

# TAX TRANSPARENCY REPORT

*for the year ended 30 September 2017*



National Australia Bank Limited (**NAB**) takes its tax obligations seriously and is committed to being transparent in its tax affairs. This Tax Transparency Report meets the requirements of Australia's Voluntary Tax Transparency Code and provides an explanation of NAB Group's tax contribution for the year ended 30 September 2017.

## INTRODUCTION

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

Within this document NAB makes a detailed disclosure of its tax affairs. This expanded disclosure satisfies Parts A and B of the Code, and also will assist the broader public to understand the tax information that is published by the Australian Taxation Office (**ATO**) in December each year.

In particular, the report sets out for the year ended 30 September 2017:

- NAB Group's approach to tax risk governance.
- NAB's engagement with the ATO.
- NAB's International Related Party Dealings.
- NAB's Total Tax Contribution in Australia.
- NAB Group's Total Tax Contribution globally.
- NAB Group reconciliations of:
  - Income Tax Expense
  - Effective Tax Rate
  - Income Taxes Payable
  - Current Tax Expense
- ATO transparency disclosures.

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.

## NAB GROUP'S APPROACH TO TAX RISK GOVERNANCE

NAB has a Board approved Tax Policy that is subject to annual review.

### Background and Context

NAB's Tax Policy is approved by the NAB Board, which has responsibility for the oversight of tax risk governance.

The Tax Policy applies to all NAB Group entities, employees, contractors and agents.

Tax risk is defined as an unexpected adverse financial or reputational consequence arising for the NAB Group from certain matters, including:

- Taking a position in relation to taxation law that is subsequently successfully disputed by revenue 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 acting as an intermediary in influencing a third party's tax affairs.

### Policy Principles

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

- **Tax compliance** - NAB will seek to be fully and properly compliant with its tax obligations in each of the jurisdictions in which it operates.
- **Tax governance** - NAB will exercise strong governance over its tax affairs.
- **Tax planning** - NAB will not participate in, or promote, aggressive tax arrangements or complex structured finance transactions in either:

- NAB's own tax affairs;
- The products or services offered to NAB's clients or customers; or
- Remuneration packages provided to employees.

- **Tax transfer pricing** - NAB will adopt the arm's length standard for transfer pricing; and
- **Relationship with tax authorities** - NAB will seek and maintain strong and transparent relationships with Tax authorities.

## NAB'S ENGAGEMENT WITH THE ATO

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

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'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.

### 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 will both lend and borrow 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.

