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NAB

Subordinated Notes

Issuer

National Australia Bank Limited
ABN 12 004 044 937

Sole Arranger, Lead Manager and Bookrunner

National Australia Bank Limited

Co-Managers

Bell Potter
JBWere
Macquarie Private Wealth
Morgan Stanley Australia
Ord Minnett

**Date of Offer Document:
21 May 2012**

This Offer Document is not a prospectus, product disclosure statement or other disclosure document under the Corporations Act. The NAB Subordinated Notes are unsecured notes for the purposes of the Corporations Act and do not require a prospectus or other disclosure document for their issue.

The NAB Subordinated Notes do not constitute deposit liabilities of NAB, are not protected accounts for the purposes of the Banking Act or any other accounts 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.

National Australia Bank Limited is not a registered bank in New Zealand under the Reserve Bank of New Zealand Act 1989 (New Zealand).

Important notices

Offer Document

This Offer Document relates to the offer by National Australia Bank Limited ABN 12 004 044 937 of the NAB Subordinated Notes to raise \$1 billion, with the ability to raise more or less.

This Offer Document is dated 21 May 2012 and a copy of this Offer Document was lodged with ASX on that date. This Offer Document expires on the day after the Issue Date. ASIC and ASX take no responsibility for the contents of this Offer Document or the Offer.

A document was lodged with ASX on 14 May 2012 to facilitate the Bookbuild and advise the market of the proposed Offer. No offers were made under that document.

This Offer Document is not a prospectus, product disclosure statement or other disclosure document under the Corporations Act. The NAB Subordinated Notes are unsecured notes for the purposes of the Corporations Act and, under section 708(19) of the Corporations Act, do not require a prospectus or other disclosure document for their issue. In addition, NAB Subordinated Notes do not require a trustee under Chapter 2L of the Corporations Act.

Documents relevant to the Offer

The following documents are relevant to the Offer and can be obtained from www.nabnotesoffer.com.au during the Offer Period or from the Shareholder Centre at www.nabgroup.com/shareholder following the completion of the Offer Period:

- the full Terms of the NAB Subordinated Notes (which are also replicated in the Appendix to this Offer Document); and
- the Deed Poll (see also Section One “Summary of the NAB Subordinated Notes” for a summary of the Deed Poll).

These documents set out the full terms and conditions of the NAB Subordinated Notes and, as such, it is important that you read these documents in full, as well as this Offer Document, before deciding to invest in the NAB Subordinated Notes.

Status and subordination of the NAB Subordinated Notes

The NAB Subordinated Notes constitute direct and unsecured obligations of

NAB, which are subordinated in right of repayment to certain creditors of NAB including all depositors and all unsubordinated creditors.

The NAB Subordinated Notes are not deposit liabilities of NAB, are not protected accounts or any other accounts and are not insured or guaranteed

The NAB Subordinated Notes do not constitute deposit liabilities of NAB, are not protected accounts for the purposes of the Banking Act or any other accounts 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.

The NAB Subordinated Notes are issued by NAB under the Terms and Holders have no claim on NAB except as provided in those Terms.

Key risks

The NAB Subordinated Notes are subordinated. In a winding up of NAB, if there are insufficient assets to satisfy claims ranking ahead of the NAB Subordinated Notes, you will lose all of the money you invested in the NAB Subordinated Notes as you will not be repaid any of the money you invested in the NAB Subordinated Notes and you will not receive any interest payments that are due and unpaid at that time.

Investment products such as the NAB Subordinated Notes are also subject to other risks which could affect their performance, including interest rate risk and market price fluctuation. NAB does not guarantee the investment performance of the NAB Subordinated Notes (including the market price).

Information about the key risks of investing in the NAB Subordinated Notes is detailed in Section Four “Key Risks of the NAB Subordinated Notes”.

ASX quotation

NAB has applied for the NAB Subordinated Notes to be quoted on ASX.

No representations other than in this Offer Document

No person is authorised to provide any information or to make any representation in connection with the Offer that is not contained in this Offer Document.

Any information or representation not contained in this Offer Document may not be relied upon as having been authorised by NAB.

None of King & Wood Mallesons, the Co-Managers or the Registrar has made any statement that is included in this Offer Document or any statement on which a statement made in this Offer Document 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 Offer Document.

This Offer Document does not provide investment advice

The information provided in this Offer Document 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 Offer Document in full before deciding to invest in the NAB Subordinated Notes and consider the risks that could affect the performance of the NAB Subordinated Notes.

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

Defined words and expressions

Some words and expressions used in this Offer Document have defined meanings. These words and expressions are capitalised and are defined in Section Six “Glossary”.

The definitions specific to NAB Subordinated Notes are in clause 16 of the Terms in the Appendix. If there is any inconsistency in definitions between those in the Offer Document and the Terms, the definitions in the Terms prevail.

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

Diagrams

The diagrams used in this Offer Document 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 an Offer Document and Application Form

Paper copies of this Offer Document 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 AEST). This Offer Document and an Application Form can also be obtained electronically from www.nabnotesoffer.com.au.

Questions about the Offer

If you have any questions about the NAB Subordinated Notes 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 AEST) (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.

ASIC Guide

ASIC has published a guide for retail investors who are considering investing in corporate debt, such as the NAB Subordinated Notes, called “Investing in corporate bonds?” (“ASIC Guide”). A free copy of the ASIC Guide can be obtained from ASIC’s website at: www.moneySMART.gov.au/investing/investments-paying-interest/bonds or by calling ASIC on 1300 300 630.

A free copy of the ASIC Guide can also be obtained from www.nabnotesoffer.com.au during the Offer Period and from the Shareholder Centre at www.nabgroup.com/shareholder following completion of the Offer Period. The ASIC Guide does not specifically consider investing in unsecured subordinated debt obligations issued by an ADI such as NAB. If you have any questions you should seek advice from your financial adviser or other professional adviser.

Further information about NAB and the NAB Subordinated Notes

NAB is a disclosing entity for the purposes of the Corporations Act and, as a result, is subject to regular reporting and disclosure obligations under the Corporations Act and the ASX Listing Rules. Copies of documents lodged with ASIC can be obtained from, or inspected at, an ASIC office. Copies of documents lodged with ASX can be obtained from www.asx.com.au.

In addition, the following information can be obtained from the Shareholder Centre at www.nabgroup.com/shareholder:

- half-yearly and annual financial reports, including the Annual Financial Report 2011 and the 2012 Half Year Results;
- continuous disclosure notices lodged with ASX; and
- other general information provided to holders of NAB’s Ordinary Shares and National Income Securities.

Restrictions on foreign jurisdictions

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

In particular, the NAB Subordinated Notes 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 of the United States and may not be offered, sold or resold in the United States or to, or for the benefit of, any “U.S. Person” (as defined in Regulation S under the Securities Act) except pursuant to an effective registration statement or an exemption from the registration requirements of the Securities Act. Neither this Offer Document nor any

Application Form or other materials relating to the Offer may be distributed in the United States.

The Offer may be extended to particular investors in New Zealand, Hong Kong and Singapore in accordance with applicable law. Investors in those jurisdictions should take note of the following notices:

New Zealand

This Offer Document is not an investment statement or prospectus under New Zealand law and has not been registered, filed with or approved by any New Zealand regulatory authority under or in accordance with the Securities Act 1978 (New Zealand) or any other relevant law in New Zealand. It may not contain all the information that an investment statement or prospectus under New Zealand law is required to contain.

The NAB Subordinated Notes are not being offered or sold within New Zealand, except to:

- persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money; or
- persons who are each required to (i) pay a minimum subscription price of at least NZ\$500,000 for the securities before allotment or (ii) have previously paid a minimum subscription price of at least NZ\$500,000 for securities of NAB (“**initial securities**”) in a single transaction before the allotment of such initial securities and such allotment was not more than 18 months prior to the date of this Offer Document.

NAB reserves the right to refuse any application under this Offer where it reasonably believes that the applicant may be a member of the public for the purpose of the Securities Act 1978.

National Australia Bank Limited is not a registered bank in New Zealand under the Reserve Bank of New Zealand Act 1989 (New Zealand).

Hong Kong

The NAB Subordinated Notes may not be offered or sold in Hong Kong, by means of any document, other than (a) to “professional investors” as defined in the *Securities and Futures Ordinance* (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a “prospectus”

Important notices

as defined in the *Companies Ordinance* (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. No advertisement, invitation or document relating to the NAB Subordinated Notes may be issued, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to NAB Subordinated Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the *Securities and Futures Ordinance* and any rules made under that Ordinance. No person may make any offer in respect of the NAB Subordinated Notes to the public in Hong Kong within 6 months of the date of issue of the NAB Subordinated Notes.

Singapore

This Offer Document and any other documents or materials relating to the Offer have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this Offer Document and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of the NAB Subordinated Notes, may not be circulated or distributed, nor may the NAB Subordinated Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, (iii) where the NAB Subordinated Notes are initially acquired pursuant to an offer in reliance of Section 274 or 275 of the SFA, pursuant to, and in accordance with the conditions of, Section 276 of the SFA and any other applicable provision of the SFA, or (iv) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the NAB Subordinated Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- a. a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- b. a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within 6 months after that corporation or that trust has acquired the NAB Subordinated Notes pursuant to an offer made under Section 275 of the SFA except:

- i. to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or (in the case of such corporation) where the transfer arises from an offer referred to in Section 276(3)(i) (B) of the SFA or (in the case of such trust) where the transfer arises from an offer referred to in Section 276(4)(i)(B) of the SFA;
- ii. where no consideration is or will be given for the transfer;
- iii. where the transfer is by operation of law; or
- iv. pursuant to Section 276(7) of the SFA.

Any offer is not made to you with a view to the NAB Subordinated Notes being subsequently offered for sale to any other party. Investors should note the on-sale restrictions in the SFA, including Section 276 of the SFA that may be applicable to investors who acquire the NAB Subordinated Notes. As such, investors are advised to acquaint themselves with the SFA provisions relating to on-sale restrictions or to consult their own professional advisers as to such on-sale restrictions and to comply accordingly.

Code of Banking Practice

NAB voluntarily subscribes to the Code of Banking Practice which provides for certain standards of dealing with respect to persons to whom it supplies a financial product who are retail clients (as defined in Chapter 7 of the Corporations Act). A copy of the Code is available on NAB’s website at www.nab.com.au and information regarding our confidentiality obligations with respect to your personal information, complaint handling procedures or other matters the subject of the Code which are relevant to the NAB Subordinated Notes is available on request.

Collecting your personal information

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

Key dates*

Record Date for Securityholder Offer	10 May 2012
Announcement of the NAB Subordinated Notes Offer	14 May 2012
Bookbuild	5.00pm (AEST) 18 May 2012
Announcement of Margin	18 May 2012
Offer Opens	21 May 2012
Securityholder and General Offers Close	8 June 2012
Broker Firm and Institutional Offers Close	15 June 2012
Issue of the NAB Subordinated Notes	18 June 2012
Commencement of deferred settlement trading	19 June 2012
Despatch of Holding Statements	21 June 2012
Commencement of trading on normal settlement basis	22 June 2012
First Interest Payment Date	18 September 2012
First Optional Redemption Date ¹	18 June 2017
Maturity Date ²	18 June 2022

¹ Subject to APRA's prior written approval, NAB has the ability to redeem the NAB Subordinated Notes early. There can be no certainty that APRA would, if requested, provide its approval in respect of any early redemption. This assumes the Issue Date will be 18 June 2012.

² The Maturity Date will be 18 June 2022. This assumes the Issue Date will be 18 June 2012.

* These dates are indicative only. NAB reserves the right to change the dates without prior notice. You are encouraged to lodge your Application as soon as possible after the Offer opens.

The NAB Subordinated Notes bear interest on their Face Value from (and including) the Issue Date to (but excluding) the Maturity Date or any earlier redemption date. Interest is scheduled to be paid quarterly on the Interest Payment Dates (falling on 18 September, 18 December, 18 March and 18 June of each year), subject to the condition that NAB is Solvent and will be Solvent after making the payment. If any payment (including a payment of interest) is due on a day that is not a Business Day, then the payment will be made on the next Business Day.

How to apply for the NAB Subordinated Notes

1. Read the Offer Document

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

You should have particular regard to the:

- key features of the NAB Subordinated Notes in Section One;
- key risks in Section Four; and
- Terms of the NAB Subordinated Notes in the Appendix.

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

The NAB Subordinated Notes do not constitute deposit liabilities of NAB, are not protected accounts for the purposes of the Banking Act or any other accounts 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.

If you do not understand all or some of the concepts or risks described in this Offer Document, you should also read the ASIC Guide (refer to “ASIC Guide” in the Important notices section of this document).

2. Speak to your professional adviser

If you are unsure whether to apply for the NAB Subordinated Notes, you should speak to your professional adviser about the Offer.

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 2 of this Offer Document and the Application Form for complete details on the Application process.

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

If you are applying under the Securityholder or General Offers, your application must be received by 8 June 2012. If you are applying under the Broker Firm or Institutional Offers, your application must be received by 15 June 2012.

Applications under the Securityholder Offer or General Offer must be made either online at www.nabnotesoffer.com.au or by lodging a completed Application Form with the Registrar. Applications will not be accepted at NAB's registered office or any other NAB office or branch.

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Section One

**Summary of the
NAB Subordinated
Notes**

Section One: Summary of the NAB Subordinated Notes

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

OFFER

Offer Size	\$1 billion, with the ability to raise more or less.
Use of proceeds	The net proceeds of the Offer will be used for general corporate purposes.
Offer Structure	<p>The Offer comprises:</p> <ul style="list-style-type: none"> • the Securityholder Offer; • the General Offer; • the Institutional Offer; and • the Broker Firm Offer. <p>Information about the different types of offer and how to apply is provided in Section Two “Applying for the NAB Subordinated Notes”.</p>
Minimum Application	50 NAB Subordinated Notes (\$5,000) and thereafter in multiples of 10 NAB Subordinated Notes (\$1,000).

GENERAL

Issuer	National Australia Bank Limited ABN 12 004 044 937.
NAB Subordinated Notes	The NAB Subordinated Notes are interest bearing notes and constitute direct, subordinated and unsecured obligations of NAB. Each NAB Subordinated Note is issued on and subject to the provisions of the Deed Poll and the Terms.
Face Value	\$100 per NAB Subordinated Note.
Term and Maturity Date	The term of the NAB Subordinated Notes is 10 years and the Maturity Date is expected to be 18 June 2022 (unless redeemed earlier by NAB – see “Early redemption rights for NAB” on page 12).
Key features	<ul style="list-style-type: none"> • Directly issued by NAB. • Floating interest rate equal to the sum of the Bank Bill Rate plus the Margin. The Margin was determined through the Bookbuild and is 2.75% per annum. • Interest paid quarterly in arrears in cash. • Interest is not deferrable nor are payments discretionary (except that interest and other amounts will not be paid where NAB is not Solvent or cannot make the payment and remain Solvent). • May be traded on ASX prior to the Maturity Date. • Provides an opportunity for investors to diversify their investment portfolio.

