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ASX ANNOUNCEMENT

Tuesday, 31 May 2016

NAB launches NAB Capital Notes 2 Offer

National Australia Bank (NAB) today announced an offer of NAB Capital Notes 2, which are expected to be quoted on the ASX.

Each NAB Capital Note 2 will have an Issue Price of \$100 and an expected Margin in the range of 4.95% to 5.10% per annum over the 90 day bank bill rate.

The Offer is expected to raise approximately \$750 million, with the ability to raise more or less. Once issued, the NAB Capital Notes 2 will qualify as Additional Tier 1 Capital for the Group.

Key terms of the Offer

- NAB Capital Notes 2 are fully paid perpetual, convertible notes issued directly by NAB. They are not guaranteed or secured and are not a deposit account or any other account with NAB.
- NAB Capital Notes 2 are expected to pay a discretionary, quarterly, floating rate, non-cumulative Distribution. The Distribution Rate is equal to the sum of the Bank Bill Rate and a Margin, which is adjusted for NAB's Tax Rate¹ to reflect franking credits attached to each Distribution (subject to availability).² Distributions are expected to be fully franked. The Margin will be determined under the Bookbuild and will not change for the term of the NAB Capital Notes 2.
- NAB Capital Notes 2 will mandatorily Convert into Ordinary Shares on 8 July 2024 or if an Acquisition Event occurs, provided certain conditions are met. With the prior written approval of the Australian Prudential Regulation Authority (APRA), NAB may elect to Convert, Redeem or Resell NAB Capital Notes 2 on 7 July 2022, or on the occurrence of particular events, provided certain conditions are met.
- NAB must immediately Convert NAB Capital Notes 2 into Ordinary Shares if a Loss Absorption Event occurs. A Loss Absorption Event may occur where NAB encounters severe financial difficulty. Depending on the market price of Ordinary Shares at that time, a Conversion in those circumstances is likely to result in Holders receiving Ordinary Shares that are worth significantly less than the Issue Price for each NAB Capital Note 2 they hold.
- Holders of NAB Capital Notes 2 will have no right to request that NAB Capital Notes 2 be redeemed. Without a Conversion, Redemption or Resale, Holders would have to sell their NAB Capital Notes 2 on the ASX at the prevailing market price.

¹ Tax Rate means the Australian corporate tax rate applicable to the franking account of NAB on the relevant Distribution Payment Date, currently 30%.

² A Distribution will only be paid if the Directors resolve to pay it and a Payment Condition does not exist on the Distribution Payment Date.

- NAB Capital Notes 2 are subject to risks which could affect their performance, including Distribution Rate risk and market price fluctuations. Information about the key risks of investing in NAB Capital Notes 2 is set out in the Prospectus.
- In a winding-up of NAB, NAB Capital Notes 2 rank ahead of Ordinary Shares, equally and without preference amongst themselves and Equal Ranking Instruments, and junior to creditors of NAB, including depositors – though the amount of any return in a winding-up will be adversely affected if a Loss Absorption Event has occurred.
- The Offer comprises a Securityholder Offer (for all existing ordinary shareholders of NAB as well as holders of National Income Securities, NAB Subordinated Notes, NAB CPS, NAB CPS II and NAB Capital Notes as at 26 May 2016 with a registered address in Australia), a Broker Firm Offer and an Institutional Offer by invitation. There is no general public offer.
- The Issue Price for NAB Capital Notes 2 will be \$100 per NAB Capital Note 2 and there is a Minimum Application of 50 NAB Capital Notes 2 and thereafter in multiples of 10 NAB Capital Notes 2.
- NAB will use the net proceeds of the Offer for general corporate purposes.
- NAB shareholder approval is not required for the Offer.

An initial Prospectus has been lodged with ASIC and the ASX. The Prospectus does not contain the Margin or the Application Form. A replacement Prospectus containing the Margin and an Application Form will be lodged with ASIC and the ASX once the Margin is determined and will be available within Australia at www.nab.com.au/ncn2offer or by calling the NAB Information Line on 1300 367 647, Monday to Friday from 8.00am to 7.30pm (AEST) during the Offer Period and for a week following.

This announcement only contains a summary of the features of NAB Capital Notes 2 and the Offer. The Prospectus and Terms of NAB Capital Notes 2 should be read in full before deciding to invest. Applications may only be made using the Application Form attached to or accompanying the Prospectus.

Capitalised terms which are undefined in this announcement have the meaning given to them in the Prospectus.

Key Dates*

Record Date for Securityholder Offer	26 May 2016
Announcement of the NAB Capital Notes 2 Offer	31 May 2016
Lodgement of Prospectus with ASIC	31 May 2016
Bookbuild	7 June 2016
Announcement of Margin	8 June 2016
Offer Opens	8 June 2016
Securityholder Offer Closes	30 June 2016
Broker Firm and Institutional Offers Close	6 July 2016
Issue of NAB Capital Notes 2	7 July 2016

Commencement of deferred settlement trading	8 July 2016
Despatch of Holding Statements	from 8 July 2016
Commencement of trading on normal settlement basis	12 July 2016
First Distribution Payment Date	7 October 2016
Optional Conversion / Redemption / Resale Date ³	7 July 2022
Mandatory Conversion Date ⁴	8 July 2024

*The key dates for the Offer are indicative only and may change without notice.

NAB is acting as Arranger and Joint Lead Manager to the Offer. Deutsche Bank, Evans & Partners, J.P. Morgan, Morgans and Westpac Institutional Bank have also been appointed as Joint Lead Managers to the Offer.

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Further information

NAB Information Line on 1300 367 647 Monday to Friday from 8.00am to 7.30pm (AEST) during the Offer Period and for a week following.

The information provided in this announcement is not investment advice and has been prepared without taking into account individual investment objectives, financial situations or particular needs (including financial and taxation issues). Investors should consider the Prospectus and obtain advice from a financial adviser or other professional adviser in deciding whether to apply for NAB Capital Notes 2.

The statement 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. In particular, NAB Capital Notes 2 have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or the securities laws of any state or other jurisdiction of the United States and may not be offered, sold or resold in the United States or to, or for the account or benefit of, any "U.S. person" (as defined in Regulation S under the Securities Act) unless the NAB Capital Notes 2 are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available.

³ With APRA's prior written approval, NAB may elect to Convert, Redeem or Resell NAB Capital Notes 2 on 7 July 2022. Holders should not expect that APRA's approval will be given for any optional Conversion, Redemption or Resale. This date assumes the Issue Date is 7 July 2016.

⁴ NAB Capital Notes 2 will Convert into Ordinary Shares on 8 July 2024 (subject to the Mandatory Conversion Conditions being satisfied and only if, prior to that date, NAB Capital Notes 2 have not been Converted, Redeemed or Resold with APRA's prior written approval, or Written Off). This date assumes the Issue Date is 7 July 2016.