TRANSPARENCY INTERNATIONAL EU

MURKY HAVENS AND PHANTOM PROFITS

The Tax Affairs of EU and UK Banks

ANNEX II: Correspondence with banks

Transparency International EU (TI EU) is a regional office of the global anti-corruption movement, Transparency International. Working closely with the International Secretariat in Berlin, Germany, TI EU leads the movement's EU-focused advocacy in close cooperation with over 100 national chapters worldwide, but particularly with the 23 chapters in EU Member States. TI EU's mission is to prevent and address corruption and promote integrity, transparency and accountability in EU institutions and in EU internal and external policies, programmes and legislation.

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Every effort has been made to verify the accuracy of the information included in this report. All information was believed to be correct as of September 2020. Nevertheless, Transparency International EU cannot accept responsibility for the consequences of this information's use for other purposes or in other contexts.

ANNEX II: Correspondence with banks

This document provides information that complements the report *Murky Havens & Phantom Profits: The Tax Affairs of EU and UK Banks*, published by Transparency International EU (TI EU) in October 2020.

During the course of this research, TI EU contacted the 39 banks concerned to provide them with the datasets and analysis relevant to them. These exchanges aimed to give the banks an opportunity to comment on or contest the information and analysis contained in our report.

Out of 39 banks, 15 responded to the TI EU team's inquiry before the deadline we set. Where justified and/or deemed relevant by our team, their comments were taken into consideration in our analysis. References to these exchanges as well as our assessment of them were included in the endnotes to the main report.

In the interest of transparency, we have compiled all the responses we received from banks in this Annex.

BANCO SANTANDER

"Thank you very much for contacting us and allowing us the opportunity to respond to the report.

I have addressed the points made in your report directly below, but firstly let me assure you that Santander recognises fully its responsibility to contribute economically and socially to the countries in which we operates by paying all taxes borne directly by the Group and collecting or withholding taxes from third parties generated through business activity. Total taxes raised and paid by the Group in 2019 amount to EUR 16,099 million, of which EUR 6,765 million correspond to taxes paid directly by the Group with the remainder being taxes collected from third parties.

Regarding your specific points:

1. **At least 10 out of the 39 banks declare, on average, profits that reveal shocking differences between their headquarter countries and the rest of their operations**

   Clear tax planning practices emerge when looking at some of the banks' behaviour in the country where they are headquartered. Differences between how much some banks declare in profits in their countries of headquarter and the rest of their operations can be shocking:

   The Spanish banks Banco Santander, Bankia, BBVA, and Banco de Sabadell have reported a total profit ratio of only 1.47 per cent for their activity in Spain, while their average profitability in all countries of operation exceeds 25 per cent. In other words, the profit earned by Spanish banks in Spain is less than 1.5 cents for each euro earned in Spain, but almost eighteen times more for each euro earned across all jurisdictions they operate in.

SANTANDER RESPONSE

We do not perform any kind of tax planning to divert profits to low tax jurisdictions and declare profits where we obtain them. Our profitability in Spain reflects the profitability of our Spanish business in totality. To imply that divert profits to other jurisdictions to avoid paying tax in Spain is without any basis in fact.

2. Ireland

Home to the European headquarters of some of the world's largest corporations like Apple and Google, Ireland has a long-standing reputation as the unofficial European tax haven. A favourable tax climate, intensive inflow of capital and the activity of multinationals bring Ireland to the forefront of global labour productivity rankings.

Misalignment between the volume of profits declared in Ireland and real economic activity is glaringly apparent from the CBCR data analysis. {…} The most productive workforce in Ireland was reported by Banco Santander. In 2019, its Irish branch with only three employees managed to create €52 million in profit. Since Banco Santander also managed to avoid paying any corporate tax on these profits, each worker of the branch generated a staggering net profit of €17 million for the Spanish bank that year.

SANTANDER RESPONSE

We do not have a branch there and do not use our Irish business to reduce tax liability in any way or channel profits generated elsewhere. In fact in 2018 our Irish business made a loss. Our business in Ireland is mainly securitisations and asset based financing in the Irish market, one of the deepest in terms of securitisations and covered bonds in Europe.

3. Reporting anomalies

The analysis of CBCR data of the 39 European banks reveals that the way banks disclose their data is sometimes not complete and sometimes even incorrect. At least four banks, including Banco Santander, did not properly break down their financial information for each jurisdiction of operation, despite it being a requirement of the Directive.

Instead of disclosing the full list of their jurisdictions with the corresponding financial results, we have found some banks to include a footnote or a disclaimer next to the report simply stating that some of the reported profits include money from other non-listed jurisdictions. For example, in 2018 and 2019, Banco Santander lumped its profits from the Cayman Islands with the figures reported under its Brazil operations.

This practice undermines the integrity of the data and the overall purpose of country-by-country reporting, as the financial activity of misreporting banks is not fully disclosed. As the overwhelming majority of these incorrectly disclosed cases were in jurisdictions that have a reputation as tax havens, doubts arise to whether this is not a manoeuvre by banks to avoid

reporting their profit shifting activity in full. Such information included in the footnotes is difficult to spot and it rarely contains any figures, making it easy for a reader to overlook a bank's presence in the Cayman Islands or Singapore, and even impossible to quantify the size of those operations.