Section One: Summary of the NAB Subordinated Notes

Key risks

You should read Section Four “Key Risks of the NAB Subordinated Notes” in full before deciding to apply for the NAB Subordinated Notes.

The key risks outlined in that section include:

- The NAB Subordinated Notes may not be suitable for all investors. You must determine whether an investment in the NAB Subordinated Notes is suitable in light of your own circumstances;
 - The NAB Subordinated Notes are subordinated and unsecured. This means that on a winding up of NAB, there is a risk that you may lose some or all of the money you invested in the NAB Subordinated Notes (see “Ranking” on page 14 for more information);
 - The NAB Subordinated Notes do not constitute deposit liabilities of NAB, are not protected accounts for the purposes of the Banking Act or any other accounts and are not guaranteed or insured by any person;
 - The market price of the NAB Subordinated Notes may fluctuate up or down and there is no guarantee the NAB Subordinated Notes will trade at or above their Face Value;
 - The liquidity of the NAB Subordinated Notes may be low, which means that, at certain times, you may be unable to sell your NAB Subordinated Notes at an acceptable price, if at all;
 - The Interest Rate will fluctuate up and down;
 - You have no right to request that your NAB Subordinated Notes be redeemed early. If a Winding Up Default occurs, NAB’s obligations under the NAB Subordinated Notes may in some circumstances be accelerated if directed by an Ordinary Resolution;
 - Subject to the prior written approval of APRA, NAB has the right to pay back the Face Value of your NAB Subordinated Notes before the Maturity Date because of certain taxation reasons or a Regulatory Event, or on 18 June 2017 or on any Interest Payment Date falling after that date. There can be no certainty that APRA would, if requested, provide its approval in respect of any early redemption;
 - NAB may default on payment of the Face Value, interest or other amounts due on the NAB Subordinated Notes and you have limited rights in these circumstances;
 - NAB will not make any payment in respect of the NAB Subordinated Notes if NAB is not Solvent or cannot make the payment and remain Solvent;
 - NAB may amend the terms of the NAB Subordinated Notes without the consent of Holders. Amendments which affect the regulatory capital treatment of the NAB Subordinated Notes require the prior written approval of APRA;
 - 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 your ability to be repaid on a winding up of NAB;
 - NAB may be subject to action by APRA which may be adverse to Holders; and
 - NAB may be adversely affected by disruptions to financial market conditions, which may affect the value of the NAB Subordinated Notes and may impact NAB’s ability to make payments of interest or repay the Face Value of the NAB Subordinated Notes.
-

Differences between term deposits, National Income Securities and the NAB Subordinated Notes

There are differences between NAB's term deposits, National Income Securities and the NAB Subordinated Notes. You should consider these differences in the light of your investment objectives, financial situation and particular needs (including financial and taxation issues) before deciding to apply for the NAB Subordinated Notes. The key differences are summarised in the table below.

	Term deposit	NAB Subordinated Notes	National Income Securities
Protection under the Australian Government Financial Claims Scheme¹	Yes	No	No
Term	Varies from product to product but is often between 1 month and 5 years	10 years ²	Perpetual ²
Interest rate	Fixed	Floating	Floating
Interest payment dates	Varies from product to product but is often at the end of term or per annum	Quarterly	Quarterly
Transferable	No	Yes – quoted on ASX	Yes – quoted on ASX
Conditions to payment	None, subject to applicable laws and any specific conditions	None, except where NAB is not Solvent at the time the payment is due and will not be Solvent immediately after making the payment ³	Distributions are subject to conditions including the availability of distributable profits and other APRA tests ⁴
Issuer's early redemption option	Yes, but only in certain circumstances	Yes, but only with the prior written approval of APRA	With the prior written approval of APRA and the approval of holders of Ordinary Shares, NAB has the right to exchange the National Income Securities for face value at any time
Investor's ability to withdraw	Yes, subject to conditions	No, except if a Winding Up Default occurs, NAB's obligations may be accelerated if directed by an Ordinary Resolution	No
Ranking	Senior to Subordinated Notes	Senior to National Income Securities	Senior to Ordinary Shares

The NAB Subordinated Notes are subordinated and rank behind certain obligations including all Unsubordinated Debt (such as NAB's savings accounts and term deposits). This means that in a winding up of NAB, holders of Unsubordinated Debt, including liabilities preferred by law, such as deposits, will receive their money back before the holders of the NAB Subordinated Notes. See "Ranking" on page 14 for more information.

¹ For deposits made after 1 February 2012 up to an amount of \$250,000.

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

³ Any amount not paid under this condition accumulates without compounding and remains a debt owing to the Holder until paid.

⁴ If the conditions to payment are not met, the distribution is never payable, however in certain limited circumstances an optional distribution may be paid.

Section One: Summary of the NAB Subordinated Notes

INTEREST

Interest payments

The NAB Subordinated Notes bear interest on their Face Value at the Interest Rate from (and including) the Issue Date to (but excluding) the Maturity Date or any earlier redemption date. Interest accrues daily and is payable quarterly in arrears on each Interest Payment Date. Accrued but unpaid interest is also payable on the Maturity Date or on any earlier redemption date.

The following dates are Interest Payment Dates:

- 18 September;
- 18 December;
- 18 March; and
- 18 June.

If any of these scheduled dates is not a Business Day, then the Interest Payment Date will be the next Business Day.

The first Interest Period will be from the Issue Date until 18 September 2012.

Interest Rate

The Interest Rate is equal to the sum of the Bank Bill Rate plus a fixed Margin. The Margin was determined through the Bookbuild and is 2.75% per annum.

The Bank Bill Rate is set on the first Business Day of each Interest Period (and in the case of the first Interest Period, it is set on the Issue Date).

Bank Bill Rate

The Bank Bill Rate is a benchmark interest rate for the Australian money market. It is based on an average of rates at which major Australian financial institutions lend short-term cash to each other over a 90 day period. It changes to reflect supply and demand in the cash and currency markets.

The graph below illustrates the movement in the Bank Bill Rate over the last 10 years. The rate on 18 May 2012 was 3.6383%.



Calculation and notification of interest

Interest payable on each NAB Subordinated Note for each Interest Period is calculated using the following formula:

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

where “N” is the number of days in the Interest Period.

For example, if the Bank Bill Rate was 3.6383% per annum, the Margin is 2.75% and the Interest Period was 90 days in length, the interest for the relevant Interest Period would be calculated as follows:

$$\frac{6.3883\% \times \$100 \times 90}{365} = \$1.58 \text{ per NAB Subordinated Note}$$

NAB will announce to ASX the applicable Interest Rate and the amount of interest payable for each Interest Period as soon as possible after its determination but in any event no later than the second Business Day after the first day of the Interest Period.

Information about the Interest Rate can also be obtained from the Shareholder Centre at www.nabgroup.com/shareholder following the completion of the Offer Period.

Interest not deferrable but subject to NAB being Solvent

NAB cannot defer interest payments and payments are not discretionary, but interest and other amounts will not be paid where NAB is not Solvent or cannot make the payment and remain Solvent.

REPAYMENT OF FACE VALUE**At maturity**

On the Maturity Date, you will receive:

- the Face Value; plus
- accrued but unpaid interest.

Early redemption rights for NAB

NAB has the following rights to redeem the NAB Subordinated Notes before the Maturity Date:

- all or some of the NAB Subordinated Notes, on 18 June 2017 or on any Interest Payment Date falling after that date;
- all (but not some) of the NAB Subordinated Notes for certain taxation reasons; and
- all (but not some) of the NAB Subordinated Notes if a Regulatory Event occurs.

NAB’s ability to redeem early in the above circumstances is subject to the prior written approval of APRA. There can be no certainty that APRA would, if requested, provide its approval in respect of any early redemption. NAB will not be permitted to redeem any NAB Subordinated Notes early unless:

- the NAB Subordinated Notes are replaced concurrently or beforehand with a capital instrument of the same or better quality; or
- APRA is satisfied that NAB’s capital position is well above its minimum capital requirements after NAB elects to redeem the NAB Subordinated Notes.

In respect of each NAB Subordinated Note that is redeemed before the Maturity Date, you will receive:

- the Face Value; plus
- interest that has accrued, but is unpaid, up to (but excluding) the date of redemption.

Redemption is subject to NAB being Solvent

You will not be paid the Face Value or accrued but unpaid interest where NAB is not Solvent or cannot make the payment and remain Solvent.

No early redemption rights for Holders of the NAB Subordinated Notes

You do not have a right to request that your NAB Subordinated Notes be redeemed. However, if a Winding Up Default occurs, NAB’s obligations under the NAB Subordinated Notes may be accelerated if directed by an Ordinary Resolution. Outside these limited circumstances, to realise your investment, you can sell your NAB Subordinated Notes on ASX at the prevailing market price (which may be less than the Face Value).

Section One: Summary of the NAB Subordinated Notes

PAYMENTS

Payments

Interest will be paid to persons who are recorded as holders of the NAB Subordinated Notes on the Register at 7.00pm on the Record Date immediately preceding the relevant payment. The Record Date is currently:

- for payment of interest, 8 days prior to the date of the payment or as otherwise required by the ASX Listing Rules (or if not prescribed by the ASX Listing Rules, a date determined by NAB and notified to ASX); and
- for payment of Face Value, a date determined by NAB and notified to ASX (or such other date as may be prescribed by ASX).

Payments of Face Value and interest will only be paid by electronic transfer to a bank account in Australia maintained with a financial institution nominated by the Holder.

NAB may withhold tax on payments of interest where the recipient has not quoted their TFN, or in certain circumstances their ABN, or provided proof of some other exception (as appropriate).

Tax consequences

Information about the Australian tax consequences of receiving payments of interest (including potential withholdings from such payments on account of tax) and payments of Face Value is in Section Five “Other Information”.

EVENTS OF DEFAULT

Events of default

Event of default	Consequences
<ul style="list-style-type: none"> • NAB does not pay any Face Value due in respect of the NAB Subordinated Notes within 7 days of its due date. 	<p>If a payment default occurs, you may bring proceedings:</p> <ul style="list-style-type: none"> • to recover any amount then due and payable but unpaid on your NAB Subordinated Notes (subject to NAB being able to make the payment and remain Solvent); • to obtain an order for specific performance of any other obligation in respect of your NAB Subordinated Notes; or • for the winding up of NAB.
<ul style="list-style-type: none"> • NAB does not pay any interest or other amount due in respect of the NAB Subordinated Notes within 30 days of its due date. <p>To the extent that NAB is not required to make a payment due to the operation of the solvency condition described on page 14, the amount is not due and payable and a payment default cannot occur.</p>	
<ul style="list-style-type: none"> • a Winding Up Default occurs. 	<p>If a Winding Up Default occurs, Holders may resolve by Ordinary Resolution to declare that the Face Value and accrued but unpaid interest is due and payable.</p> <p>In this circumstance, the claim of Holders will be subordinated as described below.</p>
<p>“Winding Up Default” means a Winding Up occurs other than for the purposes of a consolidation, amalgamation, merger or reconstruction which has been approved by an Extraordinary 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 NAB Subordinated Notes.</p>	
<p>“Winding Up” means:</p> <ul style="list-style-type: none"> • a court order is made for the winding up of NAB which is not successfully appealed or permanently stayed within 60 days of the entry of such court order; or • an effective resolution is passed by shareholders or members for the winding up of NAB. 	

RANKING

Ranking generally

The NAB Subordinated Notes are direct and unsecured obligations of NAB, which are subordinated in right of repayment to all depositors and other Unsubordinated Creditors of NAB. The NAB Subordinated Notes rank:

- equally among themselves;
- equally with all claims against NAB that rank or are expressed to rank equally with the Holders' claims for amounts owing by NAB in connection with the NAB Subordinated Notes;
- behind all claims of Unsubordinated Creditors; and
- ahead of all claims against NAB that rank or are expressed to rank behind the Holders' claims for amounts owing by NAB in connection with the NAB Subordinated Notes.

"Unsubordinated Creditors" are creditors (including depositors) of NAB:

- whose claims would be entitled to be admitted in the winding up of NAB; and
- who do not rank and are not by their terms expressed to rank equally with, or behind, the claims of the Holders.

Solvency condition

At any time before a winding up of NAB, payments of interest, Face Value and other amounts will not be paid if NAB is not Solvent or cannot make the payment and remain Solvent. If this occurs, the Holders will not be able to take any action against NAB unless a Winding Up Default occurs.

Any amount not paid due to the solvency condition accumulates without compounding and remains a debt owing to the Holder by NAB until it is paid and will be payable on the first date on which that condition is satisfied (whether or not such date is otherwise a payment date).

"Solvent" in this context means that NAB is able to pay its debts as they fall due and that NAB's Assets exceed its Liabilities at the relevant time in each case determined on a non-consolidated basis.

Ranking on winding up

In a winding up of NAB, your claim for an amount owing by NAB in connection with a NAB Subordinated Note is subordinated to the claims of Unsubordinated Creditors of NAB, in that:

- all claims of Unsubordinated Creditors must be paid in full before your claim is paid; and
- until the Unsubordinated Creditors have been paid in full, you must not claim in the winding up in competition with the Unsubordinated Creditors so as to diminish any distribution, dividend or payment which, but for that claim, the Unsubordinated Creditors would have been entitled to receive.

Section One: Summary of the NAB Subordinated Notes

Illustration of ranking on winding up

Higher ranking	Examples	Examples of existing NAB obligations and securities ¹
Senior obligations	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, and liabilities to secured creditors
	Unsubordinated unsecured debt	Bonds and notes, trade and general creditors
Equal ranking obligations	Term subordinated unsecured debt	NAB Subordinated Notes and other dated subordinated unsecured debt obligations
Junior obligations	Perpetual subordinated unsecured debt	NAB Undated Subordinated Floating Rate Notes issued in 1986
	Preference shares and other equally ranked instruments	The preference shares comprised in the National Income Securities, the 2008 Stapled Securities and the 2009 Stapled Securities. The preference shares which may be issued under the TPS, TPS II, AUD NCIs and EUR NCIs (if issued). The 2008 Convertible Notes and 2009 Capital Notes.
	Ordinary shares	Ordinary Shares
Lower ranking		

¹ This is a simplified capital structure of NAB and does not include every type of security or other obligation issued by NAB.

OTHER**Capital treatment**

Under APRA's current capital adequacy standards for banks, regulatory capital consists of Tier 1 Capital and Tier 2 Capital.

APRA has confirmed that the NAB Subordinated Notes are eligible for inclusion as Tier 2 Capital. The NAB Subordinated Notes will be eligible for transitional treatment as Tier 2 Capital when APRA's prudential standards are updated as a result of its implementation of the Basel III reforms.

However, if a Regulatory Event occurs, with the prior written approval of APRA, NAB may decide to redeem the NAB Subordinated Notes before their Maturity Date.

