



# Prospectus

## NAB Convertible Preference Shares II (NAB CPS II)

**Prospectus for the issue of**  
NAB Convertible Preference Shares II (NAB CPS II) to raise \$750 million with the ability to raise more or less.

**Issuer**  
National Australia Bank Limited  
ABN 12 004 044 937

**Arranger & Joint Lead Manager**  
National Australia Bank Limited

**Joint Lead Managers**  
ANZ Securities  
Deutsche Bank  
Evans and Partners  
Morgans  
Morgan Stanley

**Co-Managers**  
Bell Potter  
JBWere

# Important notices

## About this Prospectus

This Prospectus relates to the offer by National Australia Bank Limited ABN 12 004 044 937 of NAB CPS II to raise \$750 million, with the ability to raise more or less.

This Prospectus is dated 12 November 2013 and a copy of this Prospectus was lodged with ASIC on that date. This Prospectus expires on the date which is 13 months after 12 November 2013 and no NAB CPS II will be issued on the basis of this Prospectus after that date.

Neither ASIC nor ASX take any responsibility for the contents of this Prospectus or the Offer.

## Exposure Period

Under the Corporations Act, NAB is prohibited from processing Applications in the seven day period after 12 November 2013, being the date on which this Prospectus was lodged with ASIC.

This period is referred to as the Exposure Period. The purpose of the Exposure Period is to enable the Prospectus to be examined by market participants before the raising of funds. Applications received during the Exposure Period will not be processed until after the expiry of the Exposure Period. No preference will be conferred on Applications received during the Exposure Period.

**NAB CPS II are not deposit liabilities of NAB, are not protected accounts or any other accounts with NAB and are not insured or guaranteed by any government, government agency or compensation scheme of the Commonwealth of Australia or any other jurisdiction, by any member of the Group or by any other party.**

NAB CPS II are issued by NAB under the Terms and Holders have no claim on NAB except as provided in those Terms.

## Key risks

Investment products such as NAB CPS II are subject to risks which could affect their performance, including dividend rate risk and market price fluctuation. NAB does not warrant or guarantee

the future performance of NAB or the investment performance of NAB CPS II (including the market price).

NAB must immediately convert NAB CPS II into Ordinary Shares if a Loss Absorption Event occurs. A Loss Absorption Event may occur where NAB encounters severe financial difficulty. In the event of a Conversion following a Loss Absorption Event, depending on the market price of Ordinary Shares at the relevant time, Holders may receive Ordinary Shares that are worth less, or significantly less, than \$101 for each NAB CPS II they hold. If NAB CPS II cannot be Converted at that time they will be Written Off. A Conversion following a Loss Absorption Event is not subject to any conditions.

Information about the key risks of investing in NAB CPS II is detailed in Section 1.2 "Key Risks of NAB CPS II" and in Section 6 "Key Risks of NAB CPS II".

## ASX quotation

NAB will apply for NAB CPS II to be quoted on ASX within seven days after the date of this Prospectus.

## Financial information and forward looking statements

Section 5 sets out financial information in relation to NAB. The basis of preparation of that information is set out in Section 5. All financial amounts contained in this Prospectus are expressed in Australian dollars and rounded to the nearest million unless otherwise stated. Any discrepancies between totals and sums of components in tables contained in this Prospectus are due to rounding.

This Prospectus contains forward-looking statements which are identified by words such as "may", "could", "believes", "estimates", "expects", "intends" and other similar words that involve risks and uncertainties.

Any forward-looking statements are subject to various risk factors that could cause actual circumstances or outcomes to differ materially from the circumstances or outcomes expressed, implied or anticipated in these statements. Forward-looking statements should be read in

conjunction with the risk factors as set out in Section 6, and other information in this Prospectus.

## No representations other than in this Prospectus

No person is authorised to provide any information or to make any representation in connection with the Offer that is not contained in this Prospectus. Any information or representation not contained in this Prospectus must not be relied upon as having been authorised by NAB.

None of the Joint Lead Managers, Co-Managers or the Registrar has made any statement that is included in this Prospectus or any statement on which a statement made in this Prospectus is based. Each of those parties expressly disclaims all liability in respect of, makes no representations regarding, and takes no responsibility for, any statements in, or omissions from, this Prospectus.

Unless otherwise indicated, all information in this Prospectus, while subject to change from time to time, is current as at the date of this Prospectus.

## This Prospectus does not provide financial product or investment advice – You should seek your own professional investment advice

The information provided in this Prospectus is not investment advice and has been prepared without taking into account your investment objectives, financial situation or particular needs (including financial and taxation issues). It is important that you read this Prospectus in full before deciding to invest in NAB CPS II and consider the risks that could affect the performance of NAB CPS II.

If you have any questions, you should seek advice from your financial adviser or other professional adviser before deciding to invest in NAB CPS II.

## Defined words and expressions

Some words and expressions used in this Prospectus have defined meanings. These words and expressions are capitalised and are defined in Appendix B “Glossary” or if not there, in Appendix A “Terms”.

If there is any inconsistency between the description of the terms of NAB CPS II in the Prospectus and in the Terms, the definitions in the Terms prevail.

A reference to \$ or cents in this Prospectus is a reference to Australian currency. Unless otherwise specified, a reference to time in this Prospectus is a reference to Melbourne, Victoria, Australia time.

## Diagrams

The diagrams used in this Prospectus are illustrative only. They may not necessarily be shown to scale. The diagrams are based on information which is current as at the date shown.

## Obtaining a Prospectus and Application Form

Paper copies of this Prospectus and an Application Form can be obtained free of charge during the Offer Period by calling the NAB Information Line on 1300 367 647 (within Australia) or on +61 3 9415 4299 (International) (Monday to Friday 8.00am – 7.30pm AEDT), during the Offer Period. This Prospectus and an Application Form can also be obtained electronically from [www.nab.com.au/cps](http://www.nab.com.au/cps).

## Electronic access to Prospectus

The following conditions apply if this Prospectus is accessed electronically:

- You must download the entire Prospectus;
- Your Application will only be considered where you have applied on an Application Form that was attached to or accompanied by a copy of the Prospectus; and
- The Prospectus is available electronically to you only if you are accessing and downloading or printing the electronic copy of the Prospectus in Australia.

## Questions about the Offer

**If you have any questions about NAB CPS II or the Offer, you should seek advice from your financial adviser or other professional adviser. You can also call the NAB Information Line on 1300 367 647 (within Australia) or on +61 3 9415 4299 (International) (Monday to Friday 8.00am – 7.30pm AEDT) (with an Interactive Voice Response Facility also available 24 hours a day, 7 days a week) during the Offer Period, and for a week following.**

## Restrictions on foreign jurisdictions

This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer.

The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any of these restrictions. Failure to comply with these restrictions may violate securities laws. Applicants who are resident in countries other than Australia should consult their professional advisers as to whether any governmental or other consents are required or whether any other formalities need to be considered and followed.

In particular, NAB CPS II have not been and will not be registered under the US Securities Act of 1933, as amended (“Securities Act”) or the securities laws of any state or other jurisdiction of the United States and may not be offered, sold or resold in the United States or to, or for the account or benefit of, any “US Person” (as defined in Regulation S under the Securities Act) except pursuant to an effective registration statement or an exemption from the registration requirements of the Securities Act. Neither this Prospectus nor any Application Form or other materials relating to the Offer may be distributed in the United States.

## Collecting your personal information

If you apply for NAB CPS II, NAB (or the Registrar as NAB’s agent) will collect and hold your personal information. See Section 9.8 “Personal information” on how NAB (as well as its subsidiaries and third party suppliers) collect, use and disclose your personal information.

The front cover features NAB’s new corporate office at 700 Bourke St in Melbourne’s Docklands. Located between Etihad Stadium and Southern Cross Station, the 63,000 square metre site is an architecturally significant building at the heart of NAB’s Bourke St ‘precinct’. Around 14,000 employees are now based in the precinct, allowing NAB to exit over six buildings across the city to create a stronger corporate presence and more sustainable operation. An A-grade building with Premium-grade services, 700 Bourke St has changed the way NAB operates, expanding the adoption of flexible work practices and new technologies to simplify processes across NAB’s three Bourke St locations.

# Key dates\*

Announcement of the Offer	12 November 2013
Lodgement of Original Prospectus with ASIC	12 November 2013
Record Date for Securityholder Offer	4 November 2013
Bookbuild	19 November 2013
Announcement of Margin	20 November 2013
Offer Opens	20 November 2013
Securityholder and General Offers Close	9 December 2013
Broker Firm and Institutional Offers Close	13 December 2013
Issue of NAB CPS II	17 December 2013
Commencement of deferred settlement trading	18 December 2013
Despatch of Holding Statements	From 18 December 2013 <sup>1</sup>
Commencement of trading on normal settlement basis	23 December 2013

First Dividend Payment Date	17 March 2014
Optional Conversion / Redemption / Resale Date <sup>2</sup>	17 December 2020
Mandatory Conversion Date <sup>3</sup>	19 December 2022

<sup>1</sup> Expected to be completed by 20 December 2013.

<sup>2</sup> With APRA's prior written approval, NAB may elect to Convert, Redeem or Resell NAB CPS II on 17 December 2020. Holders should not expect that APRA's approval will be given for any optional Conversion, Redemption or Resale. This date assumes the Issue Date is 17 December 2013.

<sup>3</sup> NAB CPS II will Convert into Ordinary Shares on 19 December 2022 (subject to the Mandatory Conversion Conditions being satisfied and only if NAB CPS II have not been Converted, Redeemed or Resold prior to that date with APRA's prior written approval). This date assumes the Issue Date is 17 December 2013.

\*These dates are indicative only and may change without notice.

NAB, with the consent of the Joint Lead Managers, may vary the timetable, including extending any Closing Date, closing the Offer early without notice or accepting late Applications, whether generally or in particular cases, or withdrawing the Offer at any time before NAB CPS II are issued, at their discretion.

You are encouraged to apply as soon as possible after the Opening Date.

# How to apply for NAB CPS II

## 1. Read the Prospectus

**It is important that you read and consider the Prospectus in full before making an Application.**

You should have particular regard to the:

- Investment Overview in Section 1 and About NAB CPS II in Section 2;
- Key risks in Section 6; and
- Terms of the NAB CPS II in Appendix A.

You should carefully consider the risks and other information in the Prospectus in light of your investment objectives, financial situation and particular needs (including financial and taxation issues).

NAB CPS II do not constitute deposit liabilities of NAB, are not protected accounts for the purposes of the Banking Act or any other accounts with NAB and are not guaranteed or insured by any government, government agency or compensation scheme of the Commonwealth of Australia or any other jurisdiction, by any member of the Group or by any other party.

## 2. Speak to your professional adviser and consider ASIC guidance for retail investors

**If you are unsure whether to apply for NAB CPS II, you should speak to your professional adviser about the Offer.**

In addition, ASIC has published guidance which may be relevant to your consideration of NAB CPS II – that is, information for retail investors who are considering investing in hybrid securities called “Hybrid securities and notes” (under the heading “Complex investments” at [www.moneysmart.gov.au/investing](http://www.moneysmart.gov.au/investing)) (“ASIC Guide”). Free copies of the ASIC Guide can be obtained from ASIC’s website at [www.moneysmart.gov.au/investing](http://www.moneysmart.gov.au/investing) or by calling ASIC on 1300 300 630 (within Australia) or +61 3 5177 3988 (International).

## 3. Complete and submit an Application Form

**If you wish to apply, you must complete and submit an Application Form before the Closing Date.**

Please see Section 3 of this Prospectus and the Application Form for complete information of the Application process.

Applications must be for a minimum of 50 NAB CPS II (\$5,000). If your Application is for more than 50 NAB CPS II, then you must apply in incremental multiples of 10 NAB CPS II – that is, for incremental multiples of at least \$1,000.

If you are applying under the Securityholder or General Offers, your application must be received by 9 December 2013. If you are applying under the Broker Firm or Institutional Offers, your application must be received by 13 December 2013.

Applications under the Securityholder Offer or General Offer must be made either online at [www.nab.com.au/cps](http://www.nab.com.au/cps) or by lodging a completed Application Form with the Registrar. Applications will not be accepted at NAB’s registered office or any other NAB office or branch.

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Section One

# Investment Overview

# Section One:

## Investment Overview

This section provides a summary of the key features and risks of NAB CPS II and the Offer. You should read the Prospectus in full before deciding to apply for NAB CPS II.

### 1.1 Key features of the Offer and NAB CPS II

Topic	Summary	Further Information
<b>Issuer</b>	National Australia Bank Limited (“NAB”)	Section 4
	<p>The Group is an international financial services group that provides a comprehensive and integrated range of financial products and services, with over 12,400,000 customers and 42,000 people, operating more than 1,800 stores and Service Centres globally. Our major financial services franchises in Australia are complemented by businesses in New Zealand, Asia, the United Kingdom and the United States of America.</p> <p>NAB is a public limited company, incorporated on June 23, 1893 in Australia, which is NAB’s main domicile. NAB’s registered office address is Level 1, 800 Bourke Street, Docklands Victoria 3008, Australia.</p>	
<b>Offer Size</b>	\$750 million, with the ability to raise more or less.	
<b>Use of proceeds</b>	The net proceeds of the Offer will be used for general corporate purposes. APRA has provided confirmation that the NAB CPS II, once issued, will qualify as Additional Tier 1 Capital for the purposes of NAB’s regulatory capital requirements.	
<b>Type of security</b>	Preference shares directly issued by NAB which are not guaranteed or secured. NAB CPS II are not deposit liabilities of NAB and are not protected accounts for the purposes of the Banking Act.	
<b>Issue price</b>	\$100 per NAB CPS II	
<b>Term</b>	<p>Perpetual. NAB CPS II do not have a fixed maturity date.</p> <p>However, NAB must Convert NAB CPS II into Ordinary Shares on the Mandatory Conversion Date (19 December 2022) (subject to the Mandatory Conversion Conditions being satisfied).</p> <p>In addition, with APRA’s prior written approval, NAB may elect to Convert, Redeem or Resell NAB CPS II on 17 December 2020, or earlier following the occurrence of certain events.</p>	Sections 2.2 – 2.7



Topic	Summary	Further Information
<p><b>Dividends</b></p>	<p>NAB CPS II are scheduled to pay quarterly, floating rate Dividends in arrears in cash until all NAB CPS II are Converted, Redeemed or Written Off.</p> <p>The Dividend Rate is calculated in accordance with the following formula:</p> <p><b>Dividend Rate = (Bank Bill Rate + Margin) × (1 – Tax Rate)</b></p> <p>Where:</p> <ul style="list-style-type: none"> <li>• Tax Rate is the Australian corporate tax rate applicable to the franking account of NAB on the relevant Dividend Payment Date.</li> </ul> <p>A Dividend will only be paid if:</p> <ul style="list-style-type: none"> <li>• The Directors resolve to pay it; and</li> <li>• A Payment Condition does not exist on the Dividend Payment Date.</li> </ul> <p>This means a Dividend may not be paid.</p> <p>The Dividend Payment Dates are 17 March, 17 June, 17 September and 17 December.</p> <p>The first Dividend is expected to be paid on 17 March 2014. Dividends paid on NAB CPS II are expected to be fully franked. However, Holders should be aware that franking is not guaranteed.</p> <p>Dividends are non-cumulative, which means that unpaid Dividends do not add up or accumulate. Holders will not have any right to compensation if NAB does not pay Dividends. Failure to pay a Dividend when scheduled will not constitute an event of default.</p> <p>If a Dividend is not paid in full on a Dividend Payment Date, subject to certain exceptions NAB cannot declare, determine to pay, or pay dividends on its Ordinary Shares, or buy-back or reduce capital on any of its Ordinary Shares, until the next Dividend Payment Date (unless the Dividend is paid in full within 3 Business Days of the relevant Dividend Payment Date).</p>	<p>Section 2.1</p>
<p><b>Mandatory Conversion on Mandatory Conversion Date</b></p>	<p>On the first to occur of 19 December 2022, and the first Dividend Payment Date after that date on which the Mandatory Conversion Conditions are satisfied, NAB must Convert all (but not some) NAB CPS II on issue at that date into Ordinary Shares.</p> <p>Details of the Mandatory Conversion Conditions are set out in Section 2.3 of this Prospectus and the Terms.</p>	<p>Section 2.3</p>

# Section One:

## Investment Overview

### 1.1 Key features of the Offer and NAB CPS (continued)

Topic	Summary	Further Information
<b>Conversion conditions / What Holders receive on Conversion</b>	<p>The Conversion conditions are designed to ensure that upon a Conversion (other than following a Loss Absorption Event) Holders receive approximately \$101 worth of Ordinary Shares for each NAB CPS II they hold, and that the Ordinary Shares they receive following the Conversion are capable of being sold on the ASX.</p> <p>The number of Ordinary Shares that Holders will receive on a Conversion will not be greater than the Maximum Conversion Number.</p>	Sections 2.3, 2.4, 2.6 and 2.7
<b>Optional Conversion, Redemption or Resale</b>	<p><i>Optional Conversion</i></p> <p>With the prior written approval of APRA, NAB may elect to Convert into Ordinary Shares all or some of NAB CPS II on 17 December 2020.</p> <p>Conditions apply to any Conversion in these circumstances. Details are set out in Section 2.4 of this Prospectus and the Terms.</p> <p><i>Optional Redemption or Resale</i></p> <p>NAB may also, with the prior written approval of APRA, elect to Redeem or Resell all or some of NAB CPS II for the Issue Price (\$100) in cash on 17 December 2020.</p> <p>There are restrictions on NAB's ability to Redeem or Resell NAB CPS II on 17 December 2020. Details are set out in Section 2.5 of this Prospectus and the Terms.</p> <p><i>Date of optional Conversion, Redemption or Resale</i></p> <p>In order to be eligible as Additional Tier 1 Capital, NAB cannot have the right to redeem or resell the NAB CPS II earlier than the fifth anniversary of the Issue Date or later than two years before the first scheduled Mandatory Conversion Date.</p> <p>Accordingly, the date for a Conversion, Redemption or Resale at NAB's election (and with APRA's prior written approval) is 17 December 2020.</p> <p>Holdings should not expect that APRA's approval, if requested, will be given for an optional Conversion, Redemption or Resale.</p>	<p>Section 2.4</p> <p>Section 2.5</p>

Topic	Summary	Further Information
<b>Conversion, Redemption or Resale in other circumstances</b>	<p>With the prior written approval of APRA, NAB has the option to Convert, Redeem or Resell all or some of NAB CPS II following the occurrence of a Tax Event or Regulatory Event. NAB also has the option to Convert the NAB CPS II following a Potential Acquisition Event. Holders should not expect that APRA's approval will be given in these circumstances. For any Conversion, Redemption or Resale which occurs on a day that is not a scheduled quarterly Dividend Payment Date, Holders of the NAB CPS II which are being Converted, Redeemed or Resold will also receive a Dividend in respect of these NAB CPS II for the period from (and including) the immediately preceding Dividend Payment Date to (but not including) the date on which the Conversion, Redemption or Resale occurs (provided the conditions to payment are met, including the Directors resolving to pay the Dividend).</p> <p>Conditions also apply to any Conversion, Redemption or Resale in these circumstances. Details are set out in Sections 2.4 and 2.5 of this Prospectus and the Terms.</p>	Sections 2.4 and 2.5
<b>Mandatory Conversion following a Loss Absorption Event or Acquisition Event</b>	<p>NAB must convert a number of NAB CPS II into Ordinary Shares (or, in the case of an Acquisition Event, all NAB CPS II) in the following circumstances:</p> <ul style="list-style-type: none"> <li>• If an Acquisition Event occurs; or</li> <li>• If a Loss Absorption Event occurs.</li> </ul> <p>A Conversion following an Acquisition Event is subject to conditions being met – see Section 2.6.</p> <p>A Conversion following a Loss Absorption Event is not subject to any conditions.</p> <p>A Loss Absorption Event may occur where NAB encounters severe financial difficulty. In the event of a Conversion following a Loss Absorption Event, depending on the market price of Ordinary Shares at the relevant time, Holders may receive Ordinary Shares that are worth less, or significantly less, than \$101 for each NAB CPS II they hold. If NAB CPS II cannot be Converted at that time they will be Written Off. The consequences of a Write Off are set out in Section 2.7 of this Prospectus and the Terms.</p>	Sections 2.6 and 2.7
<b>Holders have no right to a return of capital</b>	<p>Holders will have no right to require NAB to convert NAB CPS II into Ordinary Shares, or to redeem or resell NAB CPS II.</p> <p>Holders should be aware that NAB CPS II do not have a fixed maturity date and that the mandatory conversion events under the Terms are subject to conditions which may never be met or contingencies which may never occur. Accordingly, if the NAB CPS II are not Converted, Redeemed or Resold in accordance with the Terms, they could remain on issue indefinitely. It is expected that NAB CPS II will be quoted on the ASX, and that Holders will be able to buy and sell NAB CPS II on the ASX at the prevailing market price.</p>	

# Section One:

## Investment Overview

**Table 1: Summary of certain events that may occur during the life of NAB CPS II**

The table below summarises certain events that may occur during the life of NAB CPS II, and what Holders may receive upon the occurrence of such events. The events are dependent on factors including share price, the occurrence of contingencies and in some cases election by NAB and, accordingly, may not occur.

	<b>When?</b>	<b>Is APRA approval required?#</b>	<b>Do conditions apply?</b>	<b>What value will a Holder receive?</b>	<b>In what form will that value be provided to Holders?</b>
<b>Mandatory Conversion</b>	On 19 December 2022 or the first Dividend Payment Date after that date on which the Mandatory Conversion Conditions are satisfied	No	Yes	Approximately \$101*	Variable number of Ordinary Shares
<b>Optional Conversion</b>	On 17 December 2020	Yes	Yes	Approximately \$101*	Variable number of Ordinary Shares
<b>Optional Redemption or Resale</b>	On 17 December 2020	Yes	Yes	\$100 (Issue Price)	Cash
<b>Conversion in other circumstances</b>	If a Tax Event, Regulatory Event or Potential Acquisition Event occurs	Yes	Yes	Approximately \$101**	Variable number of Ordinary Shares
	If an Acquisition Event occurs	No	Yes	Approximately \$101**	Variable number of Ordinary Shares
	If a Loss Absorption Event occurs	No	No	Depending on the market price of Ordinary Shares, approximately \$101 or less (and possibly significantly less)	Variable number of Ordinary Shares However, if NAB is unable to Convert NAB CPS II into Ordinary Shares at the relevant time, NAB CPS II will be Written Off <sup>^</sup>
<b>Redemption / Resale in other circumstances</b>	If a Tax Event or Regulatory Event occurs	Yes	Yes	\$100 (Issue Price) <sup>†</sup>	Cash

# Holders should not expect that APRA approval will be given if requested.

\* On the basis of the Conversion calculations (the value of Ordinary Shares received on Conversion may be worth more or less than \$101). The number of Ordinary Shares that Holders will receive will not be greater than the Maximum Conversion Number.


† If a Conversion, Redemption or Resale occurs on a day that is not a scheduled quarterly Dividend Payment Date, Holders of the NAB CPS II which are being Converted, Redeemed or Resold will also receive a Dividend in respect of these NAB CPS II for the period from (and including) the immediately preceding Dividend Payment Date to (but not including) the date on which the Conversion, Redemption or Resale occurs (provided the conditions to payment are met, including the Directors resolving to pay the Dividend).

<sup>^</sup> If a NAB CPS II is Written Off, a Holder's rights will be varied so that they will remain a Holder of NAB CPS II but with rights broadly equivalent to a Shareholder.

### Ranking

In a winding up of NAB, NAB CPS II rank ahead of Ordinary Shares, equally amongst themselves, equally with Equal Ranking Instruments and junior to creditors of NAB, including depositors, as shown in Table 2. However, the amount of any return in a winding up may be adversely affected if a Loss Absorption Event has occurred.

**Table 2: Illustration of ranking on winding up**

		<b>Examples</b>	<b>Examples of existing NAB obligations and securities<sup>1</sup></b>
<b>Higher ranking</b>			
	<b>Senior obligations</b>	Liabilities preferred by law and secured debt	Liabilities in Australia in relation to protected accounts under the Banking Act (generally, savings accounts and term deposits) and other liabilities mandatorily preferred by law including employee entitlements, liabilities to secured creditors and in respect of covered bonds
		Unsubordinated unsecured debt	Bonds and notes, trade and general creditors
		Term subordinated unsecured debt	NAB Subordinated Notes and other dated subordinated unsecured debt obligations
		Perpetual subordinated unsecured debt	NAB Undated Subordinated Floating Rate Notes issued in 1986
	<b>Equal ranking obligations</b>	Preference shares and other equally ranked instruments	<b>NAB CPS II<sup>2</sup></b> , and any securities expressed to rank equally with NAB CPS II, which include: <ul style="list-style-type: none"> <li>• NAB CPS.</li> <li>• The preference shares comprised in the National Income Securities.</li> <li>• The preference shares which may be issued under the TPS, TPS II, AUD NClS and EUR NClS (if issued).</li> <li>• The 2009 Capital Notes.</li> </ul>
	<b>Lower ranking obligations</b>	Ordinary shares	Ordinary Shares
<b>Lower ranking</b>			

<sup>1</sup> This is a very simplified capital structure of NAB and does not include every type of security or other obligation issued by NAB. NAB has the right to issue further debt, deposits or other obligations or securities of any kind at any time. NAB CPS II do not limit the amount of senior debt, deposits or other obligations or securities that may be incurred or issued by NAB at any time.

<sup>2</sup> If a Write Off occurs following a Loss Absorption Event, the rights of Holders to dividends and returns of capital will be broadly equivalent to the rights to dividends, and returns of capital in a winding up, of a person holding the number of Ordinary Shares the Holders would have held if the Conversion had occurred.

# Section One:

## Investment Overview

### 1.2 Key risks of NAB CPS II

You should read Section 6 “Key Risks of NAB CPS II” in full before deciding to invest. The key risks outlined in that section include risks associated with an investment in NAB CPS II and an investment in NAB. Some of these risks are summarised below.

#### 1.2.1 Key risks associated with an investment in NAB CPS II

Topic	Summary	Further Information
<b>NAB CPS II are not deposit liabilities or protected accounts</b>	NAB CPS II do not constitute deposit liabilities of NAB, are not protected accounts for the purposes of the Banking Act or any other accounts with NAB and are not guaranteed or insured by any person.	Section 6.1.1
<b>Dividends may not be paid</b>	<p>There is a risk that Dividends will not be paid, including where the Directors do not resolve to pay a Dividend or where a Payment Condition exists on the Dividend Payment Date.</p> <p>As Dividends are non-cumulative, if a Dividend is not paid then NAB has no liability to pay that Dividend and Holders have no claim or entitlement in respect of such non-payment. Failure to pay a Dividend when scheduled will not constitute an event of default.</p>	Section 6.1.2
<b>The Dividend Rate will fluctuate</b>	The Dividend Rate will fluctuate up and down. There is a risk that the return on NAB CPS II may become less attractive compared to returns on other investments.	Section 6.1.3
<b>Market price of NAB CPS II</b>	The market price of NAB CPS II may fluctuate up or down and there is no guarantee NAB CPS II will trade at or above their Issue Price. The price at which NAB CPS II trade may, for example, be affected by how the Dividend Rate of NAB CPS II compares to that of other comparable instruments.	Section 6.1.4
<b>Liquidity of NAB CPS II</b>	The liquidity of NAB CPS II may be low, which means that, at certain times, you may be unable to sell your NAB CPS II at an acceptable price, if at all.	Section 6.1.5
<b>Liquidity and price of Ordinary Shares</b>	<p>Where NAB CPS II are Converted, the market for Ordinary Shares may be less liquid than that for comparable securities issued by other entities at the time of Conversion, or there may be no liquid market at that time.</p> <p>The market price of Ordinary Shares will fluctuate due to various factors, including investor perceptions, domestic and worldwide economic conditions, NAB’s financial performance and position and transactions affecting the share capital of NAB. As a result, the value of any Ordinary Shares received by Holders upon Conversion may be greater than or less than anticipated when they are issued or thereafter.</p> <p>The market price of Ordinary Shares is also relevant to determining whether Conversion will occur (except for Conversions on account of a Loss Absorption Event) and the number of Ordinary Shares you will receive. Depending on the market price of Ordinary Shares at the relevant time, Conversion may not occur.</p> <p>See on page 15 the heading “Conversion or Write Off following Loss Absorption Event” and Section 6 for further information on the Conversion or Write Off of NAB CPS II following a Loss Absorption Event.</p>	Sections 6.1.4, 6.1.5, 6.1.6 and 6.1.9

Topic	Summary	Further Information
<b>NAB CPS II are perpetual and may not Convert</b>	<p>NAB CPS II have no fixed maturity date but will Convert into Ordinary Shares on 19 December 2022 if the Mandatory Conversion Conditions are satisfied. If these conditions are not met on 19 December 2022, Conversion will occur on the first Dividend Payment Date on which they are satisfied.</p> <p>If the Mandatory Conversion Conditions are never satisfied, there is a risk that NAB CPS II may never Convert.</p>	Section 6.1.9
<b>Holders have no right to request early redemption</b>	<p>Holders have no right to request that their NAB CPS II be redeemed. Absent a Conversion, Redemption or Resale, in order to realise their investment, Holders would have to sell their NAB CPS II on the ASX at the prevailing market price. That price may be less than the Issue Price, and there may be no liquid market in NAB CPS II (see Sections 6.1.4 and 6.1.5).</p>	Section 6.1.11
<b>NAB has certain early Conversion, Redemption and Resale rights</b>	<p>Subject to the prior written approval of APRA and certain conditions being met, NAB has the right to Convert, Redeem or Resell NAB CPS II on 17 December 2020, or because of a Tax Event or Regulatory Event. Holders should not expect that APRA's approval, if requested, will be given for any Conversion, Redemption or Resale of NAB CPS II.</p>	Sections 6.1.11 – 6.1.14
<b>Conversion or Write Off following Loss Absorption Event</b>	<p>If Conversion occurs following a Loss Absorption Event, depending on the market price of the Ordinary Shares at that time Holders may receive less, or significantly less, than \$101 worth of Ordinary Shares per NAB CPS II and in cases where NAB is prevented from Converting NAB CPS II for any reason (within five days after the Loss Absorption Event Conversion Date), NAB CPS II will be Written Off.</p> <p>If a Write Off occurs following a Loss Absorption Event, the rights of Holders to dividends and returns of capital will be broadly equivalent to the rights to dividends and returns of capital in a winding up of a person holding the number of Ordinary Shares the Holder would have received if the Conversion had occurred.</p>	Section 6.1.14
<b>Ranking in a winding up of NAB</b>	<p>In a winding up of NAB, NAB CPS II rank ahead of Ordinary Shares, equally with all Equal Ranking Instruments, but behind the claims of all creditors of NAB, including depositors.</p> <p>On a winding up of NAB, there is a risk that Holders may lose some or all of the money they have invested in NAB CPS II. See also the above and Section 6.1.14 in relation to returns of capital following a Write Off. A Write Off may affect the amount of any return in a winding up compared to the holders of any Equal Ranking Instruments which do not have a write off feature.</p>	Sections 6.1.14 and 6.1.15
<b>NAB may issue further securities</b>	<p>There is no limit on the amount of senior debt, deposits or other obligations or securities that may be incurred or issued by NAB at any time, which may affect Holders' ability to be repaid on a winding up of NAB.</p>	Section 6.1.16

### 1.2.2 Key risks associated with an investment in NAB

See Section 6.2 for a description of the risks associated with an investment in NAB and the Group.

# Section One:

## Investment Overview

### 1.3 Information about the Offer

Topic	Summary	Further Information
<b>Offer Structure</b>	<p>The Offer comprises:</p> <ul style="list-style-type: none"> <li>• The Securityholder Offer;</li> <li>• The General Offer;</li> <li>• The Institutional Offer; and</li> <li>• The Broker Firm Offer.</li> </ul> <p>Information about the different types of offer and how to apply is provided in Section 3 “Applying for NAB CPS II”.</p>	Section 3
<b>How to Apply</b>	<ul style="list-style-type: none"> <li>• Eligible Securityholders and General Applicants should either apply online at <a href="http://www.nab.com.au/cps">www.nab.com.au/cps</a> and pay their Application Monies electronically or complete a paper Application Form and pay their Application Monies by cheque or money order.</li> <li>• Broker Firm Applicants should contact their Syndicate Broker.</li> </ul>	Section 3
<b>Minimum Application</b>	50 NAB CPS II (\$5,000) and thereafter in multiples of 10 NAB CPS II (\$1,000).	Section 3
<b>Key Dates</b>	<p><b>Offer Period:</b></p> <ul style="list-style-type: none"> <li>• The Offer opens on 20 November 2013;</li> <li>• The Securityholder Offer and General Offer close on 9 December 2013;</li> <li>• The Broker Firm Offer and Institutional Offer close on 13 December 2013.</li> </ul> <p><b>Issue Date:</b> NAB CPS II are expected to be issued on 17 December 2013.</p> <p><b>Commencement of trading on ASX:</b> trading is expected to commence on 18 December 2013 on a deferred settlement basis. Normal settlement trading is expected to commence on 23 December 2013.</p> <p><b>Despatch of Holding Statements:</b> Holding Statements are expected to be despatched from 18 December 2013.</p>	Section 3
<b>Tax consequences</b>	Information about the Australian tax consequences of investing in NAB CPS II is set out in Section 7.	Section 7
<b>Fees and expenses associated with the Offer</b>	NAB has incurred certain fees and expenses in connection with the Offer and the Prospectus.	Section 8
<b>More information</b>	If you have any questions about NAB CPS II or the Offer, you should seek advice from your financial adviser or other professional adviser. You can also call the NAB Information Line on 1300 367 647 (within Australia) or on +61 3 9415 4299 (International) (Monday to Friday 8.00am – 7.30pm, AEDT) during the Offer Period, and for a week following.	



Section Two

# **About** NAB CPS II

## **Section Two:** About NAB CPS II

The following is an overview of the key terms of NAB CPS II. It is important that you read this Prospectus and the Terms in full before deciding to invest in NAB CPS II. If you have any questions, you should seek advice from your financial adviser or other professional adviser.

The full Terms are contained in Appendix A. Rights and liabilities attaching to NAB CPS II may also arise under the Corporations Act, ASX Listing Rules, the Constitution and other applicable laws.

## 2.1 Dividends

NAB CPS II are expected to pay quarterly Dividends, which are expected to be fully franked. A Dividend will be paid provided the Directors decide to pay it, and provided a Payment Condition does not exist on the Dividend Payment Date. A Payment Condition is where NAB is prevented from paying the Dividend by prudential regulatory requirements, applicable law or insolvency.

The Dividend Rate is a floating rate (i.e. it will fluctuate), and is equal to the sum of the Bank Bill Rate plus a Margin (to be determined under the Bookbuild), adjusted for NAB's tax rate.

Dividends are non-cumulative.

Topic	Summary	Further Information										
<b>Dividend Rate</b>	<p>The Dividend Rate for each quarterly Dividend will be calculated using the following formula:</p> <p><b>Dividend Rate = (Bank Bill Rate + Margin) × (1 – Tax Rate)</b></p> <p>Where:</p> <ul style="list-style-type: none"> <li>• Bank Bill Rate is a benchmark interest rate for the Australian money market. It is based on an average of rates at which major Australian financial institutions lend short-term cash to each other over a 90 day period. It changes to reflect supply and demand in the cash and currency markets. The Bank Bill Rate for each Dividend Period is set on the first Business Day of the relevant Dividend Period;</li> <li>• Margin is the margin determined under the Bookbuild, expected to be in the range of 3.25% to 3.40%; and</li> <li>• Tax Rate is the Australian corporate tax rate applicable to the franking account of NAB on the relevant Dividend Payment Date.</li> </ul> <p>For example, if the Bank Bill Rate was 2.5800%, the Margin was 3.2500% and the Australian corporate tax rate was 30%, assuming the Dividend is fully franked the Dividend Rate for that Dividend period would be calculated as follows:</p> <table border="1"> <tbody> <tr> <td>Bank Bill Rate</td> <td>2.5800% per annum</td> </tr> <tr> <td>plus Margin</td> <td>3.2500% per annum</td> </tr> <tr> <td></td> <td>5.8300% per annum</td> </tr> <tr> <td>Multiplied by (1 – Tax Rate)</td> <td>x 0.70</td> </tr> <tr> <td>Dividend Rate =</td> <td>4.0810% per annum</td> </tr> </tbody> </table>	Bank Bill Rate	2.5800% per annum	plus Margin	3.2500% per annum		5.8300% per annum	Multiplied by (1 – Tax Rate)	x 0.70	Dividend Rate =	4.0810% per annum	Clause 2.4 of the Terms
Bank Bill Rate	2.5800% per annum											
plus Margin	3.2500% per annum											
	5.8300% per annum											
Multiplied by (1 – Tax Rate)	x 0.70											
Dividend Rate =	4.0810% per annum											
	<p>The graph below illustrates the movement in the Bank Bill Rate over the last 10 years. The rate on 8 November 2013 was 2.5833%.</p>											

# Section Two:

## About NAB CPS II

### 2.1 Dividends (continued)

Topic	Summary	Further Information															
<b>Calculation of Dividend</b>	<p>Dividends scheduled to be paid on a Dividend Payment Date will be calculated using the following formula:</p> $\frac{\text{Dividend Rate} \times \text{A}\$100 \times \text{N}}{365}$ <p>Where:</p> <p><b>N</b> is the number of days in the Dividend Period calculated as set out in the Terms.</p> <p>Using the above formula, if the Dividend Rate was 4.0810% per annum, then the Dividend on each NAB CPS II for the first Dividend Period (if the Dividend Period was 90 days) would be calculated as follows:</p> <table border="0"> <tr> <td>Indicative Dividend Rate</td> <td>4.0810% per annum</td> <td></td> </tr> <tr> <td>Multiplied by the Issue Price</td> <td></td> <td>x \$100</td> </tr> <tr> <td>Multiplied by the number of days in the Dividend Period</td> <td></td> <td>x 90</td> </tr> <tr> <td>Divided by 365</td> <td></td> <td>/ 365</td> </tr> <tr> <td>Indicative cash Dividend payment for the first Dividend Period for each NAB CPS II</td> <td></td> <td>\$1.0063</td> </tr> </table> <p>Dividends paid on NAB CPS II are expected to be fully franked, and accordingly Holders are expected to receive a combination of cash Dividends and franking credits.</p> <p>The above example is for illustrative purposes only and does not indicate, guarantee or forecast the actual Dividend payment for the first or any subsequent Dividend Period. Actual Dividend payments may be higher or lower than this example. The Dividend Rate for the first Dividend Period will be set on the Issue Date and will include the Margin to be determined under the Bookbuild.</p>	Indicative Dividend Rate	4.0810% per annum		Multiplied by the Issue Price		x \$100	Multiplied by the number of days in the Dividend Period		x 90	Divided by 365		/ 365	Indicative cash Dividend payment for the first Dividend Period for each NAB CPS II		\$1.0063	Clause 2.4 of the Terms
Indicative Dividend Rate	4.0810% per annum																
Multiplied by the Issue Price		x \$100															
Multiplied by the number of days in the Dividend Period		x 90															
Divided by 365		/ 365															
Indicative cash Dividend payment for the first Dividend Period for each NAB CPS II		\$1.0063															
<b>Dividend Payment Dates</b>	<p>The quarterly Dividend Payment Dates are scheduled to be:</p> <ul style="list-style-type: none"> <li>• 17 March;</li> <li>• 17 June;</li> <li>• 17 September; and</li> <li>• 17 December.</li> </ul> <p>In addition, if Conversion, Redemption or Resale occurs on a day that is not a scheduled quarterly Dividend Payment Date, provided the conditions to payment are met, Holders of the NAB CPS II which are being Converted, Redeemed or Resold will also receive a Dividend in respect of these NAB CPS II for the period from the immediately preceding Dividend Payment Date to the date on which the Conversion, Redemption or Resale occurs.</p> <p>If a Dividend Payment Date is a day which is not a Business Day, then the Dividend Payment Date is the next Business Day.</p>	Clause 2.2 of the Terms															

Topic	Summary	Further Information
<b>Franking credits</b>	<p>Dividends paid on NAB CPS II are expected to be fully franked. However, Holders should be aware that franking is not guaranteed.</p> <p>If any Dividend payment is not fully franked, then the Dividend will be adjusted to reflect the applicable franking rate (see clause 2.5 of the Terms).</p> <p>Holders should be aware that their ability to use franking credits will depend on their individual circumstances.</p> <p>Holders should refer to the Australian taxation summary in Section 7 and seek professional advice in relation to their tax position.</p>	Clause 2.5 of the Terms
<b>Restrictions on Dividends</b>	<p>A Dividend on NAB CPS II will only be paid if:</p> <ul style="list-style-type: none"> <li>• The Directors resolve to pay it; and</li> <li>• A Payment Condition does not exist on the Dividend Payment Date.</li> </ul> <p>A “<b>Payment Condition</b>” will exist where:</p> <ul style="list-style-type: none"> <li>• The payment of Dividends will result in NAB or the Group not complying with APRA’s then current Prudential Capital Requirements;</li> <li>• Unless APRA otherwise approves in writing, making the Dividend payment would result in NAB or the Group exceeding any limit on distributions of earnings applicable under (and calculated in accordance with) APRA’s then current capital conservation requirements as they are applied to NAB or the Group (as the case may be) at the time;</li> <li>• APRA otherwise objects to the payment of Dividends;</li> <li>• Making the Dividend payment would result in NAB becoming, or being likely to become, insolvent for the purposes of the Corporations Act; or</li> <li>• NAB is not permitted to pay the Dividend under the Corporations Act.</li> </ul> <p>Dividends are non-cumulative. Failure to pay a Dividend when scheduled will not constitute an event of default. If a Dividend is not paid then NAB has no liability to pay that Dividend and Holders have no claim or entitlement in respect of such non-payment.</p>	Clause 2.6 of the Terms
<b>Restrictions on Ordinary Shares if Dividends not paid</b>	<p>If for any reason a Dividend has not been paid in full on a Dividend Payment Date (“<b>Relevant Dividend Payment Date</b>”), NAB must not, subject to certain exceptions, unless approved by an Ordinary Resolution, until and including the next Dividend Payment Date:</p> <ul style="list-style-type: none"> <li>• Declare, determine to pay or pay a dividend on Ordinary Shares; or</li> <li>• Buy-back or reduce capital on Ordinary Shares,</li> </ul> <p>unless the Dividend is paid in full within 3 Business Days of the Relevant Dividend Payment Date.</p>	Clause 2.8 of the Terms

# Section Two:

## About NAB CPS II

### 2.2 Term

Topic	Summary	Further Information
Term	<p>NAB CPS II do not have a fixed maturity date and if they are not Converted, Redeemed or Resold in accordance with the Terms, they could remain on issue indefinitely and accordingly are perpetual securities.</p> <p><i>Conversion</i></p> <p>NAB CPS II will Convert into Ordinary Shares on 19 December 2022 if the Mandatory Conversion Conditions are satisfied.</p> <p>In addition, under the Terms, there are various other circumstances where NAB CPS II may Convert into Ordinary Shares, including prior to 19 December 2022. In some circumstances, APRA's prior written approval may be required.</p> <p>On a Conversion of NAB CPS II, each Holder should receive Ordinary Shares worth approximately \$101 (determined on the basis of conversion calculations described below, although the market value of Ordinary Shares received may be worth more or less than \$101). For a Conversion following a Loss Absorption Event, depending on the market price of Ordinary Shares at the relevant time, Holders may receive less, or significantly less, than \$101 worth of Ordinary Shares per NAB CPS II. The number of Ordinary Shares that Holders will receive on a Conversion will not be greater than the Maximum Conversion Number. If a Conversion occurs on a day that is not a scheduled quarterly Dividend Payment Date, Holders of the NAB CPS II which are being Converted will also receive a Dividend in respect of these NAB CPS II for the period from (and including) the immediately preceding Dividend Payment Date to (but not including) the date on which the Conversion occurs (provided the conditions to payment are met, including the Directors resolving to pay the Dividend).</p> <p>Any Conversion (other than on a Loss Absorption Event) is subject to conditions. These conditions may never be satisfied. Accordingly, NAB CPS II may never Convert into Ordinary Shares.</p> <p>Further information in relation to the circumstances in which NAB CPS II may Convert into Ordinary Shares is set out in Sections 2.3, 2.4, 2.6 and 2.7 of this Prospectus.</p> <p><i>Redemption</i></p> <p>NAB may, with the prior written approval of APRA, elect to Redeem all or some of NAB CPS II for the Issue Price (\$100), on 17 December 2020, or where certain events occur. If a Redemption occurs on a day that is not a scheduled quarterly Dividend Payment Date, Holders of the NAB CPS II which are being Redeemed will also receive an amount by way of or equal to a Dividend in respect of these NAB CPS II for the period from (and including) the immediately preceding Dividend Payment Date to (but not including) the date on which the Redemption occurs (provided the conditions to payment are met, including the Directors resolving to pay that amount).</p> <p><i>Resale</i></p> <p>NAB may also, with the prior written approval of APRA, elect to Resell all or some of NAB CPS II for the Issue Price (\$100), on 17 December 2020, or where certain events occur. If the Resale occurs on a day that is not a scheduled quarterly Dividend Payment Date, Holders of the NAB CPS II which are being Resold will receive a Dividend in respect of these NAB CPS II for the period from (and including) the immediately preceding Dividend Payment Date to (but not including) the date on which the Resale occurs (provided the conditions to payment are met, including the Directors resolving to pay the Dividend).</p>	<p>Sections 2.3, 2.4, 2.6 and 2.7</p> <p>Section 2.5</p> <p>Section 2.5</p>

*No right to return of capital*

Clause 12.2 of the Terms

There can be no certainty that NAB CPS II will be Converted, Redeemed or Resold under the Terms. Holders will have no right to request NAB to Convert, Redeem, or Resell NAB CPS II. Holders should not expect that APRA's approval, if requested, will be given for any optional Conversion, Redemption or Resale.

## 2.3 Mandatory Conversion

NAB must convert NAB CPS II into Ordinary Shares on 19 December 2022, if the NAB CPS II have not been Converted, Redeemed or Resold beforehand, provided that certain conditions are met. These conditions may never be satisfied and accordingly NAB CPS II may never Convert into Ordinary Shares. The number of Ordinary Shares that Holders will receive on a Mandatory Conversion will not be greater than the Maximum Conversion Number.

The conditions to Mandatory Conversion and the associated Conversion calculations (as set out below) are designed to ensure that Holders receive approximately \$101 worth of Ordinary Shares for each NAB CPS II they hold, and that the Ordinary Shares they receive following the Conversion are capable of being sold on the ASX.

