TAXATION

	2013 £m	2012[1] £m	2011[1] £m
UK corporation tax:			
Current tax on profits for the year	**(226)**	(181)	(93)
Adjustments in respect of prior years	**(205)**	58	(146)
	(431)	(123)	(239)
Double taxation relief	**–**	–	–
	(431)	(123)	(239)
Foreign tax:			
Current tax on profits for the year	**(60)**	(86)	(90)
Adjustments in respect of prior years	**26**	(8)	36
	(34)	(94)	(54)
Current tax charge	**(465)**	(217)	(293)
Deferred tax	**(752)**	(564)	290
Taxation charge	**(1,217)**	(781)	(3)

[1] Restated – see note 1 on page F-11.

2013 COMPARED WITH 2012

The rate of tax is influenced by the geographic and business mix of profits. The Group’s tax charge or credit is distorted, in particular, by the requirement to include, within income tax in the income statement, the tax attributable to UK life insurance policyholder earnings and the Group’s interests in Open Ended Investment Companies.

In 2013, a tax charge of £1,217 million arose on the profit before tax of £415 million and in 2012 a tax charge of £781 million arose on the loss before tax of £606 million. The statutory corporation tax rates were 23.25 per cent for 2013 and 24.5 per cent for 2012.

The tax charge in 2013 reflected a higher effective rate than the UK statutory rate due to the impact on the Group’s net deferred tax asset of the reductions in the UK corporation tax rate that will come into effect in 2014 and 2015 and the sale of the Australian business during the year; together with the effect of policyholder taxes in the insurance businesses.

Reductions in the enacted UK corporation tax rates to 21 per cent with effect from 1 April 2014 and 20 per cent with effect from 1 April 2015 (2012 to 23 per cent) led to an additional deferred tax charge in both 2013 (£594 million) and 2012 (£320 million) on the revaluation of the Group’s deferred tax asset.

The sale of the Group’s Australian operations led to an additional deferred tax charge of £348 million in 2013 reflecting the write-down of a deferred tax asset in respect of Australian trading losses.

2012 COMPARED WITH 2011

In 2012, a tax charge of £781 million arose on the loss before tax of £606 million and in 2011 a tax charge of £3 million arose on the loss before tax of £551 million. The statutory corporation tax rates were 24.5 per cent for 2012 and 26.5 per cent for 2011.

The Finance Act 2012 introduced a new UK tax regime for life insurance companies from 1 January 2013. The impact of these new rules is reflected in the deferred tax balances at 31 December 2012. The consequence of these changes, combined with current economic forecasts, resulted in a debit of £780 million to the tax charge. In 2011, without the change in tax regime, there was a £146 million debit in respect of derecognition of deferred tax on policyholder tax credits.

Reductions in the enacted UK corporation tax rates to 23 per cent (2011 to 25 per cent) led to an additional deferred tax charge in both 2012 (£320 million) and 2011 (£423 million) on the revaluation of the Group’s deferred tax asset.

LINE OF BUSINESS INFORMATION

The requirements for IFRS segmental reporting are set out in IFRS 8, *Operating Segments* which mandates that an entity's segmental reporting should reflect the way in which its operations are viewed and judged by its chief operating decision maker. As a consequence, the Group's statutory segmental reporting follows the underlying basis as explained below (see also note 4 to the financial statements).

The Group Executive Committee, which is the chief operating decision maker for the Group, reviews the Group's internal reporting based around these segments (which reflect the Group's organisational and management structures) in order to assess performance and allocate resources. The segments are differentiated by the type of products provided, by whether the customers are individuals or corporate entities and by the geographical location of the customer and the performance assessment includes a consideration of each segment's net interest revenue; consequently the total interest income and expense for all reportable segments is presented on a net basis. The internal reporting is on an underlying profit before tax basis. The Group Executive Committee believes that this basis better represents the underlying performance of the Group. IFRS 8 requires that the Group presents its segmental profit before tax on the basis reviewed by the chief operating decision maker that is most consistent with the measurement principles used in measuring the Group's statutory profit before tax. Accordingly, the Group presents its segmental underlying basis profit before tax in note 4 to the financial statements.

