

£400,000,000

# National Capital Trust I

## Trust Preferred Securities

(liquidation amount of £1,000 per Trust Preferred Security)  
guaranteed to the extent described in this offering memorandum by,  
and each redeemable upon delivery of one GDR representing  
one preference share (liquidation amount of £1,000 per share) of,

## National Australia Bank Limited

ABN 12 004 044 937

- **The Trust Preferred Securities.** The trust preferred securities represent preferred undivided beneficial ownership interests in the assets of National Capital Trust. The sole assets of National Capital Trust will be the funding preferred securities, which represent preferred undivided beneficial ownership interests in the assets of National Funding Trust, the exchange agreement and a limited National guarantee. The assets of National Funding Trust will consist principally of debentures issued by National, acting through its London branch. The trust preferred securities are not repayable in cash unless National's London branch redeems the debentures for cash.
- **Payments on the Trust Preferred Securities.** From September 29, 2003 to but excluding December 17, 2018, for each trust preferred security you own, you will earn a non-cumulative distribution payable semi-annually in arrears at a fixed rate equal to 5.62%, or £56.20 per trust preferred security, per year and, thereafter, in respect of each five-year distribution reset period, for each trust preferred security you own, you will earn a non-cumulative distribution payable semi-annually in arrears at a rate equal to the sum of the relevant five-year benchmark gilt rate plus 1.93%, but only, in each case, if (a) National's London branch pays interest on the debentures or (b) National Funding Trust or National under its guarantee pays distributions on the funding preferred securities.
- **Redemption upon delivery of GDRs.** On December 17, 2052, or earlier if one of the other events described in this offering memorandum under "Description of the Exchange Agreement—Exchange Event" occurs, the trust preferred securities will be redeemed and National will cause to be delivered or held for delivery to you one GDR for each trust preferred security so redeemed, unless as a result of or at the time of the exchange event National is unable to issue the National preference shares.
- **Guarantees.** National will guarantee the trust preferred securities and the funding preferred securities to the extent described in this offering memorandum.

If National's London branch redeems the debentures for cash, National Funding Trust redeems the funding preferred securities for cash and National Capital Trust redeems the trust preferred securities for cash, you will receive for each trust preferred security you own, (i) on any date other than December 17, 2018 or any subsequent distribution rate reset date, if redemption occurs as a result of a make-whole redemption event, the make-whole redemption price or, if redemption occurs as a result of a withholding tax event, the par redemption price, and (ii) on December 17, 2018 and on any distribution rate reset date thereafter, the par redemption price.

Application has been made to list the trust preferred securities on the Luxembourg Stock Exchange in accordance with the rules thereof.

**Investing in the trust preferred securities involves risks. Please see "Risk Factors" beginning on page 23.**

These securities have not been registered in the United States under the Securities Act of 1933, as amended (the "Securities Act"), or the securities laws of any other jurisdiction. Unless they are so registered, these securities may be offered only in transactions that are exempt from or not subject to registration under the Securities Act or the securities laws of any other jurisdiction. Accordingly, we are offering these securities only (1) outside the United States in compliance with Regulation S under the Securities Act and (2) in the United States to qualified institutional buyers in compliance with Rule 144A under the Securities Act. Prospective purchasers are hereby notified that the seller of the trust preferred securities may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For further details about eligible offerees, deemed representations and transfer and resale restrictions, see "Notice to Investors", "ERISA Considerations" and "Plan of Distribution".

None of the trust preferred securities, the funding preferred securities, the debentures, the National preference shares or National guarantees will represent a deposit liability of National for purposes of the Banking Act of 1959 of Australia or for purposes of the FSMA regime in the United Kingdom, and none of them will be insured by the US Federal Deposit Insurance Corporation or any other governmental agency or compensation scheme in the United States, Australia, the United Kingdom or elsewhere.

	Per Trust Preferred Security	Total
Offering price(1) . . . . .	£1,000	£400,000,000
Proceeds to National Capital Trust(2) . . . . .	£1,000	£400,000,000

- (1) Plus accrued distributions from September 29, 2003, if settlement occurs after that date.
- (2) National Capital Trust will pay the expenses of the offering and commissions payable to the initial purchasers. The commissions payable to the initial purchasers are estimated to be in the amount of £4,000,000.

The trust preferred securities will be ready for delivery in book-entry form only through the facilities of Euroclear Bank S.A./N.V. and Clearstream Banking, *société anonyme*, on or about September 29, 2003, against payment in immediately available funds.

**Deutsche Bank**

**Merrill Lynch & Co.**

The date of this offering memorandum is September 22, 2003.



**You should only rely on the information contained in this offering memorandum, including the documents incorporated by reference herein. National Australia Bank Limited, National's London branch, National Funding Trust, National Capital Trust, the initial purchasers and their respective affiliates have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. National, National's London branch, National Funding Trust, National Capital Trust, the initial purchasers and their respective affiliates are not making an offer to sell the securities offered hereby in any jurisdiction where such offer or sale is not permitted. The information contained in this offering memorandum is accurate only as of the date hereof. Our business, financial condition, results of operations and prospects may have changed since this date.**

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**In connection with the issue and distribution of any trust preferred securities, Merrill Lynch International, or any person acting for it, may over-allot or effect transactions with a view to supporting the market price of the trust preferred securities at a level higher than that which might otherwise prevail for a limited period. However, there is no obligation on Merrill Lynch International or any of its agents to do this. Such stabilizing, if commenced, may be discontinued at any time and must be brought to an end after a limited period.**

We have applied to list the trust preferred securities on the Luxembourg Stock Exchange in accordance with the rules of that exchange. We cannot guarantee that listing will be obtained on that exchange. Inquiries regarding our listing status on the Luxembourg Stock Exchange should be directed to our Luxembourg listing agent, Deutsche Bank Luxembourg S.A. (the “Luxembourg listing agent”).

This offering memorandum includes particulars given in compliance with the rules governing the listing of securities on the Luxembourg Stock Exchange. We accept full responsibility for the accuracy of the information contained in this offering memorandum and the documents incorporated by reference herein. We confirm, having made all reasonable inquiries, that to the best of our knowledge and belief there are no other facts that we have omitted that make any statement contained in or incorporated by reference in this offering memorandum misleading.

The Luxembourg Stock Exchange takes no responsibility for the contents of this offering memorandum and the documents incorporated by reference herein, makes no representation as to their accuracy or completeness, and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this offering memorandum, including the documents incorporated by reference herein.

