



# PROSPECTUS

## NAB SUBORDINATED NOTES 2

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**Prospectus for the issue of NAB Subordinated Notes 2** to raise

\$750 million, with the ability to raise more or less.

This investment is riskier than a bank deposit. The NAB Subordinated Notes 2 are not call deposits or term deposits with NAB and may not be suitable for all investors.

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

If you have any questions, you should seek advice from your financial adviser or other professional adviser before deciding to invest in NAB Subordinated Notes 2.

**Issuer**

National Australia Bank Limited  
ABN 12 004 044 937

**Arranger**

National Australia Bank Limited

**Joint Lead Managers**

National Australia Bank Limited  
Commonwealth Bank of Australia  
Morgans  
Westpac Institutional Bank

**Co-Managers**

JBWere Limited  
Macquarie Equities Limited



# IMPORTANT NOTICES

## About this Prospectus

This Prospectus relates to the offer by National Australia Bank Limited ABN 12 004 044 937 of NAB Subordinated Notes 2 to raise \$750 million, with the ability to raise more or less.

This Prospectus is dated 8 February 2017 and a copy of this Prospectus was lodged with ASIC on that date. This Prospectus expires on the date which is 13 months after 8 February 2017 and no NAB Subordinated Notes 2 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.

## Offer

The Offer comprises the Reinvestment Offer, the Securityholder Offer, the Broker Firm Offer and the Institutional Offer. The Reinvestment Offer provides eligible holders of NAB Subordinated Notes issued by NAB on 18 June 2012 (“NSN”) with the opportunity to reinvest their NSN funds into NAB Subordinated Notes 2 and maintain an ongoing investment in NAB.

## Exposure Period

Under the Corporations Act, NAB is prohibited from processing Applications in the seven day period after 8 February 2017, 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 Subordinated Notes 2 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. This investment is riskier than a bank deposit. NAB Subordinated Notes 2 are complex and may not be suitable for all investors.**

NAB Subordinated Notes 2 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 Subordinated Notes 2 are subject to risks which could affect their performance, including interest rate risk and market price fluctuation. These risks could result in the loss of your investment and any associated income. NAB does not warrant or guarantee the future performance of NAB or the investment performance of NAB Subordinated Notes 2 (including the market price).

NAB must immediately Convert all or, in some cases, some NAB Subordinated Notes 2 into Ordinary Shares if a Non-Viability Trigger Event occurs. A Non-Viability Trigger Event may occur where NAB encounters severe financial difficulty. In the event of a Conversion following a Non-Viability Trigger Event, depending on the market price of Ordinary Shares at the relevant time, Holders may lose a significant amount of the money they invested in NAB Subordinated Notes 2 as a consequence. Following Conversion there is no certainty as to the future value of the Ordinary Shares. If NAB Subordinated Notes 2 are not Converted at that time they will be Written-Off and you will lose your money. A Conversion or Write-Off following a Non-Viability Trigger Event is unconditional and you will not be given any choice if a Non-Viability Trigger Event occurs.

Information about the key risks of investing in NAB Subordinated Notes 2 is detailed in Section 1.2 “Key Risks of NAB Subordinated Notes 2” and in Section 7 “Key Risks of NAB Subordinated Notes 2”.

## ASX quotation

NAB will apply for NAB Subordinated Notes 2 to be quoted on ASX within seven days after the date of this Prospectus.

## Financial information and forward-looking statements

Section 6 sets out financial information in relation to NAB. The basis of preparation of that information is set out in Section 6. 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”, “believe”, “estimate”, “expect”, “intend”, “plan”, “project”, “anticipate”, “likely”, “will”, “should” 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 7, 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 Subordinated Notes 2 and consider the risks that could affect the performance of NAB Subordinated Notes 2.

If you have any questions, you should seek advice from your financial adviser or other professional adviser before deciding to invest in NAB Subordinated Notes 2.

### **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 of NAB Subordinated Notes 2”.

If there is any inconsistency between the description of the terms of NAB Subordinated Notes 2 in this Prospectus and in the Terms, 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), during the Offer Period. This Prospectus and an Application Form can also be obtained electronically from **[www.nab.com.au/nsn2offer](http://www.nab.com.au/nsn2offer)**.

### **Electronic access to the 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 Subordinated Notes 2 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) (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.

NAB Subordinated Notes 2 have not been, and will not be, registered under the U.S. 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 “U.S. person” (as defined in Regulation S under the Securities Act) unless the NAB Subordinated Notes 2 are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. 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 Subordinated Notes 2, NAB (or the Registrar as NAB’s agent) will collect and hold your personal information.

See Section 9.11 “Personal information” on how NAB (as well as its subsidiaries and third party suppliers) collect, use and disclose your personal information.

# KEY DATES\*

## Key dates for Offer

Record Date for Securityholder Offer	3 February 2017
Announcement of the Offer	8 February 2017
Lodgement of Prospectus with ASIC	8 February 2017
Bookbuild	15 February 2017
Announcement of Margin	15 February 2017
Offer Opens	16 February 2017
Reinvestment and Securityholder Offers Close	10 March 2017
Broker Firm (excluding applications to reinvest NSN) and Institutional Offers Close	17 March 2017
Issue of NAB Subordinated Notes 2	20 March 2017
Commencement of deferred settlement trading	21 March 2017
Completion of despatch of Holding Statements	24 March 2017
Commencement of trading on normal settlement basis	27 March 2017
First Interest Payment Date	20 June 2017
First Optional Redemption Date <sup>1</sup>	20 September 2023
Maturity Date <sup>2</sup>	20 September 2028

<sup>1</sup> With APRA's prior written approval, NAB may elect to Redeem NAB Subordinated Notes 2 on 20 September 2023 and on any Interest Payment Date thereafter and on the occurrence of certain other events. Holders should not expect that APRA's approval will be given for any optional Redemption. This date assumes the Issue Date is 20 March 2017.

<sup>2</sup> This date assumes the Issue Date is 20 March 2017.

## Key dates for NSN Holders

Record date for determining Eligible NSN Holders for Reinvestment Offer (relevant NSN must also be held on the Closing Date for the Reinvestment Offer)	3 February 2017
Opening Date for the Reinvestment Offer	16 February 2017
Closing Date for the Reinvestment Offer	10 March 2017
Closing Date for Broker Firm Offer (applications to reinvest NSN)	10 March 2017
Issue of NAB Subordinated Notes 2	20 March 2017
Quarterly interest payment of \$1.1306 per NSN (including Reinvested NSN) <sup>1</sup>	20 March 2017
Expected redemption of NSN and quarterly interest payment date for remaining NSN	19 June 2017 <sup>2</sup>

<sup>1</sup> This is the accrued NSN interest payment from (and including) 18 December 2016 to (but excluding) the Issue Date.

<sup>2</sup> Under the terms of the NSN, an optional redemption date and interest payment date occur on 18 June 2017, unless that day is not a Business Day, in which case the optional redemption date and interest payment date occur on the next Business Day. As 18 June 2017 is not a Business Day, the optional redemption date and interest payment date for remaining NSN is 19 June 2017.

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

NAB 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 Subordinated Notes 2 are issued, at its discretion.

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

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# HOW TO APPLY FOR NAB SUBORDINATED NOTES 2

## 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 Subordinated Notes 2 in Section 2;
- Key risks of NAB Subordinated Notes 2 in Section 7; and
- Terms of NAB Subordinated Notes 2 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 Subordinated Notes 2 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 Subordinated Notes 2, you should speak to your professional adviser about the Offer.**

ASIC has published guidance which may be relevant to your consideration of whether to invest in NAB Subordinated Notes 2 – namely, information for retail investors who are considering investing in hybrid securities.

You can find this guidance by searching “hybrid securities and notes” at [www.moneysmart.gov.au/investing](http://www.moneysmart.gov.au/investing). ASIC’s guidance includes a series of questions you may wish to ask yourself, and a short quiz you can complete, to check your understanding of how hybrids work, their features and the risks of investing in them.

## 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 4 of this Prospectus and the Application Form for complete information on the Application process.

Applications must be for a minimum of 50 NAB Subordinated Notes 2 (\$5,000). If your Application is for more than 50 NAB Subordinated Notes 2, then you must apply in incremental multiples of 10 NAB Subordinated Notes 2 – that is, for incremental multiples of \$1,000. If you are applying under the Reinvestment Offer and own less than 50 NSN, you must apply to reinvest all of your NSN.

If you are applying under the Reinvestment or Securityholder Offers, your application must be received by 5.00pm on 10 March 2017. If you are applying under the Broker Firm Offer (other than to reinvest your NSN) or Institutional Offers, your application must be received by 10.00am on 17 March 2017.

If you are applying under the Broker Firm Offer (including to reinvest your NSN), your Application must be lodged in accordance with the instructions from your Syndicate Broker.

If you are applying to participate in the Reinvestment Offer directly through NAB or applying under the Securityholder Offer, your Application must be made either online at [www.nab.com.au/nsn2offer](http://www.nab.com.au/nsn2offer) or by lodging a completed Application Form with the Registry. Applications will not be accepted at NAB’s registered office or any other NAB office or branch.

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# INVESTMENT OVERVIEW

This section provides a summary of the key features and risks of NAB Subordinated Notes 2 and the Offer. You should read the Prospectus in full before deciding to apply for NAB Subordinated Notes 2.

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# SECTION ONE: INVESTMENT OVERVIEW

## 1.1 Key features of the Offer and NAB Subordinated Notes 2

Topic	Summary	Further information
<b>Issuer</b>	National Australia Bank Limited (“NAB”)  The Group is a financial services organisation with approximately 35,000 employees, operating through a network of more than 1,000 locations, with more than 582,000 shareholders and serving nearly 10 million customers. The majority of the Group’s financial services businesses operate in Australia and New Zealand, with branches located in Asia, the UK and the US.  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.	Section 5
<b>Offer Size</b>	\$750 million, with the ability to raise more or less.	
<b>Type of security</b>	Subordinated unsecured notes, directly issued by NAB which are not guaranteed by any person. NAB Subordinated Notes 2 are not deposit liabilities of NAB and are not Protected Accounts for the purposes of the Banking Act or any other accounts with NAB.	
<b>Purpose and regulatory classification</b>	NAB is issuing NAB Subordinated Notes 2 to raise Tier 2 Capital for the purposes of the regulatory capital requirements that apply to NAB and APRA has confirmed that the NAB Subordinated Notes 2 will qualify as Tier 2 Capital.	Section 2.7
<b>Use of proceeds</b>	The net proceeds of the Offer will be used to refinance NSN and for general corporate purposes.	
<b>Face Value</b>	\$100 per NAB Subordinated Note 2.	
<b>Term</b>	NAB Subordinated Notes 2 will mature on the Maturity Date 20 September 2028, unless previously redeemed, or purchased by NAB or a Related Entity and cancelled, or Converted or Written-Off.	Section 2.2
<b>Interest</b>	A NAB Subordinated Note 2 entitles the Holder to receive floating rate, cumulative Interest, payable quarterly in arrears in cash, until it is Redeemed, Converted or Written-Off.  The Interest Rate is equal to the sum of the Bank Bill Rate plus the Margin.  The Margin is the margin to be determined under the Bookbuild, expected to be in the range of 2.20% to 2.30%. The Margin will not change for the term of the NAB Subordinated Notes 2.  The Interest Payment Dates are each of 20 March, 20 June, 20 September and 20 December.  The first Interest payment is expected to be paid on 20 June 2017.  Interest paid on NAB Subordinated Notes 2 will not be franked.  Interest is not discretionary or deferrable. NAB must pay Interest to Holders unless the Solvency Condition is not satisfied. If the Solvency Condition is not satisfied on a particular Interest Payment Date, Interest will not be paid on that date.	Section 2.1

Topic	Summary	Further information
<b>Optional Redemption</b>	<p>NAB may, with the prior written approval of APRA, elect to Redeem all or some NAB Subordinated Notes 2 for the Face Value (\$100) in cash on 20 September 2023 and on any Interest Payment Date thereafter up to but excluding the Maturity Date (each an “<b>Optional Redemption Date</b>”). Holders should not expect that APRA’s approval will be given in these circumstances.</p> <p>There are restrictions on NAB’s ability to Redeem NAB Subordinated Notes 2 on an Optional Redemption Date. Details are set out in Section 2.2 of this Prospectus and in the Terms.</p>	Section 2.2
<b>Redemption in other circumstances</b>	<p>NAB may, with the prior written approval of APRA, elect to Redeem all or some NAB Subordinated Notes 2 following the occurrence of a Tax Event or Regulatory Event. Holders should not expect that APRA’s approval will be given in these circumstances.</p> <p>On Redemption in these circumstances, a Holder will receive an amount equal to:</p> <ul style="list-style-type: none"> <li>• the Face Value of \$100; plus</li> <li>• any accrued but unpaid Interest up to the Redemption Date.</li> </ul> <p>Other conditions apply to any Redemption in these circumstances. Details are set out in Section 2.2 of this Prospectus and in the Terms.</p>	Section 2.2
<b>Solvency Condition</b>	<p>NAB’s obligation to make payments in respect of the NAB Subordinated Notes 2 (including to pay Interest and repay the Face Value on maturity or when NAB Subordinated Notes 2 are to be Redeemed) is conditional on NAB being Solvent at the time of payment and immediately after making the payment.</p> <p>A failure by NAB to make a payment because of a failure to satisfy the Solvency Condition is not an Event of Default. Any unpaid amounts remain a debt payable to the Holder by NAB and will be payable on the first date on which the Solvency Condition is satisfied.</p>	Section 2.3

# SECTION ONE: INVESTMENT OVERVIEW

## 1.1 Key features of the Offer and NAB Subordinated Notes 2

Topic	Summary	Further information
<p><b>Conversion following a Non-Viability Trigger Event</b></p>	<p>NAB must convert a number of NAB Subordinated Notes 2 into Ordinary Shares if a Non-Viability Trigger Event occurs.</p> <p>A Non-Viability Trigger Event may occur where NAB encounters severe financial difficulty.</p> <p>Broadly, the number of Ordinary Shares into which a NAB Subordinated Note 2 will Convert is calculated by dividing the Face Value (\$100) by the VWAP of Ordinary Shares at the time of Conversion discounted by 1% to reflect the likely costs of sale of Ordinary Shares on the ASX. However, the maximum number of Ordinary Shares that can be issued on Conversion of a NAB Subordinated Note 2 is capped (as required by APRA) by reference to 20% of the Issue Date VWAP of Ordinary Shares.</p> <p>In the event of a Conversion following a Non-Viability Trigger Event, the value of Ordinary Shares that Holders will receive will depend on the market price of Ordinary Shares at the relevant time. Given that NAB is likely to be in severe financial difficulty at the time of a Non-Viability Trigger Event, the cap on the maximum number of Ordinary Shares that can be issued is likely to apply. As a result, Holders are likely to receive Ordinary Shares that are worth significantly less than the amount invested. There is no certainty as to the future price of Ordinary Shares.</p> <p>If, for any reason, NAB Subordinated Notes 2 required to be Converted are not Converted within 5 Business Days after the Conversion Date they will be Written-Off.</p> <p> Holders do not have any right to vote on or choose whether to participate in any Conversion or Write-Off. Where Conversion is required, it is unconditional and Holders have no right to refuse to have their NAB Subordinated Notes 2 Converted or Written-Off.</p> <p>The details of a Non-Viability Trigger Event, Conversion calculations and consequences of a Write-Off are set out in Section 2.4 of this Prospectus and in the Terms.</p>	<p>Section 2.4</p>
<p><b>Conditions apply to Holders' right to return of capital</b></p>	<p> Holders should understand that their right to be repaid the Face Value of their NAB Subordinated Notes 2 is subject to conditions. If the Solvency Condition is satisfied, NAB will redeem any NAB Subordinated Notes 2 still on issue on the Maturity Date, being 20 September 2028.</p> <p>For each NAB Subordinated Note 2 that is Redeemed on the Maturity Date, a Holder will receive an amount equal to:</p> <ul style="list-style-type: none"> <li>• the Face Value; plus</li> <li>• any accrued and unpaid Interest up to the Maturity Date.</li> </ul> <p> Holders have no right to demand early repayment of their NAB Subordinated Notes 2, except in certain circumstances where NAB is in Winding Up.</p> <p>Any amount unpaid because of the Solvency Condition remains a debt payable to the Holder by NAB and will be payable on the first date on which the Solvency Condition is satisfied.</p> <p>If a Non-Viability Trigger Event occurs, NAB's obligation to pay the Face Value as well as Interest on the NAB Subordinated Notes 2 will be terminated.</p>	

Topic	Summary	Further information
<b>Offer Structure</b>	<p>The Offer comprises:</p> <ul style="list-style-type: none"> <li>• the Reinvestment Offer;</li> <li>• the Securityholder Offer;</li> <li>• the Broker Firm Offer; and</li> <li>• the Institutional Offer.</li> </ul> <p>The Reinvestment Offer provides Eligible NSN Holders with the opportunity to reinvest their NSN funds into NAB Subordinated Notes 2 and maintain an ongoing investment in NAB.</p> <p>Applications from Eligible NSN Holders to participate in the Reinvestment Offer can be made directly to NAB or through a Syndicate Broker.</p>	Section 4
<b>Differences between NSN and NAB Subordinated Notes 2</b>	<p><b>There are important differences between NSN and NAB Subordinated Notes 2. Eligible NSN Holders should consider these differences before deciding whether to apply to participate in the Reinvestment Offer.</b></p> <p>In particular:</p> <ul style="list-style-type: none"> <li>• The margin applicable to NSN is 2.75%. The Margin for NAB Subordinated Notes 2 is expected to be in the range of 2.20% to 2.30%;</li> <li>• NAB Subordinated Notes 2 are subject to Conversion and Write-Off on account of a Non-Viability Trigger Event. The NSN are not subject to such provisions; and</li> <li>• in a Winding Up of NAB, a Holder’s claim to an amount owing by NAB in connection with a NAB Subordinated Note 2 ranks junior to claims of holders of NSN and instruments that rank equally with NSN – see Table 2.</li> </ul> <p>See Section 3.2 which further describes the differences between NSN and NAB Subordinated Notes 2.</p>	Section 3.2
<b>Quotation</b>	<p>It is expected that NAB Subordinated Notes 2 will be quoted on the ASX under ASX code “NABPE”, and that Holders will be able to buy and sell NAB Subordinated Notes 2 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 Subordinated Notes 2**

The table below summarises certain events that may occur during the life of NAB Subordinated Notes 2, and what Holders may receive upon the occurrence of such events. The events are subject to contingencies such as the Solvency and / or non-viability of NAB and in some cases election by NAB and, accordingly, may not occur.

	When?	Is APRA approval required?#	Do conditions apply?	What value will a Holder receive?	In what form will that value be provided to Holders?
<b>Optional Redemption</b>	On 20 September 2023 and on any Interest Payment Date thereafter up to but excluding the Maturity Date	Yes	Yes	\$100 (Face Value) and any accrued but unpaid interest	Cash
<b>Redemption on the Maturity Date</b>	On 20 September 2028	No	Yes	\$100 (Face Value) and any accrued but unpaid interest	Cash
<b>Redemption in other circumstances</b>	If a Tax Event or a Regulatory Event occurs	Yes	Yes	\$100 (Face Value) and any accrued but unpaid interest	Cash
<b>Conversion into Ordinary Shares</b>	If a Non-Viability Trigger Event occurs	No	No	Determined by dividing the Face Value (\$100) by the VWAP discounted by 1% (resulting in Ordinary Shares with a value of approximately \$101). The maximum number of Ordinary Shares issued is capped by reference to a price which is 20% of the Issue Date VWAP. Depending on the market price of Ordinary Shares, Holders are likely to lose a significant amount of the money they invested in NAB Subordinated Notes 2 as a consequence	Variable number of Ordinary Shares. If NAB Subordinated Notes 2 are not Converted for any reason within the required time, NAB Subordinated Notes 2 will be Written-Off <sup>^</sup>

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

<sup>^</sup> If a NAB Subordinated Note 2 is Written-Off, all rights (including to Interest) in respect of that NAB Subordinated Note 2 will be terminated, the NAB Subordinated Note 2 will not be Redeemed or Converted on a subsequent date and the Holder will not have their capital repaid.

## Ranking

In a Winding Up of NAB, NAB Subordinated Notes 2 rank ahead of Junior Ranking Instruments, equally amongst themselves, equally with Equal Ranking Instruments and junior to Senior Creditors (which include NSN holders and depositors), as shown in Table 2. However, the amount of any return in a Winding Up will be adversely affected if a Non-Viability Trigger Event has occurred.

If NAB Subordinated Notes 2 are Converted, the Ordinary Shares received on Conversion will rank equally with all other Ordinary Shares and are the lowest ranking securities in respect of NAB. If NAB Subordinated Notes 2 are Written-Off, all rights in respect of those NAB Subordinated Notes 2 will be terminated, the NAB Subordinated Notes 2 will not be Redeemed or Converted on a subsequent date and the Holders will not have their capital repaid or be entitled to any return in a Winding Up.

**Table 2: Illustration of ranking on Winding Up**

Higher ranking



Lower ranking

	Examples	Examples of existing NAB obligations and securities <sup>1</sup>
<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 issued before 1 January 2013	NSN and other dated subordinated unsecured debt obligations issued before 1 January 2013
<b>Equal ranking obligations</b>	Term subordinated unsecured debt issued after 1 January 2013 and perpetual subordinated unsecured debt	<b>NAB Subordinated Notes 2<sup>2</sup></b> , and any securities expressed to rank equally with NAB Subordinated Notes 2, which include: <ul style="list-style-type: none"> <li>• the Undated Subordinated Floating Rate Notes; and</li> <li>• other instruments issued after 1 January 2013 as Relevant Tier 2 Capital Instruments.</li> </ul>
<b>Lower ranking obligations</b>	Preference shares and other equally ranked instruments	<ul style="list-style-type: none"> <li>• NAB Capital Notes 2.</li> <li>• NAB Capital Notes.</li> <li>• NAB CPS II.</li> <li>• NAB CPS.</li> <li>• The preference shares which may be issued under the TPS (if issued).</li> <li>• The preference shares comprised in the National Income Securities.</li> </ul>
	Ordinary Shares	Ordinary Shares

1 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 Subordinated Notes 2 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.

2 If a NAB Subordinated Note 2 is Converted, the Ordinary Shares a Holder receives on Conversion will rank equally with other Ordinary Shares in a Winding Up of NAB. If a Write-Off of a NAB Subordinated Note 2 occurs following a Non-Viability Trigger Event, the rights of the Holder to Interest and a return of capital in respect of that NAB Subordinated Note 2 will be terminated, the NAB Subordinated Note 2 will not be Redeemed or Converted on any subsequent date and the Holder will not have their capital repaid.

# SECTION ONE: INVESTMENT OVERVIEW

## 1.2 Key risks of NAB Subordinated Notes 2

You should read Section 7 “Key Risks of NAB Subordinated Notes 2” in full before deciding to invest. The key risks outlined in that section include risks associated with an investment in NAB Subordinated Notes 2 and an investment in NAB. Some of these risks are summarised below.

### 1.2.1 Key risks associated with an investment in NAB Subordinated Notes 2

Topic	Summary	Further information
<b>NAB Subordinated Notes 2 are not deposit liabilities or Protected Accounts</b>	NAB Subordinated Notes 2 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 7.1.1
<b>The Interest Rate will fluctuate</b>	The Interest Rate is likely to change. It may go up or down. There is a risk that the return on NAB Subordinated Notes 2 may become less attractive compared to returns on other investments.	Section 7.1.2
<b>All payments are subject to the Solvency Condition</b>	<p>NAB is not required to make any payment in respect of the NAB Subordinated Notes 2 if, on the day that payment is due, NAB is not, or would not be, Solvent. Holders may not take any action to recover an amount that is not required to be paid because of the Solvency Condition.</p> <p>Unpaid amounts will remain a debt owing to the Holder by NAB until paid and will be payable on the first Business Day on which NAB meets the Solvency Condition.</p> <p>However, if a Non-Viability Trigger Event occurs, all of NAB’s obligations to make payments in respect of the NAB Subordinated Notes 2 will cease and Holders will have no right to recover any unpaid amounts.</p>	Section 7.1.3
<b>Market price of NAB Subordinated Notes 2</b>	The market price of NAB Subordinated Notes 2 may go up or down and there is no guarantee NAB Subordinated Notes 2 will trade at or above their Face Value. The price at which NAB Subordinated Notes 2 trade may, for example, be affected by how the Interest Rate of NAB Subordinated Notes 2 compares to that of other comparable instruments.	Section 7.1.4
<b>Liquidity of NAB Subordinated Notes 2</b>	The liquidity of NAB Subordinated Notes 2 may be low, which means that, at certain times, you may be unable to sell your NAB Subordinated Notes 2 at an acceptable price, if at all.	Section 7.1.5

Topic	Summary	Further information
<p><b>Liquidity and price of Ordinary Shares</b></p>	<p>Where NAB Subordinated Notes 2 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 the number of Ordinary Shares you will receive in the event the NAB Subordinated Notes 2 Convert following a Non-Viability Trigger Event.</p> <p>See on page 16 the heading “Conversion or Write-Off following a Non-Viability Trigger Event” and Section 7 for further information on the Conversion or Write-Off of NAB Subordinated Notes 2 following a Non-Viability Trigger Event.</p>	<p>Sections 7.1.4 and 7.1.5</p>
<p><b>Holders have no right to request early redemption</b></p>	<p>Holders have no right to request that NAB repay their NAB Subordinated Notes 2 before the Maturity Date (except in certain circumstances where NAB is in Winding Up). Before the Maturity Date, absent a Redemption or Conversion, to realise their investment, Holders will have to sell their NAB Subordinated Notes 2 on the ASX at the prevailing market price. That price may be less than the Face Value, and there may be no liquid market in NAB Subordinated Notes 2.</p>	<p>Sections 7.1.4, 7.1.5, and 7.1.6</p>
<p><b>NAB has certain early Redemption rights</b></p>	<p>Subject to the prior written approval of APRA and certain conditions being met, NAB has the right to Redeem NAB Subordinated Notes 2:</p> <ul style="list-style-type: none"> <li>• on 20 September 2023 and on any Interest Payment Date falling after that date up to but excluding the Maturity Date (each an Optional Redemption Date); and</li> <li>• following the occurrence of a Tax Event or a Regulatory Event.</li> </ul> <p>Holders should not expect that APRA’s approval, if requested, will be given for any Redemption of NAB Subordinated Notes 2.</p> <p>The amount received on Redemption, being the Face Value and any accrued but unpaid Interest up to the Redemption Date, may be less than the current market value of NAB Subordinated Notes 2.</p>	<p>Sections 7.1.6 and 7.1.7</p>

# SECTION ONE: INVESTMENT OVERVIEW

## 1.2.1 Key risks associated with an investment in NAB Subordinated Notes 2

Topic	Summary	Further information
<b>Conversion or Write-Off following a Non-Viability Trigger Event</b>	<p>NAB must convert a number of NAB Subordinated Notes 2 into Ordinary Shares if a Non-Viability Trigger Event occurs.</p> <p>A Non-Viability Trigger Event may occur where NAB encounters severe financial difficulty.</p> <p>Broadly, the number of Ordinary Shares into which a NAB Subordinated Note 2 will Convert is calculated by dividing the Face Value (\$100) by the VWAP of Ordinary Shares at the time of Conversion discounted by 1% to reflect the likely costs of sale of Ordinary Shares on the ASX. This will potentially result in Ordinary Shares with a value (on a VWAP basis) of approximately \$101. However, the maximum number of Ordinary Shares that can be issued on Conversion of a NAB Subordinated Note 2 is capped (as required by APRA) by reference to 20% of the Issue Date VWAP of Ordinary Shares.</p> <p>If Conversion occurs following a Non-Viability Trigger Event, the value of Ordinary Shares that Holders will receive will depend on the market price of the Ordinary Shares at that time. Given that NAB is likely to be in severe financial difficulty at the time of a Non-Viability Trigger Event, the cap on the maximum number of Ordinary Shares that can be issued is likely to apply. As a result, Holders are likely to receive significantly less than \$101 worth of Ordinary Shares per NAB Subordinated Note 2 they hold.</p> <p>In cases where NAB Subordinated Notes 2 are not Converted for any reason within five Business Days after the Conversion Date, NAB Subordinated Notes 2 will be Written-Off (with effect on and from the Conversion Date). Holders do not have any right to vote on or choose whether to participate in any Conversion or Write-Off. Where Conversion is required, it is unconditional and Holders have no right to refuse to have their NAB Subordinated Notes 2 Converted or Written-Off.</p> <p>If a NAB Subordinated Note 2 is Written-Off following a Non-Viability Trigger Event, the rights of the Holder to Interest and a return of capital in respect of that NAB Subordinated Note 2 will be terminated, the NAB Subordinated Note 2 will not be Redeemed or Converted on any subsequent date and the Holder will not have their capital repaid.</p>	Section 7.1.8
<b>Ranking in a Winding Up of NAB</b>	<p>In a Winding Up of NAB, NAB Subordinated Notes 2 rank ahead of Junior Ranking Instruments, equally amongst themselves, equally with all Equal Ranking Instruments, but behind the claims of all Senior Creditors (which include NSN holders and depositors) – see Table 2 in Section 1.1.</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 Subordinated Notes 2.</p> <p>A Holder's return in a Winding Up will also be adversely affected if a Non-Viability Trigger Event occurs (see above and Section 7.1.8). If NAB Subordinated Notes 2 are Converted, Holders will only be entitled to claim against NAB in a Winding Up as Ordinary Shareholders. If NAB Subordinated Notes 2 are Written-Off, Holders will not have their capital repaid and will not be entitled to any return in a Winding Up.</p>	Sections 7.1.8 and 7.1.10
<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 7.1.11

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

See Section 7.2 for a description of the risks associated with an investment in NAB and the Group.

## 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 Reinvestment Offer;</li> <li>• the Securityholder Offer;</li> <li>• the Broker Firm Offer; and</li> <li>• the Institutional Offer.</li> </ul> <p>Information about the different types of offer and how to apply is provided in Section 4 “Applying for NAB Subordinated Notes 2”.</p> <p>If you are applying under the Reinvestment Offer, you must also read Section 3 “About the Reinvestment Offer”.</p>	Section 4
<b>Reinvestment Offer</b>	<p>The Reinvestment Offer provides Eligible NSN Holders with the opportunity to reinvest their NSN funds into NAB Subordinated Notes 2 and maintain an ongoing investment in NAB.</p> <p>The Reinvestment Offer is an invitation to Eligible NSN Holders to:</p> <ul style="list-style-type: none"> <li>• apply to sell all or some of their NSN to NAB for \$100 per NSN;</li> <li>• apply to NAB for a corresponding number of NAB Subordinated Notes 2 (i.e. the same number as the number of NSN you apply to sell to NAB); and</li> <li>• direct NAB to pay \$100 per Reinvested NSN as Application Monies for the number of NAB Subordinated Notes 2 applied for.</li> </ul> <p>Eligible NSN Holders who successfully participate in the Reinvestment Offer will also receive accrued NSN interest of \$1.1306 per NSN in cash for the period from (and including) 18 December 2016 to (but excluding) the Issue Date. That interest is due to be paid on 20 March 2017. You will receive no further distributions on the Reinvested NSN.</p> <p>You are an Eligible NSN Holder if you:</p> <ul style="list-style-type: none"> <li>• were registered as a holder of NSN at 7.00pm on 3 February 2017;</li> <li>• are shown on the NSN register as having an address in Australia; and</li> <li>• are not in the United States or acting as a nominee for, or for the account or benefit of, a US Person or not otherwise prevented from receiving the Reinvestment Offer or NAB Subordinated Notes 2 under the laws of any jurisdiction.</li> </ul> <p>The options available to Eligible NSN Holders are detailed in Section 3 “About the Reinvestment Offer”.</p> <p>Before submitting an Application under the Reinvestment Offer, Eligible NSN Holders should read Section 3.2 which describes the differences between NSN and NAB Subordinated Notes 2. In particular, Eligible NSN Holders should note that:</p> <ul style="list-style-type: none"> <li>• The margin applicable to NSN is 2.75%. The Margin for NAB Subordinated Notes 2 is expected to be in the range of 2.20% to 2.30%;</li> <li>• NAB Subordinated Notes 2 are subject to Conversion and Write-Off on account of a Non-Viability Trigger Event. NSN are not subject to such provisions; and</li> <li>• in a Winding Up of NAB, a Holder’s claim to an amount owing by NAB in connection with a NAB Subordinated Note 2 ranks junior to claims by holders of NSN and instruments that rank equally with NSN – see Table 2.</li> </ul>	Section 3

# SECTION ONE: INVESTMENT OVERVIEW

## 1.3 Information about the Offer

Topic	Summary	Further information
How to Apply	<ul style="list-style-type: none"> <li>To apply for NAB Subordinated Notes 2, you must complete an Application Form and follow the instructions in Section 4 “Applying for NAB Subordinated Notes 2”.</li> <li>If you are applying under the Reinvestment Offer, you must also read Section 3 “About the Reinvestment Offer”.</li> </ul>	Sections 3 and 4
Minimum Application	<p><b>Securityholder Offer and Broker Firm Offer (excluding applications to reinvest NSN)</b></p> <p>50 NAB Subordinated Notes 2 (\$5,000) and thereafter in multiples of 10 NAB Subordinated Notes 2 (\$1,000) (including if you are an Eligible NSN Holder and are applying for additional NAB Subordinated Notes 2 under the Securityholder Offer).</p> <p><b>Reinvestment Offer</b></p> <p>There is no minimum number of NSN that you must hold to be able to participate in the Reinvestment Offer.</p> <p>If you are an Eligible NSN Holder and own less than 50 NSN, you can still apply to participate in the Reinvestment Offer but you must apply to reinvest ALL of your NSN.</p> <p>If you are an Eligible NSN Holder and you own 50 or more NSN, you must apply to reinvest at least 50 of your NSN and thereafter in multiples of 10 NSN.</p>	Sections 3 and 4
Key Dates	<p><b>Offer Period:</b></p> <ul style="list-style-type: none"> <li>The Offer opens on 16 February 2017;</li> <li>The Reinvestment Offer closes on 10 March 2017;</li> <li>The Securityholder Offer closes on 10 March 2017;</li> <li>The Broker Firm Offer (excluding applications to reinvest NSN) and Institutional Offer close on 17 March 2017.</li> </ul> <p><b>Issue Date:</b> NAB Subordinated Notes 2 are expected to be issued on 20 March 2017.</p> <p><b>Commencement of trading on ASX:</b> Trading is expected to commence on 21 March 2017 on a deferred settlement basis. Normal settlement trading is expected to commence on 27 March 2017.</p> <p><b>Despatch of Holding Statements:</b> Holding Statements are expected to be despatched by 24 March 2017.</p>	Key Dates

Topic	Summary	Further information
<b>Allocation policy</b>	<p><b>Reinvestment Offer and Securityholder Offer</b></p> <ul style="list-style-type: none"> <li>• Allocations to NSN Reinvestment Applicants and Securityholder Applicants will be determined by NAB in consultation with the Joint Lead Managers.</li> <li>• Applications from NSN Reinvestment Applicants and Securityholder Applicants may be scaled back if there is excess demand for the Offer. In the event of excess demand, NAB's current intention is to give preference to NSN Reinvestment Applicants over Securityholder Applicants while still providing for a proportion of the available NAB Subordinated Notes 2 to be allocated to Securityholder Applicants. How NAB scales back applications will depend on the extent of applications from NSN Reinvestment Applicants and Securityholder Applicants.</li> <li>• In the event of excess demand, it is possible that the proportionate scale back applied to Securityholder Applicants will be greater than that applied to NSN Reinvestment Applicants.</li> </ul> <p><b>Broker Firm Offer and Institutional Offer</b></p> <ul style="list-style-type: none"> <li>• Allocations to Syndicate Brokers will be determined by NAB in consultation with the Joint Lead Managers following completion of the Bookbuild.</li> <li>• Allocations to Institutional Investors will be determined by NAB following completion of the Bookbuild.</li> <li>• Allocations to Syndicate Brokers and Institutional Investors will reflect expected demand under the Reinvestment Offer.</li> <li>• Priority will be given to Broker Firm Applicants applying to reinvest their NSN over other Broker Firm Applicants. It is possible for Applications from Broker Firm Applicants to be scaled back by a Syndicate Broker. NAB takes no responsibility for any allocation, scale back or rejection that is decided by a Syndicate Broker.</li> </ul>	Section 4
<b>Tax consequences</b>	Information about the Australian tax consequences of investing in NAB Subordinated Notes 2 is set out in Section 8.	Section 8
<b>Fees and expenses associated with the Offer</b>	NAB has incurred certain fees and expenses in connection with the Offer and the Prospectus which are described in Section 9. These include payments to the Joint Lead Managers and Co-Managers.	Section 9
<b>More information</b>	If you have any questions about NAB Subordinated Notes 2 or the Offer, you should seek advice from your financial adviser or other professional adviser. You can also call the NAB Information Line on <b>1300 367 647</b> (within Australia) or on <b>+61 3 9415 4299</b> (International) (Monday to Friday 8.00am – 7.30pm) during the Offer Period, and for a week following.	