The aggregate total of the underlying basis segmental results constitutes a non-GAAP measure as defined in the United States Securities and Exchange Commission's Regulation G. Management uses aggregate underlying profit before tax, a non-GAAP measure, as a measure of performance and believes that it provides important information for investors because it is a comparable representation of the Group's performance. Profit before tax is the comparable GAAP measure to aggregate underlying profit before tax. The table below sets out the reconciliation of this non-GAAP measure to its comparable GAAP measure.

At 31 December 2013 the Group's activities were organised into four financial reporting segments: Retail; Commercial Banking; Wealth, Asset Finance and International; and Insurance.

Comparative figures have been restated for the accounting policy changes explained in note 1 on page F-11.

Comparisons of results on a historical consolidated statutory basis are dominated by the impact of the acquisition of HBOS and the effects of the unwind of fair value adjustments made to the HBOS balance sheet on acquisition. In order to provide more meaningful and relevant comparatives, the results of the Group and divisions are presented on an 'underlying' basis. The key principles adopted in the preparation of the underlying basis of reporting are described below.

- In order to reflect the impact of the acquisition of HBOS, the following have been excluded:
  - the amortisation of purchased intangible assets; and
  - the unwind of acquisition-related fair value adjustments.
- The following items, not related to acquisition accounting, have also been excluded from underlying profit:
  - the effects of certain asset sales, liability management and volatile items;
  - integration, simplification and EC mandated retail business disposal costs;
  - volatility arising in insurance businesses;
  - insurance gross-up;
  - the payment protection insurance provision;
  - other regulatory provisions; and
  - certain past service pensions charges and credits in respect of the Group's defined benefit pension schemes.

Readers should be aware that the underlying basis has been presented for comparative purposes only and is not intended to provide proforma information or show the results of the Group as if the acquisition of HBOS had taken place at an earlier date.

The results of the businesses are set out below on the underlying basis:

	2013 £m	2012[1] £m	2011[1] £m
Retail	**3,749**	3,188	2,749
Commercial Banking	**1,575**	(324)	(812)
Wealth, Asset Finance and International	**(42)**	(929)	(2,785)
Insurance	**1,090**	1,107	1,465
Group Operations and Central items:			
Group Operations	**(57)**	(51)	(56)
Central items	**(149)**	(426)	(132)
	(206)	(477)	(188)
Underlying profit before tax	**6,166**	2,565	429

[1] Restated – see note 1 on page F-11.

Reconciliation of underlying profit to statutory profit (loss) before tax for the year

	Note	2013 £m	2012[1] £m	2011[1] £m
Profit before tax – Underlying basis		**6,166**	2,565	429
Asset sales	1	**(687)**	(660)	88
Sale of government securities	2	**787**	3,207	196
Liability management	3	**(142)**	(229)	1,295
Own debt volatility	4	**(221)**	(270)	248
Other volatile items	5	**(457)**	(478)	(986)
Volatility arising in insurance businesses	6	**668**	312	(838)
Fair value unwind	8	**(228)**	650	1,206
Integration, simplification and EC mandated retail business disposal costs	9	**(1,517)**	(1,246)	(1,452)
Payment protection insurance provision	10	**(3,050)**	(3,575)	–
Other regulatory provisions	11	**(405)**	(650)	(175)
Past service pension (charge) credit	12	**(104)**	250	–
Amortisation of purchased intangibles	13	**(395)**	(482)	(562)
Profit (loss) before tax – Statutory		**415**	(606)	(551)

[1] Restated – see note 1 on page F-11.

1. Asset sales
Asset sales comprise the gains and losses on asset disposals (2013: losses of £687 million; 2012: losses of £660 million; 2011: gains of £88 million), principally of assets which were outside of the Group’s risk appetite.

2. Sale of government securities
These reflect gains on bond sales (2013: £787 million; 2012: £3,207 million; 2011: £196 million) as the Group has taken the opportunity afforded by the continuing low interest rate environment to reposition its holdings of available-for-sale government securities.