

# TAX TRANSPARENCY REPORT

*for the year ended 30 September 2018*

more  
than  
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 2018.

## 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 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 2018 NAB's:

- Approach to tax risk governance
- International Related Party Dealings
- Contribution by NAB to Australian tax revenue
- Global tax contribution
- Reconciliations of:
  - Income tax expense
  - Effective tax rate
  - Income taxes payable
  - Current tax expense
- Reconciliation to ATO transparency disclosure
- Basis of preparation
- Glossary.

The report should be read in conjunction with NAB's 2018 Annual Financial Report (**AFR**) which can be found on NAB's website at [www.nab.com.au](http://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 NAB and its controlled entities. It also applies to all employees, contractors and agents of these entities.

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

- 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 five key principles:

### 1. Strong and Effective Tax Governance

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 subscribes 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. Effective Tax Compliance

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 between ourselves and tax authorities, and where this occurs, NAB endeavours to engage proactively with relevant stakeholders in resolving these matters.

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

NAB will display transparency over its tax affairs in line with legislative requirements and community expectations.

### 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 legislations 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. Adoption of Arm's Length principles for Tax Transfer Pricing

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 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 funds 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 provided on page 6 in A\$ equivalent.

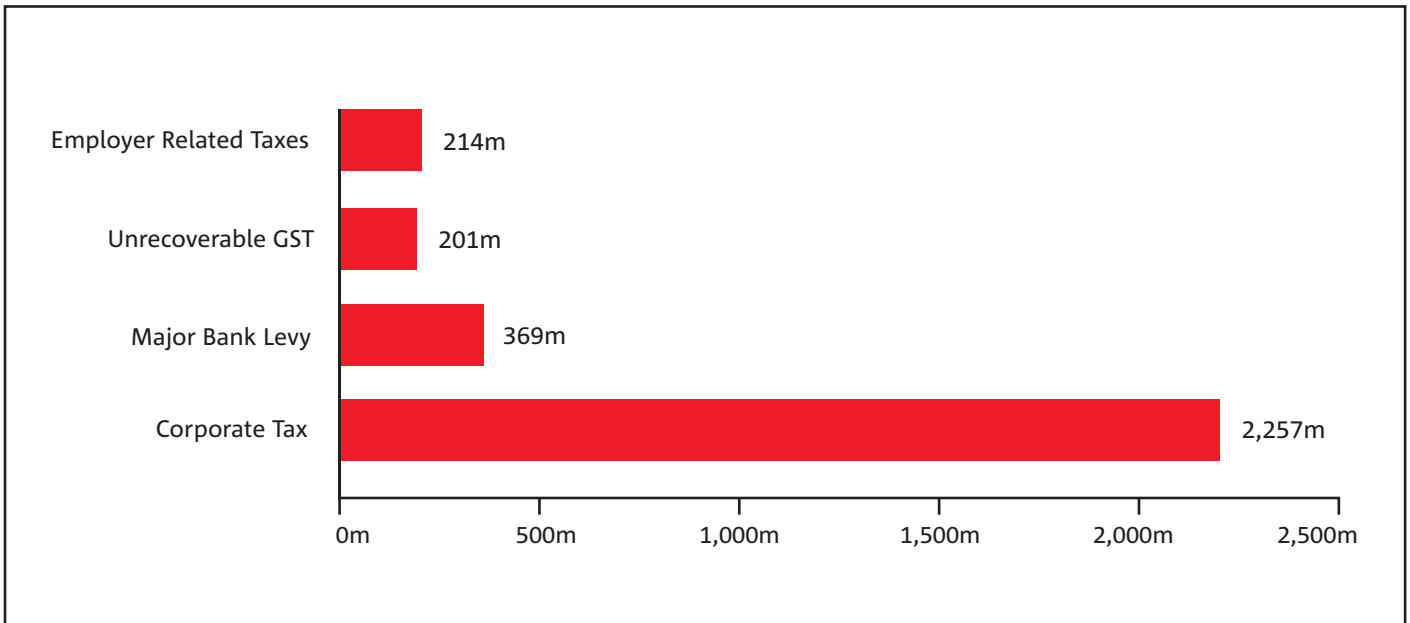
# CONTRIBUTION BY NAB TO AUSTRALIAN TAX REVENUE

NAB paid total taxes in Australia during the year ended 30 September 2018 of \$3,041 million. This includes:

- Corporate income tax \$2,257.0 million
- Major Bank Levy<sup>1</sup> \$369.0 million
- Unrecoverable GST \$201.0 million
- Employer related taxes<sup>2</sup> \$214.0 million.