Topic	Summary	Further Information
<b>Mandatory Conversion Date</b>	<p>The Mandatory Conversion Date is 19 December 2022, provided the Mandatory Conversion Conditions are satisfied on that date and NAB CPS II have not been otherwise Converted, Redeemed or Resold prior to that date.</p> <p>If any of the Mandatory Conversion Conditions are not satisfied on this date, the NAB CPS II will continue to be on issue and the Mandatory Conversion Date will be the next Dividend Payment Date on which they are satisfied.</p>	Clause 3.2 of the Terms
<b>Mandatory Conversion and consequences</b>	<p>If the Mandatory Conversion Conditions are satisfied on the Mandatory Conversion Date, NAB CPS II will be Converted and Holders will receive Ordinary Shares.</p> <p>Upon Conversion on a Mandatory Conversion Date, based on an Issue Price of \$100 and with the benefit of a 1% discount, Holders will receive approximately \$101 worth of Ordinary Shares per NAB CPS II. The number of Ordinary Shares that Holders will receive will not be greater than the Maximum Conversion Number (see below).</p> <p>This calculation is based on the VWAP (the volume weighted average price of Ordinary Shares) during a period of 20 Business Days on which trading in Ordinary Shares took place before the Mandatory Conversion Date.</p> <p>The VWAP used to calculate the number of Ordinary Shares that Holders receive is an average price and, accordingly, may differ from the Ordinary Share price on or after the Mandatory Conversion Date. This means that the value of Ordinary Shares received may be more or less than approximately \$101 when they are issued or at any time after that.</p> <p>Following a Conversion of NAB CPS II to Ordinary Shares, Holders will become holders of Ordinary Shares in the capital of NAB, which will rank equally with existing Ordinary Shares from the date of issue and which may be sold on the ASX at the prevailing market price (provided that trading in Ordinary Shares on the ASX has not been suspended at the relevant time).</p>	<p>Clause 3.1 of the Terms</p> <p>Clause 7.1 of the Terms</p>

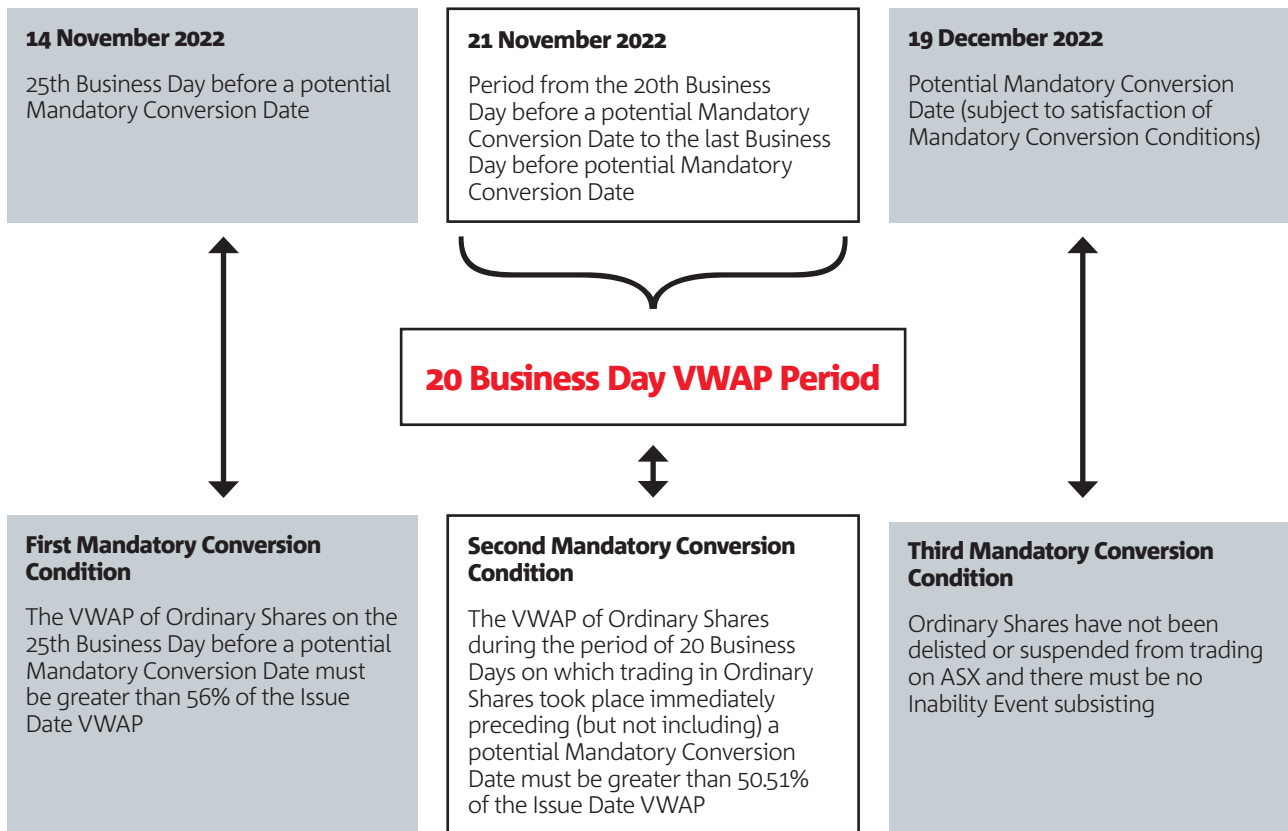
# Section Two:

## About NAB CPS II

### 2.3 Mandatory Conversion (continued)

Topic	Summary	Further Information
<b>Mandatory Conversion Conditions</b>	<p>There are three Mandatory Conversion Conditions, each of which must be satisfied.</p> <p>The First Mandatory Conversion Condition and the Second Mandatory Conversion Condition are intended to provide protection to Holders against receiving less than approximately \$101 worth of Ordinary Shares per NAB CPS II on Conversion (based on the VWAP during the VWAP Period (20 Business Days before the Mandatory Conversion Date)).</p> <p>The percentages used in these conditions (see below) are derived from market precedents and the cap on the number of ordinary shares that is permitted to be issued under applicable prudential rules and ratings guidance. Worked examples follow.</p> <p>The Third Mandatory Conversion Condition is intended to provide protection for Holders by making Conversion conditional on Holders receiving Ordinary Shares which are capable of being sold on ASX.</p> <p>The Mandatory Conversion Conditions are as follows:</p> <ul style="list-style-type: none"> <li>• <b>First Mandatory Conversion Condition:</b> the VWAP of Ordinary Shares on the 25th Business Day before a possible Mandatory Conversion Date must be greater than 56% of the Issue Date VWAP;</li> <li>• <b>Second Mandatory Conversion Condition:</b> the VWAP of Ordinary Shares during the period of 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) a possible Mandatory Conversion Date (“<b>VWAP Period</b>”) is greater than 50.51% of the Issue Date VWAP; and</li> <li>• <b>Third Mandatory Conversion Condition:</b> no Delisting Event applies to Ordinary Shares in respect of a possible Mandatory Conversion Date (broadly, a Delisting Event occurs when NAB is delisted, its Ordinary Shares have been suspended from trading for a certain period, or an Inability Event subsists preventing NAB from Converting NAB CPS II of Holders generally (i.e. where NAB is prevented by applicable law or order of any court or action of any government authority or any other reason from Converting NAB CPS II)).</li> </ul> <p><i>Satisfaction of Mandatory Conversion Conditions</i></p> <p>By way of example, if the Issue Date VWAP is \$34.00, the relevant VWAP for the First Mandatory Conversion Condition to be satisfied would need to be greater than \$19.04, and for the Second Mandatory Conversion Condition would need to be greater than \$17.17. The Third Mandatory Conversion Condition will be satisfied where the Ordinary Shares are able to be traded on the ASX at the relevant time and no Inability Event subsists.</p> <p>The following diagram illustrates the timeframes that are relevant for the Mandatory Conversion Conditions, using the date of 19 December 2022 as a potential Mandatory Conversion Date. These dates are indicative only and may change.</p>	Clause 3.3 of the Terms





# Section Two:

## About NAB CPS II

### 2.3 Mandatory Conversion (continued)

Topic	Summary	Further Information
<b>Conversion Number</b>	<p>On a Mandatory Conversion Date, a Holder will receive a number of Ordinary Shares per NAB CPS II ("<b>Conversion Number</b>") which is <b>the lesser of:</b></p> <p><b>(a) the number (N) calculated in accordance with the following formula:</b></p> $N = \frac{\$100}{99\% \times \text{VWAP}}$ <p>where:</p> <ul style="list-style-type: none"> <li>• "<b>VWAP</b>" broadly is the volume weighted average price of Ordinary Shares during the VWAP Period. For a Mandatory Conversion, the VWAP Period is the 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the Mandatory Conversion Date.</li> </ul> <p>and:</p> <p><b>(b) the Maximum Conversion Number ("<b>MCN</b>") calculated in accordance with the following formula:</b></p> $MCN = \frac{\$100}{\text{Issue Date VWAP} \times \text{Relevant Fraction}}$ <p>where:</p> <ul style="list-style-type: none"> <li>• "<b>Issue Date VWAP</b>" is the VWAP during the 20 Business Day period on which trading in Ordinary Shares took place immediately preceding (but not including) the date on which NAB CPS II were issued.</li> <li>• "<b>Relevant Fraction</b>", for Conversion on a Mandatory Conversion Date, is <b>0.5</b><sup>1</sup>.</li> </ul> <p><b>Adjustments to Issue Date VWAP and Maximum Conversion Number</b></p> <p>The Issue Date VWAP, and consequently the Maximum Conversion Number, will be adjusted to reflect a consolidation, division or reclassification of Ordinary Shares and pro rata bonus issues as set out in the Terms (but not other transactions, including rights issues, which may affect the capital of NAB).</p> <p>No adjustment shall be made to the Issue Date VWAP where such adjustment (rounded if applicable) would be less than one per cent of the Issue Date VWAP then in effect.</p>	Clauses 7.1, 7.2, 7.3, 7.4 and 7.7 of the Terms

<sup>1</sup> This percentage reflects the ratings agency requirement that the maximum number of shares issued on a Conversion of this kind not exceed the number that would be issued if the Ordinary Share price fell from the price it was at the Issue Date to 50% of that price.

Topic	Summary	Further Information
<b>Number of Ordinary Shares Holders will receive on Mandatory Conversion Date – worked example</b>	<p><b>Worked example: Scheduled Mandatory Conversion Date</b></p> <p>Assume the VWAP from 21 November 2022 to 16 December 2022 (being the 20 Business Days on which trading in Ordinary Shares took place immediately preceding 19 December 2022) is \$32.00 and the Issue Date VWAP is \$34.00. Holders would be entitled to receive the Conversion Number of Ordinary Shares which is the <b>lesser of:</b></p> <p>a) <math display="block">N = \frac{\\$100}{99\% \times \\$32.00} = 3.1566 \text{ Ordinary Shares per NAB CPS II; and}</math></p> <p>b) <math display="block">\text{the MCN} = \frac{\\$100}{\\$34.00 \times 0.5} = 5.8824 \text{ Ordinary Shares per NAB CPS II.}</math></p> <p>Since N is less than the MCN (see above), the total number of Ordinary Shares to which a Holder of 100 NAB CPS II would be entitled would be N, that is 315 (i.e. <math>100 \times 3.1566</math>, which number is rounded down to disregard the fraction of the Ordinary Share). Assuming a prevailing market price equal to the VWAP of \$32.00, this would represent a market value of \$10,080 (i.e. <math>315 \times \\$32.00</math>) which is slightly more than \$10,000 (the Issue Price of 100 NAB CPS II).</p> <p>This example is for illustrative purposes only. The figures in it are not forward-looking statements and do not indicate, guarantee or forecast the Issue Date VWAP or future VWAP or other price of Ordinary Shares.</p>	<p>Clause 7.1 of the Terms</p>

# Section Two:

## About NAB CPS II

### 2.4 Optional Conversion

On 17 December 2020, NAB may elect to Convert NAB CPS II into Ordinary Shares with APRA's prior written approval. NAB may also elect to Convert NAB CPS II into Ordinary Shares following the occurrence of certain events (related to tax, regulation and takeovers).

As with a Mandatory Conversion, there are conditions to an optional Conversion which are designed to ensure that Holders receive approximately \$101 worth of Ordinary Shares for each NAB CPS II they hold, and that Holders receive Ordinary Shares that are capable of being sold on ASX.

The number of Ordinary Shares that Holders will receive on a Conversion in these circumstances will not be greater than the Maximum Conversion Number.

The conditions to an optional Conversion may never be satisfied and accordingly, NAB CPS II may never Convert into Ordinary Shares. Holders should not expect that APRA's approval, if requested, will be given for any Optional Conversion.

Topic	Summary	Further Information
<b>Optional Conversion</b>	<p>NAB may, with APRA's prior written approval, elect to Convert:</p> <ul style="list-style-type: none"> <li>• All or some NAB CPS II on 17 December 2020;</li> <li>• All or some NAB CPS II following the occurrence of a Tax Event or a Regulatory Event;</li> <li>• All or some NAB CPS II following the occurrence of a Potential Acquisition Event.</li> </ul> <p>An optional Conversion is subject to further conditions as set out below.</p> <p>In addition, Holders should not expect that APRA's approval, if requested, will be given for a Conversion of NAB CPS II in these circumstances.</p>	Clause 6.1 of the Terms
<b>Tax Event</b>	<p>A Tax Event will broadly occur if NAB receives advice that as a result of a change in law or regulation, judicial decision or administrative position or practice in Australia (which NAB did not expect at the time of issue of NAB CPS II), there is a more than insubstantial risk that a Dividend would not be frankable (or would be frankable subject to requirements which the Directors determine to be unacceptable) or that NAB would be exposed to an increase in taxes or other costs, which is not insignificant, in relation to NAB CPS II.</p>	Clause 24.1 of the Terms
<b>Regulatory Event</b>	<p>A Regulatory Event will broadly occur if:</p> <ul style="list-style-type: none"> <li>• NAB receives legal advice that, as a result of a change of law or regulation on or after the Issue Date, additional requirements would be imposed on NAB in relation to NAB CPS II (which were not expected by NAB prior to the Issue Date) which the Directors determine to be unacceptable; or</li> <li>• The Directors determine that NAB is not or will not be entitled to treat some or all NAB CPS II as Additional Tier 1 Capital, except where the reason is or will be because of a limit or other restriction on the recognition of Additional Tier 1 Capital which is in effect on the Issue Date or which on the Issue Date is expected by NAB may come into effect.</li> </ul>	Clause 24.1 of the Terms
<b>Potential Acquisition Event</b>	<p>A Potential Acquisition Event will broadly occur if:</p> <ul style="list-style-type: none"> <li>• A takeover bid is made to acquire NAB's Ordinary Shares and the offer is, or becomes, unconditional and the bidder has a relevant interest in more than 50% of the Ordinary Shares on issue or a majority of Directors recommend acceptance of the offer (without the need for all regulatory approvals necessary for the acquisition having been obtained); or</li> <li>• A court orders the holding of meetings to approve a scheme of arrangement with respect to NAB which would result in a person having a relevant interest in more than 50% of the Ordinary Shares on issue after the scheme is implemented.</li> </ul>	Clause 24.1 of the Terms

Topic	Summary	Further Information
<b>Optional Conversion Restrictions</b>	<p>Broadly, in addition to APRA approval, there are two categories of restrictions that may prevent an optional Conversion from occurring:</p> <ul style="list-style-type: none"> <li>Restrictions that may prevent NAB from sending a notice to Holders advising them that NAB wishes to Convert NAB CPS II; and</li> <li>Restrictions that may prevent NAB from actually Converting NAB CPS II.</li> </ul> <p><i>Restrictions that may prevent NAB from sending conversion notice</i></p> <p>NAB may not elect to Convert NAB CPS II if on the Non-Conversion Test Date (broadly, the second Business Day before the date on which NAB is to send a notice advising Holders that it wishes to Convert NAB CPS II):</p> <ul style="list-style-type: none"> <li>The VWAP of Ordinary Shares on the Non-Conversion Test Date is less than or equal to 22.50% of the Issue Date VWAP; or</li> <li>A Delisting Event applies.</li> </ul> <p><i>Further restrictions that may prevent NAB from Converting NAB CPS II on conversion date</i></p> <p>In addition, NAB may not proceed to Convert NAB CPS II if, on the date on which Conversion is to occur (“<b>Optional Conversion Date</b>”) either:</p> <ul style="list-style-type: none"> <li>The Second Mandatory Conversion Condition (applied as if it referred to 20.20% of the Issue Date VWAP); or</li> <li>The Third Mandatory Conversion Condition, would not be satisfied in respect of that date.</li> </ul> <p>The percentages used in the above restrictions are derived from market precedents and the cap on the number of ordinary shares that is permitted to be issued under applicable prudential rules.</p>	Clauses 6.4 and 6.5 of the Terms
<b>Conversion Number</b>	<p>If an optional Conversion proceeds, the Conversion Number of Ordinary Shares will be calculated in the same manner as for a Mandatory Conversion – see Section 2.3. However, for the purposes of the optional Conversion calculations, the Relevant Fraction is 0.2 rather than 0.5.<sup>1</sup></p>	Clause 7.1 of the Terms
<b>If Conversion does not occur on Optional Conversion Date</b>	<p>If NAB elects to, but cannot, Convert the NAB CPS II on the Optional Conversion Date, NAB will notify Holders and the Conversion will be deferred until the next Dividend Payment Date on which the Mandatory Conversion Conditions would be satisfied as if that Dividend Payment Date were a possible Mandatory Conversion Date, unless NAB CPS II are otherwise Converted, Redeemed or Resold in accordance with the Terms. For the purposes of the Conversion calculations in these circumstances, the Relevant Fraction is 0.2 rather than 0.5.</p>	Clause 6.5 of the Terms

<sup>1</sup>This percentage reflects the prudential regulator’s requirement that the maximum number of shares issued on a Conversion of this kind not exceed the number that would be issued if the Ordinary Share price fell from the price it was at the date of issue to 20% of that price.

# Section Two:

## About NAB CPS II

### 2.5 Optional redemption and optional resale

On 17 December 2020, NAB may elect to Redeem or Resell NAB CPS II with APRA's prior written approval. NAB may also elect to Redeem or Resell NAB CPS II following the occurrence of certain events (related to tax and regulation), again with APRA's prior written approval.

If a Redemption or Resale occurs, a Holder will receive the Issue Price (\$100) for each NAB CPS II that it holds.

There are restrictions on NAB's ability to Redeem NAB CPS II for cash. Most importantly, NAB may only elect to Redeem NAB CPS II if APRA is satisfied that NAB's regulatory capital position will remain adequate following the Redemption. This is intended to protect NAB's creditors (including depositors).

Holder should not expect that APRA's approval, if requested, will be given for any Redemption or Resale.

Topic	Summary	Further Information
<b>Optional Redemption</b>	<p>NAB may, with APRA's prior written approval, elect to Redeem:</p> <ul style="list-style-type: none"> <li>• All or some NAB CPS II on 17 December 2020; or</li> <li>• All or some NAB CPS II following the occurrence of a Tax Event or a Regulatory Event.</li> </ul> <p>Holder should not expect that APRA's approval, if requested, will be given for any Redemption of NAB CPS II under the Terms. Holder do not have a right to request Redemption.</p>	Clauses 8.1 and 12.2 of the Terms
<b>Restrictions on Redemption</b>	<p>NAB may only elect to Redeem NAB CPS II if APRA is satisfied that either:</p> <ul style="list-style-type: none"> <li>• The NAB CPS II proposed to be Redeemed are replaced concurrently or beforehand with Tier 1 Capital of the same or better quality and the replacement of the instrument is done under conditions that are sustainable for NAB's income capacity; or</li> <li>• The Group's capital position will remain adequate after NAB elects to Redeem NAB CPS II.</li> </ul>	Clause 8.4 of the Terms
<b>Optional Resale</b>	<p>NAB may also, with APRA's prior written approval, elect to Resell:</p> <ul style="list-style-type: none"> <li>• All or some NAB CPS II on 17 December 2020; or</li> <li>• All or some NAB CPS II following the occurrence of a Tax Event or a Regulatory Event.</li> </ul> <p>Holder should not expect that APRA's approval, if requested, will be given for any Resale of NAB CPS II under the Terms. Holder do not have a right to request Resale.</p> <p>In the event of a Resale, each Holder is bound under the Terms to sell NAB CPS II to one or more third party purchasers at the Issue Price.</p>	Clauses 10.1 and 11.4 of the Terms

Topic	Summary	Further Information
<b>Appointment of Nominated Purchaser</b>	<p>NAB may appoint one or more third party purchasers (“<b>Nominated Purchasers</b>”) to purchase the NAB CPS II offered for Resale.</p> <p>If NAB appoints more than one Nominated Purchaser in respect of a Resale, all or any NAB CPS II held by a Holder which are being Resold may be purchased by any one or any combination of the Nominated Purchasers, as determined by NAB for the Resale Price (being \$100 per NAB CPS II).</p> <p>The Nominated Purchaser must not be NAB or any Related Entity of NAB.</p>	Clauses 11.2 and 11.3 of the Terms
<b>Failure by Nominated Purchaser to pay Resale Price</b>	<p>If a Nominated Purchaser does not pay the Resale Price when the Resale Price is due, the Resale to that Nominated Purchaser will not occur and Holders will continue to hold NAB CPS II in accordance with the Terms until NAB CPS II are otherwise Redeemed, Converted or Resold in accordance with the Terms.</p>	Clause 11.6 of the Terms

## 2.6 Conversion following an Acquisition Event

NAB is also required to Convert NAB CPS II into Ordinary Shares where NAB is taken over by way of takeover bid or scheme of arrangement which meets certain requirements (which are described below).

As with other types of Conversion, there are conditions to Conversion in these circumstances which are designed to ensure that Holders receive no less than approximately \$101 worth of Ordinary Shares for each NAB CPS II they hold, and that Holders receive Ordinary Shares that are capable of being sold on the ASX.

There is a risk that these conditions may never be satisfied. Accordingly, NAB CPS II may never Convert into Ordinary Shares.

Topic	Summary	Further Information
<b>Acquisition Event</b>	<p>An Acquisition Event broadly means:</p> <p>Either:</p> <ul style="list-style-type: none"> <li>• A takeover bid is made to acquire all or some Ordinary Shares and the offer is, or becomes, unconditional, all necessary regulatory approvals have been obtained and: <ul style="list-style-type: none"> <li>– The bidder has a relevant interest in more than 50% of the Ordinary Shares on issue; or</li> <li>– A majority of Directors recommend acceptance of such offer; or</li> </ul> </li> <li>• A court orders the holding of meetings to approve a scheme of arrangement under Part 5.1 of the Corporations Act, which when implemented will result in a person other than NAB having a relevant interest in more than 50% of the Ordinary Shares on issue, and: <ul style="list-style-type: none"> <li>– All classes of members of NAB pass all resolutions required to approve the scheme by the majorities required under the Corporations Act; and</li> <li>– All conditions to the implementation of the scheme, including any necessary regulatory approval, have been satisfied or waived.</li> </ul> </li> </ul>	Clause 24.1 of the Terms

# Section Two:

## About NAB CPS II

### 2.6 Conversion following an Acquisition Event (continued)

Topic	Summary	Further Information
<p><b>Conversion following an Acquisition Event</b></p>	<p>If an Acquisition Event occurs, NAB must (by giving an Acquisition Conversion Notice) Convert all (but not some only) NAB CPS II into a number of Ordinary Shares with a value of approximately \$101 (based on the VWAP during a period, usually 20 Business Days, before the Acquisition Conversion Date but a lesser period if trading in Ordinary Shares in the period after the Acquisition Event and before the Acquisition Conversion Date is less than 20 Business Days) provided that certain conditions are met. The number of Ordinary Shares that Holders will receive on a Conversion will not be greater than the Maximum Conversion Number.</p> <p>As with an optional Conversion, there are two categories of restrictions that may prevent a Conversion following an Acquisition Event from occurring:</p> <ul style="list-style-type: none"> <li>• Restrictions that may prevent NAB from sending an Acquisition Conversion Notice to Holders; and</li> <li>• Restrictions that may prevent NAB from actually Converting NAB CPS II.</li> </ul> <p><i>Restrictions that may prevent NAB from sending conversion notice</i></p> <p>NAB is not required to give an Acquisition Conversion Notice to Holders and will not be required to Convert NAB CPS II if on the Non-Conversion Test Date (broadly, the second Business Day before the date on which NAB is to send a notice advising Holders that it wishes to Convert NAB CPS II as a result of an Acquisition Event):</p> <ul style="list-style-type: none"> <li>• The VWAP of Ordinary Shares on the Non-Conversion Test Date is less than or equal to 22.5% of the Issue Date VWAP; or</li> <li>• A Delisting Event applies.</li> </ul> <p><i>Further restrictions that may prevent NAB from Converting NAB CPS II on conversion date</i></p> <p>In addition, NAB may not proceed to Convert NAB CPS II if, on the date on which Conversion is to occur (“<b>Acquisition Conversion Date</b>”) either the Second Mandatory Conversion Condition (applied as if it referred to 20.20% of the Issue Date VWAP) or Third Mandatory Conversion Condition would not be satisfied in respect of that date.</p>	<p>Clauses 5.1 and 7 of the Terms</p>
<p><b>Conversion Number</b></p>	<p>If Conversion proceeds, the Conversion Number of Ordinary Shares will be calculated in the same manner as for a Mandatory Conversion – see Section 2.3. However, for the purposes of the Conversion calculations in these circumstances the Relevant Fraction is 0.2 rather than 0.5.</p>	
<p><b>If Conversion does not occur on Acquisition Conversion Date</b></p>	<p>If NAB is not required to give an Acquisition Conversion Notice or the further restrictions prevent Conversion on the Acquisition Conversion Date, NAB will give a new Acquisition Conversion Notice on or before the 25th Business Day prior to the immediately succeeding scheduled quarterly Dividend Payment Date, unless the restrictions to the giving of an Acquisition Conversion Notice also apply at that time.</p> <p>The new Acquisition Conversion Notice will give notice of a new Acquisition Conversion Date. Conversion will not occur on the new Acquisition Conversion Date if the further Conversion restrictions apply on that date.</p> <p>This process will be repeated until Conversion occurs.</p>	<p>Clause 5.4 of the Terms</p>



## 2.7 Conversion following a Loss Absorption Event

NAB CPS II have certain loss absorption features, which may be triggered where NAB encounters severe financial difficulty. These features are required to be included in the Terms of NAB CPS II for prudential regulation purposes.

The occurrence of a “Loss Absorption Event” requires the Conversion of NAB CPS II into Ordinary Shares. A Loss Absorption Event may occur at any time and on any day, whether or not the day is a Business Day. The Mandatory Conversion Conditions do not apply to a Conversion following a Loss Absorption Event. The number of Ordinary Shares that Holders will receive on a Conversion in these circumstances will not be greater than the Maximum Conversion Number.

As a Conversion in these circumstances is likely to occur during a time of financial difficulty for NAB, depending on the market price of Ordinary Shares at the relevant time, Holders may receive less, or significantly less, than \$101 worth of Ordinary Shares per NAB CPS II and a Holder may suffer loss as a consequence. The calculations set out below are illustrative only and designed to demonstrate the potential number and value of Ordinary Shares that a Holder would receive on a Conversion where there is a Loss Absorption Event.

If NAB CPS II cannot be Converted for any reason, they must be Written Off. If a Write Off occurs, the rights of Holders will be automatically varied, such that in relation to dividends and returns of capital, Holders’ rights will be broadly equivalent to the rights of a person holding the number of Ordinary Shares the Holders would have held if the Conversion had occurred. A Write Off will occur where NAB is prevented from Converting NAB CPS II into Ordinary Shares by applicable law or any other reason.

Topic	Summary	Further Information
<b>Loss Absorption Events</b>	<p>A Loss Absorption Event is each of:</p> <ul style="list-style-type: none"> <li>• A Common Equity Trigger Event; and</li> <li>• A Non-Viability Trigger Event.</li> </ul>	Clause 4.1 of the Terms
<b>Common Equity Trigger Event</b>	<p>A Common Equity Trigger Event occurs when the ratio of NAB’s Common Equity Tier 1 Capital to total risk weighted assets (the “<b>Common Equity Tier 1 Ratio</b>”) as determined by NAB or APRA at any time is equal to or less than <b>5.125%</b>, calculated on the basis of either or both of the NAB Level 1 Group and the NAB Level 2 Group.</p> <p>NAB must immediately notify APRA in writing if it makes such a determination.</p> <p>If a Common Equity Trigger Event occurs, NAB must immediately convert into Ordinary Shares or write off all Relevant Tier 1 Capital Instruments, which includes NAB CPS II, or a proportion of Relevant Tier 1 Capital Instruments with the result that each of the Common Equity Tier 1 Ratio in respect of the NAB Level 1 Group and the Common Equity Tier 1 Ratio in respect of the NAB Level 2 Group is at a percentage above 5.125% determined by NAB for that ratio.</p>	Clause 4.2 of the Terms
<b>Non-Viability Trigger Event</b>	<p>A Non-Viability Trigger Event means APRA has provided a written determination to NAB that without:</p> <ul style="list-style-type: none"> <li>• The conversion or write off of Relevant Tier 1 Capital Instruments, which includes NAB CPS II; or</li> <li>• A public sector injection of capital into, or equivalent capital support with respect to, NAB,</li> </ul> <p>APRA considers that NAB would become non-viable.</p> <p>If a Non-Viability Trigger Event occurs, NAB must immediately convert into Ordinary Shares or write off:</p> <ul style="list-style-type: none"> <li>• All Relevant Tier 1 Capital Instruments; or</li> <li>• A proportion of the Relevant Tier 1 Capital Instruments if APRA is satisfied that conversion or write off of that proportion will be sufficient to ensure that NAB does not become non-viable.</li> </ul>	Clause 4.3 of the Terms

# Section Two:

## About NAB CPS II

### 2.7 Conversion following a Loss Absorption Event (continued)

Topic	Summary	Further Information
<b>Conversion or Write Off of Tier 1 Capital Instruments (including NAB CPS II)</b>	<p>If a Loss Absorption Event were to occur depending on how much Common Equity Tier 1 Capital NAB requires, NAB may be:</p> <ul style="list-style-type: none"> <li>• Permitted to Convert only a proportion of NAB CPS II and other Relevant Tier 1 Capital Instruments; or</li> <li>• Required to either convert or write off all Relevant Tier 1 Capital Instruments (such as NAB CPS II).</li> </ul> <p>If NAB is permitted to Convert only a proportion of NAB CPS II, NAB must endeavour to treat Holders on an approximately proportionate basis, but may make adjustments among Holders to take account of the effect on marketable parcels of NAB CPS II and other logistical considerations.</p> <p>If NAB is required to convert or write off Relevant Tier 1 Capital Instruments, Holders should be aware that all Relevant Tier 1 Capital Instruments such as NAB CPS II will be converted or written off before any Relevant Tier 2 Capital Instruments are converted or written off.</p>	Clauses 4.2, 4.3 and 4.4 of the Terms
<b>Conversion as a result of a Loss Absorption Event</b>	<ul style="list-style-type: none"> <li>• On the date on which a Loss Absorption Event occurs (the “<b>Loss Absorption Event Conversion Date</b>”), NAB must immediately determine the number of NAB CPS II that will Convert and the number of other Relevant Tier 1 Capital Instruments which will convert into Ordinary Shares or be written off.</li> <li>• On the Loss Absorption Event Conversion Date, the relevant number of NAB CPS II will then Convert immediately and irrevocably. Holders will not receive prior notice of Conversion or have any rights to vote in respect of any Conversion.</li> <li>• The Mandatory Conversion Conditions do not apply and Conversion may occur automatically without the need for any further act or step by NAB. In that case, NAB will treat a Holder in respect of its NAB CPS II as having been issued the Conversion Number of Ordinary Shares.</li> <li>• NAB expects that any ASX trades in NAB CPS II that have not settled on the date a Loss Absorption Event occurs will continue to settle in accordance with the normal ASX T+3 settlement, although NAB expects the seller will be treated as having delivered, and the buyer will be treated as having acquired, the Conversion Number of Ordinary Shares into which NAB CPS II have been Converted as a result of the occurrence of the Loss Absorption Event.</li> <li>• NAB may make such decisions with respect to the identity of Holders whose NAB CPS II will Convert on the Loss Absorption Event Conversion Date as may be necessary or desirable to ensure Conversion occurs in an orderly manner, including disregarding any transfers of NAB CPS II that have not been settled or registered at that time.</li> </ul>	Clause 4.4 of the Terms

Topic	Summary	Further Information
<b>Number of Ordinary Shares Holders will receive on Loss Absorption Event Conversion Date</b>	<p>As with any Conversion under the Terms, Holders will receive the lesser of the Conversion Number and the Maximum Conversion Number.</p> <p>The Conversion Number is calculated in accordance with the same formula as for a Mandatory Conversion – see Section 2.3, except that:</p> <ul style="list-style-type: none"> <li>• The <b>VWAP Period</b> used to determine the VWAP in this case is the 5 Business Days on which trading in Ordinary Shares took place immediately preceding the Loss Absorption Event Conversion Date; and</li> <li>• The <b>Relevant Fraction</b> will, in all circumstances, be <b>0.2</b>.</li> </ul> <p>The VWAP of Ordinary Shares at the time of a Loss Absorption Event may vary according to the severity of the Loss Absorption Event. This may impact the number and value of Ordinary Shares that will be received by a Holder under a Conversion following a Loss Absorption Event.</p> <p>In addition, since the Mandatory Conversion Conditions do not apply to a Conversion following a Loss Absorption Event, the Ordinary Shares a Holder may receive on account of such a Conversion may be worth less, or significantly less than \$101 per NAB CPS II and a Holder may suffer a loss as a consequence.</p> <p>On a Conversion following a Loss Absorption Event, Holders will receive <b>the lesser of:</b></p> <ul style="list-style-type: none"> <li>• <b>The number (N) calculated according to the following formula:</b></li> </ul> $N = \frac{\$100}{99\% \times \text{VWAP}}$ <p>And</p> <ul style="list-style-type: none"> <li>• <b>The Maximum Conversion Number (MCN), calculated in accordance with the following formula:</b></li> </ul> $\text{MCN} = \frac{\$100}{\text{Issue Date VWAP} \times \text{Relevant Fraction}}$	Clause 7.1 of the Terms

# Section Two:

## About NAB CPS II

### 2.7 Conversion following a Loss Absorption Event (continued)

Topic	Summary	Further Information
<p><b>Worked examples of Conversion following Loss Absorption Event</b></p>	<p>Below are two worked examples of Conversion following a Loss Absorption Event using:</p> <ul style="list-style-type: none"> <li>• A VWAP of \$1.00 (i.e. in extreme circumstances); and</li> <li>• A VWAP of \$10.00 (i.e. in less severe circumstances).</li> </ul> <p>Both examples assume an Issue Date VWAP of \$34.00.</p> <p><b>1 Using a VWAP of \$1.00</b></p> <p>Assume that on 11 May 2016 a Loss Absorption Event occurs, and that the VWAP in the VWAP Period is \$1.00.</p> <p>Holders would receive <b>the lesser of:</b></p> $N = \frac{\$100}{99\% \times \$1.00} = 101.0101 \text{ Ordinary Shares per NAB CPS II; and}$ $\text{the MCN} = \frac{\$100}{\$34.00 \times 0.2} = 14.7059 \text{ Ordinary Shares per NAB CPS II.}$ <p><b>Since the MCN is less than N, the total number of Ordinary Shares to which a holder of 100 NAB CPS II would be entitled would be the MCN, that is 1,470 (i.e. 100 x 14.7059, rounded down to the nearest whole Ordinary Share).</b></p> <p>The market value of the Ordinary Shares received based on the MCN and a prevailing market price equal to the VWAP of \$1.00 is \$1,470 (i.e. 1,470 x \$1.00), which is considerably less than \$10,000 (the Issue Price of 100 NAB CPS II).</p> <p><b>2 Using a VWAP of \$10.00</b></p> <p>In this example, assume that the VWAP in the VWAP Period is \$10.00.</p> <p>“N” calculated according to the above formula would be 10.1010 and the MCN would again be 14.7059.</p> <p><b>Since N is less than the MCN, the total number of Ordinary Shares to which a holder of 100 NAB CPS II would be entitled would be N, that is 1,010 (i.e. 100 x 10.1010 rounded down to the nearest whole Ordinary Share).</b></p> <p>The market value of the Ordinary Shares received in this case based on a prevailing market price equal to the VWAP of \$10.00 would be \$10,100 (i.e. 1,010 x \$10.00), which is slightly more than \$10,000 (the Issue Price of 100 NAB CPS II).</p> <p>The above examples are for illustrative purposes only. The figures in it are not forward-looking statements and do not indicate, guarantee or forecast the Issue Date VWAP or future VWAP or other price of Ordinary Shares.</p>	

Topic	Summary	Further Information
<b>Write Off of NAB CPS II where NAB CPS II cannot be Converted on Loss Absorption Event Conversion Date</b>	<p>If, following a Loss Absorption Event, NAB is prevented by applicable law or court order or for any other reason from Converting NAB CPS II (broadly an “<b>Inability Event</b>”), and the Conversion has not been effected within 5 days of the Loss Absorption Event Conversion Date, those NAB CPS II will not be Converted but instead will be Written Off.</p> <p>Broadly, following a Write Off of NAB CPS II, on and from the sixth day after the Loss Absorption Event Conversion Date a Holder will be entitled to receive dividends and returns of capital in a winding up as if each NAB CPS II had been Converted into the Conversion Number of Ordinary Shares. This may be a lesser amount than would have been received if the Loss Absorption Event had not occurred.</p> <p>Accordingly, in these circumstances the rights attached to NAB CPS II in respect of dividends and return of capital will be as follows:</p> <ul style="list-style-type: none"> <li>• If a winding up of NAB occurs, instead of a claim for payment of \$100 (plus the amount of any Dividend resolved to be paid but unpaid) out of the surplus available to shareholders in a winding up, a Holder’s claim is for the sum which would have been paid in respect of NAB CPS II out of the surplus available to shareholders in a winding up as if each NAB CPS II were the Conversion Number of Ordinary Shares; and</li> <li>• Instead of the Dividends as described in Section 2.2, if a dividend is paid on Ordinary Shares, provided the conditions to payment are met, a non-cumulative dividend is payable in respect of NAB CPS II if and when a dividend is paid on Ordinary Shares, in an amount determined as if the NAB CPS II were the Conversion Number of Ordinary Shares,</li> </ul> <p>in each case with that Conversion Number being finally determined as if NAB CPS II had Converted on the Loss Absorption Event Conversion Date (and in any case not exceeding the Maximum Conversion Number).</p> <p>The laws under which an Inability Event may arise include laws relating to the insolvency, winding up or other external administration of NAB. Those laws and the grounds on which a court or government authority may make orders preventing the Conversion of NAB CPS II, or other reasons which prevent Conversion, may change.</p>	Clause 4.5 of the Terms
<b>Notice of Loss Absorption Event and resulting Conversion or Write Off</b>	<p>NAB must give Holders notice as soon as practicable following the occurrence of a Loss Absorption Event, including the number of NAB CPS II Converted or Written Off and the relevant number of Relevant Tier 1 Capital Instruments converted into Ordinary Shares or written off.</p>	Clause 4.6 of the Terms

## 2.8 Quotation, ranking and regulatory treatment

Topic	Summary	Further Information
<b>Quotation</b>	<p>NAB will apply for NAB CPS II to be quoted on ASX within seven days after the date of this Prospectus and NAB CPS II are expected to be quoted under code NABPB.</p>	

# Section Two:

## About NAB CPS II

### 2.8 Quotation, ranking and regulatory treatment (continued)

Topic	Summary	Further Information
<b>Ranking</b>	<p>NAB CPS II are unsecured.</p> <p>NAB CPS II do not constitute deposit liabilities of NAB, are not protected accounts for the purposes of the Banking Act or any other accounts with NAB and are not guaranteed or insured by any government, government agency or compensation scheme of the Commonwealth of Australia or any other jurisdiction, by any member of the Group or by any other party.</p> <p><i>Ranking in a winding up</i></p> <ul style="list-style-type: none"> <li>In a winding up of NAB, NAB CPS II rank in priority to Ordinary Shares, equally and without preference amongst themselves, equally with Equal Ranking Instruments and junior to creditors of NAB, including depositors. However, the amount of any return in a winding up may be adversely affected when compared to holders of Equal Ranking Instruments if a Loss Absorption Event occurs and NAB CPS II are Written Off as a result.</li> </ul> <p><i>Ranking in relation to Dividends</i></p> <ul style="list-style-type: none"> <li>In respect of payment of Dividends, NAB CPS II rank in priority to Ordinary Shares, equally and without any preference amongst themselves, and equal with other securities issued by NAB from time to time ranking equally with NAB CPS II in respect of payments of dividends or distributions. However, the amount and frequency of Dividend payments may also be adversely affected if a Loss Absorption Event occurs and NAB CPS II are Written Off as a result.</li> </ul>	<p>Clause 16.6 of the Terms</p> <p>Clause 1.6 of the Terms</p> <p>Clause 16.3 of the Terms</p> <p>Clause 16.1 of the Terms</p>
<b>Regulatory capital of ADIs</b>	<ul style="list-style-type: none"> <li>APRA classifies the regulatory capital of ADIs into two tiers for its supervisory purposes – referred to as Tier 1 Capital and Tier 2 Capital. From the perspective of the ADI, Tier 1 Capital is generally considered a higher quality capital than Tier 2 Capital, generally due to features such as longevity and loss absorption.</li> <li>Under the Basel III Prudential Standards, Tier 1 Capital is comprised of: <ul style="list-style-type: none"> <li>Common Equity Tier 1 Capital; and</li> <li>Additional Tier 1 Capital.</li> </ul> </li> <li>Common Equity Tier 1 Capital is recognised as the highest quality component of capital for ADIs. Common Equity Tier 1 Capital for ADIs (and their non-operating holding companies) comprises paid-up ordinary shares, retained earnings, other disclosed reserves permitted for inclusion by APRA and certain other items permitted by APRA adjusted for regulatory adjustments applied in the calculation of Common Equity Tier 1 Capital.</li> <li>The non-common equity components of Tier 1 Capital which do not satisfy all of the criteria for inclusion in Common Equity Tier 1 Capital are referred to as Additional Tier 1 Capital. These instruments must be able to absorb losses on a going-concern basis, and can include both instruments that are classified as equity and instruments that are classified as liabilities for accounting purposes.</li> </ul>	
<b>Regulatory treatment of NAB CPS II</b>	<ul style="list-style-type: none"> <li>APRA has provided confirmation that the NAB CPS II, once issued, will qualify as Additional Tier 1 Capital for the purposes of NAB's regulatory capital requirements.</li> <li>NAB CPS II and NAB's other regulatory capital help to protect NAB's depositors and other creditors by providing a loss absorbing capital buffer which support losses that may be incurred on NAB's assets.</li> </ul>	

## 2.9 Other

Topic	Summary	Further Information
<b>NAB may issue further NAB CPS II or other instruments</b>	<p>NAB has the right to issue additional convertible preference shares on the same or different terms as NAB CPS II offered under this Prospectus. NAB may also issue preference shares on different terms.</p> <p>NAB also has the right to issue further debt, deposits or other obligations or securities of any kind. These debt, deposits or other obligations or securities may have the same or different terms to NAB CPS II. For example, they may rank for payment of face value, interest or other amounts (including on an insolvency of NAB) after, equally with, or ahead of NAB CPS II. NAB CPS II do not limit the amount of senior debt, deposits or other obligations or securities that may be incurred or issued by NAB at any time.</p> <p>Holding NAB CPS II does not confer any right to participate in further issues of securities by NAB.</p>	Clause 20 of the Terms
<b>Voting rights</b>	<p>A NAB CPS II does not entitle its Holder to vote at a general meeting of NAB except that Holders may:</p> <ul style="list-style-type: none"> <li>• Vote together with the holders of Ordinary Shares: <ul style="list-style-type: none"> <li>– On any resolution for the winding up of NAB or during the winding up of NAB;</li> <li>– On any resolution to reduce the share capital of NAB, other than a reduction of capital in accordance with the Terms;</li> <li>– On any resolution to approve the terms of a buy-back agreement, other than a buy-back in accordance with the Terms;</li> <li>– On any resolution for the disposal of the whole of NAB's property, business and undertaking;</li> <li>– In a period during which a Dividend in respect of NAB CPS II remains unpaid; and</li> </ul> </li> <li>• Vote as a class on any resolution that affects the rights attaching to the NAB CPS II.</li> </ul>	Clause 17.2 of the Terms
<b>Amendment of Terms</b>	<p>Subject to complying with all applicable laws, and with APRA's prior written approval where required, NAB may amend the Terms without the approval of Holders in certain circumstances. That may include amendments which may affect the rights of Holders, including changes to dates or time periods necessary or desirable to facilitate a Conversion, Redemption or Resale, or if in NAB's opinion they are not materially prejudicial to the interests of Holders as a whole.</p> <p>NAB may also, with APRA's prior written approval where required, amend the Terms if the amendment has been approved by a Special Resolution.</p> <p>APRA's prior written approval to amend the Terms is required only where the amendment may affect the eligibility of NAB CPS II as Additional Tier 1 Capital.</p>	<p>Clause 18.1 of the Terms</p> <p>Clause 18.2 of the Terms</p> <p>Clause 18.4 of the Terms</p>

# Section Two:

## About NAB CPS II

### 2.9 Other (continued)

Topic	Summary	Further Information
<b>Approved NOHC</b>	<p>A NOHC Event is an event initiated by the Directors which would result in NAB having an ultimate holding company which is a “non-operating holding company” within the meaning of the Banking Act (“NOHC”) and where following the occurrence of that event:</p> <ul style="list-style-type: none"> <li>• The ordinary shares of the Approved NOHC are quoted on an international securities exchange;</li> <li>• The Approved NOHC agrees to comply with the restrictions in the Terms on payments of dividends on its ordinary shares following a failure by NAB to pay a Dividend on a Dividend Payment Date (with all necessary modifications); and</li> <li>• The Approved NOHC undertakes to Convert NAB CPS II into ordinary shares in the Approved NOHC whenever NAB would otherwise have been required to deliver Ordinary Shares and upon the occurrence of an Acquisition Event with respect to the Approved NOHC.</li> </ul> <p>If a NOHC Event occurs, with APRA’s prior written approval the Terms may be amended by NAB (and without the consent of Holders) to enable the substitution of the Approved NOHC as the issuer of ordinary shares on Conversion. The Approved NOHC will use all reasonable endeavours to procure quotation on the relevant securities exchange of all these shares at the time of Conversion.</p> <p>The occurrence of a NOHC Event does not allow NAB to elect to Convert, Redeem or Resell NAB CPS II.</p> <p> Holders may not have any right to vote on a NOHC Event. Where a NOHC Event is accompanied by a transfer of assets from NAB to the Approved NOHC or another subsidiary of the Approved NOHC, NAB may as a result have reduced assets to meet the claims of its creditors and shareholders (including Holders).</p> <p>Following the substitution of an Approved NOHC as issuer of the ordinary shares on Conversion but prior to Conversion, Holders continue to hold a preference share in NAB which ranks for payment of dividends and in a winding up of NAB as described in Section 2.8 and which is convertible into ordinary shares in the Approved NOHC in the same circumstances in which it would have otherwise been converted into Ordinary Shares in NAB.</p> <p>NAB expects that the rights attaching to the Approved NOHC shares would be substantially equivalent to the rights attaching to Ordinary Shares – see Section 9.2.</p>	Clause 19 of the Terms
<b>No credit rating</b>	NAB has not sought a credit rating for NAB CPS II.	
<b>Tax implications</b>	<p>Information about the Australian tax consequences of investing in NAB CPS II is set out in Section 7.</p> <p>The taxation implications of investing in NAB CPS II will depend on an investor’s individual circumstances. Prospective investors should obtain their own taxation advice.</p>	
<b>Brokerage, commission and stamp duty</b>	No brokerage, commission or stamp duty is payable on applications for NAB CPS II. Holders may have to pay subsequent brokerage on any subsequent transfer of NAB CPS II on ASX after quotation.	