This offering memorandum, including any documents incorporated by reference herein, will be available free of charge at the office of the Luxembourg listing agent.

In this offering memorandum:

- references to “APRA” are to the Australian Prudential Regulation Authority;
- references to “Capital Holdings” are to National Capital Holdings I Inc., a Delaware corporation wholly owned by National;
- references to “debentures” are to the pounds sterling-denominated instruments that our London branch will issue to National Funding Trust that will mature on January 2, 2053;
- references to “deposit agreement” are to the deposit agreements between National and The Bank of New York, as depositary, under which National will deliver National preference shares to the depositary and the depositary will deliver GDRs representing the National preference shares as described under “Description of the GDRs”;
- references to “equal ranking instruments” are to (i) the TrUEPrS preference shares, (ii) the NIS preference shares, (iii) the Excap preference shares (if issued), (iv) each other preference share that we may issue that is expressed to rank equally with the foregoing for returns of capital in a winding-up of National and (v) any securities or other instruments that are expressed to rank in a winding-up equally with those preference shares;
- references to “Excaps” are to the exchangeable capital securities issued by National, each consisting of a capital security exchangeable in certain circumstances into Excap preference shares or ordinary shares of National;
- references to “Excap preference shares” are to preference shares which may be issued by National in an aggregate liquidation amount of up to US\$1.0 billion by National in connection with the Excaps;

- references to “exchange agreement” are to an agreement among National, National Capital Trust, Funding Holdings, National Funding Trust and the exchange trustee;
- references to “exchange trustee” are to the corporate trust department of The Bank of New York;
- references to “FSMA” are to the Financial Services and Markets Act 2000 (UK), including any regulation made pursuant thereto;
- references to the “funding guarantee” are to a guarantee agreement among National, National Funding Trust and The Bank of New York, as guarantee trustee, whereby National guarantees payments to the holders of the funding preferred securities to the extent described in this offering memorandum;
- references to “Funding Holdings” are to National Funding Holdings Pty Ltd, an Australian corporation wholly owned by National;
- references to the “funding preferred securities” are to the funding preferred securities that National Funding Trust will issue to National Capital Trust;
- references to “GDRs” are to global depositary receipts evidencing global depositary shares, or “GDSs”, each representing one National preference share;
- references to “London branch” are to National acting through its London branch or any substitute branch;
- references to “National”, “we”, “us” and “our” are to National Australia Bank Limited except that, unless the context otherwise requires, references to “National”, “we”, “us” and “our” under the captions “Capitalization and Capital Adequacy”, “National Australia Bank Limited”, “Selected Consolidated Financial and Operating Information” and “Recent Developments” are to National and its consolidated subsidiaries;
- references to “National Capital Trust” are to National Capital Trust I, a Delaware statutory trust;
- references to “National Funding Trust” are to National Funding Trust I, a Delaware statutory trust;
- references to the “National preference shares” are to the preference shares of National which are to be issued in exchange for the trust preferred securities or funding preferred securities, as the case may be;
- references to “NIS” are to income securities issued by National comprising fully paid notes issued by National through its New York branch stapled to unpaid preference shares issued by National;
- references to “NIS preference shares” are to the preference shares issued by National in connection with the NIS which, if paid up in accordance with the terms of the NIS, will be outstanding in an aggregate liquidation amount of up to A\$2.0 billion;
- references to “substitute branch” are to a branch of National that is substituted as obligor under the debentures as described under “Description of the Debentures—Substitution”;
- references to “TrUEPrS<sup>SM</sup>” are to trust units exchangeable for preference shares issued by National consisting of an interest in the NAB Exchangeable Preferred Trust which is exchangeable in certain circumstances for TrUEPrS preference shares issued by National;

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<sup>SM</sup> TrUEPrS<sup>SM</sup> is a service mark of Merrill Lynch & Co., Inc.

- references to “TrUEPrS preference shares” are to US\$450.1 million aggregate liquidation amount outstanding of preference shares issued by National in connection with the TrUEPrS;
- references to the “trust guarantee” are to a guarantee agreement among National, National Capital Trust and The Bank of New York, as guarantee trustee, whereby National guarantees payments and deliveries to the holders of the trust preferred securities to the extent described in this offering memorandum; and
- references to the “trust preferred securities” are to the trust preferred securities that National Capital Trust will issue to the initial purchasers and that are being offered by this offering memorandum.

#### **NOTICE TO NEW HAMPSHIRE RESIDENTS**

**Neither the fact that a registration statement or an application for a license has been filed under Chapter 421-B of the New Hampshire Revised Statutes with the State of New Hampshire nor the fact that a security is effectively registered or a person is licensed in the State of New Hampshire constitutes a finding by the Secretary of State that any document filed under RSA 421-B is true, complete and not misleading. Neither any such fact nor the fact that an exemption or exception is available for a security or a transaction means that the Secretary of State has passed in any way upon the merits or qualifications of, or recommended or given approval to, any person, security, or transaction. It is unlawful to make, or cause to be made, to any prospective purchaser, customer or client any representation inconsistent with the provisions of this paragraph.**

## IMPORTANT NOTICES

The information contained in this offering memorandum relating to National, National's London branch, National Funding Trust, National Capital Trust and other National affiliates was obtained from National and other sources, but no assurance can be given by the initial purchasers as to the accuracy or completeness of that information. The initial purchasers have not independently verified any of the information contained herein (financial, legal or otherwise). In making an investment decision, you must rely on your own examination of National, National's London branch, National Funding Trust, National Capital Trust and other National affiliates and the terms of this offering, including the merits and risks involved. Moreover, the contents of this offering memorandum are not to be construed as legal, business or tax advice. You are urged to consult your own attorney, business or tax advisor for legal, business or tax advice.

You are hereby offered the opportunity to ask questions of and receive answers from National concerning its business, the securities offered hereby and the terms and conditions of this offering. All inquiries relating to National, National's London branch, National Funding Trust, National Capital Trust and other National affiliates, this offering memorandum and this offering should be directed to National and the initial purchasers.

This offering memorandum is submitted for personal use to a limited number of institutional and other sophisticated investors for informational use solely in connection with the consideration of the purchase of the securities offered hereby pursuant to Rule 144A or pursuant to Regulation S. Its use for any other purpose is not authorized. It may not be copied or reproduced in whole or in part, nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is submitted.