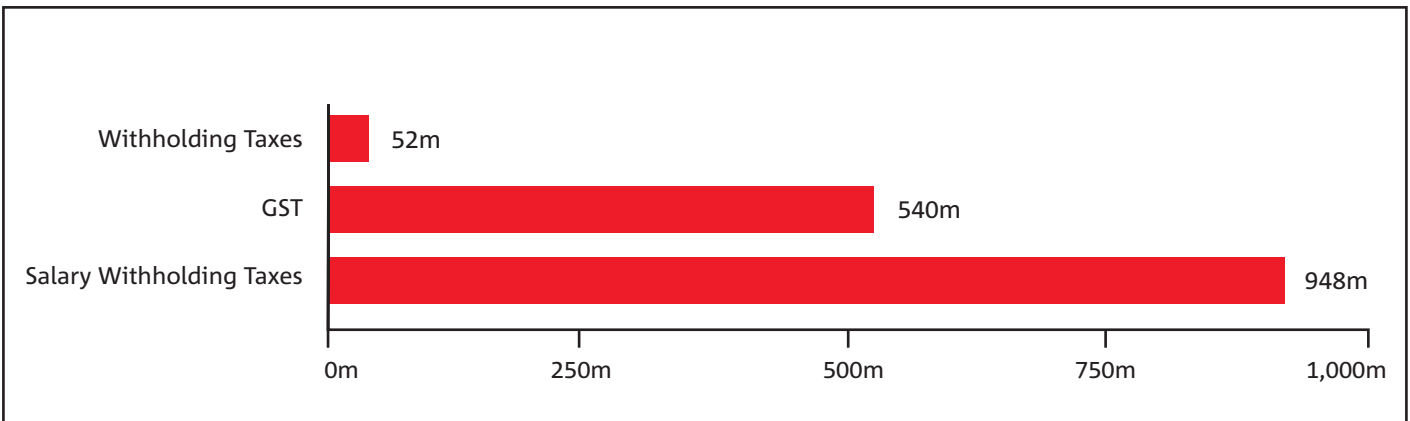
Given the quantum of Australian corporate income tax paid, NAB was able to fully frank all dividends paid to shareholders, and holders of frankable hybrid instruments in 2018.

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.



<sup>1</sup> 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.

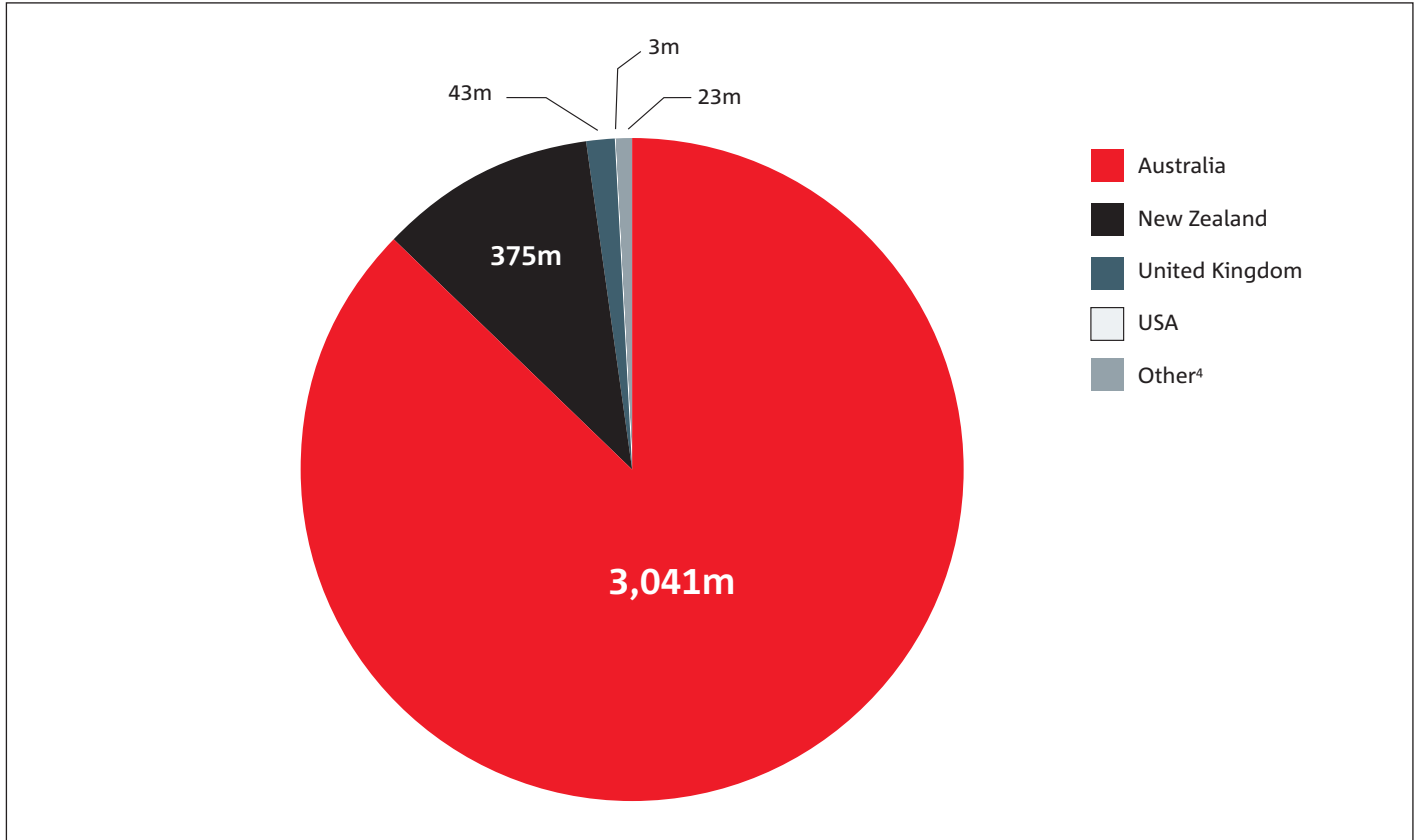
<sup>2</sup> Including payroll taxes and Fringe Benefits Taxes.