## 2.10 Comparison of NAB CPS II to other NAB instruments

### Differences between term deposits, NAB Subordinated Notes, National Income Securities and NAB CPS II.

There are differences between NAB's term deposits, NAB Subordinated Notes, National Income Securities and NAB CPS II. You should consider these differences in light of your investment objectives, financial situation and particular needs (including financial and taxation issues) before deciding to apply for NAB CPS II. The key differences are summarised in the table below. This summary is not intended to be exhaustive.

	Term deposit	NAB Subordinated Notes	National Income Securities	NAB CPS and NAB CPS II <sup>1</sup>
<b>Protection under the Financial Claims Scheme<sup>2</sup></b>	Yes	No	No	No
<b>Term</b>	Often between 1 month and 5 years	10 years <sup>3</sup>	Perpetual <sup>3</sup>	Perpetual <sup>4</sup>
<b>Margin</b>	Varies from product to product	2.75%	1.25%	NAB CPS: 3.20% NAB CPS II: Expected to be in the range of 3.25% to 3.40%
<b>Distribution rate</b>	Fixed	Floating	Floating	Floating
<b>Distribution payment dates</b>	Often at the end of term or per annum	Quarterly	Quarterly	Quarterly
<b>Rights if distributions not fully franked</b>	N/A – interest payments are not franked	N/A – interest payments are not franked	N/A – distributions are not franked <sup>5</sup>	Dividend adjusted to reflect applicable franking rate
<b>Conditions to payment of distributions</b>	None, subject to applicable laws and any specific conditions	None, except where NAB is not “Solvent” at the time the payment is due or will not be “Solvent” immediately after making the payment <sup>6</sup>	Subject to conditions including the availability of distributable profits and other prudential regulatory tests. Distributions are not cumulative	Subject to the discretion of the Directors, and are also only payable if a Payment Condition does not exist on the Dividend Payment Date. Dividends are not cumulative
<b>Dividend restriction if distribution not paid</b>	N/A	No	Yes. Applies to Ordinary Shares and equally ranking securities until a year's distribution is paid	Yes. Applies to Ordinary Shares only, until the next Dividend Payment Date – see Section 2.1 in respect of the NAB CPS II
<b>Transferable</b>	No	Yes – quoted on ASX	Yes – quoted on ASX	Yes – NAB CPS are quoted on ASX and NAB CPS II are expected to be quoted on ASX
<b>Mandatory Conversion into Ordinary Shares</b>	No	No	No	Yes <sup>4</sup>

# Section Two:

## About NAB CPS II

### 2.10 Comparison of NAB CPS II to other NAB instruments (continued)

	Term deposit	NAB Subordinated Notes	National Income Securities	NAB CPS and NAB CPS II
<b>Issuer's early conversion option</b>	No	No	No	Yes with the prior approval of APRA – see Section 2.4 in respect of the NAB CPS II
<b>Issuer's early redemption option</b>	No	Yes but only with the prior written approval of APRA	Yes, with the prior written approval of APRA, at any time on 30 days' notice	Yes with the prior written approval of APRA – see Section 2.5 in respect of the NAB CPS II
<b>Loss Absorption Event</b>	No	No	No	Yes – see Section 2.7 in respect of the NAB CPS II
<b>Capital classification</b>	None	Tier 2 Capital <sup>7</sup>	Additional Tier 1 Capital <sup>7</sup>	Additional Tier 1 Capital
<b>Voting rights</b>	N/A	No right to vote at general meetings of holders of Ordinary Shares	No right to vote at general meetings of holders of Ordinary Shares, except in certain limited circumstances	
<b>Ranking</b>	Senior to NAB Subordinated Notes	Senior to National Income Securities, NAB CPS and NAB CPS II	Senior to Ordinary Shares, equal to NAB CPS and NAB CPS II, junior to NAB Subordinated Notes	Senior to Ordinary Shares, equal to NIS preference shares, junior to NAB Subordinated Notes. See Section 2.8 in respect of the NAB CPS II
<p>In a winding up of NAB, NAB CPS II rank ahead of Ordinary Shares, equally with Equal Ranking Instruments (which include NAB CPS) and junior to creditors of NAB, including depositors. However, if a Loss Absorption Event occurs, NAB CPS II are liable to be Converted into Ordinary Shares or, if NAB is prevented from Converting NAB CPS II, the rights of Holders to dividends and returns of capital will be broadly equivalent to the rights to dividends and returns of capital in a winding up of a person holding the number of Ordinary Shares the Holder would have held if the Conversion had occurred. This may affect a Holder's return in a winding up compared to the holders of National Income Securities and the Equal Ranking Instruments.</p>				

1 The terms and conditions of the NAB CPS II are substantially the same as the terms and conditions of the NAB CPS, with key changes including:

- the dates on which dividends are payable, the dates for electing optional conversion, redemption and resale and the date for mandatory conversion being different;
- the Relevant Fraction in respect of conversions on account of an optional conversion is 0.2 and not 0.5 (there are also some consequential differences);
- there is a lesser number of circumstances that can give rise to a Tax Event; and
- other minor changes made for clarity or technical reasons.

2 For deposits made after 1 January 2013 up to an amount of \$250,000.

3 Subject to early redemption by NAB with the prior written approval of APRA.

4 NAB CPS and NAB CPS II are scheduled to convert into Ordinary Shares on 22 March 2021 and 19 December 2022 respectively, or on the occurrence of certain acquisition events. NAB may also be required to convert NAB CPS and NAB CPS II as a result of a loss absorption event. In addition, NAB CPS and NAB CPS II may be converted, redeemed or resold with the prior written approval of APRA. NAB CPS and NAB CPS II may also be written off in certain circumstances.

5 No frankable distribution is payable on the National Income Securities unless the preference shares forming part of the National Income Securities become fully paid. This is not anticipated.

6 "Solvent" is defined in the terms of the NAB Subordinated Notes. Any amount not paid under this condition accumulates without compounding and remains a debt owing to the holder until paid.

7 The NAB Subordinated Notes have been classified as Tier 2 Capital under the Basel III Prudential Standards on a transitional basis. The National Income Securities have been classified as Additional Tier 1 Capital under the Basel III Prudential Standards on a transitional basis.

Section Three

# **Applying for** NAB CPS II

# Section Three:

## Applying for NAB CPS II

### 3.1 Applying for NAB CPS II

**Applications must be for a minimum of 50 NAB CPS II (\$5,000). If your Application is for more than 50 NAB CPS II, then you must apply in incremental multiples of 10 NAB CPS II – that is, for incremental multiples of at least \$1,000. No brokerage or stamp duty is payable on your Application. You may have to pay brokerage (but not stamp duty) on any purchase or sale of NAB CPS II on ASX after NAB CPS II have been quoted on ASX.**

The Offer may close early, so you are encouraged to submit your Application as soon as possible after the Opening Date. If you have any questions about the Offer or how to apply for NAB CPS II as an Eligible Securityholder or General Applicant, please call the NAB Information Line on 1300 367 647 (within Australia) or +61 3 9415 4299 (International) (Monday to Friday – 8.00am to 7.30pm AEDT) or contact your broker or other professional adviser.

### 3.2 Who can apply for NAB CPS II?

Type of Offer	Who is eligible to participate?	When to apply	How to apply online	How to apply using a paper Application Form
<b>Securityholder Offer</b>	<p>You are eligible to participate in the Securityholder Offer if you are an Eligible Securityholder of NAB.</p> <p>You are an Eligible Securityholder if you are a registered holder of Ordinary Shares, National Income Securities, NAB Subordinated Notes or NAB CPS as at 4 November 2013, with a registered address in Australia.</p> <p>If there is excess demand for NAB CPS II, allocation priority will be given to Eligible Securityholders over Applications under the General Offer. Your Application under the Securityholder Offer may not be accepted in full and NAB reserves the right to scale back your Application.</p> <p>NAB will mail a pre-registration brochure to each Eligible Securityholder to inform them of the Offer.</p>	<p>Applications will only be accepted during the Offer Period, which is expected to open on 20 November 2013.</p> <p>Applications will not be accepted after the Closing Date for the Securityholder Offer, which is 9 December 2013.</p>	<p>Eligible Securityholders may apply online by following the instructions at <a href="http://www.nab.com.au/cps">www.nab.com.au/cps</a> and completing a BPAY® payment. Follow the instructions below to complete your BPAY payment.</p> <p>If you do not make a BPAY payment, your Application will be incomplete and will not be accepted.</p> <p>Your online Application Form and BPAY payment must be completed and received by the Registry before the Closing Date and time.</p>	<p>Eligible Securityholders may apply by completing the Application Form attached to this Prospectus, and lodging that Application Form and accompanying cheque or money order with the Registry. Follow the instructions below to complete your payment by cheque or money order.</p>

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Type of Offer	Who is eligible to participate?	When to apply	How to apply online	How to apply using a paper Application Form
<b>General Offer</b>	<p>You are eligible to apply under the General Offer if you are a member of the general public who is an Australian resident.</p> <p>Your Application under the General Offer may not be accepted in full and NAB reserves the right to scale back your Application.</p>	<p>Applications will only be accepted during the Offer Period, which is expected to open on 20 November 2013.</p> <p>Applications will not be accepted after the Closing Date for the General Offer, which is 9 December 2013.</p>	<p>General Applicants may apply online by following the instructions at <a href="http://www.nab.com.au/cps">www.nab.com.au/cps</a> and completing a BPAY payment. Follow the instructions below to complete your BPAY payment.</p> <p>If you do not make a BPAY payment, your Application will be incomplete and will not be accepted.</p> <p>Your online Application Form and BPAY payment must be completed and received by the Registry before the Closing Date and time.</p>	<p>General Applicants may apply by completing the Application Form attached to this Prospectus, and lodging your Application Form accompanied by cheque or money order with the Registry. Follow the instructions below to complete your payment by cheque or money order.</p>
<b>Institutional Offer</b>	<p>If you are an Institutional Investor, you must apply to participate by contacting the Arranger and Joint Lead Manager.</p>	<p>Applications will only be accepted during the Offer Period which is expected to open on 20 November 2013.</p> <p>Applications will not be accepted after the Closing Date for the Institutional Offer, which is 13 December 2013.</p>	<p>If you are an Institutional Investor, you must apply to participate in the Institutional Offer by contacting the Arranger and Joint Lead Manager. NAB reserves the right not to accept Applications from Institutional Investors where they have not been received through the Arranger and Joint Lead Manager.</p>	
<b>Broker Firm Offer</b>	<p>The Broker Firm Offer is available to clients of a Syndicate Broker, including Eligible Securityholders, who are Australian resident retail investors.</p>	<p>Applications will only be accepted during the Offer Period which is expected to open on 20 November 2013.</p> <p>Applications will not be accepted after the Closing Date for the Broker Firm Offer, which is 13 December 2013.</p>	<p>If you are applying under the Broker Firm Offer, you should contact the Syndicate Broker who has offered you an allocation in the Broker Firm Offer for information about how and when to lodge your Application and accompanying cheque(s) and/or money order(s). Generally, your Application will be lodged with the Syndicate Broker.</p>	

# Section Three:

## Applying for NAB CPS II

### 3.3 How to pay by cheque or money order

**Cheques and money orders** must be in Australian dollars and drawn on an Australian branch of a financial institution. They should be made payable to “NAB CPS II Offer” and be crossed “not negotiable”.

**Completed Application Forms** and accompanying cheques and/or money orders can be lodged with the Registry by

(a) mailing them using the reply-paid envelope to:

NAB Convertible Preference Share II Offer  
Computershare Investor Services  
Pty Limited  
Reply Paid 52  
Melbourne VIC 8060

or,

(b) lodging them by hand at the following address:

Computershare Investor Services  
Yarra Falls  
452 Johnston Street  
Abbotsford VIC 3067

Application Forms and Application Monies will not be accepted at any other address or office and will not be accepted at NAB's registered office or any other NAB office or branch or at other branches or offices of the Registrar.

**Application Forms and accompanying cheques / money orders must be received at the above addresses by no later than 5.00pm (AEDT) on the Closing Date for the Securityholder Offer and General Offer, which is expected to be 9 December 2013.**

### 3.4 How to pay by BPAY

If you are an Applicant under the Securityholder Offer or General Offer and you apply by using an online Application Form, you will be given a BPAY biller code and unique customer reference number for your Application once you have completed your online Application Form.

Using these BPAY details, you must:

- Access your participating BPAY financial institution either through telephone or internet banking;
- Select to use BPAY and follow the prompts;
- Enter the supplied biller code and unique customer reference number;
- Enter the total amount to be paid which corresponds to how many NAB CPS II you wish to apply for under each Application;
- Select which account you would like your payment to come from;
- Schedule your payment to occur on the same day that you complete your online Application Form. Applications without payment will not be accepted;
- Record and retain the BPAY receipt number and date paid.

Please note that your bank, credit union or building society may impose a limit on the amount which you can transact on BPAY and payment cut-off times may vary between different financial institutions.

You must check with your financial institution about their BPAY closing time, to ensure that your payment will be received together with your Application Form prior to the Closing Date and time.

### 3.5 Application Monies and Refunds

All Application Monies received before NAB CPS II are issued will be held by NAB on trust in an account established solely for the purposes of depositing Application Monies received. Any interest that accrues in that account will be retained by NAB. After NAB CPS II are issued to successful Applicants, the Application Payments held on trust will be payable to NAB.

Where the number of NAB CPS II allocated is less than the number applied for, or where no allocation is made, surplus Application Monies will be refunded (without interest) as soon as practicable following finalisation of the Offer.

If the Offer does not proceed for any reason, all Applicants will have their Application Monies refunded (without interest) as soon as practicable.

### 3.6 ASX quotation and Holding Statements

NAB will apply for NAB CPS II to be quoted on ASX within seven days after the date of this Prospectus. Quotation of NAB CPS II is not guaranteed.

Deferred settlement trading of NAB CPS II is expected to commence on 18 December 2013 under ASX code NABPB. Trading of NAB CPS II on a normal settlement basis is expected to commence on 23 December 2013.

NAB has applied for NAB CPS II to participate in CHESS, and if accepted, no certificates will be issued. NAB expects that Holding Statements for issuer sponsored holders and confirmations for CHESS holders will be despatched to successful Applicants from 18 December 2013.

A Holder must determine their allocation before trading NAB CPS II to avoid the risk of selling NAB CPS II the Holder does not own.

### **3.7 Provision of bank account details for Dividend payments**

Under the Terms, payments in respect of each NAB CPS II will be made on the due date for payment (or if that day is not a Business Day, then the following Business Day).

In order to receive payments, Holders must notify the Registrar of an Australian dollar bank account held with an Australian financial institution. On the relevant payment date, NAB will directly credit the payment amount to the Australian financial institution account specified by the Holder.

If you have not notified an appropriate account by close of business on the Record Date, or the transfer of any amount for payment to the credit of the nominated account does not complete for any reason, then NAB will send a notice to the address most recently notified by you advising of the uncompleted payment. In that case, the amount of the uncompleted payment will be held as a deposit in a non-interest bearing, special purpose account maintained by NAB or the Registry until the first to occur of the following:

- You nominate a suitable Australian dollar account maintained in Australia with a financial institution to which the payment may be credited;
- Claims may no longer be made in respect of that amount, in which case the moneys shall be paid to and be the property of NAB; or
- NAB is entitled or obliged to deal with the amount in accordance with the law relating to unclaimed monies.

No additional interest is payable in respect of any delay in payment.

Section Four

# Overview of NAB



# Section Four:

## Overview of NAB

### 4.1 Overview

The Group is an international financial services group that provides a comprehensive and integrated range of financial products and services, with over 12,400,000 customers and 42,000 people, operating more than 1,800 stores and Service Centres globally. NAB is the holding company and main operating company of the Group.

**Our major financial services franchises are in Australia, but we also operate businesses in New Zealand, Asia, the United Kingdom and the United States of America.**

National Australia Bank Limited is a public limited company, incorporated on June 23, 1893 in Australia, which is NAB's main domicile. Its registered office address is Level 1, 800 Bourke Street, Docklands Victoria 3008, Australia.

The Group maintains its overall objective to deliver sustainable, satisfactory returns to shareholders. In March 2013, NAB updated its strategy to better align the business to the changing economic landscape and customers' evolving needs. It continues to focus on enhancing the Australian franchise through its key strategic priorities:

- Simplify and digitise the business;
- Build world class customer relationships;
- Enhance banking services for superannuation and the ageing population;
- Broaden services for Asia active customers; and
- Provide DIY digital options for customers.

At the same time the Group continues to manage its international portfolio for value. The strategy is supported by four key non-negotiables:

- Deliver total technology environment transformation;

- Invest in people, culture and reputation;
- Maintain focus on risk and compliance; and
- Build balance sheet strength.

To help deliver its updated strategy, this year both the Australian Banking and Wealth franchises implemented a more integrated and simplified operating model, which features:

- More streamlined customer management divisions focused on managing and growing customer relationships;
- A single product house to effectively coordinate and manage all product offerings and drive innovation;
- A centralised operations, shared services and transformation division to drive greater scale and efficiency and delivery of enterprise-wide transformation; and
- Centralised support divisions to remove duplication and promote greater consistency.

# Section Four:

## Overview of NAB

### 4.2 Our Services

In Australia, we provide a comprehensive range of financial products and services to all customer segments, including:

- Retail banking products and services to individuals through a range of distribution channels and brands including NAB, Homeside, UBank, nabtrade, and a variety of broker and 'mortgage manager' brands. It also provides tailored banking services to high net worth individuals;
- Commercial banking products and services to Australian businesses and institutions, catering to their needs in both Australia and Asia. It also provides specialist industry expertise in the agribusiness, property, healthcare, natural resources, education and government sectors. We also provide a range of specialised debt and market solutions covering fixed income, currency & commodities, debt markets, specialised finance and asset custody services; and
- Wealth management services to retail, corporate and institutional customers, including investment, superannuation, insurance and private wealth services. These services are provided through a number of different brands, including MLC, JBWere, Jana and Plum.

In New Zealand, we provide retail, business, agribusiness, corporate, private banking, wealth and insurance products and services, operating under the Bank of New Zealand brand.

In the United Kingdom, we offer a range of banking services for personal and business customers through retail branches, business banking centres, direct banking and brokers, operating under the Clydesdale Bank and Yorkshire Bank brands.

In the United States, we provide a range of retail, commercial, agribusiness and wealth management banking services through Great Western Bank, which operates across the mid-western United States.

Section Five

# **Financial** Information

## **Section Five:** Financial Information

The summary financial information presented in this section has been extracted from the Group's Results Announcement for the year ended 30 September 2013 which includes audited financial information from the year ended 30 September 2012 and unaudited financial information for the year ended 30 September 2013. The Group's financial statements for the year ended 2013 are in the process of being audited, with final audited financial statements to be published in its 2013 Annual Financial Report on 18 November 2013. A copy of these reports can be or will, when released, be able to be obtained from **[www.nabgroup.com](http://www.nabgroup.com)**

**The financial information presented in this section has been presented in accordance with the measurement and recognition requirements of Australian Accounting Standards. It is presented in abbreviated form and does not contain all of the disclosures usually provided in an annual financial report prepared in accordance with the Corporations Act.**

## 5.1 Consolidated Income Statement

The following table sets out the Group's unaudited consolidated income statement for the year ended 30 September 2013 and audited consolidated income statement for the year ended 30 September 2012.

	Year to	
	Sep 13 \$m	Sep 12 \$m
Interest income	31,311	34,542
Interest expense	(17,960)	(21,300)
Net interest income	13,351	13,242
Premium and related revenue	1,511	1,406
Investment revenue	11,065	7,463
Fee income	546	525
Claims expense	(909)	(800)
Change in policy liabilities	(9,072)	(5,677)
Policy acquisition and maintenance expense	(928)	(908)
Investment management expense	(4)	(5)
Movement in external unitholders' liability	(1,649)	(1,264)
Net life insurance income	560	740
Gains less losses on financial instruments at fair value	769	223
Other operating income	3,604	3,510
Total other income	4,373	3,733
Personnel expenses	(4,362)	(4,526)
Occupancy-related expenses	(600)	(609)
General expenses	(3,311)	(3,687)
Total operating expenses	(8,273)	(8,822)
Charge to provide for doubtful debts	(1,810)	(2,734)
Profit before income tax expense	8,201	6,159
Income tax expense	(2,741)	(2,076)
<b>Net profit for the period</b>	<b>5,460</b>	<b>4,083</b>
<i>Attributable to:</i>		
Owners of the Company	5,452	4,082
Non-controlling interest in controlled entities	8	1
<b>Net profit for the period</b>	<b>5,460</b>	<b>4,083</b>
	<b>cents</b>	<b>cents</b>
Basic earnings per share	229.5	175.3
Diluted earnings per share	227.5	174.4

# Section Five:

## Financial Information

### Commentary

Net profit attributable to owners of the Company increased by \$1,370 million or 33.6% compared to the September 2012 year, reflecting lower charges for bad and doubtful debts and strong performances in Personal Banking and Wholesale Banking. In addition, the September 2012 year included the effects of the increase in the Economic Cycle Adjustment and a number of Non-Cash Earnings items such as the restructuring and impairment charges relating to our UK operations. Net profit attributable to owners of the Company (statutory net profit) is prepared in accordance with the basis of preparation outlined on page 52.

### 5.2 Pro-forma Consolidated Balance Sheet

The following table sets out the Group's unaudited consolidated balance sheet for the year ended 30 September 2013 (in the column headed 'Reported full year to 30 Sep 13'), and the consolidated pro-forma balance sheet assuming the Offer was completed at this date.

The column headed 'Pro-forma full year to 30 Sep 13' outlines the impact of \$750 million on NAB CPS II being issued and issue costs of \$15 million being incurred. The pro-forma consolidated balance sheet is unaudited and has been prepared in accordance with the basis of preparation outlined on page 52.

## 5.2 Pro-forma Consolidated Balance Sheet (continued)

\$m	Reported full year to 30 Sep 13	Pro-forma adjustment related to the Offer	Pro-forma full year to 30 Sep 13
<b>Assets</b>			
Cash and liquid assets	35,666	735	36,401
Due from other banks	43,193		43,193
Trading derivatives	39,214		39,214
Trading securities	32,996		32,996
Investments – available for sale	34,886		34,886
Investments – held to maturity	5,629		5,629
Investments relating to life insurance business	75,599		75,599
Other financial assets at fair value	75,756		75,756
Hedging derivatives	3,926		3,926
Loans and advances	411,979		411,979
Due from customers on acceptances	29,319		29,319
Current tax assets	63		63
Property, plant and equipment	1,993		1,993
Goodwill and other intangible assets	7,641		7,641
Deferred tax assets	1,616		1,616
Other assets	8,951		8,951
<b>Total assets</b>	<b>808,427</b>	735	<b>809,162</b>
<b>Liabilities</b>			
Due to other banks	34,623		34,623
Trading derivatives	41,749		41,749
Other financial liabilities at fair value	26,431		26,431
Hedging derivatives	3,431		3,431
Deposits and other borrowings	445,572		445,572
Liability on acceptances	3,228		3,228
Life policy liabilities	64,509		64,509
Current tax liabilities	922		922
Provisions	1,636		1,636
Bonds, notes and subordinated debt	110,722		110,722
Other debt issues	2,944	735	3,679
Defined benefit superannuation plan liabilities	354		354
External unitholders' liability	11,837		11,837
Other liabilities	13,849		13,849
<b>Total liabilities</b>	<b>761,807</b>	735	<b>762,542</b>
<b>Net assets</b>	<b>46,620</b>	-	<b>46,620</b>
<b>Equity</b>			
Contributed equity	28,139		28,139
Reserves	(1,420)		(1,420)
Retained profits	19,842		19,842
<b>Total equity (parent entity interest)</b>	<b>46,561</b>	-	<b>46,561</b>
Non-controlling interest in controlled entities	59		59
<b>Total equity</b>	<b>46,620</b>	-	<b>46,620</b>

# Section Five:

## Financial Information

### 5.3 Capital Management

#### 5.3.1 Capital Adequacy

APRA oversees the prudential regulation of authorised deposit taking institutions (ADIs), life, general insurance and reinsurance companies, friendly societies and most members of the superannuation industry. NAB is an ADI regulated by APRA and is required to hold regulatory capital against risk weighted assets in accordance with APRA's Prudential Standards.

The Prudential Standards aim to ensure that ADIs maintain adequate capital levels commensurate with the risks associated with their activities, with appropriate buffers to absorb unexpected losses. ADIs are required to meet a prudential capital ratio, as determined by APRA, which apply to ADIs on an individual, group and conglomerate basis.

On 1 January 2013, APRA's Basel III Prudential Standards came into effect. The Basel III Prudential Standards give effect to the capital reform package released by the Basel Committee on Banking Supervision aimed at raising the quality and quantity of capital in the global banking system.

Broadly, the key features of the new framework include:

- An increase in the amounts of capital ADIs must hold against the risks they face with minimum Common Equity Tier 1 Capital of at least 4.5% of risk weighted assets and Tier 1 Capital of at least 6.0% of risk weighted assets;
- A new capital conservation buffer of 2.5% of risk weighted assets required to be made up of Common Equity that places restrictions on capital distributions if an ADI's capital level falls within the buffer range (from 1 January 2016); and
- A countercyclical buffer of up to 2.5% that will apply when excessive credit growth and other indicators point to a system-wide build up of risk (from 1 January 2016).

There remain other areas of regulatory change that may affect NAB's capital management strategy, including:

- The expected implementation by APRA of a Domestic Systemically Important Banks framework by 1 January 2016, with further detail expected during the first half of the 2014 financial year; and
- APRA's Level 3 Conglomerate Supervision proposals, with an implementation date of 1 January 2015.

Common Equity Tier 1 Capital comprises paid-up ordinary share capital, retained earnings plus certain other items recognised as capital. The ratio of such capital to risk weighted assets is called the Common Equity Tier 1 Capital Ratio. Additional Tier 1 Capital comprises certain securities with required loss absorbing characteristics (such as NAB CPS II). Together these components of capital make up Tier 1 Capital and the ratio of such capital to risk-weighted assets is called the Tier 1 Capital Ratio.

Tier 2 Capital mainly comprises of subordinated instruments. Tier 2 Capital is of a lesser quality than Tier 1 Capital but is still eligible to contribute to the overall capital framework.

Common Equity Tier 1 Capital contains the highest quality and most loss absorbent components of capital, followed by Additional Tier 1 Capital and then followed by Tier 2 Capital.

The sum of Tier 1 Capital and Tier 2 Capital is called Total Capital. The ratio of Total Capital to risk-weighted assets is called the Total Capital Ratio. From 1 January 2013, the minimum Total Capital Ratio under APRA's Basel III Prudential Standards is 8.0%.

APRA has provided confirmation that the NAB CPS II, once issued, will qualify as Additional Tier 1 Capital for the purposes of NAB's regulatory capital requirements.

#### 5.3.2 NAB's Capital Management Strategy

The Group's capital management strategy is focused on adequacy, efficiency and flexibility. The capital adequacy objective focuses on holding capital in excess of the internal risk-based assessment of required capital, meeting regulatory requirements, maintaining capital consistent with the Group's Balance Sheet risk appetite, and ensuring investors' expectations are met. This approach is consistent across the Group's subsidiaries.

Capital ratios are monitored against internal capital targets that are set over and above minimum capital requirements set by the Principal Board. The Group will continue to regularly review capital levels.



**5.3.3 Illustration of pro-forma Tier 1 Capital position as at 30 September 2013 (unaudited)**

The diagram shown here illustrates the pro-forma Tier 1 Capital position as at 30 September 2013 under APRA's Basel III Prudential Standards, assuming \$750 million of NAB CPS II were issued and issue costs of \$15 million were incurred.

**5.3.4 Illustration of NAB Common Equity Tier 1 Capital Ratio (unaudited)**

The terms of the NAB CPS II contain a Common Equity Trigger Event as required under APRA's Basel III Prudential Standards in order to be eligible for inclusion as Additional Tier 1 Capital.

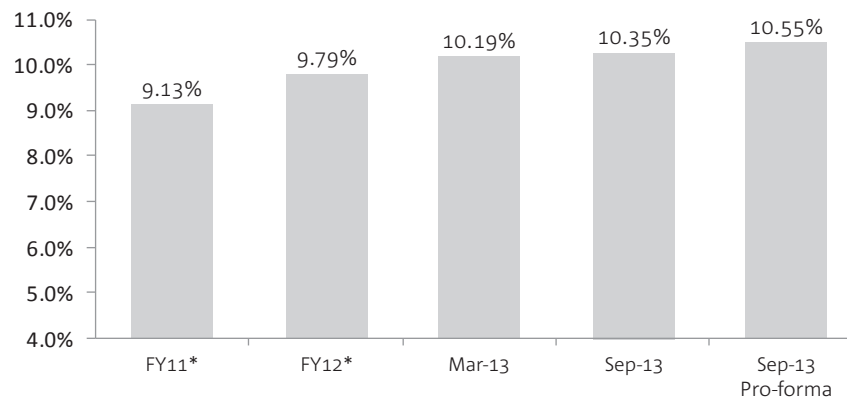
A Common Equity Trigger Event occurs when the Common Equity Tier 1 Ratio of either or both of the NAB Level 1 Group or the NAB Level 2 Group is equal to or less than 5.125% (see clause 24.1 of the Terms). Upon the occurrence of a Common Equity Trigger Event, some or all of the NAB CPS II will immediately Convert into a number of Ordinary Shares (or if they cannot be Converted at that time, they will be Written Off).

The NAB Level 2 Group capital ratios, which represent the capital ratios of the NAB consolidated banking group, are expected to remain lower than the capital ratios of NAB taken on a standalone basis (i.e. the NAB Level 1 Group capital ratios) and are therefore the most likely hurdle rate to result in a trigger event for NAB.

The Group moved to the Basel III Common Equity Tier 1 Capital ratio target of above 7.5% from 1 January 2013. As at 30 September 2013, the Basel III Common Equity Tier 1 Ratio was 8.43%. NAB's Common Equity Tier 1 Capital level as at 30 September 2013 was \$12.0 billion in excess of the Common Equity Tier 1 Ratio that would result in a Common Equity Trigger Event, being 5.125%.

The diagram shown here illustrates NAB's historical Common Equity Tier 1 ratio based on APRA's Basel III Prudential Standards.

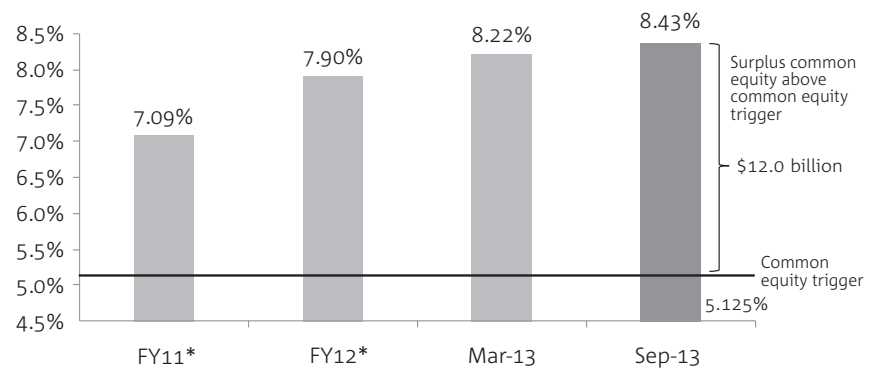
**NAB Basel III Level 2 Tier 1 Ratio**



\* Basel III estimate

Note: NAB's financial year denoted "FY" above finishes on 30 September each calendar year.

**NAB Level 2 Common Equity Tier 1 Ratio**



\* Basel III estimate      ■ FY11\* ■ FY12\* ■ Mar-13 ■ Sep-13

Note: NAB's financial year denoted "FY" above finishes on 30 September each calendar year.

# Section Five:

## Financial Information

### 5.4 Funding and Liquidity

#### Funding

The Group employs a range of internal Board approved metrics to set its risk appetite and measure balance sheet strength. APRA released its draft funding and liquidity standards in May 2013. In light of these draft standards, the Group continues its transition towards compliance with the Liquidity Coverage Ratio by January 2015 and the Net Stable Funding Ratio by January 2018, with a focus on strengthening the liquidity profile, improving the quality of the deposit book and extending the duration and diversity of wholesale funding.

#### Liquidity

The Group maintains well diversified and high quality liquid asset portfolios to support regulatory and internal requirements in various countries in which it operates. Liquidity holdings are continually reassessed in light of market conditions and as the implications of proposed regulatory changes become clearer.

### 5.5 Impact of the Offer

The proceeds of the Offer will be used by NAB for general corporate purposes. The Offer will not have a material impact on NAB's cash flow.

### 5.6 Further Information

NAB is a disclosing entity for the purposes of the Corporations Act and so is subject to periodic reporting obligations under the Corporations Act and the ASX Listing Rules, including an obligation to lodge half-yearly and annual financial reports with ASIC and ASX. The Corporations Act and the ASX Listing Rules also require NAB to disclose to the market matters which could be expected to have a material effect on the price or value of NAB's securities.

Copies of:

- The 2013 Full Year Results released to the ASX on 31 October 2013;
- The 2013 Half Year Results;
- The Annual Financial Report 2012; and
- All documents lodged with the ASX since the date of the Annual Financial Report 2012,

can be obtained from the Shareholder Centre at [www.nabgroup.com/shareholder](http://www.nabgroup.com/shareholder) and from [www.asx.com.au](http://www.asx.com.au)

Section Six

# **Key Risks** of NAB CPS II

## **Section Six:** Key Risks of NAB CPS II

This section describes key potential risks that you should consider in deciding whether to invest in NAB CPS II, including risks that may affect NAB's business and financial performance.

The selection of risks has been based on an assessment of a combination of the probability of the risk occurring and the impact of the risk if it did occur. There is no guarantee or assurance that the importance of different risks will not change or that other risks will not emerge.

**Before applying for NAB CPS II, you should consider whether NAB CPS II are a suitable investment for you. There are risks associated with an investment in NAB CPS II and in NAB, many of which are outside the control of NAB and its Directors. These risks include those referred to in this section and other matters referred to in this Prospectus.**

## 6.1 Risks associated with investing in NAB CPS II

### 6.1.1 Investments in NAB CPS II are not protected accounts under the Banking Act or any other accounts or deposit liabilities of NAB

NAB CPS II do not constitute deposit liabilities of NAB, are not protected accounts for the purposes of the Banking Act or any other accounts with NAB and are not guaranteed or insured by any government, government agency or compensation scheme of the Commonwealth of Australia or any other jurisdiction, by any member of the Group or by any other party.

### 6.1.2 Dividends may not be paid

There is a risk that Dividends will not be paid. The Terms do not oblige NAB to pay Dividends.

The payment of Dividends on NAB CPS II is subject to the discretion of the Directors, which means they may not be paid and failure to pay a Dividend when scheduled will not constitute an event of default.

Dividends are also only payable if a Payment Condition does not exist on the Dividend Payment Date. The circumstances in which a Payment Condition will exist are described in Section 2.1. A "Payment Condition" will exist where APRA has objected to the payment of a Dividend or NAB is not permitted to pay the Dividend under the Corporations Act, or where the payment of Dividends will result in a breach of APRA's regulatory requirements as they apply to NAB, or will result in NAB becoming, or being likely to become, insolvent for the purposes of the Corporations Act.

The Terms contain no events of default and accordingly, in the event that NAB does not pay a Dividend when scheduled, a Holder:

- Has no right to apply for NAB to be wound up or placed in administration, or to cause a receiver or a receiver and manager to be appointed in respect of NAB; and
- Will have no right of set-off and no offsetting rights or claims on NAB under the Terms.

Dividends are non-cumulative, and therefore if a Dividend is not paid then NAB has no liability to pay that Dividend and Holders have no claim or entitlement in respect of such non-payment.

If a Dividend is not paid in full on a Dividend Payment Date, subject to certain exceptions NAB cannot declare, determine to pay, or pay dividends on its Ordinary Shares or return capital (unless Holders approve the payment by ordinary resolution) until the next Dividend Payment Date (unless the Dividend is paid in full within 3 Business Days).

Changes in regulations applicable to NAB may impose additional requirements which prevent NAB from paying a Dividend in additional circumstances.

Further, under the terms of other securities issued by NAB, including Equal Ranking Instruments, NAB may be restricted from paying Dividends if NAB does not pay distributions on those other securities. See further section 6.1.18 on page 65.

### 6.1.3 Changes in Dividend Rate

The Dividend Rate is calculated for each Dividend Period by reference to the Bank Bill Rate, which is influenced by a number of factors and varies over time. The Dividend Rate will fluctuate (both increasing and decreasing) over time as a result of movements in the Bank Bill Rate – see Section 2.1. As the Dividend Rate fluctuates, there is a risk that it may become less attractive when compared to the rates of return available on comparable securities or other investments issued by NAB or other entities.

NAB does not guarantee any particular rate of return on NAB CPS II.

### 6.1.4 Market price of NAB CPS II and Ordinary Shares

The market price of NAB CPS II may fluctuate due to various factors, including investor perceptions, Australian and worldwide economic conditions, interest rates, movements in foreign exchange rates, impacts of regulatory change, movements in the market price of Ordinary Shares or senior or subordinated debt, the availability of better rates of return

on other securities and factors that may affect NAB's financial performance and position. NAB CPS II may trade at a market price below the Issue Price.

In recent years, markets have become more volatile. Volatility risk is the potential for fluctuations in the price of securities, sometimes markedly and over a short period. Investing in volatile conditions implies a greater level of volatility risk for investors than an investment in a more stable market.

You should carefully consider this additional volatility risk before deciding whether to make an investment in NAB CPS II.

The Ordinary Shares held as a result of any Conversion will, following Conversion, rank equally with existing Ordinary Shares. Accordingly, the ongoing value of any Ordinary Shares received upon Conversion will depend upon the market price of Ordinary Shares after the date on which NAB CPS II are Converted. The market price of Ordinary Shares is also subject to the factors outlined above and may also be volatile.

The market price of NAB CPS II (as well as the Ordinary Shares) may fluctuate as a result of the information disclosed to the market by NAB in order to comply with its continuous disclosure requirements.

### 6.1.5 Liquidity

There may be no liquid market for NAB CPS II. The market for NAB CPS II may be less liquid than the market for Ordinary Shares or comparable securities issued by NAB or other entities. Holders who wish to sell their NAB CPS II may be unable to do so at an acceptable price, or at all, if insufficient liquidity exists in the market for NAB CPS II. NAB CPS II are expected to Convert into Ordinary Shares on 19 December 2022 (subject to certain conditions being satisfied) unless NAB CPS II are otherwise Converted, Redeemed or Resold on or before that date. Where NAB CPS II are Converted, there may be no liquid market for Ordinary Shares at the time of Conversion or the market for Ordinary Shares may be less liquid than that for comparable securities issued by other entities at the time of Conversion.

# Section Six:

## Key Risks of NAB CPS II

In addition, there is no guarantee that NAB CPS II will remain continuously quoted on ASX. Trading of ASX listed securities may be suspended in certain circumstances.

### **6.1.6 The Ordinary Share price used to calculate the Conversion Number of Ordinary Shares may be different to the market price at the time of Conversion**

Upon Conversion, Holders will receive approximately \$101 worth of Ordinary Shares per NAB CPS II (based on the VWAP during a period, usually 20 Business Days, before the Mandatory Conversion Date or other date on which NAB CPS II are Converted). The market price of Ordinary Shares may fluctuate due to various factors.

For a Conversion following a Loss Absorption Event, depending on the market price of Ordinary Shares at the relevant time, Holders may receive less, or significantly less, than \$101 worth of Ordinary Shares per NAB CPS II – see Sections 2.7 and 6.1.14.

The VWAP during the relevant period before the date of Conversion that is used to calculate the number of Ordinary Shares that Holders receive may differ from the Ordinary Share price on or after the date of Conversion. As a result, the market value of Ordinary Shares received upon Conversion may be greater than or less than \$101 per NAB CPS II when they are issued or at any time after that, and could be less than the Issue Price. Holders receiving Ordinary Shares on Conversion may not be able to sell those Ordinary Shares at the price on which the Conversion calculation was based, or at all.

### **6.1.7 Dividends may not be fully franked**

NAB expects Dividends to be fully franked. However, there is no guarantee that NAB will have sufficient franking credits in the future to fully frank Dividends.

If a Dividend payment is not fully franked, then the Dividend will be adjusted to reflect the applicable franking rate (see clause 2.5 of the Terms).

### **6.1.8 Use of franking credits by Holders**

The value and availability of franking credits to a Holder will differ depending on the Holder's particular tax circumstances. Holders should be aware that the potential value of any franking credits does not accrue at the same time as the receipt of any cash Dividend. Holders should also be aware that the ability to use the franking credits, either as an offset to a tax liability or by claiming a refund after the end of the income year, will depend on the individual tax position of each Holder. Holders should also refer to the Australian Taxation Summary in Section 7 and seek professional advice in relation to their tax position.

### **6.1.9 NAB CPS II are perpetual and Mandatory Conversion may not occur on the scheduled Mandatory Conversion Date or at all**

NAB CPS II are expected to Convert into Ordinary Shares on 19 December 2022 (subject to certain conditions being satisfied).

However, there is a risk that Conversion will not occur because the Mandatory Conversion Conditions are not satisfied due to a large fall in the Ordinary Share price relative to the Issue Date VWAP, or where a Delisting Event applies. For example, the market price of Ordinary Shares is relevant to determining whether Conversion will occur, and the number of Ordinary Shares a Holder will receive on Conversion. Depending on the market price of Ordinary Shares at the relevant time, Conversion may not occur. The Ordinary Share price may be affected by transactions affecting the share capital of NAB, such as rights issues, placements, returns of capital, certain buy-backs and other corporate actions. The Issue Date VWAP is adjusted only for transactions by way of a reorganisation and pro rata bonus issues of Ordinary Shares as described in clauses 7.5 and 7.6 of the Terms and not for other transactions, including rights issues, placements, returns of capital, buy-backs or special dividends. The Terms do not limit the transactions which NAB may undertake with respect to its share capital and any such action may affect whether Conversion will occur and may adversely affect the position of Holders.

If Mandatory Conversion does not occur on the Scheduled Mandatory Conversion Date, Mandatory Conversion would then occur on the next Dividend Payment Date on which all of the Mandatory Conversion Conditions are satisfied unless NAB CPS II are otherwise Converted, Redeemed or Resold on or before that date. If Mandatory Conversion does not occur on a possible Mandatory Conversion Date and NAB CPS II are not otherwise Converted, Redeemed or Resold, Dividends may continue to be paid on NAB CPS II (subject to the Directors resolving to pay a Dividend and no Payment Condition existing on the relevant Dividend Payment Date(s)).

NAB CPS II are a perpetual instrument. If the Ordinary Share price deteriorates significantly and never recovers, it is possible that the Mandatory Conversion Conditions will never be satisfied and, if this occurs, unless NAB CPS II are otherwise Converted (see further sections 6.1.10 to 6.1.14 below), NAB CPS II will never Convert.

### **6.1.10 Conversion on an Acquisition Event**

NAB CPS II are issued by NAB, which, as an ASX-listed company, may be affected by merger and acquisition activity, including the possibility of being acquired by, or merged with, another company or group of companies, potentially resulting in a change of control.

Where this corporate activity constitutes an Acquisition Event, as defined in the Terms, subject to certain conditions, NAB is required to Convert all NAB CPS II in accordance with clauses 5 and 7 of the Terms. Conversion may occur on dates not previously contemplated by Holders, which may be disadvantageous in light of market conditions or their individual circumstances and may not coincide with their individual preference in terms of timing. This also means that the period for which Holders will be entitled to the benefit of the rights attaching to NAB CPS II (such as Dividends) is unknown.

### **6.1.11 Conversion, Redemption or Resale at NAB's option**

NAB may (subject to APRA's prior written approval) elect to Convert, Redeem or Resell some or all NAB CPS II on 17 December 2020 or on the occurrence of a Tax Event or Regulatory

Event. In addition, NAB may also Convert some or all NAB CPS II on the occurrence of a Potential Acquisition Event.

Holders have no right to request or require a Conversion, Redemption or Resale of their NAB CPS II.

Any Conversion, Redemption or Resale at NAB's option may occur on dates not previously contemplated by Holders, which may be disadvantageous in light of market conditions or their individual circumstances and may not coincide with their individual preference in terms of timing. This also means that the period for which Holders will be entitled to the benefit of the rights attaching to NAB CPS II (such as Dividends) is unknown.

The method of Conversion, Redemption or Resale chosen by NAB may be disadvantageous to Holders and may not coincide with their individual preference in terms of whether they receive Ordinary Shares or cash on the relevant date.

For example, if APRA approves an election by NAB to Redeem NAB CPS II, Holders will receive cash equal to \$100 per NAB CPS II rather than Ordinary Shares and accordingly, they will not benefit from any subsequent increases in the Ordinary Share price after the Redemption occurs. In addition, where Holders receive cash on Redemption, the rate of return at which they could reinvest their funds may be lower than the Dividend Rate at the time.