SANTANDER RESPONSE

We fully disclose details of our presence, turnover, taxes and employees in all our geographies in our annual report. (See here) We do not benefit from any tax advantages through our branch in the Cayman Islands. The profits generated by Santander Brazil branch in the Caymans are taxed in full in Brazil."

BELFIUS

"As our annual reports (CSR-section in the annual reports of financial year 2017) states:

"Belfius focuses exclusively on the Belgian market for its commercial business activities, although it retains entities in Luxembourg and Ireland for specific activities. Belfius Ireland and Belfius Bank, Dublin branch, both established in Ireland, hold a historical portfolio of long-term bonds. The presence of Belfius in Ireland is a remnant from the past and can in no way be seen as tax optimisation; both entities are structurally lossmaking at the present time."

The historical portfolio of long-term bonds located in Ireland was and still is in the process of being reduced. As such it can not be stated that Belfius carries out any real economic activity in Ireland. The financial results of Belfius in Ireland are mainly due to market valuations of the held portfolio. In financial year 2017 market valuations resulted in a profit, yet untaxed given the high amount of accumulated Irish fiscal losses of the past (still exceeding 1 billion EUR per end of financial year 2017)."

BPCE GROUP

"You can find our comment and feedback about your document:

1. The United Arab Emirates

Zooming in on country-by-country disclosures of banks from Saudi Arabia's Eastern neighbour, the United Arab Emirates, provides yet another insight into the curiosities of corporate tax avoidance planning. From our sample of some of the 39 largest European banks, 14 of them reported economic activity in the jurisdiction in at least one of the past five years. The French bank BPCE did not declare any taxes paid despite earning positive profits in the oil-rich country.

BPCE GROUP RESPONSE

Natixis SA, subsidiary of BPCE SA, holds a branch in Dubai which acts as a hub for the Middle East, covering Egypt, the Gulf Cooperation Council (i.e. United Arab Emirates, Saudi Arabia, Qatar, Oman, Kuwait and Bahrain) the Levant and Turkey.

This entity carries out a business activity locally with employees and offers a full suite of Natixis' Corporate & Investment Banking expertise to the regional clients, which include Financial Institutions, Corporations and Government Agencies.

The absence of taxation is the consequence of the absence of corporate tax applicable to companies in Dubaï.

In addition, another activity performed in Dubaï was related to the business activity of the German banking group, held by BPCE SA (Fidor Bank AG).

A subsidiary was created in Dubaï to commercialize IT solutions in the area of online banking to clients established in this region..

This subsidiary was closed in the context of Fidor Bank restructuring. In FY 2020, BPCE Group has no more presence in UAE related to Fidor Bank business division.

2. Mauritius

The African hotspot for tax affairs management is located a few thousand kilometres to the south-east, in Mauritius. This small island in the Indian Ocean has recently become the main subject of the latest tax scandal, the Mauritius Leaks. Selling itself as the 'gateway' to the developing world, Mauritius offers incoming corporations and individuals low tax rates as well as tax treaty abuse allowing them to keep their tax obligations in many African states to a minimum, such as allowing companies to avoid paying capital gains tax.

The island's reputation did not escape the attention of the banking sector. Eight European banks disclosed having active operations in Mauritius in at least one of the years between 2015 and 2019. These are Barclays, Credit Agricole, Deutsche Bank, BPCE, HSBC, ING, Rabobank, Société Générale and Standard Chartered.

BPCE GROUP RESPONSE

The presence of BPCE group is related to the banking activity of Banque des Mascareignes, established in Mauritius. This presence in Mauritius corresponds to a retail banking activity performs locally to the benefit of local clients.

This activity was sold in FY2018 to an independent Moroccan banking group (Banque Centrale Populaire. Please find the link to the press release: https://newsroom.groupebpce.fr/actualites/annonce-de-la-signature-d-un-accord-de-cession-de-100-du-capital-de-banque-des-mascareignes-au-groupe-banque-centrale-populaire-et-au-groupe-sipromad-8876-7b707.html)

Since FY 2019, BPCE Group does not have any presence in Mauritius."

COMMERZBANK

“Thank you for your email and the possibility to comment on this issue.

As Commerzbank it is our legal obligation and part of our social responsibility to contribute to the financing of public budgets with our taxes. For this reason alone (regardless of the violation of the law), we reject any form of tax evasion, whether on the part of our clients, ourselves as a company or our business partners. Compliance with the applicable laws to combat tax evasion and other tax administrative offences in the markets and jurisdictions in which we operate is a top priority for us. We expect the same from our employees, customers and business partners. In addition, we align our conduct to avoid tax administrative offences.”

CRÉDIT AGRICOLE

“The Crédit Agricole S.A. Group considers that tax practices are an important element of corporate social responsibility. In line with the culture of ethics that it is developing, the Group has a consistent and responsible approach to taxation, which is an essential part of its long-term strategy.

The Group’s tax policy is governed by rules of transparency and responsibility that require compliance with the tax laws and regulations in force in the States and territories where it operates.

The Group’s tax policy complies at all times with applicable laws and regulations. Taxes and duties are paid in accordance with the laws, regulations and international principles in force in all States or territories where the Group operates. The Group ensures that its customers are informed of their tax obligations and those relating to transactions carried out with the Group.