# ABOUT NAB SUBORDINATED NOTES 2

The following is an overview of the key terms of NAB Subordinated Notes 2. It is important that you read this Prospectus and the Terms in full before deciding to invest in NAB Subordinated Notes 2. 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 Subordinated Notes 2 may also arise under the Corporations Act, ASX Listing Rules and other applicable laws.

# SECTION TWO: ABOUT NAB SUBORDINATED NOTES 2

## 2.1 Interest

Subject to the Solvency Condition being satisfied, NAB Subordinated Notes 2 entitle Holders to receive floating rate, cumulative Interest, payable quarterly in arrears, until the NAB Subordinated Notes 2 are Redeemed, Converted or Written-Off.

Topic	Summary	Further information						
Interest Rate	<p>The Interest Rate for each quarterly Interest payment will be calculated using the following formula:</p> <p><b>Interest Rate = Bank Bill Rate + Margin</b></p> <p>where:</p> <ul style="list-style-type: none"> <li>Bank Bill Rate<sup>1</sup> is a benchmark three month interest rate for the Australian money market. It is used as a reference for the pricing, rate-setting and valuation of Australian dollar financial securities. It changes to reflect supply and demand in the cash and currency markets. The Bank Bill Rate for each Interest Period is set on the first Business Day of the relevant Interest Period; and</li> <li>Margin is the margin to be determined under the Bookbuild, expected to be in the range of 2.20% to 2.30%. The Margin will not change for the term of the NAB Subordinated Notes 2.</li> </ul> <p>For example, if the Bank Bill Rate was 1.7700% and the Margin was 2.2000% the Interest Rate for that Interest Period would be calculated as follows:</p> <table border="0"> <tr> <td>Bank Bill Rate</td> <td>1.7700% per annum</td> </tr> <tr> <td>plus Margin</td> <td>2.2000% per annum</td> </tr> <tr> <td>Interest Rate =</td> <td>3.9700% per annum</td> </tr> </table> <p>If the Bank Bill Rate becomes negative, the negative amount will be taken into account in calculating the Interest Rate. In no circumstances will Holders have an obligation to make payments in respect of Interest to NAB on account of the Bank Bill Rate becoming negative.</p> <p>The graph below illustrates the movement in the Bank Bill Rate over the last 10 years. The rate on 7 February 2017 was 1.7700%.</p> <p><b>Figure 1: Bank Bill Rate over previous 10 years</b></p>	Bank Bill Rate	1.7700% per annum	plus Margin	2.2000% per annum	Interest Rate =	3.9700% per annum	Clause 3.4 of the Terms
Bank Bill Rate	1.7700% per annum							
plus Margin	2.2000% per annum							
Interest Rate =	3.9700% per annum							

<sup>1</sup> Being the rate displayed on the Reuters Screen BBSW Page, unless that screen page is not available, in which case NAB will determine the applicable rate, in good faith, by reference to comparable indices then available: clause 3.4 of the Terms.

# SECTION TWO: ABOUT NAB SUBORDINATED NOTES 2

## 2.1 Interest

Topic	Summary	Further information										
Calculation of Interest	<p>Interest to be paid on an Interest Payment Date will be calculated using the following formula:</p> $\frac{\text{Interest Rate} \times \text{Face Value} \times N}{365}$ <p>where:  <b>N</b> is the number of days in the Interest Period calculated as set out in the Terms;  <b>Face Value</b> is \$100 per NAB Subordinated Note 2; and  <b>Interest Rate</b> is the rate (expressed as a percentage per annum) calculated as set out on the previous page.</p> <p>Using the formula, if the Interest Rate was 3.9700% per annum, then the Interest on each NAB Subordinated Note 2 for the first Interest Period (if the Interest Period was 92 days) would be calculated as follows:</p> <table border="0"> <tr> <td>Indicative Interest Rate</td> <td>3.9700% per annum</td> </tr> <tr> <td>Multiplied by the Face Value</td> <td>X \$100</td> </tr> <tr> <td>Multiplied by the number of days in the Interest Period</td> <td>X 92</td> </tr> <tr> <td>Divided by 365</td> <td>/ 365</td> </tr> <tr> <td>Indicative Interest payment for the first Interest Period for each NAB Subordinated Note 2</td> <td>\$1.0007</td> </tr> </table> <p>The above example is for illustrative purposes only and does not indicate, guarantee or forecast the actual Interest payment for the first or any subsequent Interest Period. Actual Interest payments may be higher or lower than this example. The Interest Rate for the first Interest Period will be set on the Issue Date and will include the Margin to be determined under the Bookbuild.</p> <p>Interest paid on NAB Subordinated Notes 2 will not be franked.</p>	Indicative Interest Rate	3.9700% per annum	Multiplied by the Face Value	X \$100	Multiplied by the number of days in the Interest Period	X 92	Divided by 365	/ 365	Indicative Interest payment for the first Interest Period for each NAB Subordinated Note 2	\$1.0007	Clause 3.5 of the Terms
Indicative Interest Rate	3.9700% per annum											
Multiplied by the Face Value	X \$100											
Multiplied by the number of days in the Interest Period	X 92											
Divided by 365	/ 365											
Indicative Interest payment for the first Interest Period for each NAB Subordinated Note 2	\$1.0007											
Interest Payment Dates	<p>The quarterly Interest Payment Dates are each of:</p> <ul style="list-style-type: none"> <li>• 20 March;</li> <li>• 20 June;</li> <li>• 20 September; and</li> <li>• 20 December,</li> </ul> <p>commencing on 20 June 2017 until the date that NAB Subordinated Notes 2 are Redeemed or Converted.</p> <p>In addition, if Redemption occurs on a day that is not a quarterly Interest Payment Date, Holders of NAB Subordinated Notes 2 which are being Redeemed will also receive Interest in respect of those NAB Subordinated Notes 2 for the period from the immediately preceding Interest Payment Date to the date on which the Redemption occurs.</p> <p>If an Interest Payment Date is a day which is not a Business Day, then the Interest Payment Date is the next Business Day.</p>	Clause 3.2 of the Terms										

## 2.2 Repayment of Face Value

The NAB Subordinated Notes 2 are due to mature on the Maturity Date (20 September 2028). On the Maturity Date, subject to the Solvency Condition being satisfied, a Holder will receive the Face Value plus any accrued and unpaid interest for each NAB Subordinated Note 2 that they hold. A Holder will not receive any payment on the Maturity Date in respect of any NAB Subordinated Notes 2 that have been Redeemed, Converted or Written-Off prior to that date.

Topic	Summary	Further information
<b>Maturity Date</b>	<p>The Maturity Date is 20 September 2028.</p> <p>On the Maturity Date, for each NAB Subordinated Note 2 that is Redeemed a Holder will receive an amount equal to:</p> <ul style="list-style-type: none"> <li>the Face Value; plus</li> <li>any accrued and unpaid Interest on the NAB Subordinated Note 2 up to the Maturity Date.</li> </ul> <p>Payment is subject to the Solvency Condition and to the NAB Subordinated Notes 2 not having been Redeemed, Converted or Written-Off before that date.</p>	Clause 4.1 of the Terms
<b>Optional Redemption</b>	<p>NAB may, with the prior written approval of APRA, elect to Redeem all or some NAB Subordinated Notes 2:</p> <ul style="list-style-type: none"> <li>on 20 September 2023 and on any Interest Payment Date falling after that date up to but excluding the Maturity Date; or</li> <li>following the occurrence of a Tax Event or Regulatory Event.</li> </ul> <p>Holders should not expect that APRA's approval, if requested, will be given for any Redemption of NAB Subordinated Notes 2 under the Terms. Holders do not have a right to request Redemption.</p>	Clauses 4.2 of the Terms
<b>Payment on Optional Redemption</b>	<p>On Redemption, for each NAB Subordinated Note 2 that is Redeemed, a Holder will receive an amount equal to:</p> <ul style="list-style-type: none"> <li>the Face Value; plus</li> <li>any accrued but unpaid Interest on the NAB Subordinated Notes 2 up to the Redemption Date.</li> </ul> <p>Payment is subject to the Solvency Condition and to the NAB Subordinated Notes 2 not having been Redeemed, Converted or Written-Off before that date.</p>	Clause 4.5 of the Terms
<b>Tax Event</b>	<p>Broadly, a Tax Event will occur if, on or after the Issue Date, NAB receives advice that as a result of a change in law or regulation, judicial decision or administrative position in Australia or a challenge by the Australian Taxation Office (which NAB did not expect at the time of issue of NAB Subordinated Notes 2), there is a more than insubstantial risk that:</p> <ul style="list-style-type: none"> <li>NAB has or will become obliged to pay Additional Amounts;</li> <li>NAB or another member of the Group would be exposed to an increase in taxes or other costs, which is not insignificant, in relation to NAB Subordinated Notes 2; or</li> <li>Interest payable in respect of the NAB Subordinated Notes 2 is not or may not be allowed as a deduction to NAB (or the head entity of any consolidated group of which NAB is a member) for Australian income tax purposes).</li> </ul>	Clause 19.1 of the Terms

# SECTION TWO: ABOUT NAB SUBORDINATED NOTES 2

## 2.2 Repayment of Face Value

Topic	Summary	Further information
<b>Regulatory Event</b>	<p>Broadly, a Regulatory Event will 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 or statement of APRA on or after the Issue Date, additional requirements would be imposed on NAB in relation to NAB Subordinated Notes 2 (which were not expected by NAB prior to the Issue Date) which the Directors determine in their absolute discretion to be unacceptable; or</li> <li>The Directors determine that, as a result of a change of law or regulation or statement of APRA on or after the Issue Date, NAB is not or will not be entitled to treat some or all NAB Subordinated Notes 2 as Tier 2 Capital, except where the reason is or will be because of a limit or other restriction on the recognition of Tier 2 Capital which was in effect on the Issue Date or which on the Issue Date was expected by NAB may come into effect.</li> </ul>	Clause 19.1 of the Terms
<b>Restrictions on early Redemption</b>	<p>NAB may only elect to Redeem NAB Subordinated Notes 2 before the Maturity Date if APRA is satisfied that either:</p> <ul style="list-style-type: none"> <li>The NAB Subordinated Notes 2 proposed to be Redeemed are replaced concurrently or beforehand with a capital instrument 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 capital position of the NAB Level 1 Group and NAB Level 2 Group will remain adequate after NAB elects to Redeem the NAB Subordinated Notes 2.</li> </ul>	Clause 4.7 of the Terms
<b>No early Redemption right for Holders</b>	<p> Holders cannot request that NAB Subordinated Notes 2 be Redeemed prior to the Maturity Date.</p>	Clause 5.6 of the Terms
<b>NAB may purchase NAB Subordinated Notes 2 on ASX</b>	<p>Subject to APRA's prior written approval, NAB or any of its Related Entities may purchase NAB Subordinated Notes 2 in the open market or otherwise at any time and at any price. Holders should not expect that APRA's approval will be given for any purchase of NAB Subordinated Notes 2.</p>	Clause 4.6 of the Terms

## 2.3 Solvency Condition to payment

Topic	Summary	Further information
<b>Solvency Condition</b>	<p>NAB’s obligations to make payments in respect of the NAB Subordinated Notes 2 (including to pay Interest and to repay the Face Value on maturity) are conditional on:</p> <ul style="list-style-type: none"> <li>• NAB being able to pay its debts as they become due and payable; and</li> <li>• NAB’s assets exceeding its liabilities,</li> </ul> <p>at the time of the payment and immediately after making the payment (the “<b>Solvency Condition</b>”).</p> <p>Accordingly, if the Solvency Condition is not satisfied in respect of a particular payment, that payment will not be made.</p> <p>A failure by NAB to make a payment because of a failure to satisfy the Solvency Condition is not an Event of Default. However, any unpaid Interest remains a debt payable to the Holder by NAB and will be payable on the first date on which the Solvency Condition is satisfied.</p>	Clauses 2.2 and 2.4 and 10.2 of the Terms

## 2.4 Conversion or Write-Off following a Non-Viability Trigger Event

The Terms contain certain features which may be triggered when NAB encounters severe financial difficulty. These features are required to be included in the Terms in order for the NAB Subordinated Notes 2 to qualify as Tier 2 Capital for the purposes of the regulatory capital requirements that apply to NAB. The occurrence of a “Non-Viability Trigger Event” requires the Conversion of some or all of the NAB Subordinated Notes 2 into Ordinary Shares. The Conversion formula provides for Holders to receive a number of Ordinary Shares calculated by dividing the Face Value by the VWAP of Ordinary Shares at that time discounted by 1% to reflect the likely costs of sale of Ordinary Shares on the ASX. This formula results in Ordinary Shares with a value (on a VWAP basis) of approximately \$101. However, the number of Ordinary Shares a Holder will receive on Conversion 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, the cap on the maximum number of Ordinary Shares that can be issued is likely to apply. As a result, Holders are likely to receive significantly less than \$101 worth of Ordinary Shares per NAB Subordinated Note 2. Accordingly, in these circumstances a Holder may lose a significant amount of the money they invested in NAB Subordinated Notes 2. 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 Non-Viability Trigger Event.

If, for any reason, NAB Subordinated Notes 2 required to be Converted are not Converted, those NAB Subordinated Notes 2 will be Written-Off. In the event of a Write-Off, the rights of Holders to Interest and returns of capital will be terminated, the NAB Subordinated Notes 2 will not be Redeemed or Converted on a subsequent date and Holders will not have their capital repaid.

# SECTION TWO:

## ABOUT NAB SUBORDINATED NOTES 2

### 2.4 Conversion or Write-Off following a Non-Viability Trigger Event

Topic	Summary	Further information
<b>Non-Viability Trigger Event</b>	<p>A Non-Viability Trigger Event means APRA has provided a written determination to NAB that:</p> <ul style="list-style-type: none"> <li>• The conversion into Ordinary Shares or write-off of Relevant Capital Instruments, which include NAB Subordinated Notes 2, is necessary because without the conversion or write-off APRA considers that NAB would become non-viable; or</li> <li>• Without a public sector injection of capital into, or equivalent capital support with respect to, NAB, APRA considers that NAB would become non-viable.</li> </ul> <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 Capital Instruments (including NAB Subordinated Notes 2); or</li> <li>• If APRA is satisfied that conversion or write-off of a proportion of Relevant Capital Instruments will be sufficient to ensure that NAB will not become non-viable, that proportion of Relevant Capital Instruments.</li> </ul> <p>Where the Non-Viability Trigger Event occurs because APRA determines that a public sector injection of capital is required, NAB must convert into Ordinary Shares or write-off all (and not some only) of the Relevant Capital Instruments.</p>	<p>Clause 5 of the Terms</p>
<b>Definition of “non-viability”</b>	<p>APRA has not provided guidance as to how it would determine non-viability.</p> <p>Non-viability would 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 measures or capital ratios.</p> <p>As at the date of this Prospectus, APRA has indicated that it will not publish further guidance on the parameters used to determine non-viability.</p>	

Topic	Summary	Further information
<p><b>Conversion or Write-Off of Relevant Capital Instruments</b></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 Capital Instruments then outstanding (including the NAB Subordinated Notes 2); or</li> <li>• where APRA is satisfied that conversion or write-off of a proportion of Relevant Capital Instruments will be sufficient to ensure that NAB will not become non-viable, that proportion of Relevant Capital Instruments.</li> </ul> <p>If NAB is permitted to convert or write-off a proportion of Relevant Capital Instruments, all Relevant Tier 1 Capital Instruments will be converted or written-off before any Relevant Tier 2 Capital Instruments (including NAB Subordinated Notes 2) are converted or written-off. See below for a description of Relevant Capital Instruments.</p> <p>If NAB is permitted to convert only a proportion of NAB Subordinated Notes 2 and other Relevant Tier 2 Capital Instruments following a Non-Viability Trigger Event, NAB will endeavour to treat Holders on an approximately proportionate basis, but may discriminate to take account of the effect on marketable parcels of NAB Subordinated Notes 2 and other logistical considerations.</p> <p>Where Relevant Tier 2 Capital Instruments are in different currencies, NAB may treat them as converted into a single currency for the purposes of this determination.</p>	<p>Clauses of 5.1 and 5.2 of the Terms</p>
<p><b>Relevant Capital Instruments</b></p>	<p>The term “Relevant Capital Instruments” means each of “Relevant Tier 1 Capital Instruments” and “Relevant Tier 2 Capital Instruments”.</p> <p>Broadly:</p> <ul style="list-style-type: none"> <li>• “Relevant Tier 1 Capital Instruments” are Tier 1 Capital instruments that include features for conversion or write-off at the point of non-viability. NAB Capital Notes, NAB Capital Notes 2, NAB CPS and NAB CPS II are Relevant Tier 1 Capital Instruments as at the date of this Prospectus; and</li> <li>• “Relevant Tier 2 Capital Instruments” are Tier 2 Capital Instruments that include features for conversion or write-off at the point of non-viability. NAB Subordinated Notes 2 will constitute Relevant Tier 2 Capital Instruments. As at the date of this Prospectus, NAB has also issued Relevant Tier 2 Capital Instruments under its wholesale debt programmes.</li> </ul> <p>NAB has no obligation to maintain any Relevant Tier 1 Capital Instruments or Relevant Tier 2 Capital Instruments on issue and gives no assurance that it will do so.</p> <p>For more information on the regulatory capital of ADIs, see Section 2.7.</p>	<p>Clause 19.1 of the Terms</p>

# SECTION TWO: ABOUT NAB SUBORDINATED NOTES 2

## 2.4 Conversion or Write-Off following a Non-Viability Trigger Event

Topic	Summary	Further information
<b>Conversion mechanics</b>	<p>If NAB Subordinated Notes 2 are required to be Converted, the following will happen:</p> <ul style="list-style-type: none"> <li>• On the Conversion Date (being the date the Non-Viability Trigger Event occurs), NAB must immediately determine the number of NAB Subordinated Notes 2 that will Convert and the number of other Relevant Capital Instruments which will convert into Ordinary Shares or be written-off.</li> <li>• On the Conversion Date, the relevant number of NAB Subordinated Notes 2 will then Convert immediately and irrevocably. Holders will not receive prior notice of Conversion or have any rights to vote or right of approval or to decline to participate in respect of any Conversion. NAB will treat a Holder in respect of its NAB Subordinated Notes 2 as having been issued the Conversion Number of Ordinary Shares.</li> <li>• In certain circumstances, Ordinary Shares issued on Conversion will be issued to an Eligible Nominee instead of the Holder and the Holder will receive from the Eligible Nominee a cash amount equal to the net proceeds of sale of those Ordinary Shares. See “Issues to an Eligible Nominee” in this Section 2.4 for further details.</li> <li>• NAB expects that any ASX trades in NAB Subordinated Notes 2 that have not settled on the date a Non-Viability Trigger Event occurs will continue to settle in accordance with the normal ASX T+2 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 Subordinated Notes 2 have been Converted as a result of the occurrence of the Non-Viability Trigger Event.</li> <li>• NAB may make such decisions with respect to the identity of Holders whose NAB Subordinated Notes 2 will Convert on the Conversion Date as may be necessary or desirable to ensure Conversion occurs in an orderly manner, including disregarding any transfers of NAB Subordinated Notes 2 that have not been settled or registered at that time.</li> <li>• If a Non-Viability Trigger Event occurs and NAB Subordinated Notes 2 are Converted into Ordinary Shares, Holders are obliged to accept the Ordinary Shares (or, where applicable, the net proceeds of their sale by an Eligible Nominee) even if they do not consider Ordinary Shares to be an appropriate investment for them at the time despite any change in the financial position of NAB since the issue of the NAB Subordinated Notes 2 or any disruption to the market for Ordinary Shares or to capital markets generally and despite any breach by NAB of any obligation in connection with the NAB Subordinated Notes 2.</li> </ul>	<p>Clauses 5 and 6 of the Terms</p>

Topic	Summary	Further information
<p><b>Number of Ordinary Shares Holders will receive on the Conversion Date</b></p>	<p>On the Conversion Date, a Holder will receive a number of Ordinary Shares per NAB Subordinated Note 2 ("<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 period of 5 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the Conversion Date.</li> </ul> <p>and:</p> <p><b>(b) the Maximum Conversion Number ("MCN") calculated in accordance with the following formula:</b></p> $\text{MCN} = \frac{\$100}{\text{Issue Date VWAP} \times 0.2}$ <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 Subordinated Notes 2 were issued.</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 will be made to the Issue Date VWAP where the adjustment (rounded if applicable) would be less than one per cent of the Issue Date VWAP then in effect.</p> <p>The VWAP of Ordinary Shares at the time of a Non-Viability Trigger Event may vary according to the severity of the Non-Viability Trigger Event. This may impact the number and value of Ordinary Shares that will be received by a Holder under a Conversion following a Non-Viability Trigger Event and trigger the application of the MCN. If the MCN is triggered, the Ordinary Shares that a Holder may receive on account of a Conversion following a Non-Viability Trigger Event are likely to be worth significantly less than \$101 per NAB Subordinated Note 2 and a Holder may lose a significant amount of the money they invested in NAB Subordinated Notes 2 as a consequence.</p>	<p>Clause 6.1 of the Terms</p>

# SECTION TWO: ABOUT NAB SUBORDINATED NOTES 2

## 2.4 Conversion or Write-Off following a Non-Viability Trigger Event

Topic	Summary	Further information
<b>Worked examples of Conversion following Non-Viability Trigger Event</b>	<p>Below are two worked examples of Conversion following a Non-Viability Trigger Event using:</p> <ul style="list-style-type: none"> <li>• A VWAP on the Non-Viability Trigger Event of \$1.00 (i.e. in extreme circumstances); and</li> <li>• A VWAP on the Non-Viability Trigger Event of \$10.00 (i.e. in less severe circumstances).</li> </ul> <p>Both examples assume an Issue Date VWAP of \$30.00.</p> <p><b>1. Using a VWAP of \$1.00</b></p> <p>Assume that on 15 September 2020 a Non-Viability Trigger Event occurs, and that the VWAP in the VWAP Period is \$1.00.</p> <p>Holders would receive <b>the lesser of:</b></p> <ul style="list-style-type: none"> <li>• <math>N = \frac{\\$100}{99\% \times \\$1.00} = 101.0101</math> Ordinary Shares per NAB Subordinated Note 2; and</li> <li>• <b>the MCN</b> = <math>\frac{\\$100}{\\$30.00 \times 0.2} = 16.6667</math> Ordinary Shares per NAB Subordinated Note 2.</li> </ul> <p><b>The MCN is less than N. Therefore, the total number of Ordinary Shares to which a holder of 100 NAB Subordinated Notes 2 would be entitled would be the MCN. The Holder would receive 1,666 Ordinary Shares (i.e. 100 x 16.6667, rounded down to the nearest whole Ordinary Share).</b></p> <p>The market value of the Ordinary Shares received for 100 NAB Subordinated Notes 2 based on the MCN and a prevailing market price equal to the VWAP of \$1.00 is \$1,666 (i.e. 1,666 x \$1.00), which is considerably less than \$10,000 (the Face Value of 100 NAB Subordinated Notes 2). Consequently, Holders would lose a significant amount of the money they invested in NAB Subordinated Notes 2.</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. "N" calculated according to the above formula would be 10.1010 and the MCN would again be 16.6667.</p> <p><b>N is less than the MCN. Therefore, the total number of Ordinary Shares to which a holder of 100 NAB Subordinated Notes 2 would be entitled would be N. The Holder would receive 1,010 Ordinary Shares (i.e. 100 x 10.1010, rounded down to the nearest whole Ordinary Share).</b></p> <p>The market value of the Ordinary Shares for 100 NAB Subordinated Notes 2 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 Face Value of 100 NAB Subordinated Notes 2).</p> <p><b>The above examples are for illustrative purposes only.</b> 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 Subordinated Notes 2 following a Non-Viability Trigger Event</b>	<p>If, for any reason, Conversion of any NAB Subordinated Notes 2 required to be Converted has not been effected within five Business Days of the Conversion Date (including where NAB is prevented by applicable law or court order or for any other reason from Converting NAB Subordinated Notes 2 (broadly, an “<b>Inability Event</b>”)), those NAB Subordinated Notes 2 will not be Converted but instead will be Written-Off.</p> <p>Broadly, “Written-Off” means that the relevant Holder’s rights (including to payments of Interest and Face Value) in relation to a NAB Subordinated Note 2 are immediately and irrevocably terminated and written-off with effect on and from the Conversion Date and that NAB Subordinated Note 2 will not be Redeemed or Converted on any subsequent date.</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 Subordinated Notes 2, or other reasons which prevent Conversion, may change.</p>	Clause 5.4 of the Terms
<b>Notice of Non-Viability Trigger Event and resulting Conversion or Write-Off</b>	<p>NAB must give Holders notice as soon as practicable following the occurrence of a Non-Viability Trigger Event, including the number of NAB Subordinated Notes 2 Converted or Written-Off and the number of Relevant Tier 2 Capital Instruments converted into Ordinary Shares or written-off.</p>	Clause 5.5 of the Terms
<b>Issues to an Eligible Nominee</b>	<p>In certain circumstances NAB will issue the Ordinary Shares which a Holder is obliged to accept on Conversion to an Eligible Nominee. At the first reasonable opportunity to sell the Ordinary Shares, the Eligible Nominee will arrange for the sale and pay to the relevant Holder a cash amount equal to the net proceeds of the sale. No guarantee is given in relation to the timing or price at which any sale will occur.</p> <p>Ordinary Shares will be issued to an Eligible Nominee:</p> <ul style="list-style-type: none"> <li>• where the Holder does not wish to receive Ordinary Shares as a result of a Conversion and notifies NAB of this at any time on or after the Issue Date and no less than 15 Business Days prior to the Conversion Date;</li> <li>• where the Holder is a Foreign Holder, 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, subject to certain conditions; or</li> <li>• to the extent that a FATCA Withholding is required to be made in respect of Ordinary Shares.</li> </ul> <p>Neither NAB nor the Eligible Nominee has any duty to Holders in relation to the price at which Ordinary Shares are sold, nor any liability for any loss suffered by a Holder as a result of the sale of Ordinary Shares where required in the circumstances described above. NAB will treat you as a Foreign Holder if your address in the Register is a place outside of Australia or NAB otherwise believes you may not be a resident of Australia.</p>	Clause 6.11 of the Terms

# SECTION TWO: ABOUT NAB SUBORDINATED NOTES 2

## 2.5 Events of Default

There are limited Events of Default in respect of the NAB Subordinated Notes 2. Holders should be aware that their rights on account of the occurrence of an Event of Default are limited to the remedies described below. Holders have no right to accelerate repayment of the NAB Subordinated Notes 2 except where NAB is in a Winding Up, as described below.

Topic	Summary	Further information
Events of Default	<p>An Event of Default will occur if:</p> <ul style="list-style-type: none"> <li>NAB fails to pay: <ul style="list-style-type: none"> <li>any Face Value within 7 days of its due date; or</li> <li>any interest or other amount due in respect of the NAB Subordinated Notes 2 within 30 days of its due date (a <b>"Payment Default"</b>); or</li> </ul> </li> <li>either: <ul style="list-style-type: none"> <li>a court order is made by a court of competent jurisdiction in Australia for the Winding Up of NAB, which is not successfully appealed or permanently stayed within 60 days of the making of such order; or</li> <li>Shareholders pass an effective resolution for the Winding Up of NAB in Australia,</li> </ul> </li> </ul> <p>in each case other than in connection with a consolidation, amalgamation, merger or reconstruction (a <b>"Winding Up Default"</b>).</p> <p>To the extent that a payment is not required to be made because of the Solvency Condition, the amount is not due and payable and a Payment Default cannot occur.</p>	Clause 10.1 of the Terms
Consequences of a Payment Default	<p>If a Payment Default occurs and is continuing, a Holder may bring proceedings:</p> <ul style="list-style-type: none"> <li>to recover any amount then due and payable but unpaid on its NAB Subordinated Notes 2 (subject to NAB being able to make the payment and remain Solvent); or</li> <li>to obtain an order for specific performance of any other obligation in respect of the NAB Subordinated Notes 2; or</li> <li>for the Winding Up of NAB.</li> </ul> <p>The grant of remedies may be in the discretion of the courts and such remedies may not be granted.</p>	Clause 10.2 of the Terms
Consequences of a Winding Up Default	<p>If a Winding Up Default occurs, in addition to taking any of the actions specified above in respect of a Payment Default, Holders may resolve by Ordinary Resolution to declare by notice to NAB that the Face Value of each NAB Subordinated Note 2 and any accrued but unpaid Interest is payable on a specified date and may prove in the Winding Up of NAB for that amount.</p>	Clause 10.2 of the Terms
No other remedies	<p>Other than as described above, Holders have no right to request or require redemption or accelerated repayment of NAB Subordinated Notes 2 prior to the Maturity Date. Holders may not exercise any other remedies (including any right to sue for damages which has the same economic effect as acceleration) on account of an Event of Default other than as specified above.</p>	Clause 10.2 of the Terms

## 2.6 Ranking

Topic	Summary	Further information
<p><b>Ranking</b></p>	<p>NAB Subordinated Notes 2 are unsecured, 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>In a Winding Up of NAB, NAB Subordinated Notes 2 rank in priority to Junior Ranking Instruments, equally and without preference amongst themselves, equally with Equal Ranking Instruments and junior to Senior Creditors (which includes NSN holders and depositors). This means that, in a Winding Up, there is a risk that Holders will lose all or some of their investment.</p> <p><b>NAB Subordinated Notes 2 rank junior to NSN</b></p> <p>As a result of APRA requirements, NAB Subordinated Notes 2 rank junior to NSN and instruments ranking equally with NSN (namely, Tier 2 Capital instruments issued before 1 January 2013 which have a fixed maturity date), even though NSN have been classified as Tier 2 Capital under the Basel III Prudential Standards on a transitional basis.</p> <p><b>Effect of Non-Viability Trigger Event</b></p> <p>A Holder's return in a Winding Up will be adversely affected if a Non-Viability Trigger Event occurs.</p> <p>If NAB Subordinated Notes 2 are Converted into Ordinary Shares, the Ordinary Shares received on Conversion will rank equally with other Ordinary Shares (and therefore lower than NAB Subordinated Notes 2 ranked whilst on issue).</p> <p>If NAB Subordinated Notes 2 are Written-Off, Holders will not have their capital repaid and will not be entitled to any return in a Winding Up. In addition, potential investors in the NAB Subordinated Notes 2 should understand that NAB has on issue Tier 1 Capital instruments and Tier 2 Capital instruments which were issued prior to the implementation of the current prudential requirements. In the event of non-viability, these instruments are not capable of being written-off or converted in accordance with their terms or by operation of law. Accordingly, the NAB Subordinated Notes 2 may be Converted or Written-Off before any such instruments notwithstanding that, in a Winding Up, claims of holders of NAB Subordinated Notes 2 rank senior to the claims of holders of Tier 1 Capital instruments and equally with the claims of holders of undated Tier 2 Capital instruments issued before 1 January 2013 (namely the Undated Subordinated Floating Rate Notes). As such, the Holders of NAB Subordinated Notes 2 will be in a worse position than Holders of these existing Tier 1 Capital instruments and Tier 2 Capital instruments, which do not contain provisions for conversion or write-off at the point of non-viability.</p>	<p>Clauses 1.1 and 1.6 of the Terms</p> <p>Clause 11.2 of the Terms</p>

# SECTION TWO: ABOUT NAB SUBORDINATED NOTES 2

## 2.6 Ranking

Topic	Summary	Further information
	<p>Holders should also understand that NAB has on issue Relevant Tier 1 Capital Instruments (being NAB CPS and NAB CPS II) that take the form of convertible preference shares. Due to the requirements of the Corporations Act, if NAB CPS or NAB CPS II are written-off, the rights of holders of these securities are not terminated but are instead varied so as to give a holder rights equivalent to the rights in respect of Ordinary Shares it would have received if conversion had occurred. Accordingly, if NAB Subordinated Notes 2 are Written-Off, Holders will have lesser rights and will likely be worse off than holders of NAB CPS or NAB CPS II, even though NAB CPS and NAB CPS II rank junior to NAB Subordinated Notes 2 and are required to be written-off or converted prior to NAB Subordinated Notes 2.</p>	

## 2.7 Regulatory Treatment

Topic	Summary	Further information
<b>Regulatory treatment of NAB Subordinated Notes 2</b>	<ul style="list-style-type: none"> <li>NAB is issuing NAB Subordinated Notes 2 to raise Tier 2 Capital for the purposes of the regulatory capital requirements that apply to NAB. APRA has confirmed that NAB Subordinated Notes 2, once issued, will qualify as Tier 2 Capital for the purposes of regulatory capital requirements that apply to NAB.</li> <li>NAB Subordinated Notes 2 and NAB's other regulatory capital help to protect NAB's depositors and other creditors by providing a loss absorbing capital buffer which supports losses that may be incurred on NAB's assets.</li> </ul>	
<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 (such as NAB CPS and NAB Capital Notes).</li> </ul> </li> <li>Tier 2 Capital is comprised of subordinated instruments with more limited loss-absorption characteristics, which would not satisfy the requirements for Tier 1 Capital.</li> <li>The Terms of the NAB Subordinated Notes 2 include terms necessary to meet APRA's requirements for Tier 2 Capital (including conversion (or write-off) at the point of non-viability, subordination provisions and certain limitations on the rights of Holders).</li> </ul>	

