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Dear Shareholder

Australian tax implications of the CYBG PLC Demerger

National Australia Bank Limited (NAB) has now completed the Demerger of CYBG PLC (CYBG), a UK based banking business, from NAB.

The purpose of this letter is to provide you with information regarding the Australian capital gains tax (CGT) implications of the Demerger for your NAB Shares and the CYBG Securities that were distributed to you (this is relevant even if you elected to use the Sale Facility offered as part of the Demerger).

The Demerger may result in a CGT event for your NAB Shares and you will need certain information to manage your tax affairs.

NAB has obtained a class ruling from the Australian Taxation Office (ATO) on the tax implications of the Demerger for Australian tax resident NAB Shareholders who hold their NAB Shares on capital account. Australian tax resident NAB Shareholders should consult the Class Ruling when considering the tax implications of the Demerger. A copy of the Class Ruling is available at www.nab.com.au/CYBGdemerger

Class Ruling CR 2016/13 confirms that:

- The receipt of CYBG Securities **is not an assessable dividend**.
- For CGT purposes, you are treated as having acquired the CYBG Securities on **8 February 2016** for their market value, which is **\$4.01 per CYBG Security**. This is based on the volume weighted average price of CYBG Securities over the first five trading days on the Australian Securities Exchange (ASX) and the London Stock Exchange (LSE). This is relevant for when you sell your CYBG Securities.
- If you acquired your NAB Shares on or after 20 September 1985, the receipt of CYBG Securities results in a CGT event in respect of your NAB Shares. The **CGT cost base** of each of your NAB Shares will be **reduced** (but not below nil) by the Reduction Amount per NAB Share (see next bullet point). This is relevant for when you sell your NAB Shares.
- The **Reduction Amount** for each of your NAB Shares is calculated by dividing the Aggregate Value of the CYBG Securities that you were entitled to by the number of NAB Shares you held on the Demerger Record Date¹. The **Aggregate Value** of the CYBG Securities for tax purposes is calculated by multiplying the market value of the CYBG Securities (\$4.01 per CYBG Security) by the number of CYBG Securities that you were entitled to.
- If the Reduction Amount exceeds the CGT cost base of any of your NAB Shares, the CGT cost base of those NAB Shares will be reduced to nil and you will make a capital gain equal to the excess. If you acquired your NAB Shares prior to 8 February 2015 you may be entitled to the CGT discount on any capital gain you make.

¹ The **Demerger Record Date** was 7:00pm on 5 February 2016.

- You may make a capital gain or loss if you sell your CYBG Securities. If your CYBG Securities are being sold through the Sale Facility offered as part of the Demerger or you choose to sell your CYBG Securities before 9 February 2017, you will not be entitled to a CGT discount on any capital gains that you make.
- If you elected to use the Sale Facility offered as part of the Demerger and also elected to donate the proceeds to the charity ShareGift Australia, you may be able to claim a **tax deduction** for the amount donated.

Some Frequently Asked Questions and Worked Examples to assist you to understand the Australian tax implications of the Demerger are attached.

While the focus of this letter is on the Australian tax implications of the Demerger, a number of NAB Shareholders have asked about the Australian tax treatment of any **dividends CYBG may pay** in the future. CYBG is a UK domiciled company and as such any dividends CYBG may pay in the future will generally be assessable, but will not carry franking credits.

Thank you for your continued loyalty as a NAB Shareholder.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Louise Thomson', written in a cursive style.

Louise Thomson
Company Secretary

Important information

This letter is a summary only and does not constitute tax advice. The information contained in this letter does not take into account your individual investment objectives, financial situation or requirements and only considers the Australian tax implications for Australian tax residents. You should consult with your own independent tax adviser regarding the tax implications of the Demerger relevant to your particular circumstances.

Frequently Asked Questions

Q1. Do the CYBG Securities that I was entitled to get taxed as a dividend?

- A. No. The Aggregate Value of the CYBG Securities that you were entitled to (whether distributed to you or being sold through the Sale Facility) will not be treated as a taxable dividend for Australian tax purposes. Instead, the Aggregate Value of the CYBG Securities will reduce the CGT cost base of your NAB Shares. This is illustrated in Worked Examples 1 and 2.

Q2. What is the CGT cost base of the CYBG Securities?

- A. The CGT cost base of the CYBG Securities as set out in the Class Ruling CR 2016/13 is \$4.01 per CYBG Security. The Aggregate Value of your CYBG Securities is \$4.01 multiplied by the number of CYBG Securities that you were entitled to.

Q3. Do I make a capital gain on my NAB Shares?

- A. For most shareholders, you will not make a capital gain purely as a result of the Demerger but there may be CGT implications that you need to be aware of.

If you acquired any of your NAB Shares on or before 19 September 1985, there will be no CGT implications for those NAB Shares in relation to the Demerger. Question 2 above is still relevant to you because you have acquired CYBG Securities in connection with the Demerger.

If you acquired any of your NAB Shares on or after 20 September 1985, you will need to reduce the CGT cost base of each of your NAB Shares by the Reduction Amount (but not below nil – see below if this scenario applies to you).

The Reduction Amount for each of your NAB Shares is calculated by dividing the Aggregate Value of the CYBG Securities that you were entitled to by the number of NAB Shares you held on the Demerger Record Date (see Question 2 above for information on how to calculate the Aggregate Value of your CYBG Securities). This is important for working out any capital gains or losses arising from the sale of your NAB Shares in the future.