This offering memorandum does not constitute an offer of, or an invitation by or on behalf of, National, National's London branch, National Funding Trust, National Capital Trust, the initial purchasers or any of their respective directors, officers and affiliates to subscribe for or purchase any securities in any jurisdiction to any person to whom it is unlawful to make such an offer in such jurisdiction. Each purchaser of the securities offered hereby must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells the securities or possesses or distributes this offering memorandum and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of the securities under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales. The distribution of this offering memorandum and the offering of the securities in certain jurisdictions may be restricted by applicable law. Persons into whose possession this offering memorandum comes are required by National, National's London branch, National Funding Trust, National Capital Trust and the initial purchasers and their respective directors, officers and affiliates to inform themselves about and to observe any such restrictions. Neither National nor National's London branch, National Funding Trust, National Capital Trust, the initial purchasers or any of their respective directors, officers or affiliates has any responsibility therefor. There is no undertaking to register the securities under any state or federal securities laws of the United States. The securities offered hereby must not be resold in the United States unless they are subsequently registered or an exemption from registration is available. The securities will be subject to certain restrictions on transfer, as described under "Notice to Investors" and "Plan of Distribution" in this offering memorandum.

Each subsequent purchaser of the securities offered hereby will be deemed by its acceptance of those securities to have made certain acknowledgements, representations and agreements intended to restrict the resale or other transfer of those securities as set forth in the securities or described in this offering memorandum and, in connection therewith, may be required to provide confirmation of its compliance with such resale or other transfer restrictions in certain cases. See "Notice to Investors".



Until 40 days after the commencement of this offering, an offer or sale within the United States by any dealer (whether or not participating in this offering) of the securities initially sold pursuant to Regulation S may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act. See “Notice to Investors”.

The securities offered hereby have not been approved or disapproved by the US Securities and Exchange Commission, or the SEC, any state securities commission or any other regulatory authority, nor have any of those authorities passed upon or endorsed the merits of this offering or the accuracy or adequacy of this offering memorandum. Any representation to the contrary is unlawful.

Certain persons participating in this offering may engage in transactions that stabilize, maintain or otherwise affect the price of the trust preferred securities. These transactions may include stabilizing and the purchase of trust preferred securities to cover short positions. Such stabilizing, if commenced, may be discontinued at any time. For a description of these activities, see “Plan of Distribution” in this offering memorandum.

The trust preferred securities may not be purchased or held by (i) any plan, program or arrangement subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), or Section 4975 of the Internal Revenue Code of 1986, as amended (the “Code”), or (ii) any person acting on behalf of or using the assets of any such plan, program or arrangement, unless such purchase or holding is covered by the exemptive relief provided by Prohibited Transaction Class Exemption (“PTCE”) 96-23, 95-60, 91-38, 90-1 or 84-14. Any purchaser or holder of the trust preferred securities or any interest therein will be deemed to have represented by its purchase or holding thereof that either (i) it is not a plan, program or arrangement subject to ERISA or Section 4975 of the Code and it is not purchasing such securities on behalf of or using the assets of any such plan, program or arrangement or (ii) such purchase or holding is covered by the exemptive relief provided by PTCE 96-23, 95-60, 91-38, 90-1 or 84-14. Prospective purchasers must carefully consider the restrictions on purchase set forth in “Notice to Investors” and “ERISA Considerations” in this offering memorandum.

You (by your acceptance of an interest or beneficial interest in the trust preferred securities) will be deemed to have represented that you do not hold and will not acquire or hold those interests or beneficial interests as the trustee of a trust estate which is an Australian resident trust estate for Australian tax purposes.

Notwithstanding anything herein to the contrary, you (and each employee, representative or other agent of yours) may disclose to any and all persons, without limitation of any kind beyond those described in the next sentence, the tax treatment and tax structure of an investment in the trust preferred securities and all materials of any kind (including opinions or other tax analyses) that are provided to you relating to such tax treatment and tax structure. Notwithstanding the foregoing, you may not disclose National’s name or any information identifying National until the closing of this offering. For these purposes, the tax treatment of an investment in the trust preferred securities means the purported or claimed United States federal income tax treatment of the trust preferred securities. Moreover, the tax structure of an investment in the trust preferred securities includes any fact that may be relevant to understanding the purported or claimed United States federal income tax treatment of an investment in the trust preferred securities.

If you want to find out more information about us, please see the section in this offering memorandum entitled “Where You Can Find Additional Information”.



### **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This offering memorandum contains “forward-looking statements” within the meaning of Section 21E of the United States Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements can generally be identified by the use of words such as will, anticipate, believe, expect, project, estimate, intend, should, could, may, target, goal, objective, plan and other similar expressions. In this offering memorandum, forward-looking statements may, without limitation, relate to statements regarding:

- anticipated economic and financial outcomes,
- anticipated implementation of certain control systems and programs and
- certain plans, strategies and objectives of our management.

These forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond our control, that may cause actual results to differ materially from those expressed in the statements contained in this offering memorandum. For example:

- the anticipated economic and financial outcomes contained in this offering memorandum will be affected by movements in interest and foreign currency exchange rates, which may vary significantly from current levels, as well as by general economic conditions in each of our major markets (such variations, if adverse, may materially impact our financial condition and results of operations);
- the implementation of control systems and programs will be dependent on such factors as our ability to acquire or develop necessary technology or systems, our ability to attract and retain qualified personnel and the cooperation of customers and third-party vendors;
- the plans, strategies and objectives of management will be subject to government regulation which may change at any time and over which we have no control; and
- we will continue to be affected by general economic conditions in Australia and worldwide, movements and conditions in capital markets, the competitive environment in each of our markets and political and regulatory policies.

There can be no assurance that actual outcomes will not differ materially from the forward-looking statements contained in this offering memorandum.

### **WHERE YOU CAN FIND ADDITIONAL INFORMATION**

We currently file periodic reports and other information with the SEC. These documents include specific information regarding our business. You may read and copy any document filed by us with the SEC at its public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 to obtain information on the operation of the public reference room. Our filings with the SEC after November 4, 2002 are also available over the Internet at the SEC’s website at [www.sec.gov](http://www.sec.gov).

We have agreed that, if and for so long as we are not subject to the informational requirements of Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, and the securities offered hereby constitute “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, we will furnish to any holder of the securities offered hereby and to prospective purchasers designated by such holders the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act to permit compliance with Rule 144A in connection with resales of the securities offered hereby.

