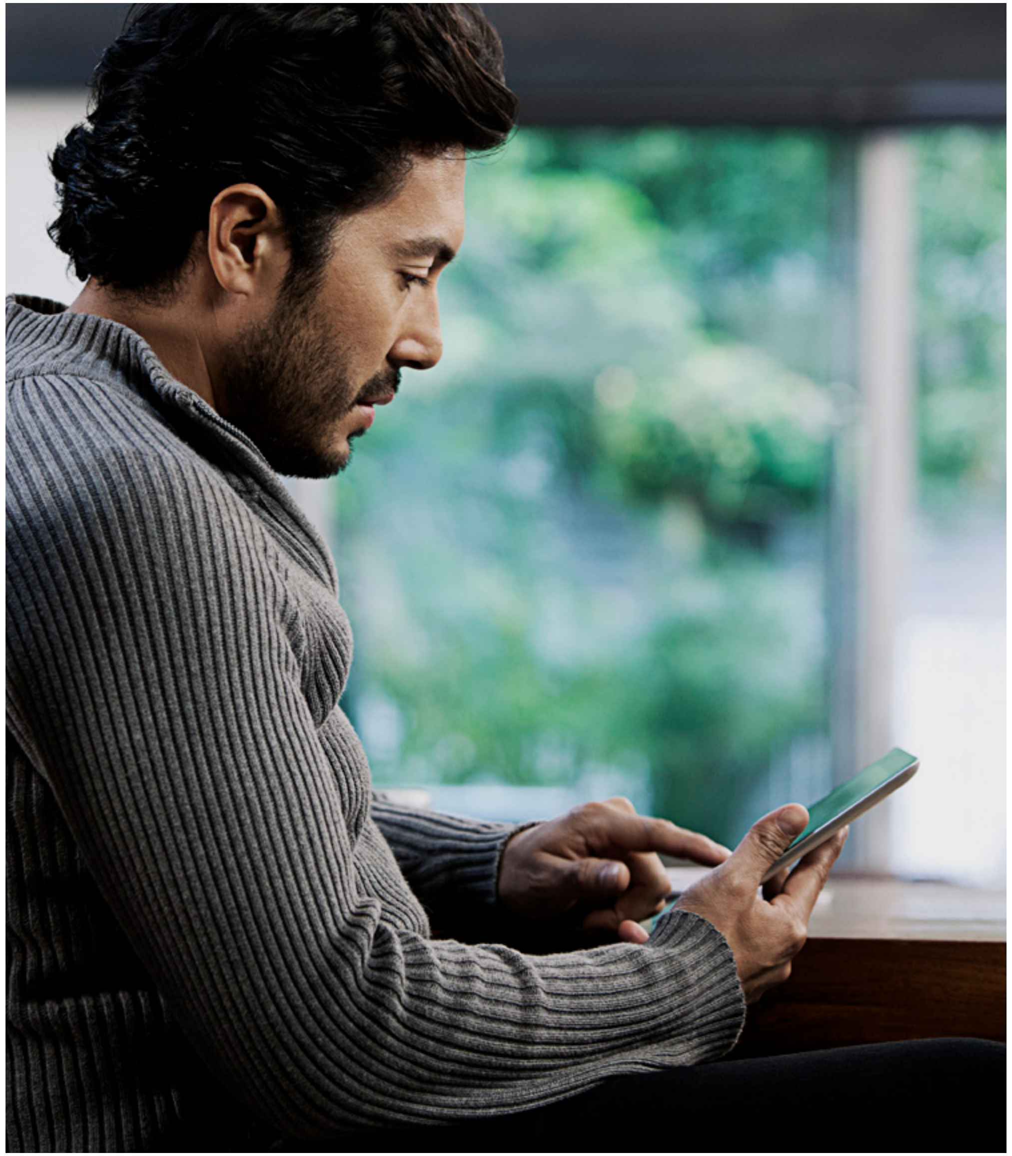


- Taxes paid to the government is important for public finances but is only part of our impact on society.
- For example, the profits we re-invest in our business becomes the income of our suppliers which allows them to pay the wages of their staff and generate profits on which they also pay taxes.