If you acquired NAB Shares on or after 20 September 1985 and the CGT cost base for any of those NAB Shares is below the Reduction Amount, a capital gain will arise in respect of those shares. The amount of the capital gain will be equal to the excess of the Reduction Amount over the CGT cost base of each NAB Share. If you acquired your NAB shares prior to 8 February 2015 you may be entitled to the CGT discount on any capital gain you make.

Q4. What are the tax consequences if I elected to use the Sale Facility?

- A. You may make a capital gain or loss if you elected to sell the CYBG Securities you were entitled to in the Sale Facility offered in connection with the Demerger. The amount of the capital gain or loss will be the difference between the proceeds from the Sale Facility and the Aggregate Value of the CYBG Securities sold (see Question 2 above for information on how to calculate the Aggregate Value of your CYBG Securities).

Q5. What if I elected to donate my proceeds to the charity ShareGift Australia?

- A. You may be able to claim a tax deduction for the amount of the Sale Proceeds if you elected to donate the proceeds to the charity ShareGift Australia. You will need to keep the receipt from ShareGift Australia to substantiate the tax deduction.

You are still liable for any CGT arising from the sale of your CYBG Securities, the proceeds of which you donated to ShareGift Australia (see Question 4 above).

Q6. What happens if I have acquired multiple parcels of NAB Shares over time? How do I work out which CGT cost base to reduce?

- A. As each NAB Share you hold is a separate CGT asset, you will need to calculate the CGT cost base of each NAB Share separately. You will need to reduce the CGT cost base of each NAB Share by the Reduction Amount.

Worked Examples

Example 1

John owns 1,000 NAB Shares, which he purchased in 2013 for \$30,000 (i.e. \$30.00 per share) (**Parcel 1**). John also bought another 1,000 NAB Shares in 2014 for \$31,000 (i.e. \$31.00 per share) (**Parcel 2**).

John was entitled to receive 500 CYBG Securities under the Demerger². John elected to sell the CYBG Securities he was entitled to via the Sale Facility. John received \$2,500 from the Sale Facility³.

What happens to John's NAB Shares?

For tax purposes, the Aggregate Value of the CYBG Securities that John was entitled to is \$2,005 (500 CYBG Securities X market value of \$4.01 per CYBG Security).

The Reduction Amount per NAB Share is calculated by dividing the Aggregate Value by the number of NAB Shares John held on the Demerger Record Date ($\$2,005 \div 2,000$ NAB Shares = \$1.0025).

As the Reduction Amount for each of his NAB Shares does not exceed the CGT cost base of any of his NAB Shares (i.e. \$1.0025 is less than the CGT cost base of each of the NAB Shares in Parcel 1 and Parcel 2), John does not realise an immediate capital gain on his NAB Shares as a result of the Demerger.

John needs to reduce the CGT cost base of each of his NAB Shares by \$1.0025. The adjusted CGT cost base of each of his NAB Shares is calculated as follows:

- **Parcel 1**

Original CGT cost base for each of the 1,000 NAB Shares in Parcel 1 is \$30.00 per NAB Share (i.e. the original purchase price of those NAB Shares).

Adjusted CGT cost base per NAB Share is \$28.9975 (i.e. \$30.00 less \$1.0025).

- **Parcel 2**

Original CGT cost base for each of the 1,000 NAB Shares in Parcel 2 is \$31.00 per NAB Share (i.e. the original purchase price of those NAB Shares).

Adjusted CGT cost base per NAB Share is \$29.9975 (i.e. \$31.00 less \$1.0025).

This is relevant to John for calculating any CGT implications if he chooses to sell his NAB Shares in the future.

What are the tax consequences of selling John's CYBG Securities through the Sale Facility?

John had a CGT event when his CYBG Securities were sold through the Sale Facility. He needs to work out his capital gain or loss from selling his CYBG Securities.

For CGT purposes, John is treated as having acquired his CYBG Securities for \$2,005 on 8 February 2016 (i.e. 500 CYBG Securities X market value of \$4.01 per CYBG Security).

If his CYBG Securities are sold for \$2,500, he makes a capital gain of \$495 (i.e. \$2,500 less \$2,005). John is not entitled to the 50% CGT discount on the gain as he has not held his CYBG Securities for at least 12 months before the sale.

If John also elected to donate the proceeds from the Sale Facility to the charity ShareGift Australia, what are the tax consequences?

John may be entitled to claim a tax deduction of \$2,500 (being the amount of the proceeds from the Sale Facility) if he elected to make a donation to the charity ShareGift Australia. John should keep the receipt from ShareGift Australia to substantiate the tax deduction.

John will still be liable for CGT arising from the sale of his CYBG Securities, the proceeds of which were donated (see above).

Example 2

As for Example 1, however, John did not elect to use the Sale Facility. Instead, John sold his CYBG Securities in March 2017 and received \$3,000⁴.

What are the tax consequences for John?

John makes a capital gain of \$995 (i.e. \$3,000 less \$2,005). John may be entitled to utilise the 50% CGT discount, as he will have held the CYBG Securities for at least 12 months before the sale.

² Each NAB Shareholder was entitled to 1 CYBG Security for every 4 NAB Shares that they held on the Demerger Record Date (rounded down to the nearest whole number of CYBG Securities).

³ Illustrative purposes only.

⁴ Illustrative purposes only.