

TAX TRANSPARENCY REPORT

for the year ended 30 September 2020

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money



National Australia Bank Limited (**NAB**) takes its tax obligations seriously and is committed to being transparent about its tax affairs. This Tax Transparency Report meets the requirements of Australia's Voluntary Tax Transparency Code and provides an explanation of NAB's tax contribution for the year ended 30 September 2020.

INTRODUCTION

NAB is a major Australian company which, together with its subsidiary companies and foreign branches, makes a significant contribution to the Australian economy and business landscape and to the offshore economies in which it conducts financial services activities. The corporate behaviour of NAB impacts many stakeholders including customers, shareholders, employees and governments. As a corporate leader, NAB commits to strong corporate values and behaviours, including in its approach to taxation.

In August 2016 NAB committed to Australia's Voluntary Tax Transparency Code (**the Code**).

The disclosures made in this report satisfy Parts A and B of the Code and also will assist in understanding the tax information that is usually published by the Australian Taxation Office (**ATO**) in December each year.

In particular, the report sets out for the year ended 30 September 2020 NAB's:

- approach to tax risk governance
- engagement with the ATO
- International Related Party Dealings
- Total Tax Contribution in Australia
- Total Tax Contribution globally
- Reconciliations of:
 - Income Tax Expense
 - Effective Tax Rate
 - Income Taxes Payable
 - Current Tax Expense
 - Reconciliation to ATO transparency disclosures
 - Basis of preparation
 - Glossary.

The report should be read in conjunction with NAB's 2020 Annual Financial Report (**AFR**) which can be found on NAB's website at www.nab.com.au.

NAB'S APPROACH TO TAX RISK GOVERNANCE

The NAB Board is responsible for determining NAB's Tax Policy and the approach to tax risk governance. The Tax Policy is reviewed on a regular basis and any changes are approved by the NAB Board.

Background and Context

The Tax Policy applies to all functions of NAB including employees, contractors and agents.

For the purpose of the Tax Policy, Tax Risk is defined as an unexpected adverse financial or reputational consequence arising to the NAB from:

- Taking a position in relation to taxation law that is subsequently disputed by tax authorities.
- Not attending to tax compliance and payment obligations on time and in a complete manner.
- Inadequate reporting of tax expense and liabilities in the financial accounts.
- Inappropriately influencing the tax affairs of customers and other third parties.

Policy Principles

NAB's Tax Policy is founded on six key principles:

1. Robust Tax Control Framework

NAB maintains a robust tax control framework which is subject to regular testing and assurance.

Tax risk is managed in the context of the Group's framework on risk management accountabilities. NAB exercises strong governance over its tax affairs. NAB maintains and enforces strict protocols to control the type of transactions that NAB enters into and the tax risks associated with these transactions.

NAB subscribed to the United Kingdom Code of Practice for Banks (**UK Code**) which was introduced on 9 December 2009 as NAB conducts operations in the United Kingdom. The object of the UK Code is to ensure that banking groups operating in the United Kingdom comply with the spirit, as well as the letter of the law when it comes to tax matters.

2. Full Compliance with Tax Laws

NAB seeks to be fully and properly compliant with tax obligations in each of the jurisdictions in which it operates by providing tax authorities with information that is complete, accurate and reliable in all material respects and is provided on time as set out in legislation or as agreed with tax authorities. NAB will not adopt a tax position which is clearly contrary to tax laws or administrative practices of the relevant jurisdictions.

NAB recognises that there may be areas of differing legal interpretation from time to time with tax authorities and, where this occurs, NAB endeavours to engage proactively with tax authorities to resolve these matters.

NAB continually monitors the potential impact of new legislation, judicial pronouncements and administrative practices in assessing the impact on operations and transactions.

3. Acceptable Tax Planning

As part of the prudent management and organisation of its affairs, NAB will only enter into transactions that are in accordance with, and in line with the spirit of, the applicable tax legislation and regulations.

NAB does not:

- transfer value to operations in low tax jurisdictions solely to obtain a tax benefit or without genuine commercial reasons and substance.
- participate in, or promote, complex arrangements or tax structures that could be considered aggressive or viewed as contrived or serve no other genuine economic or business purposes.
- utilise structures, including structures situated in tax havens or jurisdictions that are uncooperative with tax authorities, that are designed solely to obtain a tax benefit or avoid disclosure of activities.
- provide tax advice or planning to customers, other than that allowed under the Tax Agent Services Act 2009 by tax (financial) advisers.