The Crédit Agricole S.A. Group maintains a professional and trusting relationship with the tax authorities in all the countries where it operates. It fully and transparently discloses all relevant information in compliance with its legal obligations when disputes arise.

The Group is transparent about its structure, organization, operations and locations. The Group publishes in its annual report a document indicating annually for each of the countries in which it operates:

- The net banking income earned,
- The number of staff at its disposal,
- Its pre-tax profit,
- Its annual tax charge, distinguishing between current and deferred taxes,
- Public subsidies received.

When the Group operates in countries where the tax rate is significantly lower than the French tax rate, it is able to demonstrate that it carries on a genuine banking and financial activity in those countries and that it has real economic substance there (technical expertise, personnel, and material resources specific to its business).

The Crédit Agricole SA Group fulfils its obligations with regard to the exchange of information, which are set up in France and abroad with a view to providing the tax authorities of the countries concerned with complete and relevant information to combat tax avoidance and evasion.

The Crédit Agricole S.A. Group’s tax policy reflects its commitment to social responsibility.

The Group pays the taxes and duties legally due in the States and territories in which it operates. applies the arm’s length principles in relations between Group entities, as well as a transfer pricing policy that complies with the principles laid down by the OECD and the regulations applicable in each country.

To put our situation in perspective, it should be noted that the Group Crédit Agricole SA has paid a total tax burden equal to 7 238M€ between 2017 and 2019.

All operations and transactions carried out by the Crédit Agricole S.A. Group correspond to transactions with real economic substance. The Group does not carry out any transactions primarily for tax purposes and does not seek to avoid tax through “artificial” structures located in tax havens.

The Group undertakes not to set up or offer its clients tax avoidance operations. Crédit Agricole does not provide any assistance or encouragement to customers to infringe tax laws and regulations, nor does it facilitate or support transactions where tax efficiency for the customer is based on the non-disclosure of facts to the tax authorities.

This having been recalled, concerning the two cases to which you draw our attention, namely Mauritius and the United Arab Emirates, we have the following remarks:

GSA LTD is a Mauritius company, 100% owned by CALEF a French leasing and factoring entity which is 100% by Credit AgricoleS.A. GSA LTD is a service provider, more precisely a telephone platform for debt collection and administrative processing. The turnover of GSA Ltd is 3,5 millions€, the company employs locally 122 Full Time Equivalent in 2019.

Mauritius has signed the agreement for the automatic exchange of information with a first application from September 2018.

The Crédit Agricole SA group has been present in the United Arab Emirates for several years where it has developed an investment banking and asset management activities. In 2019, the number of employees of the group was 101 full-time equivalent. These activities are carried out in accordance with the laws in force in the United Arab Emirates."

HSBC HOLDINGS

1. At least 29 out of the 39 banks declare high profits in jurisdictions where they do not employ anyone

Our research reveals numerous cases where banks reported economic activity in jurisdictions where they employed no staff whatsoever. Over the 5 years since the legislation came into force, banks' annual reports revealed 210 instances of activity in countries where the companies simultaneously declared having no employees.

The top three banks for either number of 'ghost operations' or volume of profits made there are UniCredit, HSBC and Société Générale. The jurisdiction where banks' activity is most frequently run by 'ghosts' is the Cayman Islands, while Malta holds the top spot in Europe.

HSBC COMMENT

The only country in which HSBC reports no employees is Saudi Arabia. Please refer to comments to point 2 below.

2. At least 15 out of the 39 banks receive significant tax relief in several African and Middle Eastern countries

Alongside the most well-known destinations for tax purposes, such as many Caribbean islands and a number of selected European countries, our research confirms that 'new' jurisdictions have been on the rise. Our analysis suggests that large banks may have received significant tax relief in several countries in Africa and the Middle East. The top three countries where this trend is most notable in these regions are Mauritius, Saudi Arabia, and the United Arab Emirates:

- in each reporting year, HSBC recorded profits of at least €350 million in Saudi Arabia, while documenting neither turnover or employees.

HSBC COMMENT

during the period under review, HSBC's only interests in Saudi Arabia are via Joint Ventures (JVs). Accounting standards require HSBC's share of the after-tax results of JVs to be reported as a single financial statements line item within profit before tax. This is why profit, but no turnover, is reported. Profits generated by the JVs are subject to tax in Saudi Arabia. HSBC does not have any employees in Saudi Arabia; employees of the JVs are not employees of HSBC or any of the other JV partners.

3. Jersey

The most common offshore destination of our sample of banks is actually located in Europe. In 2018, Jersey, the British Crown Dependency populated by around 100,000 people, registered larger profits from multinational banks than Albania, Bosnia and Herzegovina, Greece, Macedonia, Moldova, Montenegro and Slovenia combined. With the total value of profits declared in the island over the period 2015 - 2019 exceeding €1.6 billion, Jersey is the most attractive minimum tax rate jurisdiction for European banks not only in terms of frequency of use, but also in terms of volume of shifted income. Perhaps unsurprisingly, almost 93% of this value is made of profits from five British banks – RBS, Barclays, HSBC, Lloyds and Standard Chartered.

HSBC COMMENT

HSBC has normal commercial banking operations in Jersey, in respect of which HSBC is required to, and does, hold a banking licence. HSBC's activities in Jersey are not motivated by any tax considerations.