## 2.8 Other

Topic	Summary	Further information
<b>No restriction on other securities or indebtedness of NAB</b>	<p>NAB has the right to issue further debt, deposits or other obligations or securities of any kind. Such debt, deposits or other obligations or securities may have the same or different terms to NAB Subordinated Notes 2. 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 Subordinated Notes 2 and be denominated in any currency. NAB Subordinated Notes 2 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>NAB also has the right to buy-back securities it has issued, including securities ranking equal with or junior to NAB Subordinated Notes 2 and to incur or guarantee further indebtedness on such terms as it thinks fit.</p> <p>Holding NAB Subordinated Notes 2 does not confer any right to participate in further issues of securities by NAB.</p>	Clause 15 of the Terms
<b>Quotation</b>	NAB will apply for NAB Subordinated Notes 2 to be quoted on ASX within seven days after the date of this Prospectus and NAB Subordinated Notes 2 are expected to be quoted under code "NABPE".	
<b>Voting rights</b>	<p>A NAB Subordinated Note 2 does not entitle its Holder to vote at a general meeting of NAB.</p> <p>Ordinary Shares issued on Conversion would have all the usual rights conferred by Ordinary Shares.</p>	Clauses 12.4 and 6.9 of the Terms

# SECTION TWO: ABOUT NAB SUBORDINATED NOTES 2

## 2.8 Other

Topic	Summary	Further information
<b>Amendment of Terms</b>	<p>NAB may make certain amendments to the Terms and the NAB Subordinated Notes 2 Deed Poll without the approval of Holders, including changes:</p> <ul style="list-style-type: none"> <li>• of a formal, minor or technical nature, made to cure any ambiguity or correct any manifest error;</li> <li>• to facilitate the listing, clearing or offering for sale of the NAB Subordinated Notes 2;</li> <li>• necessary or appropriate to effect substitution of an Approved NOHC (as described below);</li> <li>• to dates or time periods stated, required or permitted in connection with any Conversion or Redemption;</li> <li>• to the Terms to align with the terms of any Relevant Tier 2 Capital Instruments issued after the Issue Date; and</li> <li>• that are not materially prejudicial to the interest of Holders as a whole.</li> </ul> <p>NAB's right to make these changes is subject to NAB complying with all applicable laws, the amendment being, in NAB's opinion, not materially prejudicial to the interests of Holders as a whole, and APRA's prior written approval (where required).</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 of Holders. An amendment that will be materially prejudicial to Holders requires approval by a Special Resolution of Holders.</p> <p>APRA's prior written approval to amend the Terms is only required where the amendment may affect the eligibility of NAB Subordinated Notes 2 as Tier 2 Capital.</p>	Clause 13 of the Terms

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 (“<b>NOHC</b>”) and where following the occurrence of that event the Approved NOHC undertakes to:</p> <ul style="list-style-type: none"> <li>• Convert NAB Subordinated Notes 2 into ordinary shares in the Approved NOHC whenever NAB would otherwise have been required to deliver Ordinary Shares; and</li> <li>• use all reasonable endeavours to procure quotation of all ordinary shares in the capital of the Approved NOHC issued on Conversion on the securities exchange on which other shares in the capital of the Approved NOHC are quoted at that time.</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.</p> <p>The occurrence of a NOHC Event does not allow NAB to elect to Redeem or Convert NAB Subordinated Notes 2.</p> <p> Holders do 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 (including Holders) and Shareholders.</p> <p>Following the substitution of an Approved NOHC as issuer of the ordinary shares on Conversion but prior to any Conversion, Holders continue to hold a note issued by NAB which ranks in a Winding Up of NAB as described in Section 2.6 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>	Clause 14 of the Terms
<b>Payments to bank accounts</b>	<p>Subject to the Terms, payments will be made to the person shown as the Holder in the Register at the Relevant Time on the Record Date. In order to receive payment, a Holder will need to notify the Registrar by close of business on the Record Date of an Australian dollar bank account in Australia to which payment should be made. If the Holder does not so notify the Registrar, or the payment does not complete, the amount will be held as a non-interest bearing deposit until such an account is nominated, claims may no longer be made in respect of that amount or NAB deals with the amount in accordance with the laws relating to unclaimed monies.</p>	Clause 8 of the Terms
<b>Time limit on claims</b>	<p>Holders should be aware that a claim against NAB for a payment in respect of a NAB Subordinated Note 2 is void unless made within 10 years (in the case of Face Value) or 5 years (in the case of Interest and other amounts) from the date on which the payment first became due.</p>	Clause 8.4 of the Terms
<b>Determinations are binding</b>	<p>Except where there is fraud or a manifest error, any determination or calculation which NAB makes in accordance with Terms of the NAB Subordinated Notes 2 is final and binds NAB, the Registrar and each Holder.</p>	Clause 8.5 of the Terms

# SECTION TWO: ABOUT NAB SUBORDINATED NOTES 2

## 2.8 Other

Topic	Summary	Further information
<b>No set-off</b>	<p>A Holder does not have any right to set-off any amounts owing to it by NAB in connection with the NAB Subordinated Notes 2 against any amount owing by it to NAB in connection with the NAB Subordinated Notes 2 or otherwise.</p> <p>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 Subordinated Notes 2.</p>	Clause 8.8 of the Terms
<b>Power of attorney</b>	Each Holder agrees to appoint NAB, its Authorised Officers and any External Administrator of NAB (each an “ <b>Attorney</b> ”) severally to be the attorney 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 the Terms including, but not limited to, effecting any transfer or Conversion of NAB Subordinated Notes 2, making any entry in the Register or the register of any Ordinary Shares.	Clause 18(a) of the Terms
<b>What is the NAB Subordinated Notes 2 Deed Poll?</b>	<p>A trustee has not been appointed for NAB Subordinated Notes 2. Instead, there is a NAB Subordinated Notes 2 Deed Poll made by NAB in favour of each person who is from time to time a Holder. The NAB Subordinated Notes 2 Deed Poll gives legal effect to NAB’s obligations in the Terms.</p> <p>Under the NAB Subordinated Notes 2 Deed Poll, NAB also undertakes to appoint the Registry and procure the Registry to establish and maintain a principal Register.</p> <p>The NAB Subordinated Notes 2 Deed Poll also includes provisions for meetings of Holders.</p> <p>Holdings will be bound by the terms of the NAB Subordinated Notes 2 Deed Poll, the Terms and this Prospectus when NAB Subordinated Notes 2 are issued or transferred to them or they purchase NAB Subordinated Notes 2.</p> <p>The Registry will hold the original executed NAB Subordinated Notes 2 Deed Poll on behalf of Holders. Each Holder can enforce NAB’s obligations under the NAB Subordinated Notes 2 Deed Poll, including the Terms and the provisions for meetings, independently of the Registry and each other.</p> <p>A copy of the NAB Subordinated Notes 2 Deed Poll can be obtained from <a href="http://www.nab.com.au/nsn2offer">www.nab.com.au/nsn2offer</a>.</p>	NAB Subordinated Notes 2 Deed Poll
<b>No credit rating</b>	NAB has not sought a credit rating for NAB Subordinated Notes 2 for retail investors.	
<b>Tax implications</b>	<p>Information about the Australian tax consequences of investing in NAB Subordinated Notes 2 is set out in Section 8.</p> <p>The taxation implications of investing in NAB Subordinated Notes 2 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 Subordinated Notes 2. Holders may have to pay subsequent brokerage on any subsequent transfer of NAB Subordinated Notes 2 on ASX after quotation.	

## 2.9 Comparison of NAB Subordinated Notes 2 to other NAB instruments

### Differences between term deposits, NAB Subordinated Notes 2, National Income Securities, NAB Capital Notes 2 and Ordinary Shares.

There are differences between NAB's term deposits, NAB Subordinated Notes 2, National Income Securities, NAB Capital Notes 2 and Ordinary Shares. 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 Subordinated Notes 2. The key differences are summarised in the table below. This summary is not intended to be exhaustive.

A table highlighting the key differences between the NAB Subordinated Notes 2 and NSN is set out in Section 3.2.

	Term deposit	NAB Subordinated Notes 2	National Income Securities	NAB Capital Notes 2	Ordinary Shares
<b>Protection under the Financial Claims Scheme<sup>1</sup></b>	Yes	No	No	No	No
<b>Term</b>	Often between 1 month and 5 years	11½ years <sup>2</sup>	Perpetual <sup>2</sup>	Perpetual <sup>3</sup>	Perpetual (no maturity date)
<b>Interest/distribution/dividend rate</b>	Fixed	Floating	Floating	Floating	Variable dividends as determined by Directors
<b>Margin above the Bank Bill Rate</b>	Varies from product to product	Expected to be in the range of 2.20% to 2.30%	1.25%	4.95%	N/A
<b>Interest/distribution/dividend payment dates</b>	Often at the end of term or per annum	Quarterly	Quarterly	Quarterly	Twice yearly <sup>4</sup>
<b>Rights if interest/distributions/dividends 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>	Distribution adjusted to reflect applicable franking rate	None

# SECTION TWO:

## ABOUT NAB SUBORDINATED NOTES 2

### 2.9 Comparison of NAB Subordinated Notes 2 to other NAB instruments

	Term deposit	NAB Subordinated Notes 2	National Income Securities	NAB Capital Notes 2	Ordinary Shares
Conditions to payment of interest/distributions/dividends	None, subject to applicable laws and any specific conditions	Subject to the Solvency Condition	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" <sup>6</sup> does not exist on the distribution payment date. Distributions are not cumulative	Subject to the discretion of Directors and applicable laws and regulations
Dividend restriction if interest not paid	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 distribution payment date <sup>7</sup>	N/A
Transferable	No	Expected to be quoted on ASX under the code "NABPE"	Yes – quoted on ASX under the code NABHA	Yes – quoted on ASX under the code NABPD	Yes – quoted on ASX under the code NAB
Mandatory Conversion into Ordinary Shares	No	No	No	Yes <sup>3</sup>	N/A
Issuer's early conversion option	No	No	No	Yes – with the prior approval of APRA <sup>3</sup>	N/A
Issuer's early redemption option	No	Yes – 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	No
Loss absorption event	No	Yes	No	Yes <sup>8</sup>	No

	<b>Term deposit</b>	<b>NAB Subordinated Notes 2</b>	<b>National Income Securities</b>	<b>NAB Capital Notes 2</b>	<b>Ordinary Shares</b>
<b>Capital classification</b>	None	Tier 2 Capital	Additional Tier 1 Capital <sup>9</sup>	Additional Tier 1 Capital	Common Equity Tier 1 Capital
<b>Voting rights</b>	No right to vote at general meetings of holders of Ordinary Shares	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	No right to vote at general meetings of holders of Ordinary Shares	Right to vote at general meetings of holders of Ordinary Shares
<b>Ranking</b>	See Table 2: Illustration of ranking on Winding Up				

1 This is subject to a limit, currently fixed at \$250,000 for the aggregate of the customer's accounts with an ADI declared subject to the Financial Claims Scheme.

2 Subject to early Redemption by NAB with the prior written approval of APRA.

3 NAB Capital Notes 2 are scheduled to convert into Ordinary Shares on 8 July 2024, or on the occurrence of certain acquisition events. NAB may also be required to convert NAB Capital Notes 2 as a result of a loss absorption event. In addition, NAB Capital Notes 2 may be converted, redeemed or resold with the prior written approval of APRA on 7 July 2022 or in certain other circumstances. NAB Capital Notes 2 may also be written-off in certain circumstances.

4 There are no fixed dates for payment of ordinary dividends.

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 Broadly, a "Payment Condition" will exist where NAB is prevented from paying the distribution by prudential regulatory requirements, applicable law or insolvency.

7 No equivalent restriction applies if an Approved NOHC is substituted as issuer of ordinary shares on conversion.

8 NAB Capital Notes 2 constitute Additional Tier 1 Capital and provide for a common equity capital trigger event in addition to a non-viability trigger event. A common equity capital trigger event will occur when NAB's Common Equity Tier 1 Ratio as determined by NAB or APRA at any time is equal to or less than 5.125%, calculated on the basis of either or both of the NAB Level 1 Group and the NAB Level 2 Group.

9 The National Income Securities have been classified as Additional Tier 1 Capital under the Basel III Prudential Standards on a transitional basis.

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# **ABOUT** **THE REINVESTMENT OFFER**

# SECTION THREE: ABOUT THE REINVESTMENT OFFER

## 3.1 Overview of the Reinvestment Offer

Eligible NSN Holders have the opportunity to apply to reinvest their NSN funds into NAB Subordinated Notes 2 under the Reinvestment Offer.

Topic	Summary
<b>What are NSN?</b>	NAB Subordinated Notes (“NSN”) are interest bearing notes and constitute direct, subordinated and unsecured obligations of NAB. They were issued by NAB in 2012 and trade on the ASX under the code NABHB.
<b>Am I eligible to participate in the Reinvestment Offer?</b>	You are eligible to participate in the Reinvestment Offer if you: <ul style="list-style-type: none"> <li>• were registered as a holder of NSN at 7.00pm on 3 February 2017;</li> <li>• are shown on the NSN register as having an address in Australia; and</li> <li>• are not in the United States or acting as a nominee for, or for the account or benefit of, a US Person or not otherwise prevented from receiving the Reinvestment Offer or NAB Subordinated Notes 2 under the laws of any jurisdiction.</li> </ul>
<b>What is the Reinvestment Offer?</b>	<p>The Reinvestment Offer is an invitation to Eligible NSN Holders to:</p> <ul style="list-style-type: none"> <li>• apply to sell all or some of their NSN to NAB for \$100 per NSN;</li> <li>• apply to NAB for a corresponding number of NAB Subordinated Notes 2 (i.e. the same number as the number of NSN you apply to sell to NAB); and</li> <li>• direct NAB to pay \$100 per Reinvested NSN as Application Monies for the number of NAB Subordinated Notes 2 applied for.</li> </ul> <p>Eligible NSN Holders who successfully participate in the Reinvestment Offer will also receive accrued NSN interest of \$1.1306 per NSN in cash for the period from (and including) 18 December 2016 to (but excluding) the Issue Date. That interest is due to be paid on 20 March 2017. You will receive no further distributions on the Reinvested NSN.</p> <p><b>Important: There are important differences between NSN and NAB Subordinated Notes 2 that Eligible NSN Holders should consider before deciding whether to apply to participate in the Reinvestment Offer. See Section 3.2 which further describes the differences between NSN and NAB Subordinated Notes 2.</b></p>
<b>How do I apply to participate?</b>	See Section 3.3 and Section 4 for information on how to apply to participate in the Reinvestment Offer.
<b>What is the purpose of the Reinvestment Offer?</b>	<p>The Reinvestment Offer will be used by NAB to offer Eligible NSN Holders the opportunity to reinvest in NAB Subordinated Notes 2 and maintain an ongoing investment in securities issued by NAB.</p> <p>The funds raised through the Reinvestment Offer will be used to refinance some of the funding currently provided by the NSN.</p>
<b>Do I need to apply for a minimum number of NAB Subordinated Notes 2?</b>	<p>There is no minimum number of NSN that you must hold to be able to participate in the Reinvestment Offer.</p> <p>However, if you are an Eligible NSN Holder and hold 50 NSN or fewer, you must apply to reinvest all your NSN in NAB Subordinated Notes 2 if you wish to participate in the Reinvestment Offer.</p> <p>If you are an Eligible NSN Holder and own more than 50 NSN, you can:</p> <ul style="list-style-type: none"> <li>• reinvest all of your NSN; or</li> <li>• apply for a minimum number of 50 NAB Subordinated Notes 2 (\$5,000) and increments of 10 NAB Subordinated Notes 2 (\$1,000) thereafter.</li> </ul>

# SECTION THREE: ABOUT THE REINVESTMENT OFFER

Topic	Summary
<b>Can I sell my NSN after I have completed and returned my application form?</b>	<p>No – once your Application has been received, a holding lock will be placed on the NSN the subject of your Application and you will not be able to successfully deal with those NSN until they are released from the holding lock. The holding lock will be released from those NSN not successfully reinvested into NAB Subordinated Notes 2 (including as a result of any scale back) as soon as practicable after the Issue Date for the Offer.</p> <p>If, on the Closing Date for the Reinvestment Offer, you hold a greater or lesser number of NSN than you elect to reinvest on your Reinvestment Offer Application Form, you will be taken to have applied for reinvestment of the lesser of the number of NSN specified on your Reinvestment Offer Application Form and the number of NSN registered in your name on the Closing Date for the Reinvestment Offer.</p> <p>An Application to participate in the Reinvestment Offer is irrevocable once submitted but will only be effective so long as it is accepted and the Offer proceeds.</p>
<b>Can I apply for additional NAB Subordinated Notes 2?</b>	<p>Eligible NSN Holders may also apply for more NAB Subordinated Notes 2 than the number of NSN registered in their name at 7.00pm on 3 February 2017. Such an application will be made under the Securityholder Offer.</p> <p>The minimum number of additional NAB Subordinated Notes 2 you can apply for is 50 NAB Subordinated Notes 2 (\$5,000) and thereafter your Application must be in increments of 10 NAB Subordinated Notes 2 (\$1,000).</p>
<b>Will I still receive the NSN interest payment for the period from (and including) 18 December 2016 to (but excluding) the Issue Date?</b>	<p>Yes – you will receive \$1.1306 per NSN as accrued interest in respect of the period from (and including) 18 December 2016 to (but excluding) the Issue Date. This amount is due to be paid on 20 March 2017. You will receive no further distributions on the Reinvested NSN.</p>
<b>Can I elect to reinvest the NSN interest I receive in NAB Subordinated Notes 2?</b>	<p>No – you cannot elect to reinvest the NSN interest under the Reinvestment Offer.</p>
<b>Will I receive a priority allocation of NAB Subordinated Notes 2?</b>	<p>See Section 4.6 for information on the Allocation policy.</p>
<b>What are the tax implications of having my NSN purchased by NAB and will any brokerage or stamp duty be payable?</b>	<p>A general outline of the taxation implications for certain Australian investors participating in the Offer (including through Reinvestment Offer) can be found in the Australian taxation summary in Section 8.</p> <p>No brokerage or stamp duty is payable on the sale of your NSN to NAB or your Application for NAB Subordinated Notes 2.</p> <p>NSN holders who choose to sell their NSN on market through their broker may be required to pay applicable brokerage.</p>
<b>What will happen if I don't participate in the Reinvestment Offer?</b>	<p>Any NSN not reinvested under the Reinvestment Offer will remain on issue.</p> <p>NAB has the option to redeem those NSN on 19 June 2017 and APRA has provided approval for that redemption. If redemption occurs, you will receive the face value (\$100) for each NSN that you hold on that date together with the interest payment on your NSN scheduled for 19 June 2017 (subject to the terms of issue of the NSN).</p>

### 3.2 What are the key differences between NAB Subordinated Notes 2 and NSN?

There are a number of differences between NAB Subordinated Notes 2 and NSN which you should be aware of before deciding to reinvest your NSN under the Reinvestment Offer. The following table describes the key features of the NAB Subordinated Notes 2 and NSN and highlights the main differences between them. 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 Subordinated Notes 2.

Topic	NSN	NAB Subordinated Notes 2
<b>Protected under the Financial Claims Scheme</b>	No	No
<b>Term</b>	10 years	11½ years
<b>Margin</b>	2.75%	Expected to be in the range of 2.20% to 2.30%
<b>Interest rate</b>	Floating	Floating
<b>Interest payment dates</b>	Quarterly	Quarterly
<b>Conditions to payment of interest</b>	Yes – subject to NAB being solvent at the time of payment and immediately after making the payment	Yes – subject to the Solvency Condition
<b>Transferable</b>	Yes – quoted on ASX as “NABHB”	Yes – expected to be quoted on ASX as “NABPE”
<b>NAB’s early redemption option</b>	Yes – on 19 June 2017 or on any interest payment date falling after that date up to 18 June 2022. APRA has provided approval for this redemption.	Yes – on 20 September 2023 or on any Interest Payment Date falling after that date up to the Maturity Date with APRA’s prior written approval – see Section 2.2
<b>NAB’s purchase rights</b>	NAB may at any time purchase the NSN in the open market or otherwise at any price subject to APRA’s prior written approval	NAB may at any time purchase the NAB Subordinated Notes 2 in the open market or otherwise at any price subject to APRA’s prior written approval
<b>Other NAB early redemption options</b>	Tax and regulatory events subject to APRA’s prior written approval	Tax and regulatory events subject to APRA’s prior written approval – see Section 2.2
<b>Conversion into Ordinary Shares</b>	No	Yes – following a Non-Viability Trigger Event – see Section 2.4
<b>Write-off</b>	No	Yes – following a Non-Viability Trigger Event, if for any reason NAB Subordinated Notes 2 are not Converted into Ordinary Shares within five Business Days, NAB Subordinated Notes 2 will be Written-Off – see Section 2.4
<b>Ranking in a Winding Up of NAB</b>	NSN will rank ahead of NAB Subordinated Notes 2 – see Table 2 in Section 1.1	NAB Subordinated Notes 2 will rank behind NSN – see Table 2 in Section 1.1

# SECTION THREE: ABOUT THE REINVESTMENT OFFER

Topic	NSN	NAB Subordinated Notes 2
Capital classification	Tier 2 Capital <sup>1</sup>	Tier 2 Capital
Voting rights	No right to vote at general meetings of holders of Ordinary Shares	No right to vote at general meetings of holders of Ordinary Shares

<sup>1</sup> NSN have been classified as Tier 2 Capital under the Basel III Prudential Standards on a transitional basis. The NSN will cease to be eligible for inclusion in regulatory capital on 18 June 2017 on account of the end of APRA's transitional treatment for that instrument.

## 3.3 What are the options available for Eligible NSN Holders?

Option	Summary
<b>Option 1 – Apply directly to NAB for your NSN to be reinvested in NAB Subordinated Notes 2</b>	<ul style="list-style-type: none"> <li>If you are an Eligible NSN Holder, you may apply to participate in the Reinvestment Offer by completing an Application Form and choosing one of the alternatives below. The Application Form must be received online or by the Registry by 5.00pm on the Closing Date for the Reinvestment Offer which is expected to be 10 March 2017. See Section 4 for further information on how to make an Application.</li> <li>If you make an Application under the Reinvestment Offer, you will not be required to pay Application Monies in respect of that Application.</li> </ul> <p><b>Alternative A. Reinvest all NSN in NAB Subordinated Notes 2</b></p> <ul style="list-style-type: none"> <li>You may apply to reinvest all of the NSN registered in your name at 7.00pm on 3 February 2017 in NAB Subordinated Notes 2.</li> <li>To choose this alternative, you must indicate “Reinvest all my NSN in NAB Subordinated Notes 2” on your Reinvestment Offer Application Form.</li> <li>If you wish to participate in the Reinvestment Offer and own 50 NSN or fewer you must apply to reinvest all NSN in NAB Subordinated Notes 2.</li> </ul> <p><b>Alternative B. Reinvest some NSN held in NAB Subordinated Notes 2</b></p> <ul style="list-style-type: none"> <li>You may apply to have only some of the NSN registered in your name at 7.00pm on 3 February 2017 reinvested in NAB Subordinated Notes 2.</li> <li>To choose this alternative, you must specify the number of NSN you wish to be reinvested on your Reinvestment Offer Application Form.</li> <li>You must apply to reinvest at least 50 NSN.</li> </ul> <p><b>Alternative C. Apply for additional NAB Subordinated Notes 2</b></p> <ul style="list-style-type: none"> <li>You may also apply for more NAB Subordinated Notes 2 than the number of NSN registered in your name at 7.00pm on 3 February 2017. The application for additional NAB Subordinated Notes 2 will be made under the Securityholder Offer.</li> <li>The minimum number of additional NAB Subordinated Notes 2 you can apply for is 50 NAB Subordinated Notes 2 (\$5,000).</li> <li>To choose this alternative, you must specify the number of additional NAB Subordinated Notes 2 you wish to apply for under the Securityholder Offer on your Reinvestment Offer Application Form.</li> <li>You are required to enclose the Application Monies for the additional NAB Subordinated Notes 2 applied for under the Securityholder Offer. Application Monies must be made by cheque, money order or BPAY® – see Section 4 for further details.</li> </ul>

\*Registered to BPAY Limited ABN 69 079 137 518.

Option	Summary
<b>Option 2 – Apply through your Syndicate Broker to reinvest your NSN in NAB Subordinated Notes 2</b>	<ul style="list-style-type: none"> <li>• If you are an Eligible NSN Holder and you are an Australian resident client of a Syndicate Broker, you may apply to participate in the Reinvestment Offer through your Syndicate Broker.</li> <li>• You may apply to reinvest all or some of the NSN registered in your name at 7.00pm on 3 February 2017 in NAB Subordinated Notes 2. You may also choose to apply for more NAB Subordinated Notes 2.</li> <li>• You will not be required to pay Application Monies unless you apply for more NAB Subordinated Notes 2 than the number of NSN registered in your name at 7.00pm on 3 February 2017.</li> <li>• You should contact your Syndicate Broker for instructions on how to submit an Application Form and, if applicable, the Application Monies.</li> </ul>
<b>Option 3 – sell your NSN on market through your broker</b>	<ul style="list-style-type: none"> <li>• You may choose to sell your NSN on market through your broker or otherwise at the prevailing market price in the usual course.</li> <li>• The market price of NSN is subject to change from time to time. Up-to-date information about the market price of NSN can be obtained from <a href="http://www.asx.com.au">www.asx.com.au</a> (ASX code “NABHB”).</li> <li>• If selling through your broker, you should contact your broker before the last trading day for NSN.</li> <li>• NAB will have the option to redeem NSN which remain on issue on 19 June 2017. If NAB exercises that option, the last trading day for the NSN is expected to be 8 June 2017.</li> <li>• Under this option, you may have to pay brokerage and may receive a price greater or less than the face value of \$100 per NSN.</li> </ul>
<b>Option 4 – take no action – Your NSN may be redeemed for \$100 per NSN on 19 June 2017</b>	<ul style="list-style-type: none"> <li>• Eligible NSN Holders are not required to participate in the Reinvestment Offer and as such are not required to take any action.</li> <li>• NAB has the option to redeem remaining NSN on 19 June 2017 and APRA has provided approval for that redemption. If redemption occurs, you will receive the face value (\$100) for each NSN that you hold on that date together with the interest payment on your NSN scheduled for 19 June 2017 (subject to the terms of issue of the NSN).</li> </ul>

### 3.4 What are the risks associated with participating in the Reinvestment Offer?

If you are an Eligible NSN Holder and you apply under the Reinvestment Offer, you may receive an allocation of NAB Subordinated Notes 2. As such, you will be subject to the risks associated with an investment in NAB Subordinated Notes 2 and in NAB, many of which are outside the control of NAB and its Directors. These risks are outlined in Section 7 and should be considered before you apply under the Reinvestment Offer.

The Reinvestment Offer is not a simple rollover into a similar investment. NAB Subordinated Notes 2 and NSN have different benefits and risks, which must be evaluated separately (see Section 3.2).

The \$100 per Reinvested NSN for which Eligible NSN Holders sell their NSN to NAB may be less than the ASX trading price of NSN. Additionally, the Margin for NAB Subordinated Notes 2 may be lower than the margin for NSN. This means that the Interest you receive on a NAB Subordinated Note 2 for the period from the Issue Date to 19 June 2017 may be lower than the interest you would have received for that same period on a Reinvested NSN.

Therefore, rather than participating in the Reinvestment Offer, Eligible NSN Holders may obtain a better financial outcome by selling their NSN on market or having their NSN redeemed, and subsequently investing the proceeds in NAB Subordinated Notes 2 on market.

**APPLYING FOR  
NAB SUBORDINATED NOTES 2**

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# SECTION FOUR: APPLYING FOR NAB SUBORDINATED NOTES 2

## 4.1 Who can apply for NAB Subordinated Notes 2?

Type of Offer	Who is eligible to participate?	When to apply	How to apply online	How to apply using a paper Application Form
<b>Reinvestment Offer</b>	<p>You are eligible to apply under the Reinvestment Offer if you are an Eligible NSN Holder.</p> <p>You are an Eligible NSN Holder if you</p> <ul style="list-style-type: none"> <li>were registered as a holder of NSN at 7.00pm on 3 February 2017;</li> <li>are shown on the NSN register as having an address in Australia; and</li> <li>are not in the United States or acting as a nominee for, or for the account or benefit of, a US Person or not otherwise prevented from receiving the Reinvestment Offer or NAB Subordinated Notes 2 under the laws of any jurisdiction.</li> </ul>	<p>Applications will only be accepted during the Offer Period, which is expected to open on 16 February 2017.</p> <p>Applications will not be accepted after the Closing Date for the Reinvestment Offer, which is expected to be 10 March 2017.</p>	<p>Eligible NSN Holders applying directly to NAB may apply online by following the instructions at <a href="http://www.nab.com.au/nsn2offer">www.nab.com.au/nsn2offer</a>.</p> <p>Eligible NSN Holders who are Australian resident clients of a Syndicate Broker should contact their Syndicate Broker for instructions on how to apply.</p> <p>If you are only applying to reinvest your NSN under the Reinvestment Offer, you will not need to pay Application Monies.</p> <p>However, if you also apply for additional NAB Subordinated Notes 2 under the Securityholder Offer you will be required to pay Application Monies for those additional NAB Subordinated Notes 2.</p>	<p>Eligible NSN Holders applying directly to NAB may apply by completing the Reinvestment Offer Application Form accompanying this Prospectus, and lodging that Application Form with the Registry in accordance with the instructions in Section 4.5.</p> <p>Eligible NSN Holders who are Australian resident clients of a Syndicate Broker should contact their Syndicate Broker for instructions on how to apply.</p> <p>If you are only applying to reinvest your NSN under the Reinvestment Offer, you will not need to pay Application Monies.</p> <p>However, if you also apply for additional NAB Subordinated Notes 2 under the Securityholder Offer you will be required to pay Application Monies for those additional NAB Subordinated Notes 2.</p>

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# SECTION FOUR:

## APPLYING FOR NAB SUBORDINATED NOTES 2

### 4.1 Who can apply for NAB Subordinated Notes 2?

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 apply under the Securityholder Offer if you are an Eligible Securityholder.</p> <p>You are an Eligible Securityholder if you are a registered holder of Ordinary Shares, National Income Securities, NAB Subordinated Notes, NAB CPS, NAB CPS II, NAB Capital Notes or NAB Capital Notes 2 as at 7.00pm on 3 February 2017, with a registered address in Australia.</p> <p>NAB will send 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 16 February 2017.</p> <p>Applications will not be accepted after the Closing Date for the Securityholder Offer, which is expected to be 10 March 2017.</p>	<p>Eligible Securityholders may apply online by following the instructions at <b>www.nab.com.au/nsn2offer</b> and completing a BPAY payment. Follow the instructions in Section 4.3 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, which is expected to be 5.00pm on 10 March 2017.</p>	<p>Eligible Securityholders may apply by completing the Application Form accompanying this Prospectus, and lodging that Application Form and accompanying cheque or money order with the Registry. Follow the instructions in Section 4.2 to complete your payment by cheque or money order.</p>
<b>Broker Firm Offer</b>	<p>The Broker Firm Offer is available to Australian resident clients of a Syndicate Broker.</p>	<p>Applications will only be accepted during the Offer Period which is expected to open on 16 February 2017.</p> <p>Applications will not be accepted after the Closing Date for the Broker Firm Offer, which is expected to be 10 March 2017 for applications to reinvest NSN and 17 March 2017 for other applications.</p>	<p>If you are applying under the Broker Firm Offer (including to reinvest your NSN), 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) (if required).</p> <p>Generally, your Application will be lodged with the Syndicate Broker.</p>	

Type of Offer	Who is eligible to participate?	When to apply	How to apply online	How to apply using a paper Application Form
<p><b>Institutional Offer</b></p>	<p>If you are an Institutional Investor, you must apply to participate by contacting the Arranger.</p>	<p>Applications will only be accepted during the Offer Period which is expected to open on 16 February 2017.</p> <p>Applications will not be accepted after the Closing Date for the Institutional Offer, which is expected to be 17 March 2017.</p>	<p>If you are an Institutional Investor, you must apply to participate in the Institutional Offer by contacting the Arranger. NAB reserves the right not to accept Applications from Institutional Investors where they have not been received through the Arranger.</p>	

# SECTION FOUR: APPLYING FOR NAB SUBORDINATED NOTES 2

## 4.2 How to pay by cheque or money order if applying under the Securityholder Offer

**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 Subordinated Notes 2 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:

National Australia Bank Limited  
C/- Computershare Investor Services Pty Limited  
Reply Paid 52  
Melbourne VIC 8060

or,

(b) mailing them using any other envelope to:

National Australia Bank Limited  
C/- Computershare Investor Services Pty Limited  
GPO Box 52  
Melbourne VIC 3001

or,

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

Computershare Investor Services Pty Limited  
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 on the Closing Date for the Securityholder Offer, which is expected to be 10 March 2017.**

## 4.3 How to pay by BPAY if applying under the Securityholder Offer

If you are an Applicant under the Securityholder 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 Subordinated Notes 2 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.

## 4.4 Application Monies and Refunds

All Application Monies received before NAB Subordinated Notes 2 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 Subordinated Notes 2 are issued to successful Applicants, the Application Monies held on trust will be payable to NAB.

Where the number of NAB Subordinated Notes 2 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.

## 4.5 How to apply using a paper Reinvestment Offer Application Form

**Completed Reinvestment Offer Application Forms** can be lodged with the Registry by:

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

National Australia Bank Limited  
C/- Computershare Investor Services Pty Limited  
Reply Paid 52  
Melbourne VIC 8060

or,

(b) mailing them using any other envelope to:

National Australia Bank Limited  
C/- Computershare Investor Services Pty Limited  
GPO Box 52  
Melbourne VIC 3001

or,

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

Computershare Investor Services Pty Limited  
Yarra Falls  
452 Johnston Street  
Abbotsford VIC 3067

Reinvestment Offer Application Forms 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.

**Reinvestment Offer Application Forms must be received at the addresses provided by no later than 5.00pm on the Closing Date for the Reinvestment Offer, which is expected to be 10 March 2017.**

## 4.6 Allocation policy

### 4.6.1 Reinvestment Offer and Securityholder Offer

Allocations to NSN Reinvestment Applicants and Securityholder Applicants will be determined by NAB in consultation with the Joint Lead Managers.

Applications from NSN Reinvestment Applicants and Securityholder Applicants may be scaled back if there is excess demand for the Offer. In the event of excess demand, NAB's current intention is to give preference to NSN Reinvestment Applicants over the Securityholder Applicants while still providing for a proportion of the available NAB Subordinated Notes 2 to be allocated to Securityholder Applicants. How NAB scales back applications will depend on the extent of applications from NSN Reinvestment Applicants and Securityholder Applicants. In the event of excess demand, it is possible that the proportionate scale back applied to Securityholder Applicants will be greater than that applied to NSN Reinvestment Applicants.