Separate financial statements of National Capital Trust are not included in this offering memorandum because such financial statements would not be meaningful nor would such statements provide holders of the trust preferred securities with any important financial information. National Capital Trust is a newly organized special purpose entity, has no operating history and no independent operations, and exists for the sole purpose of issuing the trust preferred securities, investing the proceeds from the sale of the trust preferred securities in the funding preferred securities issued by National Funding Trust, entering into the exchange agreement and engaging in incidental activities.

We incorporate by reference the documents listed below which were filed with the SEC under the Exchange Act:

- our annual report on Form 20-F for the fiscal year ended September 30, 2002, which includes our audited consolidated financial statements for the fiscal year ended September 30, 2002 and related notes; and
- our report on Form 6-K dated May 14, 2003, which includes, among other things, our interim financial report and our profit announcement, each for the six months ended March 31, 2003.

We also incorporate by reference reports we file under Sections 13(a) and (c) or 15 (d) of the Exchange Act with the SEC after the date of this offering memorandum until this offering is completed, including reports on Form 6-K, if and to the extent such report specifies that it is being incorporated by reference in this offering memorandum.

You should rely only on information contained or incorporated in this offering memorandum by reference. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted.

You should assume that the information appearing in this offering memorandum or any document incorporated by reference is accurate as of their respective dates only. Our business, financial condition and results of operations may have changed since then.

You may request a copy of any filings referred to above (excluding exhibits), at no cost, by contacting us at the following address: National Australia Bank Limited, Level 24, 500 Bourke Street, Melbourne, Victoria 3000, Australia; Attention: Company Secretary. Telephone requests may be directed to (61-3) 8641-3500.

**None of the information on our website is incorporated by reference herein or otherwise deemed to be a part of this offering memorandum. Any references in this offering memorandum to our website are for informational purposes only.**

## ENFORCEABILITY OF CIVIL LIABILITIES

We are an Australian corporation having limited liability. All of our directors and executive officers and certain other parties named herein reside outside the United States (principally in Australia). All or a substantial portion of our assets and the assets of those persons may be located outside the United States and the United Kingdom. As a result, it may be difficult for you to effect service of process within the United States upon us or such companies or persons or to enforce against us or such companies or persons in foreign courts judgments obtained in US or United Kingdom courts predicated upon, among other things, the civil liability provisions of the securities laws of the United States. We have been advised by Mallesons Stephen Jaques, our Australian counsel, and CMS Cameron McKenna, our United Kingdom counsel, that there is doubt as to the enforceability in the Commonwealth of Australia and the United Kingdom in original actions or in actions for enforcement of judgments of foreign courts, of civil liabilities predicated upon securities laws of foreign jurisdictions.

## CURRENCY OF PRESENTATION AND EXCHANGE RATES

We publish our consolidated financial statements in Australian dollars. Our fiscal year ends on September 30 of each year. The following table sets forth, for our fiscal years indicated, the month-end high, month-end low, month-end average and period-end spot settlement rates as published by the Bank of England for the purchase of pounds sterling using Australian dollars, expressed in pounds sterling per A\$1.00. We also set forth below the high and low spot settlement rates for each of the last full six months. On August 29, 2003, the spot settlement rate was £0.4059.

<u>Fiscal Year Ended September 30</u>	<u>At Period End</u>		<u>Average Rate(1)</u>		<u>Low</u>	<u>High</u>
1998 . . . . .	0.3483		0.3899		0.3403	0.4206
1999 . . . . .	0.3964		0.3929		0.3682	0.4202
2000 . . . . .	0.3664		0.3898		0.3664	0.4056
2001 . . . . .	0.3353		0.3622		0.3353	0.3756
2002 . . . . .	0.3456		0.3617		0.3456	0.3868
	<u>August 2003</u>	<u>July 2003</u>	<u>June 2003</u>	<u>May 2003</u>	<u>April 2003</u>	<u>March 2003</u>
High . . . . .	0.4164	0.4121	0.4067	0.4029	0.3931	0.3888
Low . . . . .	0.3988	0.4002	0.3956	0.3903	0.3824	0.3696

(1) The average of the spot settlement buying rates on the last day of each month during the period.

For your convenience, this offering memorandum contains translations of certain Australian dollar amounts into pounds sterling at the rate or rates indicated. These translations should not be construed as representations that the Australian dollar amounts actually represent such pounds sterling amounts or could be converted into pounds sterling at the rate indicated.

Unless otherwise indicated, conversions from A\$ to pounds sterling have been made at the spot settlement rate on August 29, 2003 of £0.4059.

In this offering memorandum, unless otherwise indicated, “£” or “pounds sterling” means British pounds, “US\$” or “US dollars” means United States dollars and “\$” or “A\$” means Australian dollars.

## EXCHANGE CONTROLS

The Australian dollar is convertible into pounds sterling at freely floating rates and there are currently no restrictions on the flow of Australian currency between Australia and the United Kingdom. The written approval of the Australian Minister for Foreign Affairs is required for transactions involving the control or ownership of assets by persons or entities linked to terrorist activities and identified by the United Nations and the Commonwealth of Australia under the Charter of the United

Nations (Anti-terrorism—Persons and Entities) List, as published from time to time in the Commonwealth Government Gazette. This includes individuals or entities linked with Osama bin Laden, the Taliban and other terrorist organizations. Transactions involving persons published in the Gazette without the permission of the Minister are a criminal offence.

Transactions involving individuals associated with the regime of former President of Yugoslavia Slobodan Milosevic and certain ministers and senior officials of the Government of Zimbabwe are prohibited under the Banking (Foreign Exchange) Regulations 1959 (Cth). The Reserve Bank of Australia publishes changes to prohibited parties and variations in the restrictions on those parties from time to time in the Commonwealth Government Gazette.

Transactions over A\$100,000 involving the Embassy of the Federal Republic of Yugoslavia, the Consulate-General of the Federal Republic of Yugoslavia and Narodna Banka Jugoslavije (including Banque Nationale de Yugoslavie) require prior approval from the Reserve Bank of Australia.