4. Ghost operations

One of the most disturbing findings in our analysis is the widespread phenomenon of "ghost" operations. On numerous occasions banks disclosed having some economic activity (that is, either some volume of turnover or profit) in jurisdictions where they employed no staff whatsoever. Over the 5 years since the legislation came into force, banks' annual reports revealed 210 instances of activity in countries where the companies simultaneously declared zero employees.

A high volume of profits generated in 'ghost jurisdictions' was found in HSBC's country-by-country disclosures. Since 2015, the bank has made a net profit of €1.6 billion in only one of its subsidiaries despite declaring no employees there. This country is Saudi Arabia.

HSBC COMMENT

Refer to answer to point 2, above.

5. Saudi Arabia

Despite five different European banks having their operations registered in Saudi Arabia, a closer look at the data reveals that only two banks are responsible for the overwhelming majority of this activity – HSBC and Royal Bank of Scotland. Both of the banks record profits exceeding €1.52 billion, but do not have any employees in the country. Declaring profits comparable with those made in Canada, Singapore or France, HSBC's activity in Saudi Arabia is striking for reasons beyond having no staff. In spite of its large profits amounting to at least €350 million in every reporting year, the bank always reported zero turnover. The overall figure of zero income tax paid in the jurisdiction in all years completes the picture of an exemplary case of profit shifting.

HSBC COMMENT

Refer to answer to point 2, above.

6. Tax planning patterns emerge when focusing on banks' behaviour in their country of headquarters.

Differences between how much some banks declare in profits in the country of their headquarters and the rest of their operations can be shocking. This gap between profits booked "at home" and elsewhere has been steadily present during all reporting years. Among British banks, the most astonishing case is that of HSBC in 2018. The bank reportedly profited only 3 cents from each euro earned in its home country, the United Kingdom, which is 10 times less than the bank's average in all of its 61 countries of operation.

HSBC COMMENT

HSBC has both significant banking operations and head office functions in the UK. The banking operations are profitable and pay tax, as shown in your data.

The head office functions of HSBC are material, as would be expected given the size of the group, and record a significant loss before tax each year, in line with many holding companies once intercompany dividend income is eliminated. The costs of the head office broadly consist of three categories:

- *Financing costs from external debt issuances used to fund the operating businesses;*
- *Operating expenses associated with the head office activities; and*
- *Bank levy (approximately $1bn per annum), a UK tax which is not accounted for within the tax expense line of the financial statements and is therefore not within the scope of 'tax' for country by country reporting purposes. This cost is retained in the UK as it is a UK tax.*

Where HSBC identifies that costs retained in the UK for accounting purposes do not meet the strict arm's-length test required for tax purposes, adjustments are made in the applicable UK tax returns such that these costs are treated as non-deductible for tax.

7. Mauritius

The African hotspot for tax affairs management is located a few thousand kilometres to the south-east, in Mauritius. This small island in the Indian Ocean has recently become the main subject of the latest tax scandal, the Mauritius Leaks. Selling itself as the 'gateway' to the developing world, Mauritius offers incoming corporations and individuals low tax rates as well as tax treaty abuse allowing them to keep their tax obligations in many African states to a minimum, such as allowing companies to avoid paying capital gains tax.

The island's reputation did not escape the attention of the banking sector. Eight European banks disclosed having active operations in Mauritius in at least one of the years between 2015 and 2019. These are Barclays, Credit Agricole, Deutsche Banks, BPCE, HSBC, ING, Rabobank, Société Générale and Standard Chartered.

HSBC COMMENT

HSBC has normal commercial banking operations in Mauritius, in respect of which HSBC is required to, and does, hold a banking licence. HSBC's activities in Mauritius are not motivated by any tax considerations."

LLOYDS BANKING GROUP

"As a responsible business, Lloyds Banking Group shares the public interest that 'big business' contributes its fair share to the societies in which it operates, and equally we understand that our investors want assurance that the value created by the Group is underpinned by appropriate, prudent and tax transparent behaviour. This is why each year, when we publish our *Tax Strategy*, we go beyond the minimum transparency disclosures required by CRD IV and HMRC legislation. Our tax strategy document sets out not only where profits arise but also how and where they are taxed: https://www.lloydsbankinggroup.com/globalassets/our-group/responsible-business/reporting-centre/lloyds-banking-group-tax-strategy-2019.pdf

In relation to your specific area of interest: as a UK-focussed Group, our Jersey and other Channel Islands business represents only a small fraction of the profits made by the Group each year. We employ 765 staff in the Islands, who operate a bank branch network and mobile and online banking services across the Islands providing savings, loans and mortgage opportunities for retail customers, and delivering commercial banking solutions for our business customers. Like all of our businesses, the Channel Islands are subject to the requirements of our Tax Policy that we comply with both the letter and spirit of tax law, and that we do not seek to achieve tax avoidance outcomes for either ourselves or our customers.

Thank you also for sharing the results of your web scrape of our CRD IV disclosures for the last 5 years. It seems there is some data that has not successfully been picked up, so I have corrected the analysis (using the implied EUR translation rates in your data file, or the ECB website rates where that was not possible) in order to ensure you have a complete data set for your valuable contribution to the transparency debate. (Corrections are highlighted in green in the file attached.)"

