

## NAB Principal Series – ASX 200 Choices



Important Dates	
<b>Offer Opens / Close Date</b>	14 August 2009 / 23 October 2009
<b>Issue Date</b>	5 November 2009
<b>Guarantee Effective Date or Maturity Date</b>	5 November 2015 / Strategy A – 6 years; 5 May 2015 / Strategy B – 5.5 years
Key Information	
<b>Investment Type</b>	NAB Principal Series – ASX 200 Choices is a deferred purchase agreement (DPA).
<b>Underlying Index</b>	S&P/ASX 200 Index.
<b>Issuer</b>	National Australia Bank Limited (NAB).
<b>Issue Price</b>	\$1 per NAB ASX 200 Choices
<b>Participation Rate*</b>	Strategy A – 100% Strategy B – at least 110%
<b>Strategies</b>	Strategy A – NAB guarantee amount of 100% with capital growth <b>capped</b> at no less than 80% at maturity. Strategy B – NAB guarantee amount of 100% or 85% based on Trigger Event, with uncapped capital growth at maturity.
<b>Trigger Event</b>	Strategy A – Not applicable. Strategy B – a Trigger Event occurs if <b>on any date before maturity date</b> , the level of the index is at or below 65% of its level on the Issue Date (i.e. there has been a fall of 35% or more).
<b>Guarantee Amount</b>	NAB provides a guarantee amount of 100% or 85% <b>at maturity</b> depending on whether or not a <i>trigger event</i> occurs.
<b>Delivery Asset</b>	Units in SPDR S&P/ASX 200 Fund or shares in one of the 10 largest ASX listed entities by market capitalisation.
<b>Distributions</b>	Strategy A - Conditional coupon based on performance of the Underlying Index. Strategy B – Growth only, no coupons will be paid.
<b>Minimum Investment</b>	\$10,000 in each strategy with increments of \$1,000 thereafter.
<b>Liquidity</b>	Monthly. NAB will accept early withdrawal requests at its discretion. The NAB guarantee amount will not apply to early withdrawals and are subject to early withdrawal fees.
Fees & Commissions	
<b>Brokerage Fee**</b>	0.55% (incl. GST).
<b>Early Withdrawal Fee</b> (incl. GST)	1.50% - first year, 1% - second year and Nil thereafter.
<b>Adviser Commissions</b>	NAB may pay adviser commissions from their own funds.

\*Participation Rate to be set on the Issue Date.

\*\* Brokerage fee is payable if investors choose to receive cash payment from the sale of the Delivery Asset.

### What this Rating means

The **Recommended** rating indicates that Lonsec has conviction that the fund or product can achieve its objectives and, if applicable, outperform peers over an appropriate investment timeframe. The manager or product has a number of competitive advantages in people, process and product design. The investment is a recommended entry point to access this asset class or strategy.

### Using this Product

**This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page.**

- NAB Principal Series – ASX 200 Choices provides investors with the opportunity to gain exposure to the price growth potential of the Australian equities market and the choice of two different S&P/ASX 200 index linked investment strategies.
- Strategy A offers up to five conditional coupons of 3% and seeks to provide capital growth based on the performance of the index (up to the growth cap) with the security of 100% capital protection at maturity. Maximum percentage asset class allocations for all risk profiles are outlined in Lonsec's Risk Profile Review.
- Strategy A may provide additional comfort to more risk averse investors. Lonsec considers this product to be most suited to balanced and growth risk profile investors.
- Strategy B has a participation rate of at least 110% with 100% or 85% guarantee amount **at maturity** and is more suited to growth investors.

### Product Risk Characteristics

	Low	Moderate	High
<b>Leverage**</b>		▲	
<b>Liquidity Risk</b>		▲	
<b>Concentration</b>	▲		
<b>Credit Risk</b>	▲		
<b>Volatility</b>		▲	

Risk categories are based on Lonsec's qualitative opinion of the risks inherent in the product's asset class and the risks relative to other products in the relevant Lonsec sector universe.

\*\* Leverage does not take into account any investment or other loans taken out by investors.

ASX 200 Choices may suit:

- Investors seeking capital growth and not reliant on dividends and / or franking credits.
- Investors who believe recent equity market turmoil provides a buying opportunity but want the safety net

of NAB undertaking to provide a 100% or 85% guarantee amount **at maturity**.