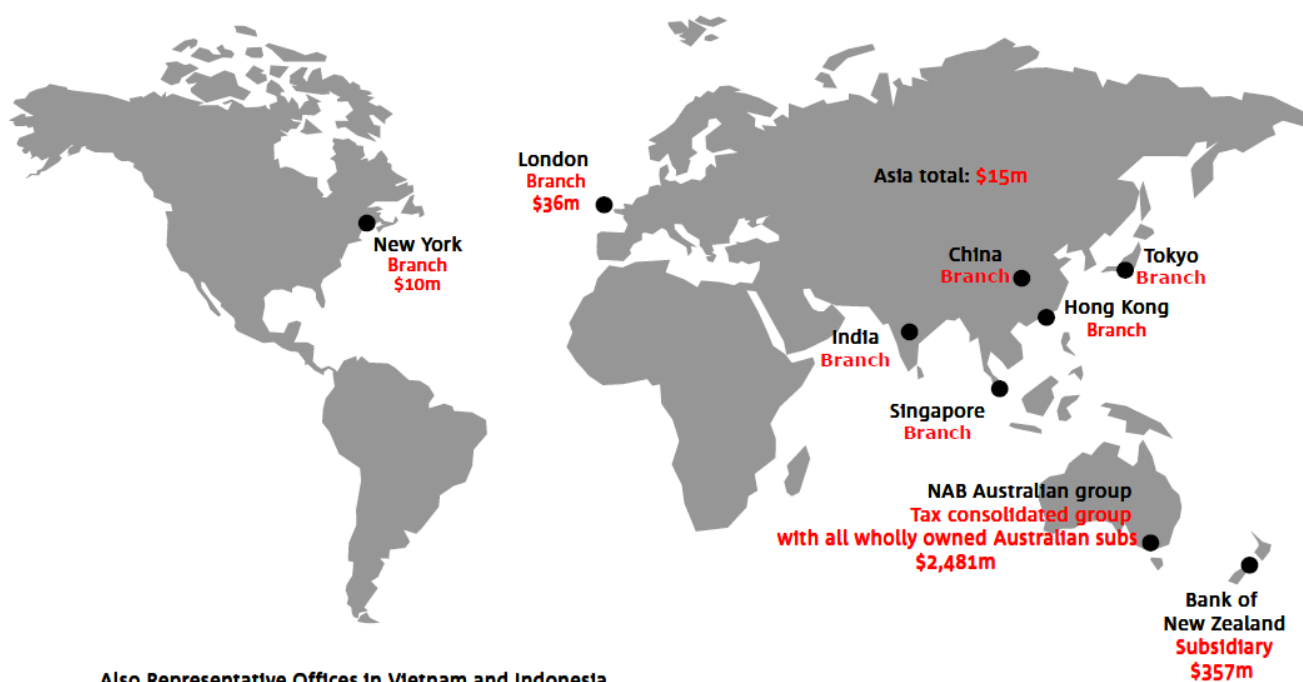
### Derivatives

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, China, Japan, and India.

### Global Taxes Paid

The amount of global taxes paid in each region is also provided below in A\$ equivalent (note: Asia is disclosed as a region rather than taxes paid in individual countries).

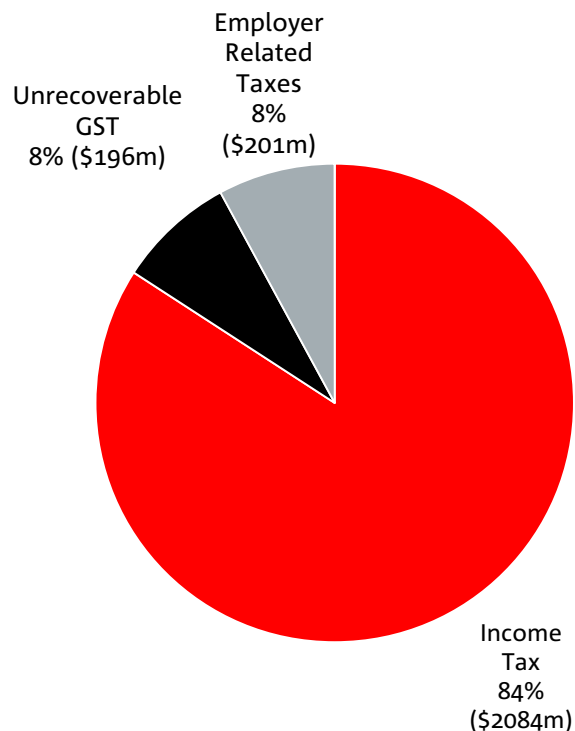


## TOTAL TAX CONTRIBUTION IN AUSTRALIA

NAB Group paid total taxes in Australia during the year ended 30 September 2017 of \$2,481 million, including corporate income tax (\$2,084 million), unrecoverable GST (\$196 million) and employer related taxes including payroll tax and FBT (\$201 million). A diagrammatic breakdown of the NAB's total tax contribution in Australia is shown right.