OP FINANCIAL GROUP

"Please accept our apologies for coming back to you so late, and thank you for the possibility to comment on your findings. Please find attached the revised figures for OP Financial Group and OP Corporate Bank plc, based on our Financial Statements. The new or amended parts of the table are marked with green. It seems that the previous figures were mainly only from OP Corporate Bank plc (previously Pohjola Bank plc), which is only a part of OP Financial Group. Thus, we have added an extra row for the total figures of OP Financial Group. The Group consists of approximately 140 OP cooperative banks and their central cooperative with its subsidiaries (including OP Corporate Bank plc) and closely related companies.

OP Financial Group is Finland's largest financial services group, and one of the largest taxpayers in Finland. Most of our profits and taxes are accrued and paid in Finland. All OP cooperative banks pay their corporate tax locally in their operating region in Finland. Only OP Corporate Bank plc has branch offices in Estonia, Latvia and Lithuania, too.

The EU's Capital Requirements Directive IV is applied in the Finnish legislation (Act on Credit Institutions) so that country-by-country data is required only for foreign countries. This is the reason why the note Information by country (Note 46 in OP Financial Group's Financial Statements for 2019) only includes information outside Finland, excluding most of OP's business operations.

Act on Credit Institutions, Chapter 10, Section 12:

A credit institution shall publish information concerning its financial position as provided in Part Eight of the Capital Requirements Regulation.

In addition to the provisions of subsection 1, a credit institution shall, unless provisions on similar obligation are laid down elsewhere in law, notify in connection with its annual accounts ***for each foreign state*** *in which the credit institution or its holding company has a branch or a subsidiary:*

1) *the host Member State of the branch or subsidiary, names of the subsidiaries and the nature of the business operations carried out in the host Member State;*
2) *the aggregate amount of business profits referred to in paragraph 1;*
3) *the aggregate amount in man-years of personnel in the business operations referred to in paragraph 1; 89(166)*
4) *the aggregate amount of pre-tax profit or loss;*
5) *the aggregate amount of income tax concerning the financial period;*
6) *the aggregate amount of public capital subsidy received and the aggregate amount of loans and guarantees issued by public corporations.*

If a credit institution or its holding company has at least one branch and one subsidiary or at least two subsidiaries in the host country referred to in subsection 2, from the aggregate amount referred to in subsection 2, paragraphs 2 and 4 shall be deducted any significant profits gained and costs incurred from the business transactions between the group companies operating in the host Member State.

The financial reports for OP Financial Group are available here: https://www.op.fi/web/raportit/op-financial-group-publications

The financial reports for OP Corporate Bank are available here: https://www.op.fi/web/raportit/op-corporate-bank-publications

More information about our tax footprint can be found in OP Financial Group's Annual Review for 2019: https://www.op-year2019.fi/pdf/OP_Financial_Group_Year_2019.pdf, page 42.

In addition, we have published our income tax information (according to the calculations of the Finnish Tax administration) annually by press releases: https://www.op.fi/op-financial-group/media/bulletins?id=3469035_PRC.

Again, let me apologise for not replying to your inquiries earlier in the summer. I hope this clarifies the logic behind our financial reporting, the governing legislation and the way our operations are focused in Finland and our corporate tax paid in Finland. Please let us know if any further questions arise."

KFW IPEX

"Thank you for your message and the invitation to comment on your forthcoming report. Indeed, we would like to bring to your attention that your current draft includes misleading statements or representations.

As correctly stated in the quoted Oxfam report "KfW Group is a state-owned bank that fulfills a public interest mission and has a particular status, with the exception of one of its subsidiaries, KfW IPEX. KfW IPEX is a legally and financially independent entity competing with commercial banks and therefore subject to the same banking regulation, including public country-by-country reporting. This research takes into account KfW IPEX's activities only."

The figures submitted by your message also refer to KfW IPEX only and not KfW or KfW Group. However, the submitted draft then wrongfully refers to KfW. The quoted 'particular status' of KfW is given by KfW Law, which i. a. determines KfW's tasks on behalf of the German government and its exemptions from taxes. Profits of KfW are be reinvested for its public interest mission and must not be distributed to its shareholders.

KfW IPEX is responsible for export finance and project finance in accordance with European competition law. As referenced, it is competing with commercial banks and therefore subject to the same regulation including taxes and reporting. Since KfW IPEX is wholly owned by KfW, profits are used to support the public interest mission of KfW.

With total assets of less than 30 bn EUR, KfW IPEX has never been even close to be among the largest European banks. This is also represented in the chart of the Corporate Tax Tracker 2015 that shows significant lower volumes for KfW IPEX compared to the large European banks. Also, as shown in the submitted and unlike other large European banks, KfW IPEX has a very limited scope of international subsidiaries (i.e. German Headquarters plus UK branch). Hence, the comparison might appear flawed to other readers.

In conclusion, we suggest that adding KfW IPEX to the report does not necessarily strengthen its intended argument, as KfW IPEX is neither a good comparison to the other banks in the survey nor an example of deferred tax effects. The described effects between 2015 and 2016 resulted from a reorganization of the holding structure. Given a Profit and Loss Transfer Agreement and a fiscal unit for income tax purposes between KfW IPEX and its holding entity, taxes are now effective on the level of the holding."

NORDEA GROUP

"In the table, I noticed you refer to Nordea as "Nordea Bank AB, Sweden".