Economic Value Generated and Distributed (UK)



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 2021 was 19%, but our tax expense for 2021 was the equivalent of a tax rate of 14.7%. In this section we talk about the things that move our tax expense away from the standard rate of corporation tax.

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% of banking profits each year. In 2022, the UK government reduced the rate of the banking surcharge to 3% with effect from April 2023. From that date banks will pay tax at a total of 28% of banking profits each year.

Deferred tax impact 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. In 2021, the UK government changed the corporation tax rate to 25% with effect from April 2023. As a result, we remeasured our deferred tax up to 25%, resulting in a large credit to P&L, primarily being the increased value of tax losses carried forward against future profits.

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 2021, the bank levy expense included in accounting profit was £116m.

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

Rate Reconciliation

In note 14 of the Financial Statements section of our 2021 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% of accounting profit:

	£'m	%
Accounting profit before tax	6,902	
Expected tax expense at UK tax rate	1,311	19.0
Banking profits surcharge	439	6.3
Deferred tax impact of tax rate changes	(954)	(13.8)
Conduct/PPI compensation tax cost	185	2.7
Bank levy add-back for tax	22	0.3
Other costs added-back for tax	83	1.2
Policyholder tax	63	0.9
Policyholder deferred tax asset in respect of life assurance expenses	69	1.0
Tax relief on coupons on other equity instruments	(81)	(1.2)
Tax free gains	(140)	(2.0)
Derecognition of losses that arose in prior years	1	0.0
Tax free income	(40)	(0.6)
True-up of prior year tax returns	40	0.6
Overseas taxes	19	0.3
Actual tax expense	1,017	14.7

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.

Policyholder deferred tax asset in respect of life assurance expenses
In 2021, we de-recognised an amount of policyholder deferred tax in respect of certain life assurance expenses brought forward from prior years, as the Group's utilisation estimates had worsened over the year. This asset reflects the future tax deductions expected to be available against policyholder tax liabilities that are expected to arise in future periods.

Tax relief on coupons on other equity instruments
The dividends we pay on our additional tier 1 capital are deductible for tax purposes. Until 2019, both the coupons and the tax relief were accounted for in equity, but following a change in accounting standards the tax relief is now recorded within tax expense in the profit and loss account.

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).

De-recognition of losses that arose in prior years
In 2021, we decreased the deferred tax asset recognised in respect of UK capital losses by £1m.

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 2021, we recognised that prior year estimates of final tax return liabilities were too low by £40m.

Overseas taxes
The Group operates in a small number of countries outside the UK and pays tax on the profits it makes there. In 2021, the overseas tax expense was higher than the tax we would have paid in the UK mainly as a result of accounting gains in our European business.

Joint-Venture tax costs
Profits after tax of joint ventures are shown within Group profit before tax in the Financial Statements. This accounting presentation usually results in a small reconciling difference each year. In 2021 this difference was nil.

£3.1bn

At 31 December 2021, the Group had a net deferred tax asset of £3.1bn

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.

Tax in our Financial Statements
continued

Deferred tax assets in 2021

Trading tax losses: £5,023m

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 2047 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: £744m

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 £744m in future periods.

Share-based Payments: £38m

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: £521m

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

The deferred tax assets in respect of provisions includes the tax effect of loan impairment provisions recognised on adoption of IFRS9 'Financial Instruments' on 1 January 2018. On transition to IFRS9, the Group recognised a deferred tax asset of £322m in respect of impairment provisions, the tax deductions for which will be recovered over ten years.

Derivatives: £191m

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 or recover when the income or costs from the derivatives are recognised in accounting profit before tax.

Deferred tax liabilities in 2021

Long-term assurance business: £(1,162)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: £(352)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.

Pensions: £(1,262)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: £(331)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.

Capitalised software enhancements: £(275)m

UK tax law allows companies to deduct the cost of capitalised software from taxable profits. Usually this relief is given as the accounting cost is charged against profits over a period of years, but for certain qualifying expenditure companies can make a claim to accelerate all the tax relief to the year of expenditure. This deferred tax liability recognises that we will not get tax relief in future when the accounting cost is reflected in profits.