## GLOBAL TAX CONTRIBUTION

NAB paid total taxes (A\$ equivalent) globally during the year ended 30 September 2018 of \$3,485 million. This includes:

- Corporate income tax \$2,641.0 million
- Major Bank Levy \$369.0 million
- Unrecoverable GST/VAT \$244.5 million
- Employer related taxes<sup>3</sup> \$230.5 million.

A diagrammatic breakdown of NAB's global total tax contribution by country is shown below.



NAB paid \$444 million of taxes across NZ, UK, USA and Other<sup>4</sup> regions. The breakdown between the different type of taxes for these regions is below:

	NZ	UK	USA	Other	Total
Corporate Income Tax	330m	30m	2m	22m	384m
VAT Unrecovered	39m	4m		0.5m	43.5m
Employer Related Taxes	6m	9m	1m	0.5m	16.5m
<b>TOTAL</b>	<b>\$375m</b>	<b>\$43m</b>	<b>\$3m</b>	<b>\$23m</b>	<b>\$444m</b>

<sup>3</sup> Including payroll taxes and Fringe Benefits Taxes.

<sup>4</sup> "Other" principally represents countries in the Asian region.

## 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 2018. NAB's ITE Reconciliation is disclosed in Note 6 of NAB's 2018 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, concessional tax income and foreign tax rate differences for income derived overseas.

Income Tax Expense Reconciliation	2018 NAB - Global \$m	2018 Australia \$m	2018 NZ \$m	2018 UK \$m	2018 USA \$m	2018 Other <sup>5</sup> \$m
Statutory Profit before income tax expense [A]	8,400 <sup>6</sup>	6,478	1,336	238	279	69
<b>Prima facie income tax at 30%</b>	<b>2,520</b>	<b>1,943</b>	<b>401</b>	<b>71</b>	<b>84</b>	<b>21</b>
<b>Add/(Deduct) tax effect of amounts not deductible/ (assessable)</b>						
Assessable foreign income	7	7	-	-	-	-
Foreign tax rate differences	(38)	-	(27)	(17)	2	4
Foreign branch income not assessable	(61)	(12)	-	-	(49)	-
(Over)/under provision in prior years	(3)	(1)	-	(2)	-	-
Offshore banking unit income	(62)	(62)	-	-	-	-
Non-deductible hybrid distributions	72	72	-	-	-	-
Losses not tax effected	4	-	-	-	-	4
Other	16	72	(1)	(9)	(33)	(13)
<b>Total income tax expense [B]</b>	<b>2,455</b>	<b>2,019</b>	<b>373</b>	<b>43</b>	<b>4</b>	<b>16</b>
<b>Effective tax rate [B] / [A]</b>	<b>29.2%</b>	<b>31.2%</b>	<b>27.9%</b>	<b>18.1%</b>	<b>1.4%</b> <sup>7</sup>	<b>23.2%</b>

## EFFECTIVE TAX RATE

The effective tax rate (ETR) for the year ended 30 September 2018 was **29.2%** for NAB (2017: 28.6 %) and **31.2%** (2017: 30.2 %) 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 2016 to 2018 years is shown below (on a Continued Operations basis).

NAB's 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 in Australia at a lower rate.

Effective Tax Rate	2018 (\$m)	2017 (\$m)	2016 (\$m)
Statutory Profit before tax	8,400	8,661	8,978
Statutory income tax expense	2,455	2,480	2,553
<b>Statutory effective tax rate</b>	<b>29.2%</b>	<b>28.6%</b>	<b>28.4%</b>

<sup>5</sup> "Other" principally represents countries in the Asian region.