Upon any Resale, it will be the Nominated Purchaser's obligation to pay the Resale Price to the Holders. NAB does not guarantee the Nominated Purchaser will pay this amount and if it does not the Holders will continue to hold NAB CPS II.

Where Holders receive Ordinary Shares on Conversion, they will have the same rights as other holders of Ordinary Shares, which are different to the rights attaching to NAB CPS II.

#### **6.1.12 Optional Conversion, Redemption and Resale subject to certain events occurring**

If NAB elects to Convert (other than where it is obliged to Convert), Redeem or Resell NAB CPS II, APRA's prior written approval is required. Holders should not expect that APRA will give its approval to any Conversion, Redemption or Resale.

#### *Optional Conversion*

The optional Conversion of NAB CPS II by NAB is also subject to the level of the Ordinary Share price on the second Business Day before the date on which NAB is to send a notice advising Holders that it wishes to Convert NAB CPS II (or if trading in Ordinary Shares did not occur on that date, the Business Day prior to that date on which trading in Ordinary Shares occurred). If the VWAP on that date is less than or equal to 22.50% of the Issue Date VWAP (see section 2.4), NAB is not permitted to elect to Convert NAB CPS II. Also, if a Delisting Event applies, NAB is not permitted to elect to Convert NAB CPS II.

In addition, Conversion on an Optional Conversion Date is subject to both the Second Mandatory Conversion Condition (applied as if it referred to 20.20% of the Issue Date VWAP) and the Third Mandatory Conversion Condition being satisfied in respect of the Optional Conversion Date as if the Optional Conversion Date were a possible Mandatory Conversion Date.

If the requirements for Conversion on the Optional Conversion Date are not satisfied, NAB will notify Holders and the Conversion will be deferred until the next Dividend Payment Date on which the requirements for Conversion would be satisfied if that Dividend Payment Date were a possible Mandatory Conversion Date.

#### *Optional Redemption*

The optional Redemption of NAB CPS II is subject to the condition that APRA is satisfied that either the NAB CPS II the subject of the Redemption are replaced concurrently or beforehand with Tier 1 Capital of the same or better quality and the replacement of NAB CPS II is done under conditions that are sustainable for NAB's income capacity, or that the Group's capital position will remain adequate after NAB elects to Redeem NAB CPS II.

NAB is not permitted to elect to Redeem or Resell NAB CPS II on account of an Acquisition Event or a Potential Acquisition Event.

#### **6.1.13 Other events affecting Conversion**

Other events and conditions may affect the ability of Holders to trade or dispose of the Ordinary Shares issued on Conversion e.g. the willingness or ability of ASX to accept the Ordinary Shares issued on Conversion for quotation or any practical issues which affect that quotation, any disruption to the market for the Ordinary Shares or to capital markets generally, the availability of purchasers for Ordinary Shares and any costs or practicalities associated with trading or disposing of Ordinary Shares at that time.

#### **6.1.14 Conversion on account of a Loss Absorption Event**

NAB must immediately Convert NAB CPS II into Ordinary Shares if a Loss Absorption Event occurs. A Loss Absorption Event may occur at any time and on any day (whether or not the day is a Business Day). Accordingly, any such Conversion on account of a Loss Absorption Event may occur on dates not previously contemplated by Holders, which may be disadvantageous in light of market conditions or their individual circumstances and may not coincide with their individual preference in terms of timing.

A Loss Absorption Event is each of:

- a Common Equity Trigger Event; and
- a Non-Viability Trigger Event.

See Section 2.7 for a description of Common Equity Trigger Events and Non-Viability Trigger Events.

If a Loss Absorption Event occurs:

- Conversion is not subject to the Mandatory Conversion Conditions being satisfied;
- Conversion may occur automatically without the need for any further act or step by NAB. In that case, NAB will treat a Holder in respect of its NAB CPS II as having been issued the Conversion Number of Ordinary Shares. NAB expects that any ASX trades in NAB CPS II that have not settled on the date a Loss Absorption Event occurs will continue to settle in accordance with the normal ASX T+3 settlement, although NAB expects the seller will be treated as having

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delivered, and the buyer will be treated as having acquired, the Conversion Number of Ordinary Shares into which NAB CPS II have been Converted as a result of the occurrence of the Loss Absorption Event;

- NAB may also seek a trading halt to prevent further trading in NAB CPS II on ASX, and if ASX permits, may refuse to register transfers of NAB CPS II that have not settled – this may result in disruption or failures in trading or dealings in NAB CPS II (which may cause a Holder to suffer loss);
- Holders will not receive prior notice of Conversion or have any rights to vote in respect of the Conversion;
- The Ordinary Shares issued on Conversion may not be quoted at the time of issue, or at all.

If a Loss Absorption Event were to occur, depending on how much Common Equity Tier 1 Capital NAB requires, NAB may be:

- Permitted to Convert only a proportion of NAB CPS II and other Relevant Tier 1 Capital Instruments; or
- Required to either convert or write off all Relevant Tier 1 Capital Instruments (such as NAB CPS II).

If NAB is required to convert or write off all Relevant Tier 1 Capital Instruments (such as NAB CPS II), Holders should be aware that all Relevant Tier 1 Capital Instruments such as NAB CPS II will be converted or written off before any Relevant Tier 2 Capital Instruments are converted or written off.

### *APRA determinations in relation to Loss Absorption Events*

Where NAB is permitted by APRA to convert only a proportion of some NAB CPS II and other Relevant Tier 1 Capital Instruments following a Loss Absorption Event, NAB must endeavour to treat Holders on an approximately proportionate basis, but may discriminate to take account of the effect on marketable parcels of NAB CPS II and other logistical considerations, provided that nothing in the making of the selection or the adjustments is to delay or impede the Conversion taking effect.

Accordingly, should a Loss Absorption Event occur, and APRA permits NAB

to Convert only some and not all NAB CPS II, not all Holders may have their NAB CPS II Converted into Ordinary Shares.

In relation to Common Equity Trigger Events, see Section 5.3 for information on NAB's current level of Common Equity Tier 1 Capital. NAB's level of Common Equity Tier 1 Capital may be affected by risks associated with its business and its ability to raise and maintain levels of capital which are outside its control.

In relation to Non-Viability Trigger Events, APRA has not provided guidance as to how it would determine non-viability. Non-viability could be expected to include serious impairment of NAB's financial position and insolvency; however, it is possible that APRA's definition of non-viable may not necessarily be confined to solvency or capital measures and APRA's position on these matters may change over time. Non-viability may be significantly impacted by a number of factors, including factors which affect the business, operation and financial condition of NAB. For instance, systemic and non-systemic macroeconomic, environmental and operational factors, domestically or globally, may affect the viability of NAB.

### *Conversion following a Loss Absorption Event*

The number of Ordinary Shares that a NAB CPS II Holder will receive on Conversion following a Loss Absorption Event is calculated in accordance with the Conversion Number formula which provides for a calculation based on a discounted five Business Day VWAP but cannot be more than the Maximum Conversion Number. Accordingly, this may result in a NAB CPS II Holder receiving less, or significantly less, than \$101 worth of Ordinary Shares per NAB CPS II and suffering loss as a result.

This is because:

- The number of Ordinary Shares is limited to the Maximum Conversion Number and this number of Ordinary Shares may have a value of less than \$101;
- The number of shares is calculated by reference to the price of Ordinary Shares on the five Business Days before the Loss Absorption Event Conversion Date which may differ

from the Ordinary Share price on or after that date. The Ordinary Shares may not be listed or may not be able to be sold at prices representing their value based on the VWAP. In particular, VWAP prices will be based wholly or partly on trading days which occurred before the Loss Absorption Event; and

- As noted in Section 2.3, the Maximum Conversion Number may be adjusted to reflect a consolidation, division or reclassification of Ordinary Shares and pro rata bonus issues. However, no adjustment will be made to it on account of other transactions which may affect the price of Ordinary Shares, including for example rights issues, returns of capital, buy-backs or special dividends. The Terms do not limit the transactions that NAB may undertake with respect to its share capital and any such action may increase the risk that Holders receive only the Maximum Conversion Number and so may adversely affect the position of Holders.

### *Inability Event*

If, following a Loss Absorption Event, NAB is prevented by applicable law or order of any court or action of any government authority (including regarding the insolvency, winding up or other external administration of NAB) or by any other reason from Converting NAB CPS II (within five days after the Loss Absorption Event Conversion Date) which would otherwise be Converted (an “**Inability Event**”), NAB CPS II will not be Converted but instead Written Off.

This means that the rights of a Holder in respect of dividends and returns of capital in any subsequent winding up of NAB are broadly equivalent to the rights in respect of dividends and returns of capital of the Holder of the number of Ordinary Shares the Holder would have held if the Conversion had occurred.

However NAB CPS II in these circumstances are not identical to Ordinary Shares, do not have the voting rights of Ordinary Shares and may not be able to be sold at the same price as the equivalent number of Ordinary Shares or at all.



The laws under which an Inability Event may arise include laws relating to the insolvency, winding up or other external administration of NAB. Those laws and the grounds on which a court or government authority may make orders preventing the Conversion of NAB CPS II may change and the change may be adverse to the interests of Holders.

#### **6.1.15 Restrictions on rights and ranking in a winding up of NAB**

NAB CPS II are issued by NAB under the Terms. A Holder has no claim on NAB in respect of NAB CPS II except as provided in the Terms.

NAB CPS II are unsecured. In the event of a winding up of NAB, and assuming NAB CPS II have not been Converted, Redeemed or Resold and are not required to be Written Off due to a Loss Absorption Event, investors will be entitled to claim for the Liquidation Amount.

This is an amount for each NAB CPS II equal to \$100 in respect of its Issue Price and any Dividend resolved by the Directors to be paid but unpaid at the commencement of the winding up of NAB.

However, where NAB CPS II are required to be Converted on account of a Loss Absorption Event and NAB is prevented by applicable law or order of any court or the action of any government authority or any other reason from Converting NAB CPS II (within five days after the Loss Absorption Event Conversion Date) and, accordingly, NAB CPS II have been Written Off (as described in Section 2.7 and clause 4.5 of the Terms), in place of the Liquidation Amount, Holders will receive an amount equal to the sum which would have been paid in respect of NAB CPS II out of the surplus available to shareholders in a winding up as if the NAB CPS II were the Conversion Number of Ordinary Shares, that Conversion Number being finally determined as if the NAB CPS II had Converted on the Loss Absorption Event Conversion Date (and in any case not exceeding the Maximum Conversion Number). This may affect the amount of a return in a winding up compared to the holders of Equal Ranking Instruments.

Claims in respect of NAB CPS II are subordinated, in and notwithstanding a winding up of NAB, so as to rank as preference shares as set out in the Terms. If there is a shortfall of funds on a winding up of NAB to pay all amounts ranking senior to and equally with NAB CPS II, Holders will not receive all or some of the Liquidation Amount or other amount to which they are entitled under the Terms. Although NAB CPS II may pay a higher rate of dividend than comparable securities and instruments which are not subordinated, there is a significant risk that a Holder will lose all or some of their investment should NAB become insolvent.

#### **6.1.16 Future issues or redemptions of securities by NAB**

NAB CPS II do not in any way restrict NAB from issuing further securities or from incurring further indebtedness. NAB's obligations under NAB CPS II rank subordinate and junior in a winding up to NAB's obligations to holders of senior ranking securities and instruments, and all creditors, including subordinated creditors (other than creditors whose claims are subordinated so as to rank equally with NAB CPS II). Accordingly, NAB's obligations under NAB CPS II will not be satisfied unless it can satisfy in full all of its other obligations ranking senior to NAB CPS II. NAB may in the future issue securities that:

- rank for dividends or payments of capital (including on the winding up of NAB) equal with, behind or ahead of NAB CPS II;
- have the same or different dividend, interest or distribution rates as those for NAB CPS II;
- have payment tests and distribution restrictions or other covenants which affect NAB CPS II (including by restricting circumstances in which Dividends can be paid or NAB CPS II can be Redeemed or Resold); or
- have the same or different terms and conditions as NAB CPS II.

NAB may incur further indebtedness and may issue further securities including further Tier 1 Capital securities before, during or after the issue of NAB CPS II. An investment in NAB CPS II carries no right to participate in any future issue of securities (whether equity, Tier 1

Capital, subordinated or senior debt or otherwise) by NAB.

No prediction can be made as to the effect, if any, which the future issue of securities by NAB may have on the market price or liquidity of NAB CPS II or of the likelihood of NAB making payments on NAB CPS II. Similarly, NAB CPS II do not restrict any member of the Group from redeeming, buying back or undertaking a reduction of capital or otherwise repaying its other securities (whether existing securities or those that may be issued in the future).

An investment in NAB CPS II carries no right to be redeemed or otherwise repaid at the same time as NAB redeems, or otherwise repays, holders of other securities (whether equity, Tier 1 Capital, subordinated or senior debt or otherwise).

#### **6.1.17 Exposure to the Group's financial performance and position**

If the Group's financial performance or position declines, or if market participants anticipate that it may decline, an investment in NAB CPS II may decline in value. Accordingly, when you evaluate whether to invest in NAB CPS II you should carefully evaluate the investment risks associated with an investment in NAB – see Section 6.2.

#### **6.1.18 The restriction on Ordinary Share dividend payments applies in limited circumstances**

The restriction on dividend payments where Dividends on NAB CPS II are not paid only applies in respect of Ordinary Shares and not distributions in respect of any other securities, including those ranking equally with NAB CPS II.

Accordingly, a failure to make a scheduled payment on NAB CPS II may not restrict the making of payments in respect of instruments that may in the future rank equally with NAB CPS II.

Further, the restriction in NAB CPS II only applies until the next Dividend Payment Date. The dates for distribution with respect to Ordinary Shares are determined by NAB in its discretion and do not bear a fixed relationship to the Dividend Payment Dates for NAB CPS II. Accordingly, as soon as the restriction

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ceases to apply (as will be the case if the next scheduled Dividend on NAB CPS II is paid) NAB will not be restricted from paying a dividend on its Ordinary Shares.

### 6.1.19 Changes to credit ratings

NAB's cost of funds, margins, access to capital markets and competitive position and other aspects of its performance may be affected by its credit ratings (including any long-term credit ratings or the ratings assigned to any class of its securities). Credit rating agencies may withdraw, revise or suspend credit ratings or change the methodology by which securities are rated. Even though NAB CPS II will not be rated, such changes may adversely affect the market price, liquidity and performance of NAB CPS II or Ordinary Shares received on Conversion.

### 6.1.20 Regulatory classification

APRA has provided confirmation that NAB CPS II qualify as Additional Tier 1 Capital under the Basel III Prudential Standards. However, if NAB subsequently determines that some or all the NAB CPS II are not or will not qualify in that category of regulatory capital (and NAB did not expect this prior to the Issue Date), NAB may decide that a Regulatory Event has occurred. This will allow Conversion, Redemption or Resale (subject to certain conditions, including APRA approval) at NAB's discretion.

### 6.1.21 Australian tax consequences

A general outline of the tax consequences of investing in NAB CPS II for certain potential investors who are Australian residents for tax purposes is set out in the Australian taxation summary in Section 7. This discussion is in general terms and is not intended to provide specific advice addressing the circumstances of any particular potential investor.

Accordingly, potential investors should seek independent advice concerning their own individual tax position.

NAB is entitled to Convert, Redeem or Resell all or some NAB CPS II (subject to certain conditions, including APRA's prior written approval where required). Broadly, if as a result of a change in law or practice in Australia (which NAB did not expect at the time of issue of NAB CPS II), there is a more than insubstantial risk that a Dividend would not be

frankable (or would only be frankable subject to requirements which the Directors determine to be unacceptable), or that NAB would be exposed to an increase in taxes or other costs, which is not insignificant, in relation to NAB CPS II.

See the description of a Tax Event in Section 2.4 for more information.

If the corporate tax rate was to change, the cash amount of Dividends and the amount of any franking credit would change. In this regard, the current Coalition Government's pre-election policy announcements included a proposal to reduce the corporate tax rate from 30% to 28.5% from 1 July 2015. Although their policy announcements also included a proposal to impose a 1.5% special levy from 1 July 2015 on companies with taxable income exceeding \$5 million, such a levy would not be treated as part of the corporate tax rate for franking purposes.

It remains to be seen whether legislation to reduce the corporate tax rate will actually be introduced and enacted. If the corporate tax rate is reduced to 28.5% from 1 July 2015, then from that time the cash amount of Dividends and the amount of any attached franking credits would change.

### 6.1.22 Shareholding limits

The Financial Sector (Shareholdings) Act 1998 (Cth) restricts ownership by people (together with their associates) of an Australian bank, such as NAB, to a 15% stake. A shareholder may apply to the Australian Treasurer to extend their ownership beyond 15%, but approval will not be granted unless the Treasurer is satisfied that a holding by that person greater than 15% is in the national interest.

Mergers, acquisitions and divestments of Australian public companies listed on ASX (such as NAB) are regulated by detailed and comprehensive legislation and the rules and regulations of ASX. These provisions include restrictions on the acquisition and sale of relevant interests in certain shares in an Australian listed company under the Corporations Act and a requirement that acquisitions of certain interests in Australian listed companies by foreign interests are subject to review and approval by the Treasurer. In addition, Australian law also

regulates acquisitions which would have the effect, or be likely to have the effect, of substantially lessening competition in a market.

Holders should take care to ensure that by acquiring any NAB CPS II (taking into account any Ordinary Shares into which they may Convert), Holders do not breach any applicable restrictions on ownership.

### 6.1.23 NOHC Event

As described in Section 6.1.10, certain merger and acquisition activity in relation to NAB will constitute an Acquisition Event, as defined in the Terms. In this case, subject to certain conditions, NAB is required to Convert all NAB CPS II in accordance with clauses 5 and 7 of the Terms.

However, certain events which would otherwise constitute Acquisition Events are categorised under the Terms as NOHC Events. Where a NOHC Event occurs and certain other conditions are satisfied, the NOHC Event will not trigger a Conversion of NAB CPS II. Instead, NAB will be permitted to make certain amendments to the Terms in order to substitute the Approved NOHC as the issuer of the ordinary shares issued on Conversion.

Accordingly, potential investors should be aware that, if a NOHC Event occurs and a substitution of the issuer of the ordinary shares on Conversion is effected under the Terms, Holders will be obliged to accept the Approved NOHC ordinary shares and will not receive Ordinary Shares of NAB on Conversion. Potential investors should also be aware that Holders may not have a right to vote on any proposal to approve, implement or give effect to a NOHC Event.

At this time, NAB has made no decision to implement a NOHC structure.

In the event that a NOHC Event were to occur, NAB would continue to be regulated by APRA. However, depending on the structure of the acquirer following a NOHC Event and the capital framework which APRA determines to apply to it, the composition of NAB's capital measurement levels may be affected, which in turn may affect NAB's ability to pay Dividends on NAB CPS II.

After a NOHC Event Holders will remain preference shareholders in NAB with the

same rights to dividends and to payment in a winding up of NAB as before the NOHC Event, but on Conversion Holders will receive ordinary shares in the Approved NOHC and not Ordinary Shares in NAB. NAB CPS II should remain quoted on ASX, but NAB's Ordinary Shares will cease to be quoted.

Where a NOHC Event is accompanied by a transfer of assets from NAB or a subsidiary to the Approved NOHC or another subsidiary of the Approved NOHC, NAB may as a result have reduced assets which may affect its credit rating and the likelihood Holders will receive their claims in full if NAB is wound up. Holders do not have any claim on the assets of the Approved NOHC or any other subsidiary of the Approved NOHC other than following Conversion as a holder of ordinary shares in the Approved NOHC.

#### **6.1.24 Powers of an ADI statutory manager**

In certain circumstances APRA may appoint a statutory manager to take control of the business of an ADI, such as NAB. Those circumstances are defined in the Banking Act to include:

- Where the ADI informs APRA that it is likely to become unable to meet its obligations, or is about to suspend payment;
- Where APRA considers that, in the absence of external support:
  - the ADI may become unable to meet its obligations;
  - the ADI may suspend payment;
  - it is likely that the ADI will be unable to carry on banking business in Australia consistently with the interests of its depositors; or
  - it is likely that the ADI will be unable to carry on banking business in Australia consistently with the stability of the financial system in Australia;
- The ADI becomes unable to meet its obligations or suspends payment; or
- Where, in certain circumstances, the ADI is in default of compliance with a direction by APRA to comply with the Banking Act or regulations made under it and the Federal Court authorises APRA to assume control of the ADI's business.

The powers of an ADI statutory manager include the power to alter an ADI's constitution, to issue, cancel or sell shares (or rights to acquire shares) in the ADI and to vary or cancel rights or restrictions attached to shares in a class of shares in the ADI. The ADI statutory manager is authorised to do so despite the Corporations Act, the ADI's constitution, any contract or arrangement to which the ADI is party or the ASX Listing Rules. In the event that a statutory manager is appointed to NAB in the future, these broad powers of an ADI statutory manager may be exercised in a way which adversely affects the rights attaching to NAB CPS II and the position of Holders.

#### **6.1.25 Amendment of Terms**

NAB may, with APRA's prior written approval where required, amend the Terms without the approval of Holders. These include necessary or desirable amendments to dates and time periods to facilitate any Mandatory Conversion, Loss Absorption Event Conversion, optional Conversion, Redemption or Resale or any change which NAB considers will not be materially prejudicial to the interests of Holders as a whole. NAB may also, with APRA's prior written approval where required, amend the Terms if the amendment has been approved by a Special Resolution of Holders. Amendments under these powers are binding on all Holders despite the fact that a Holder may not agree with the amendment. APRA's prior written approval to amend the Terms is required only where the amendment may affect the eligibility of NAB CPS II as Additional Tier 1 Capital.

#### **6.1.26 Holders may be subject to FATCA withholding and information reporting**

It is possible that, in order to comply with FATCA, NAB (or if NAB CPS II are held through another financial institution, such other financial institution) may be required (pursuant to an agreement with the US Internal Revenue Service ("IRS") or under applicable law) to request certain information from Holders or beneficial owners of NAB CPS II, which information may be provided to the IRS, and to withhold US tax on some portion of payments made after 31 December 2016 with respect to NAB CPS II if such information is not provided or if

payments are made to certain foreign financial institutions that have not entered into a similar agreement with the IRS (and are not otherwise required to comply with the FATCA regime under applicable laws or are otherwise exempt from complying with the requirement to enter into a FATCA agreement with the IRS). If NAB or any other person is required to withhold amounts under or in connection with FATCA from any payments made in respect of NAB CPS II, Holders and beneficial owners of NAB CPS II will not be entitled to receive any gross up or additional amounts to compensate them for such withholding. This description is based on guidance issued to date by the IRS, including recently issued regulations. Future guidance may affect the application of FATCA to NAB CPS II.

## **6.2 Risks specific to the Group, including those related to general banking and finance conditions**

Set out below are the principal risks and uncertainties associated with NAB and the Group. These risks and uncertainties are not listed in order of significance, and in the event that one or more of these risks occur, then adverse impacts can result in other interconnected and consequential risks arising, or the impact of the risks being significantly different to that expected.

### **6.2.1 Risks specific to the banking and financial services industry**

The nature and impact of these external risks are generally not predictable and are often beyond the Group's direct control.

#### **(a) The Group may be adversely impacted by macroeconomic risks and financial market conditions**

The Group provides banking and financial services and products to individuals and entities across a range of jurisdictions including but not limited to Australia, New Zealand, the United Kingdom, Europe, the United States and Asia. The business activities of the Group are dependent on the level of banking, finance, financial services and wealth management activities required by its customers globally. In particular, levels of borrowing are heavily dependent

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on customer confidence, employment trends, the state of the economy, market interest rates and global economic trends (given the degree of global interconnectivity, interdependency and potential for contagion in the financial system).

Forecast global economic growth is projected to remain subdued, especially in Europe, and there is variability in business and economic conditions across a number of the Group's key markets. Changes in the economic climate in which the Group operates may adversely impact the Group's financial performance and position. Examples of such changes include, but are not limited to, economic growth rates, interest rates, inflation and deflation rates, employment levels, labour costs, consumer sentiment, demand for credit, market volatility, relative changes in exchange rates, changes in commodity and asset prices (i.e. bonds, equity securities, property and derivative instruments), levels of industrial production, taxation levels, domestic and international competition, monetary policy, fiscal policy, domestic and international political changes and environmental conditions. Factors causing these changes are many and varied, and include, but are not limited to, the occurrence of major shock events such as natural disasters, war and terrorism, political and social unrest, and sovereign debt restructures and defaults.

The Australian and New Zealand economies are heavily reliant on the economic climate in Asia, in particular China, and therefore any weakness, significant slowdown in growth or downturn in China's economy may adversely impact the Group's Australian and New Zealand businesses (both directly and indirectly).

The Group also operates in the United Kingdom and the United States where conditions are subdued. If these countries' economies continue to under-perform, this may further impact the Group's activities and financial outcomes in the short to medium term. The United States Federal Government as well as many of their state and municipal governments continue to run large fiscal deficits, which will require a reduction either through expenditure reduction, revenue increases (including higher taxes),

or a combination of both. This may adversely impact the United States and global economic conditions which may, in turn, adversely impact the Group's financial performance and position. A recent political impasse in the United States Congress over budgetary issues and the Federal Government's borrowing limit was temporarily resolved through increasing the limit. If a further extension is necessary and not given within the required timeframes, the United States Federal Government would be unable to meet its financial obligations as and when they fall due, which may have a severe negative impact on the United States and global economies, including through market anticipation of a possible default, and may adversely impact the Group's financial performance and position.

### *Eurozone conditions*

Concerns about the Eurozone debt crisis and large sovereign debts and/or fiscal deficits of a number of European countries, as well as countries outside Europe such as the United States, Japan and the United Kingdom persist. The resulting direct and indirect risks, including contagion implications, are significant and ongoing. The default, or a further significant decline in the credit rating, of one or more sovereigns, financial institutions, insurers or other corporates as a result of the Eurozone conditions, or a full or partial break up of the European Union or its euro currency, may cause severe stress on the financial system generally. This stress may adversely affect the markets and market participants in ways which may be difficult to predict or effectively manage, but which may adversely impact the Group's financial performance and position (particularly through its United Kingdom Banking business and its direct and indirect exposure to the Eurozone's many market participants).

In September 2014, a referendum is to be held to determine whether Scotland will seek independence from the United Kingdom. If the referendum is passed, it is likely that Scotland would leave the European Union and many operational aspects of the separation remain uncertain. This may have an adverse impact on the Group's financial performance and position.

### *Potential impacts of macroeconomic and financial market conditions*

Volatility in credit, currency and equity markets globally may result in uncertainty in financial markets that may affect all banks, including the Group. Market volatility has led to and in the future may lead to events including, but not limited to:

- Increased cost of funding and/or lack of available funding;
- Deterioration in the value and liquidity of assets (including collateral);
- Inability to price certain assets;
- Increased likelihood of counterparty default and credit losses (including on the purchase and sale of protection as part of hedging strategies);
- Higher provisions for bad and doubtful debts;
- Mark to market losses in equity and trading positions;
- Increased cost of insurance and/or lack of available or suitable insurance, and/or lack of available or suitable derivative instruments for hedging purposes; and
- Lower growth, business revenues and earnings (for example, the Group's NAB Wealth business earnings are highly dependent on asset values, particularly the value of listed equities, and therefore a fall in the value of its assets under management may reduce its earnings contribution to the Group).

The financial performance and position of the Group have been, and its future financial performance and position may continue to be, affected by these factors.

### **(b) The Group is subject to extensive regulation and changes thereto may adversely impact the Group's financial performance and position**

The Group is regulated in Australia and in the other jurisdictions in which it operates or has some other connection. Regulations vary from country to country, and to differing degrees are designed to protect the interests of depositors, policy holders, security holders, and the banking and financial services system as a whole. Future changes in laws, regulations or other policies imposed on the Group by various regulatory authorities of

Australian and foreign governments, and international agencies are unpredictable and beyond the Group's control and may adversely affect its business and operations. A number of these changes are currently influenced by public opinion (including banking sentiment) and changing stakeholder expectations regarding transparency, competition, environmental, social and governance responsibility, financial system stability, national interest and international harmonisation.

*Some significant regulatory reforms and changes currently underway include:*

- Global implementation of the Basel Committee on Banking Supervision's Basel III reforms, which are expected to be fully implemented by 2019. These reforms require an increase in the quality and amount of capital and liquid assets that the Group is required to hold. Implementation of Basel III reforms in different ways across the jurisdictions in which the Group operates may increase the regulatory compliance costs to the Group as well as requiring the Group to hold more capital than otherwise would have been the case. In Australia, revised capital requirements became effective from 1 January 2013, with additional requirements to take effect in future years as capital buffers and the leverage ratio are implemented. Revised liquidity requirements will take effect progressively commencing with qualitative requirements from 1 January 2014.
- APRA's framework for the supervision of conglomerate groups covering governance, risk exposures, risk management and capital adequacy, which will be fully effective from 1 January 2015 following a 12 month industry transition period. This may result in higher regulatory compliance costs for the Group.
- Australian Prudential Standard APS 222 Associations with Related Entities that may reduce the Group's ability to provide capital and funding support to its subsidiaries.
- Implementation of APRA's Prudential Standard APS 910 Financial Claims Scheme to facilitate payment of the government guarantee on protected bank deposits (up to \$250,000).
- The Stronger Super reforms which commenced on 1 July 2013 and impact the Group's Wealth business. The reforms are in response to the Australian Government's changes to superannuation and involve a significant compliance cost to the Group.
- The United States Dodd-Frank Wall Street Reform, and Consumer Protection Act of 2010 (the "**Dodd-Frank Act**") which imposes additional supervisory requirements and prudential standards on foreign banking organisations with a United States banking presence and total global consolidated assets of at least US\$50 billion (which includes NAB). The legislation includes, among other things, heightened risk-based capital requirements, leverage, liquidity and risk management requirements, including periodic stress tests, as well as limitations on credit and other exposures. The Dodd-Frank Act also contains the Volcker Rule which prohibits proprietary trading and the sponsorship of, and investment in, hedge and private equity funds by banking entities like NAB. The specific impact of the Dodd-Frank Act on the Group's businesses and the markets in which it operates will depend on the manner in which the relevant United States agencies implement the required regulations. The Dodd-Frank Act and its implementing regulations may result in changes that adversely impact the financial performance and position of the Group.
- Over The Counter ("**OTC**") derivative market reforms, which are a broader commitment of the Group of 20 ("**G20**") Finance Ministers and Central Bank Governors, are being implemented in the United States through the Dodd-Frank Act and in other countries including Australia (where legislation to implement these G20 commitments became fully effective on 3 January 2013). ASIC has subsequently released rules and relevant regulatory guides for the licensing of derivative trade repositories and derivative transaction reporting. Derivative transaction reporting for NAB commenced in Australia in October 2013. The introduction of these requirements, in addition to other OTC reforms globally, adds to costs and complexity of regulatory compliance for the Group.
- Industry development of a New Payments Platform ("**NPP**"), in response to the conclusions from the Reserve Bank of Australia's ("**RBA's**") Strategic Review of Innovation in the Payments Systems released June 2012. The NPP will significantly impact the way low value payments will be processed. There will be additional costs for the Group in implementing the required changes associated with the industry development of the NPP and the Group's internal build to connect to the NPP.
- Development/maintenance of recovery plans that show how the Group would propose to recover from a significant loss that threatened its viability as a stand-alone entity. If elements of the recovery plan were implemented in response to a crisis, or preparatory actions relating to the plan were mandated by regulators or implementation of the plan fails, it is possible that some or all of these actions may have an adverse impact on the Group's financial performance and position. The Reserve Bank of New Zealand ("**RBNZ**") has put in place a mechanism for how it will manage a New Zealand bank that encounters financial difficulty. Called "Open Bank Resolution" ("**OBR**"), the mechanism may have an adverse impact on the Group's financial performance and position if the Group's New Zealand subsidiary was subject to an OBR action. In other jurisdictions, including the United Kingdom and the United States, actions are also progressing for recovery and resolution planning of banks.
- Legislation passed in the United States, in March 2010, which will require foreign financial institutions to provide information regarding United States account holders (referred to as "**FATCA**"). If this information is not provided in a form satisfactory to the United States tax authorities, a foreign financial institution may be subject to a 30% withholding tax applied on certain amounts derived from United States sources and certain payments attributable to such amounts ("**Passthru Payments**"). Under United States Treasury regulations and administrative guidance, no such withholding tax will be imposed on any payments from United States sources

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made prior to 1 July 2014, and no such withholding tax will be imposed on any proceeds from the disposal of United States assets and Passthru Payments prior to 1 January 2017. The Australian Federal Government and certain other governments of countries where the Group operates have entered into or are considering entering into inter-governmental agreements with the government of the United States in respect of FATCA. It is not possible to determine at this time the costs of complying with the new legislation or whether such legislation will have a significant impact on the Group's financial performance and position.

- New financial services taxes and levies, which are being adopted in several European countries are designed to improve public sector finances. These financial services taxes and levies may have a significant impact on the Group's reported financial performance and position.
- Proposed changes and reviews by the International Accounting Standards Board ("IASB") and the Australian Accounting Standards Board ("AASB") to several of the accounting standards that govern key aspects of the Group's financial statements. While the outcome of these reviews and proposed changes is uncertain and difficult to predict, these changes may adversely impact the Group's reported financial performance and position.

*Other potential regulatory reforms or changes may arise from:*

- The Australian Federal Government's consultation in late 2012 on draft proposals to strengthen APRA's crisis management powers, including an extension of those powers to the Group's subsidiaries.
- APRA's planned 2014 consultation on the Domestic Systemically Important Banks ("D-SIBs") framework. Additional prudential measures are likely to apply to D-SIBs, including potentially a requirement to hold additional capital from 1 January 2016. NAB expects to be categorised as a D-SIB.
- An Australian Financial System inquiry, which is expected following the election of the new Australian Federal Government. The Australian Federal

Government has also announced that it intends to undertake a root and branch review of competition policies to ensure there is a simple and predictable regulatory environment for new and existing market participants across all sectors of the Australian economy. At this stage there is no indication of what the recommendations will be and how they will be adopted in respect of either review.

- An Australian Senate inquiry to examine the performance of ASIC, focusing on the legislative powers of ASIC and any barriers preventing ASIC from fulfilling its responsibilities and obligations, the accountability framework ASIC is subject to and collaboration between regulators, amongst other requirements.
- The United Kingdom Independent Commission on Banking ("ICB") recommendations on reforming the banking sector in order to promote financial stability and competition. These include proposals to 'ring-fence' retail banks from investment (and wholesale) banking operations and capitalising each separately, as well as introducing more onerous minimum capital and capital buffers based on the size of the banking entity. There are also recommendations designed to improve choice and competition in the United Kingdom market. The United Kingdom Government's Financial Services (Bank Reform) Bill is currently under consideration in Parliament, and seeks to enact the recommendations of the ICB.
- Macro-prudential controls which restrict the activities of lenders in the market (such as restrictions on high loan-to-valuation lending), which have been introduced in several countries including New Zealand.

The full effect of these potential reforms or changes on the Group's operations, business and prospects, or how any of the proposals discussed above will be implemented (if at all in some cases) is not known. Depending on the specific nature of any requirements and how they are enforced, they may have an adverse impact on the Group's operations, structure, compliance costs and/or capital requirements and ultimately, its financial performance and position.

### **(c) Competition or industry consolidation may adversely impact the financial performance and position of the Group**

There is substantial competition in the markets in which the Group operates. Increasing competition for customers can lead to compression in profit margins, changes in terms and conditions, increased advertising and related expenses to attract and retain customers, increased customer turnover, decreased customer loyalty or loss of market share. As technology and customer attitudes are rapidly evolving, this increases the risk of competition from new business entrants with lower cost operating models. The trend towards consolidation and rationalisation in the financial services industry is creating competitors with broader ranges of product and service offerings, increased access to capital, more customer data and greater efficiency. There has also been an increase in the direct role of governments in the international banking sector arising out of certain consolidations that occurred during the heightened period of instability during the Global Financial Crisis. The Group's financial performance and position have been, and may continue to be, adversely affected by competitive market conditions and/or industry trends.

#### **6.2.2 Risks specific to the Group**

There are a number of risks which arise directly from the operations of the Group as a major participant in the banking and financial services industry and from the specific structure of the Group. The Group's financial performance and position have been, and in the future may continue to be, impacted by these risks.

The Group's business model and portfolio mix create a different risk profile compared to its Australian-based banking peers in a number of ways including, but not limited to, its higher business lending market share (and as a result, a higher exposure to commercial real estate) and the location of banking subsidiaries in the United Kingdom and United States.

The risks specific to the Group are set out below.

**(a) The Group is exposed to credit risk, which may adversely impact its financial performance and position**

Credit risk is the potential that a counterparty or customer will fail to meet its obligations to the Group in accordance with agreed terms. Bank lending activities account for most of the Group's credit risk, however other sources of credit risk also exist including the banking book, the trading book, and other financial instruments and loans (including but not limited to acceptances, placements, inter-bank transactions, trade financing, foreign exchange transactions, repurchase and reverse repurchase agreements, swaps, bonds and options), as well as the extension of commitments and guarantees and the settlement of transactions.

The Group's portfolio of credit risk is large and diverse. Major sub-segments within the Group's lending portfolio include:

- Residential loans, which at 30 September 2013 represented approximately 55% of gross loans and acceptances. Currently there are differing external views as to whether or not the Australian and New Zealand residential property markets are overvalued and likely to experience a price downturn and if so, when. A significant downturn in the housing or employment markets in any of the economies in which the major businesses of the Group operate may have an adverse impact on the Group's financial performance and position.
- Commercial real estate loans, which at 30 September 2013 represented approximately 12% of gross loans and acceptances, with the majority of these domiciled in Australia. The Group's United Kingdom commercial real estate loan run-off portfolio continues to be managed separately and the value, before provisions, at 30 September 2013 has reduced to £4 billion. Continuation of, or further deterioration in, the economic conditions in the United Kingdom, or similar conditions being experienced in the commercial real estate markets in Australia and/or New Zealand, may have a further adverse impact on the Group's financial performance and position.
- The Group's United Kingdom Banking business (excluding the United Kingdom

commercial real estate assets in the loan run-off portfolio), represented approximately 8.8% of gross loans and acceptances at 30 September 2013. This business is directly exposed to the economic and political environments in the United Kingdom and Eurozone. Interest only mortgage loans in the United Kingdom, at 30 September 2013 represented approximately 2.5% of total gross loans and acceptances. These loans in the United Kingdom were traditionally written with a longer interest only term. This type of lending may expose the Group to increased credit risk when the loan matures or converts from interest only to principal and interest (particularly in a rising interest rate environment where the original interest only loan was originated at, or near, the record low interest rates of recent years and/ or where those customers are concentrated in areas experiencing less favourable business or economic conditions).

Less favourable business or economic conditions, whether generally or in a specific industry sector or geographic region, may cause, and have caused, counterparties and customers to experience an adverse financial situation. This may expose the Group to the risk that those impacted counterparties or customers will fail to meet their obligations in accordance with agreed terms. The Group may also be exposed to the increased risk of counterparty or customer default should interest rates rise above the record lows, or near record lows, of recent years.

Other factors that may have an adverse impact include, but are not limited to, declines in the Australian, New Zealand, United Kingdom, United States and other economies (impacting the Group's retail, small and medium-sized businesses, and large corporate business customer base) or further financial market dislocation which may lead to falling confidence, increased re-financing risk and further contagion risk among market participants, counterparties and customers. The Group's higher business lending market share in Australia and New Zealand exposes the Group to the potential of losses greater than peers should less favourable business and economic conditions be experienced

across this sector. The continued high Australian dollar (relative to its average level since the currency was floated in 1983), despite recently falling against the United States dollar and some other currencies, continues to place pressure on customers with businesses exposed to currency movements, including but not limited to Australian based tourism, manufacturing, retail, wholesale and agriculture businesses. With a slowdown in mining investment in Australia a number of sectors servicing this industry have also come under pressure.

The Group provides for losses incurred in relation to loans, advances and other assets. Estimating losses incurred in the loan portfolio is, by its very nature, uncertain and the accuracy of those estimates depends on many factors, including general economic conditions, assumptions of probability of default, loss given default and exposure at default, rating changes, structural changes within industries that alter competitive positions, and other external factors such as legal and regulatory requirements and a number of assumptions based on available experience and management judgements. If the information (or the assumptions upon which assessments are made) proves to be inaccurate, the provisions for credit impairment may need to be revised, which may adversely impact the Group's financial performance and position.

**(b) The Group is exposed to operational and compliance risks, which may adversely impact its financial performance and position**

Operational risk, including compliance risk, is the risk of loss resulting from inadequate internal processes and controls, people and systems or from external events (e.g. natural disasters, extreme weather events, biological hazards, terrorism, political, security and social events). Operational risks are a core component of doing business as they arise from the day-to-day operational activities of the Group as well as organisational changes such as projects and business change initiatives. Operational risks can also cause other risks to occur, for example, an uncontained biological hazard such as an outbreak of foot and mouth disease may result in increased credit risk

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across the Group's Agriculture portfolio. The Group's day-to-day operational and compliance risks may arise in the following ways:

- Fraud and/or malicious acts by employees, customers (for example undetected money laundering) and external parties seeking to misappropriate funds (including from customer accounts) or gain unauthorised access to customer data, and/or conduct cyber incidents including denial of service and malicious software attacks. While the Group continues to invest in capabilities to prevent, detect and appropriately respond to attacks of this nature, there can be no assurance that such incidents, or other cyber incidents, will not impact the Group. Fraud or other cyber incidents may result in reputation damage, fines or penalties, regulatory censure or financial loss.
- Weaknesses in employment practices (including those with respect to diversity and discrimination), workplace health and safety practices and compliance with employment undertakings. This may result in unsafe working environments, staff capability and capacity issues, mistreatment of employees (perceived or real), personal injury, legal or regulatory action, reputation damage, fines and penalties or financial loss.
- Systems, technology and infrastructure failures arising from poor design and implementation, operational error or ageing. The Group is dependent on:
  - Information systems and technology from a system stability, data quality and information security perspective, including payment systems and technology that interface with wider industry infrastructure. Internal or external failure of these systems and technology (including if such systems cannot be restored or recovered in acceptable timeframes, or adequately protected) may impact the Group's ability to conduct its daily operations, and result in reputation damage and litigation, regulatory investigations and penalties, and/or adversely impact the Group's financial performance and position; and
  - Select external technology providers (both in Australia and overseas) to

continue to develop and provide its technology solutions. There is increasing regulatory and public scrutiny of outsourced and off-shored activities and their associated risks, including for example, the appropriate management and control of confidential data. The Group also utilises various external service providers for other business activities. The failure of any external providers to perform their obligations to the Group or the failure of the Group to appropriately manage those providers may adversely impact the Group's reputation and/or financial performance and position.

- Process errors or failures arising from inadequate process design, untimely transaction processing, changes to or removal of key processes and operational failures by third parties (including off-shored and outsourced providers) or other major participants in the financial services industry. This may result in reputation damage and litigation, regulatory investigations and penalties, and may adversely impact the Group's financial performance and position.
- Modelling error or failure arising from inaccurate or invalid assumptions, inappropriate logic, data issues or gaps, or poor management judgements. Models are used extensively throughout the Group (including but not limited to calculating capital requirements, collective provisioning, financial liabilities, pricing products, measuring and stressing exposures, evaluating businesses and/or valuing assets). If the model (or assumptions/judgements on which it is based) proves to be inaccurate or incorrect, this may adversely impact the Group's financial performance and position.
- Organisational changes such as projects and business change initiatives. Refer below "*Transformation and change programmes*".
- Deficiencies in product development and maintenance, or sales performance and practices, including unsuitable conduct by employees that is in breach of Group policies (such as selling or coercing customers into inappropriate products/services, or conducting unsuitable/inappropriate market practices and non-adherence to fiduciary requirements), all of which

may result in reputation damage and litigation, customer redress, loss of customers, regulatory fines and penalties and may adversely impact the Group's financial performance and position.

- Failure to comply with laws, regulations, licence conditions, supervisory requirements, self regulatory industry codes of conduct and related internal policies, procedures and organisational frameworks and standards. If the Group's compliance controls were to fail significantly, or be set inappropriately, or not meet legal or regulatory expectations (including when they change over time), this may limit the Group's operations or flexibility, or result in fines, settlements, or restitution to customers, regulators or other stakeholders, which may adversely impact the Group's financial performance and position. The Group has ongoing discussions with key regulators on industry-wide issues and matters specific to the Group, and continues to work to improve regulatory and risk management compliance. The global banking and financial services industry is increasingly subject to information requests, scrutiny and investigations by its conduct based regulators, which have led to a number of international firms facing high profile enforcement actions, including substantial fines, for breaches of laws.

Given operational risks cannot be fully mitigated the Group determines an appropriate balance between accepting potential losses and incurring costs of mitigation. Where actual losses exceed predetermined limits, it may adversely impact the Group's financial performance and position. Failure in operational risk may also materially damage the Group's reputation. The Group is experiencing new dimensions of operational and compliance risks through the increased digitalisation of banking products and services and the rapid take up of social media. The Group expects ongoing challenges in these areas as digital/technological innovation advances rapidly.

### *Transformation and change programmes*

The Group is undertaking significant transformation programmes (including with respect to its enterprise-wide technology and infrastructure and



upgrading its core banking platform (“NextGen”) and is transitioning to a new organisational structure and operating model (within Australia) to support its technology and strategy update announced to the market on 13 March 2013. These activities aim to reduce operational complexity and cost as well as deliver a range of benefits for customers and shareholders.

The Group’s United Kingdom Banking business has also been undergoing significant change as it completes implementation of its strategy (announced to the market on 30 April 2012 with the aim of reducing risk appetite, and improving the return and cost profile of the ongoing United Kingdom Banking business). While early indications show positive progress there remains a risk of under performance, which may adversely impact the Group’s financial performance and position.

Due to these programmes’ scale, complexity, impact and time horizon, the Group’s risk profile has increased for the near-term (for example, changes of this magnitude require the Group to invest significant management attention and resources, which may divert attention away from normal business activities and in doing so adversely affect the Group’s business and operations). Additionally, as changes are being undertaken in an environment of economic fragility and increased regulatory activity and scrutiny, operational and compliance risks are magnified. There is also a risk that implementation may not be completed within expected timeframes or budget, or that such changes do not deliver some or all of their anticipated benefits.

