

Westpac Group Tax Transparency Report.

For the year ended
30 September 2019.

Help when
it matters



The Westpac Group's 2019 Tax Transparency Report

- 3rd largest corporate income taxpayer in Australia¹
- Over AUD \$4 billion in taxes paid globally in 2019
- 30.4% effective tax rate for 2019

Executive Summary

Westpac's annual tax transparency report sets out the Group's tax contributions and approach to tax responsibilities. We take our tax obligations seriously and are committed to paying the right amount of tax in the jurisdictions in which we operate. Our corporate values and behaviours are reflected in our commitment to tax transparency and our relationship with tax regulators globally.

Westpac's strategy is focused on our core markets of Australia and New Zealand. This, combined with our significant operations, has led to Westpac being Australia's 3rd largest taxpayer in 2018¹. In 2019, 98.7% of our taxes (including the Major Bank Levy) were paid in Australia and New Zealand, with 88.8% paid in Australia.

Westpac paid over \$4 billion globally in various taxes during 2019. Additionally, we collected over \$2.5 billion in 2019 for Australian tax authorities for other tax matters including GST and income tax collected from employees.

Westpac pays a high portion of its profits as dividends to shareholders, the majority of whom are Australian individuals who own shares directly or through their superannuation funds. The corporate income tax Westpac pays in Australia creates franking credits which are ultimately passed on to Westpac shareholders. This allows our shareholders to receive a tax offset that can be applied against their Australian tax payable.

Basis of Preparation

This report covers the years ended 30 September 2018 and 30 September 2019. The Group's Internal auditors have verified that the information disclosed meets the requirements of the Australian voluntary Tax Transparency Code (TTC) which was released by the Board of Tax in February 2016 and has been prepared in accordance with the requirements of Section 161 and Schedule 19 of the UK Finance Act 2016.

All amounts disclosed in the report have either been sourced from the Financial statements contained in Westpac Group's 2019 Annual Report, financial records or submitted tax returns. Where applicable, amounts have been translated from their local currencies into Australian dollars.

Further information about Westpac, as well as our approach to sustainability can be found at www.westpac.com.au/about-westpac/.

Westpac's total tax contributions for 2018 and 2019 are set out in Table 1 overleaf.

¹ Based on the ATO's Corporate Tax Transparency Report for the 2017-18 Income Year, published December 2019.

Table 1: Taxes (including the Major Bank Levy) Paid by the Westpac Group

Type	2019 A\$m					2018 A\$m				
	Australia- Westpac Bank ²	Australia – subsidiaries (that separately pay tax) ³	New Zealand	Other offshore	TOTAL	Australia- Westpac Bank ²	Australia – subsidiaries (that separately pay tax) ³	New Zealand	Other offshore	TOTAL
Corporate Income Taxes Paid ⁴	3,033	21	402	44	3,500	3,285	26	368	49	3,728
Major Bank Levy ⁵	388	-	-	-	388	377	-	-	-	377
Non- recoverable GST	285	-	33	1	319	264	-	35	3	302
Payroll Tax ⁶	208	-	-	-	208	201	2	-	-	203
Fringe Benefits Tax ⁷	17	-	4	-	21	17	-	4	-	21
Other ⁸	-	-	-	13	13	-	-	-	14	14
TOTAL	3,931	21	439	58	4,449	4,144	28	407	66	4,645

² This is the amount of Australian tax paid by the Westpac Australian Tax Consolidated Group/Westpac Australian GST Group where applicable. Under Australian income tax law, wholly owned corporate groups can consolidate themselves into a single entity and pay corporate income tax as one entity. For its Australian operations, Westpac and its wholly owned Australian subsidiaries are part of one Westpac Australian Tax Consolidated Group. Under GST Law, two or more entities are permitted to consolidate their GST reporting and payment obligations by forming a GST group. For its Australian operations, all Westpac entities (that are at least 90% owned) are consolidated into the Westpac Australian GST Group.

³ Australian subsidiaries that are not wholly owned by Westpac pay tax separately from Westpac.

⁴ This represents the amount actually paid to the Revenue Authorities globally for income tax during the financial year ended 30 September.

⁵ From 1 July 2017 the Major Bank Levy began to apply to Westpac. This is calculated at the rate of 0.06% per annum of certain Authorised Deposit Taking Institution (ADI) liabilities. This is the amount that was actually paid during the financial year ended 30 September.