Any scale back and the basis of Allocation will be announced on 20 March 2017 on ASX and through advertisements in The Australian and Australian Financial Review newspapers.

NAB, at its discretion and in consultation with the Joint Lead Managers, reserves the right to:

- allocate to any NSN Reinvestment Applicant or Securityholder Applicant all NAB Subordinated Notes 2 for which they have applied;
- reject any Application by an NSN Reinvestment Applicant or a Securityholder Applicant; or
- allocate to any NSN Reinvestment Applicant or Securityholder Applicant a lesser number of NAB Subordinated Notes 2 than that applied for, including less than the minimum

Application of NAB Subordinated Notes 2 or none at all.

No assurance is given that any NSN Reinvestment Applicant or Securityholder Applicant will receive an Allocation.

### 4.6.2 Broker Firm Offer and Institutional Offer

Allocations to Institutional Investors will be agreed by NAB following completion of the Bookbuild. Allocations to Syndicate Brokers will be determined by NAB in consultation with the Joint Lead Managers following completion of the Bookbuild.

Allocations to Syndicate Brokers and Institutional Investors will reflect expected demand under the Reinvestment Offer.

Priority will be given to Broker Firm Applicants who apply to reinvest their NSN over other Broker Firm Applicants. Allocations to Broker Firm Applicants by a Syndicate Broker are at the discretion of that Syndicate Broker. It is possible for Applications from Broker Firm Applicants to be scaled back by a Syndicate Broker. NAB takes no responsibility for any allocation, scale back or rejection that is decided by a Syndicate Broker.

## 4.7 ASX quotation and Holding Statements

NAB will apply for NAB Subordinated Notes 2 to be quoted on ASX within seven days after the date of this Prospectus. Quotation of NAB Subordinated Notes 2 is not guaranteed.

Deferred settlement trading of NAB Subordinated Notes 2 is expected to commence on 21 March 2017 under ASX code "NABPE". Trading of NAB Subordinated Notes 2 on a normal settlement basis is expected to commence on 27 March 2017.

NAB has applied for NAB Subordinated Notes 2 to participate in CHES, and if accepted, no certificates will be issued. NAB expects that Holding Statements for issuer sponsored holders and confirmations for CHES holders will be despatched to successful Applicants from 21 March 2017.

A Holder must determine their allocation before trading NAB Subordinated Notes 2 to avoid the risk of selling NAB Subordinated Notes 2 the Holder does not own.

## 4.8 Provision of bank account details for Interest payments

Under the Terms, payments in respect of each NAB Subordinated Note 2 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 maintained in Australia with a financial institution to which payments in respect of NAB Subordinated Notes 2 may be credited. 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.

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# OVERVIEW OF NAB

The Group is a financial services organisation with approximately 35,000 employees, operating through a network of more than 1,000 locations, with more than 582,000 shareholders and serving nearly 10 million customers.

The majority of the Group's financial services businesses operate in Australia and New Zealand, with branches located in Asia, the UK and the US.

# SECTION FIVE: OVERVIEW OF NAB

## 5.1 Overview

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

The Group is executing a strategy to achieve its vision to be Australia and New Zealand's most respected bank. The three objectives by which the Group guides execution and measures performance are:

1. Our customers are advocates;
2. Engaging our people; and
3. Shareholder return on equity (ROE) is improved.

To meet these objectives, the Group aims to deliver initiatives in line with the following strategic themes:

- focusing on core Australian and New Zealand customers;
- delivering a great customer experience;
- engaging our people;
- delivering improved returns; and
- maintaining and strengthening our foundations.

## 5.2 Our services

On 22 July 2016, the Group announced changes to its organisational structure to drive the continued focus on its Australian and New Zealand businesses. With effect from 1 August 2016 the Group has operated the following divisions:

- Business & Private Banking focuses on priority SME customers. This includes the Group's nabBusiness franchise with specialised Agriculture, Health, Government, Education and Community Services along with Private Banking and JBWere, as well as the small business segment.
- Corporate & Institutional Banking (CIB) includes Corporate and Institutional Banking businesses, Fixed Income, Currencies and Commodities (FICC), Capital Financing businesses, Asset Servicing and International Branches.
- Consumer Banking & Wealth Management includes the distribution components of Wealth Management, the Group's Personal Banking network and UBank.
- Customer Products & Services includes Banking & Wealth products, Strategy, Digital, NAB Labs/Ventures, Marketing and Corporate Affairs.
- NZ Banking comprises the Retail, Business, Agribusiness, Corporate & Institutional and Insurance franchises in New Zealand, operating under the 'BNZ' brand. It excludes BNZ's markets operations which form part of CIB.

## 5.3 Other Developments

During 2016, the Group completed a major divestment program exiting some non-core assets. This has simplified the Group and allows it to focus on its core Australian and New Zealand businesses.

In February 2016, NAB completed the full divestment of CYBG PLC, which was a part of the UK Banking operations of the Group, through a demerger and initial public offering.

On 3 October 2016, the Group completed the sale of 80% of NAB Wealth's life insurance business to Nippon Life Insurance Company. NAB has retained the remaining 20%. As part of this transaction, NAB has entered into a 20 year distribution agreement to provide life insurance products through its owned and aligned distribution networks. NAB Wealth has retained full ownership of its investment business which includes superannuation platforms, advice and asset management. As part of this sale process, NAB has also simplified and streamlined the structure of its superannuation business by way of a Successor Fund Merger, merging five of its super funds into one.

In the financial year ended 30 September 2015, the Group divested its holding in Great Western Bancorp, Inc. (GWB), a US based subsidiary of the Group.

Further details regarding these transactions are set out in Note 41 'Discontinued Operations' in the Annual Financial Report 2016.

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# FINANCIAL INFORMATION

The summary financial information presented in this section has been extracted from the Group's Annual Financial Report for the year ended 30 September 2016 which includes the audited financial information for the years ended 30 September 2016 and 30 September 2015.

The financial information presented in this section has been prepared 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.

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# SECTION SIX: FINANCIAL INFORMATION

## 6.1 Consolidated Income Statement

The following table sets out the Group's consolidated income statement for the years ended 30 September 2016 and 30 September 2015.

	Year to	
	30-Sep-16 <sup>(1)</sup> \$m	30-Sep-15 <sup>(1)</sup> \$m
Interest income	27,629	28,347
Interest expense	(14,699)	(15,885)
<b>Net interest income</b>	<b>12,930</b>	<b>12,462</b>
Investment revenue <sup>(2)</sup>	4,037	5,007
Fee income	433	589
Change in life investment contract liabilities <sup>(2)</sup>	(2,861)	(4,221)
Movement in external unitholders' liability <sup>(2)</sup>	(1,015)	(715)
Net insurance income	53	41
<b>Net investment and insurance income</b>	<b>647</b>	<b>701</b>
Gains less losses on financial instruments at fair value	827	1,498
Other operating income	3,718	3,776
<b>Total other income</b>	<b>4,545</b>	<b>5,274</b>
Personnel expenses	(4,752)	(4,529)
Occupancy-related expenses	(493)	(478)
General expenses	(3,086)	(3,182)
<b>Total operating expenses</b>	<b>(8,331)</b>	<b>(8,189)</b>
Charge to provide for doubtful debts	(813)	(733)
Profit before income tax expense	8,978	9,515
Income tax expense	(2,553)	(2,709)
Net profit for the period from continuing operations	6,425	6,806
Net (loss) after tax for the period from discontinued operations	(6,068)	(414)
<b>Net profit / (loss) for the period</b>	<b>357</b>	<b>6,392</b>
Attributable to owners of NAB	352	6,338
Attributable to non-controlling interests	5	54
	<b>cents</b>	<b>cents</b>
<b>Basic earnings per share</b>	<b>8.8</b>	252.7
<b>Diluted earnings per share</b>	<b>15.5</b>	245.4
<b>Basic earnings per share from continuing operations</b>	<b>242.4</b>	271.7
<b>Diluted earnings per share from continuing operations</b>	<b>232.7</b>	263.3

(1) Information is presented on a continuing operations basis including prior period restatements. Included in discontinued operations are the results of CYBG Group and NAB Wealth's life insurance business (2015: GWB, CYBG Group and NAB Wealth's life insurance business). Further information can be obtained from the Annual Financial Report 2016, Note 41 Discontinued Operations. See also Section 5.3 above.

(2) Includes the impact of movements in life investment contracts to 1 July 2016, being the date on which the Successor Fund Merger occurred and the related investment assets and investment contract liabilities were deconsolidated. Further information can be obtained from the 2016 Annual Financial Report, Note 41 Discontinued Operations. See also Section 5.3 above.

# SECTION SIX: FINANCIAL INFORMATION

## 6.2 Pro-forma Consolidated Balance Sheet

The following table sets out the Group's consolidated balance sheet as at 30 September 2016 (in the column headed 'Reported Group 30-Sep-16'), and the consolidated pro forma balance sheet assuming the Offer was completed at that date.

The column headed 'Group Pro-forma 30-Sep-16' outlines the impact of \$750 million of NAB Subordinated Notes 2 being issued and external issue costs of \$10 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 56.

	Reported Group 30-Sep-16 \$m	Proforma adjustment related to the Offer \$m	Group Proforma 30-Sep-16 \$m
<b>Assets</b>			
Cash and liquid assets	30,630	740	31,370
Due from other banks	45,236		45,236
Trading derivatives	43,131		43,131
Trading securities	45,971		45,971
Debt instruments at fair value through other comprehensive income	40,689		40,689
Investments relating to life insurance business <sup>(1)</sup>	86		86
Other financial assets at fair value	21,496		21,496
Hedging derivatives	6,407		6,407
Loans and advances	510,045		510,045
Due from customers on acceptances	12,205		12,205
Property, plant and equipment	1,423		1,423
Due from controlled entities	—		—
Investments in controlled entities	—		—
Goodwill and other intangible assets	5,302		5,302
Deferred tax assets	1,925		1,925
Other assets	13,076		13,076
<b>Total assets</b>	<b>777,622</b>	<b>740</b>	<b>778,362</b>
<b>Liabilities</b>			
Due to other banks	43,903		43,903
Trading derivatives	41,654		41,654
Other financial liabilities at fair value	33,224		33,224
Hedging derivatives	3,245		3,245
Deposits and other borrowings	459,714		459,714
Life policy liabilities <sup>(1)</sup>	—		—
Current tax liabilities	297		297
Provisions	1,432		1,432
Due to controlled entities	—		—
Bonds, notes and subordinated debt	127,942	740	128,682
Other debt issues	6,248		6,248
External unitholders' liability <sup>(1)</sup>	—		—
Other liabilities	8,648		8,648
<b>Total liabilities</b>	<b>726,307</b>	<b>740</b>	<b>727,047</b>
<b>Net assets</b>	<b>51,315</b>	<b>—</b>	<b>51,315</b>
<b>Equity</b>			
Contributed equity	34,285		34,285
Reserves	629		629
Retained profits	16,378		16,378
<b>Total equity (parent entity interest)</b>	<b>51,292</b>	<b>—</b>	<b>51,292</b>
Non-controlling interest in controlled entities	23		23
<b>Total equity</b>	<b>51,315</b>	<b>—</b>	<b>51,315</b>

(1) Balances were impacted by the Successor Fund Merger on 1 July 2016 and the sale of 80% of NAB Wealth's life insurance business. Further information can be obtained from the 2016 Annual Financial Report, Note 41 Discontinued Operations. See also Section 5.3 above.

## 6.3 Capital Management

### 6.3.1 Capital Adequacy

APRA is the prudential regulator of the Australian financial services industry. It oversees banks, credit unions, building societies, general insurance and reinsurance companies, life insurance, private health insurance, friendly societies, and most members of the superannuation industry.

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.

To ensure that ADIs are adequately capitalised on both a standalone and group basis, APRA adopts a tiered approach to the measurement of an ADI's capital adequacy by assessing the ADI's financial strength at three levels:

- Level 1 basis: the NAB Level 1 Group is NAB and a limited number of APRA approved subsidiaries;
- Level 2 basis: the NAB Level 2 Group is the consolidated banking group (i.e. the consolidated financial group less certain subsidiaries and associates excluded under APRA's Prudential Standards, principally the insurance and funds management subsidiaries); and
- Level 3 basis: the conglomerate group at its widest level (although minimum capital requirements at this level are not expected to be implemented before 2019).

APRA advises the Group of its prudential capital requirements which represent the minimum ratios of regulatory capital to total risk weighted assets.

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. 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 subordinated instruments (such as NAB Subordinated Notes 2). Tier 2 Capital is of a lesser quality than Tier 1 Capital, and contributes 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.

APRA has provided confirmation that NAB Subordinated Notes 2, once issued, will qualify as Tier 2 Capital for the purposes of the regulatory capital requirements that apply to NAB.

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 (BCBS) aimed at raising the quality and quantity of capital in the global banking system.

Broadly, the key features of this 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 capital conservation buffer of 2.5% of risk weighted assets required to be made up of Common Equity Tier 1 Capital that places restrictions on capital distributions if an ADI's capital level falls within the buffer range; and
- A countercyclical capital buffer of between 0 and 2.5% of total risk weighted assets is calculated as the weighted average of the countercyclical capital buffers that are applied by the regulatory authorities in jurisdictions in which the ADI has private sector credit exposures. APRA determines the countercyclical capital buffer for the Australian jurisdiction at the appropriate level when excessive credit growth and other indicators point to a system-wide build-up of risk.

APRA may determine higher prudential capital requirements for an ADI and may change an ADI's prudential capital requirements at any time.

In December 2013, APRA released its framework in relation to domestic systemically important banks (D-SIBs) in Australia. NAB has been identified as a D-SIB and as a result is subject to a 1% higher loss absorbency (HLA) requirement. On 16 January 2017, APRA announced a 0% countercyclical capital buffer for the Australian exposures of locally incorporated ADIs. The weighted average of the jurisdictional countercyclical capital buffers that are applied by the regulatory authorities in jurisdictions to which NAB has private sector credit exposures as at 30 September 2016 is negligible, leading to an approximately 0% overall countercyclical capital buffer as at 30 September 2016. The D-SIB HLA requirement and countercyclical capital buffer have been implemented through an extension of the capital conservation buffer, effective 1 January 2016. The total capital conservation buffer is 3.5% (including the D-SIB HLA requirement) of Common Equity Tier 1 Capital and the total Common Equity Tier 1 Capital requirement is 8%.

### 6.3.2 The Group's Capital Management Strategy

The Group's capital management strategy is focused on adequacy, efficiency and flexibility. The capital adequacy objective ensures sufficient capital is held in excess of internal risk-based required capital assessments and regulatory requirements, and is maintained in line with the Group's balance sheet risk appetite and investor expectations. This approach is consistent across the Group's subsidiaries.

The Group's Common Equity Tier 1 operating target remains between 8.75% to 9.25%, based on current regulatory requirements. The Group will continue to regularly review its operating target capital levels.

# SECTION SIX: FINANCIAL INFORMATION

## 6.3.3 NAB's Total Capital position as at 31 December 2016 (unaudited)

Figure 1 illustrates NAB's historical Total Capital position under APRA's Basel III Prudential Standards on a Level 2 basis. The column labelled "Dec-16 pro-forma" illustrates the impact of the Offer, showing NAB's pro forma Total Capital position as at 31 December 2016 assuming \$750 million of NAB Subordinated Notes 2 were issued and external issue costs of \$10 million were incurred.

## 6.4 Funding and liquidity

The Group maintains a strong capital, funding and liquidity position in line with its ongoing commitment to balance sheet strength.

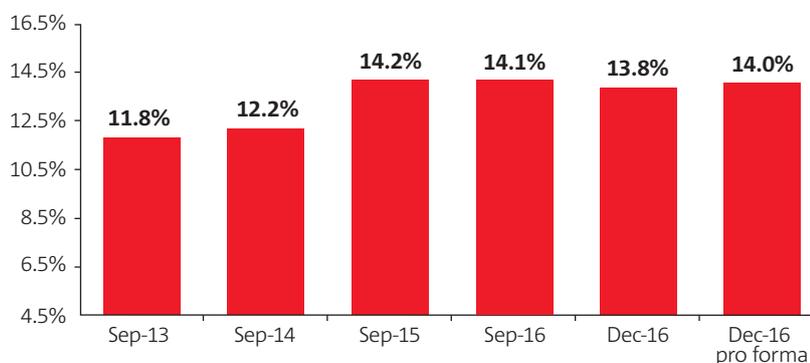
### Funding

The Group employs a range of NAB Board approved metrics to set its risk appetite and measure balance sheet strength. The Group continues to grow deposits, informed by current market conditions, funding requirements and characteristics of the funds raised. The Group maintains a well-diversified wholesale funding portfolio with the ability to access a range of funding and capital options across various senior, subordinated and secured debt markets, as well as the domestic retail hybrid market.

### Liquidity

The Group maintains well diversified and high quality liquid asset portfolios to support regulatory and internal requirements in the various countries in which it operates. In December 2016, APRA released a revised finalised Liquidity Prudential Standard (APS 210) including rules on the Net Stable Funding Ratio (NSFR). A ratio of at least 100% is proposed on both a Level 1 and Level 2 basis from 1 January 2018. The Group's NSFR is greater than 100% as at September 2016 based on APRA rules.

Figure 2: NAB Level 2 Total Capital Ratio



## 6.5 Impact of the Offer

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

## 6.6 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 Annual Financial Report 2016; and
- all documents lodged with the ASX since the date of the Annual Financial Report 2016,

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).

# KEY RISKS OF NAB SUBORDINATED NOTES 2

This section describes key potential risks that you should consider in deciding whether to invest in NAB Subordinated Notes 2, including risks that may affect NAB's business and financial performance, many of which are outside the control of NAB and its Directors.

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 Subordinated Notes 2, you should consider whether NAB Subordinated Notes 2 are a suitable investment for you. If you are applying to participate in the Reinvestment Offer, you should also consider the risks of doing so outlined in Section 3.4.

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# SECTION SEVEN:

## KEY RISKS OF NAB SUBORDINATED NOTES 2

### 7.1 Risks associated with investing in NAB Subordinated Notes 2

#### 7.1.1 Investments in NAB Subordinated Notes 2 are not Protected Accounts under the Banking Act or any other accounts or deposit liabilities of NAB

NAB Subordinated Notes 2 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.

#### 7.1.2 Changes in Interest Rate

The Interest Rate is calculated for each Interest Period by reference to the Bank Bill Rate, which is influenced by a number of factors and varies over time. The Interest Rate is likely to change. It may go up or down over time as a result of movements in the Bank Bill Rate – see Section 2.1. As the Interest 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 Subordinated Notes 2.

#### 7.1.3 All payments on NAB Subordinated Notes 2 are subject to the Solvency Condition being satisfied

All of NAB's obligations to make payments in respect of the NAB Subordinated Notes 2 are subject to the Solvency Condition being satisfied.

If the Solvency Condition is not satisfied, that is, if NAB is not able to pay its debts as they become due and payable, or NAB's assets do not exceed its liabilities

at the time the payment is due or immediately after making the payment, no payment will be made. NAB's failure to make a payment on account of the Solvency Condition will not be an Event of Default. Any amounts unpaid on account of the Solvency Condition remain a debt owing to the Holder by NAB until paid and will be payable on the first Business Day on which the Solvency Condition is satisfied in respect of the payment of such amounts.

However, if a Non-Viability Trigger Event occurs, all of NAB's obligations to make payments in respect of the NAB Subordinated Notes 2 will be terminated immediately and Holders will have no rights to recover any accrued unpaid amounts.

#### 7.1.4 Market price of NAB Subordinated Notes 2 and Ordinary Shares

The market price of NAB Subordinated Notes 2 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. The market price of NAB Subordinated Notes 2 may be more sensitive to changes in interest rates and credit spreads than the price of Ordinary Shares or comparable securities issued by NAB or other entities. NAB Subordinated Notes 2 may trade at a market price below the Face Value.

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 Subordinated Notes 2.

Any Ordinary Shares issued as a result of Conversion will 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 Subordinated Notes 2 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 Subordinated Notes 2 (as well as 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.

#### 7.1.5 Liquidity

The market for NAB Subordinated Notes 2 may be less liquid than the market for Ordinary Shares or comparable securities issued by NAB or other entities, or there may be no liquid market for NAB Subordinated Notes 2. Holders who wish to sell their NAB Subordinated Notes 2 may be unable to do so at an acceptable price, or at all, if insufficient liquidity exists in the market for NAB Subordinated Notes 2.

Where NAB Subordinated Notes 2 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.

In addition, there is no guarantee that NAB Subordinated Notes 2 will remain continuously quoted on ASX. Trading of ASX listed securities may be suspended in certain circumstances.

#### 7.1.6 Early Redemption or repurchase at NAB's option

The NAB Subordinated Notes 2 are due to mature on 20 September 2028. NAB may (subject to APRA's prior written approval) elect to Redeem some or all NAB Subordinated Notes 2 on 20 September 2023 and on any Interest Payment Date falling after that date (up to but excluding the Maturity Date) or following the occurrence of a Tax Event or Regulatory Event. NAB or any

Related Entity of NAB may at any time purchase NAB Subordinated Notes 2 in the open market or otherwise and at any price or consideration, subject to the prior written approval of APRA. Holders should not assume that APRA's approval will be given for any early Redemption or repurchase of NAB Subordinated Notes 2. Early Redemption or repurchase is also subject to certain other conditions (see Section 7.1.7).

Holders have no right to request or require a Redemption, repurchase or Conversion of their NAB Subordinated Notes 2.

Redemption or repurchase 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 Subordinated Notes 2 (such as Interest) is unknown. The rate of return at which Holders are able to reinvest the cash proceeds of Redemption may be lower than the then prevailing Interest Rate in respect of the NAB Subordinated Notes 2.

### 7.1.7 Early Redemption is subject to certain conditions

Early Redemption or repurchase of NAB Subordinated Notes 2 is subject to the condition that APRA is satisfied that either NAB Subordinated Notes 2 the subject of the Redemption or repurchase are replaced concurrently or beforehand with a capital instrument of the same or better quality and the replacement of NAB Subordinated Notes 2 is done under conditions that are sustainable for NAB's income capacity, or that the capital position of the NAB Level 1 Group and the NAB Level 2 Group will remain adequate after NAB elects to Redeem or repurchase NAB Subordinated Notes 2.

## 7.1.8 Conversion on account of a Non-Viability Trigger Event

### Overview of Non-Viability Trigger Event

NAB must immediately Convert all or some NAB Subordinated Notes 2 into Ordinary Shares if a Non-Viability Trigger Event occurs. If for any reason Conversion of those NAB Subordinated Notes 2 is not effected within 5 Business Days of the Conversion Date, those NAB Subordinated Notes 2 will be Written-Off.

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.

A Non-Viability Trigger Event may occur at any time and on any day (whether or not the day is a Business Day).

Accordingly, any such Conversion (or Write-Off) on account of a Non-Viability Trigger 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. Potential investors in NAB Subordinated Notes 2 should understand that, if a Non-Viability Trigger Event occurs and NAB Subordinated Notes 2 are Converted into Ordinary Shares, investors are obliged to accept the Ordinary Shares (or where issued to an Eligible Nominee, the net proceeds of their sale) even if they do not consider Ordinary Shares to be an appropriate investment for them at the time despite any change in the financial position of NAB since the issue

of the NAB Subordinated Notes 2 or any disruption to the market for Ordinary Shares or to capital markets generally and despite any breach by NAB of any obligation in connection with the NAB Subordinated Notes 2. Further, investors have no right to choose to have NAB Subordinated Notes 2 Written-Off instead of Converted.

See Section 2.4 for a description of Non-Viability Trigger Events.

### How many NAB Subordinated Notes 2 will be Converted or Written-Off on the occurrence of a Non-Viability Trigger Event?

If a Non-Viability Trigger Event occurs, NAB must immediately convert into Ordinary Shares or write-off:

- all Relevant Capital Instruments then outstanding (including the NAB Subordinated Notes 2); or
- where APRA is satisfied that conversion or write-off of a proportion of Relevant Capital Instruments will be sufficient to ensure that NAB will not become non-viable, that proportion of Relevant Capital Instruments.

Where a Non-Viability Trigger Event occurs because APRA determines that a public sector injection of capital or equivalent capital support is required, NAB must convert into Ordinary Shares or write-off all Relevant Capital Instruments (and not some only).

Where NAB is required to convert or write-off a proportion of Relevant Capital Instruments, NAB will determine the amount of NAB Subordinated Notes 2 which will Convert and other Relevant Capital Instruments which will convert or be written-off as follows:

- first, NAB must convert or write-off all Relevant Tier 1 Capital Instruments; and
- second, to the extent the amount of Relevant Capital Instruments required to be converted or written-off exceeds the aggregate principal amount of Relevant Tier 1 Capital Instruments (and unless APRA has withdrawn the non-viability determination), NAB must convert into Ordinary Shares or write-off Relevant Tier 2 Capital Instruments (including

# SECTION SEVEN:

## KEY RISKS OF NAB SUBORDINATED NOTES 2

NAB Subordinated Notes 2), in an aggregate principal amount equal to the amount of that excess.

However, NAB has no obligation to have or maintain on issue Relevant Tier 1 Capital Instruments which are liable to be converted or written-off ahead of NAB Subordinated Notes 2 and other Relevant Tier 2 Capital Instruments and NAB has no obligation to maintain on issue other Relevant Tier 2 Capital Instruments which may be converted or written-off along with NAB Subordinated Notes 2. NAB gives no assurance that there will be any such instruments on issue at any time.

Where NAB is permitted to convert only a proportion of NAB Subordinated Notes 2 and other Relevant Tier 2 Capital Instruments following a Non-Viability Trigger Event, NAB will endeavour to treat Holders on an approximately proportionate basis, but may discriminate to take account of the effect on marketable parcels of NAB Subordinated Notes 2 and other logistical considerations, provided that nothing in the making of the selection or the adjustments is to delay or impede the immediate Conversion or Write-off.

Accordingly, Holders should not assume that, if a Non-Viability Trigger Event occurs, only some rather than all NAB Subordinated Notes 2 will be Converted or Written-Off.

### How many Ordinary Shares will Holders receive?

The number of Ordinary Shares that a NAB Subordinated Note 2 Holder will receive on Conversion will be the lesser of the number of Ordinary Shares given by the Conversion Number formula (which is likely to result in Ordinary Shares with a value (on a VWAP basis) of approximately \$101) and the Maximum Conversion Number. A Non-Viability Trigger Event is likely to result in a Holder receiving significantly less than \$101 worth of Ordinary Shares per NAB Subordinated Note 2 and losing a significant amount of the money they invested in NAB Subordinated Notes 2.

This is because:

- a Non-Viability Trigger Event would be likely to occur at a time when NAB is suffering from significant financial stress. Accordingly, it may be accompanied by a significant decrease in the price of Ordinary Shares, resulting in the application of the Maximum Conversion Number. This number of Ordinary Shares is likely to have a value of significantly less than \$101;
- the number of shares issued on Conversion is calculated by reference to the volume weighted price of Ordinary Shares on the five Business Days before the 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 Conversion Date;
- there may be no market in Ordinary Shares received on Conversion, and investors may not be able to sell the Ordinary Shares at a price equal to the value of their investment and, as a result, may suffer loss; and
- as noted in Section 2.4, 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.

Holders should understand that, because the Maximum Conversion Number is calculated by reference to the Issue Date VWAP, this number may be higher or lower than the maximum conversion number applicable to Relevant Tier 1 Securities or other

Relevant Tier 2 Securities. It is possible that Holders may receive fewer Ordinary Shares per NAB Subordinated Note 2 than would be received by holders of other Relevant Capital Instruments (including instruments that are expressed to rank junior to NAB Subordinated Notes 2).

### Failure to Convert

If Conversion has not been effected within five Business Days of the Conversion Date for any reason (including an Inability Event), NAB Subordinated Notes 2 which would otherwise be Converted will be Written-Off.

If NAB Subordinated Notes 2 are Written-Off, the rights of Holders to Interest and repayment of Face Value will be terminated, the NAB Subordinated Notes 2 that are Written-Off will not be Redeemed or Converted on any subsequent date and Holders will lose all of their investment. Holders will not receive Ordinary Shares or other compensation and will suffer loss as a result.

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 Subordinated Notes 2 may change and the change may be adverse to the interests of Holders.

Further, Holders should understand that NAB has on issue Relevant Tier 1 Capital Instruments (being NAB CPS and NAB CPS II) that take the form of convertible preference shares. Due to the requirements of the Corporations Act, if NAB CPS or NAB CPS II are written-off, the rights of holders of these securities are not terminated but are instead varied, so as to give a holder rights equivalent to the rights in respect of Ordinary Shares it would have received if conversion had occurred. Accordingly, if NAB Subordinated Notes 2 are Written-Off, Holders will have lesser rights and are likely to be worse off than holders of NAB CPS or NAB CPS II, even though NAB CPS

and NAB CPS II rank junior to NAB Subordinated Notes 2 and are required to be written-off or converted prior to NAB Subordinated Notes 2.

### **Other consequences of a Conversion following a Non-Viability Trigger Event**

If NAB Subordinated Notes 2 are required to be Converted:

- NAB may seek a trading halt to prevent further trading in NAB Subordinated Notes 2 on ASX, and if ASX permits, may refuse to register transfers of NAB Subordinated Notes 2 that have not settled – this may result in disruption or failures in trading or dealings in NAB Subordinated Notes 2 (which may cause a Holder to suffer loss);
- in certain circumstances, Holders will not receive Ordinary Shares on Conversion but instead those Ordinary Shares will be issued to an Eligible Nominee, who will arrange for the sale of the Ordinary Shares at the first reasonable opportunity. No guarantee is given in relation to the timing or price at which any sale will occur;
- Holders will receive from the Eligible Nominee a cash amount equal to the proceeds of sale of those Ordinary Shares less any applicable brokerage, stamp duty and other taxes, charges and expenses;
- Holders will not receive prior notice of Conversion or have any rights to vote or right of approval in respect of the Conversion;
- the Ordinary Shares issued on Conversion may not be quoted at the time of issue, or at all; and
- NAB expects that any ASX trades in NAB Subordinated Notes 2 that have not settled on the date a Non-Viability Trigger Event occurs will continue to settle in accordance with the normal ASX T+2 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 Subordinated Notes 2 have been Converted as a result of the occurrence of the Non-Viability Trigger Event.

### **7.1.9 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.

### **7.1.10 Restrictions on rights and ranking in a Winding Up of NAB**

#### **What claim do Holders have on NAB?**

NAB Subordinated Notes 2 are issued by NAB under the NAB Subordinated Notes 2 Deed Poll. A Holder has no claim on NAB in respect of NAB Subordinated Notes 2 except as provided in the Terms and the NAB Subordinated Notes 2 Deed Poll.

NAB Subordinated Notes 2 are unsecured and subordinated (as further outlined below). Although NAB Subordinated Notes 2 may pay a higher rate of interest 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.

In the event of a Winding Up of NAB, and assuming NAB Subordinated Notes 2 have not been Redeemed, Converted or Written-Off investors will only be entitled to claim for the Face Value and any accrued but unpaid Interest after payment of all claims ranking senior to NAB Subordinated Notes 2. This means that if there is a shortfall of funds on a Winding Up of NAB, Holders will suffer loss.

#### **What claims rank senior?**

In a Winding Up of NAB, NAB Subordinated Notes 2 rank ahead of Junior Ranking Instruments, equally amongst themselves, equally with all

Equal Ranking Instruments, but behind the claims of all Senior Creditors (which include NSN holders and depositors) – see Table 2 in Section 1.1. This means that, on a Winding Up, there is a risk that Holders will lose all or some of their investment.

### **NAB Subordinated Notes 2 rank junior to NSN**

Holders should understand that NAB Subordinated Notes 2 rank junior to NSN and other securities issued as Lower Tier 2 Capital of NAB prior to 1 January 2013. The reason for this ranking is that, under the Basel III Prudential Standards (which apply to the NAB Subordinated Notes 2), in order to qualify as Tier 2 Capital, an instrument must rank in a Winding Up equally with the most junior ranking claims which rank ahead of Common Equity Capital and Additional Tier 1 Capital.

Since NAB has on issue Undated Subordinated Floating Rate Notes and these would rank in a Winding Up ahead of share capital but behind Lower Tier 2 Capital issued prior to 1 January 2013, the NAB Subordinated Notes 2 are required to rank equally with the Undated Subordinated Floating Rate Notes.

### **Effect of a Non-Viability Trigger Event**

A Holder's return in a Winding Up will be adversely affected if a Non-Viability Trigger Event occurs.

If NAB Subordinated Notes 2 have been Converted into Ordinary Shares prior to a Winding Up of NAB, the Ordinary Shares received on Conversion will rank equally with other Ordinary Shares and rank lower than they would have had they still remained NAB Subordinated Notes 2 (and therefore lower than NAB Subordinated Notes 2 ranked whilst on issue). If NAB Subordinated Notes 2 are Written-Off, Holders will not have their capital repaid and will not be entitled to any return in a Winding Up.

In addition, investors in the NAB Subordinated Notes 2 should understand that NAB has on issue Tier 1 Capital instruments and Tier 2 Capital instruments which were issued prior to the implementation of the current

# SECTION SEVEN:

## KEY RISKS OF NAB SUBORDINATED NOTES 2

prudential requirements and which are not capable of being written-off or converted in accordance with their terms or by operation of law in the event of non-viability. Accordingly, the NAB Subordinated Notes 2 may be Converted or Written-Off before any such instruments (notwithstanding that (1) claims of holders of Tier 1 Capital instruments otherwise rank junior to the claims of the Holders in a Winding Up and (2) the claims of the Holders rank equally with the claims of holders of the Undated Subordinated Floating Rate Notes in a Winding Up). As such, the Holders of NAB Subordinated Notes 2 that are Converted or Written-Off will be in a worse position than holders of such existing term and undated subordinated debt of NAB. If NAB Subordinated Notes 2 are Written-Off, Holders will also be in a worse position than the holders of NAB CPS and NAB CPS II for the reasons given in Section 2.6.

### 7.1.11 Future issues or redemptions of securities by NAB

NAB Subordinated Notes 2 do not in any way restrict NAB from issuing further securities or from incurring or guaranteeing further indebtedness on such terms as it sees fit. NAB's obligations under NAB Subordinated Notes 2 rank subordinate and junior in a Winding Up to NAB's obligations to holders of senior ranking securities and instruments. Accordingly, NAB's obligations under NAB Subordinated Notes 2 will not be satisfied unless it can satisfy in full all of its other obligations ranking senior to NAB Subordinated Notes 2. NAB may in the future issue securities that:

- rank for interest distributions or payments of capital (including on the Winding Up of NAB) equal with, behind or ahead of NAB Subordinated Notes 2;
- have the same or different dividend, interest or distribution rates as those for NAB Subordinated Notes 2;
- have the same or different terms and conditions as NAB Subordinated Notes 2;
- are denominated in any currency; or

- in the case of capital instruments, may have different maximum conversion numbers based on the applicable issue date VWAP.

In addition, the liabilities which are preferred by Australian law to the claims of a holder in respect of a NAB Subordinated Note 2 will be substantial and are not limited by the terms of NAB Subordinated Notes 2.