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.

Certain profits and costs recognised in the Group financial statements do not result in a cash tax effect until a future date. When this happens, an accounting entry called deferred tax is made to recognise the expected future cash tax costs or benefits.

When the underlying asset or liability is realised the tax is payable or recoverable as cash tax. To reconcile tax expense to the amount of cash taxes, we strip out any deferred tax expense and remove any non-cash elements, e.g. prior-year true-ups.

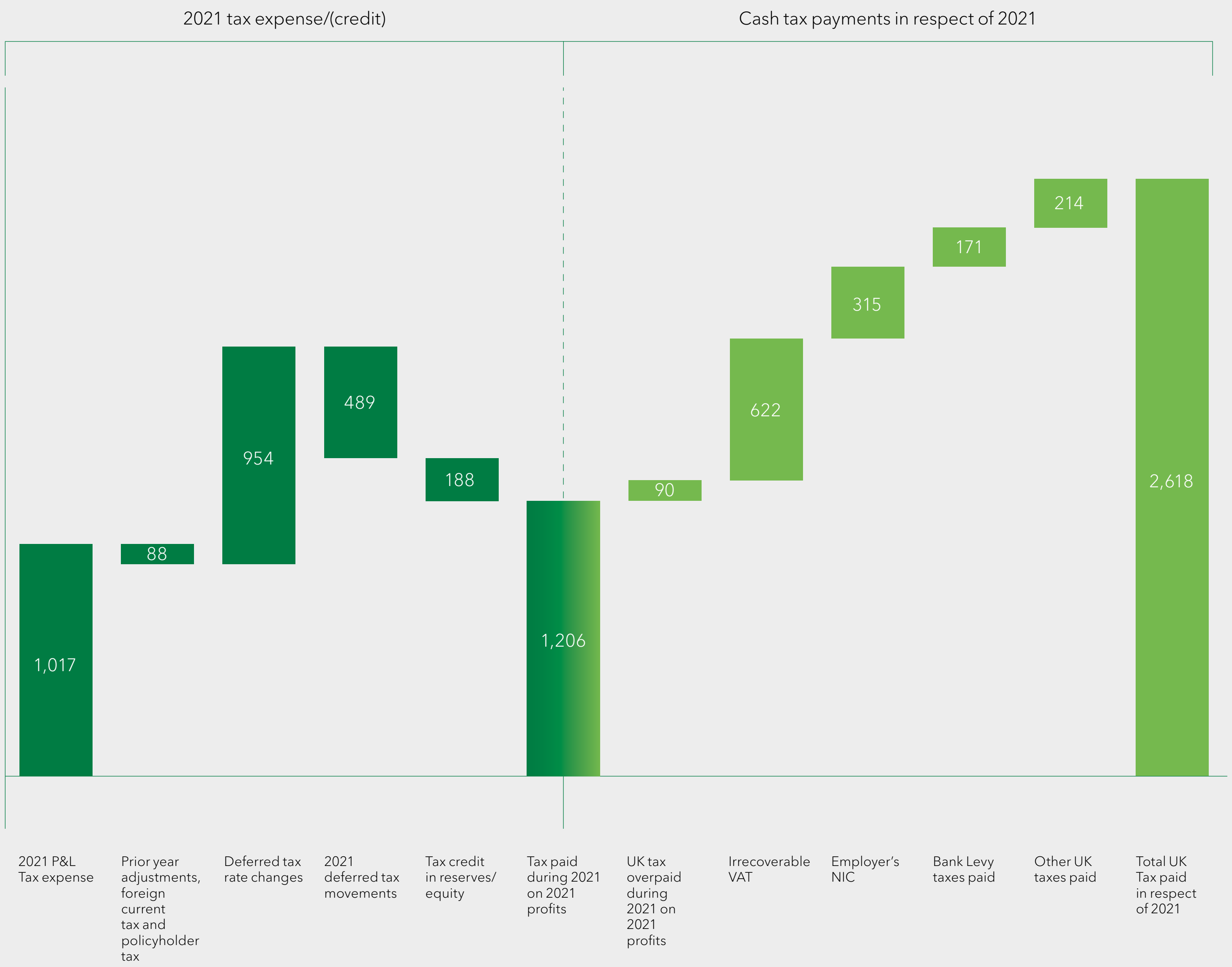
In 2021, the largest deferred tax charge relates to the use of brought-forward trading tax losses to offset current year taxable profits and reduce corporation tax payable.