Nordea re-domiciled the parent company of the Nordea Group and moved headquarter from Sweden to Finland in October 2018. As part of the re-domiciliation Nordea Bank Abp replaced Nordea Bank AB as the parent company of the Nordea Group.

Perhaps "Nordea Group, Finland" could be more convenient way to refer to Nordea in the table?"

RABOBANK

"We hereby respond to your email to Rabobank dated September 17 regarding an upcoming report on corporate tax transparency.

We note that you refer to Rabobank in relation to a presence in Mauritius, and subsequently refer to Mauritius in connection to investments in Africa. As stated in our tax policy statement (https://www.rabobank.com/nl/images/tax-policy-statement-rabobank-2019.pdf) the Rabobank subsidiary in Mauritius is linked to historic investments in Food & Agri funds in India dating back to 2008. There is no connection whatsoever to investments or activities in Africa.

In addition we note that your report is based on 2015 data, while Rabobank annually publishes a country-by-country report as part of its annual reporting, lastly in the 2019 annual report. "

SOCIÉTÉ GÉNÉRALE

"Please find below Société Générale's feedback to the documents received on September 17th.

Transparency International Statements # 1 and # 2:

1. **"At least 29 out of the 39 banks declare high profits in jurisdictions where they do not employ anyone.**

   Our research reveals numerous cases where banks reported economic activity in jurisdictions where they employed no staff whatsoever. Over the 5 years since the legislation came into force, banks' annual reports revealed 210 instances of activity in countries where the companies simultaneously declared having no employees.

The top three banks for either number of 'ghost operations' or volume of profits made there are UniCredit, HSBC and Société Générale. The jurisdiction where banks' activity is most frequently run by 'ghosts' is the Cayman Islands, while Malta holds the top spot in Europe."

2. "Ghost operations

One of the most disturbing findings in our analysis is the widespread phenomenon of "ghost" operations. On numerous occasions banks disclosed having some economic activity (that is, either some volume of turnover or profit) in jurisdictions where they employed no staff whatsoever. Over the 5 years since the legislation came into force, banks' annual reports revealed 210 instances of activity in countries where the companies simultaneously declared zero employees.

A closer look into CBCR reports of the French banking giant Société Générale exposes frequent 'ghost' activities. The bank has reported positive profits but no staff in 22 operations over the years, including countries like Bermuda, Curacao, Cyprus, Hungary, Lebanon or Ukraine. Not only did Société Générale not pay any employee costs in relation to these earnings, it also paid a minimum tax bill on the profits, just 2.3 per cent."

SOCIÉTÉ GÉNÉRALE COMMENTS

Those statements are flawed.

1. As defined in the section "Information about geographic locations and activities" of our Universal Registration Documents, the number of employees reported by country is prepared in accordance with the following accounting rules:

    - This aggregate is reported at closing date while the NBI or the profit before tax are reported pro-rata temporis of an entity presence in the consolidation Group during the fiscal year. Consequently, all the countries which entities were sold or liquidated during a particular fiscal year will report a share of their NBI and profit while displaying 0 employees.
    - Entities accounted for by the equity method only contribute to the Group net income. This accounting rule explains why no contribution to the number of employees, NBI or corporate tax is displayed.

In the light of those accounting rules, the figures displayed for the jurisdictions concerned must therefore not be interpreted as countries generating profits without employees. It is important to note that these rules have a major impact on the figures reported since ~ 80% of the countries displaying a positive profit without employees over the 5-year period are explained by entities accounted for by the equity method or by entities sold or liquidated during the year:

- Profitable jurisdictions displaying no employees (period FY15 – FY19) with entities accounted by the equity method: Estonia, Hungary, Latvia, Lebanon, Lithuania, Ukraine. The method used (Full or not) is available entity by entity in our Universal Registration Documents.
- Profitable jurisdictions displaying no employees (period FY15 – FY19) with entities sold or liquidated during the year: Albania, Georgia, Moldova, Montenegro, North Macedonia

Indeed, over the 5-year period, only 3 jurisdictions are not concerned by the 2 above detailed cases: Bermuda, Curaçao and Cyprus:

- Regarding Bermuda, the entity is a reinsurance company which for legal reasons is resident in Bermuda (like many reinsurance companies). However, the entity is owned by a holding company in France and its activity is carried out from France. Thus, there is no employees recorded locally and the results of this entity have always been declared and taxed in France (in application of Article 209 B of the French General Tax Code).
- Regarding Curaçao, the entity is an EMTN and warrants issuance structure of the Group, resident in Curaçao for regulatory reasons. This structure is in run-off and has not carried out new issuances since January 2016. The results of the structure have always been taxed in France in application of Article 209 B of the French General Tax Code.
- Regarding Cyprus, the local entity was an investment vehicle that was deconsolidated in 2016 and liquidated in 2017.

2. Regarding the profits recorded in the "22 operations" underlined in statement #2, in which "the bank has reported profits but no staff".

   218M€ of profits have been cumulatively recorded by the 22 "operations" underlined in your statement #2 over the period FY15-FY19. 76% of this profit (166M€) was generated by entities accounted for by the equity method, liquidated or sold during i.e. by jurisdictions that have local employees.

   The other cumulated 52M€ corresponds to 0,18% of the overall profit generated by the Group during the period, which cannot be referred as "high profits" or material from our view, given the size of our Group. This profit is mostly attributable to Bermuda and Curacao and was taxed in France as previously explained.