**(c) The unexpected loss of key personnel may adversely impact the Group’s financial performance and position**

The Group is dependent on its ability to retain and attract key management and operating personnel. The Group has qualified and experienced management teams and operating personnel that it relies on in order to operate effectively and efficiently. The unexpected loss of any key member of these teams, or the Group’s inability to attract the requisite personnel with suitable experience, may adversely impact the Group’s financial performance and position.

**(d) Litigation and contingent liabilities arising from the Group’s business conduct may have an adverse impact on its performance and position**

Entities within the Group may be involved from time to time in legal proceedings arising from the conduct of their business. The aggregate potential liability in respect thereof cannot be accurately assessed. Any material legal proceedings may adversely impact the Group’s financial performance and position.

The following matters are ongoing proceedings arising from business conduct:

- On 16 December 2011 Steven Farey and Others commenced a class action proceeding against the Group in relation to the payment of exception fees, along with similar proceedings against several other financial institutions. The quantum of the claim against the Group has not yet been identified in the proceeding. The Group has not been required to file a defence as the proceeding has been stayed until 7 March 2014. The proceeding will be vigorously defended.

In March 2013, a potential representative action against New Zealand banks (including, potentially the company’s subsidiary Bank of New Zealand) was announced in relation to certain fees. Litigation Lending Services (NZ) Limited is funding the action. In June 2013, it was announced that representative proceedings had been commenced against another New Zealand bank. At this stage there is no representative action against Bank of New Zealand.

- The United Kingdom Financial Services Compensation Scheme (“FSCS”) provides compensation to depositors in the event that a financial institution is unable to repay amounts due. Following the failure of a number of financial institutions in the United Kingdom, claims were triggered against the FSCS, initially to pay interest on borrowings which the FSCS has raised from the United Kingdom Government to support the protected deposits. During the last year, the FSCS has also invoiced institutions for the first of three annual levies to cover capital repayments to the United

Kingdom Government. The principal of these borrowings which remains after the three annual levies have been paid is anticipated to be repaid from the realisation of the assets of the defaulted institutions. The FSCS has however confirmed that the size of the future levies will be kept under review in light of developments from the insolvent estates. The FSCS has estimated levies due to 31 March 2014 and an accrual of \$12.6 million (£7.3 million) is held for the Group’s calculated liability to that date. The ultimate FSCS levy as a result of the failures is uncertain.

- Market wide issues relating to the United Kingdom banking industry Payment Protection Insurance (“PPI”) matter are ongoing. A provision of \$264 million (£152 million) is held in respect of the estimated cost of redress and administration expenses for this matter. This includes \$204 million (£130 million) provided for in September 2013. The provision calculation includes a number of assumptions, most of which are uncertain, and which have been based upon a combination of past experience, estimated future experience, industry comparison and the exercise of judgement. There remain a number of uncertainties as to the ultimate costs of redress and administration, including the number of PPI claims, the number of those claims that ultimately will be upheld, and the amount that will be paid in respect of those claims, as well as the impact of expected changes to the PPI complaints handling policy and ongoing activities of regulatory bodies and claims management companies. The final amount required to settle the potential liability is therefore uncertain. The Group will continue to reassess the adequacy of the provision for this matter and the assumptions underlying the provision calculation at each reporting date based upon experience and other relevant factors at that time.
- On 29 June 2012 the United Kingdom Financial Services Authority (“FSA”) announced that it had reached agreement with a number of United Kingdom banks in relation to a review and redress exercise on sales of certain interest rate hedging products to small and medium sized businesses. Clydesdale Bank PLC agreed to participate in this exercise, as

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announced by the FSA on 23 July 2012, and has embarked on a program to identify small and medium sized customers that may have been affected and where due, pay financial redress. The exercise incorporates certain of the Group's tailored business loan products as well as the standalone hedging products identified in the FSA's notice. A provision of \$85 million (£49 million) is held for this matter. The total cost of this exercise as well as of any separate, thematic or other consideration of customer complaints in relation to out of scope tailored business loans, a number of which are currently subject to review and challenge by the Financial Ombudsman Service, is uncertain.

- On 1 April 2013, the FSA was de-merged into the Financial Conduct Authority ("FCA") and the Prudential Regulation Authority ("PRA"). The FCA has expressed a willingness to be a more proactive and intrusive regulator, and this may impact upon the manner in which the Group's UK operations deal with, and the ultimate extent of, conduct-related customer redress and associated costs. The current provision held in respect of UK conduct related matters, other than payment protection insurance and interest rate hedging products, is \$112 million (£64.5 million). The total cost associated with these and other conduct related matters is uncertain.

### **(e) Insufficient holdings of capital may adversely impact the Group's financial performance and position**

Capital risk is the risk that the Group does not hold sufficient capital and reserves to meet prudential standard requirements, achieve its strategic plans and objectives, or to cover the risks to which it is exposed and to protect against unexpected losses. The Group is required in all jurisdictions in which it undertakes regulated activities to maintain minimum levels of capital and reserves relative to the size and risk profile of its operations. Any change that limits the Group's ability to manage its capital, or to deploy capital across its entities within the Group, or requires it to hold more capital (including at a higher quality standard) may have an adverse impact on the Group's financial performance and position.

As mentioned in section 6.2.1(b), changes in regulation have the potential to change the required levels of capital that NAB, and other members of the Group, are required to hold which may adversely impact the Group's Ordinary Share price, financial performance and position.

### **(f) The Group's funding and liquidity position may be adversely impacted by dislocation in global capital markets**

Funding risk is the risk that the Group is unable to raise short and long-term funding to support its strategic plans and objectives. In particular, the Australian banking sector accesses global capital markets to help fund its businesses. Any dislocation in global capital markets may adversely affect the Group's ability to access funds (including at a reasonable cost) to meet its strategic plans and objectives and its obligations to creditors; and reduce investor appetite for holding the Group's securities, all of which may adversely impact the Group's financial performance and position.

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due. These obligations include the repayment of deposits on demand or at their contractual maturity, the repayment of borrowings and loan capital as they mature, the payment of interest on borrowings and the payment of operating expenses and taxes. Any significant deterioration in the Group's liquidity position may adversely impact the Group's financial performance and position.

In addition to the impact caused by any dislocation in global capital markets, the Group's financial performance and position may also be adversely impacted by any reduction in investor appetite for holding the Group's securities.

As mentioned in section 6.2.1(b), there are proposed changes to the minimum required levels of liquidity that NAB and other members of the Group are required to hold, which may adversely impact the Group's financial performance and position.

It is anticipated that to meet APRA's Basel III liquidity requirements, the

Group will be able to establish a secured Committed Liquidity Facility ("CLF") with the RBA of sufficient size to meet any shortfall in high quality liquid assets. Access to this facility will be conditional on satisfying criteria established by the RBA and APRA that are yet to be finalised. A failure to meet the eligibility criteria may impact the Group's ability to access the CLF, with consequential impacts on the Group's balance sheet size and structure.

### **(g) A significant downgrade in the Group's credit ratings may adversely impact its financial performance and position**

Credit ratings are an important reference for market participants in evaluating the Group or its products and services. A downgrade or potential downgrade in the Group's credit ratings, can affect the availability and/or cost of funding for the Group.

Credit rating agencies conduct ongoing review activity which is based on a number of factors including the Group's financial strength, as well as factors not entirely within the control of the Group such as conditions affecting the financial services industry and markets generally. This review activity can result in changes to credit rating settings and outlooks for the Group, including its members and individual securities issued by the Group, particularly in periods of increased market volatility. For example during August 2013, Moody's Investors Services ("Moody's") downgraded its credit rating for Clydesdale Bank PLC.

A downgrade to the Group's credit ratings may also result from a change in a rating agency's methodology. For example in September 2013, Moody's completed a review of its framework for rating certain bank subordinated debt, which included Australian banks. Moody's concluded that government policy has evolved such that systemic support for bank subordinated debt has become less probable. Following the review, NAB's Upper Tier 2 subordinated debt rating and NAB's Lower Tier 2 subordinated debt rating were downgraded.

A downgrade in the credit ratings of NAB (or any other member of the Group) or the sovereign rating of one or more of the countries in which the

Group operates or raises capital, may increase the Group's borrowing costs, limit its access to the capital markets and trigger additional collateral requirements in derivative contracts and other secured funding arrangements, which may adversely impact the Group's financial performance and position.

**(h) Changes in interest rates may impact the Group's financial performance and position**

Interest rate risk is the risk to the Group's financial performance and position caused by changes in interest rates. As interest rates and yield curves change over time, the Group may be exposed to a loss in earnings and economic value due to the interest rate profile of its balance sheet. In the banking industry, this commonly arises from the mismatch between the maturity profile of the Group's lending portfolio compared to its deposit portfolio (and other funding sources). Interest rate risk also includes the risk arising out of customers' demands for interest rate-related products with various repricing profiles. It is also possible that both short and long-term interest rates may change in a way that the Group has not correctly anticipated, and this may have an adverse impact on the Group's financial performance and position.

**(i) The Group's exposure to defined benefit pension fund risk may adversely impact its financial performance and position**

Defined benefit pension fund risk is the risk that, at any point in time, a pension scheme is in deficit (i.e. the assets available to meet pension liabilities are at a value below current and future pension scheme obligations).

The Group's principal exposure to defined benefit pension fund risk is in the United Kingdom, where its defined benefit scheme was closed to new members from 1 January 2004. As at 30 September 2013, the deficit in relation to this scheme was £197 million.

Asset values and liabilities are affected by a number of factors including, but not limited to, the discount rate used to calculate the liability net present value, the long-term inflation assumption, actuarial assumptions (including mortality rates) and the value of the

investment portfolio (which in turn is affected by a number of factors, for example, equity market conditions and bond yields). Many of these factors are outside the control of the Group.

The current deficit, and any further increase to it, may adversely impact the Group's financial performance and position as it increases the amount subsidiaries of NAB are, or may be, obliged to contribute to the scheme. Changes in the level of pension deficit result in volatility for the Group's Common Equity Tier 1 Capital position. The current deficit is, and any further deficit will be, a direct deduction from NAB's Common Equity Tier 1 Capital position.

**(j) The Group is exposed to foreign exchange and translation risk which may adversely impact its financial performance and position**

Foreign exchange and translation risk arises from the impact of changes in foreign currency exchange rates on the value of the Group's cash flows and assets and liabilities as a result of participation in the global financial markets and international operations. Foreign exchange risk also arises from the Group's ownership structure, including investment in overseas subsidiaries or associates, the financial impact of which is held in the foreign currency translation reserve (noting the impact is only taken to the profit and loss account on a disposal), and exposures from known foreign currency transactions (such as repatriation of capital and Dividends from off-shore subsidiaries). It also includes any currency positions in the banking book emanating from transactions with customers, banks and other counterparties. Any adverse movement in foreign exchange rates may adversely impact the Group's financial performance and position.

The Group has operations outside of Australia and conducts business in different currencies, mainly Australian, New Zealand and United States dollars, British pounds sterling and Euros. The Group's businesses may be affected by a change in currency exchange rates, or a full or partial break-up of the Eurozone or a change in the reserve status of any of these currencies.

The Group's financial statements are prepared and presented in Australian dollars, and any appreciation in the Australian dollar against other currencies in which the Group invests or transacts and profits may adversely impact its financial performance and position, including by reducing the net cash proceeds, in Australian dollars, of any assets or businesses sold in other currencies. Conversely, depreciation in the value of the Australian dollar relative to those currencies may magnify any losses incurred in other currencies, when expressed in Australian dollars. This may also adversely impact the Group's financial performance and position.

**(k) A material reduction in the fair value of an equity investment held by the Group may adversely impact its financial performance and position**

The Group carries equity investments in its banking book at fair value. Fair value represents mark to market valuations derived from market prices or independent valuations and methodologies. The fair value of an equity investment is impacted by various risks, including, but not limited to, economic risk, political risk, business and operational risk, legal and regulatory risk, currency risk, price risk and market risk. A material reduction in the fair value of an equity investment in the Group's banking book may adversely impact the financial performance and position of the Group.

**(l) The Group may suffer significant losses from trading activities, which may adversely impact its financial performance and position**

Traded market risk is the risk of losses arising from trading activities, including proprietary trading, undertaken by the Group as a result of adverse movements in market prices. Losses can arise from a change in the value of positions in financial instruments or their hedges, due to adverse movements in market prices (for example, interest rates, foreign exchange, commodities, equities and credit spreads). Any significant losses from such trading activities may adversely impact the Group's financial performance and position.

# Section Six:

## Key Risks of NAB CPS II

### **(m) The Group is exposed to life insurance risk, which may adversely impact its financial performance and position**

Life insurance risk is the potential for losses when life insurance claims exceed those anticipated in the premiums collected and underlying investment income earned. Life insurance risk may arise due to inadequate or inappropriate underwriting, poor business claims management, product design or pricing processes or investment profit, all of which may adversely impact the financial performance and position of the Group.

Provision for mortality and morbidity claims in the Group's life insurance businesses do not represent an exact calculation of liability, but rather are an estimate of the expected ultimate cost based on actuarial and statistical projections. Factors affecting these estimates include, but are not limited to, the trend of future claims and incidence of actual claims, unforeseen diseases or epidemics, estimates of longevity, longer than assumed recovery periods for morbidity claims and future investment returns. A change in any of these factors would necessitate a change in estimates of projected ultimate cost, and therefore may adversely impact the financial performance and position of the Group's life insurance business. In addition, insufficient provisions for such liabilities where, for example, the mortality and morbidity experience is higher than estimates, may adversely impact the financial performance and position of the Group's life insurance businesses. Currently in Australia, the life insurance industry, in which the Group is a participant, is experiencing poor lapse and claims experience, and lower underlying investment income. This may continue to adversely impact the Group's financial performance and position.

### **(n) Damage to the Group's reputation may adversely impact its financial performance and position**

Reputation risk is the possible impact of negative stakeholder opinion of the Group's actions, behaviour, performance and position. This risk may expose the Group to litigation, financial loss, a decline in customer satisfaction and customer base and overall loss of competitiveness or loss of key personnel.

Reputation risk may arise through the actions of the Group or other financial services companies, as well as its employees, suppliers, affiliates and customers and adversely affect perceptions of the Group held by the public, shareholders, investors, customers, regulators and/or rating agencies. Additionally, the impact of a risk event (for example, operational, compliance, credit or market) on the Group's reputation and brand may adversely impact the Group's financial performance and position.

### **(o) The Group is exposed to underwriting risk which may adversely impact its financial performance and position**

As financial intermediaries, members of the Group underwrite or guarantee many different types of assets, risks and outcomes, including but not limited to listed and unlisted debt, equity-linked and equity securities. The guarantee may be over the pricing and placement of these securities and the Group may therefore suffer losses if they fail to sell down some or all of this risk to other market participants.

### **(p) Certain strategic decisions may adversely impact the Group's financial performance and position**

There is a risk that the assumptions on which the Group's strategic decisions are based are, or prove to be, incorrect, that conditions underpinning the strategic decision may change, that the risks arising exceed expected and approved appetite for strategic risk or that execution of the Group's strategic initiatives proves ineffective. It is also possible that certain strategic initiatives are unable to be easily reversed once the Group has commenced or completed execution of them. These risks may adversely impact the Group's financial performance and position.

As the Group progressively implements its technology strategy (refer section 6.2.2(b)) there is a risk that on completion, technology has evolved in such a way that the Group's technology solutions may no longer achieve planned outcomes.

### **(q) The Group may undertake an acquisition or divestment that may adversely impact its financial performance and position**

The Group regularly examines a range of corporate opportunities (including acquisitions, joint ventures and divestments) with a view to assessing whether these opportunities are in line with its strategic priorities and are able to enhance its financial performance, position or prospects.

Any corporate opportunity that is pursued may change the Group's risk profile and result in possible negative sentiment and outcomes (including the Group's credit ratings being placed on negative outlook, negative watch or being downgraded). There are also risks associated with a transaction being executed at an incorrect value. This may arise through an over-valuation of the relevant business at the time of the transaction (in the case of an acquisition or joint venture), or through undervaluation (in the case of a divestment or joint venture). Risks may also arise through matters that are inherent in the business being acquired or divested, through problems with the integration of the business (including but not limited to the risk that expected synergies will not be realised, that NAB or the relevant business may lose customers, or face disruption to its operations), or in the case of divestments, through problems in separating the business from the Group. Additionally, if an acquisition is funded by the issuance of additional equity, it may be dilutive to existing shareholders. These factors may adversely impact the Group's financial performance and position, particularly when combined with negative sentiment in relation to the Group's acquisitions, joint ventures and divestments.

### **(r) There are other commercial risks that may adversely impact the Group's future prospects, including its financial performance and position**

There are a number of general commercial risks which are common to investments in most listed companies, including (but not limited to) the following risks associated with:

- New projects, including cost overruns, and delays in (or inability to achieve) revenues or cost benefits intended to flow from such new projects;
- Development of new services or technology in competition with the Group's operations;
- The level of market acceptance for the products and services provided by the Group; and
- Loss of accreditation or regulatory or other licensing for the Group's operations, causing the loss of contracts, customers or market share.

If any of these risks are realised, they may adversely impact the financial performance and position of the Group.

**(s) A failure of the Group's risk management framework and processes may adversely impact its financial performance and position**

The Group's approach to identifying, assessing, measuring, managing, reporting and governing its risks is subject to the successful application of a number of risk and control frameworks. Should these frameworks (including the assumptions on which they are based) be flawed or change, or the judgement of the people involved in their application, fail, this may adversely impact the Group's financial performance and position.

Furthermore, a series of failures in the Group's risk and control frameworks may be an underlying indicator of its risk culture which, if systemic or perceived to be systemic, may result in negative sentiment in relation to the Group's underlying value and its financial performance and position.

**6.2.3 Other risks**

The risks outlined above do not represent an exhaustive list of the risks associated with the Group. Other risks not specifically referenced in this Prospectus (including a failure to identify and convert business opportunities) may adversely impact the future financial performance and position of the Group. Accordingly, no assurances or guarantees of future performance, profitability, distributions or returns of capital are given by the Group.

Section Seven

# **Australian** Taxation Summary

# Section Seven:

## Australian Taxation Summary

The Directors  
National Australia Bank Limited  
Level 4 (UB 4440)  
800 Bourke Street  
Docklands VIC 3008

12 November 2013

Dear Directors

### Australian tax consequences of investing in NAB Convertible Preference Shares II

We have been instructed by National Australia Bank Limited (“**NAB**”) to prepare a tax summary for inclusion in the Prospectus dated on or about 12 November 2013 in relation to the issue of NAB Convertible Preference Shares (“**NAB CPS II**”).

#### 1 Scope

This letter provides a summary of the Australian income tax, capital gains tax (“**CGT**”), goods and services tax (“**GST**”) and stamp duty consequences for investors who are Australian tax residents, acquire NAB CPS II through initial subscription under this Prospectus and who hold their NAB CPS II on capital account for tax purposes (“**Resident Holders**”).

This summary does not consider the tax consequences which may arise for Holders who are in the business of trading in securities or otherwise hold NAB CPS II as trading stock or revenue assets for tax purposes, or for any Holders who are non-residents for Australian tax purposes.

This summary is based on the Australian tax law and administrative practice in force as at the date of this Prospectus. It is necessarily general in nature and is not intended to be definitive or exhaustive of the issues that may arise for particular Holders. Accordingly, each Holder should seek their own tax advice that is specific to their particular circumstances.

The representatives of Greenwood & Freehills involved in preparing this tax summary are not licensed to provide financial product advice in relation to dealing in securities. Accordingly, Greenwood & Freehills does not seek to recommend, promote or otherwise encourage any party to participate in the issue of NAB CPS II. Potential investors should consider seeking advice from a suitably qualified Australian Financial Services Licence holder before making any investment decision. Potential investors should also note that tax is only one of the matters that may need to be considered.

Unless otherwise defined, capitalised terms in this letter have the same meaning as in the Prospectus and the NAB CPS II Terms.

Greenwood & Freehills has given its consent to the inclusion of this letter in the Prospectus.

#### 2 Anticipated Class Ruling – applicable to certain Holders

NAB has applied to the Australian Taxation Office (“**ATO**”) for a class ruling (“**Class Ruling**”) confirming certain tax consequences for Resident Holders. The Class Ruling will not become operative until it is published in the Government Gazette.

When issued, copies of the Class Ruling will be available for download from the ATO’s website ([www.ato.gov.au](http://www.ato.gov.au)) and from NAB’s website ([www.nab.com.au](http://www.nab.com.au)).

It is expected that, when issued, the Class Ruling will:

- only be binding on the Commissioner of Taxation (“**Commissioner**”) if the Offer is carried out in the specific manner described in the Class Ruling;
- only apply to Holders who are Australian tax residents, acquire their NAB CPS II by initial subscription under the Prospectus and hold them on capital account for tax purposes (i.e. Resident Holders, as defined above). Accordingly, the Class Ruling will not apply to Holders who hold their NAB CPS II as trading stock or revenue assets or who are non-residents for Australian tax purposes;
- only rule on the tax laws as at the date the Class Ruling is issued;
- not consider the tax implications of a Redemption or Resale of NAB CPS II;
- not consider the tax treatment of Dividends received by partnerships or trustee investors; and
- not consider the tax implications for Resident Holders for whom gains and losses from NAB CPS II are subject to the taxation of financial arrangement (“**TOFA**”) rules in Division 230 of the Income Tax Assessment Act 1997 (Cth) (see section 4.7 of this letter). Division 230 will generally not apply to the financial arrangements of individuals, unless an election has been made for those rules to apply.

You should also be aware that the Class Ruling will not mean that the ATO guarantees or endorses the commercial viability of investing in NAB CPS II.

Subject to the above qualifications or where otherwise indicated, it is expected that the Class Ruling will confirm the tax consequences outlined in sections 3.1 to 3.5 on pages 80 to 81.

# Section Seven:

## Australian Taxation Summary

### 3 Tax consequences expected to be addressed in the Class Ruling

It is expected that the following tax consequences for Resident Holders will be addressed in the Class Ruling.

#### 3.1 Dividends and gross-up for franking credits

Dividends paid on NAB CPS II must be included in the assessable income of a Resident Holder.

Provided they are a “qualified person” in relation to a Dividend (see section 4.1 on page 80), a Resident Holder must also “gross-up” a Dividend – i.e. include the amount of any franking credits attached to the Dividend in their assessable income – and will be entitled to a tax offset for those franking credits.

To the extent that the tax offsets attributable to franking credits attached to Dividends exceeds a Resident Holder’s income tax liability for an income year, the excess tax offset may be refundable to a Resident Holder that is an individual or complying superannuation entity.

It is anticipated that the Commissioner will not seek to apply any of the anti-avoidance provisions in the tax law to deny the whole or any part of the imputation benefits received by Resident Holders in relation to Dividends.

#### 3.2 CGT cost base and acquisition date for NAB CPS II

Each Resident Holder’s CGT cost base (or reduced cost base) for each NAB CPS II they acquire should include the \$100 Issue Price of the NAB CPS II. Although not expected to be addressed in the Class Ruling, the cost base (or reduced cost base) for the NAB CPS II should also include certain non-deductible incidental costs (e.g. brokerage or advisory fees) associated with acquiring and/or disposing of NAB CPS II.

The cost base (or reduced cost base) will be relevant in determining a Resident Holder’s capital gain (or capital loss) on a subsequent disposal of NAB CPS II.

Each NAB CPS II will be taken to have been acquired by a Resident Holder on the date that the NAB CPS II are allotted to that Resident Holder (i.e. the Issue Date).

#### 3.3 Conversion of NAB CPS II

The Conversion of NAB CPS II into Ordinary Shares and the allotment of additional Ordinary Shares will not result in a CGT event occurring for a Resident Holder.

Further, the value of any additional Ordinary Shares that are allocated on a Conversion will not be assessable as a dividend or ordinary income in the hands of Resident Holders.

It is anticipated that the Commissioner will not seek to apply any of the anti-avoidance provisions in the tax law to treat any additional Ordinary Shares acquired on Conversion as an unfranked dividend in the hands of Resident Holders.

Upon Conversion, the cost base (or reduced cost base) of the Ordinary Shares allocated to a Resident Holder will be determined by apportioning their original cost base (or reduced cost base) for the NAB CPS II across all of the Ordinary Shares allocated to them, being the additional Ordinary Shares and each NAB CPS II that has been converted into an Ordinary Share.

The additional Ordinary Shares will be taken to have been acquired by a Resident Holder at the time they acquired the relevant NAB CPS II, being the Issue Date.

#### 3.4 Conversion of NAB CPS II into Ordinary Shares in a NOHC

In the event that an Approved NOHC becomes the ultimate holding company of the NAB Group, the NAB CPS II Terms may be amended to substitute the Approved NOHC as the issuer of ordinary shares in the event of a Conversion of NAB CPS II.

Such an amendment to the NAB CPS II Terms will not result in Resident Holders realising a capital gain or capital loss provided they do not receive any proceeds (and do not incur any incidental costs) as a result.

No capital gain or capital loss will arise for Resident Holders where, on a subsequent Conversion of NAB CPS II, they receive shares in the Approved NOHC (in substitution for Ordinary Shares in NAB).

For CGT purposes, Resident Holders will be taken to have acquired the Approved NOHC shares on the date of the Conversion (i.e. and not on the Issue Date of the NAB CPS II).

Resident Holders will be required to apportion their original cost base (or reduced cost base) for their NAB CPS II across all of the Approved NOHC shares that they acquire on Conversion.



### 3.5 Writing Off

In certain circumstances, NAB CPS II may be Written Off (rather than Converted) following a Loss Absorption Event.

Writing off NAB CPS II would involve a variation of the rights attaching to NAB CPS II in respect of dividends and returns of capital. Resident Holders will continue to hold their NAB CPS II. Although a Writing Off will strictly result in a CGT event occurring for Resident Holders, Resident Holders will not make a capital gain or capital loss as a result of that CGT event occurring, as there will be no capital proceeds received or incidental costs incurred by Resident Holders because of NAB CPS II being Written Off.

Although not expected to be addressed in the Class Ruling, a capital gain or capital loss will only arise, broadly speaking, when a Resident Holder disposes of their NAB CPS II or their NAB CPS II otherwise cease to exist (such as by being bought back or cancelled).

## 4 Other tax consequences for Resident Holders not expected to be addressed in the Class Ruling

The following tax consequences for Resident Holders are not expected to be addressed in the Class Ruling.

### 4.1 Qualification for franking credits on Dividends – “qualified person”

As noted in section 3.1 on page 79, a Resident Holder is only required to “gross up” a Dividend for attached franking credits, and is only entitled to a tax offset, if the Resident Holder is a “qualified person” in relation to that Dividend.

A Resident Holder will be a “qualified person” if the “holding period” rule is satisfied in respect of the Dividend.

In relation to the holding period rule, where there have been no “related payments”, the “primary qualification period” applies with the consequence that a Resident Holder must have held NAB CPS II “at risk” for a continuous period of at least 90 days (excluding the days of acquisition and disposal) within a period beginning on the day after the date on which the Resident Holder acquired the NAB CPS II and ending on the 90th day after the date on which the NAB CPS II became “ex dividend”.

Where there have been “related payments”, the “secondary qualification period” applies with the consequence that in respect of each Dividend a Resident Holder is required to hold NAB CPS II “at risk” for at least 90 days (excluding the days of acquisition and disposal) within a period beginning 90 days before and ending 90 days after the date on which NAB CPS II became “ex dividend” in relation to that particular Dividend.

Broadly speaking, the related payments rule would apply where a Resident Holder makes a payment which passes the benefit of a Dividend to another person.

Alternatively, a Resident Holder who is an individual will automatically be taken to be a qualified person in relation to Dividends if the total amount of their franking tax offsets for an income year (from all sources) is \$5,000 or less, unless they are subject to the “related payments” rule in respect of a Dividend.

In determining whether a Resident Holder has held their NAB CPS II “at risk”, all “positions” in respect of NAB CPS II must be taken into account in identifying the Holder’s “net position”, to determine whether there has been a material diminution of risk. In this regard, the Resale facility will not represent a separate “position” in relation to NAB CPS II and therefore will not affect a Resident Holder’s ability to satisfy the “at risk” requirement. It is anticipated that the Class Ruling will address this particular issue.

### 4.2 Sale of NAB CPS II

A sale of NAB CPS II by a Resident Holder on the ASX will give rise to a capital gain if the sale proceeds exceed the Resident Holder’s CGT cost base of the NAB CPS II. Conversely, a capital loss will result if the sale proceeds are less than the Resident Holder’s reduced cost base.

If NAB CPS II have been held for at least 12 months prior to the sale (excluding the days of acquisition and disposal), a Resident Holder (other than a company) may be entitled to CGT discount treatment in respect of any capital gain arising on disposal of NAB CPS II, such that a percentage of the gain is not included in their assessable income. The discount percentage is applied to the amount of the capital gain after offsetting any current year or carried forward capital losses. The discount percentages are 50% for Resident Holders who are individuals and trusts and 33 $\frac{1}{3}$ % for Resident Holders that are complying superannuation entities.

Companies are generally not entitled to the CGT discount.

# Section Seven:

## Australian Taxation Summary

### 4.3 Redemption or Resale of NAB CPS II

NAB may elect to Resell NAB CPS II in certain circumstances. For each NAB CPS II subject to a Resale, a Resident Holder will receive the Resale Price in cash (which is equal to the Issue Price) from the Nominated Purchaser. A Resale will constitute a disposal of NAB CPS II by the Resident Holder for CGT purposes. Accordingly, a Resident Holder may realise a capital gain or capital loss on such disposal to the extent that the Resale proceeds are greater or less than the Resident Holder's cost base or reduced cost base for the NAB CPS II. A Resident Holder (other than a company) may be entitled to CGT discount treatment for any capital gain, in the manner discussed in section 4.2 on page 80.

NAB may also elect to Redeem NAB CPS II in certain circumstances, in which case NAB must pay a cash amount equal to the Redemption Price. If NAB Redeems NAB CPS II, they will be redeemed, bought back, cancelled pursuant to a reduction of capital, or a combination of these things. The precise income tax consequences of a Redemption for Resident Holders would depend on the particular method of Redemption; however, broadly, it is likely that the CGT consequences would be similar to those for a Resale described above.

### 4.4 Pay-as-you-go withholding tax

Resident Holders may, if they choose, notify NAB of their tax file number ("TFN"), Australian Business Number ("ABN"), or a relevant exemption from withholding tax with respect to Dividends.

In the event that NAB is not so notified, tax will be automatically deducted at the highest marginal tax rate (including Medicare Levy) from the cash amount of the unfranked part (if any) of the Dividends. The rate of withholding is currently 46.5% but will increase to 47% from 1 July 2014.

NAB is required to withhold and remit to the ATO such tax until such time as it receives the relevant TFN, ABN or exemption notification. Resident Holders will be able to claim a tax credit/rebate (as applicable) in their tax returns in respect of any tax withheld on Dividends.

### 4.5 Goods and services tax

Resident Holders should not be liable for GST in respect of acquiring NAB CPS II, or the disposal or Conversion of NAB CPS II.

Resident Holders who are registered for GST are unlikely to be entitled to an input tax credit for any GST paid in respect of costs associated with acquiring NAB CPS II (e.g. advisory fees).

### 4.6 Stamp duty

Resident Holders should not be liable for stamp duty on the issue, sale, transfer or Conversion of NAB CPS II under applicable stamp duty law in each State and Territory of Australia, provided that they do not hold or acquire an interest of 50% or more in NAB (aggregating interests of associated persons and interests acquired under associated transactions).

### 4.7 Taxation of Financial Arrangements

The TOFA rules are contained in Division 230 of the Income Tax Assessment Act 1997 (Cth). The TOFA regime generally applies to a taxpayer's "financial arrangements" (as defined) where the taxpayer exceeds certain asset/turnover thresholds (and unless an exception applies).

For Resident Holders that are individuals, the TOFA regime should generally not apply to their investment in NAB CPS II.

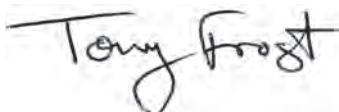
Further, for Resident Holders that are not individuals (e.g. companies or complying superannuation entities), the TOFA regime should generally not apply in respect of their investment in NAB CPS II, even if they exceed the relevant asset/turnover thresholds, unless certain specific elective regimes under TOFA have been elected into by the Resident Holder.

However, the TOFA rules are complex and Resident Holders should seek their own tax advice regarding how they will apply to their investment in NAB CPS II.

Yours faithfully

GREENWOODS & FREEHILLS PTY LIMITED

per:



Tony Frost  
Managing Director  
Greenwoods & Freehills

Section Eight

**Key People,**  
Interests and  
Benefits

# Section Eight:

## Key People, Interests and Benefits

### 8.1 Board

Director	Experience and expertise
<p><b>Mr Michael A Chaney</b> AO, BSc, MBA, Hon. LLD <i>W.Aust</i>, FAICD</p>	<p><b>Term of office:</b> Chairman since September 2005 and director since December 2004.</p> <p><b>Independent:</b> Yes</p> <p><b>Skills &amp; Experience:</b> Over 28 years of experience in a range of industries in executive, financial management and governance roles, including Managing Director and Chief Executive Officer of Wesfarmers Limited from 1992 until July 2005. Three years with investment bank Australian Industry Development Corporation, from 1980 to 1983. Eight years in petroleum exploration in Australia, Indonesia and the United States from 1972 to 1980.</p> <p><b>Directorships of listed entities within the last three years, other directorships and offices (current &amp; recent):</b></p> <ul style="list-style-type: none"> <li>• Chairman of International Education Advisory Council (since October 2011)</li> <li>• Chairman of Woodside Petroleum Ltd (since August 2007, Director since November 2005)</li> <li>• Chairman of Gresham Partners Holdings Limited (since July 2005, Director since November 1985)</li> <li>• Director of Centre for Independent Studies (since October 2000)</li> <li>• Chancellor of University of Western Australia (since December 2005)</li> <li>• Member of JP Morgan International Council (since October 2003)</li> </ul> <p><b>Board Committee membership:</b></p> <ul style="list-style-type: none"> <li>• Chairman of the Nomination Committee</li> </ul>
<p><b>Mr Cameron A Clyne</b> BA</p>	<p><b>Term of office:</b> Managing Director and Group Chief Executive Officer since January 2009.</p> <p><b>Independent:</b> No</p> <p><b>Skills &amp; Experience:</b> Over 22 years in financial services, including 12 years with PricewaterhouseCoopers (PwC), culminating in leadership of the Financial Services Industry practice in Asia Pacific, prior to the acquisition by IBM of PwC Consulting. During his consulting career he worked with many of the world's leading banks in Australia, New Zealand, the United States, Europe and Asia. He is also a director of Bank of New Zealand and Chairman of National Australia Group Europe Limited and Clydesdale Bank plc (subsidiaries of NAB). He is Co-Chair of NAB's Advisory Council on Corporate Responsibility.</p> <p><b>Directorships of listed entities within the last three years, other directorships and offices (current &amp; recent):</b></p> <ul style="list-style-type: none"> <li>• Director of The Financial Markets Foundation for Children (since April 2009)</li> <li>• Director of Australian Rugby Union Ltd (since October 2013)</li> </ul> <p><b>Board Committee membership:</b></p> <ul style="list-style-type: none"> <li>• Member of the Information Technology Committee</li> </ul>

Director	Experience and expertise
<p><b>Mr Mark A Joiner</b> ACA, MBA</p>	<p><b>Term of office:</b> Director since March 2009. Mr Joiner was appointed Group Chief Financial Officer in October 2007 and Executive Director, Finance in March 2009.</p> <p><b>Independent:</b> No</p> <p><b>Skills &amp; Experience:</b> Over 26 years in commerce, banking and finance. He originally joined NAB as a member of the Australian Executive Committee in 2006. He was appointed Group Chief Financial Officer in October 2007, from his previous position as Group Executive General Manager, New Business and Development. Prior to joining the Group he was Chief Financial Officer and Managing Director, Head of Strategy and Mergers and Acquisitions for Citigroup's Global Wealth Management business, based in New York. Before entering banking, he was with strategy consulting firm Boston Consulting Group for 17 years, working out of various Australian and United States offices. He is Chairman of JBWere Pty Limited, Invia Custodian Pty Ltd and I.C. Nominees Pty Ltd and Director of National Australia Group Europe Limited and Clydesdale Bank plc (all subsidiaries of NAB). He is Chairman of NAB's Corporate Responsibility Council and a Member of the Group's Capital and Funding Sub-Committee.</p> <p><b>Directorships of listed entities within the last three years, other directorships and offices (current &amp; recent):</b></p> <ul style="list-style-type: none"> <li>• Director of Aurora Vineyard Limited (since October 1999)</li> <li>• Member of the Founders' Board of Flora and Fauna International (since March 2010)</li> </ul>
<p><b>Mr Daniel T Gilbert</b> AM, LLB</p>	<p><b>Term of office:</b> Director since September 2004.</p> <p><b>Independent:</b> Yes</p> <p><b>Skills &amp; Experience:</b> Over 35 years of experience in commercial law. He is Managing Partner of corporate law firm Gilbert + Tobin, which he co-founded in 1988. He is also Co-Chair of National Australia Bank's Indigenous Advisory Group.</p> <p><b>Directorships of listed entities within the last three years, other directorships and offices (current &amp; recent):</b></p> <ul style="list-style-type: none"> <li>• Chairman of National Museum of Australia (since March 2009)</li> <li>• Chairman of University of Western Sydney Foundation (since January 2012)</li> </ul> <p><b>Board Committee membership:</b></p> <ul style="list-style-type: none"> <li>• Chairman of the Remuneration Committee</li> <li>• Chairman of the Information Technology Committee</li> <li>• Member of the Nomination Committee</li> </ul>

# Section Eight:

## Key People, Interests and Benefits

Director	Experience and expertise
<p><b>Dr Kenneth R Henry</b> AC, FASSA, BCom, PhD, DB h.c</p>	<p><b>Term of office:</b> Director since November 2011.</p> <p><b>Independent:</b> Yes</p> <p><b>Skills &amp; Experience:</b> Over 28 years in public service, serving in senior economic policy advisory positions to the Australian Government. He was Secretary of Treasury for 10 years from April 2001. He chaired Australia's Future Tax System Review, known as the Henry Tax Review, which was published in 2010. From June 2011 until December 2012, he was Special Advisor to the Prime Minister, with responsibility for leading the development of the White Paper on Australia in the Asian Century. He is a former member of the Board of the Reserve Bank of Australia, the Board of Taxation, the Council of Financial Regulators and the Council of Infrastructure Australia.</p> <p><b>Directorships of listed entities within the last three years, other directorships and offices (current &amp; recent):</b></p> <ul style="list-style-type: none"> <li>• Chairman of Advisory Council of the SMART Infrastructure Facility, University of Wollongong (since September 2011)</li> <li>• Chairman of The Institute of Public Policy at the Australian National University (ANU) (since July 2012)</li> <li>• Member of the Board of Reconciliation Australia (since July 2012)</li> <li>• Chairman of Sir Roland Wilson Foundation, ANU (since February 2013, Member since May 2001)</li> <li>• Director of ASX Limited (since February 2013)</li> </ul> <p><b>Board Committee membership:</b></p> <ul style="list-style-type: none"> <li>• Member of the Audit Committee</li> <li>• Member of the Nomination Committee</li> </ul>
<p><b>Mr Paul J Rizzo</b> BCom, MBA</p>	<p><b>Term of office:</b> Director since September 2004.</p> <p><b>Independent:</b> Yes</p> <p><b>Skills &amp; Experience:</b> Over 40 years of experience in banking and finance. Formerly Dean and Director of Melbourne Business School from 2000 to 2004, Group Managing Director, Finance and Administration, Telstra Corporation Limited from 1993 to 2000, senior roles at Commonwealth Bank of Australia from 1991 to 1993, Chief Executive Officer of State Bank of Victoria in 1990 and 24 years with Australia and New Zealand Banking Group Ltd from 1966 to 1990. He is a Member of the Group's Capital and Funding Sub-Committee.</p> <p><b>Directorships of listed entities within the last three years, other directorships and offices (current &amp; recent):</b></p> <ul style="list-style-type: none"> <li>• Chairman of The Defence Reform Program Board (since September 2013)</li> <li>• Chairman of the Foundation for Very Special Kids (since July 2004)</li> <li>• Chairman of The Rizzo Report Implementation Committee for Defence (since September 2011)</li> </ul> <p><b>Board Committee membership:</b></p> <ul style="list-style-type: none"> <li>• Chairman of the Risk Committee</li> <li>• Member of the Audit Committee</li> <li>• Member of the Nomination Committee</li> <li>• Member of the Information Technology Committee</li> </ul>

Director	Experience and expertise
<p><b>Ms Jillian S Segal</b> AM, BA, LLB, LLM (Harvard), FAICD</p>	<p><b>Term of office:</b> Director since September 2004.</p> <p><b>Independent:</b> Yes</p> <p><b>Skills &amp; Experience:</b> Over 20 years as a lawyer and regulator. From 1997 to 2002, she was a commissioner of ASIC and Deputy Chairman from 2000 to 2002. She was Chairman of the Banking &amp; Financial Services Ombudsman Board from 2002 to 2004. Prior to that she was an environment and corporate partner and consultant at Allen Allen &amp; Hemsley and worked for Davis Polk &amp; Wardwell in New York. She is a Member of NAB's Advisory Council on Corporate Responsibility.</p> <p><b>Directorships of listed entities within the last three years, other directorships and offices (current &amp; recent):</b></p> <ul style="list-style-type: none"> <li>• Director of ASX Limited (since July 2003)</li> <li>• Director of ASX Compliance Pty Limited (since July 2006)</li> <li>• Chairman of General Sir John Monash Foundation (since May 2010, Director since February 2008)</li> <li>• Director of The Garvan Institute of Medical Research (since June 2009)</li> <li>• Director of the Australia-Israel Chamber of Commerce (since February 2013)</li> <li>• Deputy Chancellor, University of New South Wales Council (since January 2010) and Member since February 2006</li> <li>• Member, Australian Government's Remuneration Tribunal (since April 2010)</li> </ul> <p><b>Board Committee membership:</b></p> <ul style="list-style-type: none"> <li>• Member of the Audit Committee</li> <li>• Member of the Risk Committee</li> <li>• Member of the Nomination Committee</li> </ul>
<p><b>Mr John G Thorn</b> FCA, FAICD</p>	<p><b>Term of office:</b> Director since October 2003.</p> <p><b>Independent:</b> Yes</p> <p><b>Skills &amp; Experience:</b> 37 years in professional services with PwC, over 20 years as a partner responsible for significant international and Australian clients. A member of PwC's Global Audit Management Group and Australian National Managing Partner until 2003. He is a Member of the Group's Capital and Funding Sub-Committee.</p> <p><b>Directorships of listed entities within the last three years, other directorships and offices (current &amp; recent):</b></p> <ul style="list-style-type: none"> <li>• Director of Amcor Limited (since December 2004)</li> <li>• Director of Salmat Limited (since September 2003)</li> <li>• Former Director of Caltex Australia Limited (from June 2004 to June 2013)</li> </ul> <p><b>Board Committee membership:</b></p> <ul style="list-style-type: none"> <li>• Chairman of the Audit Committee</li> <li>• Member of the Nomination Committee</li> <li>• Member of the Information Technology Committee</li> </ul>

## Section Eight:

# Key People, Interests and Benefits

Director	Experience and expertise
<p><b>Mr Geoffrey A Tomlinson</b> BEc</p>	<p><b>Term of office:</b> Director since March 2000.</p> <p><b>Independent:</b> Yes</p> <p><b>Skills &amp; Experience:</b> 29 years with the National Mutual Group, six years as Group Managing Director and Chief Executive Officer until 1998. He is Chairman of National Wealth Management Holdings Limited and other wealth subsidiaries (all subsidiaries of NAB).</p> <p><b>Directorships of listed entities within the last three years, other directorships and offices (current &amp; recent):</b></p> <ul style="list-style-type: none"> <li>• Director of Growthpoint Properties Australia Ltd (since September 2013)</li> <li>• Director, Calibre Global Limited (since May 2012)</li> <li>• Former Chairman of Programmed Maintenance Services Limited (from August 1999 to August 2011)</li> </ul> <p><b>Board Committee membership:</b></p> <ul style="list-style-type: none"> <li>• Member of the Remuneration Committee</li> <li>• Member of the Nomination Committee</li> </ul>
<p><b>Mr John A Waller</b> BCom, FCA</p>	<p><b>Term of office:</b> Director since February 2009.</p> <p><b>Independent:</b> Yes</p> <p><b>Skills &amp; Experience:</b> Over 20 years in professional services with PwC, New Zealand. His roles at PwC included being a member of the firm's New Zealand Board and leader of its Advisory division. He was also a member of the New Zealand Takeovers Panel until February 2011. In addition to a wealth of valuable corporate and financial experience, he brings to the Board a deep understanding of the New Zealand market. He is Chairman of Bank of New Zealand (a subsidiary of NAB).</p> <p><b>Directorships of listed entities within the last three years, other directorships and offices (current &amp; recent):</b></p> <ul style="list-style-type: none"> <li>• Director of Fonterra Co-operative Group Limited (since February 2009)</li> <li>• Director of Sky Network Television Limited (since April 2009)</li> <li>• Director of Alliance Group Limited (since January 2009)</li> <li>• Director of Haydn &amp; Rollett Limited (since February 2009)</li> <li>• Director of Donaghys Limited (since March 2009)</li> <li>• Director of Property for Industry Limited &amp; subsidiary (formerly Direct Property Fund Limited) (since July 2013)</li> <li>• Chairman of Eden Park Trust (since September 2009)</li> <li>• Former Director of Yealands Wine Group Limited (from November 2011 to August 2013)</li> <li>• Former Member of the Auckland Transition Agency (from 2009 to October 2011)</li> <li>• Former Member of the New Zealand Takeovers Panel (from December 2006 to February 2011)</li> </ul> <p><b>Board Committee membership:</b></p> <ul style="list-style-type: none"> <li>• Member of the Audit Committee</li> <li>• Member of the Risk Committee</li> <li>• Member of the Nomination Committee</li> </ul>



Director	Experience and expertise
<p><b>Mr Anthony K T Yuen</b> B.Soc.ScS &amp; Law</p>	<p><b>Term of office:</b> Director since March 2010.</p> <p><b>Independent:</b> Yes</p> <p><b>Skills &amp; Experience:</b> Over 39 years in international banking and finance. Prior to taking on a strategic investment management role on behalf of The Royal Bank of Scotland plc with Bank of China in 2006, he held senior executive roles, having Asia wide regional responsibility with Bank of America Corporation, National Westminster Bank plc and The Royal Bank of Scotland plc. He is a Member of NAB's Australia in Asia Management Council.</p> <p><b>Directorships of listed entities within the last three years, other directorships and offices (current &amp; recent):</b></p> <ul style="list-style-type: none"> <li>• Member of Supervisory Committee, ABF Hong Kong Bond Index Fund (since 2006)</li> </ul> <p><b>Board Committee membership:</b></p> <ul style="list-style-type: none"> <li>• Member of the Risk Committee</li> <li>• Member of the Remuneration Committee</li> <li>• Member of the Nomination Committee</li> </ul>

# Section Eight:

## Key People, Interests and Benefits

### 8.2 Interests and benefits

#### 8.2.1 Directors

The Directors' relevant interests in NAB as at the date of this Prospectus are detailed in the following table:

Director	Number of Ordinary Shares	Number of performance options over Ordinary Shares	Number of performance rights over Ordinary Shares	National Income Securities
Michael Chaney	28,373			-
Cameron Clyne	612,039		482,364	-
Mark Joiner <sup>1</sup>	476,461	70,364	182,549	5,439
Daniel Gilbert <sup>2</sup>	16,190			1,253
Kenneth Henry	2,000			-
Paul Rizzo	5,824			-
Jillian Segal	14,836			180
John Thorn	17,333			-
Geoffrey Tomlinson	42,781			350
John Waller	4,000			-
Anthony Yuen	5,059			-

Notes:

<sup>1</sup> Mr Joiner also has an interest in 3,436,509.47 units in the PIC Wholesale Horizon 5 Growth Portfolio.