⁶ This represents the amount of Payroll tax actually paid to State Revenue Authorities during the financial year ended 30 September.

⁷ This is the amount of Fringe Benefits Taxes (FBT) actually paid in Australia and New Zealand during the financial year ended 30 September.

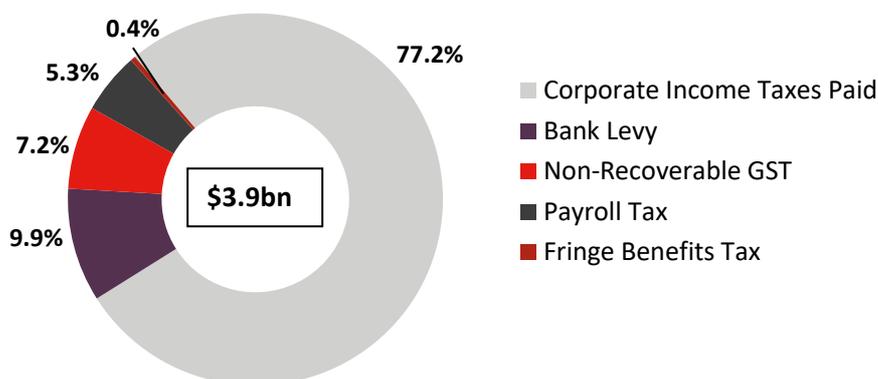
⁸ This includes various taxes incurred by our offshore branches and subsidiaries, however, does not include all state taxes, levies and charges that Westpac pays.

In addition to the taxes paid, Westpac also collects significant taxes on behalf of the Australian Government. Table 2 below provides the amounts collected by Westpac.

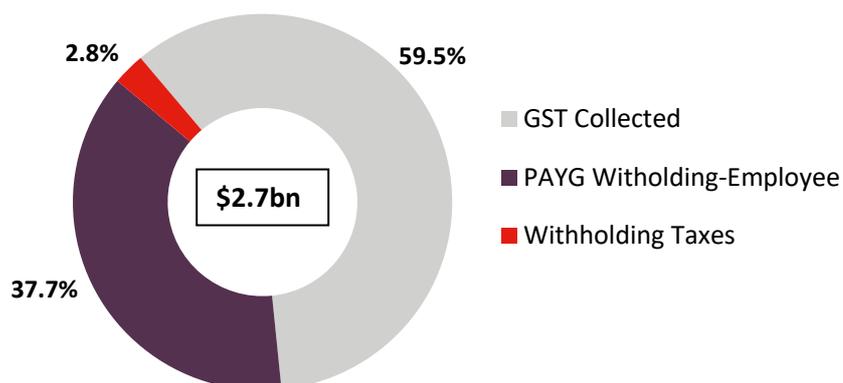
Table 2: Taxes Collected on behalf of the Australian Government

Tax Type	Australia – Westpac Bank ⁹	
	2019 A\$m	2018 A\$m
Withholding Taxes ¹⁰	75	80
GST Collected	1,620	1,685
PAYG Withholding - Employees ¹¹	1,027	1,003
TOTAL	2,722	2,768

Taxes Paid by Type - Australia Westpac (%)⁹



Taxes Collected by Type - Australia Westpac (%)⁹



⁹ These are the taxes (including the Major Bank Levy) collected or paid by the Westpac Australian Tax Consolidated Group/Westpac Australian GST Group where applicable for the financial year ended 30 September.

¹⁰ This includes TFN withholding, ABN withholding, interest withholding tax and royalty withholding tax.

¹¹ This represents the income tax withheld from employee remuneration.

Westpac Group's Effective Income Tax Rate

Westpac's effective income tax rate for 2019 was 30.4% (2018: 31.0%). This is the rate recognised in the financial statements included in our 2019 Annual Report (Financial Statements) and is calculated as income tax expense divided by the Profit before income tax. The effective income tax rate is similar to Australia's corporate tax rate of 30%. The difference is principally due to non-temporary differences like non-deductible hybrid distributions. It also reflects differing treatments arising under accounting and tax rules for some items. If we include the Major Bank Levy the effective tax rate for 2019 becomes 34%. Table 3 provides a summary of Westpac's effective income tax rates.