NAB may incur further indebtedness and may issue further securities, including further Tier 2 Capital securities or senior ranking securities, before, during or after the issue of NAB Subordinated Notes 2. An investment in NAB Subordinated Notes 2 carries no right to participate in any future issue of securities (whether equity, Tier 1 or Tier 2 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 Subordinated Notes 2 or of the likelihood of NAB making payments on NAB Subordinated Notes 2. Similarly, NAB Subordinated Notes 2 do not restrict any member of the Group from redeeming, converting, 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), in particular, junior ranking securities.

An investment in NAB Subordinated Notes 2 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 or Tier 2 Capital, subordinated or senior debt or otherwise).

### 7.1.12 Enforcement

Depending on its performance and financial position, there is a risk that NAB may default on payment of some or all of the Face Value, Interest or other amounts payable on the NAB Subordinated Notes 2. If NAB does not pay some or all of the Face Value, your rights are limited to certain specified remedies and, for example, you do not

have the right to require NAB to redeem the NAB Subordinated Notes 2 early. Although the Terms may specify certain remedies (for example, seeking an order for the Winding Up of NAB) the grant of those remedies may be in the discretion of the court, and as such may not be granted.

### 7.1.13 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 Subordinated Notes 2 may decline in value. Accordingly, when you evaluate whether to invest in NAB Subordinated Notes 2 you should carefully evaluate the investment risks associated with an investment in NAB – see Section 7.2.

### 7.1.14 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 Subordinated Notes 2 will not be rated, such changes may adversely affect the market price, liquidity and performance of NAB Subordinated Notes 2 or Ordinary Shares received on Conversion.

### 7.1.15 Regulatory classification

APRA has provided confirmation that NAB Subordinated Notes 2 qualify as Tier 2 Capital under the Basel III Prudential Standards. However, if NAB subsequently determines that, as a result of a Regulatory Change, some or all NAB Subordinated Notes 2 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 Redemption (subject to certain conditions, including APRA approval) at NAB's discretion.

### 7.1.16 Australian tax consequences

A general outline of the tax consequences of investing in NAB Subordinated Notes 2 for certain potential investors who are Australian residents for tax purposes is set out in the Australian taxation summary in Section 8. 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.

Broadly, NAB is entitled to Redeem all or some NAB Subordinated Notes 2 (subject to certain conditions, including APRA's prior written approval), if, as a result of a change in law or regulation, judicial decision or administrative position on or after the Issue Date in Australia (which NAB did not expect at the time of issue of NAB Subordinated Notes 2), NAB has or will become obliged to pay Additional Amounts, NAB or another member of the Group would be exposed to an increase in taxes or other costs, which is not insignificant, in relation to NAB Subordinated Notes 2 or if Interest is not or may not be allowed as a deduction to NAB (or a head entity of any consolidated group which NAB is a member) for Australian income tax purposes. See the description of a Tax Event in Section 2.2 for more information.

### 7.1.17 Shareholding limits and Eligible Nominee sales

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.

Holder should take care to ensure that by acquiring any NAB Subordinated Notes 2 (taking into account any Ordinary Shares into which they may Convert), Holders do not breach any applicable restrictions on ownership.

Holder who do not wish to receive Ordinary Shares on Conversion may notify NAB of this no less than 15 Business Days prior to the Conversion Date. In addition, if you are a Foreign Holder, you will not receive Ordinary Shares on Conversion. Instead, in these cases, the relevant number of Ordinary Shares will be issued to an Eligible Nominee, on terms that the Eligible Nominee will sell the Ordinary Shares at the first reasonable opportunity and pay the net proceeds of any sale to you. No guarantee is given in relation to the timing or price at which any sale will occur. Neither NAB nor the Eligible Nominee has any duty to Holders in relation to the price at which Ordinary Shares are sold, nor any liability for any loss suffered by a Holder as a result of the sale of Ordinary Shares where required in the circumstances described above. NAB will treat you as a Foreign Holder if your address in the Register is a place outside of Australia or NAB otherwise believes you may not be a resident of Australia. Further, if a FATCA Withholding is required to be made in respect of Ordinary Shares to be issued on Conversion, NAB will only issue those Ordinary Shares to the Holder to the extent (if at all) that the issue of Ordinary Shares is net of FATCA Withholding. To the extent that a FATCA Withholding is required, NAB will

issue the Ordinary Shares to an Eligible Nominee who will sell those Ordinary Shares on the basis outlined above and will deal with the proceeds of sale in accordance with FATCA.

### 7.1.18 NOHC Event

Where a NOHC Event occurs NAB will be permitted (but not obliged) to make certain amendments to the Terms in order to substitute the Approved NOHC as the issuer of ordinary shares on a 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 do 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 Interest on NAB Subordinated Notes 2.

After a NOHC Event Holders will remain note holders in NAB with the same rights to interest 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 Subordinated Notes 2 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

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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.

### 7.1.19 Changes in control of NAB

There is a risk that NAB Subordinated Notes 2 may be affected by merger and acquisition activity affecting NAB. The outcome for Holders of such activity may be uncertain and they may suffer loss or face increased risks in holding NAB Subordinated Notes 2.

NAB, which is an ASX-listed company, may be acquired by, or merged with, another company or group of companies, potentially resulting in a change of control.

Changes in control of NAB may also be effected in other circumstances, for example, a transfer by APRA under the FSBT Act as described in Section 7.1.20.

The Terms do not contain any provisions to protect the position of Holders in the event of a change in control. By contrast, some other securities such as NAB Capital Notes 2, provide for mandatory conversion of notes into ordinary shares if there is a takeover bid or scheme of arrangement meeting certain conditions.

Following a change of control of NAB, Ordinary Shares may cease to be quoted. Holders should understand that they remain obliged to accept Ordinary Shares where required on a Non-Viability Trigger Event in such circumstances.

### 7.1.20 Powers of APRA and an ADI statutory manager

APRA has extensive powers to intervene in the operations of NAB, including a power to direct NAB to conduct or not to conduct certain activities or transactions, or not to make payments in certain circumstances.

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. The statutory manager may also dispose of the whole or part of an ADI's business. 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 Subordinated Notes 2 and the position of Holders.

APRA may, in certain circumstances, require NAB to transfer all or part of its business to another entity under the *Financial Sector (Business Transfer and Group Restructure) Act 1999* (Cth) ("FSBT Act").

A transfer under the FSBT Act overrides anything in any contract or agreement to which NAB is party and thus may have an adverse effect on NAB's ability to comply with its obligations under NAB Subordinated Notes 2 and the position of Holders.

### 7.1.21 Amendment of Terms

NAB may, with APRA's prior written approval where required, amend the Terms and the NAB Subordinated Notes 2 Deed Poll without the approval of Holders. These include necessary or expedient amendments to dates and time periods required or permitted in connection with any Redemption or Conversion or any change which NAB considers will not be materially prejudicial to the interests of Holders as a whole (refer to Section 2.8 for a detailed list). 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 an individual 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 Subordinated Notes 2 as Tier 2 Capital. The Holders may not by any resolution take any action which may affect the eligibility of NAB Subordinated Notes 2 as Tier 2 Capital without APRA's prior written approval.

### 7.1.22 Holders may be subject to FATCA withholding and information reporting

It is possible that, in order to comply with FATCA, NAB (or if NAB Subordinated Notes 2 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 Subordinated Notes 2. This information may be provided to the IRS, and NAB may be required to withhold US tax on some portion of payments or issues of shares made after 31 December 2018 with respect to NAB Subordinated Notes 2 if such information is not provided or if payments or issues of shares 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 or share issues made in respect of NAB Subordinated Notes 2, Holders and beneficial owners of NAB Subordinated Notes 2 will not be entitled to receive any gross up or Additional Amounts or shares 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 Subordinated Notes 2.

Holders should also note the provisions for the issue of Ordinary Shares to an Eligible Nominee to the extent that a FATCA Withholding is required. Refer to Section 2.4.

### 7.2 Risks specific to the Group, including those related to general banking, economic and financial conditions

Set out below are the principal risks and uncertainties associated with the Group. These risks and uncertainties are not listed in order of significance and it is not possible to determine the likelihood of any such risks occurring. In the event that one or more of these risks occur, the Group's business, operations, financial condition and future performance may be adversely impacted.

There may be other risks faced by the Group that are currently unknown or are deemed immaterial, but which may subsequently become known or become material. These may individually or in aggregate adversely impact the Group.

Accordingly, no assurances or guarantees of future performance, profitability, distributions or returns of capital are given by the Group.

#### 7.2.1 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 and geopolitical risks and financial market conditions.

The Group conducts business across a range of jurisdictions including Australia, New Zealand, the United Kingdom ("UK"), the United States ("US") and Asia. The business activities of the Group are dependent on the nature and extent of banking and financial services and products required by its customers globally. In particular, levels of borrowing are heavily dependent on customer confidence, employment trends, market interest rates and macro-economic and financial market conditions and forecasts.

Domestic and international economic conditions and forecasts are influenced by a number of factors such as economic growth rates, cost and availability of capital, central bank intervention, inflation and deflation rates and market volatility and uncertainty. Economic conditions may also be impacted by major shock events such as natural disasters, war and terrorism, political and social unrest, and sovereign debt restructuring and defaults.

Volatility or uncertainty in credit, currency, commodity and equity markets, and adverse economic conditions have led to, and in the future may lead to:

- Increased cost of funding 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 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.
- Lack of available or suitable derivative instruments for hedging purposes.
- Lower growth, business revenues and earnings. In particular, the Group's 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.
- Increased cost of insurance, lack of available or suitable insurance, or failure of the insurance underwriter.

The following are examples of certain macro-economic and financial market conditions that are currently relevant to the Group and may adversely impact its financial performance and position.

- Below trend increases in real gross domestic product ("GDP") and sub-target inflation have resulted in lower income growth globally. In advanced economies, this reflects slower productivity growth, the long-lasting impact of the global financial crisis and a lack of demand growth in key economies such as Japan and the Eurozone. In Australia and New Zealand, income generation has been impacted by falling commodity prices, curbing the rate of growth in nominal GDP.
- Without sustained economic growth, high debt-to-income ratios present ongoing risks in the event of cyclical economic downturns.

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Particularly high debt burdens exist for government debt in advanced economies, non-financial institution corporate debt in emerging market economies (especially China and Brazil) and household sectors in Australia, New Zealand, Canada and parts of Western Europe. Higher government debt ratios in many advanced economies may also impact sovereign credit ratings. Ratings agency S&P Global Ratings (“S&P”) revised the outlook of Australia’s sovereign rating to “negative” from “stable” and reaffirmed its AAA rating. As a result, S&P also revised the outlook for Australian major banks and their New Zealand subsidiaries to “negative” from “stable”. Moody’s Investors Service (“Moody’s”) maintained the Australian sovereign outlook as “stable”, but changed its Australian macro profile to “very strong negative” from “very strong” and as a result, revised the rating outlooks for a number of Australian banks and their New Zealand subsidiaries to “negative” from “stable”. The outlook for New Zealand’s sovereign credit rating remains stable.

- Weaknesses continue to exist in a number of European banks, and non-performing loans as a percentage of total assets remain high. The inter-connectedness of the global banking system means problems in the European banking system have the potential to create disruptions in global financial markets and to raise questions over the stability of particular banks around the world. In the past this has reduced market liquidity, which may negatively impact the Group’s access to wholesale funding.
- Should interest rates in developed economies rise from historical lows, there is a risk that the valuation of a wide range of assets, from housing to government bonds, could fall sharply. Liquidity in those markets may also reduce unexpectedly and market volatility may increase. Previous periods of tightening monetary policy in the US have been associated with greater volatility in the volume and pricing of capital flows in emerging

market economies. Several capital importing economies, including Australia and New Zealand, remain vulnerable to a sudden or marked change in US interest rates and expectations on the interest rate outlook.

- Continued economic growth in China is of particular importance to both Australia and New Zealand, with ongoing concerns that its rapid pace of growth could slow sharply. Chinese policy-makers have continued their reliance on an economic model based on high levels of investment and fast credit growth. Due to its export mix, Australia’s economy is particularly exposed to a sudden downturn in Chinese investment or a substantial or sustained decline in the Chinese economy. In addition, the increasing level of bad debts in China poses a major risk to its banking system with potential flow on impacts to the availability of credit and liquidity and to the broader Chinese economy.
- Sharp declines in commodity prices in both Australia and New Zealand have been driven by sub-trend global growth constraining demand, combined with increases in commodity supply. Certain regional areas have been adversely affected by declines in dairy prices in both countries, as well as by the decline in prices for minerals such as coal and iron ore, and oil and gas in Australia. Commodity price volatility remains substantial and the Group has sizeable exposures to commodity producing and trading businesses.
- Changes in the political environment raise the risk that growth promoting reforms with upfront costs, but medium-term payoffs, may become more difficult to implement. Sudden changes in long-established economic policies can occur in less stable and more unpredictable geopolitical environments, potentially winding back the globalisation and market liberalisation trends that have underpinned global growth in recent decades. The economic agenda outlined during the campaign by US President Trump represents significant changes from recent US trade, tax and fiscal policies. There is still

uncertainty over how far reaching the policy change will be, how these changes will be implemented and their impact on US trade relations with other countries, on the broader economy of these countries and on the financial markets. The UK vote to leave the European Union (“EU”) has created significant political, social and macro-economic uncertainty. Post-exit arrangements between the UK and the EU on issues such as the UK’s access to European markets, its regulatory environment and the free movement of capital and labour are still unknown. A series of general elections in key Eurozone countries through 2017 could represent an added risk to the global business environment and increase market volatility, particularly the polls in France, Germany and the Netherlands.

### **(b) The Group is subject to extensive regulation. Regulatory changes may adversely impact the Group’s operations and financial performance and position.**

The Group is highly regulated in Australia and in the other jurisdictions in which it operates, trades or raises funds, and is subject to supervision by a number of regulatory authorities and industry codes of practice.

Regulations vary across jurisdictions, and are designed to protect the interests of depositors, policy holders, security holders, and the banking and financial services system as a whole. Changes to laws and regulations or changes to regulatory policy or interpretation can be unpredictable, are beyond the Group’s control, and may not be harmonised across the jurisdictions in which the Group operates. Regulatory change may result in significant capital and compliance costs, changes to corporate structure and increasing demands on management, employees and information technology systems.

Examples of current and potential regulatory changes impacting the Group are set out below.

Implementation of the Basel Committee on Banking Supervision’s (“BCBS”) reforms will continue over the

coming years. APRA has introduced prudential standards for BCBS Basel III requirements in Australia. These reforms have increased the quality and ratio of capital to risk weighted assets that the Group is required to maintain and the quality and proportion of assets that the Group is required to hold as high-quality liquid assets. Other BCBS key changes impacting the Group include:

- APRA's updated standard on liquidity incorporating the net stable funding ratio will take effect on 1 January 2018. Final calibration has not yet been determined, and this may impact the funding profiles and associated costs of participants in the Australian Banking industry, and New Zealand banks owned by Australian parent banks.
- APRA's revised securitisation framework will take effect from 1 January 2018. This may impact the amount of regulatory capital held industry-wide for securitisation exposures.
- In January 2016, the BCBS announced its revised market risk framework, which is due to come into effect from 2019 globally. This may impact trading book capital requirements.
- APRA has also signalled its intention to implement a minimum leverage ratio requirement for ADIs; this is not expected prior to 1 January 2018.

In New Zealand, the Reserve Bank of New Zealand has implemented the Basel III Capital Adequacy Framework, as modified to reflect New Zealand conditions.

Other regulators have also implemented or are in the process of implementing Basel III and equivalent reforms.

Regulatory changes continue to be made by the BCBS as it focuses on improved consistency and comparability in banks' regulatory capital ratios. Themes driving the revision of standards include transparency, consistency and credibility. Draft proposals include revisions to the internal ratings based and standardised approaches for calculating regulatory capital and the introduction of a capital floor framework, with consultation on sovereign risk expected. In April

2016, the BCBS released the revised interest rate risk in the banking book framework. The BCBS is also expected to implement revisions to the operational risk capital framework. The full impact of the changes will not be known until the BCBS requirements are finalised and implemented by APRA or by other regulators. This may intersect with measures adopted as a result of the Australian Financial System Inquiry ("**FSI**").

The FSI was charged with examining how Australia's financial system could be positioned to best meet the country's evolving needs and support its economic growth. The FSI proposed measures to improve the resilience, efficiency and fairness of the banking system, with respect to matters including superannuation and retirement, regulatory processes, innovation, payments and data, and measures to improve outcomes for consumers. In October 2015, the Australian government confirmed its support for 43 of the 44 recommendations for the Australian financial system.

APRA has been given responsibility for implementing recommendations in relation to strengthening the resilience of the financial system. From July 2016, APRA raised the risk weight for Australian residential mortgages from approximately 16% to an average of 25% for ADIs accredited to use internal models. Implementation of further recommendations may result in impacts to regulation and legislation, risk weighted assets or capital ratios.

The Financial Stability Board issued the total loss-absorbing capacity standard in November 2015 for global systemically important banks ("**G-SIBs**"). While not a G-SIB, NAB could be required to meet higher capital levels as a domestic systemically important bank. This is in line with the FSI recommendation to implement a loss absorbing capacity framework, and also in accordance with emerging international practice. This may have implications for the nature and cost of the Group's capital.

The Australian Government Treasury is currently consulting regarding the FSI's recommendations that ASIC be given additional powers in relation to design and distribution obligations for financial products and the introduction of an industry funding model for ASIC. Legislation has been introduced to provide a professional standards framework for financial advisers, and to enshrine the objective of the superannuation system.

The Group is progressing with a transition to a revised Level 2 Group structure following clarification of the ADI Level 2 Group definition by APRA. In the interim period, CET1 capital reflects the transitional arrangements granted by APRA on the removal of capital benefits arising from debt issued directly by National Wealth Management Holdings.

APRA has released final prudential standards associated with the governance and risk management components of the framework for the supervision of conglomerate groups, including the Group. These non-capital components become effective on 1 July 2017. APRA has deferred finalising the capital components of the framework, with implementation of any new requirements not expected prior to 2019.

The US Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act) instituted major changes to US banking and financial institution regulatory regimes. These changes include additional supervisory requirements and prudential standards for certain foreign banking organisations, such as NAB, and its affiliates. The Dodd-Frank Act also contains the Volcker Rule, which prohibits certain proprietary trading and the sponsorship of, and investment in, hedge, private equity or other similar funds by certain foreign banking organisations, including NAB.

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Over The Counter (“OTC”) derivative market reforms are being implemented globally. In Australia, ASIC now mandates central clearing of certain interest rate derivatives entered into by Australian ADIs. In broad alignment with international standards, APRA has released the final margining and risk mitigation standard for non-centrally cleared derivatives. The industry is challenged to re-document its client credit agreements to support the exchange of variation margin under the new international standards. OTC reforms are being implemented by regulators including the Financial Conduct Authority in the UK, the European Securities and Markets Authority in Europe and the Securities Exchange Commission through the Dodd-Frank Act and related regulations in the US. Where there is variation in the scope and implementation timeframes for OTC reforms across jurisdictions, there may be added costs and complexity in achieving regulatory compliance for the Group.

In addition to the aforementioned changes, other areas of ongoing regulatory change and review include additional prudential and conduct reforms, supervisory actions to reinforce sound residential mortgage lending practices, including restrictions on the growth in investor lending, changes to accounting and reporting requirements, tax legislation, bank specific tax levies, payments and privacy laws. There is increasing supervision and regulation with respect to anti-bribery and corruption, anti-money laundering, counter-terrorism financing and trade sanctions. There has also been increased regulator expectation and focus in relation to a number of other areas including financial advice, data quality and controls, governance and culture, conduct, conflicts of interest and management of life insurance claims. In addition, there have been proposals within Parliament for a Royal Commission to investigate Australian banks.

The full scope, timeline and impact of these current and potential inquiries and regulatory reforms, or how they 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 business, operations, structure, compliance costs or capital requirements, and ultimately its financial performance and prospects.

### **(c) The Group faces intense competition, which may adversely impact its financial performance and position.**

There is substantial competition across the markets in which the Group operates. Increasing competition for customers can lead to compression in profit margins or loss of market share. The Group faces competition from established financial services providers as well as new market entrants, including foreign banks and non-bank competitors with lower costs and new operating models. Evolving industry trends, and anticipated rapid changes in technology are likely to impact on customer needs and preferences. The Group may not predict these changes accurately or quickly enough, or have the resources and flexibility to adapt in sufficient time to keep pace with industry developments and to meet customer expectations. As a result, the Group’s financial performance and competitive position may be adversely affected.

### **7.2.2 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, as 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. 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, as well as the extension of commitments and guarantees and the settlement of transactions.

Major sub-segments within the Group’s lending portfolio include residential housing loans, a material component of our total gross loans and acceptances, and commercial real estate loans, the majority of these domiciled across Australia and New Zealand.

Adverse business or economic conditions, including deterioration in property valuations or prices of both residential and commercial property, employment markets, the political environment or high levels of household debt in Australia and New Zealand may result in failure by counterparties and customers to meet their obligations in accordance with agreed terms. The Group may be exposed to the increased risk of counterparty or customer default should interest rates rise above the record or near record lows of recent years. In particular, the Group’s portfolio of interest-only loans across retail and non-retail segments, in addition to the residential investor mortgage portfolio, may be susceptible to losses in the event of a rise in interest rates or a decline in property prices. The Group may also be exposed to counterparty default in the event of a deterioration in apartment markets, through both retail lending and non-retail lending to property developers.

The Group’s large business lending market share in Australia and New Zealand exposes it to potential losses should adverse conditions be experienced across this sector. Similarly, the Group has a large market share in the Australian and New Zealand agricultural sectors, particularly the dairy sector in New Zealand. As a consequence, volatility in commodity prices, foreign exchange rate movements, climatic events (including drought), disease, export restrictions, quarantine restrictions, introduction of pathogens and pests, and other risks that may impact this sector, may have an adverse impact on the Group’s financial performance and position.

More specifically, the New Zealand dairy market has come under pressure due to a lower milk solid payout rate over 2014-16. While the current outlook for milk prices is improving, a sustained low milk price has the potential to increase bad and doubtful debts. The Australian dairy industry has also faced lower milk prices. The mining and oil and gas industries in Australia, as well as a number of sectors that service them, have been impacted by a slowdown in investment and a period of low commodity prices. Ongoing pressure in these sectors may also result in an increase in bad and doubtful debts.

The Group provides for losses in relation to loans, advances and other assets. Estimating losses in the loan portfolio is, by its very nature, uncertain. The accuracy of these estimates depends on many factors, including general economic conditions, forecasts and assumptions, and involves complex modelling and judgements. If the information or the assumptions upon which assessments are made prove to be inaccurate, the provisions for credit impairment may need to be revised. This may adversely impact the Group's financial performance and position.

**(b) The Group may suffer losses due to its exposure to operational risks.**

Operational risk is the risk of loss resulting from inadequate internal processes and controls, people and systems or from external events. Operational risk includes legal risk but excludes strategic or reputational risk.

Operational risks are a core component of doing business arising from the day-to-day operational activities of the Group as well as strategic projects and business change initiatives. Given that operational risks cannot be fully mitigated, the Group determines an appropriate balance between accepting potential losses and incurring costs of mitigation.

An operational risk event may give rise to substantial losses, including financial loss, fines, penalties, personal injuries, reputational damage, loss of market share, theft of property, customer redress and litigation. Losses from

operational risk events may adversely impact the Group's reputation and financial performance and position.

Examples of operational risk events include:

- Fraudulent or unauthorised acts by employees, contractors and external parties.
- Systems, technology and infrastructure failures, cyber incidents, including denial of service and malicious software attacks, or unauthorised access to customer or sensitive data.
- Process errors or failures arising from human error or inadequate design of processes or controls.
- Operational failures by third parties (including off-shored and outsourced service providers).
- Weaknesses in employment practices, including those with respect to diversity, discrimination and workplace health and safety.
- Deficiencies in product design or maintenance.
- Business disruption and property damage arising from events such as natural disasters, biological hazards or acts of terrorism.

In addition, the Group is dependent on its ability to retain and attract key management and operating personnel. The unexpected loss of any key resources, or the inability to attract personnel with suitable experience, may adversely impact the Group's ability to operate effectively and efficiently, or to meet strategic objectives.

Models are used extensively in the conduct of the Group's business, for example, in calculating capital requirements and measuring and stressing exposures. If the models used prove to be inadequate or are based on incorrect or invalid assumptions, judgements or inputs, this may adversely affect the Group's financial performance and position.

**(c) The Group may be exposed to risk from non-compliance with laws or standards and other forms of misconduct, which may adversely impact its reputation and financial performance and position.**

The Group is exposed to risk arising from failure or inability to comply with applicable laws, regulations, licence conditions, regulatory standards, industry codes of conduct and Group policies and procedures. This may include detrimental practices, such as selling or unduly influencing customers to purchase inappropriate products and services, conducting inappropriate market practices or being a party to fraudulent transactions, non-adherence to fiduciary requirements or provision of financial advice which is inappropriate or not in the best interests of customers. If the Group's compliance controls were to fail significantly, be set inappropriately, or not meet legal or regulatory expectations, thereby allowing such risks to eventuate, then the Group may be exposed to fines, public censure, litigation, settlements, restitution to customers, regulators or other stakeholders, unenforceability of contracts such as loans, guarantees and other security documents, or enforced suspension of operations or loss of licence to operate all or part of the Group's businesses. This may adversely impact the Group's reputation and financial performance and position.

The Group has ongoing discussions with key regulators on industry-wide issues and matters specific to the Group. The global banking and financial services industry is increasingly subject to information requests, scrutiny and investigations by its conduct based regulators, and at times government, which have led to a number of international firms facing high profile enforcement actions, including substantial fines, for breaches of laws or regulations. Regulators globally are continuing their investigation into manipulation of financial benchmarks and markets. In Australia, such investigations include an industry-wide review by ASIC into participants in the bank bill swap reference rate ("BBSW") market. Following this review, ASIC commenced Federal Court proceedings against NAB and two other market participants. NAB fully co-operated with ASIC's review which preceded the commencement of proceedings. NAB, together with a number of other banks, has been named as a defendant in a

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class action complaint filed in the United States District Court for the Southern District of New York regarding alleged conduct concerning BBSW. The action references the proceedings brought by ASIC. The potential outcome of these court actions and investigations are uncertain at this time. It is possible that other class actions could arise in connection with BBSW and other conduct matters.

In January 2017, the Group's superannuation trustee, NULIS Nominees (Australia) Ltd, commissioned an independent assurance review in accordance with additional conditions on its financial services licence. As agreed with ASIC, the scope of the review will cover the Trustee's risk management procedures, processes for implementing product changes, disclosure and reporting to members, and conflicts management procedures.

Since September 2014, the Australian Senate Economics References Committee has been conducting an inquiry into aspects of the financial advice industry, including potential unethical or misleading financial advice and compensation processes for consumers impacted by that advice. This inquiry has now lapsed with the dissolution of Parliament prior to the general election in July 2016.

In October 2015, the Group began contacting certain groups of customers where there was a concern that they may have received non-compliant advice since 2009. The outcomes and total costs associated with this work are uncertain. The Group is aware that two plaintiff law firms have advertised that they are investigating claims on behalf of the Group's customers who have suffered losses as a result of financial advice received from the Group's advisers. No formal action has yet been taken against the Group in this regard.

Provisions held in respect of conduct and litigation matters are based on a number of assumptions derived from a combination of past experience, estimated future experience, industry comparison and the exercise of subjective judgement based on, where appropriate, external professional

advice. Risks and uncertainties remain in relation to these assumptions and the ultimate costs of redress to the Group. These factors mean that the eventual costs of conduct and compliance-related matters may differ materially from those estimated and further provisions may be required, adversely impacting the Group's reputation and financial performance and position.

### **(d) Disruption of technology systems or breaches of data security may adversely impact the Group's operations, reputation and financial performance and position.**

Most of the day-to-day operations of the Group are computer-based, and therefore the reliability and security of the Group's information technology systems and infrastructure are essential to its business. Technology risk may arise from events including a failure of these systems to operate effectively, an inability to restore or recover such systems in acceptable timeframes, a breach of data security, or other form of cyber-attack or physical attack. These events may be wholly or partially beyond the control of the Group. Such events may result in disruption to operations, reputation damage, litigation, loss or theft of customer data, or regulatory investigations and penalties. This may adversely impact the Group's reputation and financial performance and position.

The rapid evolution of technology in the financial services industry and the increased expectation of customers for internet and mobile services on demand, expose the Group to new challenges in these areas.

The Group processes, stores and transmits large amounts of personal and confidential information through its computer systems and networks. The Group invests significant resources in protecting the confidentiality and integrity of this information. However, threats to information security are constantly evolving and techniques used to perpetrate cyber-attacks are becoming increasingly sophisticated. The Group may not be able to anticipate a security threat, or be able to implement effective measures to

prevent or minimise the resulting damage. An information security breach may result in operational disruption, regulatory enforcement actions, financial losses, theft or loss of customer data, or breach of applicable privacy laws, all of which may adversely impact the Group's reputation and financial performance and position.

As with other business activities, the Group uses select external 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, such as the appropriate management and control of confidential data. 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 financial performance and position.

### **(e) Transformation and change programs across the Group may not deliver some or all of their anticipated benefits.**

The Group has invested significantly in change across the organisation, including technology and infrastructure transformation. There is a risk that these programs may not realise some or all of the anticipated benefits. The Group also continues to pursue business process improvement initiatives and invest in technology to achieve its strategic objectives, meet changing customer expectations and respond to competitive pressures. These process changes may increase operational and compliance risks, which may adversely impact the Group's reputation and financial performance and position.

### **(f) The Group may be exposed to losses if critical accounting judgements and estimates are subsequently found to be incorrect.**

The preparation of the Group's financial statements requires management to make estimates and assumptions and to exercise judgement in applying relevant accounting policies, each of which may directly impact the reported amounts of assets, liabilities, income and expenses.

Some areas involving a higher degree of judgement, or where assumptions are significant to the financial statements, include the estimates used in the calculation of provisions (including those pertaining to conduct-related matters), the valuation of goodwill and intangible assets, and the fair value of financial instruments.

If the judgements, estimates and assumptions used by the Group in preparing its consolidated financial statements are subsequently found to be incorrect, there could be a significant loss to the Group beyond that anticipated or provided for, which may adversely impact the Group's financial performance and position.

**(g) Litigation and contingent liabilities arising from the Group's business conduct may adversely impact its reputation and financial 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 and costs in respect thereof cannot be accurately assessed. Any material legal proceedings may adversely impact the Group's reputation and financial performance and position.

Refer to 'Notes to the Consolidated Financial Statements', Note 31 Contingent liabilities and credit commitments on page 107 in the Annual Financial Report 2016 for details in relation to the Group's material legal proceedings and contingent liabilities.

**(h) Insufficient capital may adversely impact the Group's operations and financial performance and position.**

Capital risk is the risk that the Group does not have sufficient capital and reserves to meet prudential standard requirements, achieve its strategic plans and objectives, cover the risks to which it is exposed, or 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 balance sheet size and risk profile of its operations.

Prudential capital requirements (and proposed changes to these requirements), including regulatory changes arising from the BCBS capital adequacy reforms or in response to the recommendations of the FSI, may limit the Group's ability to manage capital across the entities within the Group, pay dividends or distributions on shares and hybrid instruments, or may require the Group to raise or use more capital of higher quality, or to restrict balance sheet growth. Additionally, if the information or the assumptions upon which assessments of capital requirements are made prove to be inaccurate, this may adversely impact the Group's operations and financial performance and position.

**(i) 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 ongoing operations, strategic plans and objectives. The Group accesses domestic and global capital markets to help fund its businesses. Any dislocation in these funding markets, or a reduction in investor appetite for holding the Group's securities, may adversely affect the Group's ability to access funds or require the Group to access funds at a higher cost or on unfavourable terms.

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 lead to an increase in the Group's funding costs, constrain the volume of new lending, or result in the Group drawing upon its committed liquidity facility with the Reserve Bank of Australia. This may adversely impact the Group's profitability and financial performance and position.

**(j) A significant downgrade in the Group's credit ratings may adversely impact its cost of funds, market access and competitive position.**

Credit ratings are an opinion on the general creditworthiness of a borrower and may be an important reference for market participants in evaluating the Group and its products, services and securities.

Credit rating agencies conduct ongoing review activities which can result in changes to credit rating settings and outlooks for the Group, or for sovereign governments in countries in which the Group conducts business. Review activity is based on a number of factors, including the Group's financial strength and outlook, the strength of the Group's operations and processes, the assumed level of government support for the Group in a crisis and the strength of that government, and the condition of the financial services industry and of the markets generally. Credit ratings may also be affected by changes in the rating methodologies used by the agencies.

On 7 July 2016, S&P revised the outlook for the Commonwealth of Australia to "negative" from "stable". On 18 August 2016, Moody's revised its Australian macro profile to "very strong negative" from "very strong". As a result of these changes, both S&P and Moody's have revised the outlook for a number of Australian banks and their New Zealand subsidiaries, including NAB and Bank of New Zealand, to "negative" from "stable".

A downgrade in the credit ratings within the Group or of the Group's securities, or a downgrade in the sovereign rating of one or more of the countries in which the Group operates, may increase the Group's cost of funds or limit its access to the capital markets. This may also cause a deterioration of the liquidity position and trigger additional collateral requirements in derivative contracts and other secured funding arrangements. A downgrade to the Group's credit ratings relative to peers could also adversely impact the Group's competitive position.

# SECTION SEVEN:

## KEY RISKS OF NAB SUBORDINATED NOTES 2

### **(k) Changes in interest rates may adversely 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, including negative interest rates in countries in which the Group operates, 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, such exposure commonly arises from the mismatch between the maturity profile of a bank'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.

### **(l) 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 currency movements on the value of the Group's cash flows, profits and losses, and assets and liabilities as a result of participation in global financial markets and international operations.

The Group's ownership structure includes investment in overseas subsidiaries and associates and exposures from known foreign currency transactions (such as repatriation of capital and dividends from off-shore subsidiaries). The Group also conducts business outside of Australia and transacts with customers, banks and other counterparties in different currencies, most frequently Australian, New Zealand and US Dollars, British Pounds and Euros. The Group's businesses may therefore be affected by a change in currency exchange rates, a full or partial break-up of the Eurozone, or a change in the reserve status of any of these currencies. Any unfavourable

movement in foreign exchange rates may adversely impact the Group's financial performance and position.

The Group's financial statements are prepared and presented in Australian Dollars, and any fluctuations in the Australian Dollar against other currencies in which the Group invests or transacts and generates profits (or incurs losses) may adversely impact its financial performance and position.

### **(m) The Group may suffer significant losses from its trading activities.**

Traded market risk is the risk of losses arising from trading activities, including proprietary trading, undertaken by the Group. Losses can arise from a change in the value of positions in financial instruments or their hedges due to adverse movements in market prices. Any significant losses from such trading activities may adversely impact the Group's financial performance and position.

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

The Group's reputation may be damaged by the actions, behaviour or performance of the Group, its employees, affiliates, suppliers, intermediaries, counterparties or customers, or the financial services industry generally. Heightened media and political scrutiny of the Australian banking industry have the potential to damage the long term reputation of the banking industry, or lead to further government intervention or inquiries into the sector.

