



Citi Australia & New Zealand Tax Transparency Report

1 Statement from Chief Financial Officer

Citigroup is pleased to make public disclosure in this report of its tax affairs in Australia and New Zealand. Citigroup embraces openness and transparency. We believe these attributes of our behavior enhance our relationships with the community, regulators, and governments around the world.

Globalization and digitalization have been strong enablers of tax transparency. The introduction of customer information reporting regimes such as FATCA and the OECD *Common Reporting Standard for Automatic Exchange of Financial Account Information* have enabled customer data to be shared between tax authorities on a global basis. Citigroup supports all such initiatives to curb tax evasion, which undermines the integrity of the tax system and introduces distortions between citizens who comply with their tax obligations and those who do not. Taxes are the price we all pay for a civilized society.

This report outlines the taxes Citigroup pays to the Australian Taxation Office and the New Zealand Inland Revenue Department on its income earned in Australia and New Zealand. The report adopts the format recommended to the Australian government by the Board of Taxation in its 2016 final report *A Tax Transparency Code*. This report covers both Citigroup Pty Ltd and Citibank N.A. as signatories to the public register of companies who have committed to applying the principles and the details of the *Corporate Tax Transparency Code*.

A handwritten signature in black ink, appearing to read "T. Sedgwick". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Tim Sedgwick
Chief Financial Officer
Australia & New Zealand

15th July 2017

2 Citigroup Tax Policy, Strategy, and Governance

2.1 Citigroup Value Proposition and Tax Policy

The following *Citi Value Proposition* applies to everything Citigroup does.

Citi's mission is to serve as a trusted partner to our clients by responsibly providing financial services that enable growth and economic progress. Our core activities are safeguarding assets, lending money, making payments and accessing the capital markets on behalf of our clients. We have 200 years of experience helping our clients meet the world's toughest challenges and embrace its greatest opportunities. We are Citi, the global bank – an institution connecting millions of people across hundreds of countries and cities.

This Value Proposition specifically means that all our actions are required to pass each of the following tests.

*Is it in the best interests of our clients?
Does it create economic value?
Is it systemically responsible?*

In addition, Citigroup has a specific Tax Policy which establishes detailed guidance and processes for tax risk management in relation to complex matters. The Tax Policy applies to all transactions entered into by Citigroup anywhere in the world, or marketed to clients, where either: tax considerations may provide a significant reason for the transaction; or there is an arbitrage between tax and accounting or regulatory outcomes. The policy requires that all such transactions: receive specific approval by a formal product governance committee; must have economic consequences other than tax; and *inter alia* must not contain off-market terms or prices or involve a circular flow of funds.

2.2 Governance

Tax issues and risks are not excluded from the corporate governance and internal control frameworks. Tax issues and emerging risks are regularly escalated to the Audit Committee of the Board of Directors of Citigroup Pty Ltd. In addition, they are escalated to Business Risk Compliance and Control Committees which meets on a quarterly basis to review all risks across all entities in each of the Australian and New Zealand operations of Citigroup.

2.3 Risk Appetite and attitude

We do not enter into transactions or adopt positions which are likely to lead to disputes with the tax authorities. We consider such disputes unproductive. Where tax law is complex, or uncertain we apply the position most likely to be upheld by both the tax authorities and the courts. We proactively manage significant tax risks by seeking rulings from the tax authorities.

2.4 Operational Risk Management

Tax risk is managed like any other operational risk. Key processes, risks, and controls are mapped into a comprehensive risk management system. Control effectiveness is tested by management and an overall risk assessment is made on a quarterly basis.

That process is also reviewed by internal audit in the following ways.

- ❑ Design Effectiveness Assessment, which is whether the control is the right control, applied by the right person, at the right time.
- ❑ Operational Effective Testing, which is whether the control operated successfully to prevent or detect process failures.

Key controls utilized by Group Tax include: process manuals, automated task reminders, and tailored checklists.

Tax law and its administration are constantly changing. Citigroup has a sufficiently well resourced in house Group Tax function which continually monitors these changes and proposals to ensure our systems and processes are up to date.

2.5 Engagement with Tax Authorities

Citigroup's tax affairs are regularly reviewed by the Australian Taxation Office and the New Zealand Inland Revenue Department as part of their usual ongoing compliance activities.

We value our relationships with these revenue authorities and strive to address all their enquiries promptly, clearly, and with full disclosure of all the relevant facts. When we disagree, we seek to resolve the issue through transparent disclosure and full discussion.

3 Reconciliation of Accounting Profit to Income Tax Expense and from Income Tax Expense to Income Tax Paid

3.1 Citigroup Pty Ltd consolidated income tax return

Citigroup Pty Ltd files a consolidated income tax return in respect of all Citigroup companies incorporated in Australia. That single consolidated return aggregates the results of the following Australian entities and their subsidiaries: Citigroup Pty Ltd, Diners Club Pty Ltd, Citicorp Pty Ltd, and Citigroup Global Markets Australia Holdings Pty Ltd.