Broadly, a Regulatory Event will occur if:

- NAB ceases to be entitled to treat all of the NAB Subordinated Notes as Tier 2 Capital (including, without limitation, as a result of the Basel III Consultation Paper insofar as it applies to NAB or any of its controlled entities) except where the reason NAB is not entitled to treat all NAB Subordinated Notes as Tier 2 Capital is because NAB has exceeded a limit on the recognition of Tier 2 Capital which was in effect on the Issue Date or because of a limit set out in Table 1 of Draft APS 160; or
- the transitional arrangements for recognising regulatory capital as a result of the Basel III Consultation Paper are or will be applied to the NAB Subordinated Notes in a manner which is in any way more adverse than that set out in Draft APS 160.

Further issues of securities

NAB has the right to issue additional NAB Subordinated Notes on the same or different terms as the NAB Subordinated Notes offered under this Offer Document. NAB may also issue similar notes on different terms.

NAB also has the right to issue further debt, deposits or other obligations or securities of any kind. These debt, deposits or other obligations or securities may have the same or different terms to the NAB Subordinated Notes. For example, they may rank for payment of the Face Value, interest or other amounts (including on an insolvency of NAB) after, equally with, or ahead of the NAB Subordinated Notes. The NAB Subordinated Notes 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.

Holding NAB Subordinated Notes does not confer any right to participate in further issues of securities by NAB.

Voting rights

In some circumstances there may be meetings of Holders. Under the Deed Poll, NAB or the Registrar may convene meetings of Holders and must do so if requested by Holders who represent in aggregate at least 10% of the Outstanding NAB Subordinated Notes. For example, meetings may be held for Holders to consider and vote on certain amendments to the Terms (see "Amendment of Terms" on page 17).

At least 21 days' notice of meeting must be given to Holders.

Holding a NAB Subordinated Note does not give the Holder a right to vote at meetings of shareholders of NAB.

ASX quotation

NAB has applied for quotation of the NAB Subordinated Notes on ASX. It is expected that the NAB Subordinated Notes will be quoted under code "NABHB".

Section One: Summary of the NAB Subordinated Notes

Amendment of Terms

NAB may amend the Terms without the consent of Holders if, in the reasonable opinion of NAB, the variation:

- is necessary or advisable to comply with any law;
- is necessary to correct a manifest error, or is otherwise of a formal, technical or administrative nature;
- is made to cure any ambiguity or correct or supplement any defective or inconsistent provision;
- is necessary or advisable to maintain the quotation of the NAB Subordinated Notes on ASX; or
- in any other case, is not materially prejudicial to the interests of the Holders as a whole.

Other amendments may only be made with the approval of Holders by Extraordinary Resolution. All amendments made in accordance with the Terms are binding on all Holders. This is even if the amendment is made with the approval of Holders by Extraordinary Resolution and you did not vote or voted against the amendment.

Amendments which affect the regulatory capital treatment of the NAB Subordinated Notes require the prior written approval of APRA.

Deed Poll

There is no trustee for the NAB Subordinated Notes. Instead, there is a Deed Poll made by NAB in favour of every person who is from time to time a Holder. The Deed Poll contains:

- NAB's unconditional and irrevocable undertaking to repay the Face Value and to pay interest and other amounts owing under the NAB Subordinated Notes;
- an obligation to appoint the Registrar;
- the Terms; and
- provisions for meetings of Holders.

Holders will be bound by the terms of the Deed Poll when the NAB Subordinated Notes are issued or transferred to them. The Registrar holds the original executed Deed Poll in Victoria on behalf of Holders. Copies of the Deed Poll can be obtained from www.nabnotesoffer.com.au during the Offer Period or from the Shareholder Centre at www.nabgroup.com/ shareholder following the completion of the Offer Period.

Each Holder can enforce NAB's obligations under the Deed Poll, including the Terms and the provisions for meetings, independently of the Registrar and each other. However, certain actions require an Extraordinary Resolution or an Ordinary Resolution.

Notices to Holders

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

- 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); or
- except for a notice of meeting of Holders:
 - so long as the NAB Subordinated Notes are quoted on ASX, given by publication of an announcement on ASX; or
 - given by an advertisement published in the *Australian Financial Review* or *The Australian*.

If you have any questions about the NAB Subordinated Notes 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, AEST) during the Offer Period, and for a week following.

Section Two

Applying for the **NAB Subordinated Notes**

Section Two: Applying for the NAB Subordinated Notes

Applying for the NAB Subordinated Notes

To apply for the NAB Subordinated Notes, you must complete the Application Form in accordance with the instructions below.

You may apply for the NAB Subordinated Notes under:

- the Securityholder Offer;
- the General Offer;
- the Institutional Offer; or
- the Broker Firm Offer.

The instructions for lodging your Application and accompanying cheque and/or money order vary depending on

whether you apply under the Securityholder Offer, the General Offer or the Broker Firm Offer.

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

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

Who can apply for the NAB Subordinated Notes?

TYPE OF OFFER	WHO IS ELIGIBLE TO PARTICIPATE?
Securityholder Offer	<p>You are eligible to participate in the Securityholder Offer if you are an Eligible Securityholder of NAB.</p> <p>You are an Eligible Securityholder if you were a registered holder of Ordinary Shares or National Income Securities as at 7.00pm on Thursday, 10 May 2012, with a registered address in Australia.</p> <p>If there is excess demand for the NAB Subordinated Notes, allocation priority will be given to Eligible Securityholders over Applications under the General Offer. If your Application is accepted, this does not mean that your Application under the Securityholder Offer will be accepted in full as NAB reserves the right to scale back your Application.</p> <p>NAB has mailed a pre-registration card to each Eligible Securityholder to inform them of the Offer.</p>
General Offer	<p>You are eligible to apply under the General Offer if you are a member of the general public who is an Australian resident.</p>
Institutional Offer	<p>If you are an Institutional Investor, you must apply to participate by contacting the Sole Arranger, Lead Manager and Bookrunner.</p>
Broker Firm Offer	<p>The Broker Firm Offer is available to clients of a Syndicate Broker, who are Australian resident retail investors or who do not fall within the restrictions outlined in the “Restrictions on foreign jurisdictions” section on pages 2 and 3 of the Offer Document, including Eligible Securityholders.</p>

Applying under the Securityholder Offer or General Offer

Eligible Securityholders may apply by either:

- applying online by following the instructions at www.nabnotesoffer.com.au and completing a BPAY payment; or
- completing an Application Form, providing your HIN or SRN, and lodging your Application Form and accompanying cheque or money order with the Registry.

General Applicants may apply by either:

- applying online by following the instructions at www.nabnotesoffer.com.au and completing a BPAY payment; or
- completing an Application Form and lodging your Application Form and accompanying cheque or money order with the Registry.

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

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.

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 Offer" and be crossed "not negotiable".

Completed Application Forms and accompanying cheques and/or money orders can be lodged with the Registry by a. mailing them using the reply-paid envelope to:

NAB Subordinated Notes Offer
c/ Computershare Investor Services
Pty Limited
GPO Box 52
Melbourne VIC 3001
Australia

or,

b. lodging them by hand at the following address:

Computershare Investor Services
Yarra Falls
452 Johnston Street
Abbotsford VIC 3067

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

Application Forms and accompanying cheques / money orders must be received at the above addresses by no later than 5.00pm (AEST) on the Closing Date for the Securityholder Offer and General Offer, which is expected to be 8 June 2012.

Applying under the Broker Firm Offer and Institutional Offer

If you are applying under the Broker Firm Offer, you should contact the Syndicate Broker who has offered you an allocation in the Broker Firm Offer for information about how and when to lodge your Application and accompanying cheque(s) and/or money order(s). Generally, your Application will be lodged with the Syndicate Broker.

If you are an Institutional Investor, you must apply to participate in the Broker Firm Offer by contacting the Sole Arranger, Lead Manager and Bookrunner. NAB reserves the right not to accept Applications from Institutional Investors where they have not been received through the Sole Arranger, Lead Manager and Bookrunner.

The Broker Firm Offer is currently scheduled to close at 5.00pm (AEST) on the Closing Date for the Broker Firm Offer, which is expected to be 15 June 2012.

Application Monies and Refunds

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

Where the number of the NAB Subordinated Notes allocated is less than the number applied for, or where no allocation is made, surplus Application Monies will be refunded 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.

ASX quotation and Holding Statements

NAB has applied for the NAB Subordinated Notes to be quoted on ASX. Quotation of NAB Subordinated Notes is not guaranteed.

Deferred settlement trading of the NAB Subordinated Notes is expected to commence on 19 June 2012 under ASX code NABHB. Trading of NAB Subordinated Notes on a normal settlement basis is expected to commence on 22 June 2012.

NAB has applied for the NAB Subordinated Notes to participate in CHESS, and if accepted, no certificates will be issued. NAB expects that Holding Statements for issuer sponsored holders and confirmations for CHESS holders will be despatched to successful Applicants by 21 June 2012.

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

Provision of bank account details for interest payments

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

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

If you have not notified an appropriate account by close of business on the Record Date, or the transfer of any amount to your specified account does not complete for any reason, then NAB will send a notice to the address most recently specified by you advising of the uncompleted payment. In that case, the uncompleted payment will be held 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 monies shall be paid to, and be the property of, NAB; or
- NAB is entitled or obliged to deal with the amount in accordance with the law relating to unclaimed monies.

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

Section Three

**Overview
of NAB**

Section Three:

Overview of NAB

Overview

The Group is an international financial services group that provides a comprehensive and integrated range of financial products and services.

NAB employs over 43,000 people, operates more than 1,750 branches and service centres, and has more than 470,000 shareholders. NAB operates in Australia, New Zealand, Asia, the United Kingdom and the United States.

The Group's goal is to deliver sustainable, satisfactory returns to its shareholders. NAB's four strategic priorities are:

- focusing on the strong Australian franchise and managing international businesses for value;
- maintaining balance sheet strength;
- reducing complexity and cost; and
- enhancing the Group's reputation.

National Australia Bank Limited is a public limited company, incorporated on June 23, 1893 in Australia. NAB's registered address is Level 4 (UB 4440), 800 Bourke Street, Docklands VIC 3008, Australia.

Organisational structure and operating model

NAB is the holding company and main operating company of the Group. The Group operates through the following business lines:

Business Banking

Business Banking provides a range of commercial banking services to business customers ranging from small businesses through to Australia's largest corporations. Business Banking provides specialist expertise in key sectors, including agribusiness, property, healthcare, natural resources, education and government.

Personal Banking

Personal Banking provides financial products and services to 4.9 million retail and small business customers. These products and services are delivered through a range of distribution channels and brands including NAB, Homeside and UBank as well as the broker and 'mortgage manager' brands operated by the Advantedge business.

Wholesale Banking

Wholesale Banking provides a range of funding, risk management and investment solutions to NAB's business, personal and wealth clients. Wholesale Banking has approximately 2,800 employees, working across operations in Australia, New Zealand, Asia, the United Kingdom and the United States.

NAB Wealth

NAB Wealth provides superannuation, investment, insurance and private wealth solutions to individual investors, corporate and institutional clients. NAB Wealth operates one of the largest networks of financial advisers in Australia.

UK Banking

UK Banking operates under the Clydesdale Bank and Yorkshire Bank brands. It offers a range of banking services for personal and business customers through retail branches, direct banking and brokers. On 30 April 2012, NAB announced that it had undertaken a strategic review of its UK Banking operations to identify the changes needed to best meet the Group's overall objective of delivering sustainable and satisfactory returns for shareholders. For more information, see the ASX Announcement titled "National Australia Bank announces outcome of UK Banking strategic review" dated 30 April 2012.

NZ Banking

NZ Banking comprises the retail, business, agribusiness, corporate and insurance franchises in New Zealand, operating under the Bank of New Zealand (BNZ) brand.

US Banking & Asia

In the United States, the Group operates under the Great Western Bank (GWB) brand. With over 180 branches in the Midwest United States, NAB operates a diversified business that includes retail, business, agribusiness and wealth management products.

The Group's Asian operations are comprised of wholesale banking, business and institutional banking and personal banking. The Group has offices in Hong Kong, Singapore, Japan, China and India.

Specialised Group Assets

The Specialised Group Assets business was formed in 2009 to manage the risk associated with a portfolio of non-franchise assets. These interest earning assets are primarily domiciled in the United Kingdom and the United States and the average volume of these assets was \$8.5 billion at 31 March 2012.

Financial information

NAB's statutory profit after tax for the year ended 30 September 2011 was \$5.2 billion (compared to \$4.2 billion for the year ended 30 September 2010). NAB's cash earnings for the year ended 30 September 2011 was \$5.5 billion (compared to \$4.6 billion for the year ended 30 September 2010).

NAB's statutory profit after tax for the half year ended 31 March 2012 was \$2.1 billion (compared to \$2.4 billion for the half year ended 31 March 2011). NAB's cash earnings for the half year ended 31 March 2012 was \$2.8 billion (compared to \$2.7 billion for the half year ended 31 March 2011).

Section Three: Overview of NAB

“Cash earnings” is a key financial performance measure used by NAB, the investment community and NAB’s Australian peers with a similar business portfolio. NAB also uses cash earnings for its internal management reporting as it better reflects what NAB considers to be the underlying performance of the Group. It is not a statutory financial measure and is not presented in accordance with Australian accounting standards nor audited or reviewed in accordance with Australian auditing standards. Cash earnings is calculated by excluding some items which are included within the statutory net profit attributable to owners of the company. A definition of cash earnings is set out on page 150 of the 2012 Half Year Results. A discussion of non-cash earnings items and a full reconciliation of the cash earnings to statutory net profit attributable to owners of NAB for the March 2012 half year is included on pages 22 and 141 of the 2012 Half Year Results. NAB’s final dividend for the half year ended 30 September 2011 was 88 cents per Ordinary Share (fully franked). NAB’s interim dividend for the half year ended 31 March 2012 was 90 cents per Ordinary Share (fully franked).

Capital Ratios

As NAB is an ADI regulated by APRA and is required to hold capital in line with APRA’s prudential guidelines, NAB calculates various capital ratios. The Tier 1 Capital Ratio and Total Capital Ratio for the Group as at 31 March 2012 were 10.17% and 11.52% respectively. These percentages

may increase or decrease in the future. Both ratios were in excess of prudential capital requirements. Further information on the Group’s capital ratios is provided in the Annual Financial Report 2011 and the Half Year Financial Report 2012.

Impact of the Offer

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

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 2012 Half Year Results;
- the Annual Financial Report 2011; and
- all documents lodged with the ASX since the date of the Annual Financial Report 2011,

can be obtained from the Shareholder Centre at www.nabgroup.com/shareholder and from www.asx.com.au.

Section Four

Key risks of the **NAB Subordinated Notes**

Section Four:

Key risks of the NAB Subordinated Notes

This section describes key potential risks that you should consider in deciding whether to invest in the NAB Subordinated Notes, including risks that may affect NAB's business and financial performance. These risks could affect the value of the NAB Subordinated Notes or impact NAB's ability to pay interest or repay the Face Value of the NAB Subordinated Notes. This list of risks is not exhaustive. The business, results, operations or financial condition of NAB may also be affected by additional risks and uncertainties that NAB is unaware of or that it does not currently consider to be material based on currently available information.