➤ Investors seeking certainty through a fixed level of exposure to the index during the term of the investment.

### Lonsec Opinion of this Product

➤ An investment in the NAB Principal Series – ASX 200 Choices offers investors two strategies representing a trade-off between the level of capital protection and the price growth potential of the S&P/ASX 200 equity index. Strategy A offers the benefit of 100% guarantee amount at maturity with the potential for five coupon payments of 3% on the anniversary date. The maximum capital return will be capped at no less than 80% and will be set by NAB on the Issue Date. Amounts received in respect of the conditional coupon are not taken into account for the purposes of determining whether the growth cap has been reached

➤ Strategy B offers a leveraged exposure to the Underlying Index with unlimited capital growth potential and the risk of capital loss of 15% of the investor's capital, based on the Issue Date. Investors should note that the increased exposure magnifies the potential returns/losses of the product. Lonsec views the structure created by NAB as a simple and efficient means of providing protected access to Australian equities.

➤ Investors can choose to gain exposure to the Australian equity market via a managed fund or an exchange traded fund, receive dividends and any franking credits and be exposed to both positive and negative price movements. ASX 200 Choices offers investors exposure to the Australian equity market with the benefit of NAB providing an 100% or 85% guarantee amount at maturity (for a fee). Investors do not receive any dividends or franking credits from the Index but may receive distributions under Strategy A.

➤ Investors should note the starting and ending index levels used to determine an investor's pay-off at maturity under Strategy A are averaged over the first and the last 13 monthly observations which has the effect of smoothing both levels. The ending index level under Strategy B is averaged over the last 7 monthly observations however, no averaging takes place for the starting index level. The averaging means the return on the investment might be lower or higher than it would have been if it was calculated based on the change between the actual index level on the Issue Date and the actual index level on the Maturity Date.

➤ Lonsec believes the index used in the product is appropriate for investors seeking passive exposure to the Australian equities. The index offers broad

representation, investability and transparency. The index is widely recognised in the industry and provides clear rules for security selection and exclusion. Importantly, the Index used is sponsored and calculated independently of the Issuer.

➤ Lonsec considers the experience and resourcing at NAB to be appropriate in constructing structured products.

➤ Various components of the product pricing are based on the Issuer's costs and option hedging prices, some of which the Issuer determines in its discretion. As is often the case with structured product pricing generally, these prices will not be transparent to the investors.

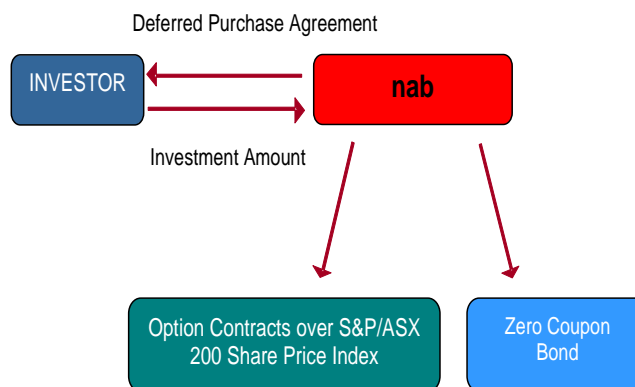
### Issuer Profile

National Australia Bank Limited is one of Australia's leading financial institutions founded in 1893. As at July 2009, NAB's long term credit ratings were AA by S&P, Aa1 by Moody's and AA by Fitch Rating.

### How does the Product Work?

ASX 200 Choices is designed as a "set and forget" 5.5 or 6 year investments, depending on the Strategy chosen.

The structure of the product can be shown as follows:



Investors enter into a DPA with NAB. NAB then purchases a 5.5 year or a 6 year (depending on the Strategy chosen) AUD zero-coupon bond and enters into option contracts linked to the Underlying Index. The bond provides the guarantee amount at maturity and the option contracts provide the upside potential.

ASX 200 Choices offers investors the choice of two strategies, as follows:

Strategies	Underlying Indices	Capital protection at maturity	Potential for capital growth	Participation Rate	Coupon payments
<b>Strategy A</b>	S&P/ASX 200 Index	100%	At least 80%	100%	3.0% starting from Year 1-5 subject to the performance of the S&P/ASX 200 Index.
<b>Strategy B</b>	S&P/ASX 200 Index	85% or 100%	Unlimited	At least 110%	No coupon payments

Investor returns are determined by the performance of the Underlying Index and the strategy chosen.