### FINANCIAL INFORMATION PRESENTATION

Unless otherwise indicated, the financial information about us contained in this offering memorandum is based on Australian generally accepted accounting principles, or Australian GAAP, which are significantly different in certain respects from United States generally accepted accounting principles, or US GAAP. See note 58 to our financial statements contained in our 2002 Form 20-F, incorporated by reference herein, for a discussion of the significant differences between Australian GAAP and US GAAP as they apply to us for the periods presented in the 2002 Form 20-F.

In addition to discussing the Australian GAAP financial information in our 2003 profit announcement for our half-year ended March 31, 2003, our half-year results announcement presents certain “non-GAAP financial measures” (as defined in Regulation G under the Securities Act) of our financial performance and results. These non-GAAP financial measures are not defined under or calculated in accordance with either Australian GAAP or US GAAP and are described below. Our 2003 half-year results announcement contains certain reconciliations of these non-GAAP financial measures to our financial results prepared in accordance with Australian GAAP.

- *Cash earnings*—We present our cash earnings in our half-year results announcement as a key performance measure and financial target used by National. Dividends paid by National are based on cash earnings (before significant items). Cash earnings are also a key performance measure used by the investment community in Australia as well as our Australian peers with similar business portfolios. Cash earnings is defined as net profit less outside equity interests, distributions to holders of our National Income Securities and Trust units, and revaluation profit/(loss) after tax, plus goodwill amortization. The revaluation profit/(loss) relates to the movement in net market value (including the value of intangible assets) of investments in life insurance controlled entities recorded on the balance sheet in accordance with Australian accounting standards. As it primarily relates to an internally generated intangible asset, we believe that it is prudent to isolate this amount from the underlying result. It is separately identified and discussed in detail in the half-year results announcement. We also note that this method of accounting for the value of life insurance controlled entities is not comparable with other international accounting standards. Cash earnings does not refer to, or in any way, purport to represent cash flows, funding or the liquidity position of National. We include a reconciliation of cash earnings to net profit attributable to members in the half-year results announcement.
- *Cash earnings before significant items and net profit before significant items*—Under Australian accounting standards, when a revenue or expense from ordinary activities is of such a size, nature or incidence that its disclosure is relevant in explaining the financial performance of an entity for the reporting period, its nature and amount must be disclosed separately either

on the face of the statement of financial performance or in the notes to the financial statements. We have identified certain significant items in the half-year results and have presented both cash earnings and net profit before such significant items. We believe that the inclusion of these items distorts our underlying operating results and causes difficulties in identifying underlying performance and trends. Through the clear separation and identification of these items, we are able to address these items in full as well as highlight our underlying performance. We include certain reconciliations of cash earnings before significant items and net profit before significant items to net profit attributable to members in the half-year results announcement.

- *Cash earnings per share*—We present cash earnings per share in our half-year results announcement. Cash earnings per share is based on the cash earnings as described above and is presented for similar reasons.
- *Underlying profit*—We present underlying profit in the half-year results announcement. This is a key performance measure used by National, as it is a basic measure of banking income less expenses, representing earnings generation from banking operations before charges for credit risk. Underlying profit is defined as net profit attributable to members adjusted to remove significant items, charge to provide for doubtful debts and income tax expense. We include certain reconciliations of underlying profit to cash earnings before significant items, with reconciliations elsewhere of cash earnings before significant items to net profit attributable to members in the half-year results announcement.
- *Cost to income ratios*—We present cost to income ratios in the half-year results announcement which are calculated by dividing costs, being total expenses less interest expense, life insurance expenses, goodwill amortization, charge to provide for doubtful debts and significant expenses, by income, being total revenue less interest expense, life insurance revenue and significant revenue items. We believe that the cost to income ratio calculated on this basis is a standard efficiency measure used widely across the Australian banking industry.
- *Economic Value Added (EVA<sup>®(1)</sup>)*—EVA<sup>®</sup> is a profitability measure designed to recognize the requirement to generate a satisfactory return on the economic capital invested in our business. National uses EVA<sup>®</sup> methodology as a basis for our internal incentive program in order to better align management's interests with those of shareholders in order to encourage longer-term decision-making and sustained economic value creation. EVA<sup>®</sup> primarily reflects net profit before income tax adjusted for a standard tax rate and inclusion of calculated benefit of imputation credits earned by paying Australian tax less a capital charge based on an 11.5% cost of capital applied to a calculation of economic capital based on shareholders' equity.

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<sup>(1)</sup> EVA<sup>®</sup> is a registered trademark of Stern Stewart & Co.

## SUMMARY INFORMATION—Q&A

*This summary includes questions and answers that highlight selected information from this offering memorandum to help you understand the trust preferred securities. This summary is qualified in its entirety by reference to the more detailed description of the trust preferred securities and the other securities and agreements described in this summary appearing elsewhere in this offering memorandum. You should carefully read this offering memorandum and the documents incorporated by reference herein to fully understand the terms of the trust preferred securities, as well as the tax and other considerations that should be important to you in making a decision about whether to invest in the trust preferred securities. You should pay special attention to the “Risk Factors” section to determine whether an investment in the trust preferred securities is appropriate for you.*

### **What are the trust preferred securities and the funding preferred securities?**

Each trust preferred security represents a preferred undivided beneficial ownership interest in the assets of National Capital Trust. The sole assets of National Capital Trust will be the funding preferred securities issued by National Funding Trust, which represent preferred undivided beneficial ownership interests in the assets of National Funding Trust, the exchange agreement and a limited National guarantee.

National Capital Trust will use all of the proceeds from the sale of the trust preferred securities to purchase the funding preferred securities. National Funding Trust will use all of the proceeds from the sale of the funding preferred securities to purchase the debentures from our London branch.

### **What is National Capital Trust?**

National Capital Trust is a statutory trust established under Delaware law that exists for the exclusive purpose of issuing the trust preferred securities, investing the proceeds from the sale of the trust preferred securities in the funding preferred securities issued by National Funding Trust, entering into the exchange agreement and engaging in incidental activities. Capital Holdings, or another entity we control, will be the sponsor of, and will retain the power to appoint and remove trustees of, National Capital Trust.

### **What is National Funding Trust?**

National Funding Trust is a statutory trust established under Delaware law that exists for the purpose of issuing the funding preferred securities and its common security, investing the proceeds from the sale of the funding preferred securities in the debentures, investing the proceeds from the sale of its common security in United Kingdom government securities, entering into the exchange agreement and engaging in incidental activities. Funding Holdings will hold the common security of National Funding Trust and Capital Holdings, or another entity we control, will be the sponsor of National Funding Trust.