Investors should read this section and the other information in this Offer Document carefully before making any decision to invest in the NAB Subordinated Notes.

Risks specifically associated with the NAB Subordinated Notes

The NAB Subordinated Notes may not be suitable for all investors

You must determine whether an investment in the NAB Subordinated Notes is suitable in light of your own circumstances. You should ensure that you:

- have sufficient knowledge and experience to be able to meaningfully evaluate (either alone or with the assistance of a financial adviser or other professional adviser) an investment in the NAB Subordinated Notes, possible scenarios for economic, interest rate and other factors that may affect your investment and your ability to bear applicable risks; and
- have sufficient financial resources and liquidity to bear all risks of an investment in the NAB Subordinated Notes.

The NAB Subordinated Notes are subordinated and unsecured

The NAB Subordinated Notes are subordinated and unsecured. Accordingly, on a winding up of NAB, there is a risk that

you may lose some or all of the money you invested in the NAB Subordinated Notes. This is because if there are insufficient assets to satisfy creditors (including depositors and unsubordinated creditors) of NAB whose claims rank ahead of the NAB Subordinated Notes you will not be repaid any Face Value and you will not receive any interest payments (or any other amounts) due and unpaid at that time.

If there are sufficient assets to satisfy creditors (including depositors and unsubordinated creditors) of NAB whose claims rank ahead of the NAB Subordinated Notes, there is still a risk that you may not be repaid some or all of your Face Value as there may be insufficient assets to satisfy NAB's obligation to repay the Face Value and other equal ranking obligations.

Although, as a subordinated security, the NAB Subordinated Notes may pay a higher rate of interest than comparable securities or other investments which are not subordinated, there is a greater risk that an investor in subordinated securities will lose all or some of its investment should NAB become insolvent.

Investments in the NAB Subordinated Notes are not protected accounts under the Banking Act or any other accounts or deposit liabilities of NAB

The NAB Subordinated Notes do not constitute deposit liabilities of NAB, are not protected accounts for the purposes of the Banking Act or any other accounts 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.

The market price of the NAB Subordinated Notes may fluctuate

NAB has applied for quotation of the NAB Subordinated Notes on ASX. The market price of the NAB Subordinated Notes on ASX may fluctuate due to various factors, including:

- changes in Australian and worldwide economic conditions, interest rates, credit margins, inflation rates and foreign exchange rates;
- the performance or financial position of NAB;

- movements in the market price of equity (such as NAB's Ordinary Shares) and other debt issued by NAB or by other issuers;
- changes in investor perceptions and sentiment in relation to NAB or the financial services industry; or
- other major Australian and international events such as hostilities and tensions, and acts of terrorism.

There is a risk that one or more of these factors may cause the NAB Subordinated Notes to trade at a market price below the Face Value and that the market price of the NAB Subordinated Notes may be more sensitive than that of NAB's Ordinary Shares (or of other comparable securities issued by NAB or others) to changes in interest rates, credit margins and other market prices.

NAB does not guarantee the market price of the NAB Subordinated Notes.

This means that you may lose some of the money you invested if you wish to sell your NAB Subordinated Notes at a time when the market price of the NAB Subordinated Notes is lower than the Face Value.

The liquidity of the NAB Subordinated Notes may be low

The market for the NAB Subordinated Notes may not be liquid and may be less liquid than that of NAB's Ordinary Shares and of other comparable securities issued by NAB or other issuers.

If liquidity is low, there is a risk that, if you wish to sell your NAB Subordinated Notes prior to the Maturity Date, you may not be able to do so at an acceptable price, or at all.

The Interest Rate will fluctuate

The Interest Rate is a floating rate, equal to the sum of the Bank Bill Rate plus the fixed Margin. The Bank Bill Rate will fluctuate and therefore the Interest Rate for one period can be different to the Interest Rate for another period. Over the term of the NAB Subordinated Notes, the Interest Rate may be lower or higher than the initial Interest Rate on the Issue Date.

If the Interest Rate decreases, there is a risk that the return on the NAB Subordinated Notes may become less attractive compared to returns on other investments (including other securities and products of NAB and of other issuers).

Holders do not have a right to request that their NAB Subordinated Notes be redeemed early

You cannot require NAB to redeem any of your NAB Subordinated Notes before their Maturity Date. However, if a Winding Up Default occurs, NAB's obligations under the NAB Subordinated Notes may be accelerated if directed by an Ordinary Resolution. Outside these limited circumstances, to realise your investment, you would have to sell your NAB Subordinated Notes on ASX at the prevailing market price.

NAB may redeem the NAB Subordinated Notes early

Subject to the prior written approval of APRA, NAB has the right to redeem the NAB Subordinated Notes before the Maturity Date because of certain taxation reasons, the occurrence of a Regulatory Event or on 18 June 2017, or on any Interest Payment Date falling after that date.

There can be no certainty that NAB will choose to redeem the NAB Subordinated Notes, nor that APRA would, if requested, provide its approval in respect of any early redemption.

NAB will not be permitted to redeem any NAB Subordinated Notes early unless:

- the NAB Subordinated Notes are replaced concurrently or beforehand with a capital instrument of the same or better quality; or
- APRA is satisfied that NAB's capital position is well above its minimum capital requirements after NAB elects to redeem the NAB Subordinated Notes.

Depending on market conditions at the time, you may not be able to reinvest the amount you receive on redemption at a similar rate of return to the return you expected on your NAB Subordinated Notes.

NAB has a right to redeem early for a Regulatory Event

APRA has provided confirmation that the NAB Subordinated Notes will, once issued, constitute Tier 2 Capital under the prudential standards current at the date of this Offer Document. The NAB Subordinated Notes will be eligible for transitional treatment as Tier 2 Capital when those prudential standards are updated as a result of APRA's implementation of the Basel III reforms.

However, if a Regulatory Event occurs, with the prior written approval of APRA, NAB may decide to redeem the NAB Subordinated Notes before their Maturity Date.

Broadly, a Regulatory Event will occur if:

- NAB ceases to be entitled to treat all of the NAB Subordinated Notes as Tier 2 Capital (including, without limitation as a result of the Basel III Consultation Paper insofar as it applies to NAB or any of its controlled entities) except where the reason NAB is not entitled to treat all NAB Subordinated Notes as Tier 2 Capital is because NAB has exceeded a limit on the recognition of Tier 2 Capital which was in effect on the Issue Date or because of a limit set out in Table 1 of Draft APS 160; or
- the transitional arrangements for recognising regulatory capital as a result of the Basel III Consultation Paper are applied to the NAB Subordinated Notes in a manner which is in any way more adverse than that set out in Draft APS 160.

NAB may default on payment of Face Value, interest or other amount

Depending upon 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.

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 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.

NAB will not make any payment if not Solvent

NAB will not make any payment in respect of the NAB Subordinated Notes if NAB is not Solvent at the time that the payment is due or if making the payment would result in NAB not being Solvent immediately after making the payment.

Failure to make payment in these circumstances will not constitute an Event of Default and you will not be able to take any action against NAB unless an Event of Default (such as a Winding Up Default) subsequently occurs.

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“Solvent” in this context means that NAB is able to pay its debts as they fall due and that NAB’s Assets exceed its Liabilities at the relevant time.

Terms of the NAB Subordinated Notes may be amended

The terms of the NAB Subordinated Notes contain provisions for calling meetings of Holders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Holders including Holders who did not attend and vote at the relevant meeting and Holders who voted in a manner contrary to the majority.

The terms of the NAB Subordinated Notes also provide that in certain circumstances NAB may amend the terms of the NAB Subordinated Notes without the consent of the Holders.

NAB may issue further securities

NAB has the right to issue further senior debt, deposits or other obligations or securities that:

- have the same or different dividend, interest or distribution rates as the NAB Subordinated Notes;
- have the same or different maturities as the NAB Subordinated Notes;
- have the same or different terms and conditions as the NAB Subordinated Notes; and
- rank for payment of the Face Value, interest or other amounts (including on an insolvency of NAB) after, equally with, or ahead of the NAB Subordinated Notes and whether or not secured.

Such further issuance may affect your ability to be repaid on a winding up of NAB.

NAB also has the right to issue further NAB Subordinated Notes on the same terms as the NAB Subordinated Notes offered under this Offer Document.

Holding the NAB Subordinated Notes does not confer any right to participate in further issues of senior debt, deposits or other obligations or securities by NAB, whether equity, debt or some other security. In addition, other entities in the Group may issue senior debt, deposits or other obligations or securities with the same or different dividend, interest or distribution rates, maturities, or terms and conditions to NAB Subordinated Notes.

No prediction can be made as to the effect, if any, which any such future issues may have on the market price or liquidity of the NAB Subordinated Notes or NAB’s financial position or performance.

Prudential regulation

NAB is a prudentially regulated entity subject to the requirements of, among other things, the Banking Act and the prudential standards set by APRA. The Banking Act includes a number of broad powers and restrictions that may be adverse to Holders, including power to appoint a statutory manager to NAB or direct NAB to do or not to do certain things, such as make payments or conduct NAB’s business in a particular way. The Banking Act also limits the rights of persons dealing with ADIs such as NAB in certain circumstances, such as where a statutory manager has been appointed or where APRA has given a direction to NAB under the Banking Act.

Exposure to NAB’s financial performance and position

If NAB’s financial performance or position declines, or if market participants anticipate that it may decline, an investment in the NAB Subordinated Notes could decline in value. Accordingly, when you evaluate whether to invest in the NAB Subordinated Notes you should carefully evaluate the investment risks associated with an investment in NAB.

Risks associated with NAB’s businesses that may affect the NAB Subordinated Notes

Set out below are the principal risks and uncertainties associated with NAB and the Group. These risks and uncertainties are not listed in order of significance, and in the event that one or more of these risks occur then the adverse impacts can often be experienced across multiple risk areas due to their interconnectivity. These risks must be read in conjunction with NAB’s Annual Financial Report 2011 and Half Year Financial Report 2012.

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

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.

Macroeconomic risks and financial market conditions

The Group provides a range of banking and financial services and products to individuals, corporate and financial institutions and governments across a range of jurisdictions including but not limited to Australia, New Zealand, the United Kingdom, Europe, the United States and Asia. The business activities of the Group are dependent on the level of banking, finance, financial services and wealth management activities required by its customers globally. In particular, levels of borrowing are heavily dependent on customer confidence, employment trends, the state of the economy, market interest rates and global economic trends (given the degree of global interconnectivity, interdependency and potential for contagion in the financial system).

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

The Australian and New Zealand economies are heavily reliant on the economic climate in China and therefore any weakness, significant slowdown in

growth or downturn in China's economy could significantly impact the Group's Australian and New Zealand businesses (both directly and indirectly).

The Group operates in the United Kingdom where conditions are weak.

On 30 April 2012, NAB announced that it had undertaken a strategic review of its UK Banking operations to identify the changes needed to best meet the Group's overall objective of delivering sustainable and satisfactory returns for shareholders. For more information, see the ASX Announcement titled "National Australia Bank announces outcome of UK Banking strategic review" dated 30 April 2012.

Should conditions in the United Kingdom continue to be weak, or deteriorate, this could further impact the Group's activities and financial outcomes in the short to medium term.

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

- increased cost of funding and/or lack of availability of funding;
- deterioration in the value and liquidity of assets (including collateral);
- inability to price certain assets;
- increased likelihood of counterparty default and credit losses (including on the purchase and sale of protection as part of hedging strategies);
 - higher provisions for bad and doubtful debts;
- mark to market losses in equity and trading positions;
- increased cost of insurance and/or lack of available insurance; and
- lower growth, business revenues and earnings (for example our NAB Wealth business earnings are highly dependent on asset values, particularly the value of listed equities, and therefore a fall in the value of its assets under management may reduce its earnings contribution to the Group).

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

Global financial crisis and Eurozone debt crisis

Concerns about credit risk (including that of sovereigns) and the Eurozone crisis have recently intensified. The large sovereign debts and/or fiscal deficits of a number of European countries and the United States, the United Kingdom, Japan and other countries have raised concerns regarding the financial condition of financial institutions, insurers and other corporates (i) located in these countries; (ii) that have direct or indirect exposure to these countries; and/or (iii) whose banks, counterparties, custodians, customers, service providers, sources of funding and/or suppliers have direct or indirect exposure to these countries. The default, or a significant decline in the credit rating, of one or more sovereigns or financial institutions, insurers or other corporates could cause severe stress in the financial system generally and could adversely affect the markets and market participants, in ways which it is difficult to predict or to effectively manage.

It is possible that one or more Eurozone countries may abandon the euro and return to national currencies or move to a series of new currency blocs. It is also possible that the euro currency could cease to exist. In addition, it is possible that one or more member countries may decide to leave the broader European Union.

The Group has direct and indirect exposure to sovereigns, financial institutions, government entities, counterparties, custodians, customers and service providers within the European Union. These exposures may, in the future, be affected by restructuring of their terms, principal, interest and maturity, either via the voluntary agreement of creditors or involuntarily, irrespective of whether or not the event is deemed to be a default, however defined.

The financial performance and position of the Group may be affected by these factors.

Financial services policy and regulatory change risk

The Group is regulated in Australia and in the other countries in which it has operations, trades, raises funds, or has some other connection including New Zealand, the United Kingdom, the United States and certain Asian and European jurisdictions. Regulations vary from country to country, and to differing

degrees are designed to protect the interests of depositors, policy holders, security holders, and the banking and financial services system as a whole.

The Group's financial performance and position could be affected by changes in the legal, regulatory, monetary, fiscal or other policies required by various regulatory authorities of Australian and foreign governments, and international agencies. A number of changes are currently being influenced by public opinion (including banking sentiment) and changing stakeholder expectations of transparency, social responsibility and environmental impacts. The precise nature and impact of future changes in such policies are not predictable. Changes in regulations or regulatory policy could adversely affect one or more of the Group's businesses and could result in the Group incurring substantial costs to comply.

Regulation to promote financial stability and competition

APRA and the Reserve Bank of Australia ("RBA") are working together to implement the revised capital and liquidity principles ("Basel III") of the Basel Committee on Banking Supervision. The proposed regulatory changes require an increase in the quality and amount of capital and liquidity the Group is required to hold. Regulators of the Group's subsidiaries, including the Reserve Bank of New Zealand and the United Kingdom's Financial Services Authority are also undertaking Basel III reforms in their respective jurisdictions. Implementation of Basel III capital reforms in different ways across the different jurisdictions in which the Group operates could increase the regulatory compliance costs to the Group.

Within Australia, the Federal Government has introduced a revised deposit insurance scheme, which protects deposits held with ADIs up to \$250,000 per customer. Whilst generally seen as a positive outcome by the banking industry, it could adversely affect the customer demand for deposits held with the Group that exceed the guarantee limit. Additionally, the Federal Government is undertaking reforms to the regulations governing the provision of financial advice, with the legislation implementing the majority of reforms to commence from 1 July 2012. Despite being expected to strengthen the Australian

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financial planning profession, including the Group's banking and wealth management businesses, the reforms could adversely impact the revenues and profitability of these businesses.