A risk event, such as a compliance breach, fraud or an operational or technology failure, may expose the Group to direct losses as a result of litigation, fines and penalties, remediation costs or loss of key personnel as well as potential impacts to NAB's share price. In addition, the event may adversely affect the perceptions of the Group held by the public, shareholders, investors, customers, regulators or ratings agencies. The risk of reputational damage may be heightened by the continuing growth and use of social media.

Reputational damage may adversely impact the Group's ability to attract and retain customers or employees in the short- and long-term and the ability to pursue new business opportunities. It may result in a higher risk premium being applied to the Group, and impact the cost of funding, its operations, or its financial condition. It may also result in regulators requiring the Group to hold additional capital, pay fines or incur additional costs, including costs to undertake remedial action. Damage to the Group's reputation may also adversely impact the Group's financial performance and position.

### **(o) Failure to sell down underwriting risk may result in losses to the Group.**

As financial intermediaries, members of the Group underwrite or guarantee many different types of transactions, risks and outcomes, including the placement of listed and unlisted debt, equity-linked and equity securities. The underwriting obligation or guarantee may be over the pricing and placement of these securities, and the Group may therefore suffer losses if it fails to sell down some or all of this risk to other market participants.

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

The Group operates within a risk management framework that is based on a Three Lines of Defence model, and which is the totality of systems, structures, policies, processes and people that manage all material internal and external sources of identified material risk.

As with any risk management strategy, there is no guarantee that this framework is sufficient to mitigate known risks or to identify or address changing or new and emerging risks. As such, any ineffectiveness or inadequacy in the risk management framework and its implementation may adversely impact the Group's reputation and financial performance and position.

**(q) Certain strategic decisions, including acquisitions or divestments, may adversely impact the Group's reputation and financial performance and position.**

There is a risk that the assumptions underlying the Group's strategic decisions are (or prove to be) incorrect or that the conditions underpinning those strategic decisions may change. The Group may not have the resources or flexibility to adapt quickly to such change. In addition, any one or more of the Group's strategic initiatives may prove to be too difficult or costly to execute effectively.

The Group regularly considers a range of corporate opportunities including acquisitions, divestments and joint ventures.

Opportunities that are pursued may change the Group's risk profile and capital structure.

Such opportunities that are pursued inherently come with transaction risks, including over-valuation of an acquisition (or under-valuation of a divestment), and exposure to reputational and financial risks. Other risks may arise through the integration or separation of a business, including failure to realise expected synergies, disruption to operations, diversion of management resources or higher than expected costs. In addition, the Group may have ongoing exposures to divested businesses, including through the provision of continued services and infrastructure (such as the transitional services being provided to CYBG Group and MLC Limited) or the retention of liabilities, including through warranties and indemnities in sale agreements such as the Conduct Indemnity Deed with CYBG. Refer to 'Notes to the Consolidated Financial Statements', '(v) UK conduct issues and the Conduct Indemnity Deed', Note 31 Contingent liabilities and credit commitments on page 107 in the Annual Financial Report 2016.

These factors may adversely impact the Group's reputation and financial performance and position.

**(r) Risks specific to the NAB Wealth (MLC Limited) life insurance transaction.**

In addition to the risks described above, the following are specific risks associated with the MLC life insurance transaction.

On 3 October 2016, NAB completed the sale of 80% of MLC Limited (the entity which carries on the life insurance business) to Nippon Life.

NAB has agreed to take certain actions to establish MLC Limited as a standalone entity. The implementation programme forms part of the recognised loss on sale. As the work has yet to be completed, there is a risk that implementation costs ultimately prove higher than anticipated. In addition, NAB has given certain covenants, warranties and indemnities in favour of Nippon Life in connection with the transaction. A breach of these covenants or warranties, or the triggering of an indemnity, may result in NAB being liable to Nippon Life.

As part of the transaction, NAB has entered into certain long term arrangements. These include: (1) a 20-year distribution agreement under which NAB will distribute MLC life insurance products through its various channels, (2) a shareholders deed with respect to NAB's retained 20% share in MLC Limited (with that shareholders deed continuing while NAB holds shares in MLC Limited), and (3) a 10-year brand licence agreement for MLC Limited to continue to have use of the MLC brand. The duration and nature of these arrangements give rise to certain risks. For example, changes in regulation or the commercial environment in the future may impact the attractiveness or commercial viability of these long-term arrangements, and exclusivity and non-compete arrangements may limit future opportunities for NAB.

In addition, Nippon Life owns the majority of the shares in MLC Limited and is entitled to appoint a majority of its directors. NAB has retained 20% ownership of MLC Limited but is not in a position to direct the strategy or operations of MLC Limited, or manage the costs and risks involved.

# only **AUSTRALIAN** **TAXATION SUMMARY**

This section contains a summary of the Australian tax consequences for potential Australian Holders (as defined below) of NAB Subordinated Notes 2 and is based on Australian tax law and administrative practice as at the date of this Prospectus. This summary also addresses the Australian tax consequences for Eligible NSN Holders who participate in the Reinvestment Offer.

This summary, prepared by King & Wood Mallesons, is necessarily general in nature and should not be construed as legal or tax advice. Each prospective Australian Holder should seek their own tax advice, which is specific to their particular circumstances, as to the tax consequences of investing in, holding and disposing of NAB Subordinated Notes 2.

This summary is not exhaustive and, in particular, does not deal with the position of certain classes of Australian Holders (including, without limitation, Holders who do not hold the NAB Subordinated Notes 2 on capital account and dealers in securities, custodians or other third parties who hold NAB Subordinated Notes 2 on behalf of any person). In addition, this summary has been prepared on the basis that the NAB Subordinated Notes 2 will participate in CHES and not any other form of clearing system.

# SECTION EIGHT: AUSTRALIAN TAXATION SUMMARY

## Australian taxation

This summary of the Australian tax consequences is based on the Income Tax Assessment Acts of 1936 and 1997 (together, the **Tax Act**), the Taxation Administration Act 1953 (**Taxation Administration Act**), the A New Tax System (Goods and Services Tax) Act 1999 (**GST Act**) and applies to Holders that are:

- residents of Australia for tax purposes that do not hold their NAB Subordinated Notes 2 in the course of carrying on a business outside of Australia; and
- non-residents of Australia for tax purposes that hold their NAB Subordinated Notes 2 in the course of carrying on a business at or through a permanent establishment in Australia.

Such Holders are referred to as **"Australian Holders"**.

## Receipt of Interest

The NAB Subordinated Notes 2 should be "debt interests" for the purposes of the Tax Act. Australian Holders should be required to include any Interest they receive in respect of their NAB Subordinated Notes 2 in their assessable income.

The Interest should be recognised as assessable income on a cash receipts or accruals basis, depending upon the individual circumstances of the Holder (see also the *"Taxation of Financial Arrangements"* summary below).

## Disposal or redemption of the NAB Subordinated Notes 2

An Australian Holder should be required to include any gain on the disposal or redemption of the NAB Subordinated Notes 2 in their assessable income, and may be entitled to claim a deduction in the event of a loss on the disposal or redemption. Depending on the circumstances of the Australian Holder, this will result from the rules relating to "traditional securities" (in sections 26BB and 70B of the Tax Act) or "taxation of financial arrangements" (see summary below).

An Australian Holder who acquires NAB Subordinated Notes 2 under this Prospectus should generally include in their assessable income a gain equal to the difference between:

- the proceeds of disposal or redemption; and
- the issue price of the NAB Subordinated Notes 2.

If the NAB Subordinated Notes 2 are redeemed, the proceeds from the redemption may be taken to exclude any amounts that are referable to any accrued and unpaid Interest on NAB Subordinated Notes 2. Those Interest amounts may be treated in the same manner as Interest payments received during the term of NAB Subordinated Notes 2 (see *"Receipt of Interest"* above).

If the proceeds of disposal or redemption are less than the issue price of the NAB Subordinated Notes 2, the Australian Holder may claim a deduction for the loss in the income year in which the disposal or redemption occurs, subject to the limitations in the relevant provisions.

Under the Australian capital gains tax ("**CGT**") provisions, any capital gain or capital loss that results from the disposal or redemption should be disregarded to the extent to which the gain is already included in assessable income, or the loss is already allowed as a deduction, as set out above.

## No gain on Conversion of NAB Subordinated Notes 2

An Australian Holder should not make any taxable gain or loss if NAB Subordinated Notes 2 are Converted into Ordinary Shares. This is because any gain or loss on the Conversion should be disregarded under the Tax Act.

Ordinary Shares acquired as a consequence of the Conversion should generally be treated as having a cost base and reduced cost base for CGT purposes equal to the cost base of NAB Subordinated Notes 2 at the time of Conversion. For Australian CGT purposes, the acquisition date of the Ordinary Shares should generally be the time of Conversion. This will be relevant in the event that the Holder

subsequently disposes of the Ordinary Shares.

## Eligible NSN Holders participating in the Reinvestment Offer

Eligible NSN Holders have the option to participate in the Reinvestment Offer. This will be undertaken by NAB acquiring NSNs from Eligible NSN Holders for a purchase price of \$100 per NSN. NAB will apply that amount to subscribe for the issue of a NAB Subordinated Note 2 to the Eligible NSN Holder.

Eligible NSN Holders who participate in the Reinvestment Offer will also receive the interest payment on the NSN that is due and payable in accordance with the terms of the NSN. This payment will be in cash.

The following income tax consequences will generally apply for Eligible NSN Holders who participate in the Reinvestment Offer. Again, this summary applies to Eligible NSN Holders that are:

- residents of Australia for tax purposes that do not hold their NSN in the course of carrying on a business outside of Australia; and
- non-residents of Australia for tax purposes that hold their NSN in the course of carrying on a business at or through a permanent establishment in Australia,

### (Australian Eligible NSN Holders).

This summary does not deal with Eligible NSN Holders who are in the business of dealing or trading in securities.

Australian Eligible NSN Holders who participate in the Reinvestment Offer should be required to include any gain on the disposal or redemption of their NSN in their assessable income, and may be entitled to claim a deduction in the event of a loss on the disposal or redemption. Depending on the circumstances of the Australian Eligible NSN Holders, this will result from the rules relating to "traditional securities" (in sections 26BB and 70B of the Tax Act) or "taxation of financial arrangements" (see summary below).

# SECTION EIGHT: AUSTRALIAN TAXATION SUMMARY

The \$100 purchase price from the sale of NSN (which does not include the cash interest payment) should be applied in determining the gain or loss.

The \$100 purchase price from the sale of NSN that is applied to acquire NAB Subordinated Notes 2 will be included in the cost of NAB Subordinated Notes 2 for the purposes of determining any future gain or loss on their disposal, redemption or Conversion (see above).

The cash interest payment should be taxed in the same way as previous interest payments on the NSN. Please refer to Section Five of the Offer Document for the NSN dated 12 May 2012 for more information.

## Taxation of Financial Arrangements

The NAB Subordinated Notes 2 should be a “financial arrangement” for the purposes of Division 230 of the Tax Act.

Division 230 generally does not apply to Australian Holders who are individuals, or to certain other entities (for example, superannuation funds and managed investment schemes) which do not meet various turnover or asset thresholds. These entities may elect for Division 230 to apply to all of their financial arrangements.

The consequences of Division 230 applying to an Australian Holder will depend upon, among other matters, whether the Holder chooses to apply any of the elective methods for recognising gains and losses from financial arrangements.

## Australian Withholding Taxes

### a. Interest Withholding Tax

Australian Holders should not be subject to Australian interest withholding tax in respect of payments of Interest on NAB Subordinated Notes 2.

### b. TFN/ABN Withholding Tax

Withholding tax is presently imposed at a rate of 49% on the payment

of interest on certain registered securities unless the relevant payee has quoted an Australian tax file number (“TFN”), (in certain circumstances) an Australian Business Number (“ABN”) or proof of some other exception (as appropriate). Under current law, a withholding rate of 47% will apply to payments of interest made on or after 1 July 2017.

### c. Supply Withholding Tax

Payments in respect of NAB Subordinated Notes 2 can be made free and clear of any “supply withholding tax” imposed under section 12-190 of Schedule 1 to the Taxation Administration Act.

### d. Payment of additional amounts

As set out in more detail in Clause 9 of the Terms (Taxation), if NAB is at any time required by law to deduct or withhold an amount in respect of any Australian withholding taxes imposed or levied by the Commonwealth of Australia in respect of NAB Subordinated Notes 2, NAB must, subject to certain exceptions contained in Clause 9.3 of the Terms (Exceptions to requirement to pay Additional Amounts), pay such additional amounts as may be necessary in order to ensure that the net amounts received by the Holders of those NAB Subordinated Notes 2 after such deduction or withholding are equal to the respective amounts which would have been received had no such deduction or withholding been required.

If as a result of a change in the tax law on or after the Issue Date, NAB has or will become obliged to pay Additional Amounts or NAB would be exposed to more than a de minimis increase in its costs in connection with the NAB Subordinated Notes 2 or Interest payable in respect of the NAB Subordinated Notes 2 may not be allowed as a tax deduction to NAB, NAB will have the option to redeem those NAB Subordinated Notes 2 in accordance with Clause 4.2 of the Terms (Early redemption at the option of NAB) with APRA’s approval.

## Goods and Services Tax (GST)

No Australian GST should be payable on the issue, receipt or disposal of the NAB Subordinated Notes 2. This is because the supply of the NAB Subordinated Notes 2 should comprise an input taxed financial supply or (in the case of an offshore subscriber) a GST-free supply.

No Australian GST should be payable in respect of the payment of Interest or the repayment of Face Value by NAB.

## Stamp duty

No *ad valorem* stamp, issue, registration or similar taxes should be payable in Australia on the issue, disposal or redemption of any NAB Subordinated Notes 2. Further, no *ad valorem* stamp duty, issue, registration or similar taxes are payable on the issue or transfer of Ordinary Shares (including an issue of Ordinary Shares as a result of Conversion) provided that:

- if all the shares in NAB are quoted on the Australian Securities Exchange at the time of issue or transfer of the Ordinary Shares, no person, either directly or when aggregated with interests held by associates of that person, obtains an interest in NAB of 90% or more; or
- if not all the shares in NAB are quoted on the Australian Securities Exchange at the time of issue or transfer of the Ordinary Shares, no person, either directly or when aggregated with interests held by associates of that person, obtains an interest in NAB of 50% or more.

## Garnishee directions by the Commissioner of Taxation

The Commissioner of Taxation may give a direction requiring NAB to pay from any payment to a Holder any amount in respect of Australian tax payable by the Holder. If NAB is served with such a direction, then NAB will comply with that direction and will make any payment required by that direction.

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**OTHER**  
**INFORMATION**

# SECTION NINE: OTHER INFORMATION

## 9.1 Board

Director	Experience and expertise
<p><b>Dr Kenneth R Henry, AC</b> BComm (Hons), PhD, DB h.c, FASSA, FAIIA</p>	<p><b>Term of office:</b> Director since November 2011. Chairman since December 2015.</p> <p><b>Independent:</b> Yes</p> <p><b>Skills &amp; Experience:</b> Over 30 years of experience in economics, policy and regulation, governance and leadership. Ken served as the Secretary of the Department of the Treasury from 2001 to 2011. From June 2011 until November 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, the Council of Infrastructure Australia and was Chair of both the Howard Government's Taxation Taskforce ('A New Tax System', 1997-1998) and the Review into Australia's Future Tax System (the 'Henry Tax Review') commissioned by the Rudd Government (2008-09). He was made a Companion of the Order of Australia in 2007 and received the Centenary Medal in 2001.</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, Sir Roland Wilson Foundation, ANU (since February 2013, Member since May 2001).</li> <li>• Director, ASX Limited and some of its subsidiaries (since February 2013).</li> <li>• Director, Cape York Partnership (since May 2016).</li> <li>• Governor, Committee of Economic Development of Australia (CEDA) (since November 2011).</li> <li>• Member, John Grill Centre for Project Leadership's Advisory Board, University of Sydney (since November 2015).</li> <li>• Member, Australia-China Senior Business Leaders Forum (since December 2015).</li> <li>• Former Chairman, Advisory Council of the SMART Infrastructure Facility, (University of Wollongong) (from 2011 to August 2015).</li> <li>• Former Chairman, The Institute of Public Policy at the Australian National University (ANU) (July 2012 to November 2014).</li> <li>• Former Member, Board of Reconciliation Australia (from July 2012 to September 2016).</li> </ul> <p><b>Board Committee membership:</b></p> <ul style="list-style-type: none"> <li>• Chairman of the Board Nomination &amp; Governance Committee.</li> </ul>
<p><b>Mr Andrew G Thorburn</b> BCom, MBA</p>	<p><b>Term of office:</b> Managing Director and Group Chief Executive Officer since August 2014.</p> <p><b>Independent:</b> No</p> <p><b>Skills &amp; Experience:</b> Over 30 years of experience in banking and finance. Andrew joined NAB in January 2005 as Head of Retail Banking, was appointed Managing Director and CEO of the Bank of New Zealand (BNZ) in 2008 and joined the NAB Group Executive Committee in January 2009. In August 2014, Andrew was appointed to his current role.</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, Australian Bankers' Association Inc (Chairman since December 2015, Director since September 2014).</li> <li>• Director, The Financial Markets Foundation for Children (since August 2014).</li> </ul>

Director	Experience and expertise
<p><b>Mr David H Armstrong</b> BBus, FCA, MAICD</p>	<p><b>Term of office:</b> Director since August 2014.</p> <p><b>Independent:</b> Yes</p> <p><b>Skills &amp; Experience:</b> Over 30 years of experience in professional services, including as a partner at PricewaterhouseCoopers (PwC). David has significant knowledge and understanding of banking and capital markets, real estate and infrastructure and is well versed in the reporting, regulatory and risk challenges faced by the industry.</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, The George Institute for Global Health (since October 2014).</li> <li>• Trustee, Lizard Island Reef Research Foundation (since April 2014).</li> <li>• Trustee, Australian Museum (since January 2014).</li> <li>• Director, The Opera Australia Capital Fund Limited (since May 2013).</li> </ul> <p><b>Board Committee membership:</b></p> <ul style="list-style-type: none"> <li>• Chairman of the Board Audit Committee.</li> <li>• Member of the Board Risk Committee.</li> </ul>
<p><b>Mr Philip W Chronican</b> BCom (Hons), MBA (Dist), GAICD, SF Fin</p>	<p><b>Term of office:</b> Director since May 2016.</p> <p><b>Independent:</b> Yes</p> <p><b>Skills &amp; Experience:</b> Over 35 years of experience in banking and finance in Australia and New Zealand. In his most recent executive role, Philip was responsible for Australia and New Zealand Banking Group Limited's (ANZ) Australia division, with specific responsibility for ANZ's Retail and Commercial businesses. Prior to joining ANZ, Philip had a long career at Westpac Banking Corporation (Westpac), where he established his reputation as one of Australia's leading banking executives, in executive roles including Group Executive Westpac Institutional Bank and Chief Financial Officer. Philip has broad experience in M&amp;A activity having led Westpac's sale of AGC, the acquisition of BT Financial and having played an active role in postmerger integration of various regional banks. In addition, Philip has taken an active and public role in advocating for greater transparency and ethics in banking and promoting workforce diversity. He is a Director of BNZ (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>• Chairman, NSW Treasury Corporation (known as 'TCorp') (Chairman since June 2016, Director since November 2009).</li> <li>• Director, Banking + Finance Oath (since February 2013).</li> <li>• Director, Juvenile Diabetes Research Foundation (since June 2015).</li> </ul> <p><b>Board Committee membership:</b></p> <ul style="list-style-type: none"> <li>• Chairman of the Board Risk Committee.</li> <li>• Member of the Board Remuneration Committee.</li> </ul>

# SECTION NINE: OTHER INFORMATION

## 9.1 Board

Director	Experience and expertise
<p><b>Mr Peeyush K Gupta</b> BA, MBA, AMP (Harvard) FAICD</p>	<p><b>Term of office:</b> Director since November 2014.</p> <p><b>Independent:</b> Yes</p> <p><b>Skills &amp; Experience:</b> Over 30 years of experience in wealth management. Peeyush was a co-founder and the inaugural CEO of IPAC Securities, a pre-eminent wealth management firm spanning financial advice and institutional portfolio management, which was acquired by AXA. He also has extensive corporate governance experience, having served as a director on many corporate, not-for-profit, trustee and responsible entity boards since the 1990s. He is a Director of certain NAB wealth and BNZ subsidiaries.</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, Insurance &amp; Care NSW (iCare) (since October 2015).</li> <li>• Chairman, Charter Hall Direct Property Management Limited (since November 2011).</li> <li>• Director, Charter Hall Wale Ltd (since May 2016).</li> <li>• Director, Quintessence Labs Pty Ltd (since June 2008).</li> <li>• Director, SBS Special Broadcasting Service (since October 2014).</li> <li>• Trustee, Western Sydney University (since June 2016).</li> <li>• Former Director, Safety, Return to Work and Support Board (NSW Workcover and Motor Transport Accidents Authority) (from August 2012 to August 2015).</li> <li>• Former Chairman, State Super Financial Services Australia Limited (from June 2010 to June 2016).</li> <li>• Former Director, Securities Industry Research Centre of Asia Pacific (SIRCA) (from October 2009 to 2015).</li> <li>• Former Member, University Western Sydney Foundation (from June 2013 to 2016).</li> </ul> <p><b>Board Committee membership:</b></p> <ul style="list-style-type: none"> <li>• Member of the Board Risk Committee.</li> <li>• Member of the Board Remuneration Committee.</li> <li>• Member of the Board Nomination &amp; Governance Committee.</li> </ul>
<p><b>Ms Anne J Loveridge</b> BA (Hons), FCA, GAICD</p>	<p><b>Term of office:</b> Director since December 2015.</p> <p><b>Independent:</b> Yes</p> <p><b>Skills &amp; Experience:</b> Over 30 years of experience in the Financial Services practice at PwC, with a range of clients in banking, property, private equity and wealth management sectors. Anne has extensive knowledge of financial and regulatory reporting, risk management, controls and compliance frameworks.</p> <p>While at PwC, Anne held various senior leadership positions in the firm, including Deputy Chairman of PwC Australia, managing financial results, risk and quality matters, people and partner development, remuneration and diversity initiatives.</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, The Bell Shakespeare Company Limited (Chairman since January 2017, Director since September 2014).</li> <li>• Director, Platinum Asset Management Limited (since September 2016).</li> <li>• Member, IFAC (International Federation of Accountants) Board Nomination Committee (since January 2014).</li> <li>• Member, Chief Executive Women (CEW) (since October 2016).</li> </ul> <p><b>Board Committee memberships:</b></p> <ul style="list-style-type: none"> <li>• Chairman of the Board Remuneration Committee.</li> <li>• Member of the Board Nomination &amp; Governance Committee.</li> </ul>

Director	Experience and expertise
<p><b>Ms Geraldine C McBride</b> BSc</p>	<p><b>Term of office:</b> Director since March 2014.</p> <p><b>Independent:</b> Yes</p> <p><b>Skills &amp; Experience:</b> Over 27 years of experience in the technology industry and international business. Former President of global software company SAP for North America. Founder and CEO of MyWave, a software and services company developing consumer and enterprise relationship solutions using intelligent assistant and personal cloud technologies.</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, Sky Television Limited (since August 2013).</li> <li>• Director, Fisher and Paykel Healthcare (since July 2013).</li> <li>• Director, My Wave Limited (since August 2013).</li> </ul> <p><b>Board Committee membership:</b></p> <ul style="list-style-type: none"> <li>• Member of the Board Audit Committee.</li> </ul>
<p><b>Mr Douglas A McKay</b> ONZM, BA, AMP (Harvard)</p>	<p><b>Term of office:</b> Director since February 2016.</p> <p><b>Independent:</b> Yes</p> <p><b>Skills &amp; Experience:</b> Over 30 years of senior commercial, operating and marketing experience with a deep understanding of the New Zealand and Australian markets, having held senior positions within major trans-Tasman companies and organisations, including Director of IAG (NZ) Insurance and Ryman Healthcare (current), and Chartered Accountants Australia &amp; New Zealand for the past 7 years. Doug’s previous executive leadership roles include Auckland Council, Lion Nathan, Carter Holt Harvey, Goodman Fielder, Sealord, and Independent Liquor. He is a member of the NZ Institute of Directors. He is Chairman of BNZ (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>• Chairman, Eden Park Trust Board (since July 2014).</li> <li>• Director, Genesis Energy Limited (since June 2014).</li> <li>• Director, IAG (NZ) Holdings Limited and its subsidiaries (since February 2014).</li> <li>• Director, Ryman Healthcare Limited (since September 2014).</li> <li>• Former Director, New Zealand Institute of Chartered Accountants Regulatory Board (from July 2009 to June 2016).</li> <li>• Former Director, Chartered Accountants Australia &amp; New Zealand (from December 2014 to June 2016).</li> </ul> <p><b>Board Committee membership:</b></p> <ul style="list-style-type: none"> <li>• Member of the Board Audit Committee.</li> <li>• Member of the Board Nomination &amp; Governance Committee.</li> </ul>

# SECTION NINE: OTHER INFORMATION

## 9.1 Board

Director	Experience and expertise
<p><b>Mr Anthony K T Yuen</b> B.Soc.ScS</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 40 years of experience 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, Anthony 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.</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, Supervisory Committee, ABF Hong Kong Bond Index Fund (since 2006).</li><li>• Member, Hong Kong Red Cross International and Relief Service Management Committee (since April 2015).</li></ul> <p><b>Board Committee membership:</b></p> <ul style="list-style-type: none"><li>• Member of the Board Risk Committee.</li><li>• Member of the Board Audit Committee.</li></ul>

## 9.2 Interests and benefits

### 9.2.1 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 rights over Ordinary Shares
Kenneth Henry	8,360	
Andrew Thorburn	150,170	652,015
David Armstrong <sup>1</sup>	8,480	
Philip Chronican <sup>2</sup>	30,000	
Peeyush Gupta <sup>3</sup>	6,480	
Anne Loveridge	9,000	
Geraldine McBride	3,960	
Doug McKay	8,000 <sup>4</sup>	
Anthony Yuen	10,464	

Notes:

1 Mr Armstrong also has an interest in 900 units of NAB CPS II.

2 Mr Chronican also has an interest in 982 National Income Securities.

3 Mr Gupta also has relevant interests in 1,129,703.10 units in managed investment schemes made available by a related body corporate of NAB.

4 Of these Ordinary Shares, 6,000 were purchased on 6 February 2017 and remain subject to settlement.

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 Subordinated Notes 2 offered under this Prospectus.

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.

# SECTION NINE: OTHER INFORMATION

## 9.2.2 Interests of Advisers

NAB has acted as the Arranger for the Offer, and each of NAB, Commonwealth Bank of Australia, Morgans and Westpac Institutional Bank have acted as Joint Lead Managers to the Offer, and JBWere and Macquarie Equities have acted as Co-Managers to the Offer, in respect of which they will receive fees from NAB. The fees include an arranger fee payable to the Arranger, and the following fees payable to each Joint Lead Manager:

- a selling fee of 1.00% of the amount equal to the Face Value multiplied by the number of NAB Subordinated Notes 2 allocated to the Joint Lead Manager and its affiliates (“**Selling Fee**”); and
- a joint lead manager fee of 0.25% of the amount equal to the Face Value multiplied by the number of NAB Subordinated Notes 2 allocated to the Joint Lead Manager and its affiliates (“**JLM Fee**”).

Under the terms of the OMA (see also Section 9.6), the Joint Lead Managers may pay fees on behalf of NAB to financial services licensees and representatives (“**Brokers**”) for procuring subscriptions of NAB Subordinated Notes 2 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 Subordinated Notes 2 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 in relation to the Offer. In respect of this work, Ernst

& Young will be paid approximately \$120,000 (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 and tax adviser to NAB in relation to the Offer. It has assisted with the due diligence and verification program, and performed due diligence on required legal matters and prepared the Australian taxation summary in Section 8. In respect of this work, NAB estimates that it will pay approximately \$395,000 (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.

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
- 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.

## 9.3 Expenses of the Offer

Assuming the Offer raises \$750 million, then the net proceeds of the Offer are expected to be \$740 million and the total external expenses of the Offer are expected to be \$10 million. The total expenses of the Offer have been, or will be, borne by NAB.

## 9.4 Rights and liabilities attaching to NAB Subordinated Notes 2

Appendix A sets out the rights and liabilities attaching to NAB Subordinated Notes 2. Further rights and liabilities attaching to NAB Subordinated Notes 2 may also arise under the Corporations Act, the ASX Listing Rules and other laws.

## 9.5 Rights and liabilities attaching to Ordinary Shares

On conversion, holders of NAB Subordinated Notes 2 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 Section 9.10.

These rights and liabilities are also regulated by the Corporations Act, ASX 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:

- on a poll, the right to one vote per fully paid Ordinary 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 Ordinary Shares, in accordance with the Constitution;
- subject to the rights of holders carrying preferred rights, the right to receive dividends in proportion to the amount paid up on that Ordinary Share, if and when the Directors determine to pay them;
- the right to receive information required to be distributed under the Corporations Act and ASX Listing Rules;
- subject to the rights of holders carrying preferred rights, the right to participate in a surplus of assets on a Winding Up of NAB; and

- NAB's ability to pay a dividend may be restricted by Australian law and by the terms of prior ranking securities.

## 9.6 Summary of the Offer Management Agreement

NAB has entered into an Offer Management Agreement (“OMA”) with the Arranger 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 Subordinated Notes 2.

The fees payable to the JLMs are set out in Section 9.2.2.

### 9.6.1 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 settlement date detailed in the OMA (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.

### 9.6.2 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 for official quotation of NAB Subordinated Notes 2, or the approval is subsequently withdrawn, qualified or withheld (other than in respect of the customary conditions);
- a supplementary prospectus is, in the reasonable opinion of a JLM, required under section 719 of the Corporations Act (other than a supplementary prospectus to be issued with the inclusion of the Margin);
- 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, promotion or settlement 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) may elect to assume the rights and obligations of the terminating JLM in agreed proportions by providing NAB with written notice.

If at any time from the date of the OMA to 2pm on the settlement date there is a material adverse change in market conditions which, in the reasonable opinion of a majority of the JLMs makes it inadvisable to proceed with the Offer on the Issue Date on the terms and in the manner contemplated by this Prospectus (including because the change is likely to have a material adverse effect on the market price of the NAB Subordinated Notes 2 on the ASX or the success of the Offer), NAB will enter into good faith discussions with the JLMs for the purposes of discussing the viability of completing the Offer on the terms and in the manner contemplated by this Prospectus.

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, wilful misconduct or negligence of, or material breach of the OMA by, the Indemnified Party (except to the extent any such conduct is caused, induced or contributed to by NAB or its directors, employees or advisers, and in certain other circumstances).

### 9.7 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 ASX 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 ASX 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

# SECTION NINE: OTHER INFORMATION

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 Government's Financial System Inquiry recommended that the issues raised in that consultation be pursued and the Government has endorsed that recommendation.

## 9.8 Regulatory relief

### 9.8.1 ASX

ASX has classified NAB Subordinated Notes 2 as "debt securities" for the purposes of the ASX Listing Rules and has confirmed that:

- NAB Subordinated Notes 2 are not preference securities for the purposes of ASX Listing Rules 6.4, 6.5, 6.6 and 6.7;
- the potential exercise of limited amendment powers and a Write-Off following a Non-Viability Trigger Event do not amount to a removal of a right to Interest for the purposes of Listing Rule 6.10;

- Listing Rule 7.1 has been waived in relation to the issue of the NAB Subordinated Notes 2 under the Offer;
- the issue of Ordinary Shares on Conversion of NAB Subordinated Notes 2 would fall within Listing Rule 10.12 (exception 7);
- Listing Rule 3.20.2 and Appendix 3A of the ASX Listing Rules do not apply to any conversion of NAB Subordinated Notes 2 following a Non-Viability Trigger Event; and
- the timetable for the Offer is acceptable.

ASX has also provided in principle approval of the quotation of NAB Subordinated Notes 2 and has agreed to allow NAB Subordinated Notes 2 to trade on a deferred settlement basis for a short time following the issue of NAB Subordinated Notes 2 (subject to certain conditions).

### 9.8.2 ASIC

ASIC has granted relief from the provisions of Division 5A of Part 7.9 of the Corporations Act relating to unsolicited offers for NAB to conduct the Reinvestment Offer (subject to certain conditions).

## 9.9 Consents to be named

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

- has given and has not, before lodgement 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.

Role	Consenting parties
Australian legal and tax adviser	King & Wood Mallesons
Auditor	Ernst & Young
Arranger and Joint Lead Manager	National Australia Bank Limited
Joint Lead Managers	Commonwealth Bank of Australia Morgans Westpac Institutional Bank
Co-Managers	JBWere Macquarie Equities
Registry	Computershare Investor Services Pty Limited

King & Wood Mallesons has given and has not, before the lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as Australian legal and tax adviser and for the inclusion of statements by it, consisting of the Australian taxation summary in Section 8 in the form and context in which it appears in Section 8.

## 9.10 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 2016 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 lodgement of the financial report for the year ended 30 September 2016 and before lodgement 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)); and
- 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

## 9.11 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 Subordinated Notes 2; 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.

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 Subordinated Notes 2, or make payments to you.

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. We run our business in Australia and overseas, so we might need to share some of your information with organisations outside Australia. You can view a list of countries the Group discloses personal information to at [www.nab.com.au/privacy/overseas-countries-list/](http://www.nab.com.au/privacy/overseas-countries-list/). If you used a financial adviser who recommended your investment in NAB Subordinated Notes 2 (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 ask us to access information that we hold about you or to correct information we hold about you. In addition, if you have a complaint about a privacy issue, please tell us about it. For more information on access, corrections or complaint handling, please see our privacy policy at [www.nab.com.au/privacy](http://www.nab.com.au/privacy) or by calling 13 22 65 and asking us for a copy.

## 9.12 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;
- declared that the Application Form has been completed and lodged according to this Prospectus and subject to the declarations, statements and acknowledgements on the Application Form;
- declared that you make the warranties, representations and acknowledgements contained in this Prospectus and the Application Form;
- 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 this Prospectus or any supplementary or replacement Prospectus or making an application on the Application Form or being issued with NAB Subordinated Notes 2;
- provided authorisation to be registered as the holder of NAB Subordinated Notes 2 issued to you and agreed to be bound by NAB's Constitution, this Prospectus, the Terms, and the NAB Subordinated Notes 2 Deed Poll;
- upon Conversion in accordance with the Terms, agreed to become a member of NAB and be bound by NAB's Constitution;
- applied for the number of NAB Subordinated Notes 2 set out on or determined in accordance with the Application Form and agreed to be allocated that number of NAB Subordinated Notes 2 or a lesser number;
- acknowledged that NAB Subordinated Notes 2 are not deposit liabilities of NAB, are not Protected Accounts for the purposes of Australian banking legislation or any other accounts 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 Subordinated Notes 2 is not guaranteed by NAB;
- authorised NAB and the Joint Lead Managers to do anything on your behalf necessary for NAB Subordinated Notes 2 to be allocated to you;

# SECTION NINE: OTHER INFORMATION

- acknowledged that the information contained in this Prospectus (or any supplement or replacement) is not investment advice or a recommendation that NAB Subordinated Notes 2 are suitable for you, given your investment objectives, financial situation or particular needs;
- acknowledged that your application to acquire NAB Subordinated Notes 2 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 Subordinated Notes 2 or Issued fewer NAB Subordinated Notes 2 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.