   To be noted that Cayman Islands and Malta, two jurisdictions highlighted in your statement #1 as "top spots" for banks "ghost" activities, generated no profit for the Group over the last 5 fiscal years.

   Regarding the tax rate of 2.3% mentioned in your statement #2, please note that this indicator does not provide an accurate vision of the current taxes effectively supported by the jurisdictions concerned for the following reasons:

   - This calculation does not take into account that the 119M€ of profits generated by entities accounted for by equity method are already reported after tax. This accounts for > 55% of the profits considered in the tax rate calculation that your organization displays on that matter
   - This calculation does not take into account the amounts of current taxes incurred by Bermuda and Curacao which are both taxed in France as explained above.

Transparency International Statement # 3:

3. "Mauritius

The African hotspot for tax affairs management is located a few thousand kilometres to the south-east, in Mauritius. This small island in the Indian Ocean has recently become the main subject of the latest tax scandal, the Mauritius Leaks. Selling itself as the 'gateway' to the developing world, Mauritius offers incoming corporations and individuals low tax rates as well as tax treaty abuse allowing them to keep their tax obligations in many African states to a minimum, such as allowing companies to avoid paying capital gains tax.

The island's reputation did not escape the attention of the banking sector. Eight European banks disclosed having active operations in Mauritius in at least one of the years between 2015 and 2019. These are Barclays, Credit Agricole, Deutsche Bank, BPCE, HSBC, ING, Rabobank, Société Générale and Standard Chartered."

SOCIÉTÉ GÉNÉRALE COMMENTS

As publicly disclosed through our Universal Registration Documents, the local entity of our Group in Mauritius did not generate any profits over the 5-year period on which your report is based (fiscal year 2015 to 2019).

This local entity is a supervision holding of our securities activity in India. A study is in its preliminary phase to identify the diverse available options which could lead to closure of the entity.

Transparency International Statement # 4:

4. "Reporting anomalies

The analysis of CBCR data of the 39 European banks reveals that the way banks disclose their data is sometimes not complete and sometimes even incorrect. At least four banks, including Société Générale, did not properly break down their financial information for each jurisdiction of operation, despite it being a requirement of the Directive.

Instead of disclosing the full list of their jurisdictions with the corresponding financial results, we have found some banks to include a footnote or a disclaimer next to the report simply stating that some of the reported profits include money from other non-listed jurisdictions.

This practice undermines the integrity of the data and the overall purpose of country-by country reporting, as the financial activity of misreporting banks is not fully disclosed. As the overwhelming majority of these incorrectly disclosed cases were in jurisdictions that have a reputation as tax havens, doubts arise to whether this is not a manoeuvre by banks to avoid reporting their profit shifting activity in full. Such information included in the footnotes is difficult to spot and it rarely contains any figures, making it easy for a reader to overlook a bank's presence in the Cayman Islands or Singapore, and even impossible to quantify the size of those operations."

SOCIÉTÉ GÉNÉRALE COMMENTS

Société Générale firmly refutes the above statement on a supposed misreporting, incompleteness, incorrectness or any other similar allegation regarding the respect of its Country-by-Country regulatory obligations.

The information publicly reported in the section "2.11. Information about geographic locations and activities" is prepared under International Financial Reporting Standards (IFRS) valuation and presentation and in full accordance with the EU's Capital Requirement Directive IV (CRD IV). This information provides, without any exception, the complete perimeter of jurisdictions in which the Group holds consolidated entities along with their associated aggregated financial, tax or accounting data. There is no such thing as "non-listed jurisdiction" or financial information grouping from one jurisdiction to another.

The accompanying footnotes to the country by country report section of our URD provide additional information on certain jurisdictions which income is taxed abroad and on accounting standards applying to shared services centers. Those explanations are voluntarily provided to better understand and interpret the information displayed in those jurisdictions.

As an example, in compliance with article 209 B of the French General Tax Code, the income, if any, of our entities located in Bermuda and Curaçao has always been taxed in France at a higher tax rate. This information provides a deeper understanding of the level of current taxes displayed in our report for those jurisdictions and do not have any link with data integrity, misreporting or any profit inclusion from a supposed non-listed jurisdiction to another.

In a comprehensive approach, below is the list of all the jurisdictions affected by a footnote or a disclaimer over the 5-year period on which your report is based: Bermuda, Curaçao, Cayman Islands and India.

All the above jurisdictions have been included in the country-by-country report along with the full disclosing of their financial and tax information (URD 2016 – p60-62 ; URD 2017 – p. 64-66 ; URD 2018 – p. 68-70 ; URD 2019 – p.62–64 ; URD 2020 – p. 65-67). In addition, the complete list of the entities operating in these countries is also published in the appendices to the consolidated financial statements of the previously mentioned documents ("Note 8.6 – Companies included in the consolidation scope") along with detailed information (activity, consolidation method, Group ownership interest, Group voting interest).

Consequently, concluding that the jurisdictions mentioned in our supporting footnotes are not properly listed in our report or that their associated financial information is misreported is erroneous."

STANDARD CHARTERED

"Thank you for your email drawing our attention to the upcoming report and Corporate Tax tracker tool which looks like a helpful visualisation tool for country by country reporting. We appreciate the opportunity to respond to your findings.