The United States Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "**Dodd-Frank Act**") imposes additional supervisory requirements and prudential standards to "systemically important financial institutions", currently defined to include, among other things, all bank holding companies with assets of at least US\$50 billion (which would include NAB). The legislation will also subject these institutions to, among other things, heightened risk-based capital, leverage, liquidity and risk management requirements, including periodic stress tests, as well as limitations on credit exposures. Other provisions include, but are not limited to, prohibitions on: proprietary trading; sponsorship of, and investment in, hedge and private equity funds by banking entities; and conducting significant swap-related activities through United States branches or depository institutions, such as NAB's New York branch or its subsidiary, Great Western Bank. The specific impact of the Dodd-Frank Act on the Group's businesses and the markets in which it operates will depend on the manner in which the relevant agencies develop and implement the required rules and the reaction of market participants to these regulatory developments. It is anticipated that this process of rulemaking and the development of related market practices and structures will continue for several years. The Dodd-Frank Act may cause changes that adversely impact the financial performance and position of the Group.

Over The Counter ("**OTC**") derivative market reforms (which are a broader commitment of the Group of 20 ("**G20**") Finance Ministers and Central Bank Governors) are being implemented in the United States through the Dodd-Frank Act and in other countries including Australia (where the Australian Government has recently released a consultation paper on the implementation of a framework for Australia's G20 OTC derivative commitment). The full extent of these reforms is yet to be determined and could adversely impact the financial performance and position of the Group.

The United Kingdom's Independent Commission on Banking ("**ICB**") was established by the Government in June 2010 to consider reforms to the United Kingdom banking sector in order to promote financial stability and competition. The ICB published its final recommendations in September 2011. These include proposals to "ring-fence" retail banks from investment (and wholesale) banking operations and capitalising each separately, as well as introducing more onerous minimum capital and capital buffers based on the size of the banking entity. There are also recommendations designed to improve choice and competition in the United Kingdom market. The Government will implement the ICB's advice in stages, with the full package of reforms completed by 2019. A "White Paper" will be published in the northern hemisphere spring 2012 setting out further details on how the recommendations will be implemented. These changes could adversely impact the financial performance and position of the Group.

Regulators are requiring many banks, including the Group, to develop recovery and/or resolution plans that show how the institution would propose to recover from a significant loss that threatened its viability as a stand-alone entity. These plans include, but are not limited to, liquidity management, capital management, balance sheet reduction, repricing, cost reduction and asset disposal initiatives. If elements of the plan were implemented in response to a crisis, or preparatory actions relating to the plan were mandated by regulators, it is possible that some or all of these actions could have an adverse impact on the Group's financial performance and position.

The Reserve Bank of New Zealand has put in place a mechanism for how it will manage a New Zealand bank that encounters financial difficulty. Called "Open Bank Resolution" ("**OBR**"), the mechanism would have an adverse impact on the Group's financial performance and position if ever the Group's New Zealand subsidiary was subject to an OBR action.

Taxation Law

In March 2010, the United States passed legislation that would require non-United States banks to provide information on United States account holders beginning in 2013. If this information is not provided in

a form satisfactory to the United States tax authorities, a non-United States bank will have a 30% withholding tax applied to certain amounts derived from United States sources. Under recently proposed United States Treasury regulations, no such withholding tax will be imposed on any payments made prior to 1 January 2014. At this time, it is not possible to quantify the costs of complying with the new legislation as the final rules are still to be determined.

Accounting Standards

The International Accounting Standards Board and the Australian Accounting Standards Board are in the process of making changes to accounting standards which govern the accounting for financial instruments, insurance and leases. Exposure drafts have been issued which, after consideration of feedback, may be finalised as accounting standards. There is no certainty as to the effective date for these changes, and until such time as the accounting standards are issued, whether these changes will have a significant impact on the Group's financial performance and position.

Competition and consolidation

There is substantial competition for the provision of financial services in the markets in which the Group operates, from existing and new competitors, across a broad range of product offerings. Competitive market conditions may adversely impact the financial performance and position of the Group. For example, increasing competition for customers can lead to compression in profit margins, increased advertising and related expenses to attract and retain customers, increased customer turnover and decreased customer loyalty. As technology and customer attitudes are rapidly evolving, this increases the risk of competition from new business entrants with lower cost operating models. The trend towards consolidation and rationalisation in the financial services industry is creating competitors with broader ranges of product and service offerings, increased access to capital, and greater efficiency and pricing power. There has also been an increase in the direct role of governments in the international banking sector arising out of certain consolidations that occurred during the heightened period of instability during the Global Financial Crisis.

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

Risks specific to the Group

There are a number of risk factors 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 financial performance and position of the Group have been, and its future financial performance and position may continue to be, affected by these factors. The key categories of these risks are set out below.

Credit risk

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

The portfolio of credit risk is large and diverse. Less favourable business or economic conditions, whether generally or in a specific industry sector or geographic region, could cause, and have caused, counterparties and customers (especially those concentrated in areas experiencing the less favourable business or economic conditions) to experience an adverse financial situation. This could thereby expose the Group to the increased risk that those customers will fail to meet their obligations in accordance with agreed terms. Major sub-segments within the Group's portfolio include residential loan borrowers and commercial real estate borrowers. A significant downturn in the housing markets and/or the commercial real estate markets in any of the economies in which the major businesses of the Group operate (or a continuation of, or further deterioration in, the significant downturn currently being experienced in the United

Kingdom, particularly in the commercial real estate market) would have an adverse impact on the Group's financial performance and position. Other factors that could have an adverse impact include, but are not limited to, declines in the Australian, New Zealand, United Kingdom, United States and other economies (impacting the Group's retail, small and medium sized businesses, and large corporate customer base) or further financial market dislocation which could lead to falling confidence, increased refinancing risk and further contagion risk among market participants, counterparties and customers.

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

Valuation of conduit portfolio

There are a range of circumstances which would require the Group to recognise further impairment charges on its assets, including its conduit assets held within the Specialised Group Assets business. Particular portfolio sensitivities include, but are not limited to:

- credit wrapped asset backed securities: sensitive to default and loss given default trends in United States residential mortgage loans, which are closely tied to house price trends, and some sensitivity to United States consumer loans, and to the default and/or potential default of the credit wrap providers;
- United States and United Kingdom residential mortgage backed securities: sensitive to default and loss given default trends in United States and United Kingdom residential mortgage

loans, which are closely tied to house price trends;

- United Kingdom commercial mortgage backed securities: sensitive to United Kingdom commercial property valuation trends and commercial real estate finance market liquidity (i.e. refinance availability in 2012 and beyond); and
- collateralised loan obligations: sensitive to default and loss given default trends in United States and European leveraged loans (i.e. high yield secured loans primarily to large corporate borrowers).

The ongoing performance of the Specialised Group Assets is significantly dependent on the United Kingdom and United States economies and therefore the financial results remain sensitive to market conditions.

Any further material impairment of the conduit or other assets could adversely impact the Group's financial performance and position.

Operational and technology risks

Operational risks arise from the day-to-day operational activities of the Group, which may result in direct or indirect losses and could adversely impact the Group's financial performance and position. These losses may result from both internal and external events, and risks, including but not limited to, process error or failure, inadequate process design, poor product development and maintenance, poor change management, ageing infrastructure and systems, system failure, security and physical protection, fraud, deficiencies in employees' skills and performance, operational failures by third parties (including offshored and outsourced providers), natural disasters, extreme weather events, political, security and social events and failings in the financial services industry.

The Group is dependent on its information systems and technology (from a system stability, data quality and information security perspective). The Group is also dependent on payments systems and technology that interface with wider industry infrastructure. Internal or external failure of these systems and technology (including if such systems cannot be restored or recovered in acceptable

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timeframes, or adequately protected) could adversely impact the Group's ability to conduct its daily operations and the Group's financial performance and position. The Group is also dependent on selected external technology providers to continue to develop and provide technology solutions. The failure of these providers to adequately continue to develop and provide solutions could adversely impact the Group's financial performance and position.

The Group is also dependent on its ability to retain and attract key management and operating personnel. The Group has qualified and experienced management teams that it relies on in order to operate effectively and efficiently and maximise returns to investors. The unplanned loss of any key member of these teams, or the Group's inability to attract the requisite personnel with suitable experience, could have an adverse impact on the Group's financial performance and position.

Compliance risks

The Group is subject to compliance risk across, but not limited to, its banking, wealth management and third party distribution channels. Compliance risk refers to the risk of legal or regulatory sanctions and/or material financial loss and/or a loss of reputation as a result of failure to comply with laws, regulations, taxation requirements, licence conditions, supervisory requirements, self-regulatory industry codes of conduct and related internal policies, procedures and organisational frameworks and standards.

To the extent that these compliance risks limit the Group's operations or flexibility, or result in fines, settlements, or restitution to customers, regulators or other stakeholders, they could adversely impact the Group's financial performance and position.

Legal proceedings and contingent liabilities

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

Refer to the "Notes to the Consolidated Financial Statements", Note 14 (Contingent Liabilities and Commitments) in the Half Year Financial Report 2012 for details in relation to the Group's material legal proceedings and contingent liabilities.

Capital risk

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

As mentioned above, there are proposed changes to minimum required levels of capital that NAB, and other members of the Group, are required to hold which when fully implemented may adversely impact the Group's financial performance and position.

Funding and liquidity risk

Funding risk is the risk that the Group is unable to raise short and long term funding to support its strategic plans and objectives. In particular, the Australian banking sector accesses global capital markets to help fund its businesses. Any dislocation in global capital markets could adversely affect the Group's ability to access funds (including at a reasonable cost) to meet its strategic plans and objectives and impact the Group's financial performance and position.

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

As mentioned above, there are proposed changes to minimum required levels of liquidity that NAB and other members of the Group, are required to hold which when fully implemented may adversely impact the Group's financial performance and position.

Credit rating risk

Ratings agencies regularly conduct review activity. Recent methodology changes and the ongoing Eurozone crisis have resulted in the review of sovereign and global bank ratings. There is the potential for this ongoing review activity to continue, particularly in periods of increased market volatility. On 30 April 2012, the Group announced the outcome of its United Kingdom Banking strategic review. As a result, ratings agencies have updated, or are expected to update, their current rating assessments, but the operating environment in the United Kingdom and Europe continues to be challenging.

A reduction in the credit ratings of NAB (or any other member of the Group) or the sovereign rating of the countries in which the Group operates (including the United Kingdom and New Zealand) or raises capital, may increase the Group's borrowing costs, limit its access to the capital markets and trigger additional collateral requirements in derivative contracts and other secured funding arrangements, which may adversely impact the Group's financial performance and position.

Interest rate risk

This is the risk to the Group's financial performance and position caused by changes in market interest rates. As interest rates and yield curves change over time, the Group may be exposed to a loss in earnings and economic value due to the repricing structure of its balance sheet. This includes the risk arising out of customers' demands for interest rate-related products with various repricing profiles.

Defined benefit pension fund risk

This is the risk that, at any point in time, the assets available to meet pension liabilities are at a value below current and future pension scheme obligations. Asset values and liabilities are affected by a number of factors including, but not limited to, the discount rate used to

calculate the liability net present value, the long-term inflation assumption, actuarial assumptions (including mortality rates) and the value of the investment portfolio (which in turn is affected by a number of factors, for example, equity markets and bond rates). Many of these factors are outside the control of the Group.

The Group's principal exposure to defined benefit pension fund risk is in the United Kingdom, where its defined benefit scheme was closed to new members with effect from 1 January 2004.

Such defined benefit pension fund risk could adversely impact the Group's financial performance and position.

Foreign exchange and translation risk

This risk arises from the impact of changes in foreign currency exchange rates on the value of the Group's cash flows and assets and liabilities as a result of participation in the global financial markets and international operations. It includes structural foreign exchange risk resulting from the Group's ownership structure, including investment in overseas subsidiaries or associates, and exposures from known foreign currency transactions (such as repatriation of capital and dividends from offshore subsidiaries). It also includes any currency positions in the banking book emanating from transactions with customers, banks and other counterparties. If the Group was to suffer substantial losses due to any adverse movement in foreign exchange rates, it could adversely impact its financial performance and position.

The Group conducts business in different currencies, mainly Australian, New Zealand and United States dollars, British pounds sterling and euros. The Group's businesses may be affected by a change in currency exchange rates or a full or partial break-up or a change in the reserve status of any of those currencies. As the Group's financial statements are prepared and presented in Australian dollars, any further appreciation in the Australian dollar against other currencies in which the Group earns revenues may adversely impact its financial performance and position.

Non-traded equity risk

The Group carries equity investments in its banking book at fair value. Fair value reflects valuations derived from either

market prices or an approved internal model. The fair value of an equity investment is impacted by various risk factors, including, but not limited to, economic risk, political risk, business and operational risk, legal and regulatory risk, currency risk, price risk and market risk. A material reduction in the fair value of an equity investment in the Group's banking book could have an adverse impact on the financial performance and position of the Group.

Traded market risk

This is the potential for losses to arise from trading activities, including proprietary trading, undertaken by the Group as a result of adverse movement in market prices. Losses can arise from a change in the value of positions in traded financial instruments due to adverse movements in market prices (for example, interest rates, foreign exchange, commodities, equities and credit spreads). Any significant losses from such trading activities could adversely affect the Group's financial performance and position.

Life insurance business risks

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

Life insurance risk may also arise due to inadequate or inappropriate underwriting, claims management, product design or pricing processes, all of which could adversely impact the financial performance and position of the Group.

Reputation risk

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

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

Underwriting risk

As financial intermediaries, members of the Group underwrite listed and unlisted debt, equity-linked and equity securities. They may guarantee the pricing and placement of these securities and could therefore suffer losses if they fail to sell down some or all of this risk to other market participants.

Strategic risk

There is a risk that the assumptions on which the Group's strategic direction is based are incorrect, that market conditions may change, that the risks generated exceed expected and approved appetite, or that execution of the Group's strategic initiatives proves ineffective. It is also possible that certain strategic initiatives are unable to be easily undone, once the Group has committed to them. These risks could adversely impact the Group's financial performance and position.

General acquisition and divestment risk

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

Any corporate opportunity that is pursued could change the Group's risk profile. There are also risks associated with the external approval process and integration of any new acquisition into the broader

Section Four: Key risks of the NAB Subordinated Notes

Group, including the risk that expected synergies will not be realised, that NAB may lose customers, or that NAB may face disruption to its operations. Acquisitions may need to be funded by the issuance of additional equity, which may be dilutive to existing shareholders. Additionally, there is a risk that the Group's credit ratings may be placed on negative watch or downgraded as a result of corporate activity. These factors, combined with a possible negative sentiment in relation to acquisitions, joint ventures or asset and business disposals, could have an adverse impact on the Group's financial performance and position.