By applying to participate in the Reinvestment Offer, you, as Applicant, will be deemed to have:

- irrevocably agreed to have your Reinvested NSN bought-back under the Reinvestment Offer, on the terms set out in this Prospectus and the Application Form;
- warranted, among other things, that their Reinvested NSN are free and clear of any encumbrance;
- offered to sell your Reinvested NSN for \$100 per NSN;
- applied to NAB for a corresponding number of NAB Subordinated Notes 2, at \$100 per NAB Subordinated Note 2;
- directed \$100 per NSN accepted under the Reinvestment Offer to be paid to NAB as the Application Monies for NAB Subordinated Notes 2;
- agreed not to transfer your Reinvested NSN and authorise NAB and its related bodies corporate and their respective officers to request the application of a holding lock on those NSN;
- appointed NAB (or its officers) as your attorney and agent to execute a master transfer form in the form, and to such transferee, as NAB (or its officers) determines, and to transfer the Reinvested NSN; and
- authorised NAB to take all necessary steps to give effect to the reinvestment of their Reinvested NSN.

## 9.13 Meetings

The NAB Subordinated Notes 2 Deed Poll includes provisions for convening meetings of the Holders to consider any matter affecting their interests, including any variation of the Terms. Any action which may affect the eligibility of NAB Subordinated Notes 2 as Tier 2 Capital of NAB cannot be sanctioned or approved by Holders without the prior written approval of APRA.

An Ordinary Resolution or a Special Resolution passed at a meeting of the Holders duly called and held under the meeting provisions will be binding on all the Holders whether or not present at the meeting. Each Holder will be entitled to one vote on a show of hands. On a poll, each Holder will be entitled to one vote for each NAB Subordinated Note 2 with respect to which it is the registered holder.

A Holder has no entitlement to attend or vote at a general meeting of NAB or to receive a copy of the NAB annual report or other financial information sent to holders of Ordinary Shares.

For personal use only

# TERMS OF NAB SUBORDINATED NOTES 2

The following are the terms and conditions that will apply to each NAB Subordinated Note 2. The obligations of NAB under the NAB Subordinated Notes 2 are constituted by, and owing under, the Deed Poll. Definitions and interpretation provisions are set out in clause 19.

# APPENDIX A:

## TERMS OF NAB SUBORDINATED NOTES 2

### 1. Form and Face Value

#### 1.1 Form

The NAB Subordinated Notes 2 are fully paid, subordinated, unsecured notes of NAB issued in registered form by entry in the Register (**Notes**).

#### 1.2 Face Value

The **Face Value** of each Note is A\$100.

#### 1.3 CHES

The Notes will be registered in CHES. While the Notes remain in CHES:

- the rights and obligations of a person holding the Notes; and
- all dealings (including transfers, transmissions and payments) in relation to the Notes within CHES,

will be subject to and governed by the rules and regulations of CHES (but without affecting any provisions in these Terms which affect the eligibility of the Notes as Tier 2 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 Notes are quoted on ASX until all Notes 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. 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 Notes do not constitute deposit liabilities of NAB and are not protected accounts for the purposes of the Banking Act. In addition, the Notes 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. Status

#### 2.1 Status and ranking

The Notes constitute direct and unsecured and subordinated obligations of NAB. Notes rank in a winding up of NAB:

- behind all claims of Senior Creditors;
- equally among themselves; and
- subject to clause 5, equally with Equal Ranking Instruments and ahead of Junior Ranking Instruments.

The Notes do not limit the amount of senior debt, deposits or other obligations that may be incurred or assumed by NAB at any time.

#### 2.2 Solvency condition to payment

At any time before a Winding Up of NAB in Australia:

- payment by NAB of interest, principal or any other amount owing to a Holder in connection with a Note is conditional upon NAB being Solvent at the time the payment is due; and
- NAB must not pay an amount owing to a Holder in connection with a Note except to the extent that NAB may pay that amount and still be Solvent immediately after paying that amount,

(the **Solvency Condition**).

#### 2.3 Certificate as to Solvency

A certificate as to whether NAB is Solvent signed by:

- two directors of NAB;
- the auditors of NAB; or
- on a Winding Up of NAB, NAB's liquidator,

is, in the absence of manifest error, conclusive evidence against a Holder of the matters certified. In the absence of such certificate, a Holder is entitled to assume (unless the contrary is proved) that NAB is and will, immediately after any payment, be Solvent.

#### 2.4 Amounts unpaid remain debts

Subject to clause 5, any amount not paid due to clause 2.2 above or clause 10.2(a) below remains a debt owing to the Holder by NAB until it is paid and will be payable on the first date on which the relevant clause is satisfied.

### 3. Interest

#### 3.1 The Notes bear interest

Each Note bears interest on its Face Value from (and including) its Issue Date to (but excluding) its Maturity Date or any earlier date on which the Note is Converted, Written-Off or redeemed in accordance with these Terms.

#### 3.2 Interest Payment Dates

Interest accrues daily at the Interest Rate and is payable in arrears on each of 20 March, 20 June, 20 September and 20 December, commencing on 20 June 2017 (each an **Interest Payment Date**). If an Interest Payment Date is not a Business Day, then the Interest Payment Date will be the next Business Day.

#### 3.3 Record Dates

Interest is only payable on an Interest Payment Date to those persons registered as Holders at the Relevant Time on the Record Date for that interest payment.

### 3.4 Interest Rate

The “**Interest Rate**” (expressed as a percentage per annum) in respect of a Note for an Interest Period is the sum of the Margin and the Bank Bill Rate for that Interest Period, where:

**Margin** (expressed as a percentage per annum) means, for a Note, the margin specified in, or determined in accordance with, the Bookbuild.

**Bank Bill Rate** (expressed as a percentage per annum) means, for an Interest Period, the average rate for prime bank eligible securities having a term of 3 months, which is designated as the “AVG MID” on the Reuters Screen BBSW Page (or any page which replaces that page) at approximately 10.15am, Sydney time (or such other time at which such rate customarily appears on that page) (**Publication Time**) on:

- (i) in the case of the first Interest Period, the Issue Date; and
- (ii) in the case of any other Interest Period, the 1st Business Day of that Interest Period;

or if there is a manifest error in the calculation of that average rate or that average rate is not displayed on the Reuters Screen BBSW Page (or any page which replaces that page) by 10.30am, Sydney time (or such other time that is 15 minutes after the then prevailing Publication Time) on that date, the rate specified in good faith by NAB at or around that time on that date having regard to comparable indices then available.

### 3.5 Calculation of interest on the Notes

The amount of interest payable in respect of each Note for an Interest Period or any other period is calculated in accordance with the following formula:

$$\text{Amount of interest} = \frac{\text{Interest Rate} \times \text{Face Value} \times \text{N}}{365}$$

where “**N**” is the number of days in the Interest Period or other relevant period.

### 3.6 NAB to determine and notify Interest Rate and amount of interest

In respect of each Interest Period, NAB must:

- (a) determine the Interest Rate and the amount of interest for that Interest Period in respect of any Note; and
- (b) notify the Registrar, ASX and the Holders as soon as practicable after its determination but, in any event, no later than the fourth Business Day after the first day of the Interest Period.

## 4. Redemption

### 4.1 Redemption on Maturity Date

NAB agrees to redeem each Note on the Maturity Date, unless the Note has previously been redeemed, or purchased by NAB or a Related Entity and cancelled, or Converted or Written-Off.

### 4.2 Early redemption at the option of NAB

NAB may, with APRA’s prior written approval and subject to compliance with clause 4.7, by notice to the Registrar, ASX and Holders (an **Optional Redemption Notice**), elect to redeem all or some of the Notes before their Maturity Date:

- (a) on the Interest Payment Date falling on or about 20 September 2023 and on any Interest Payment Date falling after that date up to but excluding the Maturity Date (an **Optional Redemption Date**); or
- (b) following the occurrence of a Tax Event or Regulatory Event.

*Holders should not expect that APRA’s approval will be given for any redemption of Notes under these Terms.*

### 4.3 When an Optional Redemption Notice may be given

An Optional Redemption Notice under clause 4.2 may be given:

- (a) where clause 4.2(a) applies, no earlier than 50 Business Days and no later than 15 Business Days before the Optional Redemption Date specified in the Optional Redemption Notice; and
- (b) where clause 4.2(b) applies, on any day following the occurrence of the Tax Event or Regulatory Event (as applicable).

### 4.4 Contents of Optional Redemption Notice

An Optional Redemption Notice must specify:

- (a) the Redemption Date which:
  - (i) where clause 4.2(a) applies, will be on the Optional Redemption Date; or
  - (ii) where a Tax Event or Regulatory Event applies, must be a Business Day no less than 15 Business Days and no more than 50 Business Days after the date of the Optional Redemption Notice; and
- (b) where clause 4.2(b) applies, the details of the Tax Event or Regulatory Event to which the Optional Redemption Notice relates; and
- (c) if less than all Notes are to be redeemed, the amount of Notes that are to be redeemed and how the Notes that are to be redeemed will be selected.

Subject to clause 5, an Optional Redemption Notice once given is irrevocable.

# APPENDIX A:

## TERMS OF NAB SUBORDINATED NOTES 2

### 4.5 Redemption mechanics

- (a) If a Note is to be redeemed in accordance with these Terms, NAB will redeem the Note by payment on the Redemption Date of an amount equal to Face Value (together with any accrued but unpaid interest) (the **Redemption Price**) to the Holder.
- (b) Upon payment of the Redemption Price, all other rights conferred, or restrictions imposed, by Notes will no longer have effect.
- (c) If only some of the Notes are to be redeemed under this clause 4, NAB will select the Notes to be redeemed:
- (i) in a manner that is, in the opinion of NAB, fair and reasonable; and
  - (ii) in compliance with any applicable law, directive or requirement of ASX, and

in making its selection, NAB will endeavour to treat Holders on an approximately proportionate basis but may make such adjustments among Holders as it considers necessary to take account of the effect on marketable parcels and other logistical considerations.

### 4.6 Purchases

NAB or any Related Entity of NAB may at any time purchase the Notes in the open market or otherwise and at any price or consideration, subject to the prior written approval of APRA.

*Holders should not expect that APRA's approval will be given for any purchase of Notes under these Terms.*

### 4.7 Restrictions on election by NAB of redemption or purchase

NAB may only elect to redeem Notes under clause 4.2 or purchase, or procure that any subsidiary or Related Entity of NAB purchase, any Notes under clause 4.6 if APRA is satisfied that either:

- (a) the Notes the subject of the redemption are replaced concurrently or beforehand with a capital instrument 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 capital position of the NAB Level 1 Group and the NAB Level 2 Group will remain adequate after NAB elects to redeem the Notes.

## 5. Conversion or Write-Off on Non-Viability Trigger Event

### 5.1 Non-Viability Trigger Event

A **Non-Viability Trigger Event** occurs when APRA has provided a written determination to NAB (**Non-Viability Determination**) that:

- (a) the conversion into Ordinary Shares or write-off of Relevant Capital Instruments of NAB in accordance with their terms or by operation of law is necessary because without the conversion or write-off, APRA considers that NAB would become non-viable; or
- (b) without a public sector injection of capital into, or equivalent capital support with respect to, NAB, APRA considers that NAB would become non-viable.

The date on which a Non-Viability Trigger Event occurs under clause 5.1(a) or clause 5.1(b) is a **Conversion Date**.

### 5.2 Conversion on Non-Viability Trigger Event

- (a) If a Non-Viability Trigger Event occurs under clause 5.1(a), NAB must immediately convert into Ordinary Shares or write-off:
- (i) all Relevant Capital Instruments then outstanding (including the Notes) in accordance with this clause 5.2; or
  - (ii) where APRA is satisfied that conversion or write-off of a proportion of Relevant Capital Instruments will be sufficient to ensure that NAB will not become non-viable, that proportion of Relevant Capital Instruments.
- (b) Where clause 5.2(a)(ii) applies, NAB must immediately Convert or Write-Off a number of Notes in accordance with clause 5.3 and convert or write-off the aggregate principal amount of other Relevant Tier 2 Capital Instruments which are to be converted or written-off, such amount to be determined on the following basis:
- (i) first, NAB must convert into Ordinary Shares or write-off all Relevant Tier 1 Capital Instruments; and
  - (ii) second, to the extent the amount of Relevant Capital Instruments required to be converted or written-off exceeds the aggregate principal amount of Relevant Tier 1 Capital Instruments (and unless APRA has withdrawn the Non-Viability Determination), NAB must convert into Ordinary Shares or write-off Relevant Tier 2 Capital Instruments (including Notes in accordance with clause 5.3), in an aggregate principal amount equal to the amount of that excess and, in doing so:

- (A) NAB will endeavour to treat Holders on an approximately proportionate basis but may discriminate to take account of the effect on marketable parcels and other logistical considerations and the need to effect the Conversion or Write-Off of Notes and conversion or write-off of other Relevant Tier 2 Capital Instruments immediately; and
- (B) where the specified currency of Relevant Tier 2 Capital Instruments is not the same for all Relevant Tier 2 Capital Instruments, NAB may treat them as if converted into a single currency of NAB's choice at such rate of exchange as NAB considers reasonable but may make adjustments among Holders and holders of other Relevant Tier 2 Capital Instruments having regard to the need to effect conversion immediately.
- (c) Where, on the Conversion Date, a Non-Viability Trigger Event occurs under clause 5.1(b), NAB must immediately convert or write-off all Relevant Capital Instruments then outstanding (including the Notes).

*APRA will not approve partial conversion or partial write-off in those exceptional circumstances where a public sector injection of funds is deemed necessary.*

### 5.3 General provisions applicable to Conversion

- (a) Despite any other provision in these Terms, on the Conversion Date the relevant number (as determined under clause 5.2) of Notes will Convert immediately and irrevocably.
- (b) A Non-Viability Trigger Event occurs immediately on the day when NAB 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.
- (c) On the Conversion Date, the identity of Holders whose Notes will Convert on the Conversion Date will be determined by NAB 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 Notes that have not been settled or registered at that time.
- (d) Subject to clauses 5.4 and 6.11, if, in respect of a Conversion of a Note, NAB fails to issue the Conversion Number of Ordinary Shares in respect of the principal amount of that Note to, or in accordance with the instructions of, the relevant Holder or a nominee where clause 6.11 applies, any Note which would otherwise be subject to Conversion remains, for the purposes of these Terms, on issue until:
  - (i) the Ordinary Shares are issued to, or in accordance with the instruction of, the Holder; or

- (ii) the Note is Written-Off in accordance with these Terms, provided, however, that the sole right of the Holder in respect of such Note is its right to be issued the Ordinary Shares upon Conversion (subject to its compliance with clause 5.6(d)) or to receive proceeds from their sale pursuant to clause 6.11, as applicable and the remedy of a Holder in respect of NAB's failure to issue the Ordinary Shares is limited (subject always to clause 5.4) to seeking an order for specific performance of NAB's obligation to issue the Ordinary Shares to the Holder or where clause 6.11 applies to the nominee and to receive such proceeds of sale, in each case, in accordance with the Terms. This clause 5.3(d) does not affect the obligation of NAB to issue the Ordinary Shares when required in accordance with these Terms.

### 5.4 Write-Off following failure to Convert

If Conversion has not been effected within five Business Days after the Conversion Date for any reason (including an Inability Event), then Conversion will not occur and each Note of a Holder which, but for this clause 5.4, would be required to be Converted, will be Written-Off with effect on and from the Conversion Date.

**Written-Off** means that, in respect of a Note and a Conversion Date:

- (a) the Note will not be Converted in respect of the Conversion Date and will not be Converted or redeemed under these Terms on any subsequent date; and
- (b) the relevant Holders' rights (including to payments of interest and Face Value) in relation to such Note are immediately and irrevocably terminated and written-off with effect on and from the Conversion Date.

# APPENDIX A:

## TERMS OF NAB SUBORDINATED NOTES 2

### 5.5 Non-Viability Trigger Event Notice

As soon as practicable following the occurrence of a Non-Viability Trigger Event, NAB must give notice of the Non-Viability Trigger Event (a **Non-Viability Trigger Event Notice**) to the Registrar, ASX and the Holders which states the Conversion Date, the number of Notes Converted or Written-Off and the relevant number of Relevant Tier 2 Capital Instruments converted into Ordinary Shares or written-off.

### 5.6 Holder acknowledgements relating to Conversion

Each Holder irrevocably:

- (a) upon Conversion of Notes 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 Notes 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 Notes;
- (c) acknowledges and agrees that:
  - (i) clause 5 is a fundamental term of the Notes;
  - (ii) where clause 5.3 applies:
    - (A) there are no other conditions to a Non-Viability Trigger Event occurring as and when provided in clauses 5.2 and 5.3;
    - (B) Conversion must occur immediately on the Non-Viability Trigger Event and that may result in disruption or failures in trading or dealings in the Notes;

- (C) it will not have any rights to vote or right of approval in respect of any Conversion; and
- (D) the Ordinary Shares issued on Conversion may not be quoted at the time of issue, or at all;
- (iii) where clause 5.4 applies, no other conditions or events will affect its operation;
- (iv) a Holder has no right to request a Conversion or redemption of any Note or to determine whether (or in what combination) Notes are Converted or redeemed; and
- (v) none of the following shall prevent, impede or delay the Conversion of Notes as required by clause 5.2:
  - (A) any failure to convert into Ordinary Shares or write-off, or delay in the conversion into Ordinary Shares or write-off of, other Relevant Capital Instruments;
  - (B) any failure or delay in giving a Non-Viability Trigger Event Notice;
  - (C) any failure or delay in quotation of the Ordinary Shares to be issued on Conversion;
  - (D) any obligation to treat Holders proportionately or to make the determinations or adjustments in accordance with clause 5.2; and
  - (E) any decision as to the identity of Holders whose Notes are to be Converted or Written-Off in accordance with clause 5.3; 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 Notes on the occurrence of the Conversion.

## 6. Conversion mechanics

### 6.1 Conversion

If NAB must Convert Notes in accordance with these Terms, then, subject to this clause 6, the following provisions shall apply:

- (a) each Holder will be issued a number of Ordinary Shares for each Note that is being Converted on the Conversion Date equal to the Conversion Number, where the **Conversion Number** is the lesser of the number calculated according to the following formula and the Maximum Conversion Number:

$$\frac{\text{Face Value}}{99\% \times \text{VWAP}}$$

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:

$$\text{Maximum Conversion Number} = \frac{\text{Face Value}}{(\text{Issue Date VWAP} \times 0.2)}$$

- (b) each Holder's rights (including to payment of interest) in relation to each Note that is being Converted will be immediately and irrevocably terminated for an amount equal to the Face Value of that Note and NAB will apply the Face Value by way of payment for subscription for the Conversion Number of Ordinary Shares to be issued under clause 6.1(a). Each Holder is taken to have irrevocably directed that any amount payable under this clause 6.1(b) is to be applied as provided for in this clause 6.1(b) and no Holder has any right to payment in any other way;
- (c) if the total number of Ordinary Shares to be issued to a Holder in respect of their aggregate holding of Notes upon Conversion includes a fraction of an Ordinary Share, that fraction of an Ordinary Share will be disregarded; and

- (d) the rights attaching to the Ordinary Shares issued upon Conversion take effect at the time at which Conversion occurs on the Conversion Date. At that time:
  - (i) all other rights conferred or restrictions imposed on that Note under these Terms will no longer have effect; and
  - (ii) the Ordinary Shares issued upon the Conversion will rank equally with all other Ordinary Shares.

**6.2 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 Notes 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 6.2(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 Notes 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.

**6.3 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 multiplying it 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 6.3(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.

**6.4 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 6.2 and 6.3 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 6.5 to 6.7 (inclusive);
- (b) if so made, will correspondingly cause an adjustment to the Maximum Conversion Number; and
- (c) any adjustment made by NAB in accordance with clause 6.5 or clause 6.6 will be effective and binding on Holders under these Terms and these Terms will be construed accordingly.

**6.5 Adjustments to Issue Date VWAP for bonus issues**

- (a) Subject to clause 6.5(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;

**V<sub>0</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 6.5(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.

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(c) For the purpose of clause 6.5(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 6.5 for any offer of Ordinary Shares not covered by clause 6.5(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 6.5(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.

### 6.6 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) 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.

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

Despite the provisions of clauses 6.5 and 6.6, 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.

### 6.8 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 6 within 10 Business Days of NAB determining the adjustment.

### 6.9 Ordinary Shares

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

### 6.10 Listing Ordinary Shares issued on Conversion

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

### 6.11 Issue to an Eligible Nominee

(a) Where Notes are required to be Converted and:

(i) the Notes are held by a Foreign Holder, 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; or

(ii) 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;

the Ordinary Shares which the Holder is obliged to accept will be issued to a nominee (which must not be NAB or any Related Entity of NAB) (**Eligible Nominee**) but otherwise in accordance with clause 6.1 and on terms that, at the first reasonable opportunity to sell the Ordinary Shares, the Eligible Nominee will arrange for their sale and pay to the relevant Holder on a date determined by the Eligible Nominee a cash amount equal to the Attributable Proceeds of the relevant Holder.

(b) Where Notes are required to be Converted and a FATCA Withholding is required to be made in respect of Ordinary Shares issued on Conversion of the Notes, the Ordinary Shares which the Holder is obliged to accept will be issued to the Holder only to the extent (if at all) that the issue is net of FATCA Withholding and NAB will issue the balance of the Ordinary Shares (if any) to an Eligible Nominee who will sell those Ordinary Shares and deal with any proceeds of their disposal in accordance with FATCA.

(c) The issue of Ordinary Shares in accordance with clause 6.11(a) or clause 6.11(b) above (as applicable) will satisfy all obligations of NAB in connection with the Conversion, the Notes will be deemed Converted and will be dealt with in accordance with clause 6.1 and, on and from the issue of Ordinary Shares, the rights of a Holder the subject of 6.11(a) or clause 6.11(b) above are limited to its rights in respect of the Ordinary Shares or the Attributable Proceeds as provided in those clauses.

- (d) Without prejudice to the obligations of NAB and the Eligible Nominee under this clause 6.11, none of NAB or the Eligible Nominee owes any obligations or duties to Holders in relation to the price at which Ordinary Shares are sold or has any liability for any loss suffered by a Holder as a result of the sale of Ordinary Shares where required by this clause 6.11.
- (e) If Conversion has not been effected within five Business Days after the Conversion Date for any reason (including an Inability Event), then clause 5.4 will apply.

## 7. Title and transfer

### 7.1 Title

Title to a Note passes when details of the transfer are entered in the Register.

### 7.2 Effect of entries in the Register

Each entry in the Register in respect of a Note constitutes:

- (a) an irrevocable undertaking by NAB to the Holder to:
  - (i) pay the Face Value, any interest and any other amount in accordance with these Terms; and
  - (ii) comply with the other Terms of the Note; and
- (b) an entitlement to the other benefits given to the Holder in respect of the Note under these Terms.

### 7.3 Register conclusive as to ownership

Entries in the Register in relation to a Note constitute conclusive evidence that the person so entered is the absolute owner of the Note subject to correction for fraud or error.

### 7.4 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 Note as the absolute owner of that Note.

No notice of any trust, Encumbrance or other interest in, or claim to, any Notes 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 Notes, 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 Notes will in any way affect any provision of these Terms (including without limitation any transfer of the Notes contemplated by this clause 7).

This clause 7.4 applies whether or not a Note is overdue and despite any notice of ownership, trust, Encumbrance or any other interest in or claim to the Note.

### 7.5 Joint Holders

Where two or more persons are entered in the Register as the joint Holders of a Note then they are taken to hold the Note as joint tenants with rights of survivorship, but the Registrar is not bound to register more than three persons as joint Holders of a Note.

### 7.6 Transfer

Subject to the ASX Listing Rules, the Notes will be transferable only in accordance with these Terms and the rules and regulations of CHES.

### 7.7 Dealings in whole

At all times, the Notes may be held or transferred only in whole Notes.

### 7.8 Instruments of transfer

A Holder may transfer a Note:

- (a) by a proper transfer according to the rules and regulations of CHES;
- (b) by a proper transfer under any other computerised or electronic system recognised by the Corporations Act;
- (c) under any other method of transfer which operates in relation to the trading of securities on any securities exchange outside Australia on which the Notes are quoted and which is applicable to NAB; or
- (d) by any proper or sufficient instrument of transfer of marketable securities under applicable law.

### 7.9 Transfer on occurrence of certain events

The Registrar must register a transfer of a Note to or by a person who is entitled to make or receive the transfer as a consequence of:

- (a) death, bankruptcy, liquidation or winding up of a Holder; or
- (b) a vesting order by a court or other body with power to make the order, on receipt of such evidence of entitlement that the Registrar or NAB requires.

### 7.10 Power to refuse to register

If permitted by the ASX Listing Rules, NAB may:

- (a) request any applicable CS Facility Operator to apply a holding lock to prevent a transfer of Notes from being registered on the CS Facility's subregister; or
- (b) refuse to register a transfer of Notes to which paragraph (a) does not apply.

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## TERMS OF NAB SUBORDINATED NOTES 2

### 7.11 Obligation to refuse to register

NAB must:

- (a) request any applicable CS Facility Operator to apply a holding lock to prevent a transfer of Notes from being registered on the CS Facility's subregister; or
  - (b) refuse to register a transfer of Notes to which paragraph (a) does not apply,
- if:
- (c) the ASX Listing Rules require NAB to do so; or
  - (d) the transfer is in breach of the ASX Listing Rules.

### 7.12 Written notice to holder of holding lock or refusal

If in the exercise of its rights under clause 7.10 or 7.11, NAB requests the application of a holding lock to prevent a transfer of Notes or refuses to register a transfer of Notes, NAB must give written notice of the request or refusal to the holder of the Notes, the transferee and the broker lodging the transfer, if any. Failure to give such notice does not invalidate NAB's decision.

## 8. Payments

### 8.1 Payments to Holders

Each payment in respect of a Note will be made to the person that is recorded in the Register as the Holder of that Note as at the Relevant Time on the Record Date for that payment.

### 8.2 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.

### 8.3 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 Note 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 additional interest is payable in respect of any delay in payment.

### 8.4 Time limit on claims

A claim against NAB for a payment under a Note is void unless made within 10 years (in the case of Face Value) or 5 years (in the case of interest and other amounts) from the date on which payment first became due.

### 8.5 Determination and calculation final

Except where there is fraud or a manifest error, any determination or calculation which NAB makes in accordance with these Terms is final and binds NAB, the Registrar and each Holder.

### 8.6 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 to a Holder in respect of a Holder's aggregate holding of Notes must be rounded to the nearest cent (with halves being rounded up).

### 8.7 Joint Holders

A payment to any one joint Holder of a Note will discharge NAB's liability in respect of the payment.

### 8.8 No set-off

A Holder does not have any right to set-off any amounts owing to it by NAB in connection with the Notes against any amount owing by it to NAB in connection with the Notes 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 Notes.

### 8.9 Payments subject to law

All payments are subject to applicable law, but without prejudice to the provisions of clause 9.

### 8.10 Payments on Business Days

If a payment:

- (a) is due on a Note 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.

Nothing in this clause 8.10 applies to any payment referred to in clause 6.1(b) on a Non-Viability Trigger Event Conversion Date.

## 9. Taxation

### 9.1 No deductions

NAB must make all payments in respect of the Notes without set-off or counterclaim and without any withholding or deduction in respect of Taxes, unless the withholding or deduction is required by law or permitted by this clause 9.

### 9.2 Payment of additional amounts

Subject to clause 9.3, if a law requires NAB to withhold or deduct an amount in respect of Taxes from a payment in respect of the Notes such that a Holder would not receive on the due date the full amount provided for under the Notes then:

- (a) NAB agrees to deduct the amount for the Taxes (and any further withholding or deduction applicable to any further payment due under paragraph (b) below); and
- (b) if the amount deducted or withheld is in respect of Taxes imposed by or within the Commonwealth of Australia or by any Australian authority having power to tax, NAB agrees to pay such additional amounts as will result in such Holder receiving (at the time the payment is due) the amount the Holder would have received if no deductions or withholding had been required to be made (“Additional Amounts”).

### 9.3 Exceptions to requirement to pay Additional Amounts

NAB is not required to pay any Additional Amounts under clause 9.2 if the obligation to do so arises as a result of any one or more of the following:

- (a) the deduction is required in respect of Taxes by reason of the Holder or beneficial holder having some connection with the Commonwealth of Australia other than the mere holding of the Note or receipt of payment in respect of the Note. However, a Holder is not regarded as having a connection with Australia on account of the Holder being a resident of Australia within the meaning of the Tax Act where, and to the extent, those taxes are payable by reason of section 128B(2A) of the Tax Act;
- (b) the deduction is required as a result of the payment being to an Offshore Associate of NAB;

- (c) the deduction is required as a consequence of a determination having been made under Part IVA of the Tax Act that withholding tax is payable in respect of a payment in circumstances where the payment would not have been subject to withholding tax in the absence of the scheme which was the subject of that determination;
- (d) the deduction is required on the basis that the Holder is a fiduciary or partnership or other than the sole beneficial owner of any such payment to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or any other beneficial owner would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the Holder;
- (e) the deduction is required under a notice to withhold under section 255 of the Tax Act or section 260-5 of Schedule 1 of the Taxation Administration Act 1953 (Cth); or
- (f) the deduction is required as a result of Taxes which would not be required to be deducted if the Holder (or a person acting on its behalf):
  - (i) provided NAB, its agent or any tax authority with the Holder’s name, address, registration number, Australian tax file number, Australian business number or similar details or any relevant tax exemption or similar details; or
  - (ii) ensured that any third party complied with any other statutory requirements (such as making a declaration of non-residence or similar claim) for any relevant tax exemption.

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### 9.4 Tax file number

NAB will deduct tax from payments of interest on the Notes 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.

### 9.5 FATCA

NAB, in its absolute discretion, may withhold or deduct from payments or from the issue of Ordinary Shares 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 Notes may be subject to FATCA, and may deal with such payment, the issue of Ordinary Shares and the Holder's Notes in accordance with FATCA and no Additional Amounts will be required to be paid on account of any such deduction of withholding.

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.

### 9.6 Subordination of Additional Amounts

Any Additional Amounts due in respect of the Notes will be subject to the Solvency Condition and subordinated in right of payment as described in clause 11.

## 10. Events of Default

### 10.1 Events of Default

An "Event of Default" occurs if:

- (a) **(Payment Default)** either:
  - (i) NAB does not pay any Face Value of the Notes due in respect of the Notes within 7 days of its due date; or
  - (ii) NAB does not pay any interest or other amount due in respect of the Notes within 30 days of its due date,
- (a) **(Payment Default)**; or
- (b) **(Winding Up Default)** either:
  - (i) an order is made by a court of competent jurisdiction in Australia for the Winding Up of NAB which order is not successfully appealed or permanently stayed within 60 days of the making of the order; or
  - (ii) an effective resolution is passed by shareholders or members for the Winding Up of NAB in Australia,

other than for the purposes of a consolidation, amalgamation, merger or reconstruction which has been approved by a Special Resolution of the Holders or in which the surviving entity has assumed or will assume expressly or by law all obligations of NAB in respect of the Notes (a **Winding Up Default**).

### 10.2 Consequences of an Event of Default

If an Event of Default occurs and is continuing:

- (a) in the case of a Payment Default, a Holder may bring proceedings:
  - (i) to recover any amount then due and payable but unpaid on its Notes (subject to NAB being able to make the payment and remain Solvent);
  - (ii) to obtain an order for specific performance of any other obligation in respect of its Notes; or
  - (iii) for the Winding Up of NAB.

To the extent that a payment is not required to be made because of the Solvency Condition, the amount is not due and payable and a Payment Default does not occur; or

- (b) in the case of a Winding Up Default, in addition to taking any of the actions specified in clause 10.2(a) above, the Holders may resolve by Ordinary Resolution to declare by notice to NAB (with a copy to the Registrar) that the Face Value of each Note (together with all interest accrued to the date of payment determined as if the date of payment were an Interest Payment Date) is payable on a date specified in the notice and, subject to clause 11, may prove in the winding up of NAB for that amount.

The Holders may not exercise any other remedies (including any right to sue for damages which has the same economic effect as acceleration) as a consequence of an Event of Default or other default other than as specified in this clause 10.2.

### 10.3 Notification

If an Event of Default occurs, NAB must promptly after becoming aware of it notify the Registrar, the Holders and ASX of the occurrence of the Event of Default (specifying details of it).

## 11. Subordination

### 11.1 Acknowledgment

Each Holder, by its subscription for or purchase of a Note, is taken to acknowledge and agree that NAB's obligations in respect of that Note are subordinated to the payment of all Senior Creditors, in the manner provided in clause 11.2.

### 11.2 Subordination

- (a) **(Winding Up)** In a Winding Up of NAB, a Holder's claim for an amount owing by NAB in connection with a Note is subordinated to the claims of Senior Creditors of NAB, in that:
- (i) all claims of Senior Creditors must be paid in full before the Holder's claim is paid; and
  - (ii) until Senior Creditors have been paid in full, the Holder must not claim in the Winding Up in competition with the Senior Creditors so as to diminish any distribution, dividend or payment which, but for that claim, the Senior Creditors would have been entitled to receive.
- (b) **(debt subordination)** Each Holder irrevocably acknowledges and agrees that this clause 11.2 is a debt subordination for the purposes of section 563C of the Corporations Act.
- (c) **(voting)** Each Holder must not exercise its voting rights as an unsecured creditor in the Winding Up or administration of NAB in any jurisdiction to defeat the subordination in this clause 11.2.
- (d) **(not otherwise affected)** Each Holder irrevocably acknowledges and agrees that the debt subordination effected by this clause 11.2 is not affected by any act or omission of NAB or a Senior Creditor which might otherwise affect it at law or in equity.

- (e) **(clawback)** Each Holder irrevocably acknowledges and agrees that it must pay or deliver to the liquidator any amount or asset received on account of its claim in a Winding Up of NAB in connection with a Note in excess of its entitlement under clause 11.2(a) above.
- (f) **(consent of Senior Creditors not required)** Nothing in this clause 11.2 shall be taken to require the consent of any Senior Creditor to any amendment of this clause 11.2.

## 12. Meetings of Holders and voting rights

### 12.1 Meeting Provisions

Meetings of Holders may be held in accordance with the Meeting Provisions. A meeting may consider any matter affecting the interests of Holders, including any amendment to the Terms proposed by NAB in accordance with clause 13.

NAB:

- (a) may convene a meeting at any time; and
- (b) must convene a meeting upon the request in writing of Holders holding not less than 10% of the Outstanding Notes.

The Meeting Provisions contain provisions governing notice, quorum requirements and other matters relevant to the conduct of a meeting.