NAB has developed policies and procedures to detect and report on financial crimes, including tax evasion. There are strict internal policies in place to prevent tax evasion or other forms of financial crimes.

4. Use of Arm's Length Tax Transfer Pricing Principles

NAB's guiding principle in all intra group transactions is that the dealings must be in accordance with the arm's length standard for transfer pricing.

NAB will not participate in arrangements where transfer pricing outcomes are not consistent with value creation.

NAB seeks to comply with the domestic transfer pricing rules which apply in each of the regions in which it operates. These rules, while predominantly based on the Organisation for Economic Co-operation and Development (OECD) Guidelines, do differ by country, which can result in different requirements for different regions. To address this matter, the following principles will apply:

- OECD guidelines will form the basis of NAB's approach to transfer pricing.
- NAB will apply the arm's length standard for its transfer pricing arrangements.

Transfer pricing outcomes must be consistent with the functional activities undertaken, risks assumed and assets utilised in each jurisdiction.

5. Constructive working relationship with Tax Authorities

NAB proactively works with tax authorities in each of the jurisdictions in which it operates to establish a constructive working relationship based on transparency, mutual trust and respect and co-operation.

NAB will:

- Be fully transparent in disclosing and discussing significant uncertainties in relation to tax matters.
- Discuss and resolve material tax issues before returns are filed, wherever practicable.
- Engage in a co-operative, supportive and professional manner.
- Work collaboratively to achieve early resolution of issues.

As one of Australia's largest taxpayers, NAB is subject to the ATO's Pre-lodgement Compliance Review (PCR) program.

As part of the PCR process, NAB has clear lines of communication with the ATO on particular transactions that NAB is undertaking and positions that are adopted. This provides the ATO with an opportunity to perform a timely review of NAB's tax obligations.

NAB is considered a "Key Taxpayer" for both income tax and GST. This is the lowest risk rating that can be attained taking into account the size and complexity of NAB's Australian operations.

NAB has received a High level of ATO assurance over its income tax compliance. This means that NAB has received a Justified Trust designation.

6. Tax Transparency consistent with stakeholder expectations

NAB will annually publish a tax transparency report. This report will meet stakeholder expectations around the transparency of NAB's tax affairs including the provision of information about NAB's approach to tax risk and the disclosure of taxes paid by NAB.

NAB'S INTERNATIONAL RELATED PARTY DEALINGS

NAB undertakes international related party dealings between its operations in Australia and its offshore branches and subsidiaries. In line with the Tax Policy, all transactions are conducted in a manner consistent with the arm's length standard.

Outlined below are details of the nature of the material categories of dealings and the countries in which the counterparties to the dealings are located.

A listing of entities, business activities and employee numbers for each region in which NAB operates is published in the "NAB Group Entity Report" which can be located at nab.com.au/about-us/social-impact/shareholders/responsible-tax-management.

Funding

As a major Australian financial institution, NAB raises funds to facilitate lending to customers and to meet regulatory capital requirements. NAB raises funding through a number of different means including funding from both domestic and international markets. As part of its general funding activities, NAB enters into various funding arrangements with its offshore branches and subsidiaries to address both short term and longer-term funding requirements. NAB both lends and borrows funds to address business funding needs.

International related party funding transactions occur between NAB and the following offshore related party locations: New Zealand, United States, United Kingdom, Hong Kong and Singapore.

Derivatives

The derivative market is a global market with major trading hubs located outside of Australia. To enable NAB to participate in these markets, NAB engages in derivative sale and trading arrangements with its offshore branches and subsidiaries.

International related party derivative transactions occur between NAB and offshore operations in the following locations: New Zealand, United States, United Kingdom, Hong Kong, Singapore and Japan.

Global Taxes Paid

The amount of global taxes paid in each region is provided on page 4 in A\$ equivalent.