Other commercial risks

There are a number of general commercial risks that could adversely impact the Group's financial performance and position or future prospects, which are common to investments in most listed companies, including, but not limited to, the following risks associated with:

- new projects, including cost overruns and delays in (or inability to achieve) revenues or cost benefits intended to flow from such new projects. Among the strategic projects, the Group announced on 30 April 2012 the outcome of its review of its United Kingdom Banking business, which is to involve a significant restructure of that business, subject to receiving the necessary regulatory approvals. The Group is also currently undertaking a significant transformation of its

technology and communications network and infrastructure, as well as investment in its Next Generation Banking Information Technology Platform designed to shape its future strategic and technological landscape, enabling process improvement and core product, platform and system enhancements;

- development of new services or technology in competition with the Group's operations;
- the level of market acceptance for the services provided by the Group;
- technological change relating to the Group's information systems;
- loss of accreditation or regulatory or other licensing for the Group's operations, causing the loss of contracts or market share; and
- terrorist attacks and/or other malicious activities (including, but not limited to, bomb and cyber-attacks) by employees, customers or general public, or certain terrorist groups which directly or indirectly target or adversely impact any of the Group's assets, operations, staff, customers, offshored or outsourced providers, suppliers, or the communities or economies in which the Group operates or on which it relies, or which are considered material to global commerce.

If any of these risks are realised, they may have an adverse impact on the financial performance and position of the Group.

Failure of risk management frameworks and processes

The Group's approach to identifying, assessing, measuring, managing and reporting its risks is subject to the successful application of a number of risk and control frameworks. Should these frameworks, or the judgment of the people involved in their application, fail this could have an adverse impact on the Group's financial performance and position.

Section Five

Other information

Section Five:

Other information

Australian taxation

The following is a summary of the taxation treatment under the Tax Act for Australian tax resident Holders (“**Resident Holders**”), and certain Holders who are not tax residents of Australia (“**Non Resident Holders**”), who subscribe for the NAB Subordinated Notes and hold them on capital account.

The summary is not exhaustive and does not consider the Australian tax consequences for all Holders. This summary does not consider the Australian tax consequences for:

- Resident Holders who carry on business at or through a permanent establishment outside Australia;
- Non Resident Holders who carry on business at or through a permanent establishment in Australia; or
- Holders who hold NAB Subordinated Notes otherwise than on capital account for Australian tax purposes.

This summary is a general guide and should be treated with appropriate caution. You should consult your professional advisers on the taxation consequences of investing in the NAB Subordinated Notes in your particular circumstances.

Receipt of Interest

a. Resident Holders

The NAB Subordinated Notes should be “debt interests” for the purposes of the Tax Act. Resident Holders should be required to include any interest they receive in respect of their NAB Subordinated Notes 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. Division 230 of the Tax Act (concerning the taxation of financial arrangements) may also apply to determine the time the interest is assessable to the Holder.

b. Non Resident Holders

Australian interest withholding tax (“**IWT**”), at a rate of 10%, may apply to interest payments made to non-Australian residents in certain circumstances.

Interest paid to Non Resident Holders in respect of their NAB Subordinated Notes should generally be exempt from IWT and should not otherwise be subject to Australian income tax. This is because NAB intends to issue the NAB Subordinated Notes in a manner which will satisfy the requirements of the IWT exemption contained in section 128F of the Tax Act.

Non Resident Holders, who are not associates of NAB for tax purposes, should not be subject to any other Australian tax on the interest.

Disposal of the NAB Subordinated Notes

a. Resident Holders

A Resident Holder should be required to include any gain or loss on the disposal or redemption of the NAB Subordinated Notes in their assessable income. The Resident Holder should include a gain equal to the difference between the proceeds of disposal or redemption and the cost to the Resident Holder of the NAB Subordinated Notes. If the proceeds of disposal or redemption are less than the cost to a Resident Holder of the NAB Subordinated Notes, the Resident Holder may claim an allowable deduction for the loss in the income year in which the disposal occurs.

A capital gains tax (“**CGT**”) event should also happen on the disposal or redemption of the NAB Subordinated Notes. Any capital gain or capital loss that results from the disposal should be disregarded to the extent to which that gain or loss is already included in the Resident Holder’s assessable income as set out above.

b. Non Resident Holders

A Non Resident Holder may be subject to Australian income tax on any gain derived in respect of the disposal or redemption of the NAB Subordinated Notes if that gain has an Australian source.

A gain arising on the sale of the NAB Subordinated Notes from a Non Resident Holder to a non-Australian resident, where the NAB Subordinated Notes are sold outside of Australia, and all negotiations are conducted and documentation executed outside of Australia, should not be regarded as having an Australian source.

If the gain has an Australian source the Non Resident Holder may be eligible for relief from Australian income tax if the Non Resident Holder is resident of a country with which Australia has a double tax agreement.

Any gain or loss from a disposal or redemption of the NAB Subordinated Notes by a Non Resident Holder should be disregarded for CGT purposes.

Application of Division 230

The NAB Subordinated Notes should be a “financial arrangement” for the purposes of Division 230 of the Tax Act. Division 230 contains tax-timing rules for certain taxpayers in relation to recognising gains and losses from “financial arrangements”.

Division 230 generally does not apply to Holders who are individuals, or to certain other entities (for example, superannuation funds and managed investment schemes) which 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 a Holder will depend upon, for example, whether the Holder is a Resident or Non Resident Holder and whether the Holder chooses to apply any of the elective methods for recognising gains and losses from financial arrangements.

If Division 230 does apply to a Non Resident Holder, it should not apply to a payment of interest received in respect of their NAB Subordinated Notes. This is because such payments should be exempt from IWT.

Provision of Tax File Number or Australian Business Number

A form of withholding tax may also be imposed on payments of interest where the recipient has not quoted their tax file number (“TFN”), or in certain circumstances their Australian Business Number (“ABN”), or provided proof of some other exception (as appropriate).

NAB will not be required to withhold an amount of Australian tax from interest payments to Non Resident Holders. This is because these payments should be exempt from IWT (refer to “Receipt of interest” above).

In respect of a Resident Holder, NAB will be required to withhold Australian tax at the maximum marginal tax rate (currently 46.5% including the Medicare levy) from any interest payment and remit the amount withheld to the Australian Taxation Office unless and until you provide your TFN, (in certain circumstances) your ABN or proof of some other exception.

You do not have to provide this information and it is not an offence if you fail to do so.

A Resident Holder should be entitled to claim a tax credit/rebate (as applicable) in respect of any tax withheld on an interest payment in their Australian income tax returns.

Goods and Services Tax (GST)

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

No Australian GST should also be payable in respect of the payment of Face Value or interest 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.

Consents to be named

The Sole Arranger, Lead Manager and Bookrunner, each Co-Manager and Computershare (“Consenting Parties”) have given their written consent to be named in this Offer Document in the form and context in which it is named and have not, at the date of this Offer Document, withdrawn their consent.

None of the Consenting Parties or King & Wood Mallesons have made any statement that is included in this Offer Document or any statement on which a statement made in this Offer Document is based. Each of the Consenting Parties and King & Wood Mallesons, expressly disclaim all liability in respect of, make no representations regarding, and take no responsibility for, any statements in, or omissions from, this Offer Document.

Interests of advisers

The Sole Arranger, Lead Manager and Bookrunner will pay the Co-Managers a selling fee of 1% of their Broker Firm Allocation. Fees payable by the Sole Arranger, Lead Manager and Bookrunner to the Co-Managers are exclusive of any GST.

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

NAB may disclose this information for these purposes to its subsidiaries and relevant organisations involved in providing, managing or administering

your product or service such as third party suppliers, other Group organisations, loyalty and affinity partners, printers, posting services, call centres, and our advisers. Because we operate throughout Australia and overseas, some of these uses and disclosures may occur outside your State or Territory and/or outside Australia.

If you used a financial adviser who recommended your investment in the NAB Subordinated Notes (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 National Privacy Principles in the Privacy Act 1988 (Cth) and any other applicable privacy laws and codes.

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

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, or make payments to you.

Dealings in the NAB Subordinated Notes

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

Section Six

Glossary

Section Six:

Glossary

TERM	MEANING
2008 Convertible Notes	The \$300 million of convertible notes issued by NAB through its New York branch in September 2008
2008 Stapled Securities	The stapled securities issued by NAB in 2008 comprising fully paid subordinated notes issued by NAB through its New York branch stapled to unpaid preference shares issued by NAB (which, if paid up in accordance with the terms of the 2008 Stapled Securities, will be outstanding in an aggregate liquidation amount of up to \$300 million)
2009 Capital Notes	The US\$600 million of perpetual, subordinated, unsecured notes issued by NAB (acting through its New York branch) in 2009
2009 Stapled Securities	The stapled securities issued by NAB in 2009 comprising fully paid subordinated notes issued by NAB through its New York branch stapled to unpaid preference shares issued by NAB (which, if paid up in accordance with the terms of the 2009 Stapled Securities, will be outstanding in an aggregate liquidation amount of up to \$500 million)
2011 Full Year Results	The full year results announcement for NAB for the year ended 30 September 2011
2012 Half Year Results	The half year results announcement for NAB for the six months ended 31 March 2012
ABN	Australian Business Number
ADI	Authorised Deposit-taking Institution regulated by APRA
Allocation	The number of NAB Subordinated Notes allocated under this Offer to a Syndicate Broker. Allocated has a corresponding meaning
Annual Financial Report 2011	The financial report for NAB for the year ended 30 September 2011
Applicant	A person who lodges an Application Form in accordance with this Offer Document
Application	A valid application for the NAB Subordinated Notes made through a completed Application Form in accordance with this Offer Document
Application Form	A paper or electronic form (as the context requires) upon which an Application for the NAB Subordinated Notes may be made
Application Monies	The amount payable on each Application, being the Face Value multiplied by the number of the NAB Subordinated Notes applied for
APRA	Australian Prudential Regulation Authority (ABN 79 635 582 658) or any successor body responsible for prudential regulation of NAB
ASIC	Australian Securities and Investments Commission
ASIC Guide	The guide published by ASIC entitled "Investing in corporate bonds?"
Assets	Has the meaning given to it in the Terms
ASX	ASX Limited (ABN 98 008 624 691) or the securities market operated by it, as the context requires
ASX Listing Rules	The listing rules of ASX, with any modification or waivers which ASX may grant to NAB from time to time
AUD NCI	The capital instruments issued by National Capital Trust III in 2006 which are exchangeable in certain circumstances into preference shares of NAB having a liquidation preference of \$400 million
Bank Bill Rate	For an Interest Period, the rate (expressed as a percentage per annum) which is the average mid-rate for bills of a term of 90 days, which average rate is displayed on Reuters page "BBSW" (or any page which replaces that page) on: <ul style="list-style-type: none"> • in the case of the first Interest Period, the Issue Date; and • in the case of any other Interest Period, the first 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 by 10.30am (Melbourne time) on that date, the rate specified in good faith by NAB at or around that time on that date having regard, to the extent possible, to: <ul style="list-style-type: none"> • the rates otherwise bid and offered for bills of the specified term or for funds of that tenor displayed on Reuters page "BBSW" (or any page which replaces that page) at that time on that date; and • if bid and offer rates for bills of the specified term are not otherwise available, the rates otherwise bid and offered for funds of that tenor at or around that time on that date

Section Six: Glossary

Banking Act	Banking Act 1959 (Cth)
Basel III Consultation Paper	The consultative document titled “A global regulatory framework for more resilient banks and banking systems” which was released by the Basel Committee on Banking Supervision on 16 December 2010 and revised in June 2011 and any related releases, papers, proposals (including, without limitation the release of 13 January 2011), and any related prudential standards or guidelines of the Basel Committee on Banking Supervision or APRA
Bell Potter	Bell Potter Securities Limited (ABN 25 006 390 772, AFSL 243480)
Bookbuild	The process through which certain investors bid for a firm Allocation of the NAB Subordinated Notes to determine the Margin
Broker Firm Allocation	The Allocation made to a Syndicate Broker through the Bookbuild process
Broker Firm Offer	The offer to participate in a Broker Firm Allocation as described in Section Two “Applying for the NAB Subordinated Notes”
Business Day	Has the meaning given to it in the ASX Listing Rules
CHESS	Clearing House Electronic Subregister System operated by ASX or its affiliates
Closing Date	The closing date for the Offer which is expected to be: <ul style="list-style-type: none"> • 8 June 2012 for the Securityholder Offer and General Offer; and • 15 June 2012 for the Broker Firm Offer and Institutional Offer
Co-Managers	Bell Potter, JBWere, Macquarie Private Wealth, Morgan Stanley Australia and Ord Minnett
Corporations Act	Corporations Act 2001 (Cth)
Deed Poll	The deed poll entitled “NAB Subordinated Notes Deed Poll” dated 14 May 2012 and amended and restated as at 21 May 2012 made by NAB and available for inspection at www.nabnotesoffer.com.au during the Offer Period or from the Shareholder Centre at www.nabgroup.com/shareholder
Draft APS 160	The draft Prudential Standard APS 160 entitled “Capital Adequacy: Basel III Transitional Arrangements” issued by APRA in March 2012
Eligible Securityholder	Holders of Ordinary Shares or National Income Securities as at 7.00pm on Thursday, 10 May 2012 as described in Section Two “Applying for the NAB Subordinated Notes”
EUR NCI	The capital instruments issued by National Capital Instruments [Euro] LLC 2 in 2006 which are exchangeable in certain circumstances into preference shares of NAB having an aggregate liquidation amount of up to EUR400 million
Event of Default	Has the meaning given to it in the Terms
Extraordinary Resolution	A resolution: <ol style="list-style-type: none"> a. passed at a meeting by a majority of at least 75% of the votes cast; or b. made in writing by Holders representing more than 75% of the Outstanding NAB Subordinated Notes as at the relevant date
Face Value	\$100 per NAB Subordinated Note
General Applicant	A member of the general public who is an Australian resident
General Offer	The offer as described in Section Two “Applying for the NAB Subordinated Notes”
Group	NAB and its controlled entities
GST	Goods and Services Tax
Half Year Financial Report 2012	The half year financial report for NAB for the six months ended 31 March 2012 (in section 5 of the 2012 Half Year Results)
HIN	Holder Identification Number
Holder	For a NAB Subordinated Note, each person whose name is entered in the Register as the holder of that NAB Subordinated Note