The Group pays its profit taxes liability in quarterly instalments.

From 2020 onwards, UK companies must make all four estimated payments in the year.

To those corporate profits taxes paid in 2021 we then add on cash tax costs included in accounting profit to get to our Total Tax Contribution in respect of 2021 of £2,618m.

Tax expense/(credit) and cash tax payments made in 2021



Where we pay tax

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

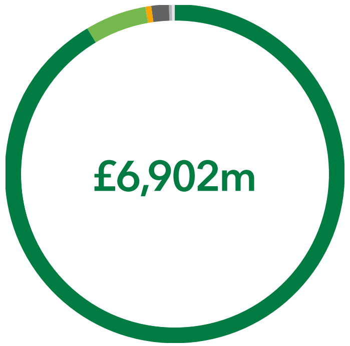
Since 2014, we have published details of our turnover, profits before tax, tax paid and headcount in each of the significant locations where we have a business presence in our Country by Country Report published under Capital Requirements Directive IV.

In 2021, our UK companies generated £6,316m of profits taxed in the UK.

To this we add profits/losses from activity in our overseas branches of UK companies. These are taxed locally and are also subject to UK Corporation Tax.

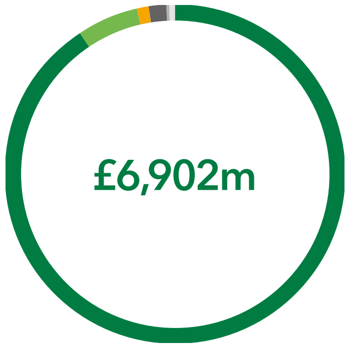
In addition, the Controlled Foreign Companies rules mean that where Group profits arise in overseas companies based in a low tax regime, those profits can also be subject to UK Corporation Tax. We have very few such businesses.

Where Group profits/(losses) arise in 2021



United Kingdom	**£6,316m**	91.5%
Netherlands	**£395m**	5.7%
Channel Islands and Isle of Man	**£45m**	0.6%
USA	**£114m**	1.7%
Germany	**£6m**	0.1%
Ireland	**£11m**	0.2%
Singapore	**£10m**	0.1%
Others	**£5m**	0.1%

Where Group profits are taxed*



United Kingdom	**£6,305m**	91.4%
Netherlands	**£403m**	5.8%
Channel Islands and Isle of Man	**£79m**	1.1%
USA	**£114m**	1.7%
Ireland	**£11m**	0.2%
Singapore	**£10m**	0.1%
Others	**(£20m)**	(0.3%)

* 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.

Where we pay tax continued

Lloyds Banking Group – Year ended 31 December 2021

The disclosures set out in the table below expand on those required by Article 89 of the Capital Requirements Directive (CRD IV) to include a summary reconciliation of the tax expense/(credit) for the period to the charge that would be expected by multiplying PBT by the statutory tax rate in each country, and then reconciling the tax expense to the net cash taxes paid in the period.

A fuller discussion of the UK tax charge reconciliation is set out on page 10, and the UK cash tax reconciliation is illustrated on page 13.

