TAXATION

	2012 £m	2011 £m	2010 £m
UK corporation tax:			
Current tax on profits for the year	**(175)**	(93)	(146)
Adjustments in respect of prior years	**58**	(146)	310
	(117)	(239)	164
Double taxation relief	**—**	—	1
	(117)	(239)	165
Foreign tax:			
Current tax on profits for the year	**(86)**	(90)	(82)
Adjustments in respect of prior years	**(8)**	36	49
	(94)	(54)	(33)
Current tax credit (charge)	**(211)**	(293)	132
Deferred tax	**(562)**	257	193
Taxation (charge) credit	**(773)**	(36)	325

2012 COMPARED WITH 2011

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 2012, a tax charge of £773 million arose on the loss before tax of £570 million and in 2011 a tax charge of £36 million arose on the loss before tax of £342 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. These changes are reflected in the deferred tax balances at 31 December 2012. The consequence of these changes, combined with current economic forecasts, results 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 credit.

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 (£308 million) and 2011 (£420 million) on the revaluation of the Group's deferred tax asset.

2011 COMPARED WITH 2010

In 2011, a tax charge of £36 million arose on the loss before tax of £342 million and in 2010 a tax credit of £325 million arose on the loss before tax of £2,919 million. The statutory corporation tax rates were 26.5 per cent for 2011 and 28.0 per cent for 2010. The tax attributable to UK life insurance policyholder earnings and the Group's interest in Open Ended Investment Companies was a credit of £72 million in 2011 and a charge of £315 million in 2010. The changes in UK corporation tax rates lead to an additional charge of £420 million in 2011 (2010: £169 million) and in both years there was an additional charge arising in respect of tax losses where no deferred tax has been recognised (2011: £261 million; 2010: £487 million) but in 2011 this was more than offset by a credit of £332 million from the recognition of tax losses not previously recognised.

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 management 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 both an underlying profit before tax basis and a management profit before tax basis. The Group Executive Committee believes that these bases better represent 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 management basis profit before tax in note 4 to the financial statements.

The aggregate total of the management basis and the underlying basis segmental results constitute non-GAAP measures as defined in the United States Securities and Exchange Commission's Regulation G. Management uses the aggregated total of management profit before tax and the aggregated and segmental underlying profit before tax, all non-GAAP measures, as measures of performance and believes that they provide important information for investors because they are comparable representations of the Group's performance. Profit before tax is the comparable GAAP measure to aggregate management profit before tax and aggregate underlying profit before tax. Segmental management profit before tax is the comparable GAAP measure to segmental underlying profit before tax. The tables below set out reconciliations of each these non-GAAP measures to their comparable GAAP measure.

Following a reorganisation in the second half of 2012, the Group's activities are now organised into four financial reporting segments: Retail; Commercial Banking; Wealth, Asset Finance and International; and Insurance. The impact of this reorganisation was as follows:

- The Group's existing Wholesale division and its Commercial division have been combined to form Commercial Banking.
- The Asset Finance business unit, previously reported within Wholesale, is now reported within the Wealth, Asset Finance and International segment; the Asset Finance business recorded a management basis profit before tax of £319 million in the year ended 31 December 2012 (2011: £275 million; 2010: £380 million).
- The Group's continental European wholesale business and the wholesale Australian business have been transferred from Wealth, Asset Finance and International to Commercial Banking; during the year ended 31 December 2012 these transferred businesses recorded a management basis loss before tax of £432 million (2011: £1,050 million; 2010: £1,327 million).

In addition, asset sales now include sales of centrally held government bonds, following an increase in activity in the first half of 2012, and are reported net of the related fair value unwind whereas this was previously included on the separate fair value unwind line.

Comparative figures have been restated accordingly for all of the above changes.

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 a 'management' basis. The key principles adopted in the preparation of the management basis of reporting are described below.

- In order to reflect the impact of the acquisition of HBOS, the following adjustments have been made:
  - the amortisation of purchased intangible assets has been excluded; and
  - the unwind of acquisition-related fair value adjustments is shown on one line in the management basis income statement, other than unwind related to asset sales which is included within the effects of asset sales, volatile items and liability management.
- In order to better present the business performance the effects of liability management, volatile items and asset sales are shown on separate lines in the management basis consolidated income statement and 'underlying profit' is profit before taking into account these items and fair value unwind. Comparatives have been restated accordingly.
- The following items, not related to acquisition accounting, have also been excluded from management profit:
  - 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;
  - certain past service pensions credits and curtailment gains in respect of the Group's defined benefit pension schemes; and
  - the loss on disposal of businesses in 2010.

Readers should be aware that the management 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 both the underlying basis and the management basis:

Underlying basis

	2012 £m	2011 £m	2010 £m
Retail	**3,188**	2,749	2,881
Commercial Banking	**(324)**	(812)	(1,782)
Wealth, Asset Finance and International	**(929)**	(2,785)	(3,652)
Insurance	**1,107**	1,465	1,354
Group Operations and Central items:			
Group Operations	**(51)**	(56)	(52)
Central items	**(384)**	77	350
	(435)	21	298
Underlying profit (loss) before tax	**2,607**	638	(901)

Management basis

	2012 £m	2011 £m	2010 £m
Retail	**3,670**	3,636	3,986
Commercial Banking	**238**	75	1,098
Wealth, Asset Finance and International	**(1,176)**	(2,684)	(3,243)
Insurance	**1,065**	1,422	1,326
Group Operations and Central items:			
Group Operations	**(51)**	(56)	(52)
Central items	**1,081**	292	(903)
	1,030	236	(955)
Management basis profit before tax	**4,827**	2,685	2,212

RECONCILIATION OF UNDERLYING PROFIT (LOSS) TO MANAGEMENT BASIS PROFIT AND TO STATUTORY PROFIT (LOSS) BEFORE TAX FOR THE YEAR

	Note	**2012 £m**	2011 £m	2010 £m
Profit before tax – Underlying basis		**2,607**	638	(901)
Asset sales	1	**2,547**	284	496
Volatile items	2	**(748)**	(738)	(270)
Liability management	3	**(229)**	1,295	423
Fair value unwind	4	**650**	1,206	2,464
Profit before tax – Management basis		**4,827**	2,685	2,212
Integration, simplification and EC mandated retail business disposal costs	5	**(1,246)**	(1,452)	(1,653)
Volatility arising in insurance businesses	6	**306**	(838)	306
Amortisation of purchased intangibles	8	**(482)**	(562)	(629)
Payment protection insurance provision	9	**(3,575)**	–	(3,200)
Other regulatory provisions	10	**(650)**	(175)	(500)
Past service pension credits and curtailment gains in respect of defined benefit pension schemes	11	**250**	–	910
Loss on disposal of businesses	12	**–**	–	(365)
Loss before tax – Statutory		**(570)**	(342)	(2,919)

1. Asset sales

Asset sales comprise the gains and losses on asset disposals (2012: losses of £660 million; 2011: gains of £88 million; 2010: gains of £453 million), which principally comprised assets which were outside of the Group's risk appetite, and gains on bond sales (2012: £3,207 million; 2011: £196 million; 2010: £43 million) as the Group has taken the opportunity afforded by the continuing low interest rate environment to rebalance and reduce the level of holdings of available-for-sale Government securities.