<sup>2</sup> Mr Gilbert also has an interest in 2,000 NAB Subordinated Notes.

The directors from time-to-time invest in various debentures, registered schemes and securities offered by NAB and certain subsidiaries of NAB. The level of interests held directly by directors as at the date of this Prospectus are shown above.

The Directors (and their related parties) may acquire NAB CPS II offered under this Prospectus subject to the Listing Rules (including any waivers as described in Section 9). Other than as set out in this Prospectus, no Director or proposed Director holds, at the time of lodgement of this Prospectus with ASIC, or has held in the two years before lodgement of this Prospectus with ASIC, an interest in:

- The formation or promotion of NAB;
- The Offer; or
- Any property acquired or proposed to be acquired by NAB in connection with the formation or promotion of NAB or the Offer.

Other than as set out in this Prospectus, at the time of lodgement of this Prospectus with ASIC, no one has paid or agreed to pay any amount, and no one has given or agreed to give any benefit, to any Director or proposed Director:

- To induce that person to become, or qualify as, a Director; or
- For services provided by that person in connection with the formation or promotion of NAB or the Offer.

The Constitution contains provisions about the remuneration of the Directors. As remuneration for their services as Directors, the non-executive Directors are paid an amount of remuneration determined by the Board, subject to a maximum annual aggregate amount determined by Shareholders in a general meeting. The maximum annual aggregate amount approved is \$4,500,000.

Each Director may also be paid additional remuneration for performance of additional services and is entitled to reimbursement of reasonable out-of-pocket expenses. The remuneration of the Managing Director and CEO is fixed by the Board. The remuneration may consist of salary, bonuses or any other elements but must not be a commission on or percentage of operating revenue.

### 8.2.2 Interests of Advisers

NAB has acted as the Arranger and Joint Lead Manager for the Offer, and each of ANZ Securities, Deutsche Bank, Evans and Partners, Morgans and Morgan Stanley have acted as Joint Lead Managers

to the Offer, and Bell Potter and JBWere have acted as Co-Managers to the Offer, in respect of which they will receive fees from NAB. The estimated aggregate fees payable by NAB to the Arranger and Joint Lead Manager and the Joint Lead Managers are approximately \$13.2 million, based on certain assumptions in relation to the final Offer size and the allocation of NAB CPS II between the Broker Firm Offer, Institutional Offer, Securityholder Offer, and General Offer. The aggregate fees include an arranger fee payable to the Arranger and Joint Lead Manager, and the following fees payable to each Joint Lead Manager:

- a selling fee of 1.00% of the amount equal to the Issue Price multiplied by the number of NAB CPS II issued to that Joint Lead Manager and its affiliates under the Broker Firm Offer ("**Selling Fee**"); and
- a joint lead manager fee of 0.50% of the amount equal to the Issue Price multiplied by the number of NAB CPS II issued to that Joint Lead Manager and its affiliates under the Broker Firm Offer ("**JLM Fee**").

The Arranger and Joint Lead Manager will also be paid an institutional selling fee in respect of the number of NAB CPS II allocated under the Institutional Offer.

Under the terms of the OMA (see also Section 9.3), the Joint Lead Managers may pay fees on behalf of NAB to financial services licensees and representatives ("**Brokers**") for procuring subscriptions of NAB CPS II by their clients, among other things.

Under the OMA, the amount of the fee payable to a Broker by a Joint Lead Manager may not exceed the amount of the Selling Fee, unless that Broker is an affiliate of the Joint Lead Manager or a Broker approved by NAB, in which case the amount of the fee payable to that Broker by a Joint Lead Manager may not exceed the aggregate of the amount of the Selling Fee and the JLM Fee received by the Joint Lead Manager from NAB as described above.

Brokers may in turn rebate fees to other Brokers for procuring applications for NAB CPS II by their clients, among other things. The amount of the fee paid to a Broker by another Broker may not exceed the amount of the Selling Fee.

Ernst & Young has provided due diligence services on certain financial disclosures in relation to the Offer. In respect of this work, Ernst & Young will be paid approximately \$78,625 (excluding disbursements and GST) for work performed by it up until the date of this Prospectus. Further amounts may be paid to Ernst & Young in accordance with its time-based charges.

King & Wood Mallesons has acted as Australian legal adviser to NAB in relation to the Offer, assisting with the due diligence and verification program and performing due diligence on required legal matters. In respect of this work, NAB estimates that it will pay approximately \$290,000 (excluding disbursements and GST) to King & Wood Mallesons for work up to the date of this Prospectus. Further amounts may be paid to King & Wood Mallesons under its normal time based charges.

Greenwoods & Freehills has acted as Australian taxation adviser to NAB in relation to the terms and conditions of NAB CPS II in connection with the Offer and has provided the Australian Taxation Summary contained in Section 7. In respect of this work, NAB estimates that it will pay approximately \$81,818 (excluding disbursements and GST) to Greenwoods & Freehills for work up to the date of this Prospectus. Further amounts may be paid to Greenwoods & Freehills under its normal time based charges.

Except as set out in this Prospectus, no person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus, a promoter of NAB or broker to the Offer:

- Holds, at the time of lodgement of this Prospectus with ASIC, or has held in the two years before lodgement of this Prospectus with ASIC, an interest in:
  - The formation or promotion of NAB;
  - The Offer; or
  - Any property acquired or proposed to be acquired by NAB in connection with the formation or promotion of NAB or the Offer; or

# Section Eight:

## Key People, Interests and Benefits

- Has paid or agreed to pay any amount, and no one has given or agreed to give any benefit for services provided by that person, in connection with the formation or promotion of NAB or the Offer.

### 8.3 Expenses of the Offer

Assuming the Offer raises \$750 million, then the net proceeds of the Offer are expected to be \$735 million and the total expenses of the Offer (including fees and expenses payable to the Arranger and Joint Lead Manager and Joint Lead Managers, legal, accounting, tax, marketing, administrative fees, as well as printing, advertising and other expenses related to this Prospectus and the Offer) are expected to be \$15 million. The total expenses of the Offer have been, or will be, borne by NAB.

Section Nine

# **Other** Information

# Section Nine:

## Other Information

### 9.1 Rights and liabilities attaching to NAB CPS II

Appendix A sets out the rights and liabilities attaching to NAB CPS II. Further rights and liabilities attaching to NAB CPS II may also arise under the Corporations Act, the Listing Rules, the Constitution and other laws.

### 9.2 Rights and liabilities attaching to Ordinary Shares

On conversion, holders of NAB CPS II will receive Ordinary Shares. The Constitution sets out the rights and liabilities that attach to Ordinary Shares. Investors who wish to inspect the Constitution may do so at the registered address of NAB, or by requesting a copy as provided under “Availability of documents” in this section.

These rights and liabilities are also regulated by the Corporations Act, Listing Rules and the general law.

This section is a non-exhaustive summary of the main rights attaching to Ordinary Shares. They are as follows:

- The right to one vote per fully paid share at general meetings of NAB (or a fraction of a vote in proportion to the amount paid up on that Ordinary Share);
- The right to transfer the shares, in accordance with the Constitution;
- Subject to the rights of holders carrying preferred rights including NAB CPS II, the right to receive dividends in proportion to the amount paid up on that Ordinary Share, if and when they are declared;
- The right to receive information required to be distributed under the Corporations Act and Listing Rules; and
- Subject to the rights of holders carrying preferred rights including NAB CPS II, the right to participate in a surplus of assets on a winding up of NAB.

### 9.3 Summary of the Offer Management Agreement

NAB has entered into an Offer Management Agreement (“OMA”) with the Arranger and Joint Lead Manager

and the Joint Lead Managers (together, in this section, the “JLMs”).

Under the OMA, NAB has agreed to conduct the Offer in accordance with this Prospectus, the OMA, its Constitution, and all applicable laws, and the JLMs have agreed to use reasonable endeavours to procure applications for NAB CPS II.

The fees payable to the JLMs are set out in Section 8.2.2.

#### 9.3.1 Representations, warranties and undertakings

NAB gives various warranties, representations and undertakings to the JLMs, including that the documents issued or published by or on behalf of NAB in respect of the Offer comply with all applicable laws, including the Corporations Act and ASX Listing Rules.

NAB has undertaken that it will not and will procure that members of the Group do not, without the prior written consent of the JLMs, allot or agree to allot, or announce an issue of, indicate in any way that it may or will allot any ASX listed hybrid, debt or preference securities in Australia with Tier 1 or Tier 2 Capital status before that date which is 60 days after the Issue Date (but in the case of Tier 2 Capital, that undertaking only applies to allotments or issues to retail investors). This undertaking does not apply to the Offer, an employee share or option plan, a bonus share plan, a dividend reinvestment plan or an underwriting of a dividend reinvestment plan, a share purchase plan or underwriting of a share purchase plan or in accordance with the terms of issue of securities or financial products on issue as at the date of the OMA.

#### 9.3.2 Termination events

Each JLM may terminate the OMA after the occurrence of any one or more of certain events, including (the following non-exhaustive list of events):

- ASIC issues a stop order or similar proceeding in relation to the Prospectus;
- ASX does not grant its approval (other than in respect of the customary conditions), for official quotation of NAB CPS II, or the approval is

subsequently withdrawn, qualified or withheld;

- A supplementary prospectus is required under section 719 of the Corporations Act (other than a supplementary prospectus to be issued with the inclusion of the Margin);
- Either of the All Ordinaries Index of ASX or the S&P/ASX200 (“**Relevant Index**”):
  - Closes on three consecutive business days at a level that is 10% or more below the level of the Relevant Index as at the close of business on the Business Day before the date of the OMA (“**Starting Level**”); or
  - Closes at a level that is 10% or more below the Starting Level at any time in the period of 2 Business Days prior to the Issue Date; or
  - Closes at a level that is 15% or more below the Starting Level;
- NAB’s credit rating in respect of its long term senior debt is downgraded;
- Certain breaches of the OMA;
- The Ordinary Shares or any of NAB’s other listed securities are delisted or suspended from quotation;
- NAB withdraws the Prospectus or the Offer other than in accordance with the OMA;
- NAB repays any application monies or gives applicants the right to withdraw their applications in accordance with the Corporations Act; and
- An event of insolvency occurs with respect to certain material Group members.

Some of these events will only give rise to a right to terminate if the Joint Lead Manager has reasonable grounds to believe that the event has or is likely to have a material adverse effect on the success, marketing or promotion of the Offer or that the event is likely to give rise to a liability of that JLM. If this occurs, the JLM which terminates (or each JLM) will no longer be a lead manager and it will be relieved of its obligations under the OMA.

Under the OMA, if a JLM terminates, the JLM must give notice in writing to NAB and each of the other JLMs. If a JLM terminates, the remaining JLMs (other than the Arranger and Joint Lead Manager) may elect to assume the

rights and obligations of the terminating JLM in agreed proportions by providing NAB with written notice.

NAB indemnifies the JLMs and their affiliates and representatives (each an “**Indemnified Party**”) against liabilities arising in connection with the OMA, except to the extent that those liabilities resulted from the fraud, recklessness, willful misconduct or negligence of, or material breach of the OMA by, the Indemnified Party or any party associated with the JLM with which that Indemnified Party is associated (except to the extent any such conduct is caused or induced by NAB or its directors, employees or advisers, and in certain other circumstances).

## 9.4 Reporting and disclosure obligations

NAB is a disclosing entity for the purposes of the Corporations Act and is subject to regular reporting and disclosure obligations. Under its obligations under the Corporations Act and Listing Rules, NAB prepares yearly and half yearly financial statements, reports on its operations during the relevant accounting period and receives an audit from its auditor.

These documents as well as other documents lodged with ASIC may be obtained from ASIC.

Under the Listing Rules, NAB must notify ASX immediately of any information concerning it of which it becomes aware, which a reasonable person would expect to have a material effect on the price or value of its quoted securities.

Subject to certain exceptions, NAB must ensure that ASX is continuously notified of information about specific events and matters as they arise so that ASX can make the information available to the Australian securities market.

The Australian Federal Government consulted in late 2012 on draft proposals to strengthen APRA’s crisis management powers. One of the proposals is to grant APRA the power to direct entities not to disclose materially sensitive information to the market for a limited period in crisis situations. This is designed to promote financial stability.

The Australian Federal Government is yet to release an official response to the consultation process.

## 9.5 ASX Relief

ASX has classified NAB CPS II as “equity securities” for the purposes of the Listing Rules and has confirmed that:

- The Terms are appropriate and equitable for the purposes of Listing Rule 6.1;
- Listing Rule 6.3 has been waived to the extent necessary to permit NAB CPS II to carry the voting rights as set out in the Terms;
- The Terms meet the requirements of Listing Rule 6.5;
- The “Payment Condition”, potential exercise of limited amendment powers, and a Write Off following a Loss Absorption Event does not amount to a removal of a right to a Dividend for the purposes of Listing Rule 6.10;
- The divestment of NAB CPS II from Holders as a result of Conversion, Redemption or Resale is appropriate and equitable for purposes of Listing Rule 6.12;
- It does not consider NAB CPS II to be options for Listing Rule purposes;
- Under Listing Rule 7.1B.4, ASX does not object to NAB calculating the number of NAB CPS II that may be issued without prior shareholder approval by notionally converting NAB CPS II into Ordinary Shares based on the market price of Ordinary Shares at the time of issue of NAB CPS II;
- The issue of ordinary shares on conversion of NAB CPS II would fall under Listing Rule 7.2 (exception 4);
- Listing Rule 10.11 has been waived to the extent necessary to permit directors and certain related persons (being the spouses, parents, children and associates of Directors) to participate in the Offer, without shareholder approval, up to a maximum of 0.2% of the total number of NAB CPS II issued under the Offer collectively provided that:

- The participation of the Directors and certain related persons in the Offer is on the same terms and conditions as applicable to other subscribers for NAB CPS II;
- NAB releases the terms of the waiver to the market when it announces the Offer; and
- When the NAB CPS II are issued, NAB announces to the market the total number of NAB CPS II issued to Directors and their related persons in aggregate;
- The issue of Ordinary Shares on Conversion of NAB CPS II would fall within Listing Rule 10.12 (exception 7); and
- The timetable for the Offer is acceptable.

ASX has also provided in principle approval of the quotation of NAB CPS II and has agreed to allow NAB CPS II to trade on a deferred settlement basis for a short time following the issue of NAB CPS II (subject to certain conditions).

# Section Nine: Other Information

## 9.6 Consents to be named

Except as set out below, each of the parties named below as consenting parties:

- Has given and has not, before lodgment of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus in the form and context in which it is named;
- Has not made any statement in this Prospectus or any statement on which a statement made in this Prospectus is based; and
- To the maximum extent permitted by law, expressly disclaims and takes no responsibility for any statements in or omissions from this Prospectus.

Greenwoods & Freehills has given and has not, before the lodgment of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as Australian tax adviser and for the inclusion of statements by it, consisting of the Australian taxation summary in Section 7 in the form and context in which it appears in Section 7.

Ernst & Young has given and has not before the lodgment of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as auditor.

## 9.7 Availability of documents

During the Offer Period NAB will provide a copy of any of the following documents to any person upon their request:

- The annual financial report for the year ended 30 September 2012 lodged with ASIC by NAB (also available at [www.asx.com.au](http://www.asx.com.au) or at [www.nabgroup.com/annualreport](http://www.nabgroup.com/annualreport));
- Any continuous disclosure notices given by NAB since the lodgment of the financial report for the year ended 30 September 2012 and before lodgment of this Prospectus with ASIC (also available at [www.asx.com.au](http://www.asx.com.au) or at [www.nabgroup.com](http://www.nabgroup.com));
- The Constitution (also available at [www.nabgroup.com](http://www.nabgroup.com))

To request a copy of any of the above documents, send your written request to:

Company Secretary  
National Australia Bank Limited  
Level 1, 800 Bourke Street, Docklands  
Victoria, 3008

## 9.8 Personal information

If you lodge an Application, NAB (or the Registrar as NAB's agent) will collect your personal information for the purposes of:

- Processing your Application;
- Administering your NAB CPS II; and

- Letting you know about products or services from across the Group that might serve your financial, e-commerce and lifestyle needs or promotions or other opportunities in which you may be interested.

NAB may disclose this information for these purposes to its subsidiaries and relevant organisations involved in providing, managing or administering your product or service such as third party suppliers, other Group organisations, loyalty and affinity partners, printers, posting services, call centres, and our advisers. Because we operate throughout Australia and overseas, some of these uses and disclosures may occur outside your State or Territory and/or outside Australia.

If you used a financial adviser who recommended your investment in NAB CPS II (as indicated on your Application Form), NAB may disclose your personal information to that adviser and their service providers.

Where personal information is disclosed NAB will seek to ensure that the information is held, used or disclosed consistently with the Privacy Act 1988 (Cth) and any other applicable privacy laws and codes.

You can gain access to your personal information. This is subject to some exceptions allowed by law. Contact us to obtain a form requesting access or download a copy of the Personal Information – Request for Access form in PDF format at [www.nab.com.au/vgnmedia/download/Personal\\_Information\\_Request\\_For\\_Access.pdf](http://www.nab.com.au/vgnmedia/download/Personal_Information_Request_For_Access.pdf).

Company and tax laws require some of the information to be collected. You may choose not to provide your personal information or to limit the information you provide, in which case NAB may not be able to process your Application, administer your NAB CPS II, or make payments to you.

For more information on how NAB handles your personal information, please see our privacy policy at [www.nab.com.au](http://www.nab.com.au) or by calling 13 22 65 and asking us for a copy.

Role	Consenting parties
Australian legal adviser	King & Wood Mallesons
Australian tax adviser	Greenwoods & Freehills
Auditor	Ernst & Young
Arranger & Joint Lead Manager	National Australia Bank Limited
Joint Lead Managers	ANZ Securities Deutsche Bank Evans and Partners Morgans Morgan Stanley
Co-Managers	Bell Potter JBWere
Registry	Computershare Investor Services Pty Ltd



## 9.9 Acknowledgements

By submitting an Application Form, you, as Applicant, will be deemed to have:

- Represented and warranted that you have read and understood this Prospectus and accompanying Application Form in full;
- Represented and warranted that all details and statements on your Application Form are complete and accurate;
- Declared that you (if a natural person) are at least 18 years old;
- Declared that you are not in the United States or other place outside Australia or a U.S. Person, nor acting for the account or benefit of any U.S. Person;
- Declared that you are an Australian resident;
- Represented and warranted that the laws of any other place, including the restrictions set out on page 3 of this Prospectus, do not prohibit you from being given the Prospectus or any supplementary or replacement Prospectus or making an application on the Application Form or being issued with NAB CPS II;
- Provided authorisation to be registered as the holder of NAB CPS II issued to you, to become a member of NAB and agreed to be bound by NAB's Constitution, this Prospectus and the Terms of NAB CPS II;
- Applied for the number of NAB CPS II set out on or determined in accordance with the Application Form and agreed to be allocated that number of NAB CPS II or a lesser number;
- Acknowledged that NAB CPS II are not deposit liabilities of NAB, are not protected accounts for the purposes of Australian banking legislation and are not guaranteed or insured by any government or other person, give Holders no claim on NAB except as provided in the Terms, and that the investment performance of NAB CPS II is not guaranteed by NAB;
- Authorised NAB and the Joint Lead Managers to do anything on your behalf necessary for NAB CPS II to be allocated to you;
- Acknowledged that the information contained in this Prospectus is not investment advice or a recommendation that NAB CPS II are suitable for you, given your investment objectives, financial situation or particular needs;
- Acknowledged that your application to acquire NAB CPS II is irrevocable and may not be varied or withdrawn except as allowed by law;
- Acknowledged that an application may be rejected without giving any reason, including where the Application Form is not properly completed or where a cheque submitted with the Application Form is dishonoured or for the wrong amount; and
- Acknowledged that if you are not issued any NAB CPS II or issued fewer NAB CPS II than the number that you applied and paid for as a result of the scale back, all or some of your Application Monies (as applicable) will be refunded to you (without interest) as soon as practicable after the Issue Date.

## 9.10 Dealings in NAB CPS II

Subject to NAB obtaining the prior written consent of APRA, NAB or any other member of the Group may subscribe for, purchase or resell NAB CPS II from time to time.

Appendix A

# **Terms of** NAB CPS II

Issued by National Australia Bank Limited  
ABN 12 004 044 937

# Appendix A:

## Terms of the NAB CPS II

### 1 Form and Issue Price

#### 1.1 Form

The NAB CPS II are perpetual fully paid preference shares in the capital of NAB (**NAB CPS II**). They are issued, and may be Redeemed, Converted or Resold, by NAB according to these Terms.

#### 1.2 Issue Price

The **Issue Price** of each NAB CPS II is A\$100.

#### 1.3 CHESS

The NAB CPS II will be registered in CHESS. While the NAB CPS II remain in CHESS:

- (a) the rights and obligations of a person holding the NAB CPS II; and
- (b) all dealings (including transfers, transmissions and payments) in relation to the NAB CPS II within CHESS,

will be subject to and governed by the rules and regulations of CHESS (but without affecting any provisions in these Terms which affect the eligibility of the NAB CPS II as Additional Tier 1 Capital).

No certificates will be issued to Holders unless NAB determines that certificates should be available or if certificates are required by any applicable law or directive.

#### 1.4 Quotation

NAB agrees to use all reasonable endeavours to procure that the NAB CPS II are quoted on ASX until all NAB CPS II have been Converted or Redeemed.

#### 1.5 Independent obligations

Each entry in the Register constitutes a separate and individual acknowledgement to the relevant Holder of the obligations of NAB to the relevant Holder under these Terms. Without prejudice to any provision requiring a Special Resolution or an Ordinary Resolution, the Holder to whom those obligations are owed is entitled to enforce them without having to join any other Holder or any predecessor in title of a Holder.

#### 1.6 Nature of obligations

The NAB CPS II do not constitute deposit liabilities of NAB and are not protected accounts for the purposes of the Banking Act. In addition, the NAB CPS II are not guaranteed or insured by any government, Government Agency or compensation scheme of the Commonwealth of Australia or any other jurisdiction, by any member of the Group or by any other person.

## 2 Dividends

#### 2.1 Entitlement to Dividends

Subject to clause 2.6 of these Terms, each NAB CPS II entitles each person who is the Holder on a Record Date to receive on the Dividend Payment Date a cash dividend (**Dividend**) calculated according to the formula set out in clause 2.4.

#### 2.2 Dividend Payment Dates

Subject to these Terms NAB shall pay a Dividend in respect of a NAB CPS II in arrears on the following dates (each a **Dividend Payment Date**):

- (a) each 17 March, 17 June, 17 September and 17 December commencing on 17 March 2014 until (but not including) the date on which the NAB CPS II is Converted or Redeemed in accordance with these Terms; and
- (b) each date on which a Conversion, Redemption or Resale of that NAB CPS II occurs in accordance with these Terms.

If a Dividend Payment Date is a day which is not a Business Day, then the Dividend Payment Date is the next Business Day.

#### 2.3 Record Dates

A Dividend is only payable on a Dividend Payment Date to those persons registered as Holders on the Record Date for that Dividend.

#### 2.4 Calculation of Dividends on NAB CPS II

The Dividend payable in respect of each NAB CPS II on a Dividend Payment Date is calculated in accordance with the following formula:

$$\text{Dividend} = \frac{\text{Dividend Rate} \times \text{A\$100} \times \mathbf{N}}{365}$$

where **N** is the number of days in the Dividend Period.

The **Dividend Rate** (expressed as a percentage per annum) in respect of a NAB CPS II for a Dividend Period is the rate calculated according to the following formula:

$$\text{Dividend Rate} =$$

$$(\text{Bank Bill Rate} + \text{Margin}) \times (1 - \text{Tax Rate})$$

where:

**Bank Bill Rate** (expressed as a percentage per annum) means, for a Dividend Period, the average mid-rate for bills of a term of 90 days which average rate is displayed on Reuters page BBSW (or any page which replaces that page) on:

- (a) in the case of the first Dividend Period, the Issue Date; and
- (b) in the case of any other Dividend Period, the 1st Business Day of that Dividend Period;

or if there is a manifest error in the calculation of that average rate or that average rate is not displayed by 10.30am on that date, the rate specified in good faith by NAB at or around that time on that date having regard, to the extent possible, to:

- (c) the rates otherwise bid and offered for bank bills of a term of 90 days or for bank funds of that tenor displayed on Reuters page BBSW (or any page which replaces that page) at that time on that date; and
- (d) if bid and offer rates for bank bills of a term of 90 days are not otherwise available, the rates otherwise bid and offered for bank funds of that tenor at or around that time on that date,

# Appendix A:

## Terms of the NAB CPS II

(and provided that where a NAB CPS II is Resold on a day which is not a scheduled quarterly Dividend Payment Date, the Bank Bill Rate for the Dividend Period commencing on the Resale Date is the Bank Bill Rate for the Dividend Period preceding the Resale Date);

**Margin** (expressed as a percentage per annum) means, for a NAB CPS II, the margin specified in, or determined in accordance with, the Bookbuild; and

**Tax Rate** means the Australian corporate tax rate applicable to the franking account of NAB on the relevant Dividend Payment Date (expressed as a decimal).

### 2.5 Franking adjustments

If a Dividend is not franked to 100% under Part 3-6 of the Tax Act (and any provisions that revise or replace that Part), the Dividend will be calculated according to the following formula:

$$\text{Dividend} = \frac{I}{1 - [\text{Tax Rate} \times (1 - F)]}$$

Where:

**I** means the Dividend calculated under clause 2.4;

**Tax Rate** has the meaning given in clause 2.4; and

**F** means the applicable Franking Rate.

### 2.6 Conditions to payment of Dividends

A Dividend will be paid only if:

- (a) the Directors in their sole discretion resolve to pay the relevant Dividend on the relevant Dividend Payment Date; and
- (b) a Payment Condition does not exist on the relevant Dividend Payment Date.

### 2.7 Dividends are non-cumulative

Dividends are non-cumulative. If all or any part of a Dividend is not paid in full because of the restrictions in clause 2.6 or for any other reason:

- (a) NAB has no liability to pay the unpaid amount of the Dividend;

- (b) Holders have no claim or entitlement in respect of such non-payment; and

- (c) such non-payment does not constitute an event of default.

No interest accrues on any unpaid Dividends and the Holder has no claim or entitlement in respect of interest on any unpaid Dividends.

### 2.8 Restrictions in the case of non-payment

Subject to clause 2.9, if a Dividend on a NAB CPS II has not been paid in full (**Relevant Dividend**) on a Dividend Payment Date (**Relevant Dividend Payment Date**) for any reason (including because of the restrictions in clause 2.6), NAB must not unless approved by an Ordinary Resolution, until and including the Dividend Payment Date following the Relevant Dividend Payment Date:

- (a) declare, determine to pay or pay any Ordinary Share Dividend; or
- (b) undertake any Buy-Back or Capital Reduction,

unless the Relevant Dividend is paid in full within 3 Business Days of the Relevant Dividend Payment Date.

### 2.9 Exceptions to restrictions

The restrictions in clause 2.8 do not apply in connection with:

- (a) any employment contract, benefit plan or other similar arrangement with or for the benefit of any one or more employees, officers, directors or consultants of NAB or any member of the Group;
- (b) NAB or any of its Controlled Entities purchasing shares in NAB:
  - (i) in connection with transactions for the account of customers of NAB or customers of any of its Controlled Entities; or
  - (ii) subject to APRA's prior written approval, in connection with the distribution or trading of shares in NAB in the ordinary course of business.

### 2.10 Notification of Dividend, Dividend Rate and other items

- (a) In respect of each Dividend Period, NAB must:
  - (i) determine the Dividend Rate and the Dividend for that Dividend Period in respect of any NAB CPS II; and
  - (ii) notify the Registrar and ASX as soon as practicable after its determination but, in any event, no later than the 4th Business Day of the Dividend Period.
- (b) NAB must notify the Registrar and ASX at least 5 Business Days before the relevant Record Date (or, if later, as soon as it decides not to pay a Dividend) if payment of the Dividend will not be made because of clause 2.6.
- (c) NAB may amend its calculation or determination of any date, rate or amount (or make appropriate alternative arrangements by way of adjustment) including as a result of the extension or reduction of the Dividend Period or calculation period without prior notice but must notify the Registrar and ASX promptly after doing so.

## 3 Mandatory Conversion on Mandatory Conversion Date

### 3.1 Mandatory Conversion

Subject to clauses 4 and 5, on the Mandatory Conversion Date NAB must Convert all (but not some) NAB CPS II on issue at that date into Ordinary Shares in accordance with clause 7 and this clause 3.

### 3.2 Mandatory Conversion Date

The **Mandatory Conversion Date** will be the first to occur of the following dates (each a **Relevant Mandatory Conversion Date**) on which the Mandatory Conversion Conditions are satisfied:

- (a) 19 December 2022 (the **Scheduled Mandatory Conversion Date**); or

- (b) the first Dividend Payment Date after the Scheduled Mandatory Conversion Date (a **Subsequent Mandatory Conversion Date**).

### 3.3 Mandatory Conversion Conditions

The **Mandatory Conversion Conditions** for each Relevant Mandatory Conversion Date are:

- (a) the VWAP on the 25th Business Day immediately preceding (but not including) the Relevant Mandatory Conversion Date (the **First Test Date**, provided that if no trading in Ordinary Shares took place on that date, the First Test Date is the first Business Day before the 25th Business Day immediately preceding (but not including) the Relevant Mandatory Conversion Date on which trading in Ordinary Shares took place) is greater than 56% of the Issue Date VWAP (the **First Mandatory Conversion Condition**);
- (b) the VWAP during the period of 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the Relevant Mandatory Conversion Date is greater than 50.51% of the Issue Date VWAP (the **Second Mandatory Conversion Condition**); and
- (c) no Delisting Event applies in respect of the Relevant Mandatory Conversion Date (the **Third Mandatory Conversion Condition** and together with the First Mandatory Conversion Condition and the Second Mandatory Conversion Condition, the **Mandatory Conversion Conditions**).

### 3.4 Non-Conversion Notices

If:

- (a) the First Mandatory Conversion Condition is not satisfied in relation to a Relevant Mandatory Conversion Date, NAB will give notice to Holders between the 25th and the 21st Business Day before the Relevant Mandatory Conversion Date; or

- (b) the Second Mandatory Conversion Condition or the Third Mandatory Conversion Condition is not satisfied in relation to a Relevant Mandatory Conversion Date, NAB will give notice to Holders on or as soon as practicable after the Relevant Mandatory Conversion Date,

(each such notice a **Non-Conversion Notice**) that Mandatory Conversion will not (or, as the case may be, did not) occur on the Relevant Mandatory Conversion Date.

## 4 Mandatory Conversion on Loss Absorption Event

### 4.1 Loss Absorption Event

A **Loss Absorption Event** is each of:

- (a) a Common Equity Trigger Event; and
- (b) a Non-Viability Trigger Event.

### 4.2 Common Equity Trigger Event

- (a) A **Common Equity Trigger Event** occurs when either or both of the Common Equity Tier 1 Ratio in respect of the NAB Level 1 Group and the NAB Level 2 Group as determined by NAB or APRA at any time is equal to or less than 5.125%.
- (b) NAB must immediately notify APRA in writing if it makes a determination under clause 4.2(a).
- (c) If a Common Equity Trigger Event occurs, NAB must immediately convert into Ordinary Shares or write off:
  - (i) all Relevant Tier 1 Capital Instruments; or
  - (ii) a proportion of the Relevant Tier 1 Capital Instruments if APRA is satisfied that conversion or write off of that proportion will have the result that each of the Common Equity Tier 1 Ratio in respect of the NAB Level 1 Group and the Common Equity Tier 1 Ratio in respect of the NAB Level 2 Group is at a percentage above 5.125% determined by NAB for that ratio.

### 4.3 Non-Viability Trigger Event

- (a) A **Non-Viability Trigger Event** means APRA has provided a written determination to NAB that the conversion into Ordinary Shares or write off of Relevant Tier 1 Capital Instruments in accordance with their terms or by operation of law is necessary because:
  - (i) without the conversion or write off, APRA considers that NAB would become non-viable; or
  - (ii) without a public sector injection of capital into, or equivalent capital support with respect to, NAB, APRA considers that NAB would become non-viable.
- (b) If a Non-Viability Trigger Event occurs, NAB must immediately convert into Ordinary Shares or write off:
  - (i) all Relevant Tier 1 Capital Instruments; or
  - (ii) a proportion of the Relevant Tier 1 Capital Instruments if APRA is satisfied that conversion or write off of that proportion will be sufficient to ensure that NAB does not become non-viable.

### 4.4 Loss Absorption Event Conversion

- (a) On the date on which a Loss Absorption Event occurs (the **Loss Absorption Event Conversion Date**) NAB must immediately determine:
  - (i) the number of NAB CPS II that will Convert and the number of other Relevant Tier 1 Capital Instruments which will convert into Ordinary Shares or be written off (in accordance with clause 4.2 or clause 4.3, as applicable); and
  - (ii) the identity of Holders whose NAB CPS II will Convert on the Loss Absorption Event Conversion Date and in making that determination may make any decisions with respect to the identity of the Holders at that time as may be necessary or desirable to ensure Conversion occurs in an orderly manner, including disregarding any transfers of NAB CPS II that have not been settled or registered at that time.

# Appendix A:

## Terms of the NAB CPS II

- (b) If NAB is permitted, in accordance with this clause 4, to convert into Ordinary Shares a proportion of NAB CPS II and other Relevant Tier 1 Capital Instruments, NAB must endeavour to select the NAB CPS II of Holders to be converted on an approximately proportionate basis among all Holders, but may make adjustments among Holders to take account of the effect on marketable parcels and other logistical considerations, provided always that nothing in the making of the selection or the adjustments is to delay or impede the Conversion taking effect on the Loss Absorption Event Conversion Date.
- (c) Despite any other provision in these Terms, on the Loss Absorption Event Conversion Date the relevant number (as determined under this clause 4.4) of NAB CPS II will Convert immediately and irrevocably.
- (d) A Loss Absorption Event occurs immediately on the day when NAB determines or is notified by APRA of the event whether or not the day is a Business Day and NAB must perform the obligations in respect of it on that day accordingly.
- (e) None of the following shall prevent, impede or delay the Conversion of NAB CPS II as required by this clause 4.4:
- (i) any failure to convert into Ordinary Shares or write off, or delay in the conversion into Ordinary Shares or write off of, other Relevant Tier 1 Capital Instruments;
  - (ii) any failure or delay in giving a Loss Absorption Event Notice; and
  - (iii) any failure or delay in quotation of the Ordinary Shares to be issued on Conversion.
- (f) From the Loss Absorption Event Conversion Date NAB shall treat the Holder in respect of its NAB CPS II as the holder of the Conversion Number of Ordinary Shares and will take all such steps, including updating any register, required to record the Conversion.

### 4.5 Write Off following failure to Convert

Where on the Loss Absorption Event Conversion Date an Inability Event subsists and Conversion has not been effected within five days after the Loss Absorption Event Conversion Date, to the extent such event prevents NAB from Converting NAB CPS II of a Holder which, but for this clause 4.5, would be Converted, then Conversion on account of the Loss Absorption Event will not apply and those NAB CPS II will be Written Off.

**Written Off** means that, in respect of a NAB CPS II and a Loss Absorption Event Conversion Date:

- (a) the NAB CPS II will not be Converted in respect of the Loss Absorption Event Conversion Date and will not be Converted, Redeemed or Resold under these Terms on any subsequent date;
- (b) on and from the sixth day after the Loss Absorption Conversion Date the Holders are entitled (and irrevocably agree not to assert or claim any amount contrary to this agreement):
  - (i) in a winding up of NAB, in place of the Liquidation Amount, to an amount equal to the sum which would have been paid in respect of the NAB CPS II out of the surplus available to shareholders in a winding up as if the NAB CPS II were the Conversion Number of Ordinary Shares; and
  - (ii) in place of Dividends payable under clause 2 but subject to clauses 2.6, 2.7, 15.1, 15.2 and to the requirements of APRA applicable to the payment of dividends on Ordinary Shares, to a non-cumulative dividend in respect of the NAB CPS II payable if and when a dividend is paid on Ordinary Shares, in an amount determined as if the NAB CPS II were the Conversion Number of Ordinary Shares, in each case with that Conversion Number (the Fixed Conversion Number) being finally determined as if the NAB CPS II had Converted on the Loss Absorption Event Conversion Date (and subject

always to such number not exceeding the Maximum Conversion Number); and

- (c) on and from the sixth day after the Loss Absorption Event Conversion Date clauses 2.1, 2.2, 2.3, 2.4, 2.5, 2.8, 2.9, 3, 4 (other than this clause 4.5 and any other provisions in clause 4 required to give effect to this clause 4.5), 5, 6, 7, 8, 9, 10, 11, 12 and 19 will no longer apply in respect of that NAB CPS II.

### 4.6 Loss Absorption Event Notice

As soon as practicable following the occurrence of a Loss Absorption Event, NAB must give notice of the Loss Absorption Event (a **Loss Absorption Event Notice**) to the Registrar, ASX and the Holders which states the Loss Absorption Event Conversion Date, the number of NAB CPS II Converted or Written Off and the relevant number of Relevant Tier 1 Capital Instruments converted into Ordinary Shares or written off.

### 4.7 Priority of Conversion obligations

- (a) Conversion on account of the occurrence of a Loss Absorption Event is not subject to the matters described in clause 3.3 as Mandatory Conversion Conditions.
- (b) Conversion required on account of a Loss Absorption Event takes place on the date, and in the manner, required by clause 4.4, notwithstanding any other provision for Conversion, Redemption or Resale in these Terms.
- (c) In the event of any conflict between the requirements of clauses 4.3 and 4.2, clause 4.3 prevails.

## 5 Mandatory Conversion on Acquisition Event

### 5.1 Conversion on occurrence of Acquisition Event

If an Acquisition Event occurs, NAB must Convert all (but not some only) NAB CPS II on the Acquisition Conversion Date by notice (an **Acquisition Conversion Notice**) to the Registrar, ASX and the Holders in accordance with this clause 5 and clause 7.

### 5.2 Acquisition Conversion Notice

Subject to clause 5.3, NAB must give an Acquisition Conversion Notice to the Registrar, ASX and the Holders as soon as practicable and in any event within 10 Business Days after becoming aware of an Acquisition Event.

An Acquisition Conversion Notice must specify:

- (a) the details of the Acquisition Event to which the Acquisition Conversion Notice relates;
- (b) the date on which Conversion is to occur (the **Acquisition Conversion Date**), which must be:
  - (i) the Business Day prior to the date reasonably determined by NAB to be the last date on which holders of Ordinary Shares are likely to be able to participate in the bid or scheme concerned or such other earlier date as NAB may reasonably determine having regard to the timing for implementation of the bid or scheme concerned; or
  - (ii) such later date as APRA may require; and
- (c) whether any Dividend will be paid in respect of the NAB CPS II on the Acquisition Conversion Date.

### 5.3 Where Acquisition Conversion Notice not required

Notwithstanding any provision of clause 5.1 or clause 5.2, NAB is not required to give an Acquisition Conversion Notice if either or both of the Optional Conversion Restrictions would apply if the Acquisition Conversion Notice were an Optional Conversion Notice under clause 6 and in this case the provisions of clause 5.4 will apply.

### 5.4 Deferred Conversion on Acquisition Event

If clause 5.3 applies or NAB has given an Acquisition Conversion Notice but, if the Acquisition Conversion Date were a Relevant Mandatory Conversion Date for the purposes of clause 3.2, either the Second Mandatory Conversion Condition (applied as if it referred to 20.20% of the Issue Date VWAP) or the Third Mandatory Conversion Condition

would not be satisfied in respect of that date, then notwithstanding any other provision of these Terms (but without limitation to the operation of clause 4.7):

- (a) the Acquisition Conversion Notice, if given, is taken to be revoked and Conversion will not occur on the Acquisition Conversion Date specified in the Acquisition Conversion Notice;
- (b) NAB will notify the Holders as soon as practicable that Conversion will not (or, as the case may be, did not) occur (a **Deferred Acquisition Conversion Notice**); and
- (c) NAB must, unless clause 5.3 then applies, give an Acquisition Conversion Notice (or, as the case may be, a new Acquisition Conversion Notice) on or before the 25th Business Day prior to the immediately succeeding Dividend Payment Date which is at least 25 Business Days after the date on which the Deferred Acquisition Conversion Notice was given.

The Acquisition Conversion Notice given in accordance with paragraph (c) above must comply with the requirements in clause 5.2.

If this clause 5.4 applies but:

- (i) clause 5.3 applies in respect of the Dividend Payment Date referred to in paragraph (c) such that no Acquisition Conversion Notice (or, as the case may be, no new Acquisition Conversion Notice) is given under this clause 5.4; or
- (ii) an Acquisition Conversion Notice (or, as the case may be, a new Acquisition Conversion Notice) is given under this clause 5.4 but, if the Acquisition Conversion Date specified in the Acquisition Conversion Notice were a Relevant Mandatory Conversion Date for the purpose of clause 3.2, either the Second Mandatory Conversion Condition (applied as if it referred to 20.20% of the Issue Date VWAP) or the Third Mandatory Conversion Condition would not be satisfied in respect of that date, then this clause 5.4 will be reapplied in respect of each subsequent

scheduled quarterly Dividend Payment Date until a Conversion occurs.

## 6 Optional Conversion

### 6.1 Optional Conversion by NAB

NAB may, with APRA's prior written approval, by notice to the Registrar, ASX and the Holders (an **Optional Conversion Notice**) elect to Convert

- (a) all or some NAB CPS II on an Optional Conversion Date following the occurrence of a Tax Event or a Regulatory Event;
- (b) all or some NAB CPS II on an Optional Conversion Date following the occurrence of a Potential Acquisition Event; or
- (c) all or some NAB CPS II on 17 December 2020.

*Holders should not expect that APRA's approval will be given for a Conversion of NAB CPS II under these Terms.*

### 6.2 When an Optional Conversion Notice may be given

An Optional Conversion Notice under this clause 6 may be given:

- (a) in the case of clause 6.1(a), on any day following the occurrence of the Tax Event or Regulatory Event (as applicable) provided that an Optional Conversion Notice cannot be given in the period of 20 Business Days preceding (and not including) a Relevant Mandatory Conversion Date where the First Mandatory Conversion Condition has been met in respect of that Relevant Mandatory Conversion Date;
- (b) in the case of clause 6.1(b), on any day following the occurrence of the Potential Acquisition Event;
- (c) in the case of clause 6.1(c), no earlier than 50 Business Days and no later than 25 Business Days before 17 December 2020.

Subject to clause 4.7, an Optional Conversion Notice once given is irrevocable.

# Appendix A:

## Terms of the NAB CPS II

### 6.3 Contents of Optional Conversion Notice

An Optional Conversion Notice must specify:

- (a) in the case of clause 6.1(a) or clause 6.1(b), the details of the Tax Event, Regulatory Event or Potential Acquisition Event to which the Optional Conversion Notice relates;
- (b) the date on which Conversion is to occur (the **Optional Conversion Date**) which:
  - (i) in the case of a Tax Event or a Regulatory Event, is the Next Dividend Payment Date, unless NAB determines an earlier date having regard to the best interests of Holders as a whole and the relevant event; or
  - (ii) in the case of a Potential Acquisition Event, is:
    - (A) the Business Day prior to the date reasonably determined by NAB to be the last date on which holders of Ordinary Shares can participate in the bid or scheme concerned; or
    - (B) such other earlier date as NAB may reasonably determine having regard to the timing for implementation of the bid or scheme concerned; or
    - (C) such later date as APRA may require; or
  - (iii) in the case of clause 6.1(c), is 17 December 2020;
- (c) if less than all NAB CPS II are subject to Conversion, the proportion of the NAB CPS II that are to be Converted; and
- (d) whether any Dividend will be paid in respect of the NAB CPS II to be Converted on the Optional Conversion Date.

### 6.4 Restrictions on election of Conversion

NAB may not elect to Convert the NAB CPS II under this clause 6 if:

- (a) on the 2nd Business Day before the date on which an Optional Conversion Notice is to be sent by NAB (or, if trading in Ordinary Shares

did not occur on that date, the last Business Day prior to that date on which trading in Ordinary Shares occurred) (the **Non-Conversion Test Date**) the VWAP on that date is less than or equal to 22.50% of the Issue Date VWAP (the **First Optional Conversion Restriction**); or

- (b) a Delisting Event applies in respect of the Non-Conversion Test Date (the **Second Optional Conversion Restriction** and together with the First Optional Conversion Restriction, the **Optional Conversion Restrictions**).

### 6.5 Deferred Conversion on Optional Conversion Date

If NAB has given an Optional Conversion Notice but, if the Conversion Date were a Relevant Mandatory Conversion Date for the purposes of clause 3.2, either the Second Mandatory Conversion Condition (applied as if it referred to 20.20% of the Issue Date VWAP) or the Third Mandatory Conversion Condition would not be satisfied in respect of that date, then, notwithstanding any other provision of these Terms:

- (a) the Optional Conversion Date will be deferred until the first Dividend Payment Date on which the Mandatory Conversion Conditions would be satisfied if that Dividend Payment Date were a Relevant Mandatory Conversion Date for the purposes of clause 3.2 (the Deferred Conversion Date);
- (b) NAB must Convert the NAB CPS II on the Deferred Conversion Date (unless the NAB CPS II are Converted, Redeemed or Resold earlier in accordance with these Terms); and
- (c) until the Deferred Conversion Date, all rights attaching to the NAB CPS II will continue as if the Optional Conversion Notice had not been given.