### **What distributions will you receive on the trust preferred securities and when will you receive those distributions?**

From the closing date to but excluding December 17, 2018, for each trust preferred security you own, you will earn a non-cumulative distribution payable semi-annually in arrears generally on each June 17 and December 17, commencing December 17, 2003, at a fixed rate equal to 5.62%, or £56.20 per trust preferred security, per year.

From and including December 17, 2018, for each trust preferred security you own, you will earn, in respect of each five-year distribution reset period, a non-cumulative distribution payable semi-annually in arrears generally on each June 17 and December 17, commencing June 17, 2019, at a fixed rate equal to the sum of the relevant five-year benchmark gilt rate plus 1.93% per year.

The distributions on the trust preferred securities are non-cumulative. This means that, if National Capital Trust, or National as guarantor, does not pay a distribution in full on or within five business days after any distribution date, you will have no right to receive that distribution or the unpaid portion thereof at any time, even if National Capital Trust or National pays other distributions in the future. Because the sole assets of National Capital Trust will be the funding preferred securities of National Funding Trust, the exchange agreement and the limited National guarantee, and the assets of National Funding Trust will consist principally of the debentures, National Capital Trust's ability to pay distributions on the trust preferred securities



is ultimately dependent upon the ability of National, through its London branch, to make interest payments on the debentures.

Our London branch is required to make interest payments on the debentures unless our board of directors or a duly authorized committee thereof fails to declare interest for payment or a deferral condition exists. Deferral conditions are discussed under “Description of the Debentures—Deferral of Interest Payments” and include National having insufficient distributable profits during the applicable reference period. If a deferral condition exists then, unless approved by APRA, our London branch will not be obligated to pay, and will not pay, interest on the interest payment date. If interest is not paid on the debentures on or within five business days after an interest payment date, you will not receive a distribution on your trust preferred securities and, unless at the time of the non-payment we are unable to issue the National preference shares pursuant to the exchange agreement, your trust preferred securities will automatically be exchanged for GDRs representing National preference shares.

Subject to the exceptions and limitations described in this offering memorandum, National Capital Trust will make distributions on the trust preferred securities without withholding or deduction for taxes, assessments or other governmental charges imposed under the laws of Australia, the United Kingdom, the United States or any other jurisdiction from which a substitute branch makes payments on the debentures. If any such withholding or deduction is required by applicable law, subject to those exceptions and limitations, National Capital Trust will pay additional amounts so that you will receive the amount you would have received if there had been no such withholding or deduction.

Subject to the exceptions and limitations described in this offering memorandum, National Funding Trust will make distributions on the funding preferred securities without withholding or deduction for taxes, assessments or other governmental charges imposed under the laws of Australia, the United Kingdom, the United States or any other jurisdiction from which a substitute branch makes payments on the debentures. If any such withholding or deduction is required by applicable law, subject to those exceptions and limitations, National Funding

Trust will pay additional amounts so that National Capital Trust will receive the amount it would have received if there had been no such withholding or deduction.

**What happens if National Capital Trust does not pay a distribution or redemption payment on the trust preferred securities?**

If you do not receive a distribution on any distribution date, the restrictions described under “Description of the Debentures—Restrictions on Certain Payments” will apply until the distribution is paid or the GDRs are issued to holders of the trust preferred securities following the occurrence of the exchange event.

If you do not receive a distribution on the trust preferred securities on or within five business days after any distribution date for any reason, including:

- our London branch defers any interest payment or fails to pay interest on the debentures;
- National Funding Trust does not pay distributions on the funding preferred securities;
- we do not make a payment that the funding guarantee requires us to make to National Capital Trust; or
- we do not make a payment that the trust guarantee requires us to make,

then:

- (1) (A) we will cause to be delivered or held for delivery to you one GDR for each trust preferred security you own, pursuant to the exchange agreement and the deposit agreement, and the trust preferred securities will be redeemed unless we are unable to issue the National preference shares when the deferral or failure to pay occurs; and (B) the restrictions described below under “What happens if National does not pay dividends on any dividend payment date, does not pay the applicable redemption price when due or fails to cause the GDRs to be delivered or held for delivery to you following the exchange event?” will apply. Such restrictions will cease to apply if we have paid in full an optional dividend or dividends on the National preference shares with respect to a period of twelve consecutive months; or



- (2) if we are unable to issue the National preference shares when the deferral or failure to pay occurs, you will continue to earn non-cumulative distributions at the then current distribution rate and the restrictions described below under “What happens if National does not pay dividends on any dividend payment date, does not pay the applicable redemption price when due or fails to cause the GDRs to be delivered or held for delivery to you following the exchange event?” will apply unless and until National Capital Trust has paid in full an optional distribution or distributions on the trust preferred securities for a period of twelve consecutive months.

If you do not receive a redemption payment on any redemption date, the restrictions described below under “Description of the Debentures—Restrictions on Certain Payments” will apply until such payment is made in full.

**What is the liquidation amount of the trust preferred securities?**

If National Capital Trust is liquidated, dissolved or wound up and its assets are distributed, for each trust preferred security you own, unless National Capital Trust is liquidated as described in the next paragraph, you are entitled to receive the stated liquidation amount of £1,000, plus the accrued but unpaid distribution for the then current distribution period or, if the date of payment is a distribution date, the accrued and unpaid distribution for the most recent distribution period, from the assets of National Capital Trust available for distribution, after it has paid liabilities it owes to its creditors. Accordingly, you may not receive the full amount payable to you on liquidation if National Capital Trust does not have enough funds.

The trustees of National Capital Trust can elect to liquidate National Capital Trust and distribute the funding preferred securities to you if at any time the specified changes in tax law or other tax-related events or the specified changes in US investment company law constituting a trust special event, as described in this offering memorandum, occur. See “Description of the Trust Preferred Securities—Trust Special Event Distribution”.

**What are the debentures?**

The debentures are pounds sterling-denominated instruments that will be issued by us, acting through our London branch, to National Funding Trust.

Our London branch will make interest payments on the debentures only if, as and when declared by our board of directors or a duly authorized committee of our board and, in any case, unless a deferral condition exists. If a deferral condition exists, unless approved by APRA, our London branch will not be obligated to pay, and will not pay, interest on an interest payment date. Our London branch also has the right to redeem the debentures for cash under the circumstances described in this offering memorandum.