Citigroup Pty Ltd MEC Tax Consolidated Group	31-December-2016 AUD millions	31-December-2015 AUD millions
Accounting Profit (loss) before Tax Expense	280.14	299.28
Corporate income tax rate	30%	30%
Prima facie income tax at corporate tax rate	84.04	89.78
<i>Increased by Permanent Differences</i>		
Expenses not deductible for tax purposes	0.66	0.94
Prior year under (over) provision	-0.12	-2.33
Income Tax Expense per annual Financial Statements	84.58	88.39
Effective Tax Rate calculated as Current & Deferred Income Tax Expense on Current Year Accounting Profit	30.2%	29.5%
<i>Adjusted by Temporary Differences</i>		
Reduction in accounting provisions and reserves not assessable under Australian law	-15.24	-6.67
Change in accounting provisions for employee entitlements not deductible until paid	-0.90	-1.40
Difference between depreciation & amortisation expense for accounting and tax	-1.32	-4.57
Remove accounting for Prior year under/over provision	0.12	2.33
Income Tax Paid to the ATO on current year Profit/Loss	67.24	78.08
Effective Tax Rate calculated as Income Tax Paid to the ATO on Current Year Accounting Profit	24.0%	26.1%

The above amounts reconcile to the disclosures published by the ATO as follows. The ATO publishes the amounts shown in blue. Total Income is not a calculation of profit. It represents Gross Accounting Revenues from all sources before any expenses.

Citigroup Pty Ltd MEC Tax Consolidated Group	31-December-2016 AUD millions	31-December-2015 AUD millions
Total Income	2180.66	2,461.55
less Expenses	1900.52	2,162.27
Accounting Profit (loss) before Tax Expense	280.14	299.28
Aggregate of all permanent and temporary differences shown above <i>before</i> applying the corporate tax rate	-56.00	-39.00
Taxable Income	224.14	260.28
Corporate income tax rate	30%	30%
Tax Payable	67.24	78.08

3.2 Citibank N.A., Australia branch income tax return

Citigroup also carries on business in Australia through an Australian branch of Citibank N.A., which is a bank incorporated in the United States. Australian law does not permit this branch to be included in the above consolidated return. Accordingly, a separate income tax return is filed for the branch on the following basis.

Citibank N.A., Australia Branch	31-December-2016	31-December-2015
	AUD millions	AUD millions
Accounting Profit (Loss) before Tax Expense	320.2	117.81
Corporate income tax rate	30%	30%
Prima facie income tax at corporate tax rate	96.06	35.34
<i>Increased by Permanent Differences</i>		
Interest expense paid to offshore branches not deductible under Australian law	1.74	1.73
Revenue received by offshore branches from Australian based customers taxable under Australian rules	0.00	4.72
Prior year under (over) provision	0.40	3.60
Income Tax Expense per annual Financial Statements	98.20	45.39
Effective Tax Rate calculated as Current & Deferred Income Tax Expense on Current Year Accounting Profit	30.7%	38.5%
<i>Adjusted by Temporary Differences</i>		
Change in accounting provisions for Credit Value and Funding Value Adjustment to derivatives not deductible under Australian law	-3.71	8.26
Remove accounting for Prior year under/over provision	-0.40	-3.60
Income Tax Paid to the ATO on current year Profit/Loss	94.09	50.05
Effective Tax Rate calculated as Income Tax Paid to the ATO on Current Year Accounting Profit	29.4%	42.5%

Australian law contains specific rules for the taxation of foreign companies operating in Australia through branches of the foreign company. In brief, not all expenses incurred, or income derived, by the branch are recognized for Australian tax purposes. The adjustments made to the accounting profit of the branch to give effect to these rules are permanent differences, which increase both Current Tax Expense and Income Tax Expense.

The above amounts reconcile to the disclosures published by the ATO as follows. The ATO publishes the amounts shown in blue. Total Income is not a calculation of profit. It represents Gross Accounting Revenues from all sources before any expenses.

Citibank N.A., Australia Branch	31-December-2016	31-December-2015
	AUD millions	AUD millions
Total Income	722.44	571.30
less Expenses	402.24	453.49
Accounting Profit (loss) before Tax Expense	320.20	117.81
Aggregate of all permanent and temporary differences shown above before applying the corporate tax rate	-6.57	49.03
Taxable Income	313.63	166.84
Corporate income tax rate	30%	30%
Tax Payable	94.09	50.05

3.3 Citibank N.A., New Zealand branch income tax return

Citigroup also carries on business in New Zealand through a branch of Citibank N.A. The New Zealand branch files an income tax return with the New Zealand Inland Revenue Department on the following basis.