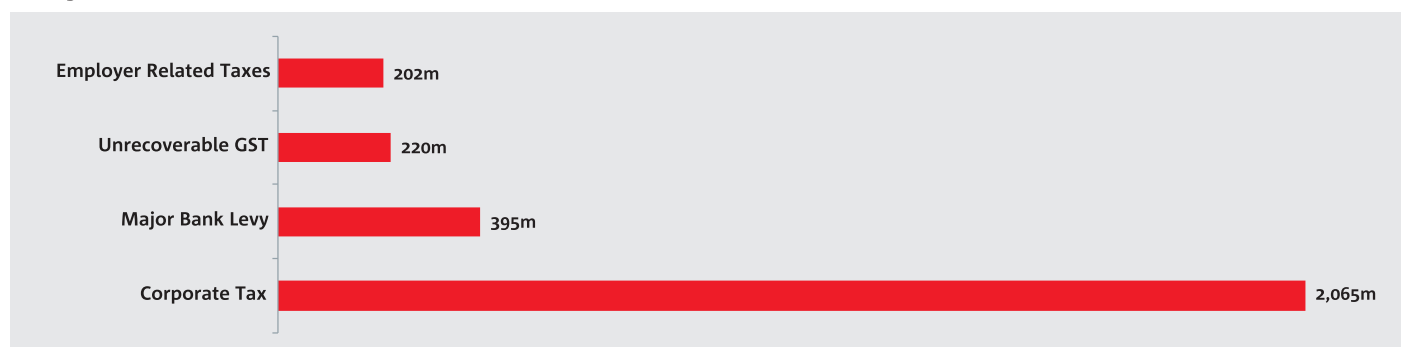
CONTRIBUTION BY NAB TO AUSTRALIAN TAX REVENUE

NAB paid total taxes in Australia during the year ended 30 September 2020 of \$2,882 million. This includes:

- Corporate income tax \$2,065 million
- Major Bank Levy¹ \$395 million
- Unrecoverable GST \$220 million
- Employer related taxes including payroll tax and FBT \$202 million.

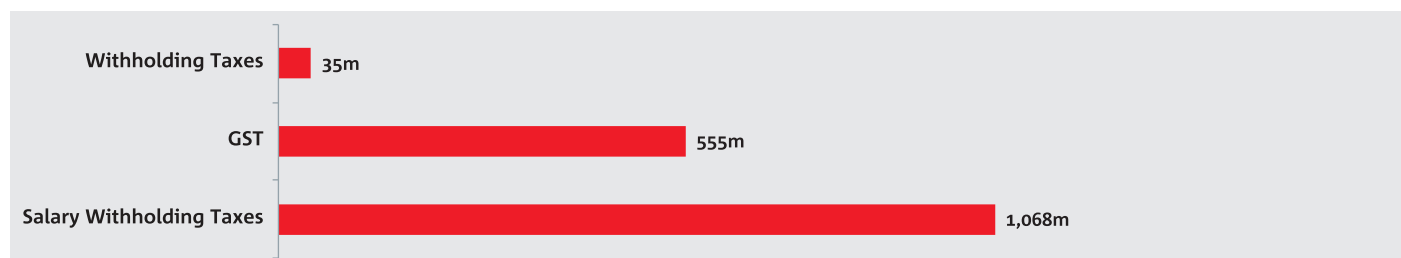
Given the quantum of Australian corporate income tax paid, NAB was able to fully frank all dividends paid to shareholders, and holders of frankable hybrid instruments in 2020.

A diagrammatic breakdown of NAB's total tax contribution in Australia is below.



In addition to the above taxes paid, NAB also collects significant taxes on behalf of the Australian Government.

Below is a summary of the key taxes collected by NAB.