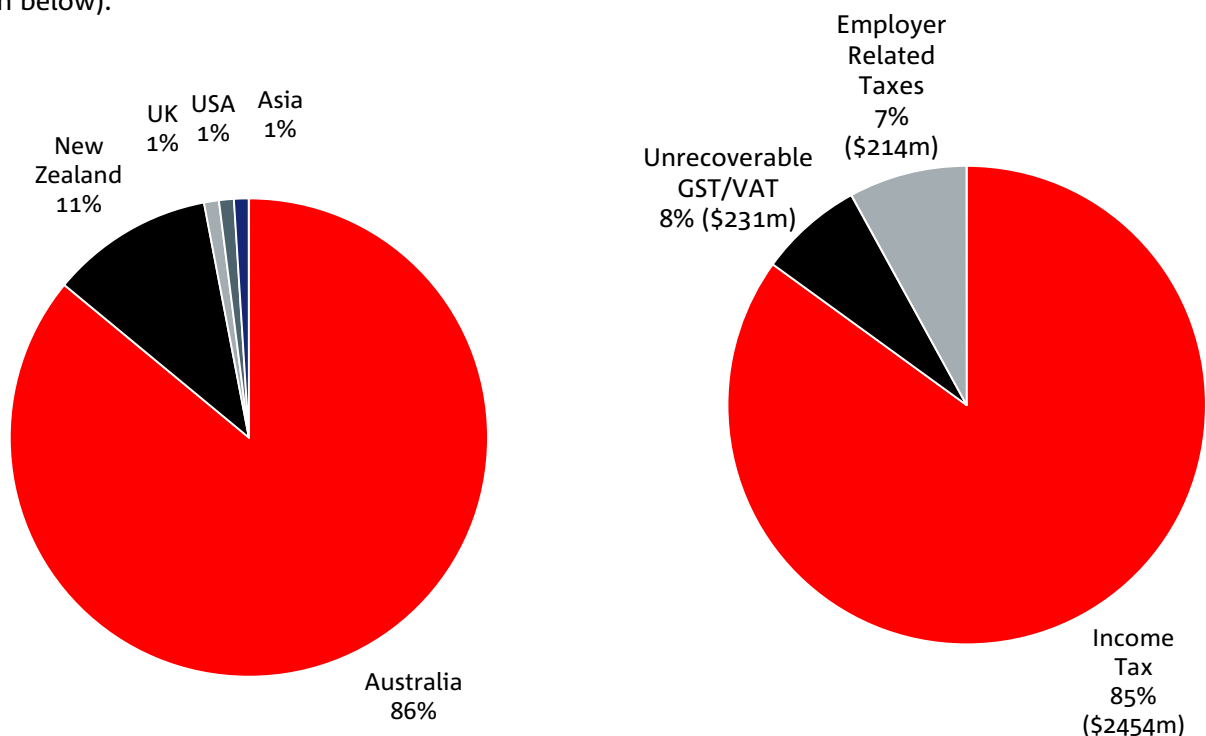
Given the quantum of Australian corporate income tax paid, NAB was able to fully frank all dividends paid to shareholders, and holders of frankable hybrid instruments in 2017.

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 ADI liabilities. An amount of \$91.7m was paid in February 2018 in respect of the final quarter of 2017, so it is not shown in this diagram. The Bank levy is deductible for income tax purposes.



## NAB GROUP TOTAL TAX CONTRIBUTION GLOBALLY

NAB Group paid total taxes (A\$ equivalent) globally during the year ended 30 September 2017 of A\$2,899 million, including corporate income tax (A\$2,454 million), unrecoverable GST/VAT (A\$231 million) and employer related taxes (A\$214 million). A diagrammatic breakdown of the NAB Group's total tax contribution globally (by region and by tax type are shown below).



## INCOME TAX EXPENSE RECONCILIATION

Below is a reconciliation of Income tax expense (ITE) for NAB Group including a split per Australia, New Zealand and Other for the year ended 30 September 2017. The NAB Group's ITE Reconciliation is disclosed in Note 7 of the NAB's 2017 Annual Financial Report (AFR). The ITE disclosed in a company's income statement does not represent NAB Group's liability to the ATO (or relevant 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, concessional tax income and foreign tax rate differences for income derived overseas.