Holding Statement	A statement issued to Holders by the Registry which sets out the number of the NAB Subordinated Notes Issued to that Holder
Institutional Investor	An investor invited to participate in the Institutional Offer
Institutional Offer	The invitation to Institutional Investors to apply for the NAB Subordinated Notes under this Offer Document
Interest Payment Dates	18 September, 18 December, 18 March and 18 June each year until the Maturity Date or any earlier redemption date. If any of these scheduled dates is not a Business Day, then the Interest Payment Date will be the next Business Day
Interest Period	Each period commencing on (and including) an Interest Payment Date and ending on (but excluding) the next Interest Payment Date. However: <ul style="list-style-type: none"> a. the first Interest Period commences on (and includes) the Issue Date; and b. the final Interest Period ends on (but excludes) the Maturity Date or a redemption date, whichever occurs first
Interest Rate	Has the meaning given to it in the Terms
Issue	The process of issuing the NAB Subordinated Notes to Holders. Issue and Issued have corresponding meanings
Issue Date	Expected to be 18 June 2012
JBWere	JBWere Pty Ltd (ABN 68 137 978 360, AFSL 341162)
Liabilities	Has the meaning given to it in the Terms
Macquarie Private Wealth	Macquarie Equities Limited (ABN 41 002 574 923, AFSL 237504)
Margin	2.75% per annum
Maturity Date	The tenth anniversary from the Issue Date, expected to be 18 June 2022 or, if that date is not a Business Day, the next Business Day
Morgan Stanley Australia	Morgan Stanley Australia Securities Limited (ABN 55 078 652 276, AFSL 233741)
NAB	National Australia Bank Limited (ABN 12 004 044 937)
NAB Subordinated Notes	Unsecured, subordinated debt obligations of NAB constituted by, and owing under the Deed Poll, the details of which are recorded in, and evidenced by, entry in the Register
NAB Undated Subordinated Floating Rate Notes	The undated subordinated floating rate notes issued by NAB
National Income Securities	The securities issued under a prospectus dated 10 May 1999
Offer	The offer made through this Offer Document by NAB of the NAB Subordinated Notes to raise \$1 billion, with the ability to raise more or less. The offer comprises the Broker Firm Offer, Institutional Offer, Securityholder Offer and the General Offer
Offer Document	This Offer Document which was lodged with ASX on 21 May 2012
Offer Period	The period from the Opening Date to the Closing Date
Opening Date	The opening date of the Offer which is 21 May 2012
Ord Minnett	Ord Minnett Limited (ABN 86 002 733 048, AFSL 237121)
Ordinary Resolution	A resolution: <ul style="list-style-type: none"> a. passed at a meeting by at least 50% of the votes cast; or b. made in writing by Holders representing more than 50% of the Outstanding NAB Subordinated Notes as at the relevant date
Ordinary Share	A fully paid ordinary share in NAB
Outstanding	Has the meaning given to it in the Terms

Section Six: Glossary

protected account	<p>Broadly, a protected account is, subject to certain conditions, an account or a specified financial product:</p> <ul style="list-style-type: none"> • where NAB is required to pay the account-holder, on demand or at an agreed time, the net credit balance of the account; or • otherwise prescribed by regulation. <p>The Australian Treasurer has published a declaration of products prescribed as protected accounts for the purposes of the Banking Act</p>
Record Date	Has the meaning given to it in the Terms
Register	The register of the NAB Subordinated Notes maintained by the Registry on NAB's behalf and including any subregister established and maintained in CHES
Registrar or Registry	Computershare Investor Services Pty Limited (ABN 48 078 279 277) or any other registry that NAB appoints
Regulatory Event	Has the meaning given to it in the Terms
Securityholder Offer	The offer as described in Section Two "Applying for the NAB Subordinated Notes"
Sole Arranger, Lead Manager and Bookrunner	NAB
Solvent	<p>Means that each of the following is the case:</p> <ol style="list-style-type: none"> NAB is able to pay its debts as they fall due; and its Assets exceed its Liabilities
SRN	Securityholder Reference Number
Syndicate Broker	Any of the Sole Arranger, Lead Manager and Bookrunner and Co-Managers
Tax Act	Income Tax Assessment Act of 1936 (Cth) and Income Tax Assessment Act 1997 (Cth)
Terms	The terms of the NAB Subordinated Notes attached as a schedule to the Deed Poll and as set out in the Appendix
TFN	Tax File Number
Tier 1 Capital	Tier 1 capital as defined by APRA from time to time
Tier 1 Capital Ratio	The ratio so described by APRA (or any equivalent successor term)
Tier 2 Capital	Has the meaning given to it in the Terms
TPS	The trust preferred securities issued by National Capital Trust I in 2003 which are exchangeable for global depository receipts, evidenced by global depository shares, representing preference shares which may be issued by NAB in an aggregate liquidation amount of up to £400 million
TPS II	The trust preferred securities issued by National Capital Trust II in 2005 which are exchangeable for preference shares which may be issued by NAB in an aggregate liquidation amount of up to US\$800 million
Total Capital Ratio	The ratio so described by APRA (or any equivalent successor term)
Unsubordinated Debt	Has the meaning given to it in the Terms
Winding Up	A court order is made for the winding up of NAB which is not successfully appealed or permanently stayed within 60 days of the entry of such court order or an effective resolution is passed by shareholders or members for the winding up of NAB

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Appendix

**Terms of the
NAB Subordinated
Notes**

Appendix: Terms of the NAB Subordinated Notes

NAB Subordinated Notes issued by National Australia Bank Limited
ABN 12 004 044 937 (“**NAB Subordinated Notes**”)

The following are the terms and conditions that will apply to each NAB Subordinated Note. The obligations of NAB under the NAB Subordinated Notes are constituted by, and owing under, the Deed Poll. Definitions and interpretation provisions are set out in clause 16 (“Interpretation”).

1 Form and Face Value

1.1 Form

The NAB Subordinated Notes are subordinated, unsecured notes of NAB issued in registered form by entry in the Register.

1.2 Face Value

The NAB Subordinated Notes have a Face Value in Australian Dollars of A\$100.

1.3 CHESS

The NAB Subordinated Notes will be registered in CHESS. While the NAB Subordinated Notes remain in CHESS:

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

will be subject to and governed by the rules and regulations of CHESS. To the extent of any inconsistency with these Terms in any such context, the rules and regulations of CHESS will prevail.

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

1.4 Quotation

NAB agrees to use all reasonable endeavours to procure that the NAB Subordinated Notes are quoted on ASX until their Maturity Date or any earlier Redemption Date (as applicable).

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 an Extraordinary 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.

2 Status

2.1 Status and ranking

The NAB Subordinated Notes constitute direct and unsecured obligations of NAB, which are subordinated in right of repayment to all depositors and unsubordinated creditors of NAB, and rank:

- a. equally among themselves;
- b. equally with all claims against NAB that rank or are expressed to rank equally with the Holders’ claims for amounts owing by NAB in connection with the NAB Subordinated Notes;
- c. behind all claims of Unsubordinated Creditors; and

- d. ahead of all claims against NAB that rank or are expressed to rank behind the Holders’ claims for amounts owing by NAB in connection with the NAB Subordinated Notes.

The NAB Subordinated Notes do not limit the amount of senior debt, deposits or any other obligations ranking in priority to, equally with or junior to the NAB Subordinated Notes that may be incurred or assumed by NAB at any time.

2.2 Solvency condition to payment

At any time before a winding up:

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

2.3 Certificate as to Solvency

A certificate as to whether NAB is Solvent signed by:

- a. two directors of NAB;
- b. the auditors of NAB; or
- c. on a winding up of NAB, NAB’s liquidator,

is, in the absence of manifest error, conclusive evidence 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

Any amount not paid due to clause 2.2 ("Solvency condition to payment") above or clause 8.2(a)(i) ("Consequences of an Event of Default") below accumulates without compounding and remains a debt owing to the Holder by NAB until it is paid and will be payable on the first date on which that clause is satisfied (whether or not such date is otherwise a payment date).

2.5 Nature of obligations

The NAB Subordinated Notes do not constitute deposit liabilities of NAB and are not protected accounts for the purposes of the Banking Act or any other accounts. In addition, the NAB Subordinated 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.

3 Interest

3.1 The NAB Subordinated Notes bear interest

Each NAB Subordinated Note bears interest on its Face Value from (and including) its Issue Date to (but excluding) its Maturity Date or any earlier Redemption Date (as applicable).

3.2 Interest Payment Dates

Interest accrues daily at the Interest Rate and is payable in arrears on each of 18 September, 18 December, 18 March and 18 June, commencing on 18 September 2012 ("**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 Interest Rate

The "**Interest Rate**" (expressed as a percentage per annum) in respect of a NAB Subordinated 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 2.75%.

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

- in the case of the first Interest Period, the Issue Date; and
- in the case of any other Interest Period, the first 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 by 10.30am on that date, the rate specified in good faith by NAB at or around that time on that date having regard, to the extent possible, to:

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

3.4 Calculation of interest on the NAB Subordinated Notes

The amount of interest payable in respect of each NAB Subordinated 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.

3.5 NAB to determine and notify Interest Rate and amount of interest

In respect of each Interest Period, NAB must:

- determine the Interest Rate and the amount of interest for that Interest Period in respect of any NAB Subordinated Note; and

- notify the Registrar, ASX and the Holders as soon as practicable after its determination but, in any event, no later than the second Business Day after the first day of the Interest Period.

3.6 Interest continues to accrue

Notwithstanding clause 3.1 ("The NAB Subordinated Notes bear interest"), if payment of the Face Value of a NAB Subordinated Note is improperly withheld or refused when due and payable, interest will continue to accrue (after as well as before any demand or judgment) on the Face Value of that NAB Subordinated Note at the Interest Rate in the manner provided in this clause 3 ("Interest") to the date on which payment in full of the amount improperly withheld or refused is made.

4 Redemption

4.1 Redemption on Maturity Date

NAB agrees to redeem each NAB Subordinated Note on the Maturity Date by payment of its Face Value (together with any accrued but unpaid interest), unless the NAB Subordinated Note has previously been redeemed, or purchased by NAB or a Related Entity and cancelled.

4.2 Early redemption at the option of NAB

Subject to clause 4.9 ("Consent of APRA"), NAB may redeem all or some of the NAB Subordinated Notes before their Maturity Date by payment of their Face Value (together with any accrued but unpaid interest) on 18 June 2017 (or, if that date is not a Business Day, the next Business Day) or on any Interest Payment Date falling after that date.

However, NAB may only do so if NAB has given at least 30 days' (and no more than 60 days') notice to the relevant Holders, the Registrar and ASX.

Appendix: Terms of the NAB Subordinated Notes

4.3 Early redemption for taxation reasons

Subject to clause 4.9 (“Consent of APRA”), NAB may redeem all (but not some) of the NAB Subordinated Notes before their Maturity Date by payment of their Face Value (together with any accrued but unpaid interest) if NAB is required under clause 7.2 (“Payment of additional amounts”) to increase the amount of a payment in respect of a NAB Subordinated Note.

However, NAB may only do so if NAB has given at least 30 days’ (and no more than 60 days’) notice to the relevant Holders, the Registrar and ASX.

4.4 Early redemption following a Regulatory Event

Subject to clause 4.9 (“Consent of APRA”), NAB may redeem all (but not some) of the NAB Subordinated Notes before their Maturity Date by payment of their Face Value (together with any accrued but unpaid interest) if a Regulatory Event occurs.

However, NAB may only do so if NAB has given at least 30 days’ (and no more than 60 days’) notice to the relevant Holders, the Registrar and ASX.

4.5 No early redemption at the option of Holders

A Holder cannot require NAB to redeem all or some of the NAB Subordinated Notes held by that Holder before their Maturity Date.

4.6 Effect of notice of redemption

Any notice of redemption given under this clause 4 (“Redemption”) is irrevocable.

4.7 Partial redemptions

If only some of the NAB Subordinated Notes are to be redeemed under this clause 4 (“Redemption”), the NAB Subordinated Notes to be redeemed will be specified in the notice and selected:

- a. in a fair and reasonable manner; and
- b. in compliance with any applicable law, directive or requirement of ASX.

4.8 Purchases

Subject to clause 4.9 (“Consent of APRA”), NAB and any Related Entities may at any time purchase the NAB Subordinated Notes in the open market or otherwise and at any price. Any NAB Subordinated Notes purchased under this clause 4.8 (“Purchases”) are not extinguished (unless held beneficially by NAB at the Maturity Date) and may be held, resold or cancelled at the discretion of NAB, subject to compliance with law.

4.9 Consent of APRA

NAB may not redeem any NAB Subordinated Notes under clauses 4.2 (“Early redemption at the option of NAB”), 4.3 (“Early redemption for taxation reasons”) or 4.4 (“Early redemption following a Regulatory Event”) or purchase, or procure that any of its Related Entities purchase, any NAB Subordinated Notes under clause 4.8 (“Purchases”) without the prior written approval of APRA.

NAB will not be permitted to redeem any NAB Subordinated Notes unless:

- a. the NAB Subordinated Notes are replaced concurrently or beforehand with a capital instrument of the same or better quality; or
- b. APRA is satisfied that NAB’s capital position is well above its minimum capital requirements after NAB elects to redeem the NAB Subordinated Notes.

5 Title and transfer

5.1 Title

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

5.2 Effect of entries in the Register

Each entry in the Register in respect of a NAB Subordinated 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 NAB Subordinated Note; and
- b. an entitlement to the other benefits given to the Holder in respect of the NAB Subordinated Note under these Terms.

5.3 Register conclusive as to ownership

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

5.4 Non-recognition of interests

Except as required by law or directive, NAB and the Registrar must treat the person whose name is entered in the Register as the holder of a NAB Subordinated Note as the absolute owner of that NAB Subordinated Note. This clause 5.4 (“Non-recognition of interests”) applies whether or not a NAB Subordinated Note is overdue and despite any notice of ownership, trust or interest in the NAB Subordinated Note.

5.5 Joint holders

Where two or more persons are entered in the Register as the joint holders of a NAB Subordinated Note then they are taken to hold the NAB Subordinated 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 NAB Subordinated Note.

5.6 Transfer

Subject to the ASX Listing Rules, the NAB Subordinated Notes will be transferable only in accordance with these Terms and the rules and regulations of CHES. A Holder may not transfer part of a NAB Subordinated Note.

5.7 Instruments of transfer

A Holder may transfer a NAB Subordinated 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 NAB Subordinated 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.

5.8 Transfer on occurrence of certain events

The Registrar must register a transfer of a NAB Subordinated 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.

6 Payments

6.1 Payments to Holders

Each payment in respect of a NAB Subordinated Note will be made to the person that is recorded in the Register as the Holder of that NAB Subordinated Note as at 7.00pm on the Record Date for that payment.

6.2 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.

6.3 Uncompleted payments

- If:
- a. a Holder has not notified the Registrar by close of business on the Record Date of an Australian Dollar bank account maintained in Australia with a financial institution to which payments in respect of the NAB Subordinated 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.

6.4 Time limit on claims

A claim against NAB for a payment under a NAB Subordinated 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.

6.5 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.

6.6 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 must be rounded to the nearest cent (with halves being rounded up).

6.7 Joint Holders

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

6.8 No set-off

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

6.9 Payments subject to law

All payments are subject to applicable law, but without prejudice to the provisions of clause 7 ("Taxation").

6.10 Payments on Business Days

If a payment:

- a. is due on a NAB Subordinated 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.

7 Taxation

7.1 No deductions

NAB must make all payments in respect of the NAB Subordinated Notes without any withholding or deduction in respect of Taxes, unless the withholding or deduction is required by law.