### Strategy A

Investor returns are determined by the performance of the Underlying Index averaged over first 12 months and last 12 months of the investment term.

An investor's pay-off at maturity under **Strategy A** is:

$$\text{Investment Amount} + \text{Investment Amount} \times (\text{Participation Rate} \times \text{Max}(0, \% \text{ change in the Index}))$$

subject to a cap of at least 80% under Strategy A

Assuming a level on the Underlying Index of 4000 at the Start Date and initial investment amount of \$100, an investor's payoff at maturity can be shown as:

Ending average Index level	% change in Index	Strategy A Payoff at Maturity
2800	-30	\$100
3200	-20	\$100
3600	-10	\$100
3800	-5	\$100
4000	0	\$100
4200	5	\$105
4400	10	\$110
4800	20	\$120
5200	30	\$130
6000	50	\$150
6800	70	\$170
7200	80	\$180
7600	90	\$180
8000	100	\$180
8400	110	\$180

When the percentage change in the Underlying Index is negative over the investment term, investors under Strategy A will receive their capital back (\$100) as 100% of their initial investment amount is protected. However, investors do not receive the benefit of increases in the Underlying Index beyond 80% over the investment term due to the cap.

Investors under Strategy A may receive coupon payments over the investment term of 3.0% based on the performance of the Underlying Index. If the level of the Underlying Index on an anniversary of the Issue Date is more than the level of the underlying Index on the Issue Date then a conditional coupon will be paid. For example:

Anniversary of the Issue Date (Year)	% change in Index from Issue Date	Strategy A Coupon payment
1	-10%	Nil
2	20%	3%
3	30%	3%
4	-20%	Nil
5	15%	3%

In this example, a conditional coupon will be payable on second, third and fifth year of the investment since the percentage change in the Index from the Issue Date is positive on the anniversary of the Issue Date. As the percentage change in the Index from the Issue Date is zero or negative in Years 1 and 4, the coupon payment will be zero for those periods.

### Strategy B

Investor returns are determined by the performance of the Underlying Index on the Issue Date (no averaging) to the level of Underlying Index averaged over the last 6 months of the investment term.

An Investor's payoff at maturity will vary depending upon whether or not a **Trigger Event** occurs. A Trigger Event occurs if, **on any date before the maturity date**, the level of the Underlying Index is at or below 65% of its level on the Issue Date (i.e. there has been a fall of 35% or more). **If a Trigger Event occurs, an investor's pay-off is reduced by a fixed amount of \$0.15 per ASX 200 Choices.**

An investor's pay-off at maturity is:

- If a Trigger Event **does NOT** occur:

$$\text{Investment Amount} + (\% \text{ change in Index} \times \text{Participation Rate})$$

- If a Trigger Event occurs:  

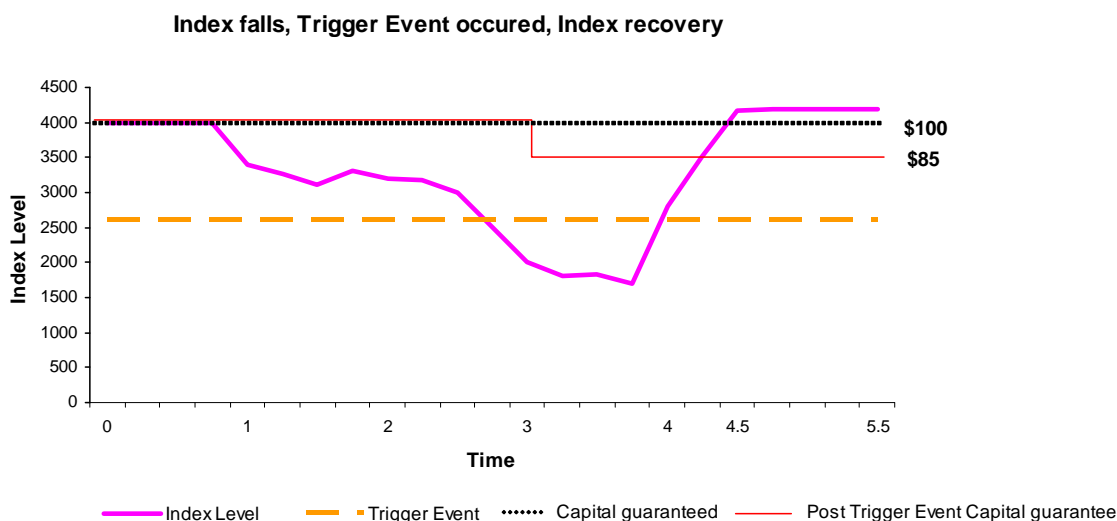
$$\text{Investment Amount} + (\% \text{ change in Index} \times \text{Participation Rate}) - \$0.15$$