Income Tax Expense Reconciliation	2017 NAB - Global \$m	2017 Australia \$m	2017 NZ \$m	2017 Other Regions \$m
Statutory Profit before income tax expense [A]	8,661	6,880	1,221	560
<b>Prima facie income tax at 30%</b>	<b>2,598</b>	<b>2,064</b>	<b>366</b>	<b>168</b>
<b>Add/(Deduct) tax effect of amounts not deductible / (assessable)</b>				
Assessable foreign income	7	7	-	-
Foreign tax rate differences	(43)	-	(25)	(18)
Foreign branch income not assessable	(78)	(10)	-	(68)
(Over)/under provision in prior years	(17)	(2)	-	(15)
Offshore banking unit income	(62)	(62)	-	-
Restatement of deferred tax balances for tax rate changes	1	-	-	1
Non-deductible hybrid distributions	70	70	-	-
Losses not tax effected	11	-	-	11
Other	(7)	9	(1)	(15)
<b>Total income tax expense [B]</b>	<b>2,480</b>	<b>2,076</b>	<b>340</b>	<b>64</b>
<b>Effective tax rate [B] / [A]</b>	<b>28.6%</b>	<b>30.2%</b>	<b>27.8%</b>	<b>11.4%</b>

## EFFECTIVE TAX RATE

The effective tax rate (**ETR**) for the year ended 30 September 2017 was **28.6%** for the NAB Group (2016: 28.4 %) and **30.2%** (2016: 29.1 %) for the Australian region of the NAB Group.

The ETR is the income tax expense as a percentage of statutory profit before income tax. NAB Group's ETR for the 2015 to 2017 years is shown below (on a Continued Operations basis).

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

Effective Tax Rate	2017 (\$M)	2016 (\$M)	2015 (\$M)
Statutory Profit before tax	8,661	8,978	9,515
Statutory Income Tax Expense	2,480	2,553	2,709
<b>Statutory Effective Tax Rate</b>	<b>28.6%</b>	<b>28.4%</b>	<b>28.5%</b>

## INCOME TAXES PAYABLE RECONCILIATION

The reconciliation of Income Taxes Payable for the NAB Group for the year ended 30 September 2017 is as follows:

INCOME TAXES PAYABLE RECONCILIATION	2017 \$m
Income Taxes payable as at 1 October 2016 (per Balance Sheet in AFR)	297
Less: income tax paid during the year (per Cash Flow Statement in AFR)	(2,544)
Add: Current Tax Expense for the year ended 30 September 2017 (refer below)	2,573
Add/(Less) Other Adjustments	(96)
<b>Income Taxes payable as at 30 September 2017 (per Balance Sheet in AFR)</b>	<b>230</b>

## CURRENT TAX EXPENSE RECONCILIATION

Current Tax Expense for NAB Group for the year ended 30 September 2017 is calculated as follows:

<b>CURRENT TAX EXPENSE RECONCILIATION (Continuing Operations basis)</b>		<b>2017 \$m</b>
<b>Profit before income tax expense</b>		<b>8,661</b>
<b>Prima facie income tax at 30%</b>		<b>2,598</b>
<b>Non-Temporary Differences</b>		
Assessable foreign income	7	
Foreign tax rate differences	(43)	
Foreign branch income not assessable	(78)	
(Over)/under provision in prior years	(17)	
Offshore banking unit income	(62)	
Restatement of deferred tax balances for tax rate changes	1	
Non-deductible hybrid distributions	70	
Losses not tax effected	11	
Other	(7)	
<b>Total Non-Temporary Difference</b>		<b>(118)</b>
<b>Income Tax Expense</b>		<b>2,480</b>
<b>Temporary Differences</b>		
Collective & Specific Provisions	9	
Employee Entitlements	(12)	
Other Expense Provisions	6	
Tax Losses	47	
Other	43	
<b>Total Temporary Difference</b>		<b>93</b>
<b>Current Tax Expense</b>		<b>2,573</b>

## ATO TAX TRANSPARENCY DISCLOSURE FOR THE YEAR ENDED 30 SEPTEMBER 2017

Following the introduction of tax transparency legislation, the ATO has published information about the tax affairs of certain companies since 2014. As NAB is one of those companies, the ATO will publish the following information about NAB for the year ended 30 September 2017 in December 2018.