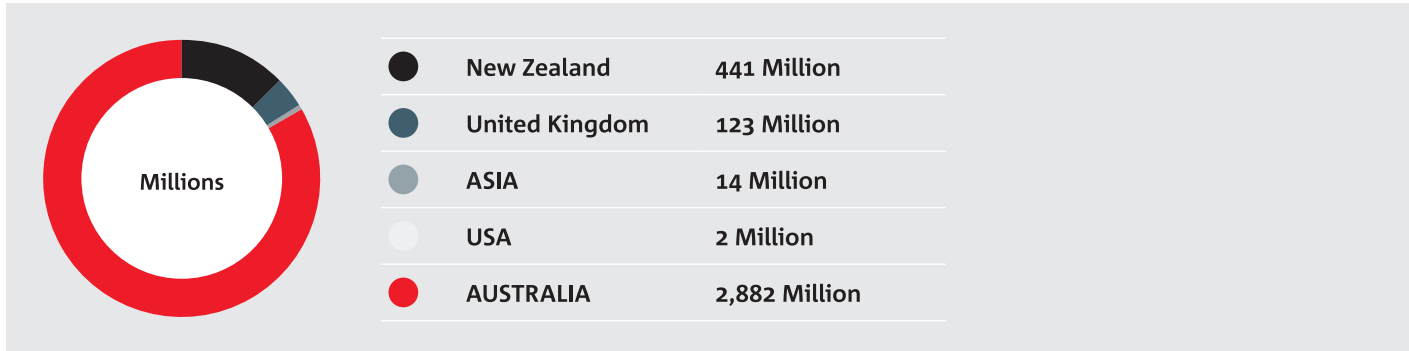
1. In 2017, the Australian Government introduced a Major Bank Levy which has applied to NAB since 1 July 2017. The rate is 0.06% per annum of certain Authorised Deposit Taking Institution (ADI) liabilities. The Bank levy is deductible for income tax purposes. The Bank Levy is reported on a cash basis in this report.

GLOBAL TAX CONTRIBUTION

NAB paid total taxes (A\$ equivalent) globally during the year ended 30 September 2020 of \$3,462 million. This includes:

- Corporate income tax \$2,580 million
- Major Bank Levy \$395 million
- Unrecoverable GST/VAT \$265 million
- Employer related taxes \$222 million.

A diagrammatic breakdown of NAB's global total tax contribution (in millions) by country² is shown below.



NAB paid \$580 million of taxes across NZ, UK, USA and the Asian region. The breakdown between the different type of taxes for these regions is below:

	NZ	UK	USA	Asia	Total
Corporate Tax	395m	106m		14m	515m
GST/VAT Unrecovered	40m	5m			45m
Employer Related Taxes	6m	12m	2m		20m
TOTAL	441m	123m	2m	14m	580m

² Given the relative size of NAB's operations in countries in Asia they have been aggregated as "Asia".

INCOME TAX EXPENSE RECONCILIATION

Below is a reconciliation of Income tax expense (ITE) for NAB including a split per major country/region for the year ended 30 September 2020. NAB's ITE Reconciliation is disclosed in Note 6 of NAB's 2020 AFR. The ITE disclosed in a company's income statement does not represent NAB's liability to the ATO (or relevant overseas revenue authority), but rather ITE is calculated in accordance with Australian accounting standards and represents the accounting profit multiplied by the prima facie corporate income tax rate, with subsequent adjustments for "non-temporary" differences between accounting and tax. These adjustments take into account the difference between expense and income recognition criteria under accounting principles and the income tax legislation. Some examples include non-deductible expenses, non-assessable income, concessionally taxed income and foreign tax rate differences for income derived overseas.

Income Tax Expense Reconciliation	2020 NAB \$m	2020 Australia \$m	2020 NZ \$m	2020 UK \$m	2020 USA \$m	2020 Other Regions ³ \$m
Statutory Profit before income tax expense [A]	5,163 ⁴	3,522	1,046	322	222	51
Prima facie income tax at 30%	1,549	1,057	314	97	66	15
Tax effect of permanent differences:						
• Assessable foreign income	5	5	-	-	-	-
• Foreign tax rate differences	(60)	(2)	(21)	(21)	(9)	(7)
• Foreign branch income not assessable	(56)	(14)	-	-	(42)	-
• Over/(under) provision in prior years	3	3	-	2	(2)	-
• Offshore banking unit adjustment	23	23	-	-	-	-
• Restatement of deferred tax balances for tax rate changes	10	-	-	10	-	-
• Non-deductible hybrid distributions	61	61	-	-	-	-
• Losses not tax effected	32	-	-	32	-	-
• Impairment of investment in MLC Life	64	64	-	-	-	-
• Other	34	27	1	17	(11)	-
Total income tax expense [B]	1,665	1,224	294	137	2	8
Effective tax rate [B] / [A]	32.2%	34.8%	28.1%	42.5%	0.9%	15.7%

EFFECTIVE TAX RATE

The effective tax rate (ETR) for the year ended 30 September 2020 was **32.2%** for NAB (2019: 29.1 %) and **34.8%** (2019: 30.8 %) for NAB's Australian region.