<sup>6</sup> Information is presented on a continuing operations basis.

<sup>7</sup> The low ETR for USA is largely attributed to the benefit of carry forward tax losses from prior years.

## INCOME TAXES PAYABLE RECONCILIATION

The reconciliation of income taxes payable for NAB for the year ended 30 September 2018 is as follows:

Income Taxes Payable Reconciliation	2018 \$m
Income taxes payable as at 1 October 2017 (per Balance Sheet in AFR)	230
Less: income tax paid during the year (per Cash Flow Statement in AFR)	(2,634)
Add: current tax expense for the year ended 30 September 2018 (refer below)	2,734
Add/(Less) Other Adjustments	(227)
<b>Income taxes payable as at 30 September 2018 (per Balance Sheet in AFR)</b>	<b>103</b>

## CURRENT TAX EXPENSE RECONCILIATION

Current tax expense for NAB for the year ended 30 September 2018 is calculated as follows:

Current Tax Expense Reconciliation (Continuing Operations Basis)		2018 \$m
<b>Profit before income tax expense</b>		<b>8,400</b>
<b>Prima facie income tax at 30%</b>		<b>2,520</b>
<b>Non-Temporary Differences</b>		
Assessable foreign income	7	
Foreign tax rate differences	(38)	
Foreign branch income not assessable	(61)	
(Over)/under provision in prior years	(3)	
Offshore banking unit income	(62)	
Non-deductible hybrid distributions	72	
Losses not tax effected	4	
Other	16	
<b>Total Non-Temporary Difference</b>		<b>(65)</b>
<b>Income tax expense</b>		<b>2,455</b>
<b>Temporary Differences</b>		
Collective & Specific Provisions	84	
Customer-related Remediation Provision	99	
Tax Losses	14	
Other	82	
<b>Total Temporary Difference</b>		<b>279</b>
<b>Current tax expense</b>		<b>2,734</b>



## RECONCILIATION TO ATO TAX TRANSPARENCY DISCLOSURE

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 is expected to publish the following information about NAB for the year ended 30 September 2018 in December 2019.

NAB's Income Tax Consolidated Group	2018 \$
Total Income	49,811,678,879
Taxable Income	6,962,486,992
Tax Payable	2,077,978,074

Below is a summary of the 2018 tax return for NAB's "income tax consolidated group" (**NAB TCG**). The information is taken from various labels of the tax return. The NAB TCG comprises NAB and all of NAB's wholly-owned Australian entities.

The below 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.

NAB's Income Tax Consolidated Group	2018 \$m	2018 \$m
Total Income	49,812	
Total Expenses	(42,404)	
<b>Net Profit Before Income Tax</b>		<b>7,408</b>
<b>Book to Tax Adjustments:</b>		
Offshore Banking Unit Concession	(202)	
Franking Credit Gross Up	6	
Other Adjustments	(239)	
Tax Losses Utilised	(11)	
<b>Taxable Income</b>		<b>6,962</b>
<b>Income Tax on Taxable Income</b>		<b>2,089</b>
Franking & Other Offsets		(11)
<b>Tax Payable</b>		<b>2,078</b>

To facilitate a greater understanding of how the ATO published data agrees to NAB's AFR, below is a high-level reconciliation of the Net Profit Before Tax from NAB's 2018 tax return to NAB's statutory profit.

Reconciliation of Net Profit	\$m
<b>Profit per the 2018 Tax Return</b>	<b>7,408</b>
<b>Exclude:</b>	
Dividends from NAB entities outside Australia	(1,707)
<b>Add:</b>	
Net Profit from NAB entities outside the NAB TCG	2,438
Adjust for consolidation eliminations/ adjustments not reflected in the tax return profit <sup>8</sup>	261
<b>NAB Statutory Profit per AFR<sup>9</sup></b>	<b>8,400</b>

<sup>8</sup> Tax return profit is the accumulated standalone profit of each entity in the tax consolidated group ignoring group profit eliminations/adjustments.

<sup>9</sup> Information is presented on a continuing operations basis.

## 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 2018 AFR or NAB's 2018 Income Tax Return. NAB's 2018 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 2017 to 30 September 2018. 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:

<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>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>AFR</b>	Annual Financial Report.	<b>NAB</b>	National Australia Bank Limited and its controlled entities (as defined in the AFR).
<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>Income tax legislation</b>	Income Tax Assessment Act 1936 (Cth) and Income Tax Assessment Act 1997 (Cth).	<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>International related party dealing</b>	A transaction between a domestic and international party of NAB.	<b>Unrecoverable GST</b>	The amount of GST paid for which a credit cannot be obtained.
<b>Major Bank Levy</b>	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.		