Appendix: Terms of the NAB Subordinated Notes

7.2 Payment of additional amounts

Subject to clause 7.3 (“Exceptions to requirement to pay additional amounts”), if a law requires NAB to withhold or deduct an amount in respect of Taxes from a payment in respect of the NAB Subordinated Notes such that a Holder would not receive on the due date the full amount provided for under the NAB Subordinated Notes then, 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.

7.3 Exceptions to requirement to pay additional amounts

NAB is not required to pay any additional amounts under clause 7.2 (“Payment of additional amounts”) 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 NAB Subordinated Note or receipt of payment in respect of the NAB Subordinated Note;
- b. the deduction is required as a result of the payment being to an associate of NAB within the meaning of the Australian Tax Act;
- c. the deduction is required as a consequence of a determination having been made under Part IVA of the Australian 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 Australian 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) 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.

7.4 Tax file number

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

7.5 Subordination of additional amounts

Any additional amounts due in respect of the NAB Subordinated Notes will be subordinated in right of payment as described in clause 9 (“Subordination”).

8 Events of Default

8.1 Events of Default

An “Event of Default” occurs if:

- a. **(payment default)** either:
 - i. NAB does not pay any Face Value of the NAB Subordinated Notes due in respect of the NAB Subordinated Notes within 7 days of its due date; or
 - ii. NAB does not pay any interest or other amount due in respect of the NAB Subordinated Notes within 30 days of its due date, (a “Payment Default”); or

- b. **(winding up default)** a Winding Up occurs other than for the purposes of a consolidation, amalgamation, merger or reconstruction which has been approved by an Extraordinary 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 NAB Subordinated Notes (a “Winding Up Default”).

8.2 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 NAB Subordinated 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 NAB Subordinated 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 to payment in clause 2.2 (“Solvency condition to payment”), the amount is not due and payable and a Payment Default cannot occur; or

- b. in the case of a Winding Up Default, in addition to taking any of the actions specified in clause 8.2(a) (“Consequences of an Event of Default”) 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 NAB Subordinated 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 9 (“Subordination”), 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 8.2 (“Consequences of an Event of Default”).

8.3 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).

9 Subordination

9.1 Acknowledgment

Each Holder, by its subscription for or purchase of a NAB Subordinated Note, is taken to acknowledge that NAB’s obligations in respect of that NAB Subordinated Note are subordinated to the payment of the Unsubordinated Debt to Unsubordinated Creditors, in the manner provided in clause 9.2 (“Subordination”).

9.2 Subordination

- a. **(winding up)** In a winding up of NAB, a Holder’s claim for an amount owing by NAB in connection with a NAB Subordinated Note is subordinated to the claims of Unsubordinated Creditors of NAB, in that:
 - i. all claims of Unsubordinated Creditors must be paid in full before the Holder’s claim is paid; and
 - ii. until the Unsubordinated Creditors have been paid in full, the Holder must not claim in the winding up in competition with the Unsubordinated Creditors so as to diminish any distribution, dividend or payment which, but for that claim, the Unsubordinated Creditors would have been entitled to receive.
- b. **(debt subordination)** Each Holder irrevocably acknowledges and agrees that this clause 9.2 (“Subordination”) 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 to defeat the subordination in this clause 9.2 (“Subordination”).

- d. **(not otherwise affected)** Each Holder irrevocably acknowledges and agrees that the debt subordination effected by this clause 9.2 (“Subordination”) is not affected by any act or omission of NAB or an Unsubordinated 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 the winding up of NAB in connection with a NAB Subordinated Note in excess of its entitlement under clause 9.2(a) (“Subordination”) above.
- f. **(consent of unsubordinated creditors not required)** Nothing in this clause 9.2 (“Subordination”) shall be taken to require the consent of any Unsubordinated Creditor to any amendment of this clause 9.2 (“Subordination”).

10 Meetings of Holders

10.1 Meeting Provisions

The Meeting Provisions contain provisions for convening meetings of the Holders to consider any matter affecting their interests.

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 NAB Subordinated 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.

10.2 Resolutions binding

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.

11 Variation

11.1 Variation with consent

Subject to clause 11.2 (“Variation without consent”) and clause 11.4 (“No variation which affects Tier 2 eligibility”), NAB may vary the Deed Poll and these Terms with the approval of the Holders by Extraordinary Resolution.

11.2 Variation without consent

Subject to clause 11.4 (“No variation which affects Tier 2 eligibility”), NAB may vary the Deed Poll and these Terms without the approval of the Holders if, in the reasonable opinion of NAB, the variation:

- a. is necessary or advisable to comply with any law;
- b. is necessary to correct a manifest error, or is otherwise of a formal, technical or administrative nature;
- c. is made to cure any ambiguity or correct or supplement any defective or inconsistent provision;
- d. is necessary or advisable to maintain the quotation of the NAB Subordinated Notes on ASX; or
- e. in any other case, is not materially prejudicial to the interests of the Holders as a whole.

11.3 Holder approval not required

NAB does not require the approval of Holders to vary or terminate any registry agreement or other deed or agreement (other than the Deed Poll and the Terms) in respect of any NAB Subordinated Notes.

11.4 No variation which affects Tier 2 eligibility

NAB must not vary the Deed Poll or these Terms in a way which affects the eligibility of the NAB Subordinated Notes as Tier 2 Capital without the prior written approval of APRA.

11.5 Meaning of vary

In this clause 11 (“Variation”), **vary** includes amend, modify, cancel, alter or add to and **variation** has a corresponding meaning.

Appendix: Terms of the NAB Subordinated Notes

11.6 Notice to Holders

NAB must notify Holders of any variation to the Deed Poll or these Terms.

12 Further issues and no other rights

12.1 Further issues

NAB may from time to time, without the consent of the Holders, issue further NAB Subordinated Notes having the same Terms as the NAB Subordinated Notes in all respects (or in all respects except for the first payment of interest). References in these Terms to the NAB Subordinated Notes include (unless the context requires otherwise) any other NAB Subordinated Notes issued pursuant to these Terms and forming a single series with the NAB Subordinated Notes.

12.2 No other rights

A Holder of the NAB Subordinated Notes has:

- a. no right to participate in the issue of any other securities of NAB; and
- b. no right to vote at any meeting of members of NAB.

13 Notices

13.1 Notices to Holders

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

- a. 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); or
- b. except for a notice of meeting in accordance with clause 10 ("Meetings of Holders") and subject to clause 15 ("Code of Banking Practice"):
 - i. so long as the NAB Subordinated Notes are quoted on ASX, given by publication of an announcement on ASX; or
 - ii. given by an advertisement published in the *Australian Financial Review* or *The Australian*.

13.2 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.

13.3 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.

13.4 Receipt – publication on ASX

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

13.5 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.

13.6 Receipt – postal

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

13.7 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.

14 Governing law and jurisdiction

14.1 Governing law

The NAB Subordinated Notes are governed by the law in force in Victoria, Australia.

14.2 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.

14.3 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.

15 Code of Banking Practice

NAB has adopted the Code of Banking Practice and relevant provisions of the Code of Banking Practice apply to the NAB Subordinated Notes to the extent that a Holder is a retail client (as defined in Chapter 7 of the Corporations Act).

16 Interpretation

16.1 Definitions

In these Terms the following expressions have the following meanings:

APRA means the Australian Prudential Regulation Authority (ABN 79 635 582 658) or any successor body responsible for prudential regulation of NAB.

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.

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.

Australian Tax Act means the Income Tax Assessment Act 1936 of Australia and where applicable any replacement legislation including, but not limited to, the Income Tax Assessment Act 1997 of Australia.

Banking Act means the Banking Act 1959 (Cth).

Basel III Consultation Paper means the consultative document titled "A global regulatory framework for more resilient

banks and banking systems" which was released by the Basel Committee on Banking Supervision on 16 December 2010 and revised in June 2011 and any related releases, papers, proposals (including, without limitation, the release of 13 January 2011) and any related prudential standards or guidelines of the Basel Committee on Banking Supervision or APRA.

Business Day means a day which is a business day within the meaning of the ASX Listing Rules.

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

Code of Banking Practice means the Australian Bankers' Association Code of Banking Practice (May 2004 version) as amended by any subsequent amendment NAB adopts.

Corporations Act means the Corporations Act 2001 of Australia.

Deed Poll means the deed poll entitled "NAB Subordinated Notes Deed Poll" executed by NAB on 14 May 2012 and amended and restated as at 21 May 2012.

Directors means the directors of NAB.

Draft APS 160 means the draft Prudential Standard APS 160 entitled "Capital Adequacy: Basel III Transitional Arrangements" issued by APRA in March 2012.

Event of Default has the meaning given in clause 8.1 ("Events of Default").

Extraordinary Resolution has the meaning given in the Meeting Provisions.

Face Value means, in respect of the NAB Subordinated Notes, the face value and denomination of the NAB Subordinated Notes as specified in clause 1.2 ("Face Value").

Government Agency means any government or any governmental, semi-governmental, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity.

Group means NAB and its controlled entities.

Holder means, for a NAB Subordinated Note, each person whose name is entered in the Register as the holder of that NAB Subordinated Note.

Interest Payment Date has the meaning given in clause 3.2 ("Interest Payment Dates"), 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 3.3 ("Interest Rate").

Issue Date means the date on which a NAB Subordinated Note is issued.

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.

Maturity Date means 18 June 2022 or, if that date is not a Business Day, the next Business Day.

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 Subordinated Note means a registered, unsecured, subordinated debt obligation of NAB constituted by, and owing under the Deed Poll and issued on these Terms, the details of which are recorded in, and evidenced by, entry in the Register.

Ordinary Resolution has the meaning given in the Meeting Provisions.

Outstanding means all of the NAB Subordinated Notes other than:

- a. NAB Subordinated Notes which have been redeemed or satisfied in full by NAB; or
- b. NAB Subordinated 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 NAB Subordinated Notes to be redeemed on that day; or

- c. NAB Subordinated Notes in respect of which a Holder is unable to make a claim as a result of the operation of clause 6.4 ("Time limit on claims").

Payment Default has the meaning given in clause 8.1(a) ("Events of Default").

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 NAB Subordinated Notes are to be redeemed before their Maturity Date in accordance with clause 4 ("Redemption").

Register means a register of holders of NAB Subordinated 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 (ABN 48 078 279 277) or any other person appointed by NAB to maintain the Register and perform any payment and other duties as specified in that agreement.

Regulatory Event means a determination by the Directors that:

- a. NAB is not or will not be entitled to treat all of the NAB Subordinated Notes as Tier 2 Capital (including, without limitation, as a result of the Basel III Consultation Paper insofar as it applies to NAB or any of its controlled entities), except where the reason NAB is not entitled to

Appendix: Terms of the NAB Subordinated Notes

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treat all NAB Subordinated Notes as Tier 2 Capital is because NAB has exceeded a limit on the recognition of Tier 2 Capital which was in effect on the Issue Date or because of a limit set out in Table 1 of Draft APS 160; or

- b. transitional arrangements for recognising regulatory capital as a result of the Basel III Consultation Paper are or will be applied to the NAB Subordinated Notes in a manner which is in any way more adverse than that set out in Draft APS 160.

Related Entity has the meaning it has in the Corporations Act.

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.

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.

Tier 2 Capital means:

- a. prior to 1 January 2013, Lower Tier 2 capital as defined by APRA from time to time; and
- b. on and from 1 January 2013, Tier 2 capital as defined by APRA from time to time.

Unsubordinated Creditor means a creditor (including a depositor) of NAB to whom NAB is indebted in respect of Unsubordinated Debt.

Unsubordinated Debt means all present and future claims against NAB (including but not limited to claims of all depositors of NAB) which:

- a. would be entitled to be admitted in the winding up of NAB; and
- b. do not rank and are not by their terms expressed to rank equally with, or behind, the claims of the Holders.

Winding Up means:

- a. a court order is made for the winding up of NAB which is not successfully appealed or permanently stayed within 60 days of the making of such court order; or
- b. an effective resolution is passed by shareholders or members for the winding up of NAB.

Winding Up Default has the meaning given in clause 8.1(b) ("Events of Default").

16.2 References to certain general terms

Unless the contrary intention appears, a reference in these Terms to:

- a. a group of persons is a reference to any two or more of them jointly and to each of them individually;
- b. another grammatical form of a defined word or expression has a corresponding meaning;
- c. a reference to a document includes all schedules or annexes to it;
- d. a reference to a clause or paragraph is to a clause or paragraph of these Terms;
- e. a reference to a statute, ordinance, code, rule, directive or law (however described) includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
- f. a document (including these Terms) includes any variation or replacement of it;
- g. law means common law, principles of equity and statutes of any relevant jurisdiction (and statute laws include federal or state laws and regulations and other instruments under them, and consolidations, amendments, re-enactments or replacements of any of them), orders of a court of competent jurisdiction and so long as NAB Subordinated Notes are quoted on ASX, in relation to those NAB Subordinated Notes, the ASX Listing Rules;

- h. a reference to a directive includes a treaty, official directive, request, regulation, guideline or policy (whether or not in any case having the force of law) with which responsible participants in the relevant market generally comply;
- i. Australian Dollars or A\$ or cents is a reference to the lawful currency of Australia;
- j. a time of day is a reference to Melbourne time;
- k. if these Terms require an event to occur on a Business Day, and the date specified by these Terms for the occurrence of that event is not a Business Day, then that event is taken to occur on the next Business Day following that date;
- l. the word "person" includes an individual, a firm, a body corporate, an unincorporated association and an authority;
- m. a particular person includes a reference to the person's executors, administrators, successors, substitutes (including persons taking by novation) and assigns;
- n. an agreement, representation or warranty in favour of two or more persons is for the benefit of them jointly and each of them individually;
- o. anything (including any amount) is a reference to the whole and each part of it;
- p. the words "including", "for example" or "such as" when introducing an example, do not limit the meaning of the words to which the example relates to that example or examples of a similar kind;
- q. a reference to an amount of interest or Face Value includes any additional amount due in respect of that amount under clause 7.2 ("Payment of additional amounts");
- r. any provision which refers to the requirements of APRA or any other prudential regulatory requirements will apply to NAB only if NAB is an entity subject to regulation and supervision by APRA at the relevant time;

- s. any provision which requires APRA's consent or approval will apply only if APRA requires that such consent or approval be given at the relevant time; and
- t. any provisions in these Terms requiring the prior approval of APRA for a particular course of action to be taken by NAB do not imply that APRA has given its consent or approval to the particular action as of the Issue Date.

16.3 Number

The singular includes the plural and vice versa.

16.4 Headings

Headings (including those in brackets at the beginning of paragraphs) are for convenience only and do not affect the interpretation of these Terms.

16.5 Inconsistency with ASX Listing Rules

So long as NAB Subordinated Notes are quoted on ASX, these Terms as they relate to those NAB Subordinated Notes are to be interpreted in a manner consistent with applicable ASX Listing Rules.

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Registry

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

Sole Arranger, Lead Manager and Bookrunner

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How to contact us

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during the Offer Period, and for a week following)
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