Effective tax rate, zero

As you note in 2019 we did not pay corporate tax in the UK. The reason for this is that the UK profit of Euro 795 million profit in the UK includes Euro 1,944 million of dividends received from our non-UK subsidiaries. These dividends are paid out of their local income after paying local tax and in common with most tax systems globally, the UK does not tax foreign dividends as that would tax the same profits twice. So our UK operations actually made a loss of Euro 1,149 million and therefore did not pay UK corporate tax. We do though make an important contribution to UK economy as you will see from the bank levy of Euro 308 million and other taxes of Euro 102 million paid in the UK in our country by country disclosure.

As this is not an example of the practices you are seeking to illustrate we should be grateful if you would remove this comment.

Reporting anomalies

We agree with your view that the approach to country by country reporting should keep in mind the purpose of the legislation.

The Directive requires the break down of financial information for each jurisdiction of operation. We have a small number of entities that are not incorporated in the same jurisdiction as where they are managed and controlled. For these entities, their jurisdiction of operation is where they are managed and controlled and that is where we disclose their financial results. Their tax status in the jurisdiction where they are managed or controlled is no different to that of a locally incorporated entity carrying on the same activity.

This is compliant with the Directive. Importantly it is also consistent with the purpose of the directive in ensuring the integrity of the data set for the jurisdiction of operation so that users of the data are able to compare across tax paid to, profitability of and employees in that jurisdiction. We would be grateful if you would reflect this in your findings or remove the reference to Standard Chartered in this section.

Jersey and Mauritius

As you note we have businesses in Jersey and Mauritius. They are long-standing and respected parts of the Standard Chartered franchise. Over the period 2015 to 2019, they comprise about 0.3% of employees, 0.7% of turnover and contribute a net loss to the group's results.

In Jersey we offer a wide range of products and services which include Private and Priority Banking Services; Credit; Investment Opportunities and Treasury Solutions; underpinned by a qualified team of Relationship Managers and Client Advisors. Jersey is a location with deep-rooted ties to our footprint markets. With wide industry knowledge, Jersey is regarded as one of the most developed and well-regulated financial centres in the world and Standard Chartered is one of Jersey's most well established institutions, with a presence spanning over 40 years.

Our Mauritius bank is licensed and regulated by the Bank of Mauritius and headquartered in Cybercity, Ebene with around 80 employees. It offers Transactional Banking, Corporate Finance and Financial Market services and provides financing to a diverse client base which includes subsidiaries of large corporations, public sector and development organisations and bank and non-bank financial institutions.

We should be grateful if you would reflect our feedback on our UK tax position and reporting approach in your report and please let us know if any further clarifications are required on these points. Otherwise we look forward to your website re-launch."

SWEDBANK

"I was wondering whether you were able to help me answer whether the numbers you sent in the excel file are in euros and what the source of the information is? We have these kinds of numbers available publicly on our website, but in Swedish kronor. It would be great to know what exchange rate you used, so that we can double check against the information that we have."

UNICREDIT

"I would like to underline at first that UniCredit is absolutely committed to preventing tax avoidance or facilitation thereof. We have in fact a zero tolerance approach towards the violation of all internal and external rules governing this topic.

We have carefully reviewed the report findings you shared with us and we have come to the conclusion that apparently there is a misinterpretation of data that led to conclusions that are not correct.

In fact, the 1.6 billion Euros profits that are mentioned in your report are for more than 98% referred to the profits attributable to the Joint Venture that UniCredit held in Turkey with Koç Group for the years from 2015 to 2019. Such Joint Venture was held through a stake of 40.95% in Koç Group, whose assets were basically:

- the financial institution Yapi Kredi Bankasi located in Turkey, and
- other minor shareholdings held in Malta and the Netherlands.

According to the XLS file "UniCredit SpA" submitted to our attention, the overall profit attributable to the joint-venture held with the Turkish Koç Group, for the years 2015-2019, was equal to 1.514 €/million. Such amount represents in fact 98% of the overall amount of 1.547 €/million that, according to your assumptions, resulted from entities with zero employees.

Please note that the stake in Koç Group was held until the 4th quarter of 2019 and was consolidated in UniCredit with the Net Equity consolidation in alignment with IFRS 11, which, starting from 1st January 2014, eliminated the option to consolidate joint controlled entities proportionally and imposed the net equity method for all joint-ventures.

To this regard, it is worth mentioning that - in UniCredit "Country-by-country" reporting (CBCR) - the total number of employees is allocated among the home countries of the entities which are consolidated line-by-line (which means that employees belonging to entities consolidated through the Net Equity method, such as the Turkish Joint Venture also having minor operations in Malta and the Netherlands, are not reported in the CBCR).

The residual (around 2%) amount of profit attributed to entities with zero employees, refers mainly to revenues generated by the UniCredit S.p.A. foreign branches, whose employees are reported under the Italian Parent Company. For these reasons, the CBCR indicates zero employees in (e.g.) France, Spain and the United Kingdom.

We are sure that these features help clarifying the circumstances leading to the conclusions of your report, which, as said at the beginning, does not correctly represent our operations for the past years.

We would be happy to organize a call in the coming days in order to start a fruitful relationship with you, and in that occasion we could also discuss in more detail our approach towards transparency and business ethics, which are an essential part of the way we are running and intend to run our business: "Ethics and Respect: do the right thing!"."

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