Table 3: Effective Income Tax Rates

Jurisdiction	2019		2018	
	% of Profit before income tax	Effective income tax rate	% of Profit before income tax	Effective income tax rate
Australia	82.8%	31.3%	85.4%	31.7%
New Zealand	14.9%	27.5%	12.2%	27.5%
Other offshore	2.3%	14.8%	2.4%	21.4%
TOTAL	100%	30.4%	100%	31.0%

Westpac Group's Income Tax Paid and Income Tax Expense

Income Tax Expense (ITE) as presented in Note 7 (Income Tax) to the Financial Statements, was \$2,959m for 2019.

Table 4 reconciles Profit before income tax to Taxes Paid. In Table 4, "Non-Temporary Differences" represent the differences between tax and accounting that never reverse over time. "Temporary Differences" represent the differences between the time transactions are recognised for accounting purposes and when they are recognised for income tax purposes.

Table 4: Reconciliation of Accounting Profit to Income Tax Paid

	2019 A\$m	2018 A\$m
Profit before income tax	9,749	11,731
Tax at the Australian company tax rate of 30%	2,925	3,519
<i>Non-Temporary Differences:</i>		
Hybrid capital distributions ¹²	72	69
Life insurance:		
Tax adjustments on policyholder earnings ¹³	8	24
Adjustment for life business tax rates	(1)	(1)

¹² This represents interest payments paid on Hybrid distributions which are equity for tax purposes and therefore non-deductible.

¹³ The tax adjustment on policyholder earnings is related to the income tax expense on investment earnings attributable to insurance policyholders instead of the Group. Therefore, it is separately disclosed in Note 7 (Income Tax) to the Financial Statements and Table 4.

<i>Non-Temporary Differences cont.:</i>		
	2019 A\$m	2018 A\$m
Dividend adjustments ¹⁴	(1)	(1)
Other non-assessable items ¹⁵	(14)	(5)
Other non-deductible items ¹⁶	12	64
Adjustment for overseas tax rates ¹⁷	(32)	(28)
Income Tax (over)/under provided in prior years ¹⁸	(10)	9
Other items	-	(18)
Total Income Tax Expense per Note 7 in the Financial Statements	2,959	3,632
<i>Temporary Differences (movement):</i>		
Provisions for impairment charges on loans ¹⁹	(827)	(20)
Provisions for expected credit losses on loans ¹⁹	802	-
Financial instruments	(3)	5
Finance lease transactions	(72)	(52)
Life insurance assets	(6)	(4)
Other provisions	365	(14)
Other timing differences	142	166
Total Temporary Differences (movement)	401	81
Other tax adjustments ²⁰	140	15
Total Corporate Income Tax Paid by Westpac Group Globally	3,500	3,728

¹⁴ This represents the adjustment in regards to franking credits for the receipt of franked dividends from non-accounting consolidated entities.

¹⁵ These are amounts that have been included in accounting income however are not assessable for tax purposes.

¹⁶ These are amounts which are expensed for accounting purposes but are non-deductible for tax purposes.

¹⁷ This represents the adjustments on corporate tax rates between Australia and the offshore jurisdictions where we operate.

¹⁸ This represents prior year tax adjustments.

¹⁹ On the adoption of AASB 9 the existing provision for impairment charges on loans recognised based on the requirements of the previous accounting standard AASB 139 was reversed and replaced by the provision for expected credit losses.

²⁰ This amount represents income tax payments and temporary differences that relate to a year that is different to the current year. For example, Corporate Income Tax Paid for a financial year will include the final instalment of income tax for the preceding financial year.

Westpac Group's Tax Strategy

Westpac's approach to tax is approved by the Board and is aligned with the Group's commercial, reputational and business practices and its commitment to corporate responsibility.

The Australian Group Tax Function (Group Tax) has day-to-day responsibility for managing global tax risk and strategy in accordance with Board risk limits. Our tax functions located in New Zealand, US, UK, and Asia assist Group Tax in this process.

Key elements of our approach to tax include:

- complying with all applicable tax laws, rules and regulations in all the countries where the Group operates;
- not participating in or promoting aggressive tax planning arrangements (either for our own tax affairs or for our customers);
- a policy prohibiting conduct that facilitates tax evasion;
- ensuring tax compliance – including the associated control environment and business processes;
- paying tax in all the jurisdictions where the Group operates, based on underlying economic activity;
- complying with arm's length principles for international related party and intra-group transactions;
- applying a low tax risk threshold and managing tax risk to avoid unnecessary disputes;
- seeking constructive, collaborative and transparent working relationships with the Australian Taxation Office (ATO) and other international tax authorities where we have operations, which may include entering into various co-operative compliance arrangements²¹; and
- pro-actively managing and monitoring compliance with the above principles.