NAB will notify the Holders on or as soon as practicable after an Optional Conversion Date in respect of which this clause 6.5 applies that Conversion did not occur on that Conversion Date.

## 7 Conversion mechanics

### 7.1 Conversion

If NAB elects to Convert NAB CPS II (with APRA's prior written approval) or must Convert NAB CPS II in accordance with these Terms, then, subject to this clause 7, the following provisions shall apply:

- (a) each NAB CPS II that is being Converted will Convert into one Ordinary Share on the Conversion Date; and
- (b) each Holder will be allotted, for no additional consideration, an additional number of Ordinary Shares for each NAB CPS II that is being Converted on the Conversion Date equal to one less than the Conversion Number, where the **Conversion Number** is the lesser of the number calculated according to the following formula and the Maximum Conversion Number:

**Issue Price**

99% x VWAP

where:

**VWAP** (expressed in dollars and cents) means the VWAP during the VWAP Period;

**Maximum Conversion Number** means a number calculated according to the following formula:

$$\text{Maximum Conversion Number} = \frac{\text{Issue Price}}{(\text{Issue Date VWAP} \times \text{Relevant Fraction})}$$

where:

**Relevant Fraction** means:

- (A) if Conversion is occurring on a Mandatory Conversion Date, 0.5; and
- (B) if Conversion is occurring for any other reason, 0.2.
- (c) if the total number of additional Ordinary Shares to be allotted to a Holder in respect of their aggregate holding of NAB CPS II upon Conversion includes a fraction of an Ordinary Share, that fraction of an Ordinary Share will be disregarded; and



(d) a NAB CPS II, upon Conversion, confers all of the rights attaching to one Ordinary Share but these rights do not take effect until 5.00pm Sydney time on the Mandatory Conversion Date, Acquisition Conversion Date or the Optional Conversion Date (as the case may be) or, in the case of a Conversion on the Loss Absorption Conversion Date, the time at which such Conversion occurs on that date. At that time:

- (i) all other rights conferred or restrictions imposed on that NAB CPS II under these Terms will no longer have effect (except for rights relating to a Dividend which has been determined to be payable but has not been paid on or before the Conversion Date, the Loss Absorption Event Conversion Date, the Optional Conversion Date or the Acquisition Conversion Date (as the case may be), which rights will continue); and
- (ii) the Ordinary Share resulting from the Conversion will rank equally with all other Ordinary Shares.

Conversion does not constitute a redemption, buy-back, cancellation or termination of NAB CPS II or an issue, allotment or creation of a new Ordinary Share (other than under clause 7.1(b)).

### 7.2 Adjustments to VWAP

For the purposes of calculating the VWAP in these Terms:

- (a) where, on some or all of the Business Days in the relevant VWAP Period, Ordinary Shares have been quoted on ASX as cum dividend or cum any other distribution or entitlement and NAB CPS II will Convert into Ordinary Shares after the date those Ordinary Shares no longer carry that dividend or any other distribution or entitlement, then the VWAP on the Business Days on which those Ordinary Shares have been quoted cum dividend or cum any other distribution or entitlement shall be reduced by an amount (the **Cum Value**) equal to:

(i) (in case of a dividend or other distribution), the amount of that dividend or other distribution including, if the dividend or other distribution is franked, the amount that would be included in the assessable income of a recipient of the dividend or other distribution who is both a resident of Australia and a natural person under the Tax Act;

(ii) (in the case of any other entitlement that is not a dividend or other distribution under clause 7.2(a)(i) which is traded on ASX on any of those Business Days), the volume weighted average sale price of all such entitlements sold on ASX during the VWAP Period on the Business Days on which those entitlements were traded; or

(iii) (in the case of any other entitlement which is not traded on ASX during the VWAP Period), the value of the entitlement as reasonably determined by the Directors; and

- (b) where, on some or all of the Business Days in the VWAP Period, Ordinary Shares have been quoted on ASX as ex dividend or ex any other distribution or entitlement, and NAB CPS II will Convert into Ordinary Shares in respect of which the relevant dividend or other distribution or entitlement would be payable, the VWAP on the Business Days on which those Ordinary Shares have been quoted ex dividend or ex any other distribution or entitlement shall be increased by the Cum Value.

### 7.3 Adjustments to VWAP for divisions and similar transactions

- (a) Where during the relevant VWAP Period there is a change in the number of Ordinary Shares on issue as a result of a Reorganisation, in calculating the VWAP for that VWAP Period the VWAP on each Business Day in the relevant VWAP Period which falls before the date on which trading in Ordinary Shares is conducted on a post Reorganisation basis shall be adjusted by the following formula:

$$\frac{A}{B}$$

where:

**A** means the aggregate number of Ordinary Shares immediately before the Reorganisation; and

**B** means the aggregate number of Ordinary Shares immediately after the Reorganisation.

- (b) Any adjustment made by NAB in accordance with clause 7.3(a) will be effective and binding on Holders under these Terms and these Terms will be construed accordingly. Any such adjustment must be promptly notified to the Holders.

### 7.4 Adjustments to Issue Date VWAP

For the purposes of determining the Issue Date VWAP, adjustments to the VWAP will be made in accordance with clauses 7.2 and 7.3 during the VWAP Period for the Issue Date VWAP. On and from the Issue Date, adjustments to the Issue Date VWAP:

- (a) may be made in accordance with clauses 7.5 to 7.7 (inclusive); and
- (b) if so made, will correspondingly:
  - (i) affect the application of the Mandatory Conversion Conditions and the Optional Conversion Restrictions; and
  - (ii) cause an adjustment to the Maximum Conversion Number.

### 7.5 Adjustments to Issue Date VWAP for bonus issues

- (a) Subject to clause 7.5(b), if NAB makes a pro rata bonus issue of Ordinary Shares to holders of Ordinary Shares generally, the Issue Date VWAP will be adjusted in accordance with the following formula:

$$V = V_0 \times \frac{RD}{RD + RN}$$

where:

**V** means the Issue Date VWAP applying immediately after the application of this formula;

# Appendix A:

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**V<sub>o</sub>** means the Issue Date VWAP applying immediately prior to the application of this formula;

**RD** means the number of Ordinary Shares on issue immediately prior to the allotment of new Ordinary Shares pursuant to the bonus issue; and

**RN** means the number of Ordinary Shares issued pursuant to the bonus issue.

- (b) Clause 7.5(a) does not apply to Ordinary Shares issued as part of a bonus share plan, employee or executive share plan, executive option plan, share top up plan, share purchase plan or a dividend reinvestment plan.
- (c) For the purpose of clause 7.5(a), an issue will be regarded as a pro rata issue notwithstanding that NAB does not make offers to some or all holders of Ordinary Shares with registered addresses outside Australia, provided that in so doing NAB is not in contravention of the ASX Listing Rules.
- (d) No adjustments to the Issue Date VWAP will be made under this clause 7.5 for any offer of Ordinary Shares not covered by clause 7.5(a), including a rights issue or other essentially pro rata issue.
- (e) The fact that no adjustment is made for an issue of Ordinary Shares except as covered by clause 7.5(a) shall not in any way restrict NAB from issuing Ordinary Shares at any time on such terms as it sees fit nor be taken to constitute a modification or variation of rights or privileges of Holders or otherwise requiring any consent or concurrence.

### 7.6 Adjustment to Issue Date VWAP for divisions and similar transactions

- (a) If at any time after the Issue Date there is a change in the number of Ordinary Shares on issue as a result of a Reorganisation, NAB shall adjust the Issue Date VWAP by multiplying the Issue Date VWAP applicable on the Business Day immediately before the date of any such Reorganisation by the following formula:

$$\frac{A}{B}$$

where:

**A** means the aggregate number of Ordinary Shares immediately before the Reorganisation; and

**B** means the aggregate number of Ordinary Shares immediately after the Reorganisation.

- (b) Any adjustment made by NAB in accordance with clause 7.6(a) will be effective and binding on Holders under these Terms and these Terms will be construed accordingly.
- (c) Each Holder acknowledges that NAB may consolidate, divide or reclassify securities so that there is a lesser or greater number of Ordinary Shares at any time in its absolute discretion without any such action constituting a modification or variation of rights or privileges of Holders or otherwise requiring any consent or concurrence.

### 7.7 No adjustment to Issue Date VWAP in certain circumstances

Despite the provisions of clauses 7.5 and 7.6, no adjustment shall be made to the Issue Date VWAP where such adjustment (rounded if applicable) would be less than one percent of the Issue Date VWAP then in effect.

### 7.8 Announcement of adjustments

NAB will notify the Registrar, ASX and the Holders (an **Adjustment Notice**) of any adjustment to the Issue Date VWAP under this clause 7 within 10 Business Days of NAB determining the adjustment.

### 7.9 Ordinary Shares

Each Ordinary Share issued or arising upon Conversion ranks equally with all other fully paid Ordinary Shares.

### 7.10 Foreign Holders

Where NAB CPS II held by a Foreign Holder are to be Converted, unless NAB is satisfied that the laws of the Foreign Holder's country of residence permit the issue of Ordinary Shares to the Foreign Holder (but as to which NAB is not bound to enquire), either unconditionally or after compliance with conditions which

NAB in its absolute discretion regards as acceptable and not unduly onerous, the Ordinary Shares which the Foreign Holder is obliged to accept will be issued to a nominee (which must not be NAB or any Related Entity of NAB) for no additional consideration and on terms that, at the first reasonable opportunity to sell the Ordinary Shares, the nominee will arrange for their sale and pay to the relevant Foreign Holder on a date determined by the nominee a cash amount equal to the Attributable Proceeds of the relevant Foreign Holder. The issue of Ordinary Shares to the nominee will satisfy all obligations of NAB in connection with the Conversion, the NAB CPS II will be deemed Converted and will be dealt with in accordance with clause 7.1 and, on and from the issue of Ordinary Shares, the rights of a Holder the subject of this clause 7.10 are limited to its rights in respect of the Ordinary Shares or the Attributable Proceeds as provided in this clause 7.10.

### 7.11 Listing Ordinary Shares issued on Conversion

NAB shall use all reasonable endeavours to list the Ordinary Shares issued upon Conversion of NAB CPS II on ASX.

### 7.12 Failure to Convert (other than on account of a Loss Absorption Event)

If on a Conversion Date (other than a Loss Absorption Event Conversion Date), an Ordinary Share is not issued or delivered in respect of a NAB CPS II, that NAB CPS II remains on issue (and will continue to entitle the Holder to Dividends in accordance with clause 2) until the Ordinary Share is issued to the Holder (which date shall be the Conversion Date in respect of that NAB CPS II) or the NAB CPS II is Redeemed (which date shall be the Redemption Date in respect of that NAB CPS II) or Resold (which date shall be the Resale Date in respect of that NAB CPS II), and a Holder shall have no claim in respect of that failure other than for specific performance of the obligation to issue or deliver the Ordinary Shares. This clause 7.12 does not affect the obligation of NAB to issue or deliver the Ordinary Shares when required in accordance with these Terms.

### 7.13 Conversion where the Holder does not wish to receive Ordinary Shares

If NAB CPS II of a Holder are required to be Converted and the Holder has notified NAB that it does not wish to receive Ordinary Shares as a result of Conversion, which notice may be given by the Holder at any time on or after the Issue Date and no less than 15 Business Days prior to the Conversion Date then, on the Conversion Date, the Holder's rights (including to payment of Dividends) in relation to each such NAB CPS II being Converted are immediately and irrevocably terminated and NAB will issue the Conversion Number of Ordinary Shares to a nominee (which must not be NAB or any Related Entity of NAB) for no additional consideration and on terms that, at the first reasonable opportunity to sell the Ordinary Shares, the nominee will arrange for their sale and pay to the relevant Holder on a date determined by the nominee a cash amount equal to the Attributable Proceeds of the relevant Holder. The issue of Ordinary Shares to the nominee will satisfy all obligations of NAB in connection with the Conversion, the NAB CPS II will be deemed Converted and will be dealt with in accordance with clause 7.1 and, on and from the issue of Ordinary Shares, the rights of a Holder the subject of this clause 7.13 are limited to its rights in respect of the Ordinary Shares or the Attributable Proceeds as provided in this clause 7.13.

If Conversion is occurring because of the occurrence of a Loss Absorption Event and the Conversion fails to take effect and NAB is not otherwise able to issue Ordinary Shares to the nominee within five days, then clause 4.5 will apply.

## 8 Optional Redemption

### 8.1 Optional Redemption by NAB

NAB may, with APRA's prior written approval, by notice to the Registrar, ASX and the Holders (an **Optional Redemption Notice**), elect to Redeem:

- (a) all or some NAB CPS II on a Redemption Date following the occurrence of a Tax Event or a Regulatory Event; or

- (b) all or some NAB CPS II on 17 December 2020.

*Holders should not expect that APRA's approval will be given for any Redemption of NAB CPS II under these Terms.*

### 8.2 When Optional Redemption Notice may be given

An Optional Redemption Notice under this clause 8 may be given:

- (a) in the case of clause 8.1(a), on any day following the occurrence of the Tax Event or Regulatory Event (as applicable) provided that an Optional Redemption Notice cannot be given in the period of 20 Business Days preceding (and not including) a Relevant Mandatory Conversion Date where the First Mandatory Conversion Condition has been met in respect of that Relevant Mandatory Conversion Date; and
- (b) in the case of clause 8.1(b), no earlier than 50 Business Days and no later than 15 Business Days before 17 December 2020.

Subject to clause 4.7, an Optional Redemption Notice once given is irrevocable.

### 8.3 Contents of Optional Redemption Notice

An Optional Redemption Notice must specify:

- (a) in the case of clause 8.1(a), the details of the Tax Event or Regulatory Event to which the Optional Redemption Notice relates;
- (b) the date on which Redemption is to occur (the **Redemption Date**), which:
  - (i) in the case of a Tax Event or a Regulatory Event, is the Next Dividend Payment Date, unless NAB determines an earlier Redemption Date having regard to the best interests of Holders as a whole and the relevant event; or
  - (ii) in the case of clause 8.1(b), 17 December 2020;

- (c) if less than all NAB CPS II are subject to Redemption, the proportion of the NAB CPS II that are to be Redeemed;
- (d) the Redemption Price and whether the Redemption Price is payable by way of redemption, buy-back or reduction of capital (or a combination of these methods); and
- (e) whether any Dividend will be paid in respect of the NAB CPS II to be Redeemed on the Redemption Date.

### 8.4 Restrictions on election by NAB of Redemption

NAB may only elect to Redeem the NAB CPS II if APRA is satisfied that either:

- (a) NAB CPS II the subject of the Redemption are replaced concurrently or beforehand with Tier 1 Capital of the same or better quality and the replacement of the instrument is done under conditions that are sustainable for NAB's income capacity; or
- (b) the Group's capital position will remain adequate after NAB elects to Redeem the NAB CPS II.

## 9 Redemption mechanics

### 9.1 Redemption mechanics to apply to Redemption

If, subject to APRA's prior written approval and compliance with the conditions in clause 8.4, NAB elects to Redeem a NAB CPS II in accordance with these Terms, the provisions of this clause 9 apply to that Redemption.

### 9.2 Redemption

NAB CPS II will be Redeemed by payment on the Redemption Date of an amount equal to the Issue Price together with any amount payable under clause 9.3(a)(iii) (together, the **Redemption Price**) by way of redemption, buy-back, reduction of capital or any combination thereof to the Holder.

### 9.3 Effect of Redemption on Holders

On the Redemption Date the only right Holders will have in respect of NAB CPS II will be to obtain the Redemption Price payable in accordance with these Terms and upon payment of the Redemption Price, all other rights

# Appendix A:

## Terms of the NAB CPS II

conferred, or restrictions imposed, by NAB CPS II will no longer have effect.

For the purposes of clause 9:

- (a) where the Redemption involves a buy-back of NAB CPS II:
  - (i) the Optional Redemption Notice constitutes a buy-back offer for the Redemption Price payable on the relevant Redemption Date;
  - (ii) the Holder must accept the buy-back offer for their NAB CPS II and will be deemed to have accepted that buy-back offer for NAB CPS II held by that Holder to which the Optional Redemption Notice relates on the date the Redemption Notice is given and will be deemed to have sold those NAB CPS II to NAB free of all Encumbrances on the Redemption Date;
  - (iii) no Dividend is payable on NAB CPS II on the Redemption Date, but the Directors may, in their absolute discretion, determine that the consideration payable for each NAB CPS II that is bought back will include an amount (in addition to the Issue Price) equal to a Dividend calculated in accordance with clause 2 for the Dividend Period ending on (but not including) the Redemption Date;
  - (iv) the buy-back agreement will be taken to include NAB's undertaking in clause 2.8 (as qualified by clause 2.9);
  - (v) for the purposes of calculating the Redemption Price, any suspension of the right to receive a Dividend arising from the buy-back agreement under applicable law shall be disregarded; and
- (b) if the Redemption involves either or both a reduction of capital with respect to NAB CPS II and a cancellation of NAB CPS II and under applicable law Holders are entitled to vote on a resolution to approve that reduction of capital or that cancellation, each Holder agrees to vote in favour of that or those resolutions.

### 10 Optional Resale

#### 10.1 Optional Resale by NAB

NAB may, with APRA's prior written approval, by notice to the Registrar, ASX and the Holders (an **Optional Resale Notice**), elect to Resell:

- (a) all or some NAB CPS II on a Resale Date following the occurrence of a Tax Event or a Regulatory Event; or
- (b) all or some NAB CPS II on 17 December 2020.

*Holders should not expect that APRA's approval will be given for any Resale of NAB CPS II under these Terms.*

#### 10.2 When Optional Resale Notice may be given

An Optional Resale Notice under this clause 10 may be given:

- (a) in the case of clause 10.1(a), on any day following the occurrence of the Tax Event or Regulatory Event (as applicable) provided that an Optional Resale Notice cannot be given in the period of 20 Business Days preceding (and not including) a Relevant Mandatory Conversion Date where the First Mandatory Conversion Condition has been met in respect of that Relevant Mandatory Conversion Date; or
- (b) in the case of clause 10.1(b), no earlier than 50 Business Days and no later than 15 Business Days before 17 December 2020.

Subject to clause 4.7, an Optional Resale Notice once given is irrevocable.

#### 10.3 Contents of Optional Resale Notice

An Optional Resale Notice must specify:

- (a) in the case of clause 10.1(a), the details of the Tax Event or Regulatory Event to which the Optional Resale Notice relates;
- (b) the date on which Resale is to occur (the **Resale Date**), which:
  - (i) in the case of a Tax Event or a Regulatory Event, is the Next Dividend Payment Date, unless NAB determines an earlier Resale

Date having regard to the best interests of Holders as a whole and the relevant event; or

- (ii) in the case of clause 10.1(b), 17 December 2020;
- (c) if less than all NAB CPS II are subject to Resale, the proportion of the NAB CPS II that are to be Resold;
- (d) the identity of the Nominated Purchasers for that Resale and the Resale Price; and
- (e) whether any Dividend will be paid in respect of the NAB CPS II to be Resold on the Resale Date.

### 11 Resale mechanics

#### 11.1 Resale mechanics

If NAB elects to Resell NAB CPS II in accordance with these Terms, the provisions of this clause 11 apply to that Resale.

#### 11.2 Appointment of Nominated Purchaser

NAB must appoint one or more Nominated Purchasers for the Resale on such terms as may be agreed between NAB and the Nominated Purchasers. If NAB appoints more than one Nominated Purchaser in respect of a Resale, all or any of the NAB CPS II held by a Holder which are being Resold may be purchased by any one or any combination of the Nominated Purchasers, as determined by NAB for the Resale Price.

#### 11.3 Identity of Nominated Purchasers

NAB may not appoint a person as a Nominated Purchaser unless that person is not NAB or any Related Entity of NAB.

#### 11.4 Irrevocable offer to sell NAB CPS II

Each Holder on the Resale Date is taken irrevocably to offer to sell NAB CPS II the subject of an Optional Resale Notice to the Nominated Purchaser or Nominated Purchasers on the Resale Date for the Resale Price.

#### 11.5 Effect of Resale

On the Resale Date subject to payment by the Nominated Purchaser of the Resale Price to the Holders, all right, title and interest in such NAB CPS II (excluding the right to any Dividend payable on that

date) will be transferred to the Nominated Purchaser free from Encumbrances.

### **11.6 Effect of failure by Nominated Purchaser or Nominated Purchasers to pay**

If a Nominated Purchaser does not pay the Resale Price to the Holders on the Resale Date (a **Defaulting Nominated Purchaser**):

- (a) the Optional Resale Notice as it relates to the Defaulting Nominated Purchaser will be void;
- (b) NAB CPS II will not be transferred to the Defaulting Nominated Purchaser on the Resale Date; and
- (c) Holders will continue to hold the NAB CPS II referable to the Defaulting Nominated Purchaser until they are otherwise Redeemed, Converted or Resold in accordance with these Terms.

## **12 General provisions relating to optional Conversion, Redemption and Resale**

### **12.1 Treatment of Holders**

At any time that NAB may elect for the NAB CPS II to be Converted, Redeemed or Resold, NAB may specify which of Conversion, Redemption and Resale applies to a particular NAB CPS II. Without limitation to the foregoing:

- (a) NAB may select any one or more of Conversion, Redemption or Resale to apply to the NAB CPS II held by a Holder; and
- (b) NAB may select a different combination of Conversion, Redemption and Resale in respect of NAB CPS II held by different Holders,

but otherwise NAB must endeavour to treat Holders in approximate proportion to their holdings of NAB CPS II (except that NAB may discriminate to take account of the effect on marketable parcels and other logistical considerations).

### **12.2 Holder acknowledgements relating to Conversion**

Each Holder irrevocably:

- (a) upon Conversion of NAB CPS II in accordance with these Terms, consents to becoming a member of NAB and agrees to be bound by the Constitution, in each case in respect of the Ordinary Shares issued on Conversion;
- (b) acknowledges and agrees that it is obliged to accept Ordinary Shares upon a Conversion notwithstanding anything that might otherwise affect a Conversion of NAB CPS II including:
  - (i) any change in the financial position of NAB since the Issue Date;
  - (ii) any disruption to the market or potential market for the Ordinary Shares or to capital markets generally; or
  - (iii) any breach by NAB of any obligation in connection with the NAB CPS II;
- (c) acknowledges and agrees that:
  - (i) where clause 4.4 applies:
    - (A) there are no other conditions to a Loss Absorption Event occurring as and when provided in clauses 4.2, 4.3 and 4.4;
    - (B) Conversion must occur immediately on the Loss Absorption Event and that may result in disruption or failures in trading or dealings in the NAB CPS II;
    - (C) it will not have any rights to vote in respect of any Loss Absorption Event Conversion; and
    - (D) the Ordinary Shares issued on Loss Absorption Event Conversion may not be quoted at the time of issue, or at all;
  - (ii) the only conditions to a Mandatory Conversion are the Mandatory Conversion Conditions;

- (iii) the only conditions to a Conversion under clause 5 or a Conversion under clause 6 are the conditions expressly applicable to such Conversion as provided in clauses 5 and 6 of these Terms and no other conditions or events will affect Conversion; and
- (iv) clause 4.5 is a fundamental term of the NAB CPS II and where this applies, no other conditions or events will affect its operation and the Holder will not have any rights to vote in respect of any Write Off under that clause;
- (v) a Holder has no right to request a Conversion, Redemption or Resale of any NAB CPS II or to determine whether (or in what combination) NAB CPS II are Converted, Redeemed or Resold; and
- (d) agrees to provide to NAB any information necessary to give effect to a Conversion and, if applicable, to surrender any certificate relating to NAB CPS II on the occurrence of the Conversion.

## **13 Title and transfer**

### **13.1 Title**

Title to a NAB CPS II passes when details of the transfer are entered in the Register.

### **13.2 Register conclusive as to ownership**

Entries in the Register in relation to a NAB CPS II constitute conclusive evidence that the person so entered is the absolute owner of the NAB CPS II subject to correction for fraud or error.

### **13.3 Non-recognition of interests**

Except as required by law or directive and as provided in these Terms, NAB and the Registrar must treat the person whose name is entered in the Register as the holder of a NAB CPS II as the absolute owner of that NAB CPS II.

No notice of any trust, Encumbrance or other interest in, or claim to, any NAB CPS II will be entered in the Register. Neither NAB nor the Registrar need take notice of any trust, Encumbrance or other interest in, or claim to, any NAB

# Appendix A:

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CPS II, except as ordered by a court of competent jurisdiction or required by law, and no trust, Encumbrance or other interest in, or claim to, any NAB CPS II will in any way affect any provision of these Terms (including without limitation any transfer of the NAB CPS II contemplated by this clause 13).

This clause 13.3 applies whether or not a payment has been made when scheduled on a NAB CPS II and despite any notice of ownership, trust or interest in the NAB CPS II.

### 13.4 Joint holders

The Constitution contains provisions relating to joint holdings of shares and the relevant provisions apply with all necessary modifications to joint holdings of NAB CPS II.

### 13.5 Transfer

The Constitution contains provisions relating to the transfer of shares in NAB and the relevant provisions apply with all necessary modifications to a transfer of NAB CPS II.

### 13.6 Refusal to register

The Constitution contains provisions allowing Directors to refuse to register transfers and the relevant provisions apply with all necessary modifications to refusals to register transfers of NAB CPS II in those circumstances.

### 13.7 Transferor to remain holder until registration

The Constitution contains provisions relating to the effect of registration on a transfer and the relevant provisions apply with all necessary modifications to a transfer of NAB CPS II.

### 13.8 Transmission of NAB CPS II

The Constitution contains provisions relating to the transmission of shares in certain circumstances (including without limitation on the death of a holder) and the relevant provisions apply with all necessary modifications to the transmission of NAB CPS II in those circumstances.

## 14 Payments

### 14.1 Payments to Holders

Each payment in respect of a NAB CPS II will be made to the person that is recorded in the Register as the Holder of that NAB CPS II as at 7:00pm on the Record Date for that payment.

### 14.2 Payments to accounts

Payments will be made by crediting on the relevant payment date the amount due to an Australian Dollar bank account maintained in Australia with a financial institution, specified by the Holder to the Registrar by close of business on the Record Date for that payment.

### 14.3 Uncompleted payments

If:

- (a) a Holder has not notified the Registrar by close of business on the Record Date of an Australian Dollar bank account maintained in Australia with a financial institution to which payments in respect of the NAB CPS II may be credited; or
- (b) the transfer of any amount for payment to the credit of the nominated account does not complete for any reason,

NAB will send a notice to the address most recently notified by the Holder advising of the uncompleted payment. In that case, the amount of the uncompleted payment will be held as a deposit in a non-interest bearing, special purpose account maintained by NAB or the Registrar until the first to occur of the following:

- (i) the Holder nominates a suitable Australian Dollar account maintained in Australia with a financial institution to which the payment may be credited;
- (ii) claims may no longer be made in respect of that amount, in which case the monies shall be paid to and be the property of NAB; or
- (iii) NAB becomes entitled or obliged to deal with the amount in accordance with the law relating to unclaimed monies.

No interest is payable in respect of any delay in payment.

### 14.4 Time limit on claims

A claim against NAB for a payment under a NAB CPS II is void unless made within 5 years from the date on which payment first became due.

### 14.5 Rounding

For the purposes of any calculations required under these Terms:

- (a) all percentages resulting from the calculations must be rounded, if necessary, to the nearest one hundred thousandth of a percentage point (with 0.000005 per cent being rounded up to 0.00001 per cent);
- (b) all figures must be rounded to four decimal places (with halves being rounded up); and
- (c) all amounts that are due and payable in respect of a Holder's aggregate holding of NAB CPS II must be rounded to the nearest cent (with halves being rounded up).

### 14.6 Joint Holders

A payment to any one joint Holder of a NAB CPS II will discharge NAB's liability in respect of the payment.

### 14.7 No set-off

A Holder does not have any right to set-off any amounts owing to it by NAB in connection with the NAB CPS II against any amount owing by it to NAB in connection with the NAB CPS II or otherwise.

NAB does not have any right to set-off any amounts owing to it by a Holder against any amount owing by it to the Holder in connection with the NAB CPS II.

### 14.8 Payments subject to law

All payments are subject to applicable law, but without prejudice to the provisions of clause 15.

### 14.9 Payments on Business Days

If a payment:

- (a) is due on a NAB CPS II on a day which is not a Business Day, then the due date for payment will be postponed to the next day that is a Business Day; or
- (b) is to be made to an account on a Business Day on which banks are not

open for general banking business in the place in which the account is located, then the due date for payment will be the next day on which banks are open for general banking business in that place,

and in either case, the Holder is not entitled to any additional payment in respect of that delay.

## 15 Taxation

### 15.1 Withholdings and deductions

All payments in respect of NAB CPS II must be made without any withholding or deduction in respect of Taxes, unless the withholding or deduction is required by law or permitted by this clause 15.

### 15.2 FATCA

NAB, in its absolute discretion, may withhold or deduct payments to a Holder where it is required to do so under or in connection with FATCA, or where it has reasonable grounds to suspect that the Holder or a beneficial owner of NAB CPS II may be subject to FATCA, and may deal with such payment and the Holder's NAB CPS II in accordance with FATCA.

NAB, in its absolute discretion, may require information from the Holder to be provided to the IRS or any other relevant authority, to determine the applicability of any withholding under or in connection with FATCA.

### 15.3 No gross up

If any withholding or deduction arises under or in connection with applicable law or FATCA, NAB will not be required to pay any further amounts on account of such withholding or deduction or otherwise reimburse or compensate, or make any payment to, a Holder or a beneficial owner of NAB CPS II for or in respect of any such withholding or deduction and it will be taken to have made the payment to the Holder in full by accounting for the withholding or deduction to the relevant revenue authority and paying the balance to the Holder.

### 15.4 Tax file number

NAB will deduct tax from payments of Dividends on the NAB CPS II at the highest marginal tax rate plus the highest medicare levy if an Australian resident investor or a non-resident investor carrying on business in Australia at or through a permanent establishment of the non-resident in Australia has not supplied an appropriate tax file number, Australian Business Number or exemption details.

## 16 Ranking and subordination

### 16.1 Ranking of Dividends

NAB CPS II rank in respect of payment of Dividends:

- (a) in priority to Ordinary Shares;
- (b) equally and without any preference amongst themselves; and
- (c) equally with each other preference share that NAB has issued or may issue that has the same identifying number as provided in the Constitution with respect to priority of payments of dividends otherwise than in a winding up and with each of the other securities and instruments that NAB has issued or may issue that by their terms rank equally with respect to priority of payments of dividends, distributions or similar payments, otherwise than in a winding up.

### 16.2 Rights on a winding up

In a winding up of NAB, a NAB CPS II confers upon its Holder the right to payment in cash of an amount equal to the Liquidation Amount out of the surplus (if any) available for distribution to shareholders, but no further or other right to participate in the assets of NAB or a return of capital in the winding up.

### 16.3 Ranking in a winding up

NAB CPS II rank in respect of payment of the Liquidation Amount in a winding up of NAB:

- (a) in priority to the claims of the holders of Ordinary Shares;
- (b) equally and without any preference amongst themselves;

- (c) equally with the claims of the holders of Equal Ranking Instruments; and
- (d) junior to the claims of all creditors of NAB, including depositors, other than creditors expressed to rank equally with the NAB CPS II in a winding up.

### 16.4 Identifier

For the purposes of Article 2 of the Constitution, the Identifier of the NAB CPS II is "H5E5HA".

### 16.5 Further agreements of Holders

Each Holder irrevocably acknowledges and agrees:

- (a) a Holder has no right to apply for NAB to be wound up, or placed in administration, or to cause a receiver, or a receiver and manager, to be appointed in respect of NAB merely on the grounds that NAB does not or is or may become unable to pay a Dividend when scheduled in respect of NAB CPS II; and
- (b) these Terms contain no events of default. Accordingly (but without limitation) failure to pay in full, for any reason, a Dividend on a scheduled Dividend Payment Date will not constitute an event of default.

### 16.6 Unsecured

NAB CPS II are unsecured.

## 17 Meetings of Holders

### 17.1 Meetings

A Holder has the same rights as those conferred by the Constitution upon the holders of Ordinary Shares in relation to receiving notices, reports and audited accounts and attending meetings of NAB.

### 17.2 Voting rights

A NAB CPS II does not entitle its Holder to vote at a general meeting of NAB except that the holders of NAB CPS II may:

- (a) vote together with the holders of Ordinary Shares:
  - (i) on any resolution for the winding up of NAB or during the winding up of NAB;

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## Terms of the NAB CPS II

- (ii) on any resolution to reduce the share capital of NAB, other than a reduction of capital in accordance with these Terms;
  - (iii) on any resolution to approve the terms of a buy-back agreement, other than a buy-back in accordance with these Terms;
  - (iv) on any resolution for the disposal of the whole of NAB's property, business and undertaking;
  - (v) in a period during which a Dividend in respect of the NAB CPS II remains unpaid; and
- (b) vote as a class on any resolution that affects the rights attaching to the NAB CPS II,

in which case a Holder has the same rights as to manner of attendance and as to voting in respect of each NAB CPS II as those conferred on the holders of Ordinary Shares in respect of each Ordinary Share.

### 17.3 Not a "voting share"

Each Holder acknowledges and agrees that a NAB CPS II will not constitute a "voting share" for the purposes of the Corporations Act.

### 17.4 Number of votes

On a show of hands a Holder has one vote. On a poll a Holder has one vote per NAB CPS II held.

## 18 Amendment of these Terms

### 18.1 Amendments without consent

- (a) Subject to complying with all applicable laws, to clause 18.1(c) and to obtaining APRA's prior written approval where required in accordance with clause 18.4, NAB may without the authority, assent or approval of the Holders, amend these Terms if NAB is of the opinion that the amendment:
- (i) is of a formal, minor or technical nature;
  - (ii) is made to cure any ambiguity or correct any manifest error;

- (iii) is necessary or expedient for the purpose of enabling the NAB CPS II to be listed or to remain listed on a stock exchange or lodged in a clearing system or to remain lodged in a clearing system or to be offered for sale or for subscription under the laws for the time being in force in any place;
- (iv) is necessary or expedient for the purpose of complying with the provisions of any statute, the requirements of any statutory authority, ASX Listing Rules or the listing or quotation requirements of any securities exchange on which NAB may propose to seek a listing or quotation of the NAB CPS II;
- (v) is necessary and appropriate to effect the substitution under clause 19;
- (vi) is made to amend any date or time period stated, required or permitted in connection with any Conversion, Redemption or Resale (including, without limitation, when the proceeds of Redemption are to be reinvested in a new security to be issued by NAB or a member of the Group); or
- (vii) is not materially prejudicial to the interests of Holders as a whole.

For the purposes of determining whether the amendment is not materially prejudicial to the interests of Holders as a whole, the taxation and regulatory capital consequences to Holders (or any class of Holders) and other special consequences which are personal to a Holder (or any class of Holders) do not need to be taken into account.

- (b) Subject to complying with all applicable laws and clause 18.1(c) and with APRA's prior written approval where required in accordance with clause 18.4, NAB may without the authority, assent or approval of the Holders, amend these Terms if NAB is of the reasonable opinion that the amendment is necessary and appropriate to effect the substitution of an Approved NOHC as issuer of the

Ordinary Shares on Conversion in the manner contemplated by these Terms including without limitation amendments and additions to effect a substitution in accordance with clause 19.

- (c) If NAB considers that the amendment will be materially prejudicial to the interests of Holders as a whole, the amendment may only be made if it has been approved by a Special Resolution of Holders. In considering the rights of Holders as a whole NAB need not take into account the taxation and regulatory capital consequences to Holders (or any class of Holders) or other special consequences which are personal to a Holder (or any class of Holders).

### 18.2 Amendment with consent

Without limiting clause 18.1, NAB may amend or add to these Terms if the amendment or addition has been approved by a Special Resolution of Holders.

### 18.3 Notification of amendment to APRA

NAB will promptly notify APRA of any amendments made in accordance with this clause 18.

### 18.4 Requirement for APRA approval

A requirement in this clause 18 for an amendment to be made with APRA's prior written approval applies only where the amendment may affect the eligibility of NAB CPS II as Additional Tier 1 Capital.

### 18.5 Meaning of amend and amendment

In this clause 18, **amend** includes modify, cancel, alter or add to and **amendment** has a corresponding meaning.

## 19 Substitution

### 19.1 Substitution of Approved NOHC as issuer of Ordinary Shares

Where:

- (a) NAB proposes to implement a NOHC Event involving an Approved NOHC; and



- (b) the Approved NOHC agrees for the benefit of Holders:
- (i) to comply with the restrictions in clause 2.8 of these Terms (with all necessary modifications);
  - (ii) to deliver fully paid ordinary shares in its capital under all circumstances when NAB would otherwise have been required to deliver Ordinary Shares and upon the occurrence of an Acquisition Event with respect to the Approved NOHC, subject to the same terms and conditions as set out in these Terms (with all necessary modifications); and
  - (iii) to use all reasonable endeavours and furnish all such documents, information and undertakings as may be reasonably necessary in order to procure quotation of all ordinary shares in the capital of the Approved NOHC issued under these Terms (with all necessary modifications) on the securities exchange on which the other ordinary shares in the capital of the NOHC are quoted at the time of a Conversion,

NAB may give a notice (an **Approved NOHC Substitution Notice**) to the Holders (which, if given, must be given as soon as practicable before the NOHC Event and in any event no later than 10 Business Days before the NOHC Event occurs) specifying the amendments to these Terms which will be made in accordance with clause 19.2 to effect the substitution of an Approved NOHC as the issuer of ordinary shares on Conversion (the **Approved NOHC Substitution Terms**). An Approved NOHC Substitution Notice, once given, is irrevocable. If NAB gives an Approved NOHC Substitution Notice to Holders in accordance with clause 19.4, the Approved NOHC Substitution Terms will have effect on and from the date specified in the Approved NOHC Substitution Notice. No proposal to implement a NOHC shall prevent, impede or delay a Conversion required on account of a Loss Absorption Event.

### 19.2 Amendment without consent for substitution of an Approved NOHC

Subject to complying with all applicable laws and with APRA's prior written approval, if the circumstances described in clauses 19.1(a) and 19.1(b) apply, without the authority, assent or approval of Holders, NAB may give an Approved NOHC Substitution Notice which:

- (a) amends the definition of "Conversion" such that, unless APRA otherwise agrees, on the date NAB CPS II are to be Converted:
  - (i) each NAB CPS II that is being Converted will be automatically transferred by each Holder free from Encumbrance to the Approved NOHC (or another member of the Group which is a holding company of NAB) (the **Transferee**) on the date the Conversion is to occur;
  - (ii) each Holder (or in the circumstances contemplated in clause 7.10 or 7.13, the nominee) will be issued a number of ordinary shares in the capital of the Approved NOHC equal to the Conversion Number; and
  - (iii) as between NAB and the Transferee:
    - (A) each NAB CPS II held by the Transferee as a result of the transfer will be automatically Converted into an Ordinary Share; and
    - (B) an additional number of Ordinary Shares will be issued to the Transferee, such that the total number of Ordinary Shares held by the Transferee by reason of sub paragraphs (A) and (B) increases by the number which equals the number of ordinary shares in the capital of the Approved NOHC issued by the Approved NOHC to Holders on Conversion; and
- (b) makes such other amendments as in NAB's reasonable opinion are necessary and appropriate to effect the substitution of an Approved NOHC as the provider of the

ordinary shares on Conversion in the manner contemplated by these Terms, including without limitation:

- (i) amendments and additions to the definition of "Group", "Acquisition Event", "Common Equity Trigger Event", "Non-Viability Trigger Event", "Loss Absorption Event", "Regulatory Event", "Tax Event" and "Mandatory Conversion";
- (ii) where the terms upon which the Approved NOHC acquires NAB are such that the number of ordinary shares in the capital of the Approved NOHC on issue immediately after the substitution differs from the number of Ordinary Shares on issue immediately before the substitution (not involving any cash payment or other distribution to or by the holders of any such shares), an adjustment to any relevant VWAP or Issue Date VWAP consistent with the principles of adjustment set out in clause 7;
- (iii) amendments to the mechanics for adjusting the Conversion Number; and
- (iv) any term defining the rights of Holders if the Conversion is not effected which is appropriate for the NAB CPS II to remain as Tier 1 Capital.

### 19.3 Further substitutions

After a substitution under clause 19.1, the Approved NOHC may, without the consent of the Holders, effect a further substitution in accordance with clause 19.1 (with necessary changes).

### 19.4 Notice to Holders

NAB or the Approved NOHC must notify the Registrar, ASX and the Holders of the particulars of any substitution according to clause 19.1 or clause 19.3 in writing as soon as practicable after the substitution.

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### 19.5 Acknowledgement of Holders

Each Holder irrevocably acknowledges and agrees that an Approved NOHC may in accordance with these Terms be substituted for NAB as issuer of the Ordinary Shares on Conversion and that if such a substitution is effected, the Holder is obliged to accept ordinary shares in that Approved NOHC on a Conversion, and will not receive Ordinary Shares in NAB.

### 20 Further issues and no other rights

#### 20.1 Further issues not to vary class rights

Each of the following is expressly permitted and authorised by these Terms and does not affect, or constitute a modification or variation of, the rights or privileges attaching to the NAB CPS II then on issue:

- (a) the allotment or issue of preference shares (including further NAB CPS II), or the conversion of existing shares into preference shares, ranking equally with or in priority to, or having different rights from, the NAB CPS II then on issue for participation in profits or assets of NAB, and whether entitled to cumulative or non-cumulative dividends;
- (b) a redemption, buy-back or return or distribution of capital in respect of any share capital other than a NAB CPS II, whether ranking behind, equally with, or in priority to, the NAB CPS II; and
- (c) the Conversion or Write Off of NAB CPS II.

#### 20.2 No other rights

A Holder of the NAB CPS II has:

- (a) no right to participate in the issue of any other securities of NAB; and
- (b) no right to vote at any meeting of members of NAB except as set out in clause 17.

### 21 Notices

#### 21.1 Notices to Holders

All notices, certificates, consents, approvals, waivers and other communications in connection with a NAB CPS II to the Holders must be in writing and may be:

- (a) so long as the NAB CPS II are quoted on ASX, by publication of an announcement on ASX;
- (b) given by an advertisement published in the Australian Financial Review or The Australian, or any other newspaper nationally circulated within Australia; or
- (c) sent by prepaid post (airmail if appropriate) or left at the address of the relevant Holder (as shown in the Register at the close of business on the day which is 3 Business Days before the date of the relevant notice or communication).

#### 21.2 Notices to NAB and the Registrar

All notices, and other communications to NAB and the Registrar must be in writing and may be sent by prepaid post or left at the address of the registered office of NAB or the Registrar or such other address as is notified to Holders from time to time.

#### 21.3 When effective

Communications take effect from the time they are received or taken to be received (whichever happens first) unless a later time is specified in them.

#### 21.4 Receipt – publication on ASX

If published by an announcement on ASX, communications are taken to be received when the announcement is made on ASX.

#### 21.5 Receipt – publication in newspaper

If published in a newspaper, communications are taken to be received on the first date that publication has been made in all the required newspapers.

#### 21.6 Receipt – postal

Unless a later time is specified in it, a notice, if sent by post, is taken to be

received on the next succeeding Business Day in the place of the addressee.

#### 21.7 Non-receipt of notice

If there are two or more Holders, the non-receipt of any notice by, or the accidental omission to give any notice to, a Holder does not invalidate the giving of that notice.

### 22 Governing law and jurisdiction

#### 22.1 Governing law

The NAB CPS II are governed by the laws in force in Victoria, Australia.

#### 22.2 Jurisdiction

NAB submits to the non-exclusive jurisdiction of the courts of Victoria and courts of appeal from them. NAB waives any right it has to object to an action being brought in those courts including by claiming that the action has been brought in an inconvenient forum or that those courts do not have jurisdiction.

#### 22.3 Serving documents

Without preventing any other method of service, any document in any action may be served on NAB by being delivered or left at NAB's address as set out below:

Attention: Company Secretary

Address: Level 4 (UB 4440),  
800 Bourke Street  
Docklands, VIC 3008

Fax No: +61 1300 099 249

or such other address or fax number as NAB notifies to ASX as its address or fax number (as the case may be) for notices or other communications in respect of the NAB CPS II from time to time.

### 23 Power of attorney

- (a) Each Holder appoints each of NAB, its Authorised Officers and any External Administrator of NAB (each an **Attorney**) severally to be the attorney of the Holder with power in the name and on behalf of the Holder to sign all documents and transfers and do any other thing as may in the Attorney's opinion be necessary or desirable to be done in order for the Holder to observe or perform the

Holder's obligations under these Terms including, but not limited to, accepting any buy-back offer, effecting any transfers of NAB CPS II, making any entry in the Register or the register of any Ordinary Shares or exercising any voting power in relation to any consent or approval required for Conversion, Redemption or Resale.

- (b) The power of attorney given in this clause 23 is given for valuable consideration and to secure the performance by the Holder of the Holder's obligations under these Terms and is irrevocable.

## 24 Interpretation and definitions

### 24.1 Definitions

#### **2003 trust preferred securities**

means the trust preferred securities issued by National Capital Trust I in 2003 which are exchangeable for global depository receipts, each evidenced by a global depository share, representing one 2003 trust preferred preference share.

#### **2003 trust preferred preference shares**

means the preference shares which may be issued by NAB in an aggregate liquidation amount of up to £400 million by NAB in connection with the 2003 trust preferred securities.

#### **2005 trust preferred securities**

means the trust preferred securities issued by National Capital Trust II in 2005 which are exchangeable for 2005 trust preferred preference shares.

#### **2005 trust preferred preference shares**

means the preference shares which may be issued by NAB in an aggregate liquidation amount of up to US\$800 million by NAB in connection with the 2005 trust preferred securities.

**2006 AUD NCIs** means the capital instruments issued by National Capital Trust III in 2006 which are exchangeable in certain circumstances into 2006 AUD NCI preference shares of NAB.

#### **2006 AUD NCI preference shares**

means the preference shares which may be issued by NAB in an aggregate liquidation amount of up to A\$400 million by NAB in connection with the 2006 AUD NCIs.

