TAXATION

	2014 £m	2013 £m	2012 £m
UK corporation tax:			
Current tax on profits for the year	**(162)**	(226)	(181)
Adjustments in respect of prior years	**213**	(205)	58
	51	(431)	(123)
Foreign tax:			
Current tax on profits for the year	**(39)**	(60)	(86)
Adjustments in respect of prior years	**3**	26	(8)
	(36)	(34)	(94)
Current tax credit (charge)	**15**	(465)	(217)
Deferred tax	**(278)**	(752)	(564)
Taxation charge	**(263)**	(1,217)	(781)

2014 COMPARED WITH 2013

In 2014, a tax charge of £263 million arose on the profit before tax of £1,762 million and in 2013 a tax charge of £1,217 million arose on the profit before tax of £415 million. The statutory corporation tax rates were 21.5 per cent for 2014 and 23.25 per cent for 2013.

The tax charge for the 2014 represented an effective tax rate of 15 per cent. The effective tax rate was lower than the UK corporation tax rate largely as a result of tax exempt gains on sales of businesses and a lower deferred tax liability in respect of the value of in-force assets for the life business partially offset by the effect of non-deductible expenses.

The high tax charge in 2013 was driven by the write down of deferred tax assets following the changes in corporation tax rates and the sale of the Australian business.

2013 COMPARED WITH 2012

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.

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.

Following a reorganisation in 2014, the Group's activities are now organised into five financial reporting segments: Retail; Commercial Banking; Consumer Finance; Insurance and TSB. Comparatives have been restated where appropriate.

Comparisons of results on a historical consolidated statutory basis are distorted by a number of items. In order to provide more meaningful and relevant comparatives, the results of the Group and divisions are presented on an 'underlying' basis. The following items are excluded in arriving at underlying profit:

- the amortisation of purchased intangible assets and the unwind of acquisition-related fair value adjustments arising from the HBOS acquisition;
- the effects of certain asset sales, liability management and volatile items;
- simplification costs and TSB build and dual-running costs;
- volatility relating to the insurance business and insurance gross-up;
- payment protection insurance provision and other regulatory provisions; and
- certain past service pensions charges and credits in respect of the Group's defined benefit pension arrangements.

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.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

	2014 £m	2013[1] £m	2012[1] £m
Retail	**3,228**	3,015	2,293
Commercial Banking	**2,206**	1,890	1,550
Consumer Finance	**1,010**	965	946
Insurance	**922**	1,088	1,083
TSB	**458**	106	39
Other	**(68)**	(898)	(3,346)
Underlying profit before tax	**7,756**	6,166	2,565

[1] Restated, see page 28.

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

	Note	**2014 £m**	2013 £m	2012 £m
Profit before tax – Underlying basis		**7,756**	6,166	2,565
Asset sales	1	**138**	(687)	(660)
Sale of government securities	2	**–**	787	3,207
Liability management	3	**(1,386)**	(142)	(229)
Own debt volatility	4	**398**	(221)	(270)
Other volatile items	5	**(112)**	(457)	(478)
Volatility arising in insurance businesses	6	**(228)**	668	312
Fair value unwind	8	**(529)**	(228)	650
Simplification costs and TSB build and dual running costs	9	**(1,524)**	(1,517)	(1,246)
Payment protection insurance provision	10	**(2,200)**	(3,050)	(3,575)
Other regulatory provisions	11	**(925)**	(405)	(650)
Past service pension credit (charge)	12	**710**	(104)	250
Amortisation of purchased intangibles	13	**(336)**	(395)	(482)
Profit (loss) before tax – Statutory		**1,762**	415	(606)

1. Asset sales

Asset sales comprise the gains and losses on asset disposals (2014: gains of £138 million; 2013: losses of £687 million; 2012: losses of £660 million), principally of assets which were outside of the Group’s risk appetite.

2. Sale of government securities

These reflect gains on bond sales (2014: £nil; 2013: £787 million; 2012: £3,207 million) as the Group took the opportunity afforded by the continuing low interest rate environment to reposition its holdings of available-for-sale government securities.

3. Liability management

In April 2014, the Group completed concurrent Sterling, Euro and Dollar exchange offers with holders of certain series of its Enhanced Capital Notes (ECNs) to exchange the ECNs for new Additional Tier 1 (AT1) securities. In addition the Group completed a tender offer to eligible retail holders outside the United States to sell their Sterling-denominated ECNs for cash. The exchange offers completed with the equivalent of £5.0 billion of ECNs being exchanged for the equivalent of £5.35 billion of AT1 securities, before issue costs. The retail tender offer completed with approximately £58.5 million of ECNs being repurchased for cash. A loss of £1,362 million has been recognised in relation to these exchange and tender transactions in the year ended 31 December 2014.

Losses of £24 million (2013: losses of £142 million; 2012: losses of £229 million) arose on other transactions undertaken as part of the Group’s management of wholesale funding and capital. The liability management losses in 2014 and 2013 were included in other income. In 2012 liability management gains of £109 million were recognised in net interest income and losses of £338 million in other income.

4. Own debt volatility

Own debt volatility includes a gain of £401 million (2013: loss of £209 million; 2012: gain of £249 million) relating to the change in fair value of the equity conversion feature of the Enhanced Capital Notes, which principally reflects the ongoing amortisation of the value of the conversion feature over its life. Own debt volatility also includes a £33 million gain (2013: gain of £41 million; 2012: loss of £437 million) relating to the change in fair value of the small proportion of the Group’s wholesale funding which was designated at fair value at inception.