The ETR is the income tax expense as a percentage of statutory profit before income tax. NAB's ETR for the 2018 to 2020 years is shown below (on a Continuing Operations basis).

NAB's statutory ETR differs from the Australian corporate tax rate of 30% principally due to (i) differing corporate tax rates in offshore locations where NAB operates and also due to NAB's offshore banking unit income which is taxed in Australia at a lower rate to encourage offshore investment and (ii) non-deductible accounting impairments.

Effective Tax Rate	2020 (\$m)	2019 (\$m)	2018 (\$m)
Statutory Profit before tax	5,163	7,177	8,400
Statutory Income Tax Expense	1,665	2,087	2,455
Statutory Effective Tax Rate	32.2%	29.1%	29.2%

³ Principally countries in the Asian region.

⁴ Information is presented on a continuing operations basis.

INCOME TAXES PAYABLE RECONCILIATION

The reconciliation of Income Taxes Payable for NAB for the year ended 30 September 2020 is as follows:

Income Taxes Payable Reconciliation	2020 \$m
Income Taxes payable as at 1 October 2019 (per Balance Sheet in AFR)	468
Less: income tax paid during the year (per Cash Flow Statement in AFR)	(2,580)
Add: Current Tax Expense for the year ended 30 September 2020 (refer below)	2,544
Add/(Less) Other Items ⁵	(240)
Income Taxes payable as at 30 September 2020 (per Balance Sheet in AFR)	192

CURRENT TAX EXPENSE RECONCILIATION

Current Tax Expense for NAB for the year ended 30 September 2020 is calculated as follows:

Current Tax Expense Reconciliation (Continuing Operations Basis)		2020 \$m
Profit before income tax expense		5,163
Prima facie income tax at 30%		1,549
Non-Temporary Differences		
• Assessable foreign income	5	
• Foreign tax rate differences	(60)	
• Foreign branch income not assessable	(56)	
• Over/(under) provision in prior years	3	
• Offshore banking unit adjustment	23	
• Restatement of deferred tax balances for tax rate changes	10	
• Non-deductible hybrid distributions	61	
• Losses not tax effected	32	
• Impairment of investment in MLC Life	64	
• Other	34	
Total Non-Temporary Difference		116
Income Tax Expense (per Note 6 in AFR)		1,665
Temporary Differences giving rise to a Deferred Tax Expense		
• Collective & Specific Provisions	526	
• Other Provisions	85	
• Software	203	
• Other	65	
Deferred Tax Expense (per Note 6 in AFR)		879
Current Tax Expense (per Note 6 in AFR)		2,544

⁵ Predominantly relates to items in Discontinued Operations.

RECONCILIATION TO ATO TAX TRANSPARENCY DISCLOSURE

Following the introduction of tax transparency legislation, the ATO has published certain information about the tax affairs of certain companies since 2014, which includes NAB.

To facilitate a greater understanding of how the ATO published data agrees to NAB's AFR, the Tables below provide the following information:

- **Table 1** is a high-level reconciliation of NAB's profit before income tax from continuing operations as disclosed in the AFR to the profit disclosed in the 2020 tax return for the NAB Income Tax Consolidated Group (**NAB TCG**). The NAB TCG comprises NAB and all of NAB's wholly owned Australian entities;
- **Table 2** is a summary of the 2020 tax return for the NAB TCG. The information is taken from various labels of the tax return. The information in this Table will not reconcile to the amounts disclosed in the "Australia" column in the "Income Tax Expense Reconciliation" on Page 7. This is because the actual tax paid to the ATO incorporates tax temporary differences (for example, differences between tax and accounting depreciation expense) whilst these do not form part of the ITE calculation; and
- **Table 3** is what the ATO is expected to publish in December 2021 for NAB for the year ended 30 September 2020.

