

TAX TRANSPARENCY REPORT

for the year ended 30 September 2016



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 2016.

INTRODUCTION

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

Within this document NAB Group 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.

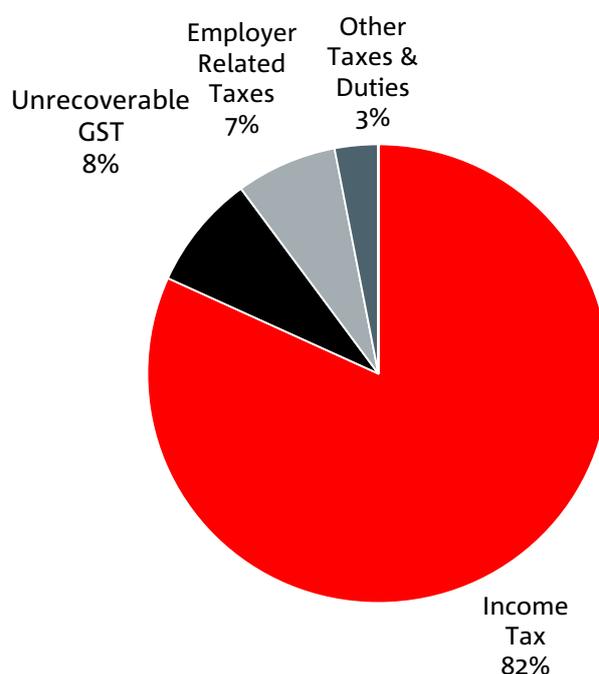
In particular, the report sets out for the year ended 30 September 2016:

- NAB Group's Total Tax Contribution in Australia.
- NAB Group's approach to Tax Risk Governance.
- NAB's engagement with the ATO.
- Details of NAB's International Related Party Dealings.
- NAB Group Reconciliations of:
 - Income Tax Expense
 - Effective Tax Rate
 - Income Taxes Payable
 - Current Tax Expense
- ATO Transparency Disclosures.

TOTAL TAX CONTRIBUTION IN AUSTRALIA

NAB paid total taxes in Australia for the year ended 30 September 2016 of \$2,969 million, including corporate income tax (\$2,429 million), unrecoverable GST (\$233 million), employer related taxes including payroll tax and FBT (\$209 million) and other taxes and duties (\$98 million). A diagrammatic breakdown of the NAB's total tax contribution in Australia is shown below.

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 2016.



NAB GROUP'S APPROACH TO TAX RISK GOVERNANCE

NAB Group has a Board approved Tax Policy that is subject to annual review. A summary of this policy is set out below.

Background and Context

NAB's Tax Policy is approved by the NAB Board, which has significant responsibility and accountability, with the assistance of management, for 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:

- 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 the tax affairs of customers or other third parties.

Policy Principles

As a corporate leader, NAB is committed to strong corporate values and behaviours, including in its approach to taxation.

Our Tax Policy is founded on five key principles:

- **Tax Compliance** - The NAB Group will seek to be fully and properly compliant with its tax obligations in each of the jurisdictions in which it operates.
- **Tax Governance** - The NAB Group will exercise strong governance over its tax affairs.
- **Tax Planning** - The NAB Group will not participate in, or promote, aggressive tax

arrangements or complex structured finance transactions in either:

- The NAB Group's own tax affairs;
 - The products or services offered to the NAB Group's clients or customers; or
 - Remuneration packages provided to employees.
- **Tax Transfer Pricing** - The NAB Group will adopt the arm's length standard for transfer pricing; and
 - **Relationship with Tax Authorities** - The NAB Group will seek and maintain strong and transparent relationships with Tax authorities.

NAB'S ENGAGEMENT WITH 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 the NAB Group is undertaking and positions that are adopted. This provides the ATO with an opportunity to perform a timely review of NAB Group'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 GROUP'S INTERNATIONAL RELATED PARTY DEALINGS

NAB Group 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 Group raises funds to facilitate lending to customers and to meet regulatory capital requirements. NAB Group raises funding through a number of different means including funding from both domestic and international markets. As part of its general funding activities, NAB will enter 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 Group 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.

INCOME TAX EXPENSE RECONCILIATION

Below is a reconciliation of Income tax expense (ITE) for NAB Group and for the Australian region of the NAB Group for the year ended 30 September 2016. The NAB Group ITE Reconciliation is disclosed in Note 6 of the NAB Group's 2016 Annual Financial Report (AFR). The ITE disclosed in a company's income statement does not represent the Group's liability to the ATO, 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.

In 2016, the results of CYBG PLC¹ and NAB's Life Insurance business² were disclosed in "discontinued operations" in the NAB Group's 2016 AFR. Accordingly, the "Profit before income tax expense" below excludes the results of these businesses, and any gains/losses associated with the disposals of these businesses.