Citibank N.A., New Zealand Branch	31-December-2016	31-December-2015
	NZD millions	NZD millions
Accounting Profit (Loss) before Tax Expense	26.83	27.57
Corporate income tax rate	28%	28%
Prima facie income tax at corporate tax rate	7.51	7.72
<i>Increased by Permanent Differences</i>		
Expenses paid to offshore branches not deductible under New Zealand law	0.04	0.04
Other expenses not deductible	0.04	0.04
Prior year under (over) provision	-0.08	0.01
Income Tax Expense per annual Financial Statements	7.51	7.81
Effective Tax Rate calculated as Current & Deferred Income Tax Expense on Current Year Accounting Profit	28.0%	28.3%
<i>Adjusted by Temporary Differences</i>		
Unrealised gains (losses) on Government securities Available For Sale not recognised in accounting profit	0.00	0.07
Difference between depreciation expense for accounting and tax purposes	0.01	0.00
Change in accounting provisions for employee entitlements not deductible until paid	-0.14	-0.12
Remove accounting for Prior year under/over provision	0.08	-0.01
Income Tax Paid to the IRD on current year Profit	7.46	7.75
Effective Tax Rate calculated as Income Tax Paid to the IRD on Current Year Accounting Profit	27.8%	28.1%

4 How Effective Tax Rates have been calculated

4.1 Income Tax Expense

The 1st Effective Tax Rate shown in the Tables above is calculated as Income Tax Expense for accounting purposes divided by Accounting Profit before Taxes. Income Tax Expense for accounting purposes is the sum of Current Tax Expense, Deferred Tax Expense, Prior Year adjustments, and Provision for any Uncertain Tax Liabilities.

Current Tax Expense represents the amount of income tax payable (whether in the current or subsequent financial years) on the accounting profit earned in the current financial year.

Deferred Tax Expense represents the movement in temporary differences. Temporary Differences are items for which the law requires companies to recognize an item for tax purposes on a basis different to when it recorded the expense for accounting purposes. For example, provisions for employee entitlements are expensed for accounting purposes but a deduction is deferred for tax purposes until those entitlements are actually paid to employees.

Prior year adjustments represent current year accounting expense for income tax payable in relation to prior years, such as an amendment to a prior year income tax return, any audit adjustment, and (more commonly) amounts relating to the prior year income tax return provided which were not for in the prior year accounting expense.

4.2 Income Tax Paid

The 2nd Effective Tax Rate shown in the Tables above is calculated as cash income tax that has been paid to the ATO or IRD in relation to that year divided by Accounting Profit for that year.

In the tables above, where the amount of tax paid was less (greater) than Income Tax Expense this typically occurs because the amount of temporary differences, such as provisions for employee entitlements decreased (increased). In effect, the company became entitled to take a tax deduction in the current year for amounts paid during the current year, but expensed for accounting purposes in prior years.

5 Effective Tax Rate for Citigroup globally

Each of the Australian and New Zealand entities shown above is wholly owned by and consolidated into the ultimate global parent entity Citigroup Inc., which is incorporated in the United States and listed on the NYSE. The global effective tax rate for Citigroup Inc. is shown below and is calculated as Income Tax Expense for accounting purposes divided by Accounting Profit before Taxes.

Citigroup Inc	31-December-2016	31-December-2015
	USD millions	USD millions
Accounting Profit before income tax expense	21,477	24,826
Income Tax Expense	6,444	7,440
Global Effective Tax Rate	30.0%	30.0%

6 Summary of International related party dealings

Citigroup is one of the world's largest financial institutions. The Australian and New Zealand operations are part of a truly global business. This inherently involves substantial related party dealings. The most significant related parties are located in the United States, the United Kingdom, Ireland, Singapore, Malaysia, Hong Kong, The Philippines, India, and China. The major types of such dealings are as follows.

6.1 Financial Instruments

Financial instruments, such as those listed below, entered into with related parties are priced in accordance with the arm's length principle.

- Cash balances and loans
- Foreign exchange
- Interest rate and cross-currency derivatives
- Securities repurchase and stock lending

6.2 Products provided to Australian and New Zealand customers from offshore

Some products and services are provided from offshore to Australian and New Zealand based customers. Citigroup has a Geographical Revenue Attribution model in place which apportions all such revenues based on underlying economic activity. Accordingly, the Citigroup Australia and New Zealand businesses and entities receive their fair share of revenues from transactions with Australian and New Zealand based customers.

6.3 Administrative and operational support services provided from offshore

Substantial core operational and administrative support functions are centralized globally to achieve economies of scale. The Australian and New Zealand based businesses utilize and benefit from these functions, the costs of which are charged out on a globally consistent basis. The profit earned by these offshore service centers is simply a mark-up on their costs.