Table 1 - Reconciliation of Net Profit	2020 \$m
NAB Statutory Profit per AFR on a Continuing Operations basis	5,163
Add:	
Net Profit included in the Tax Return but not included in the AFR	16
Net Loss from Discontinued Operations ⁶	(1,203)
Exclude:	
Net Profit from NAB entities outside the NAB TCG	(1,691)
Adjust for transactions in the NAB Group including accounting consolidation entries	245
Profit for NAB TCG per the 2020 Tax Return	2,530

Table 2 – Summary of NAB TCG Tax Return	2020 \$m	ATO disclosure (refer Table 3)
Total Income (included in Table 3)	35,198	35,198
Total Expenses	(32,668)	
Net Profit Before Income Tax (refer to Table 1)	2,530	
Book to Tax Adjustments:		
Collective & Specific Provisions	1,888	
Other Provisions	474	
Fixed Asset Temporary differences	752	
Franking Credit Gross Up	2	
Customer-related Remediation Provision	(97)	
Non-assessable Dividends	(53)	
Offshore Banking Unit Concession	(199)	
Other Adjustments	312	
Taxable Income (Included in Table 3)	5,876	5,876
Income Tax on Taxable Income	1,763	
Franking & Other Offsets	(10)	
Tax Payable (included in Table 3)	1,753	1,753

⁶ Discontinued operations are a component of the Group that either have been disposed of, or classified as held for sale. In FY2020, MLC Wealth and MLC Life were presented in the AFR as discontinued operations.

Table 3 – ATO’s Published Information of NAB’s Income Tax Consolidated Group	2020 \$
Total Income	35,197,527,514
Taxable Income	5,875,601,871
Tax Payable	1,753,077,501

BASIS OF PREPARATION

This report gives its readers an overview of the total tax payments made by NAB.

Key income tax expense and tax payable data was sourced from NAB’s 2020 AFR or NAB’s 2020 Income Tax Return. NAB’s 2020 AFR was prepared in accordance with the requirements of the Corporations Act 2001 (Cth), accounting standards and interpretations issued by the Australian Accounting Standards Board (**AASB**), International Financial Reporting Standards (**IFRS**) and interpretations issued by the International Accounting Standards Board (**IASB**).

All data, unless otherwise stated, has been prepared for the year 1 October 2019 to 30 September 2020. Data that relates to taxes paid or collected are reported on a cash paid basis.

Amounts are presented in Australian dollars, which is NAB’s functional and presentation currency. These amounts have been rounded to the nearest million dollars (\$m).

GLOSSARY

For the purposes of this report, the following terms have the below meaning:

Accounting standards	Standards and interpretations issued by the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board.
AFR	Annual Financial Report.
Arm’s length standard	To price international related party dealings as if they were between unrelated, well-informed parties.
Effective tax rate	Income tax expense as a percentage of statutory profit before income tax expense.
Employer related taxes	Fringe Benefits Tax and State imposed Payroll Tax.
Foreign branch	The international operations of an Australian company that is subject to tax in the foreign jurisdiction.
Income tax legislation	Income Tax Assessment Act 1936 (Cth) and Income Tax Assessment Act 1997 (Cth).
International related party dealing	A transaction between a domestic and international party of NAB.
Major Bank Levy	In 2017, the Australian Government introduced a Major Bank Levy which has applied to NAB since 1 July 2017. The rate is 0.06% per annum of certain Authorised Deposit Taking Institution liabilities. The Bank levy is deductible for income tax purposes.
NAB Income tax consolidated group (NAB TCG)	NAB and all Australian wholly owned entities which are consolidated as one taxpayer for Australian income tax purposes.
NAB	National Australia Bank Limited and its controlled entities (as defined in the AFR).
Non-temporary Differences	An adjustment to account for an amount of income or expense that, while recognised for accounting purposes, will never be taken into account for income tax purposes or vice versa.
Pre-lodgement Compliance Review (PCR)	ATO’s Pre-lodgement Compliance Review program.
Revenue authorities	Federal, state and offshore revenue authorities.
Tax payable	The amount of corporate income tax due for a particular period, calculated in accordance with the relevant income tax legislation.
Temporary Differences	An adjustment to take into account the different time in which income or expenses are recognised for accounting and income tax purposes.
Unrecoverable GST	The amount of GST paid for which a credit cannot be obtained.