Westpac's strategy and risk governance process for taxation matters is supported through its Tax Risk Management Framework (the Framework) that operates in Australia and all the countries where we have operations. The Framework is approved by the Board Audit Committee and aligns to the Group's risk and compliance frameworks. The Framework:

- applies to all employees (and contractors) of the Group;
- adopts a Three Lines of Defence approach to risk management where 'risk is everyone's business';
- covers both financial and reputational risk;
- sets out the products, transactions and events that require notification to and/or sign-off by the applicable tax function(s);
- ensures that we seek external tax advice for material transactions;
- requires that significant, uncertain or complex issues are proactively disclosed to the relevant revenue authorities and that tax rulings or similar approvals are sought where appropriate;
- provides a mechanism for the escalation of material tax matters and ensures that material tax risk is reported to (and overseen by) the Board Audit Committee; and
- is actively monitored by Group Tax which reports through to the Chief Financial Officer.

We maintain a transparent and constructive relationship with the ATO and other revenue authorities in countries where we have operations. This is illustrated by the risk rating given to Westpac by the ATO in prior years. Westpac was always considered a 'Key Taxpayer' for both income tax and GST (the best

²¹ Including adopting the UK Code of Practice on Taxation for Banks (refer: <https://www.gov.uk/government/publications/code-practice-taxation-banks/code-of-practice-on-taxation-for-banks>).

possible risk rating that could be attained taking into account the size and complexity of our Australian operations).

The ATO is now undertaking assurance reviews of all large companies as part of its approach to Justified Trust. Westpac continues to work in an open and co-operative way with the ATO, with the aim of achieving a high level of assurance over time.

Westpac's International Related Party Dealings

Westpac has a number of branches and subsidiaries outside Australia, including major operations in New Zealand.

Westpac also has overseas branches and/or subsidiaries in the United Kingdom, United States, Singapore, China, Hong Kong, India, Papua New Guinea (PNG) and Fiji which provide wholesale banking products and services. PNG and Fiji also provide retail banking products and services.

Westpac's business in these offshore regions supports customer activity and our international dealings support this customer activity, along with the administrative functions and staff associated with managing our business in these markets. The type of dealings with our offshore subsidiaries and branches are summarised in Table 5:

Table 5: Material transactions Westpac undertakes with its' Offshore Subsidiaries and Branches

Transaction type	Jurisdiction
Derivatives – comprises swaps, options, forwards and futures contracts with offshore branches and subsidiaries	NZ, UK, China, Singapore
Loans – comprises loans to and/or from offshore branches and subsidiaries	Singapore, USA, NZ, UK
Dividends – comprises dividends from offshore subsidiaries	NZ, PNG
Administrative and management services – Westpac Australia undertakes these services for offshore branches and subsidiaries.	NZ, UK, Singapore, PNG

Westpac applies tax transfer pricing principles and documentation requirements under the local country laws for each jurisdiction where we have operations and follows Organisation for Economic Co-operation and Development (OECD) guidelines. In transfer pricing matters, Westpac has transparent working relationships with the ATO and other tax authorities globally, so they understand the nature of the transactions being undertaken. This can include entering into certain arrangements such as Advanced Pricing Agreements from time to time.

Australian Tax Return Information Published by the ATO

In December 2019, the ATO reported Australian tax information for Westpac and a number of other large public companies relating to the 2018 year. The ATO also included general guidance material on its website.

The information that was reported for Westpac is shown in Table 6 below:

Table 6: Report of Entity Tax Information

Westpac Banking Corporation	
ABN 33 007 457 141	
All figures in A\$m	
Total Income	39,199 ²²
Taxable Income	11,377 ²³
Income Tax Payable	3,251²⁴

The above information relates to the income tax payable by the Westpac Australian Tax Consolidated Group for the 2018 year. It does not reflect tax payable on Westpac's offshore operations or other non-wholly owned subsidiaries (that separately pay tax).

Income tax payable is prima facie 30% of taxable income, however Westpac's income tax rate was approximately 28.58%²⁵. This reflects the effect of specific items prescribed by the tax law, as represented in the graph overleaf.

²² Total Income as reported by the ATO is the gross income earned by the Westpac Australian Tax Consolidated Group, before deductions/expenses are applied. This differs from the Group's global total income in the Financial Statements because it does not include income earned by the Group's offshore operations and non-wholly owned subsidiaries, but it does include income earned from transactions with these offshore branches and subsidiaries (e.g. intragroup interest and dividends).