Income Tax Expense Reconciliation	2016 NAB Group \$m	2016 Australian Region \$m
Statutory Profit before income tax expense [A]	8,978	7,478
Prima facie income tax at 30%	2,693	2,243
Add/(Deduct) tax effect of amounts not deductible / (assessable)		
Assessable foreign income	4	4
Foreign tax rate differences	(36)	-
Foreign branch income not assessable	(60)	-
(Over)/under provision in prior years	(26)	(23)
Offshore banking unit income ³	(56)	(56)
Restatement of deferred tax balances for tax rate changes	4	-
Treasury shares adjustment ⁴	(14)	(14)
Non-deductible hybrid distributions	58	58
Losses not tax effected	42	-
Other	(56)	(39)
Total income tax expense [B]	2,553	2,173
Effective tax rate [B] / [A]	28.4%	29.1%

¹ CYBG PLC is the UK banking business which was demerged in February 2016.

² The sale of 80% of MLC Limited, NAB Wealth's life Insurance business, was completed in October 2016.

³ Offshore banking unit income is taxed at a lower rate to the Australian corporate tax rate applicable to NAB to encourage offshore investment.

⁴ Treasury shares are NAB shares held by a controlled entity of the NAB Group and employee share scheme trusts.

EFFECTIVE TAX RATE

The effective tax rate (ETR) for the year ended 30 September 2016 was 28.4% for the NAB Group (2015: 28.5%) and 29.1% (2015: 30.0%) 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's Group statutory ETR differs from the Australian corporate tax rate of 30% principally due to differing corporate tax rates in offshore locations where NAB operates and also due to NAB's offshore banking unit income which is taxed at a lower rate to encourage offshore investment.

INCOME TAXES PAYABLE RECONCILIATION

The reconciliation of Income Taxes Payable for the NAB Group for the year ended 30 September 2016 is as follows:

INCOME TAXES PAYABLE RECONCILIATION	2016 \$m
Income Taxes payable as at 1 October 2015 (per Balance Sheet in AFR)	1,114
Less: income tax paid during the year (per Cash Flow Statement in AFR)	(3,148)
Add: Current Tax Expense for the year ended 30 September 2016 (refer below)	2,766
Add/(Less) Other Adjustments *	(435)
Income Taxes payable as at 30 September 2016 (per Balance Sheet in AFR)	297

* Other adjustments including income tax payable attributable to discontinued operations

CURRENT TAX EXPENSE RECONCILIATION

Current Tax Expense for the NAB Group for the year ended 30 September 2016 is calculated as follows:

CURRENT TAX EXPENSE RECONCILIATION (Continuing Operations basis)		2016 \$m
Profit before income tax expense		8,978
Prima facie income tax at 30%		2,693
Non-Temporary Differences		
Assessable foreign income	4	
Foreign tax rate differences	(36)	
Foreign branch income not assessable	(60)	
(Over)/under provision in prior years	(26)	
Offshore banking unit income	(56)	
Restatement of deferred tax balances for tax rate changes	4	
Treasury shares adjustment	(14)	
Non-deductible hybrid distributions	58	
Losses not tax effected	42	
Other	(56)	
Total Non-Temporary Difference		(140)
Income Tax Expense		2,553
Temporary Differences		
Collective & Specific Provisions	59	
Employee Entitlements	(4)	
Other Expense Provisions	96	
Other	62	
Total Temporary Difference		213
Current Tax Expense		2,766

ATO TAX TRANSPARENCY DISCLOSURE FOR THE YEAR ENDED 30 SEPTEMBER 2016

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 2016 in December 2017.

NAB's Income Tax Consolidated Group	\$ 2016
Total Income	44,686,966,781
Taxable Income	11,769,620,345
Tax Payable	2,428,532,833

The above information is taken from various labels of the 2016 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.

In 2016, the NAB TCG included the statutory funds of MLC Limited, a life insurance company which subsequently left the NAB TCG on 3 October 2016. The statutory funds include investments by MLC Limited on behalf of life insurance policyholders and the tax on these investments is attributable to policyholders (and not NAB), even though it is reported on NAB's tax return. As such, the tax information reported by the ATO includes income and tax payments attributable to policyholders which need to be eliminated to reflect the tax position of the NAB TCG.

This is illustrated on the right.

NAB's Income Tax Consolidated Group	\$M 2016		
Total Income	44,687		
Total Expenses	(41,494)		
Net Profit Before Income Tax	3,193		
Book to Tax Adjustments:			
Offshore Banking Unit Concession	(167)		
Life Company Adjustments	3,740		
Franking Credit Gross Up	283		
Clydesdale Bank Demerger & Life Business Sale Adjustments	4,242		
Other Adjustments	649		
Tax Losses Utilised	(170)		
Total Book to Tax Adjustments	8,577		
Taxable Income	11,770	NAB	Policyholders
		\$M	\$M
		2016	2016
		7,633	4,137
Income Tax on Taxable Income	2,807	2,290	517
Research & Development Offset	(42)	(42)	-
Franking & Other Offsets	(336)	(16)	(320)
Tax Payable	2,429	2,232	197

GLOSSARY

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