Assuming a starting index level of 4000, an investor’s pay-off at maturity for a \$100 investment can be shown as:

Ending average Index level	% change in Index	Payoff at maturity with no Trigger Event			Payoff at maturity with Trigger Event		
		Participation Rate					
		110%	120%	130%	110%	120%	130%
6000	50	\$155	\$160	\$165	\$140	\$145	\$150
5600	40	\$144	\$148	\$152	\$129	\$133	\$137
5200	30	\$133	\$136	\$139	\$118	\$121	\$124
4800	20	\$122	\$124	\$126	\$107	\$109	\$111
4400	10	\$111	\$112	\$113	\$96	\$97	\$98
4200	5	\$106	\$106	\$107	\$91	\$91	\$92
4000	0	\$100	\$100	\$100	\$85	\$85	\$85
3800	-5	\$100	\$100	\$100	\$85	\$85	\$85
3600	-10	\$100	\$100	\$100	\$85	\$85	\$85
3200	-20	\$100	\$100	\$100	\$85	\$85	\$85
2800	-30	\$100	\$100	\$100	\$85	\$85	\$85
2000	-50	NA	NA	NA	\$85	\$85	\$85

If a Trigger Event has not occurred, investors will receive at least \$100 at maturity, per \$100 investment. Where a Trigger Event occurs, an investor’s pay-off is reduced by \$15 per \$100 investment amount.

Investors should note that if a Trigger Event occurs and the ending average Index level rises above the starting index level at maturity, investors will still participate in the rise. This is shown in the following diagram:



Early withdrawal by investors invalidates the guarantee amount and will attract an early withdrawal fee.

Full outlines of these calculations are provided on pages 10 to 17 in Section 3 of the PDS.

The Participation Rate is set on the Issue Date and is determined by, amongst other things, Australian dollar interest rates and volatility of the Underlying Index.

### Capital Guarantee Amount

NAB undertakes that it will provide investors with a guarantee amount on the maturity date. The guarantee amount protects the initial investment of \$1.00 per ASX 200 Choices provided no Trigger Event occurs during the investment term. However, if a Trigger Event does occur in Strategy B, NAB's guarantee amount will be \$0.85 per dollar invested.

### Underlying Index

The Standard & Poor's / Australian Securities Exchange 200 Index (S&P/ASX 200 Index) is recognised as the investable benchmark for the Australian equity market.

The S&P/ASX 200 Index is maintained by the S&P Australian Index Committee, a team of five including three S&P economists and index analysts and two Australian Securities Exchange representatives.

The Index Committee reviews constituents quarterly to ensure adequate market capitalisation and liquidity and follow transparent guidelines for stock selection. Both market capitalisation and liquidity are assessed using the previous six months data.

The following table outlines the performance of the S&P/ASX Index over the various periods ending June 2009:

S&P/ASX 200 Share Price Index				
Periods Ending June 2009				
	1 Yr	3 Yrs	5 Yrs	7 yrs
Performance (% pa)	-24.2	-8.0	2.3	2.9
Standard Deviation (% pa)	22.0	16.9	14.7	13.3
Worst Drawdown	-35.9	-50.5	-50.5	-50.5

Source: Morningstar, Lonsec

In the 5-year period to June 2009, the Index produced a gross annualised return of 2.3% with a volatility of 14.7%. Over the 1 year period to June 2009, the Index returned -24.2%.