²³ Taxable Income for the Westpac Australian Tax Consolidated Group is arrived at by deducting a range of expenses from its Total Income (such as funding and operating costs) and making other adjustments required by tax law. Taxable Income differs from the broader Group's profit before income tax in the Financial Statements because it includes adjustments for:

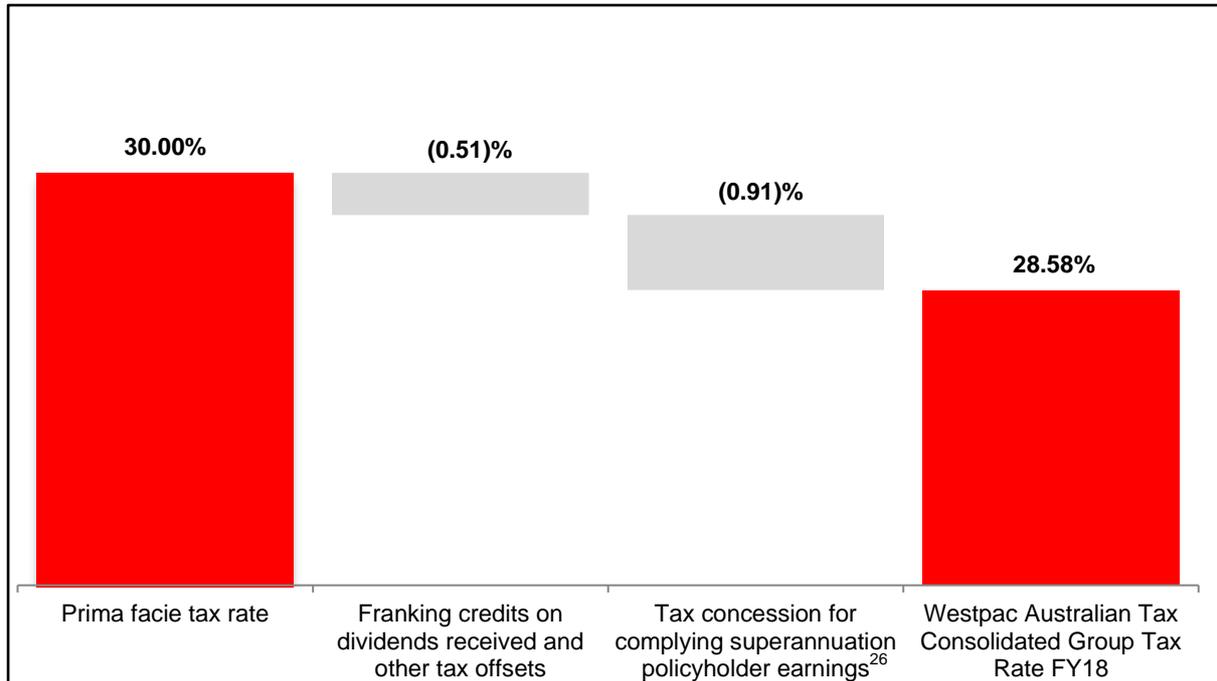
- non-temporary differences (items that are included for accounting purposes and not for tax (or vice versa)); and
- temporary differences (items that are recognised in different periods for accounting and tax). These are covered in Table 4 of this Report.

²⁴ Income Tax Payable is the Westpac Australian Tax Consolidated Group's income tax liability for 2018. Of the \$3,251m, \$3,076m tax was paid in FY18 and the \$175m balance was paid in FY19. It differs to the Corporate Income tax paid of \$3,285m disclosed in Table 1 of this report, as that is the actual amount of tax paid during FY18.

²⁵ The rate of 28.58% differs from the effective income tax rate of 31.7% shown in Table 3 of this report for Australia because:

- The accounting consolidated group includes Australian subsidiaries that are not wholly owned and are therefore excluded from the above calculation; and
- The rate reflects both non-temporary and temporary differences whereas the effective income tax rate for accounting purposes in Table 3 reflects only non-temporary differences.

Table 7: Reconciliation between the Australian Corporate Income tax rate and the Westpac Australian Tax consolidated Group Income Tax rate for FY18



²⁶ The Tax Concession for complying superannuation policyholder earnings relates to income that is earned on investment assets held by Westpac Life Insurance Services Limited for the benefit of policyholders which are complying superannuation funds and is taxed at 15%.