**2006 EUR NCIs** means the capital instruments issued by National Capital Instruments [Euro] LLC 2 in 2006 which are exchangeable in certain circumstances into 2006 EUR NCI preference shares of NAB.

#### **2006 EUR NCI preference shares**

means the preference shares which may be issued by NAB in an aggregate liquidation amount of up to €400 million by NAB in connection with the 2006 EUR NCIs.

**Acquisition Conversion Date** has the meaning given in clause 5.2.

**Acquisition Conversion Notice** has the meaning given in clause 5.1.

**Acquisition Event** means any one of the following events:

- (a) a takeover bid is made to acquire all or some of the Ordinary Shares and such offer is, or becomes, unconditional, all regulatory approvals necessary for the acquisition to occur have been obtained and either:
  - (i) the bidder has at any time during the offer period, a relevant interest in more than 50% of the Ordinary Shares on issue; or
  - (ii) the directors of NAB, acting as a board, issue a statement that at least a majority of its directors who are eligible to do so have recommended acceptance of such offer (in the absence of a higher offer); or
- (b) a court orders the holding of meeting(s) to approve a scheme of arrangement under Part 5.1 of the Corporations Act, which scheme would result in a person having a relevant interest in more than 50% of the Ordinary Shares that will be on issue after the scheme is implemented and:
  - (i) all classes of members of NAB pass all resolutions required to approve the scheme by the majorities required under the Corporations Act to approve the scheme; and
  - (ii) all conditions to the implementation of the scheme, including any necessary

regulatory approval (but not including approval of the scheme by the court) have been satisfied or waived, provided that none of the events described above will constitute an Acquisition Event if:

- (c) the event is a NOHC Event;
- (d) the ordinary shares of the NOHC are listed on an internationally recognised stock exchange; and
- (e) the NOHC makes the agreements for the benefit of Holders contemplated by clause 19.1(b).

**Additional Tier 1 Capital** means the additional tier 1 capital of the Group as defined by APRA from time to time.

**Adjustment Notice** has the meaning given in clause 7.8.

**amend** for the purposes of clause 18, has the meaning given in clause 18.5.

**Approved NOHC** means a NOHC of the Group arising from a NOHC Event in circumstances where the proviso to the definition of Acquisition Event will be satisfied.

**Approved NOHC Substitution Notice** has the meaning given in clause 19.1.

**Approved NOHC Substitution Terms** has the meaning given in clause 19.1.

**APRA** means the Australian Prudential Regulation Authority or any authority succeeding to its powers and responsibilities.

**ASX** means ASX Limited (ABN 98 008 624 691) or the securities market operated by it, as the context requires, or any successor.

**ASX Listing Rules** means the listing rules of ASX as amended, varied or waived (whether in respect of NAB or generally) from time to time.

**ASX Operating Rules** means the market operating rules of ASX as amended, varied or waived (whether in respect of NAB or generally) from time to time.

**Attorney** has the meaning given in clause 23(a).

**Attributable Proceeds** means, in respect of a Holder to whom clause 7.10 or 7.13 applies, an amount equal to the

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## Terms of the NAB CPS II

Net Proceeds per Ordinary Share multiplied by the number of Ordinary Shares issued and sold in accordance with clause 7.10 or 7.13 (as applicable) in respect of that Holder.

**Australian Dollar** means the lawful currency of the Commonwealth of Australia.

**Authorised Officers** means each director and secretary of NAB and any person delegated on the authority of the board of directors of NAB to exercise the power of attorney conferred by clause 23.

**Bank Bill Rate** has the meaning given in clause 2.4.

**Banking Act** means the Banking Act 1959 (Cth).

**Bookbuild** means the process conducted by NAB or its agents before the opening of the Offer whereby certain institutional investors and brokers lodge bids for NAB CPS II and, on the basis of those bids, NAB determines the Margin and announces its determination on ASX before the opening of the Offer.

**Business Day** means a day which is both:

- (a) a day on which banks are open for general banking business in Melbourne and Sydney (not being a Saturday, Sunday or public holiday in that place); and
- (b) a day which is a business day for the purposes of the ASX Listing Rules.

**Buy-Back** means a transaction involving the acquisition by NAB of its Ordinary Shares pursuant to an offer made at NAB's discretion in accordance with the provisions of Part 2J of the Corporations Act.

**Capital Reduction** means a reduction in capital initiated by NAB in its discretion in respect of its Ordinary Shares in any way permitted by the provisions of Part 2J of the Corporations Act.

**CHES** means the Clearing House Electronic Subregister System operated by ASX or its affiliates.

**Common Equity Tier 1 Capital** means in respect of each of the NAB

Level 1 Group and the NAB Level 2 Group has the meaning determined for that term (or its equivalent) by APRA from time to time.

**Common Equity Tier 1 Ratio** means:

- (a) in respect of the NAB Level 1 Group, the ratio of Common Equity Tier 1 Capital in respect of the NAB Level 1 Group to risk weighted assets of the NAB Level 1 Group; and
- (b) in respect of the NAB Level 2 Group, the ratio of Common Equity Tier 1 Capital in respect of the NAB Level 2 Group to risk weighted assets of the NAB Level 2 Group,

in each case as calculated by the methodology prescribed by APRA from time to time.

**Common Equity Trigger Event** has the meaning given in clause 4.2.

**Constitution** means the constitution of NAB as amended from time to time.

**Control** has the meaning given in the Corporations Act.

**Controlled Entity** means in respect of NAB (or any NOHC that is the holding company of NAB), an entity that NAB (or such NOHC) controls.

**Conversion** means, in relation to a NAB CPS II, to convert that NAB CPS II to a number of Ordinary Shares in accordance with clause 7, and **Convert**, **Converted** and **Converting** have corresponding meanings.

**Conversion Date** means a Mandatory Conversion Date, a Loss Absorption Event Conversion Date, Acquisition Conversion Date or an Optional Conversion Date in respect of a Conversion.

**Conversion Number** has the meaning given in clause 7.1.

**Corporations Act** means the Corporations Act 2001 (Cth).

**Cum Value** has the meaning given in clause 7.2.

**Defaulting Nominated Purchaser** has the meaning given in clause 11.6.

**Deferred Acquisition Conversion Notice** has the meaning given in clause 5.4.

**Deferred Conversion Date** has the meaning given in clause 6.5.

**Delisting Event** means, in respect of a date, that:

- (a) NAB has ceased to be listed or Ordinary Shares have ceased to be quoted on ASX on or before that date (and where the cessation occurred before that date, NAB or the Ordinary Shares continue not to be listed or quoted (as applicable) on that date);
- (b) trading of Ordinary Shares on ASX is suspended for a period of consecutive days which includes:
  - (i) at least 5 consecutive Business Days prior to that date; and
  - (ii) that date; or
- (c) an Inability Event subsists preventing NAB from Converting NAB CPS II of Holders generally.

**Directors** mean the directors of NAB acting as a board or an authorised committee of the board.

**Dividend** has the meaning given in clause 2.1.

**Dividend Payment Date** has the meaning given in clause 2.2.

**Dividend Period** means in respect of:

- (a) the first Dividend Period, the period from (and including) the Issue Date until (but not including) the first Dividend Payment Date after the Issue Date; and
- (b) each subsequent Dividend Period, the period from (and including) the preceding Dividend Payment Date until (but not including) the next Dividend Payment Date.

**Dividend Rate** has the meaning given in clause 2.4.

**Encumbrance** means any mortgage, pledge, charge, lien, assignment by way of security, hypothecation, security interest, title retention, preferential right or trust arrangement, any other security agreement or security arrangement (including any security interest under the Personal Property Securities Act 2009 (Cth)) and any other arrangement of any kind having the same effect as

any of the foregoing other than liens arising by operation of law.

**Equal Ranking Instruments** means:

- (a) the NIS preference shares;
- (b) the 2003 trust preferred preference shares (if issued);
- (c) the 2005 trust preferred preference shares (if issued);
- (d) the 2006 AUD NCI preference shares (if issued);
- (e) the 2006 EUR NCI preference shares (if issued);
- (f) NAB CPS;
- (g) each other preference share that NAB has issued or may issue that has the same identifying number as the identifying number provided in the Constitution with respect to priority of payment in a winding up of NAB as any of the preference shares listed in (a) to (f) above; and
- (h) any securities or other instruments that rank in a winding up equally with those preference shares.

**External Administrator** means, in respect of a person:

- (a) a liquidator, a provisional liquidator, an administrator or a statutory manager of that person; or
- (b) a receiver, or a receiver and manager, in respect of all or substantially all of the assets and undertakings of that person,

or in either case any similar official.

**FATCA** means sections 1471 through 1474 of the United States Internal Revenue Code of 1986, as amended ("the Code") (or any consolidation, amendment, re-enactment or replacement of those sections and including any current or future regulations or official interpretations issued, agreements entered into pursuant to section 1471(b) of the Code or non-US laws enacted or regulations or practices adopted pursuant to any intergovernmental agreement in connection with the implementation of those sections).

**First Mandatory Conversion Condition** has the meaning given in clause 3.3.

**First Optional Conversion Restriction** has the meaning given in clause 6.4.

**First Test Date** has the meaning given in clause 3.3(a).

**Fixed Conversion Number** has the meaning given in clause 4.5(b).

**Foreign Holder** means a Holder whose address in the Register is a place outside Australia or who NAB otherwise believes may not be a resident of Australia.

**Franking Rate** (expressed as a decimal) means the franking percentage (within the meaning of Part 3-6 of the Tax Act or any provisions that revise or replace that Part) applicable to the franking account of NAB at the relevant Dividend Payment Date.

**Government Agency** means any governmental, semi-governmental, administrative, fiscal, judicial or quasi-judicial body, department, commission, authority, tribunal, agency or entity.

**Group** means NAB (or any NOHC that is the holding company of NAB) and the Controlled Entities of NAB (or of such NOHC).

**Holder** means a person for the time being Registered as the holder of a NAB CPS II.

**Identifier** means the identifier referred to in the Constitution which identifies the rights of holders of the preference shares issued by NAB.

**Inability Event** means NAB is prevented by applicable law or order of any court or action of any government authority (including regarding the insolvency, winding up or other external administration of NAB) or any other reason from Converting the NAB CPS II.

**IRS** means the United States Internal Revenue Service or any authority succeeding to its powers and responsibilities.

**Issue Date** means the date on which the NAB CPS II are issued.

**Issue Date VWAP** means the VWAP during the period of 20 Business Days on which trading in Ordinary Shares

took place immediately preceding (but not including) the first date on which NAB CPS II were issued, as adjusted in accordance with clauses 7.4 to 7.7 (inclusive).

**Issue Price** has the meaning given in clause 1.2.

**Level 1 and Level 2** mean those terms as defined by APRA from time to time.

**Liquidation Amount** means the sum of A\$100 plus the amount of any Dividend resolved to be paid but unpaid.

**Loss Absorption Event** has the meaning given in clause 4.1.

**Loss Absorption Event Conversion** means the Conversion of NAB CPS II to Ordinary Shares on the Loss Absorption Conversion Date in accordance with clause 4.4.

**Loss Absorption Event Conversion Date** has the meaning given in clause 4.4.

**Loss Absorption Event Notice** has the meaning given in clause 4.6.

**Mandatory Conversion** means the mandatory conversion of NAB CPS II to Ordinary Shares on the Mandatory Conversion Date in accordance with clause 3.

**Mandatory Conversion Conditions** has the meaning given in clause 3.3.

**Mandatory Conversion Date** has the meaning given in clause 3.2.

**Margin** has the meaning given in clause 2.4.

**Maximum Conversion Number** has the meaning given in clause 7.1.

**NAB** means National Australia Bank Limited ABN 12 004 044 937.

**NAB CPS** means convertible preference shares, being fully paid preference shares issued by NAB on 20 March 2013.

**NAB CPS II** has the meaning given in clause 1.1.

**NAB Level 1 Group** means NAB and those of its controlled entities included by APRA from time to time in the

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calculation of NAB's Prudential Capital Requirement and Tier 1 Capital Ratio on a Level 1 basis.

**NAB Level 2 Group** means NAB and together with each other Related Entity included by APRA from time to time in the calculation of NAB's Prudential Capital Requirement and Tier 1 Capital Ratio on a Level 2 basis.

**NAB New York Branch** means NAB acting through its branch office in New York City.

**Net Proceeds per Ordinary Share** means, in respect of Ordinary Shares issued and sold in accordance with clause 7.10 or 7.13 (as applicable), an amount equal to the proceeds of sale of such Ordinary Shares actually received by the nominee after deduction of any applicable brokerage, stamp duty and other taxes, charges and expenses (including the nominee's reasonable out of pocket costs, expenses and charges properly incurred by it or on its behalf in connection with such sale from the sale price of the Ordinary Shares), divided by the number of such Ordinary Shares issued and sold.

**Next Dividend Payment Date** means the scheduled quarterly Dividend Payment Date immediately following the date on which the Optional Conversion Notice, Optional Redemption Notice or Optional Resale Notice (as applicable) was given by NAB provided that if such Dividend Payment Date is less than 20 Business Days following the date on which such notice was given then it shall be the immediately following Dividend Payment Date.

**NIS** means the income securities issued by NAB in 1999 comprising fully paid notes issued by NAB through NAB New York Branch stapled to unpaid preference shares issued by NAB.

**NIS preference shares** means the preference shares issued by NAB in connection with the NIS which, if paid up in accordance with the terms of the NIS, will be outstanding in an aggregate liquidation amount of up to A\$2.0 billion.

**NOHC** means a "non-operating holding company" within the meaning of the Banking Act.

**NOHC Event** means an event which would otherwise be an Acquisition Event which is initiated by the Directors, acting as a board, and the result of which is that the ultimate holding company of NAB would be a NOHC.

**Nominated Purchaser** means, subject to clause 11.3, one or more third parties selected by NAB in its absolute discretion, provided that a nominated purchaser cannot be NAB or any Related Entity of NAB.

**Non-Conversion Notice** has the meaning given in clause 3.4.

**Non-Conversion Test Date** has the meaning given in clause 6.4.

**Non-Viability Trigger Event** has the meaning given in clause 4.3.

**Offer** means the invitation made under the Prospectus issued by NAB for persons to subscribe for NAB CPS II.

**Optional Conversion Date** has the meaning given in clause 6.3.

**Optional Conversion Notice** has the meaning given in clause 6.1.

**Optional Conversion Restrictions** has the meaning given in clause 6.4.

**Optional Redemption Notice** has the meaning given in clause 8.1.

**Optional Resale Notice** has the meaning given in clause 10.1.

**Ordinary Resolution** means a resolution passed at a meeting of Holders by a majority of at least 50% of the votes validly cast by Holders in person or by proxy and entitled to vote on the resolution.

**Ordinary Share** means a fully paid ordinary share in the capital of NAB.

**Ordinary Share Dividend** means any interim, final or special dividend payable in accordance with the Corporations Act and the Constitution in relation to Ordinary Shares.

**Payment Condition** means in respect of Dividends scheduled to be paid on a Dividend Payment Date:

- (a) the payment of Dividends will result in NAB or the Group not complying with APRA's then current Prudential Capital Requirements;
- (b) unless APRA otherwise approves in writing, making the Dividend payment would result in NAB or the Group exceeding any limit on distributions of earnings applicable under (and calculated in accordance with) APRA's then current capital conservation requirements as they are applied to NAB or the Group (as the case may be) at the time;
- (c) APRA otherwise objects to the payment of Dividends;
- (d) making the Dividend payment would result in NAB becoming, or being likely to become, insolvent for the purposes of the Corporations Act; or
- (e) NAB is not permitted to pay the Dividend under the Corporations Act.

**Potential Acquisition Event** means any one of the following events:

- (a) an event within paragraph (a) of the definition of Acquisition Event occurs (without the need that all regulatory approvals necessary for the acquisition to occur have been obtained); or
- (b) a court orders the holding of meetings to approve a scheme of arrangement under Part 5.1 of the Corporations Act and the scheme would result in a person having a relevant interest in more than 50% of the Ordinary Shares that will be on issue after the scheme is implemented,

in each case other than where such event is a NOHC Event.

**Prospectus** means the prospectus for the Offer including these Terms.

**Prudential Capital Requirements** means at any time the requirements of APRA with respect to the ratio of Common Equity Tier 1 Capital, Tier 1 Capital or Total Capital to total risk weighted assets as applicable to NAB or the Group at that time.

**Record Date** means, in the case of:

- (a) payments of a Dividend, the date which is 11 Business Days before the date of payment (or as otherwise prescribed by the ASX Listing Rules or if not prescribed by the ASX Listing Rules, a date determined by NAB and notified to ASX); and
- (b) payments of any other amount, a date determined by NAB and notified to ASX (or such other date as may be prescribed by ASX).

**Redemption** means, in relation to a NAB CPS II, subject to amendment in accordance with clause 18.1(a)(vi), the redemption, buy-back (other than an on-market buy-back within the meaning of the Corporations Act) or reduction of capital, or any combination of such actions, in accordance with these Terms and **Redeem, Redeemable** and **Redeemed** have corresponding meanings.

**Redemption Date** means the date on which NAB CPS II are to be redeemed or, if NAB CPS II are not redeemed on that day, the date on which the NAB CPS II are Redeemed.

**Redemption Price** has the meaning given in clause 9.2.

**Register** means a register of Holders of NAB CPS II established and maintained by the Registrar. The term Register includes:

- (a) any sub-register maintained by, or on behalf of NAB under the Corporations Act, the ASX Listing Rules or the rules and regulations of CHES; and
- (b) any branch register, provided that, in the event of any inconsistency, the principal register will prevail over any sub-register or branch register.

**Registered** means recorded in the Register.

**Registrar** means Computershare Investor Services Pty Limited or any other person who from time to time maintains the Register on behalf of NAB.

**Regulatory Event** means:

- (a) the receipt by the Directors of an

opinion from a reputable legal counsel that, as a result of any amendment to, clarification of or change (including any announcement of a prospective change) in any law or regulation or any official administrative pronouncement or action or judicial decision interpreting or applying such laws or regulations which amendment, clarification or change is effective, or pronouncement, action or decision is announced, on or after the Issue Date, additional requirements would be imposed on NAB in relation to or in connection with NAB CPS II (which were not expected by NAB prior to the Issue Date) which the Directors determine, in their absolute discretion, to be unacceptable; or

- (b) the determination by the Directors that NAB is not or will not be entitled to treat some or all NAB CPS II as Additional Tier 1 Capital except where the reason NAB is not or will not be entitled to treat some or all NAB CPS II as Additional Tier 1 Capital is because of a limit or other restriction on the recognition of Additional Tier 1 Capital which is in effect on the Issue Date or which on the Issue Date is expected by NAB may come into effect.

**Related Entity** has the meaning given to it by APRA from time to time.

**Relevant Dividend** has the meaning given in clause 2.8.

**Relevant Dividend Payment Date** has the meaning given in clause 2.8.

**Relevant Fraction** has the meaning given in clause 7.1.

**Relevant Mandatory Conversion Date** has the meaning given in clause 3.2.

**Relevant Tier 1 Capital Instruments** means Tier 1 Capital instruments of NAB (including the NAB CPS II) or of another member of the Group (to the extent that NAB and APRA are satisfied that conversion or write off of a Tier 1 Capital instrument of that member will contribute to the remedy of the Loss Absorption Event) that, in accordance with their terms or by operation of law, are capable of being converted into Ordinary Shares or written off at the Loss Absorption Event Conversion Date.

**Reorganisation** means, in relation to NAB, a division, consolidation or reclassification of NAB's share capital not involving any cash payment or other distribution to or by the holders of Ordinary Shares.

**Resale** means, in relation to a NAB CPS II, the taking effect of the rights specified in clause 10 in relation to that NAB CPS II, and **Resold** and **Resell** have corresponding meanings.

**Resale Date** has the meaning given in clause 10.3.

**Resale Price** means, for a NAB CPS II, a cash amount equal to its Issue Price.

**Scheduled Mandatory Conversion Date** has the meaning given in clause 3.2.

**Second Mandatory Conversion Condition** has the meaning given in clause 3.3 (but in clauses 5.4 and 6.5, as adjusted in those clauses).

**Second Optional Conversion Restriction** has the meaning given in clause 6.4.

**Special Resolution** means a resolution passed at a meeting of Holders by a majority of at least 75% of the votes validly cast by Holders in person or by proxy and entitled to vote on the resolution.

**Subsequent Mandatory Conversion Date** has the meaning given in clause 3.2.

**Taxes** means taxes, levies, imposts, deductions or charges and duties (including stamp and transaction duties) imposed by any authority together with any related interest, penalties and expenses in connection with them.

**Tax Act** means:

- (a) the Income Tax Assessment Act 1936 (Cth) or the Income Tax Assessment Act 1997 (Cth) as the case may be and a reference to any section of the Income Tax Assessment Act 1936 (Cth) includes a reference to that section as rewritten in the Income Tax Assessment Act 1997 (Cth); and
- (b) any other Act setting the rate of income tax payable and any regulation promulgated under it.

# Appendix A:

## Terms of the NAB CPS II

**Tax Event** means on or after the Issue Date, NAB receives an opinion from a reputable legal counsel or other tax adviser in Australia experienced in such matters that there is more than an insubstantial risk that, as a result of a Tax Law Change:

- (a) NAB or the consolidated tax group of which it is a member would be exposed to more than a de minimis amount of other Taxes, assessments or other governmental charges in connection with the NAB CPS II;
- (b) NAB or the consolidated tax group of which it is a member would not be entitled to treat any Dividend as a frankable distribution within the meaning of Division 202 of the Tax Act (or may do so only subject to requirements which the Directors determine, in their absolute discretion, to be unacceptable); or
- (c) the NAB CPS II would cease to be disregarded in accordance with section 703-37 of the Tax Act.

**Tax Law Change** means:

- (a) an amendment to, change in or announced prospective change in any laws or regulations under those laws affecting taxation in Australia;
- (b) a judicial decision interpreting, applying or clarifying laws or regulations affecting taxation in Australia;
- (c) an administrative pronouncement, ruling, confirmation, advice or action (including a failure or refusal to provide a ruling) affecting taxation in Australia that represents an official position, including a clarification of an official position of the governmental authority or regulatory body in Australia making the administrative pronouncement or taking any action; or
- (d) a challenge asserted or threatened in connection with the NAB CPS II in writing from the Australian Taxation Office,

which amendment or change is announced or which action or clarification or challenge occurs on or after the Issue Date and which NAB did not expect as at the Issue Date.

**Tax Rate** has the meaning given in clause 2.4.

**Terms** means these terms of issue of NAB CPS II.

**Third Mandatory Conversion Condition** has the meaning given in clause 3.3.

**Tier 1 Capital** means tier 1 capital as defined by APRA from time to time.

**Tier 1 Capital Ratio** means at any time the ratio as defined by APRA.

**Total Capital** means total capital as defined by APRA from time to time.

**Transferee** has the meaning given in clause 19.2.

**VWAP** means, subject to any adjustments under clause 7, the average of the daily volume weighted average sale prices (such average being rounded to the nearest full cent) of Ordinary Shares sold on ASX during the relevant period or on the relevant days but does not include any "Crossing" transacted outside the "Open Session State" or any "Special Crossing" transacted at any time, each as defined in the ASX Operating Rules, or any overseas trades or trades pursuant to the exercise of options over Ordinary Shares.

**VWAP Period** means:

- (a) in the case of a Conversion resulting from a Potential Acquisition Event or an Acquisition Event, the lesser of:
  - (i) 20 Business Days on which trading in Ordinary Shares takes place; and
  - (ii) the number of Business Days on which trading in Ordinary Shares takes place that the Ordinary Shares are quoted for trading on ASX after the occurrence of the Potential Acquisition Event or Acquisition Event (as the case may be),

in each case immediately preceding (but not including) the Business Day before the Optional Conversion Date or Acquisition Conversion Date in respect of that event (as the case may be);

- (b) in the case of a Conversion resulting from a Loss Absorption Event, the

period of 5 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the Loss Absorption Event Conversion Date;

- (c) in the case of any other Conversion, the period of 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the date on which Conversion is to occur in accordance with these Terms; or
- (d) otherwise, the period for which VWAP is to be calculated in accordance with these Terms.

**Written Off** has the meaning given in clause 4.5 and **Write Off** has a corresponding meaning.

### 24.2 Interpretation

- (a) Unless the context otherwise requires, if there is any inconsistency between the provisions of these Terms and the Constitution then, to the maximum extent permitted by law, the provisions of these Terms will prevail.
- (b) Unless otherwise specified, the Directors may exercise all powers of NAB under these Terms as are not, by the Corporations Act or by the Constitution, required to be exercised by NAB in general meeting.
- (c) Unless otherwise specified, a reference to a clause or paragraph is a reference to a clause or paragraph of these Terms.
- (d) Headings and boldings are for convenience only and do not affect the interpretation of these Terms.
- (e) The singular includes the plural and vice versa.
- (f) A reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them.
- (g) Other than in relation to a Loss Absorption Event and a conversion on a Loss Absorption Event Conversion Date and other than as otherwise specified in these Terms, if an event under these Terms must occur on a stipulated



day which is not a Business Day, then the stipulated day will be taken to be the next Business Day or, if that day would fall in the next calendar month, the preceding Business Day.

- (h) A reference to dollars, AUD, A\$, \$ or cents is a reference to the lawful currency of Australia.
- (i) Calculations, elections and determinations made by or on behalf of NAB under these Terms are binding on Holders in the absence of manifest error.
- (j) Any provisions which refer to the requirements of APRA or any other prudential regulatory requirements will apply only if NAB is an entity, or the holding company of an entity, or is a direct or indirect subsidiary of an entity (including a NOHC), subject to regulation and supervision by APRA at the relevant time.
- (k) Any provisions which require APRA's consent or approval will apply only if APRA requires that such consent or approval be given at the relevant time.
- (l) Any provisions in these Terms requiring the prior approval of APRA for a particular course of action to be taken do not imply that APRA has given its consent or approval to the particular action as of the Issue Date. Where under these Terms, APRA approval is required, for any act to be done or not done, that term does not imply that APRA approval has been given as at the Issue Date.
- (m) The terms "holding company", "wholly-owned subsidiary" and "subsidiary", when used in these Terms have the meaning given in the Corporations Act.
- (n) A reference to a party to an agreement or deed includes a reference to a replacement or substitute of the party according to that agreement or deed.
- (o) A reference to an agreement or deed includes a reference to that agreement or deed as amended, added to or restated from time to time.
- (p) The words "includes" or "including", "for example" or "such as" do not exclude a reference to other items, whether of the same class or genus or not.
- (q) Words importing any gender include all other genders.
- (r) The terms takeover bid, relevant interest, scheme of arrangement, buy-back, related body corporate and on-market buy-back when used in these Terms have the meaning given in the Corporations Act.
- (s) A reference to any term defined by APRA (including, without limitation, "Additional Tier 1 Capital", "Common Equity Tier 1 Capital", "Level 1", "Level 2", "Prudential Capital Requirements", "Tier 1 Capital" and "Total Capital") shall, if that term is replaced or superseded in any of APRA's applicable prudential regulatory requirements or standards, be taken to be a reference to the replacement or equivalent term.
- (t) A reference to a term defined by the ASX Listing Rules or the ASX Operating Rules shall, if that term is replaced in those rules, be taken to be a reference to the replacement term.
- (u) If the principal securities exchange on which Ordinary Shares are listed becomes other than ASX, unless the context otherwise requires a reference to ASX shall be read as a reference to that principal securities exchange and a reference to the ASX Listing Rules, ASX Operating Rules or any term defined in any such rules, shall be read as a reference to the corresponding rules of that exchange or corresponding defined terms in such rules (as the case may be).
- (v) Where NAB is required to give or serve a notice by a certain date under these Terms, NAB is required to despatch the notice by that date (including at NAB's discretion, by posting or lodging notices with a mail house) and delivery or receipt (or deemed delivery) is permitted to occur after that date.
- (w) Where a Holder is required to give or deliver a notice to NAB by a certain date under these Terms, the notice must be received by NAB by that date.
- (x) A reference to time is to Australian eastern standard time.

### **24.3 Inconsistency with ASX Listing Rules**

So long as NAB CPS II are quoted on ASX, these Terms as they relate to those NAB CPS II are to be interpreted in a manner consistent with applicable ASX Listing Rules, except to the extent that an interpretation consistent with the ASX Listing Rules would affect the eligibility of NAB CPS II as Additional Tier 1 Capital.

# Appendix B:

## Glossary

Term	Meaning
<b>2009 Capital Notes</b>	The US\$600 million of perpetual, subordinated, unsecured notes issued by NAB (acting through its New York branch) in 2009
<b>ABN</b>	Australian Business Number
<b>Acquisition Conversion Date</b>	The date on which Conversion as a result of an Acquisition Event is to occur For the full definition – see clause 5.2 of the Terms
<b>Acquisition Conversion Notice</b>	Has the meaning given to it in clause 5.1 of the Terms
<b>Acquisition Event</b>	Broadly, occurs when certain takeover bids or schemes of arrangement occur in relation to NAB For the full definition – see clause 24.1 of the Terms
<b>Additional Tier 1 Capital</b>	The additional Tier 1 Capital of the Group as defined by APRA from time to time
<b>ADI</b>	Authorised Deposit-taking Institution regulated by APRA
<b>Allocation</b>	The number of NAB CPS II allocated under this Offer to a Syndicate Broker
<b>Annual Financial Report 2012</b>	The financial report for NAB for the year ended 30 September 2012
<b>Annual Financial Report 2013</b>	The financial report for NAB for the year ended 30 September 2013
<b>ANZ Securities</b>	ANZ Securities Limited (ABN 16 004 997 111, AFSL 237531)
<b>Applicant</b>	A person who lodges an Application Form in accordance with this Prospectus
<b>Application</b>	A valid application for NAB CPS II made through a completed Application Form in accordance with this Prospectus
<b>Application Form</b>	A paper or electronic form (as the context requires) attached to, or accompanying, this Prospectus upon which an Application for NAB CPS II may be made
<b>Application Monies</b>	The amount payable on each Application, being the Issue Price multiplied by the number of NAB CPS II applied for
<b>APRA</b>	Australian Prudential Regulation Authority
<b>Approved NOHC</b>	Has the meaning given to it in clause 24.1 of the Terms
<b>Arranger &amp; Joint Lead Manager</b>	National Australia Bank Limited
<b>ASIC</b>	Australian Securities and Investments Commission
<b>ASX</b>	ASX Limited ABN 98 008 624 691 or the securities market operated by it (as the context requires)
<b>AUD NCI</b>	The capital instruments issued by National Capital Trust III in 2006 which are exchangeable in certain circumstances into preference shares of NAB having a liquidation preference of up to \$400 million
<b>Bank Bill Rate</b>	Has the meaning given to it in clause 2.4 of the Terms
<b>Banking Act</b>	Banking Act 1959 (Cth)

<b>Term</b>	<b>Meaning</b>
<b>Basel III Prudential Standards</b>	The APRA Prudential Standards and reporting standards which became effective on 1 January 2013 and which give effect to the capital reforms of the Basel Committee on Banking Supervision applicable to ADIs
<b>Bell Potter</b>	Bell Potter Securities Limited (ABN 25 006 390 772, AFSL 243480)
<b>Bookbuild</b>	The process through which certain investors bid for a firm Allocation of NAB CPS II to determine the Margin
<b>Broker Firm Applicant</b>	Means a retail client of a Syndicate Broker who applies for a broker firm allocation from a Syndicate Broker under the Broker Firm Offer
<b>Broker Firm Offer</b>	The offer to clients of Syndicate Brokers as described in Section 3 “Applying for NAB CPS II”
<b>Business Day</b>	Has the meaning given to it in clause 24.1 of the Terms
<b>CHESS</b>	Has the meaning given to it in clause 24.1 of the Terms
<b>Closing Date</b>	The closing date for the Offer which is expected to be: <ul style="list-style-type: none"> <li>• 9 December 2013 for the Securityholder Offer and General Offer; and</li> <li>• 13 December 2013 for the Broker Firm Offer and Institutional Offer.</li> </ul>
<b>Co-Managers</b>	Bell Potter and JBWere
<b>Common Equity Tier 1 Capital</b>	Common Equity Tier 1 capital as defined by APRA from time to time under the Basel III Prudential Standards
<b>Common Equity Trigger Event</b>	Has the meaning given to it in clause 4.2 of the Terms
<b>Constitution</b>	The constitution of NAB, as amended from time to time
<b>Controlled Entity</b>	Has the meaning given to it in clause 24.1 of the Terms
<b>Conversion</b>	The conversion of NAB CPS II into Ordinary Shares in accordance with clause 7 of the Terms Convert, Converted and Converting have corresponding meanings
<b>Conversion Number</b>	Has the meaning given to it in clause 7.1 of the Terms
<b>Corporations Act</b>	Corporations Act 2001 (Cth)
<b>Delisting Event</b>	Broadly occurs when NAB is delisted, its Ordinary Shares have been suspended from trading for a certain period, or is prevented by applicable law or order of any court or action of any government authority or any other reason from Converting NAB CPS II of Holders generally – see clause 24.1 of the Terms
<b>Deutsche Bank</b>	Deutsche Bank AG, Sydney Branch (ABN 13 064 165 162, AFSL 238153)
<b>Directors</b>	Means the directors of NAB acting as a board or an authorised committee of the board
<b>Dividend</b>	Has the meaning given to it in clause 2.1 of the Terms

# Appendix B:

## Glossary

Term	Meaning
<b>Dividend Payment Date</b>	In respect of a NAB CPS II, each 17 March, 17 June, 17 September and 17 December commencing on 17 March 2014 until the date that NAB CPS II is Converted, Redeemed or Resold For the full definition – see clause 2.2 of the Terms
<b>Dividend Period</b>	A period from (and including) either the Issue Date until (but not including) the first Dividend Payment Date, or from a subsequent Dividend Payment Date until (but not including) the following Dividend Payment Date For the full definition – see clause 24.1 of the Terms
<b>Dividend Rate</b>	The dividend rate on NAB CPS II calculated using the formula described in Section 2.1 For the full definition – see clause 2.4 of the Terms
<b>Eligible Securityholder</b>	Holders of Ordinary Shares, National Income Securities, NAB Subordinated Notes or NAB CPS as at 7.00pm on 4 November 2013 as described in Section 3 “Applying for NAB CPS II”
<b>Equal Ranking Instruments</b>	Has the meaning given to it in clause 24.1 of the Terms
<b>EUR NCI</b>	The capital instruments issued by National Capital Instruments [Euro] LLC 2 in 2006 which are exchangeable in certain circumstances into preference shares of NAB having an aggregate liquidation amount of up to EUR400 million
<b>Evans and Partners</b>	Evans and Partners Pty Ltd (ABN 85 125 338 785, AFSL 318075)
<b>Exposure Period</b>	The seven day period commencing after the date this Prospectus was lodged with ASIC
<b>FATCA</b>	Sections 1471 through 1474 of the United States Internal Revenue Code of 1986, as amended (or any consolidation, amendment, re-enactment or replacement of those sections and including any current or future regulations or official interpretations issued, agreements entered into or non-US laws enacted with respect to those sections)
<b>First Mandatory Conversion Condition</b>	Has the meaning given to it in clause 3.3 of the Terms
<b>Fixed Conversion Number</b>	Has the meaning given to it in clause 4.5(b) of the Terms
<b>General Applicant</b>	A member of the general public who is an Australian resident
<b>General Offer</b>	The offer as described in Section 3 “Applying for NAB CPS II”
<b>Group</b>	NAB (or any NOHC that is the holding company of NAB) and the Controlled Entities of NAB (or such NOHC)
<b>GST</b>	Goods and Services Tax
<b>HIN</b>	Holder Identification Number
<b>Holder</b>	A registered holder of NAB CPS II
<b>Holding Statement</b>	A statement issued to Holders by the Registry which sets out the number of NAB CPS II Issued to that Holder

<b>Term</b>	<b>Meaning</b>
<b>Inability Event</b>	If NAB is prevented by applicable law or order of any court or action of any government authority (including regarding the insolvency, winding up or other external administration of NAB) or by any other reason from Converting NAB CPS II which would otherwise be Converted on a Loss Absorption Event Conversion Date For the full definition – see clause 24.1 of the Terms
<b>Institutional Investor</b>	An investor invited to participate in the Institutional Offer
<b>Institutional Offer</b>	The invitation to Institutional Investors to apply for NAB CPS II under this Prospectus
<b>Issue</b>	The process of issuing NAB CPS II to Holders. Issued has a corresponding meaning
<b>Issue Date</b>	Expected to be 17 December 2013
<b>Issue Date VWAP</b>	Has the meaning given to it in clause 24.1 of the Terms
<b>Issue Price</b>	The issue price for NAB CPS II under this Prospectus, being \$100 per NAB CPS II For the full definition – see clause 1.2 of the Terms
<b>JBWere</b>	JBWere Limited (ABN 21 006 797 897, AFSL 243346)
<b>Joint Lead Managers</b>	ANZ Securities, Deutsche Bank, Evans and Partners, Morgans and Morgan Stanley
<b>Liquidation Amount</b>	Has the meaning given to it in clause 24.1 of the Terms
<b>Listing Rules</b>	The listing rules of ASX, with any modification or waivers which ASX may grant to NAB from time to time
<b>Loss Absorption Event</b>	Has the meaning given to it in clause 4.1 of the Terms
<b>Loss Absorption Event Conversion Date</b>	Has the meaning given to it in clause 4.4 of the Terms
<b>Mandatory Conversion</b>	Means the mandatory conversion of NAB CPS II to Ordinary Shares on the Mandatory Conversion Date in accordance with the Terms
<b>Mandatory Conversion Conditions</b>	Has the meaning given to it in clause 3.3 of the Terms
<b>Mandatory Conversion Date</b>	Has the meaning given to it in clause 3.2 of the Terms
<b>Margin</b>	The margin to be determined under the Bookbuild
<b>Maximum Conversion Number</b>	Has the meaning given to it in clause 7.1 of the Terms
<b>Morgans</b>	Morgans Financial Ltd (ABN 49 010 669 726, AFSL 235 410)
<b>Morgan Stanley</b>	Morgan Stanley Australia Securities Limited (ABN 55 078 652 276, AFSL 233741)
<b>NAB</b>	National Australia Bank Limited ABN 12 004 044 937
<b>NAB CPS</b>	Convertible preference shares, being fully paid preference shares issued by NAB on 20 March 2013
<b>NAB CPS II</b>	Convertible preference shares, being fully paid preference shares issued by NAB which are to be issued under this Prospectus

# Appendix B:

## Glossary

Term	Meaning
<b>NAB Level 1 Group</b>	Has the meaning given to it in clause 24.1 of the Terms
<b>NAB Level 2 Group</b>	Has the meaning given to it in clause 24.1 of the Terms
<b>NAB Subordinated Notes</b>	Unsecured, subordinated debt obligations of NAB constituted by, and owing under a deed poll, issued by NAB under an offer document dated 21 May 2012
<b>NAB Undated Subordinated Floating Rate Notes</b>	The undated subordinated floating rate notes issued by NAB
<b>National Income Securities</b>	The securities issued under a prospectus dated 10 May 1999
<b>NOHC</b>	A “non-operating holding company” within the meaning of the Banking Act
<b>NOHC Event</b>	Has the meaning given to it in clause 24.1 of the Terms
<b>Non-Conversion Test Date</b>	Has the meaning given to it in clause 6.4 of the Terms
<b>Non-Viability Trigger Event</b>	Has the meaning given to it in clause 4.3 of the Terms
<b>Offer</b>	The offer made through this Prospectus by NAB of NAB CPS II to raise \$750 million, with the ability to raise more or less. The offer comprises the Broker Firm Offer, Securityholder Offer, Institutional Offer and the General Offer
<b>Offer Management Agreement</b>	The offer management agreement entered into between NAB, the Arranger and Joint Lead Manager, and the Joint Lead Managers as summarised in Section 9.3
<b>Offer Period</b>	The period from the Opening Date to the Closing Date
<b>Opening Date</b>	The opening date of the Offer which is 20 November 2013
<b>Optional Conversion Date</b>	Has the meaning given to it in clause 6.3 of the Terms
<b>Optional Conversion Restriction</b>	Has the meaning given to it in clause 6.4 of the Terms
<b>Ordinary Resolution</b>	A resolution passed at a meeting of Holders by a majority of at least 50% of the votes validly cast by Holders in person or by proxy and entitled to vote on the resolution
<b>Ordinary Share</b>	A fully paid ordinary share in the capital of NAB
<b>Payment Condition</b>	Has the meaning given to it in clause 24.1 of the Terms
<b>Potential Acquisition Event</b>	Has the meaning given to it in clause 24.1 of the Terms
<b>Prospectus</b>	This Prospectus which was lodged with ASIC on 12 November 2013
<b>protected account</b>	<p>Broadly, a protected account is, subject to certain conditions, an account or a specified financial product:</p> <ul style="list-style-type: none"> <li>• Where NAB is required to pay the account-holder, on demand or at an agreed time, the net credit balance of the account; or</li> <li>• Otherwise prescribed by regulation.</li> </ul> <p>The Australian Treasurer has published a declaration of products prescribed as protected accounts for the purposes of the Banking Act.</p>
<b>Prudential Capital Requirements</b>	Has the meaning given to it in clause 24.1 of the Terms

<b>Term</b>	<b>Meaning</b>
<b>Prudential Standards</b>	Means a prudential standard issued by APRA under its powers in the Banking Act
<b>Record Date</b>	Has the meaning given to that term in clause 24.1 of the Terms
<b>Redemption</b>	In relation to a NAB CPS II, subject to amendment in accordance with clause 18.1(a)(vi) of the Terms, the redemption, buy-back (other than an on-market buy-back within the meaning of the Corporations Act) or reduction of capital, or any combination of such actions, in accordance with clause 8 of the Terms Redeem and Redeemed have corresponding meanings
<b>Registrar or Registry</b>	Computershare Investor Services Pty Limited (ABN 48 078 279 277) or any other registry that NAB appoints
<b>Regulatory Event</b>	Has the meaning given to it in clause 24.1 of the Terms
<b>Relevant Fraction</b>	Has the meaning given to it in clause 7.1 of the Terms
<b>Relevant Tier 1 Capital Instruments</b>	Has the meaning given to it in clause 24.1 of the Terms
<b>Relevant Tier 2 Capital Instruments</b>	Tier 2 Capital Instruments that, in accordance with their terms or by operation of law, are capable of being Converted into Ordinary Shares or written off
<b>Resale</b>	Has the meaning given to it in clause 24.1 of the Terms Resold and Resell have corresponding meanings
<b>Resale Price</b>	Has the meaning given to it in clause 24.1 of the Terms
<b>Second Mandatory Conversion Condition</b>	Has the meaning given to it in clause 3.3 of the Terms
<b>Securityholder Offer</b>	The offer as described in Section 3 “Applying for NAB CPS II”
<b>Shareholder</b>	A holder of Ordinary Shares from time to time
<b>Special Resolution</b>	Means a resolution passed at a meeting of Holders by a majority of at least 75% of the votes validly cast by Holders in person or by proxy and entitled to vote on the resolution
<b>Syndicate Broker</b>	Means any of the Joint Lead Managers (or their affiliated retail brokers), Co-Managers and any other participating broker in the Offer
<b>Tax Event</b>	Has the meaning given to it in clause 24.1 of the Terms
<b>Tax Rate</b>	Has the meaning given to it in clause 2.4 of the Terms
<b>Terms</b>	The terms of NAB CPS II as set out in Appendix A
<b>TFN</b>	Tax File Number
<b>Third Mandatory Conversion Condition</b>	Has the meaning given to it in clause 3.3 of the Terms
<b>Tier 1 Capital</b>	Tier 1 Capital as defined by APRA from time to time
<b>Tier 2 Capital</b>	Tier 2 Capital as defined by APRA from time to time

# Appendix B:

## Glossary

<b>Term</b>	<b>Meaning</b>
<b>TPS</b>	The trust preferred securities issued by National Capital Trust I in 2003 which are exchangeable for global depositary receipts, evidenced by global depositary shares, representing preference shares which may be issued by NAB in an aggregate liquidation amount of up to £400 million
<b>TPS II</b>	The trust preferred securities issued by National Capital Trust II in 2005 which are exchangeable for preference shares which may be issued by NAB in an aggregate liquidation amount of up to US\$800 million
<b>Total Capital Ratio</b>	The ratio so described by APRA (or any equivalent successor term)
<b>VWAP</b>	Has the meaning given to it in clause 24.1 of the Terms
<b>Written Off</b>	Has the meaning given to it in clause 4.5 of the Terms Write Off has a corresponding meaning



# Corporate Directory

## Issuer

National Australia Bank Limited  
Level 1  
800 Bourke Street  
Docklands VIC 3008

## Arranger & Joint Lead Manager

National Australia Bank Limited  
Level 25,  
255 George Street  
Sydney NSW 2000

## Joint Lead Managers

ANZ Securities Limited  
ANZ Centre Melbourne  
Level 9, 833 Collins Street  
Docklands VIC 3008

Deutsche Bank AG,  
Sydney Branch  
Level 16, Deutsche Bank Place  
Corner Hunter & Phillip Streets  
Sydney NSW 2000

Evans and Partners Pty Ltd  
Level 7, Mayfair Building  
171 Collins Street  
Melbourne VIC 3000

Morgans Financial Limited  
Level 29, Riverside Centre  
123 Eagle Street  
Brisbane QLD 4000

Morgan Stanley Australia  
Securities Limited  
Level 39, Chifley Tower  
2 Chifley Square  
Sydney NSW 2000

## Co-Managers

Bell Potter Securities Limited  
38/88 Phillip Street  
Sydney NSW 2000

JBWere Limited  
Level 16, 101 Collins Street  
Melbourne VIC 3000

## Australian Legal Adviser

King & Wood Mallesons  
Level 50, 600 Bourke Street  
Melbourne VIC 3000

## Australian Tax Adviser

Greenwoods & Freehills Pty Limited  
ANZ Tower  
161 Castlereagh Street  
Sydney NSW 2000

## Auditor

Ernst & Young  
8 Exhibition Street  
Melbourne VIC 3000

## Registry

Computershare Investor Services  
Pty Limited  
Yarra Falls  
452 Johnson Street  
Abbotsford VIC 3067

## How to contact us

Call us on the NAB Information Line

1300 367 647 (within Australia) or  
+61 3 9415 4299 (International)

(Monday to Friday –  
8.00am to 7.30pm AEDT)

Website: [www.nab.com.au/cps](http://www.nab.com.au/cps)

Find us on the web at  
[www.nabgroup.com/shareholder](http://www.nabgroup.com/shareholder)  
or [www.nab.com.au](http://www.nab.com.au)