The debentures will be unsecured, junior subordinated obligations of ours that will rank, without any preference among themselves, senior to the claims of the holders of our ordinary shares, equal to the claims of the holders of equal ranking instruments and junior to the claims of all our depositors and creditors other than creditors whose claims, by their terms, rank equally with or junior to the claims of the holders of debentures. Under the terms of the debentures, we may issue preference shares senior to the debentures, only with the approval of the holders of at least 75% of the principal amount of the debentures then outstanding voting at a meeting to approve the issuance of each such series of preference shares or with the consent of holders holding at least 75% of the principal amount of the debentures.

Subject to the exceptions and limitations described in this offering memorandum, our London branch will make payments under the debentures without withholding or deduction for taxes, assessments or other governmental charges imposed under the laws of Australia, the United Kingdom, the United States or any other jurisdiction from which a substitute branch makes payments on the debentures. If any such withholding or deduction is required by applicable law, subject to those exceptions and limitations, we will pay additional amounts so that National Funding Trust will receive the amount it would have received if there had been no such withholding or deduction.

**Can National Capital Trust redeem the trust preferred securities for cash prior to the exchange event?**

Yes. If our London branch redeems any debentures for cash prior to the exchange event, National Funding Trust will use the cash it receives to redeem a proportionate amount of funding preferred securities. National Capital Trust, in turn, will use the cash it receives on the redemption of the funding preferred securities to redeem for cash a proportionate amount of trust preferred securities. The redemption price will equal (i) on any date other than December 17, 2018 or any subsequent distribution rate reset date, if redemption occurs as a result of a make-whole special event, the make-whole redemption price or, if redemption occurs as a result of a withholding tax event, the par redemption price and (ii) on December 17, 2018 and any distribution rate reset date thereafter, the par redemption price.

Neither the trust preferred securities nor the funding preferred securities can be redeemed at any time at the option of their holders. Neither the trust preferred securities nor the funding preferred securities are repayable in cash unless our London branch, at its sole option but subject to the conditions and approvals described in this offering memorandum, redeems the debentures and thereby causes the trust preferred securities and the funding preferred securities to be redeemed for cash or if the principal is payable at maturity or declared due and payable upon our bankruptcy or similar events of default in accordance with the terms of the debentures.

**When can our London branch redeem the debentures for cash?**

Our London branch may redeem the debentures for cash:

- at any time, in whole only, if the specified changes in tax law or other tax-related events, or the specified changes in US investment company law or Australian bank regulatory requirements described in this offering memorandum occur; and
- in whole or in part on December 17, 2018 and on any interest rate reset date thereafter.

If required, our London branch will first obtain the approval of APRA or other

regulatory authority to redeem the debentures for cash.

If our London branch redeems the debentures for cash, the redemption price will be equal to (i) on any date other than December 17, 2018 or any subsequent interest rate reset date, if redemption occurs as a result of a make-whole special event, the debentures make-whole redemption price or, if redemption occurs as a result of a withholding tax event, the debentures par redemption price and (ii) on December 17, 2018 and on any interest rate reset date thereafter, at the debentures par redemption price.

National Funding Trust, as the holder of all the debentures, does not have the right to require our London branch to redeem the debentures at any time. The debentures are not repayable in cash unless our London branch, at its sole option but subject to the conditions and approvals described in this offering memorandum, redeems the debentures for cash or if the principal is due and payable at maturity or upon our bankruptcy or similar events of default in accordance with the terms of the debentures. If the debentures are repaid in cash prior to the exchange event, National Funding Trust will use the cash it receives to redeem a proportionate amount of funding preferred securities. National Capital Trust, in turn, will use the cash it receives on the redemption of the funding preferred securities to redeem for cash a proportionate amount of trust preferred securities.

**Are there any risks associated with your investment?**

Yes. An investment in the trust preferred securities is subject to risks. Please refer to the section entitled “Risk Factors” in this offering memorandum for a description of some of these risks.

**What are the guarantees?**

We will guarantee the trust preferred securities and the funding preferred securities to the extent described in this offering memorandum. We will guarantee:

- distributions on the funding preferred securities by National Funding Trust to National Capital Trust, to the extent National Funding Trust has funds available for distribution;

- distributions on the trust preferred securities by National Capital Trust to you, to the extent National Capital Trust has funds available for distribution;
- the redemption amount due to National Capital Trust if National Funding Trust is obligated to redeem the funding preferred securities for cash, to the extent National Funding Trust has funds available for payment;
- the redemption amount due to you if National Capital Trust is obligated to redeem the trust preferred securities for cash, to the extent National Capital Trust has funds available for payment;
- the delivery of funding preferred securities to you by National Capital Trust upon dissolution of National Capital Trust as a result of a trust special event as described under “Description of the Trust Preferred Securities—Trust Special Event Distribution”;
- the payment of the liquidation amount of the funding preferred securities if National Funding Trust is liquidated, to the extent that National Funding Trust has funds available after payment to its creditors; and
- the payment of the liquidation amount of the trust preferred securities if National Capital Trust is liquidated, to the extent that National Capital Trust has funds available after payment to its creditors.

If National Funding Trust does not pay distributions on the funding preferred securities because our London branch defers or fails to make an interest payment on the debentures, National Capital Trust will not have sufficient funds to pay distributions on the trust preferred securities. In that case, you will have no right to receive those distributions because our guarantee does not cover the non-payment of distributions on the funding preferred securities to the extent that National Funding Trust does not have sufficient funds available to pay distributions on the funding preferred securities.

Subject to the exceptions and limitations described in this offering memorandum, we will make payments under the guarantees described above without withholding or deduction for taxes, assessments or other governmental charges imposed by Australia, the United Kingdom or the United States or any other jurisdiction from which a substitute branch makes payments. If any such withholding or deduction is required by

applicable law, subject to those exceptions and limitations, we will pay additional amounts so that the recipient will receive the amount it would have received if there were no such withholding or deduction.

Our obligations under the guarantees will be unsecured, junior subordinated obligations and will rank equally with our obligations under the debentures.

**Do you have voting rights as a holder of the trust preferred securities?**

Generally, you will not have any voting rights as a holder of the trust preferred securities, except under the limited circumstances described in this offering memorandum. The holders of a majority in liquidation amount of the trust preferred securities of National Capital Trust, acting together as a single class, however, have the right to direct the time, method and place of conducting any proceeding for any remedy available to the property trustee of National Capital Trust and the property trustee of National Funding Trust, or direct the exercise of any trust or power conferred upon the property trustee of National Capital Trust or the property trustee of National Funding Trust.