	UK £m	Channel Islands £m	USA £m	Germany £m	Netherlands £m	Ireland £m	Singapore £m	Other £m	Consol Adj £m	Group £m
Revenue	15,527	117	144	28	459	13	23	13	0	16,324
Profit/(loss) before tax	6,316	45	114	6	395	11	10	5	0	6,902
Statutory tax rate	*19%*	*10%*	*21%*	*30%*	*25%*	*12.5%*	*17%*	*27%*		*19%*
Expected tax expense (credit)	1,200	5	24	2	99	1	2	1	(23)	1,311
UK banking surcharge	439	0	0	0	0	0	0	0	0	439
Deferred tax rate changes	(954)	0	0	0	0	0	0	0	0	(954)
Non-deductible expenses	414	3	0	0	1	0	1	0	4	423
Non-taxable income	(162)	(3)	(4)	(3)	(3)	(1)	(3)	(1)	0	(180)
Tax relief on equity instruments	(80)	0	0	0	(1)	0	0	0	0	(81)
True-up of prior year tax returns	56	(1)	2	4	(19)	0	(2)	0	0	40
Overseas taxes	0	0	0	0	0	0	0	0	19	19
Tax expense (credit) for the year	**913**	**4**	**22**	**3**	**79**	**0**	**(2)**	**0**	**0**	**1,017**
Non-cash current tax items (PHT, PYA)	16	0	1	0	22	0	0	0	0	39
Deferred tax credit (expense) included above	465	0	(7)	(4)	(66)	0	2	1	0	391
Current tax accrued on profits	1,394	4	16	(1)	33	0	0	1	0	1,447
Tax deductions in reserves	(188)	0	0	0	0	0	0	0		(188)
Current tax payable on profits	**1,206**	**4**	**16**	**(1)**	**33**	**0**	**0**	**1**	**0**	**1,259**
Less: refunds/(payments) due next year	90	(3)	(4)	5	10	0	0	0	0	98
Add: payments/(refunds) for prior years	(561)	0	0	0	0	0	0	0	0	(561)
Cash tax paid (received) in year	**735**	**1**	**12**	**4**	**43**	**0**	**0**	**1**	**0**	**796**

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

(1) Countries
A full list of the Group's subsidiaries and their location is included in the Group's Annual Report and Accounts.

(2) Revenue
Reported revenues represent the Group's total statutory income net of insurance claims.

(3) Cash tax paid
The tax paid numbers disclosed under CRD IV are corporate income taxes only. They do not include the wider tax contributions we make to the UK Exchequer and other tax authorities.

(4) Other
Other includes a number of countries which individually had revenues of less than £10m in 2021 and are immaterial in the context of the Group.

(5) Tax Deductions in Reserves
This tax deduction relates to pension contributions made in the period that exceed the annual accounting charge in the profit and loss account.

(6) Channel Islands and Isle of Man
The Group has operated businesses in Jersey, Guernsey and the Isle of Man ("the Islands") for over 120 years. We currently employ 572 staff in the Islands, who serve retail and commercial customers resident in the Islands and internationally through a bank branch network, commercial offices, mobile and online banking services. Current accounts, savings, loans and mortgages are provided to retail customers. Commercial customers are offered cash management and lending solutions. These businesses are tax resident in the Islands and are subject to the requirements of our Tax Policy which ensures that we comply with both the letter and spirit of tax law. We do not seek to achieve tax avoidance outcomes for either ourselves or our customers.

(7) USA
For over 100 years, from our offices in New York, we have provided a range of comprehensive commercial banking services for business customers with strong links to the UK.

(8) Germany
Based in Berlin, Lloyds Bank GmbH offers an online banking facility and motor finance products to its German customers under the Bank of Scotland name. The Group also provides commercial banking services via Lloyds Bank Corporate Markets Wertpapierhandelsbank GmbH based in Frankfurt.

(9) Netherlands
Our Dutch retail mortgages business now operates as a branch of Lloyds Bank GmbH. The profit for the year includes accounting fair value profits on derivatives, which will only be taxable if and when realised in future.

(10) Ireland
Accounting profits in 2021 arose on intra-group debt waivers made to allow liquidation of local subsidiary companies.

(11) Singapore
The Singapore branch of Lloyds Bank Corporate Markets plc profits for 2021 included £8m related to finalisation of prior year service charges.

(12) Consolidation Adjustments
The consolidation adjustments in the tax reconciliation reclassify overseas tax rate effects into a single 'Overseas tax' line in the Group reconciliation (which is produced from the perspective of the UK parent company).

(13) Refunds for Prior Years
In 2021, we received refunds of £561m of UK corporation tax related to prior years (2015 – 2020). As these refunds do not represent 2021 tax cost we have excluded them from our 2021 total tax contribution calculation.

The Group's CRD IV disclosure for the period can be found here

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