NAB's Income Tax Consolidated Group	\$ 2017
Total Income	48,777,666,099
Taxable Income	6,819,519,151
Tax Payable	2,028,419,562

The above information is taken from various labels of the 2017 tax return for NAB's "income tax consolidated group" (**NAB TCG**). The NAB TCG comprises NAB and all of NAB's wholly-owned Australian entities. Please note that the above will not reconcile to the amounts disclosed in the "Australia" column in the "Income Tax Expense Reconciliation" on Page 5. This is because the actual tax paid to the ATO incorporates tax timing differences (for example, differences between tax and accounting depreciation expense) whilst these do not form part of the Income Tax Expense calculation.

NAB's Income Tax Consolidated Group	\$M 2017
Total Income	48,778
Total Expenses	(41,473)
<b>Net Profit Before Income Tax</b>	<b>7,305</b>
Book to Tax Adjustments:	
Offshore Banking Unit Concession	(215)
Franking Credit Gross Up	8
Other Adjustments	(264)
Tax Losses Utilised	(14)
<b>Taxable Income</b>	<b>6,820</b>
Income Tax on Taxable Income	2,046
Research & Development Offset	0
Franking & Other Offsets	(18)
<b>Tax Payable</b>	<b>2,028</b>



## GLOSSARY

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

<b>Accounting standards</b>	Standards and interpretations issued by the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board.	<b>Income tax legislation</b>	<i>Income Tax Assessment Act 1936</i> (Cth) and <i>Income Tax Assessment Act 1997</i> (Cth).
<b>AFR</b>	Annual Financial Report	<b>International related party dealing</b>	A transaction between a domestic and international party of the NAB Group.
<b>Australian Region ITE</b>	The Australian region ITE relates to the Australian geographical region of the NAB Group.	<b>NAB Group</b>	National Australia Bank Limited and all of its subsidiary entities.
<b>Book to tax adjustments</b>	Adjustments required in calculating income tax payable to take into account differences in the recognition of income and expenses between the accounting standards and income tax legislation.	<b>NAB</b>	National Australia Bank Limited
<b>Arm's length standard</b>	To price international related party dealings as if they were between unrelated, well-informed parties.	<b>Non-temporary Differences</b>	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.
<b>Effective tax rate</b>	Income tax expense as a percentage of statutory profit before income tax expense.	<b>PCR</b>	ATO's Pre-lodgement Compliance Review program
<b>Employer related taxes</b>	Fringe Benefits Tax and State imposed Payroll Tax	<b>Revenue authorities</b>	Federal, state and offshore revenue authorities.
<b>Foreign branch</b>	The international operations of an Australian company that is subject to tax in the foreign jurisdiction.	<b>Tax payable</b>	The amount of corporate income tax due for a particular period, calculated in accordance with the relevant income tax legislation.
<b>NAB Income tax consolidated group (NAB TCG)</b>	NAB and all Australian wholly owned entities which are consolidated as one taxpayer for Australian income tax purposes.	<b>Temporary Differences</b>	An adjustment to take into account the different time in which income or expenses are recognised for accounting and income tax purposes.
		<b>Total tax contribution</b>	The total tax payable of all Income tax, Employer-related taxes and Unrecoverable GST.
		<b>Unrecoverable GST</b>	The amount of GST paid for which a credit cannot be obtained.