## TAXATION

| | 2016 £m | 2015 £m | 2014 £m |
|---|---|---|---|
| UK corporation tax: | | | |
| Current tax on profits for the year | **(1,010)** | (485) | (162) |
| Adjustments in respect of prior years | **156** | (90) | 213 |
| | **(854)** | (575) | 51 |
| Foreign tax: | | | |
| Current tax on profits for the year | **(20)** | (24) | (39) |
| Adjustments in respect of prior years | **2** | 27 | 3 |
| | **(18)** | 3 | (36) |
| **Current tax (charge) credit** | **(872)** | (572) | 15 |
| Deferred tax | **(852)** | (116) | (278) |
| **Taxation charge** | **(1,724)** | (688) | (263) |

**2016 COMPARED WITH 2015**

In 2016, a tax charge of £1,724 million arose on the profit before tax of £3,888 million and in 2015 a tax charge of £688 million arose on the profit before tax of £1,644 million. The statutory corporation tax rates were 20 per cent for 2016 and 20.25 per cent for 2015.

The tax charge for 2016 represents an effective tax rate of 44 per cent; the high effective tax rate in 2016 was largely due to the banking surcharge, restrictions on the deductibility of conduct provisions and the negative impact on the net deferred tax asset of both the change in corporation tax rate and the expected utilisation by the life assurance business.

**2015 COMPARED WITH 2014**

In 2015, a tax charge of £688 million arose on the profit before tax of £1,644 million and in 2014 a tax charge of £263 million arose on the profit before tax of £1,762 million. The statutory corporation tax rates were 20.25 per cent for 2015 and 21.5 per cent for 2014.

The tax charge for the 2015 represented an effective tax rate of 42 per cent. The effective tax rate was higher than the UK corporation tax rate largely due to the introduction in 2015 of restrictions on the deductibility of conduct related provisions which resulted in an additional tax charge of £459 million. Adjusting for this charge, the effective tax rate would have been 14 per cent reflecting non-taxable and relieved gains and a number of positive one-off items.

The low tax charge in 2014 was driven by tax exempt gains on sales of businesses and a lower deferred tax liability in respect of the value of in-force assets in the life business.

## 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.

The Group's activities are organised into four financial reporting segments: Retail; Commercial Banking; Consumer Finance and Insurance. The Group's unsecured personal lending portfolio, previously part of Retail, is now managed by Consumer Finance and elements of the Group's business in the Channel Islands and Isle of Man were transferred from Retail to Commercial Banking; comparatives have been restated accordingly.

Comparisons of results on a historical consolidated statutory basis are impacted 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:

- losses on redemption of the Enhanced Capital Notes and the volatility in the value of the embedded equity conversion feature;
- market volatility and other items, which includes the effects of certain asset sales, the impact of liability management actions, the volatility relating to the Group's own debt and hedging arrangements as well as that arising in the insurance businesses, insurance gross up, the unwind of acquisition-related fair value adjustments arising from the HBOS acquisition, and the amortisation of purchased intangible assets;
- restructuring costs (which in 2015 and 2016 comprised severance related costs relating to the Simplification programme announced in October 2014 and in 2014 included severance, IT and business costs relating to the programme started in 2011) and the costs of implementing regulatory reform, ring fencing and rationalisation of the non-branch property portfolio;
- TSB build and dual running costs and the loss relating to the TSB sale in 2015;
- payment protection insurance and other conduct provisions; and
- certain past service pensions charges and credits in respect of the Group's defined benefit pension arrangements.

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

| | **2016**<br>**£m** | 2015[1]<br>£m | 2014[1]<br>£m |
|---|---|---|---|
| Retail | **3,003** | 3,091 | 2,739 |
| Commercial Banking | **2,468** | 2,478 | 2,256 |
| Consumer Finance | **1,283** | 1,381 | 1,449 |
| Insurance | **837** | 962 | 922 |
| Other | **276** | 200 | 390 |
| **Underlying profit before tax** | **7,867** | 8,112 | 7,756 |

1 Segmental analysis restated, as explained above.