### What Happens at Maturity?

At maturity investors have a choice of receiving physical delivery of the Delivery Asset (Units in SPDR S&P/ASX 200 Exchange Traded Fund or shares in one of the 10 largest ASX listed entities by market capitalisation) or instructing NAB to sell the Delivery Asset and realise sale proceeds equal to the final value of ASX 200 Choices (calculated as described

previously). This arrangement is known as a deferred purchase agreement.

If investors choose to receive cash payment from the sale of the Delivery Asset, a Brokerage Fee of 0.55% of the maturity value will be incurred.

There may be different taxation implications depending on the choice made by investors. Investors are advised to seek their own taxation advice.

### Risks

**An investment in ASX 200 Choices carries a number of standard investment risks associated with domestic and international investment markets. These include economic, political, legal, tax and regulatory risks. These and other risks are outlined in the PDS and should be read in full and understood by investors. Lonsec considers the major risks to be:**

- Performance risk** – The value of an investment in ASX 200 Choices is dependent on the performance of Underlying Index. The index is not actively managed and can be affected by many different factors including but not limited to interest rates, economic policies, political events, war and natural events. There is no guarantee the value of ASX 200 Choices will increase over the investment term.
- Leverage risk** – Investors utilising the investment or other loans should be aware that gains and losses are magnified through the use of borrowings.
- Counterparty risk** – Investors are exposed to the creditworthiness of NAB, as ASX 200 Choices returns are dependent on NAB performing its obligations as they fall due. As issuer this product is a sole obligation of NAB and is not supported by any other entity. As at July 2009, NAB's long term credit ratings are AA by S&P, Aa1 by Moody's and AA by Fitch Rating.
- Loss of Guarantee Amount** – The guarantee amount is only provided at maturity. In certain circumstances, such as changes in the law or where an index can no longer be used, an early maturity could ensue. Loss of the guarantee amount can also result from an early redemption request from investors. Investors can receive proceeds less than their initial investment in the event of an early maturity. Investors need to be aware that \$1.00 received at maturity does not have the same real value as \$1.00 today. Based on interest rate of 5.0% over 5.5 years, \$1.00 at maturity is worth approximately 76 cents today.
- Exercise of discretion by NAB** – NAB has wide powers under the ASX 200 Choices to determine the value of the investment. This can occur where

there is an adjustment event such as the cancellation of an index or where an index sponsor makes a material change to the method of calculation. This also includes substitution of the delivery asset with another security.

### Taxation

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Any gains made by Investors in relation to ASX 200 Choices and the Delivery Asset should be subject to taxation under the capital gains tax (CGT) rules.

Investors are encouraged to read the Mallesons Stephen Jaques tax opinion on ASX 200 Choices

***These comments constitute 'General Advice' only and Lonsec advises potential investors to consult a taxation specialist before making a decision to invest (or not to invest) based upon these taxation considerations. Investors should refer to Section 9 of the PDS.***

### Liquidity

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ASX 200 Choices is not listed on the Australian stock exchange or any other exchange. Due to the nature of the investment, investors should have the intention of holding an investment in ASX 200 Choices to the maturity date. However early withdrawal requests can be made to NAB.

Investors should be aware that at the time of early withdrawal, NAB will take into account brokerage fees and investors will also have to pay an early withdrawal fee.

### Fees

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**Brokerage fee** – 0.55% of the sale proceeds. Brokerage fee is payable if investors chooses to receive cash payment from the sale of the Delivery Asset.

**Early withdrawal Fee** – 1.50% in the first year, 1.0% in the second year of the early withdrawal amount and nil thereafter.

**Adviser Commissions:** NAB may pay an adviser Commission from their own funds of up to 2.20% (incl. GST) on the investment amount. The adviser distribution fee may be dialled down to zero. Any dialled down adviser distribution fee will take the form of additional *investments*.

### Further Information

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Further information and monthly performance can be obtained by contacting NAB:

**Phone:** 1800 652 669 (Global Markets Investments)

**Email:** [nabmarkets.investments@nab.com.au](mailto:nabmarkets.investments@nab.com.au)

**Internet:** [www.nabcapital.com](http://www.nabcapital.com)

## Glossary

**Absolute Return** Top line' actual return, after fees

**Standard Deviation** Volatility of monthly Absolute Returns

## Analyst Disclosure & Certification

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**Date Prepared: August 2009**

**Analyst: Shailesh Jain**

**Release Authorised by: Michael Elsworth**

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