The Meeting Provisions also contain provisions for the passing of resolutions in writing signed by defined majorities of Holders.

### 12.2 Resolutions binding

Subject in all cases to clause 12.3, any resolution passed at any meeting of the Holders or by writing is binding on all Holders, whether or not they are present at the meeting.

### 12.3 Requirement for APRA approval

An amendment or addition to these Terms which may affect the eligibility of the Notes as Tier 2 Capital cannot be approved by Holders without the prior written approval of APRA.

### 12.4 Voting rights

A Note does not entitle its Holder to attend or vote at a general meeting of NAB.

## 13. Amendment

### 13.1 Amendment without consent

- (a) Subject to complying with all applicable laws, to clause 13.1(c) and to obtaining APRA's prior written approval where required in accordance with clause 13.4, NAB may amend the Deed Poll and these Terms without the approval of the Holders if, in the reasonable opinion of NAB, 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 Notes 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 Notes;
  - (v) is necessary and appropriate to effect the substitution under clause 14;
  - (vi) is made to amend any date or time period stated, required or permitted in connection with any Conversion or redemption (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);

# APPENDIX A:

## TERMS OF NAB SUBORDINATED NOTES 2

(vii) is made to:

- (A) amend the terms of Notes to align them with any Relevant Tier 2 Capital Instruments issued after the Issue Date; or
- (B) amend the definition of Relevant Tier 2 Capital Instruments on account of the issue of capital instruments after the Issue Date; or

(viii) is not materially prejudicial to the interests of the Holders as a whole.

(b) Subject to complying with all applicable laws and clause 13.1(c) and with APRA's prior written approval where required in accordance with clause 13.4, 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 14.

(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 interests 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).

### 13.2 Amendment with consent

Without limiting clause 13.1, NAB may amend or add to these Terms if the amendment or addition has been approved by Special Resolution of Holders. An amendment or addition to these Terms which may affect the eligibility of the Notes as Tier 2 Capital cannot be approved by Holders under this clause 13.2 without the prior written approval of APRA.

### 13.3 Notification of amendment to APRA

NAB will promptly notify APRA of any amendments made in accordance with this clause 13.

### 13.4 Requirement for APRA approval

A requirement in this clause 13 for an amendment to be made with APRA's prior written approval applies only where the amendment may affect the eligibility of Notes as Tier 2 Capital.

### 13.5 Meaning of amend

In this clause 13, **amend** includes vary, modify, cancel, alter or add to and **amendment** has a corresponding meaning.

## 14. Substitution

### 14.1 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 deliver fully paid ordinary shares in its capital under all circumstances when NAB would otherwise have been required to deliver Ordinary Shares, subject to the same terms and conditions as set out in these Terms (with all necessary modifications); and

- (ii) 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 Approved 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 14.2 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 14.4, 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 Non-Viability Trigger Event.

#### 14.2 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 14.1(a) and 14.1(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 Notes are to be Converted:
  - (i) each Note 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 6.11, the Eligible 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, each Note held by the Transferee as a result of the transfer will be automatically Converted into Ordinary Shares, in a number such that the total number of Ordinary Shares held by the Transferee 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", "Non-Viability Trigger Event", "Regulatory Event" and "Tax Event";
- (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 (or compensation) 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 6;
- (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 Notes to remain as Tier 2 Capital.

#### 14.3 Further substitutions

After a substitution under clause 14.1, the Approved NOHC may, without the consent of the Holders, effect a further substitution in accordance with clause 14.1 (with necessary changes).

#### 14.4 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 14.1 or clause 14.3 in writing as soon as practicable after the substitution.

#### 14.5 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.

## 15. Further issues and no other rights

### 15.1 No restriction on other securities or indebtedness

Each of the following is expressly permitted and authorised by these Terms:

- (a) the allotment or issue of notes, preference shares or other securities, or the conversion of existing securities into other securities, in each case, ranking equally with, in priority to or junior to, or having different rights from, the Notes then on issue;
- (b) a redemption, conversion, buy-back or return or distribution of capital in respect of any share capital or any other securities issued by NAB, whether ranking behind, equally with, or in priority to, the Notes; and
- (c) the incurring or guarantee by NAB of any indebtedness upon such terms as NAB thinks fit in its sole discretion.

### 15.2 No other rights

The Notes do not confer any right to participate in the issue of any other securities of NAB and a Holder has no claim on NAB other than as expressly set out in these Terms.

# APPENDIX A:

## TERMS OF NAB SUBORDINATED NOTES 2

### 16. Notices

#### 16.1 Notices to Holders

All notices, certificates, consents, approvals, waivers and other communications in connection with a Note to the Holders must be in writing and may be:

- (a) so long as the Notes are quoted on ASX, given 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).

#### 16.2 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.

#### 16.3 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.

#### 16.4 Receipt – publication on ASX

If published by an announcement on ASX, communications are taken to be received when the announcement is made on ASX.

#### 16.5 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.

#### 16.6 Receipt – postal

Unless a later time is specified in it, a notice, if sent by post, it is taken to be received on the sixth succeeding Business Day in the place of the addressee.

#### 16.7 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.

### 17. Governing law and jurisdiction

#### 17.1 Governing law

The Notes are governed by the laws in force in Victoria, Australia.

#### 17.2 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.

#### 17.3 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 in the Deed Poll 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 Notes from time to time.

### 18. 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, effecting any transfer or Conversion of Notes, making any entry in the Register or the register of any Ordinary Shares.
- (b) The power of attorney given in this clause 18 is given for valuable consideration and to secure the performance by the Holder of the Holder's obligations under these Terms and is irrevocable.

### 19. Interpretation

#### 19.1 Definitions

In these Terms the following expressions have the following meanings:

**Additional Amounts** has the meaning given in clause 9.2.

**Adjustment Notice** has the meaning given in clause 6.8.

**Approved NOHC** means a NOHC of the Group arising from a NOHC Event.

**Approved NOHC Substitution Notice** has the meaning given in clause 14.1.

**Approved NOHC Substitution Terms** has the meaning given in clause 14.1.

**APRA** means the Australian Prudential Regulation Authority or any authority succeeding to its powers and responsibilities.

**Assets** means, in respect of NAB, its total non-consolidated gross assets as shown by its latest published audited financial statements but adjusted for events subsequent to the date of such financial statements in such manner and to such extent as its directors, its auditors or its liquidator may determine to be appropriate.

**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 from time to time with any modifications or waivers in their application to NAB which ASX may grant.

**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 18(a).

**Attributable Proceeds** means, in respect of a Holder to whom clause 6.11 applies, an amount equal to the Net Proceeds per Ordinary Share multiplied by the number of Ordinary Shares issued and sold in accordance with clause 6.11 (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 18.

**Banking Act** means the Banking Act 1959 (Cth).

**Bank Bill Rate** has the meaning given in clause 3.4.

**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 Notes 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.

**CHES** means the Clearing House Electronic Subregister System operated by ASX or its affiliates.

**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 a holding company of NAB), an entity that NAB (or such NOHC) Controls.

**Conversion** means, in relation to a Note, to convert that Note into a number of Ordinary Shares in accordance with clause 6, and **Convert, Converted** and **Converting** have corresponding meanings.

**Conversion Date** has the meaning given in clause 5.1.

**Conversion Number** has the meaning given in clause 6.1.

**Corporations Act** means the Corporations Act 2001 (Cth).

**CS Facility** means ASX Settlement Pty Ltd (ABN 49 008 504 532) or such other applicable clearing and settlement facility prescribed as a CS Facility under the Corporations Act from time to time.

**CS Facility Operator** means the operator of a CS Facility.

**Cum Value** has the meaning given in clause 6.2.

**Deed Poll** means the deed poll entitled "NAB Subordinated Notes 2 Deed Poll" executed by NAB on or about 8 February 2017.

**Directors** means the directors of NAB acting as a board or an authorised committee of the board.

**Eligible Nominee** has the meaning given in clause 6.11.

**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.

**Equal Ranking Instruments** means any present or future instrument that ranks in a Winding Up of NAB as the most junior claim in the Winding Up of NAB ranking senior to Junior Ranking Instruments and includes:

- (a) the Undated Subordinated Floating Rate Notes issued under the trust deed dated 4 October 1986 between NAB and The Law Debenture Trust Corporation p.l.c, as amended from time to time (except in so far as such amendment is inconsistent with such ranking); and
- (b) any other instruments issued after 1 January 2013 as Relevant Tier 2 Capital Instruments.

**Event of Default** has the meaning given in clause 10.1.

**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.

**Face Value** has the meaning given in clause 1.2.

# APPENDIX A:

## TERMS OF NAB SUBORDINATED NOTES 2

**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.

**FATCA Withholding** means any withholding or deduction imposed or required pursuant to FATCA.

**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.

**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 Note.

**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 Notes.

**Interest Payment Date** has the meaning given in clause 3.2, as adjusted in accordance with these Terms.

**Interest Period** means each period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next Interest Payment Date. However:

- (a) the first Interest Period commences on (and includes) the Issue Date; and
- (b) the final Interest Period ends on (but excludes) the first to occur of the Maturity Date and the Redemption Date.

**Interest Rate** has the meaning given in clause 3.4.

**IRS** means the United States Internal Revenue Service or any authority succeeding to its powers and responsibilities.

**Issue Date** means the date on which a Note is 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 Notes were issued, as adjusted in accordance with clauses 6.4 to 6.7 (inclusive).

**Junior Ranking Instruments** means any present or future:

- (a) instrument issued as Tier 1 Capital (whether or not constituting Tier 1 Capital at the Issue Date or at the time of commencement of Winding Up of NAB); and
- (b) shares (including Ordinary Shares) in the capital of NAB (other than shares issued as Tier 2 Capital),

or any present or future claims in respect of a shareholding including claims described in sections 563AA and 563A of the Corporations Act.

**Level 1** and **Level 2** mean those terms as defined by APRA from time to time.

**Liabilities** means, in respect of NAB, its total non-consolidated gross liabilities as shown by its latest published audited financial statements but adjusted for events subsequent to the date of such financial statements in such manner and to such extent as its directors, its auditors or its liquidator may determine to be appropriate.

**Margin** has the meaning given in clause 3.4.

**Maturity Date** means 20 September 2028 or, if that date is not a Business Day, the next Business Day.

**Maximum Conversion Number** has the meaning given in clause 6.1.

**Meeting Provisions** means the provisions for the convening of meetings of, and passing of resolutions by, Holders set out in Schedule 2 to the Deed Poll.

**NAB** means National Australia Bank Limited (ABN 12 004 044 937).

**NAB Level 1 Group** means NAB and those of its controlled entities included by APRA from time to time in the calculation of NAB’s capital ratios 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 capital ratios on a Level 2 basis.

**Net Proceeds per Ordinary Share** means, in respect of Ordinary Shares issued and sold in accordance with clause 6.11, 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.

**Non-Viability Determination** has the meaning given in clause 5.1.

**Non-Viability Trigger Event** has the meaning given in clause 5.1.

**Non-Viability Trigger Event Notice** has the meaning given in clause 5.5.

**NOHC** means a “non-operating holding company” within the meaning of the Banking Act.

**NOHC Event** means either of the following occurs:

- (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 per cent. 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 per cent. 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, and

the bidder or the person having a relevant interest in the Ordinary Shares in NAB after the scheme is implemented (or any entity that Controls the bidder or the person having the relevant interest) is an Approved NOHC.

**Note** has the meaning given in clause 1.1.

**Offer** means the invitation made under the Prospectus issued by NAB for persons to subscribe for Notes.

**Offshore Associate** means an associate (as defined in section 128F of the Tax Act) of NAB that is either:

- (a) a non-resident of Australia which does not acquire the Notes in carrying on a business at or through a permanent establishment in Australia; or
- (b) a resident of Australia that acquires the Notes in carrying on a business at or through a permanent establishment outside Australia.

**Optional Redemption Date** has the meaning given in clause 4.2.

**Optional Redemption Notice** has the meaning given in clause 4.2.

**Ordinary Resolution** has the meaning given in the Meeting Provisions.

**Ordinary Share** means a fully paid ordinary share in the capital of NAB.

**Outstanding** means all of the Notes other than:

- (a) Notes which have been redeemed or satisfied in full by NAB; or
- (b) Notes for which funds equal to their aggregate Face Value are on deposit with the Registrar in respect of which the Registrar holds an irrevocable direction to apply funds in repayment of Notes to be redeemed on that day; or
- (c) Notes in respect of which a Holder is unable to make a claim as a result of the operation of clause 8.4; or
- (d) a Note which has been Converted or Written-Off in full.

**Payment Default** has the meaning given in clause 10.1(a).

**Prospectus** means the prospectus for the Offer including these Terms.

**Publication Time** has the meaning given in clause 3.4.

**Record Date** means, in the case of:

- (a) payments of interest, the date which is 8 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 the Face Value, a date determined by NAB and notified to ASX (or such other date as may be prescribed by ASX).

**Redemption Date** means the day on which Notes are to be redeemed before their Maturity Date in accordance with clause 4. If Notes are not redeemed on that day, the date on which the Notes are redeemed.

**Redemption Price** has the meaning given in clause 4.5.

**Register** means a register of holders of Notes 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.

**Registrar** means Computershare Investor Services Pty Limited or any other person who from time to time maintains the Register on behalf of NAB.

# APPENDIX A:

## TERMS OF NAB SUBORDINATED NOTES 2

**Regulatory Change** means any amendment to, clarification of or change (including any announcement of any change that will be introduced) in any law or regulation or any official administrative pronouncement or action or judicial decision interpreting or applying such laws or regulations or any direction, order, standard, requirement, guideline or statement of APRA (whether or not having the force of law) in each case which event is announced on or after the Issue Date and which NAB did not expect at the Issue Date.

**Regulatory Event** means:

- (a) the receipt by the Directors of an opinion from a reputable legal counsel that, as a result of a Regulatory Change additional requirements would be imposed on NAB in relation to or in connection with Notes (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, as a result of a Regulatory Change, NAB is not or will not be entitled to treat some or all Notes as Tier 2 Capital except where the reason NAB is not or will not be entitled to treat some or all Notes as Tier 2 Capital is because of a limit or other restriction on the recognition of Tier 2 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 Capital Instruments** means each of:

- (a) Relevant Tier 1 Capital Instruments; and
- (b) Relevant Tier 2 Capital Instruments.

**Relevant Tier 1 Capital Instrument** means a Tier 1 Capital Instrument that in accordance with its terms or by operation of law is capable of being written-off or converted into Ordinary Shares when a Non-Viability Determination is made.

**Relevant Tier 2 Capital Instrument** means a Tier 2 Capital Instrument that in accordance with its terms or by operation of law is capable of being written-off or converted into Ordinary Shares when a Non-Viability Determination is made.

**Relevant Time** means, in the case of:

- (a) payments of interest, 7:00 pm (or such other time as may be prescribed by ASX or if not prescribed by ASX a time determined by NAB and notified to ASX); and
- (b) payments of the Face Value, a time determined by NAB and notified to ASX (or such other time as may be prescribed by ASX).

**Reorganisation** means, in relation to NAB, a division, consolidation or reclassification of NAB's share capital not involving any cash payment or other distribution (or compensation) to or by the holders of Ordinary Shares.

**Senior Creditors** means all present and future creditors of NAB (including but not limited to depositors of NAB) whose claims:

- (a) would be entitled to be admitted in the Winding Up of NAB; and
- (b) are not in respect of Equal Ranking Instruments or Junior Ranking Instruments.

**Solvency Condition** has the meaning given in clause 2.2.

**Solvent** means that each of the following is the case:

- (a) NAB is able to pay its debts as they fall due; and
- (b) its Assets exceed its Liabilities.

**Special Resolution** has the meaning given in the Meeting Provisions.

**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.

**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 has or will become obliged to pay Additional Amounts;
- (b) NAB or another member of the Group would be exposed to more than a de minimis increase in its costs (including without limitation through the imposition of any amount of other Taxes, duties, assessments or other governmental charges) in connection with the Notes; or
- (c) interest payable in respect of the Notes is not or may not be allowed as a deduction to NAB (or the head entity of any consolidated group of which NAB is a member) for Australian income tax purposes.

**Tax Law Change** means:

- (a) an amendment to, change (including any announcement of any change that will be introduced) 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 Notes 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.

**Taxes** means taxes, levies, imposts, deductions, charges or withholdings and duties (including stamp and transaction duties) imposed by any authority together with any related interest, penalties and expenses in connection with them.

**Terms** means these terms of issue of Notes.

**Tier 1 Capital** means the Tier 1 Capital of NAB (on a Level 1 basis) or the NAB Group (on a Level 2 basis) as defined by APRA from time to time.

**Tier 1 Capital Instrument** means a share, note or other security or instrument constituting Tier 1 Capital.

**Tier 2 Capital** means the Tier 2 Capital of NAB (on a Level 1 basis) or the NAB Group (on a Level 2 basis) as defined by APRA from time to time.

**Tier 2 Capital Instrument** means a share, note or other security or instrument constituting Tier 2 Capital.

**Transferee** has the meaning given in clause 14.2.

**VWAP** means, subject to any adjustments under clause 6, the average of the daily volume weighted average sale prices (all such averages 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 the period of 5 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the Conversion Date.

**Winding Up** means a winding up by a court of competent jurisdiction or otherwise under applicable law (which, in the case of Australia, includes the Corporations Act).

**Winding Up Default** has the meaning given in clause 10.1(b).

**Written-Off** has the meaning given in clause 5.4 and **Write-Off** has a corresponding meaning.

## 19.2 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, a reference to a clause or paragraph is a reference to a clause or paragraph of these Terms.
- (c) Headings and boldings are for convenience only and do not affect the interpretation of these Terms.
- (d) The singular includes the plural and vice versa.

- (e) 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.
- (f) Other than in relation to a Non-Viability Trigger Event and a Conversion on a 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.
- (g) A reference to dollars, AUD, A\$, \$ or cents is a reference to the lawful currency of Australia.
- (h) Calculations, elections and determinations made by or on behalf of NAB under these Terms are binding on Holders in the absence of manifest error.
- (i) 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.
- (j) 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.
- (k) 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.
- (l) The terms “holding company”, “wholly-owned subsidiary” and “subsidiary”, when used in these Terms have the meaning given in the Corporations Act.

# APPENDIX A:

## TERMS OF NAB SUBORDINATED NOTES 2

- (m) 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.
- (n) 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.
- (o) 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.
- (p) Words importing any gender include all other genders.
- (q) 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.
- (r) A reference to any term defined by APRA (including, without limitation, “Level 1”, “Level 2”, “Tier 1 Capital” and “Tier 2 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.
- (s) 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.
- (t) 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).
- (u) 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.
- (v) 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.
- (w) A reference to time is to Melbourne time unless otherwise specified.

### 19.3 Inconsistency with ASX Listing Rules

So long as Notes are quoted on ASX, these Terms as they relate to those Notes 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 Notes as Tier 2 Capital.

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# GLOSSARY

# APPENDIX B: GLOSSARY

Term	Meaning
<b>AAS or Australian Accounting Standards</b>	Australian Accounting Standards and other authoritative pronouncements issued by the Australian Accounting Standards Board
<b>ABN</b>	Australian Business Number
<b>Additional Amounts</b>	Has the meaning given to it in clause 9.2 of the Terms
<b>Additional Tier 1 Capital</b>	The additional tier 1 Capital of the NAB Level 1 Group or the NAB Level 2 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 Subordinated Notes 2 allocated under this Offer to a Syndicate Broker or Institutional Investor
<b>Annual Financial Report 2016</b>	The financial report for NAB for the year ended 30 September 2016
<b>Applicant</b>	A person who lodges an Application Form in accordance with this Prospectus
<b>Application</b>	A valid application for NAB Subordinated Notes 2 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 Subordinated Notes 2 may be made
<b>Application Monies</b>	The amount payable on each Application, being the Face Value multiplied by the number of NAB Subordinated Notes 2 applied for
<b>Approved NOHC</b>	Has the meaning given to it in clause 19.1 of the Terms
<b>APRA</b>	Australian Prudential Regulation Authority
<b>Arranger</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>ASX Listing Rules</b>	The listing rules of ASX, with any modification or waivers which ASX may grant to NAB from time to time
<b>Attorney</b>	Has the meaning given to it in clause 19.1 of the Terms
<b>Authorised Officer</b>	Has the meaning given to it in clause 19.1 of the Terms
<b>Bank Bill Rate</b>	Has the meaning given to it in clause 3.4 of the Terms
<b>Banking Act</b>	Banking Act 1959 (Cth)

Term	Meaning
<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 BCBS applicable to ADIs (as amended)
<b>BCBS</b>	Basel Committee on Banking Supervision
<b>BNZ</b>	Bank of New Zealand (New Zealand company number 428849)
<b>Bookbuild</b>	The process through which certain investors bid for a firm Allocation of NAB Subordinated Notes 2 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 4 “Applying for NAB Subordinated Notes 2”
<b>Business Day</b>	Has the meaning given to it in clause 19.1 of the Terms
<b>CHESS</b>	Has the meaning given to it in clause 19.1 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>• 10 March 2017 for the Reinvestment Offer;</li> <li>• 10 March 2017 for the Securityholder Offer; and</li> <li>• 17 March 2017 for the Broker Firm Offer (excluding applications to reinvest NSN) and Institutional Offer</li> </ul>
<b>Co-Managers</b>	JBWere and Macquarie Equities
<b>Common Equity Tier 1 Capital</b>	Common Equity Tier 1 Capital as defined by APRA from time to time
<b>Common Equity Tier 1 Ratio</b>	The ratio of NAB’s Common Equity Tier 1 Capital to risk weighted assets
<b>Commonwealth Bank of Australia</b>	Commonwealth Bank of Australia ABN 48 123 123 124, AFSL 234945
<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 19.1 of the Terms
<b>Conversion</b>	The conversion of NAB Subordinated Notes 2 into Ordinary Shares in accordance with clause 5 of the Terms Convert, Converted and Converting have corresponding meanings
<b>Conversion Date</b>	Has the meaning given to it in clause 5.1 of the Terms
<b>Conversion Number</b>	Has the meaning given to it in clause 6.1 of the Terms

# APPENDIX B: GLOSSARY

Term	Meaning
Corporations Act	Corporations Act 2001 (Cth)
CYBG	CYBG PLC, incorporated and registered in England and Wales (registered number 09595911)
CYBG Group	CYBG and its subsidiaries from time to time
D-SIB	Domestic systemically important bank
Directors	The directors of NAB acting as a board or an authorised committee of the board
Eligible NSN Holder	A NSN holder who is: <ul style="list-style-type: none"> <li>• a registered holder of NSN at 7.00pm on 3 February 2017;</li> <li>• shown on the applicable register as having an address in Australia; and</li> <li>• not in the United States or acting as a nominee for, or for the account or benefit of, a US Person or otherwise prevented from receiving the Reinvestment Offer or NAB Subordinated Notes 2 under the laws of any jurisdiction</li> </ul>
Eligible Nominee	Has the meaning given to it in clause 6.11 of the Terms
Eligible Securityholder	Holders of Ordinary Shares, National Income Securities, NAB Subordinated Notes, NAB CPS, NAB CPS II, NAB Capital Notes or NAB Capital Notes 2 as at 7.00pm on 3 February 2017 as described in Section 4 “Applying for NAB Subordinated Notes 2”
Equal Ranking Instruments	Has the meaning given to it in clause 19.1 of the Terms
Event of Default	A Payment Default or a Winding Up Default, as described in Section 2.5 For the full definition – see clause 10.1 of the Terms
Exposure Period	The seven day period commencing after the date this Prospectus was lodged with ASIC
External Administrator	Has the meaning given to it in clause 19.1 of the Terms
Face Value	The face value for NAB Subordinated Notes 2 under this Prospectus, being \$100 per NAB Subordinated Note 2  For the full definition – see clause 1.2 of the Terms
FATCA	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)
FATCA Withholding	Has the meaning given to it in clause 19.1 of the Terms
Financial Claims Scheme	The scheme established under Division 2AA of Part II of the Banking Act
Foreign Holder	Has the meaning given to it in clause 19.1 of the Terms
Group	NAB (or any NOHC that is the holding company of NAB) and the Controlled Entities of NAB (or of such NOHC)

<b>Term</b>	<b>Meaning</b>
<b>GST</b>	Goods and Services Tax
<b>GWB</b>	Great Western Bancorp, Inc
<b>Holder</b>	A registered holder of NAB Subordinated Notes 2
<b>Holding Statement</b>	A statement issued to Holders by the Registry which sets out the number of NAB Subordinated Notes 2 Issued to that Holder
<b>Inability Event</b>	<p>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 Subordinated Notes 2 which would otherwise be Converted on a Conversion Date</p> <p>For the full definition – see clause 19.1 of the Terms</p>
<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 Subordinated Notes 2 under this Prospectus
<b>Interest</b>	Interest payable under clause 3.1 of the Terms
<b>Interest Payment Date</b>	<p>In respect of a NAB Subordinated Note 2, each 20 March, 20 June, 20 September and 20 December commencing on 20 June 2017 until the date that NAB Subordinated Note 2 is Redeemed or Converted</p> <p>For the full definition – see clause 3.2 of the Terms</p>
<b>Interest Period</b>	<p>A period beginning on (and including) an Interest Payment Date and ending on (but excluding) an Interest Payment Date. However:</p> <ul style="list-style-type: none"> <li>• the first Interest Period commences on (and includes) the Issue Date;</li> <li>• the final Interest Period ends on (but excludes) the first to occur of the Maturity Date and the Redemption Date.</li> </ul> <p>For the full definition – see clause 19.1 of the Terms</p>
<b>Interest Rate</b>	<p>The interest rate on NAB Subordinated Notes 2 calculated using the formula described in Section 2.1</p> <p>For the full definition – see clause 3.4 of the Terms</p>
<b>Issue</b>	The process of issuing NAB Subordinated Notes 2 to Holders. Issued has a corresponding meaning
<b>Issue Date</b>	Expected to be 20 March 2017
<b>Issue Date VWAP</b>	Has the meaning given to it in clause 19.1 of the Terms
<b>JBWere</b>	JBWere Limited ABN 68 137 978 360
<b>Joint Lead Managers or JLMs</b>	NAB, Commonwealth Bank of Australia, Morgans and Westpac Institutional Bank

# APPENDIX B: GLOSSARY

Term	Meaning
<b>Junior Ranking instruments</b>	Means any present or future: <ul style="list-style-type: none"> <li>• instrument issued as Tier 1 Capital (whether or not constituting Tier 1 Capital at the Issue Date or at the time of commencement of Winding Up of NAB); and</li> <li>• shares (including Ordinary Shares) in the capital of NAB (other than shares issued as Tier 2 Capital),</li> </ul> or any present or future claims in respect of a shareholding including claims described in section 563AA and 563A of the Corporations Act
<b>Lower Tier 2 Capital</b>	Has the meaning given in the Prudential Standards in effect prior to 1 January 2013
<b>Macquarie Equities</b>	Macquarie Equities Limited ABN 41 002 574 923
<b>Margin</b>	The margin to be determined under the Bookbuild
<b>Maximum Conversion Number</b>	Has the meaning given to it in clause 6.1 of the Terms
<b>MLC</b>	MLC Limited ABN 90 000 000 402
<b>Morgans</b>	Morgans Financial Limited ABN 49 010 669 726, AFSL 235410
<b>NAB</b>	National Australia Bank Limited ABN 12 004 044 937
<b>NAB Capital Notes</b>	Capital notes, being fully paid mandatorily convertible subordinated perpetual notes issued by NAB on 23 March 2015
<b>NAB Capital Notes 2</b>	Capital notes, being fully paid mandatorily convertible subordinated perpetual notes issued by NAB on 7 July 2016.
<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 on 17 December 2013
<b>NAB Level 1 Group</b>	Has the meaning given to it in clause 19.1 of the Terms
<b>NAB Level 2 Group</b>	Has the meaning given to it in clause 19.1 of the Terms
<b>NAB Subordinated Notes or NSN</b>	Unsecured, subordinated debt obligations of NAB constituted by, and owing under a deed poll, issued by NAB on 18 June 2012 under an offer document dated 21 May 2012
<b>NAB Subordinated Notes 2</b>	The fully paid subordinated unsecured notes which are to be issued by NAB under this Prospectus
<b>NAB Subordinated Notes 2 Deed Poll</b>	Means the deed poll relating to NAB Subordinated Notes 2 made by NAB on or about 8 February 2017
<b>National Income Securities</b>	The securities issued under a prospectus dated 10 May 1999

Term	Meaning
<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 19.1 of the Terms
<b>Non-Viability Trigger Event</b>	Has the meaning given to it in clause 5.1 of the Terms
<b>NSN Reinvestment Applicant</b>	An Eligible NSN Holder who applies directly to NAB under the Reinvestment Offer
<b>Offer</b>	The offer made through this Prospectus by NAB of NAB Subordinated Notes 2 to raise \$750 million, with the ability to raise more or less. The offer comprises the Reinvestment Offer, Securityholder Offer, Broker Firm Offer and the Institutional Offer
<b>Offer Management Agreement</b>	The offer management agreement entered into between NAB, the Arranger, and the Joint Lead Managers as summarised in Section 9.6
<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 16 February 2017
<b>Optional Redemption Date</b>	Has the meaning given to it in clause 4.2 of the Terms
<b>Ordinary Resolution</b>	A resolution passed at a meeting of Holders by a simple majority of the votes validly cast by Holders in person or by proxy and entitled to vote on the resolution, or made in writing by Holders representing more than 50% of the outstanding NAB Subordinated Notes 2 For the full definitions and provisions relating to written resolutions – see the Meetings Provisions set out in the NAB Subordinated Notes 2 Deed Poll
<b>Ordinary Share</b>	A fully paid ordinary share in the capital of NAB
<b>Payment Default</b>	An Event of Default with regard to the payment of Face Value or Interest due in respect of the NAB Subordinated Notes 2 with a specified time period For the full definition – see clause 10.1 of the Terms
<b>Prospectus</b>	This Prospectus which was lodged with ASIC on 8 February 2017
<b>Protected Account</b>	Broadly, a protected account is, subject to certain conditions, an account or a specified financial product: <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> The Australian Treasurer has published a declaration of products prescribed as protected accounts for the purposes of the Banking Act and the declaration has now been restated in regulations
<b>Prudential Standards</b>	A prudential standard issued by APRA under its powers in the Banking Act

# APPENDIX B: GLOSSARY

Term	Meaning
<b>Record Date</b>	Has the meaning given to it in clause 19.1 of the Terms
<b>Redemption</b>	In relation to a NAB Subordinated Note 2 means redemption in accordance with clause 4 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 Change</b>	Has the meaning given to it in clause 19.1 of the Terms
<b>Regulatory Event</b>	Has the meaning given to it in clause 19.1 of the Terms
<b>Reinvested NSN</b>	NSN held by an Eligible NSN Holder that are reinvested in NAB Subordinated Notes 2, under the terms of this Prospectus
<b>Reinvestment Offer</b>	The invitation to Eligible NSN Holders to reinvest their NSN funds into NAB Subordinated Notes 2 under this Prospectus
<b>Reinvestment Offer Application Form</b>	The reinvestment form available to Eligible NSN Holders online at <a href="http://www.nab.com.au/nsn2offer">www.nab.com.au/nsn2offer</a> or accompanying this Prospectus sent to Eligible NSN Holders at their request on which they can reinvest all or some of their NSN in NAB Subordinated Notes 2 as described in Section 4
<b>Relevant Capital Instruments</b>	Means each of: <ul style="list-style-type: none"> <li>• Relevant Tier 1 Capital Instruments; and</li> <li>• Relevant Tier 2 Capital Instruments.</li> </ul>
<b>Relevant Tier 1 Capital Instruments</b>	Has the meaning given to it in clause 19.1 of the Terms
<b>Relevant Tier 2 Capital Instruments</b>	Has the meaning given to it in clause 19.1 of the Terms
<b>Securityholder Applicant</b>	An Applicant who makes an Application under the Securityholder Offer
<b>Securityholder Offer</b>	The offer as described in Section 4 “Applying for NAB Subordinated Notes 2”
<b>Senior Creditors</b>	All present and future creditors of NAB, including depositors, whose claims are entitled to be admitted in the Winding Up of NAB and whose claims are not in respect of Equal Ranking Instruments or Junior Ranking Instruments
<b>Shareholder</b>	A holder of Ordinary Shares from time to time
<b>Solvency Condition</b>	Has the meaning given to it in clause 2.2 of the Terms
<b>Solvent</b>	Has the meaning given to it in clause 19.1 of the Terms

Term	Meaning
<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, or made in writing by Holders representing at least 75% of the outstanding NAB Subordinated Notes 2 For the full definitions and provisions relating to written resolutions – see the Meetings Provisions set out in the NAB Subordinated Notes 2 Deed Poll
<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 19.1 of the Terms
<b>Terms</b>	The terms of NAB Subordinated Notes 2 as set out in Appendix A
<b>TFN</b>	Tax File Number
<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
<b>Total Capital</b>	Means total capital as defined by APRA from time to time
<b>Total Capital Ratio</b>	The ratio so described by APRA (or any equivalent successor term)
<b>TPS</b>	The trust preferred securities issued by National Capital Trust I in 2003 which are exchangeable for global depositary receipts, evidencing global depositary shares, representing preference shares which may be issued by NAB in an aggregate liquidation amount of up to £400 million
<b>Undated Subordinated Floating Rate Notes</b>	The Undated Subordinated Floating Rate Notes issued under the trust deed dated 4 October 1986 between the Issuer and the Law Debenture Trust Corporation p.l.c
<b>US Person</b>	Has the meaning given in Regulation S of the US Securities Act
<b>US Securities Act</b>	United States Securities Act of 1933, as amended
<b>VWAP</b>	Has the meaning given to it in clause 19.1 of the Terms
<b>Westpac Institutional Bank</b>	Westpac Banking Corporation ABN 33 007 457 141, AFSL 233714
<b>Winding Up</b>	Has the meaning given to it in clause 19.1 of the Terms
<b>Winding Up Default</b>	An Event of Default with regard to the Winding Up of NAB For the full definition – see clause 10.1 of the Terms
<b>Written-Off</b>	Has the meaning given to it in clause 5.4 of the Terms Write-Off has a corresponding meaning

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# 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

Commonwealth Bank of Australia  
Darling Park Tower 1,  
201 Sussex Street  
Sydney NSW 2000

Morgans Financial Limited  
Level 29, 123 Eagle Street  
Brisbane QLD 4000

Westpac Banking Corporation  
Level 2, Westpac Place  
275 Kent Street  
Sydney NSW 2000

## Co-Managers

JBWere Limited  
Level 16, 101 Collins Street  
Melbourne VIC 3000

Macquarie Equities Limited  
1 Shelley Street  
Sydney NSW 2000

## Australian Legal and Tax Adviser

King and Wood Mallesons  
Level 50, 600 Bourke Street  
Melbourne VIC 3000

## Auditor

Ernst & Young  
8 Exhibition Street  
Melbourne VIC 3000

## Registry

Computershare Investor  
Services Pty Limited  
Yarra Falls  
452 Johnston 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)

Website: [www.nab.com.au/nsn2offer](http://www.nab.com.au/nsn2offer)

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)

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