**What other rights of action do you have as a trust preferred securities holder?**

As a trust preferred securities holder, you have the right to bring a direct action against us if:

- our London branch does not pay interest on or the redemption price of the debentures to National Funding Trust in accordance with their terms;
- we do not deliver GDRs representing National preference shares to you pursuant to the exchange agreement upon the occurrence of the exchange event; or
- we do not perform our obligations under our guarantees with respect to the trust preferred securities and the funding preferred securities.

**In what form will the trust preferred securities be issued?**

The trust preferred securities initially sold in offshore transactions in reliance on Regulation S and sold in reliance on Rule 144A will in each case be issued in the form of one or more global

certificates registered in the name of a nominee of The Bank of New York and will be deposited with The Bank of New York, as common depository for the accounts of Euroclear Bank S.A./N.V., or Euroclear, and Clearstream Banking, *société anonyme*, or Clearstream, Luxembourg. This means you will not receive a certificate for your trust preferred securities. Your interests in the trust preferred securities will be evidenced by, and transfers of the trust preferred securities will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their participants.

Euroclear or Clearstream, Luxembourg, as the case may be, will credit the account of each of its participants with the liquidation amount of trust preferred securities being purchased by or through such participant. Beneficial interests in the global certificates will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their respective participants.

**When will your trust preferred securities be exchanged for GDRs?**

Upon the occurrence of the exchange event, pursuant to the exchange agreement and the deposit agreement, National will cause to be delivered or held for delivery to you, for each trust preferred security you hold, one GDR representing one National preference share.

**What is the exchange event?**

The exchange event will be the earliest occurrence of any of the following dates or events:

- December 17, 2052;
- any date we select in our absolute discretion;
- National Capital Trust fails or we, as guarantor, fail to pay you in full a distribution on your trust preferred securities on or within five business days after the relevant distribution payment date;
- National Funding Trust fails or we, as guarantor, fail to pay to National Capital Trust in full a distribution on the funding preferred securities on or within five business days after the relevant distribution payment date;
- the common security of National Funding Trust ceases to be wholly owned by Funding Holdings (or another direct or indirect wholly

owned subsidiary of us) or Capital Holdings (or another direct or indirect wholly owned subsidiary of us) ceases to be the sponsor of National Capital Trust;

- our London branch shall not have paid in full any interest payment on the debentures on or within five business days after any interest payment date on which interest is payable or shall not have paid in full the redemption price on any debentures as to which notice of redemption shall have been given on or within five business days after the payment of the redemption price is due and payable;
- certain events required by APRA, including (i) the determination by APRA in writing that National has a Tier 1 capital ratio of less than 5% (or such other percentage as may be required from time to time by APRA) or a total capital ratio of less than 8% (or such other percentage as may be required from time to time by APRA) at either or both of level 1 or level 2, (ii) the issuance by APRA of a written direction to National under Section 11CA of the Banking Act of 1959 of Australia for National to increase its capital, (iii) the appointment by APRA of a statutory manager to National or the assumption by APRA of control of National under Australian banking law or the commencement of proceedings for the winding-up of National, other than solvent reconstructions approved by APRA and (iv) the retained earnings of National having fallen below zero unless, in each case, APRA otherwise approves;
- an event of default under the debentures;
- the dissolution of National Capital Trust in accordance with the terms of the capital trust declaration unless the dissolution is in connection with the distribution of funding preferred securities to holders of the trust preferred securities as a result of a trust special event; or
- the dissolution of National Funding Trust in accordance with the terms of the funding trust declaration.

If the exchange event is the appointment by APRA of a statutory manager, the commencement of proceedings for the winding up of National, an event of default under the debentures or we are otherwise unable to issue the National preference shares, we will only be obligated to issue the National preference shares



if and when we subsequently become otherwise able to issue the National preference shares.

#### **What are the GDRs?**

Upon delivery of GDRs to you following the exchange event, you will hold National preference shares in the form of global depositary shares, also known as GDSs. Your GDSs will be evidenced by certificates known as GDRs. Each GDS will represent one National preference share and will entitle the holder to the rights and preferences of the National preference shares. The Bank of New York, as depositary, will hold your National preference shares and issue the GDRs.

Your specific rights in the GDRs and in the National preference shares underlying the GDRs are set out in a deposit agreement among us, the depositary and you, as a GDR holder. Because you will receive GDRs when the exchange event occurs, in connection with your investment decision with regard to the trust preferred securities, you are also making an investment decision with regard to the GDRs and the National preference shares represented by the GDRs. Please carefully read the sections in this offering memorandum entitled “Description of the GDRs”, which describes the deposit agreement more fully, and “Description of the National Preference Shares”, which describes the National preference shares more fully.

#### **What is the liquidation amount of the National preference shares?**

If we are liquidated, you will be entitled to receive a liquidation amount of £1,000 per National preference share, or £1,000 per GDR, before any of our assets are distributed to the persons owning our ordinary shares or any other shares or other instruments that rank junior to the National preference shares plus the accumulated but unpaid dividend for the then current dividend period or, if the date of payment is a dividend payment date, the accrued and unpaid dividend for the most recent dividend period. However, you will only be entitled to receive this liquidation amount after we have paid all of our depositors and all of our debts and other liabilities to creditors, including subordinated creditors but excluding creditors under equal ranking instruments or instruments that rank junior to the National preference shares.

The National preference shares will not represent a deposit liability of National for purposes of the Banking Act of 1959 of Australia or for the purposes of the FSMA regime in the United Kingdom and will not be insured by the US Federal Deposit Insurance Corporation or any other governmental agency or compensation scheme in the United States, Australia, the United Kingdom or elsewhere.

If it is not possible for us to pay the liquidation amount in pounds sterling, we will pay an equivalent amount in Australian dollars based on the spot settlement rate published by the Bank of England for the purchase of pounds sterling using Australian dollars on the business day immediately preceding the date for payment. In that case, we will also pay an additional amount, if any, to cover the estimated charges and expenses of converting the Australian dollars you receive into pounds sterling.

#### **What is the ranking of the National preference shares?**

With respect to dividends, the National preference shares will rank:

- senior to our ordinary shares; and
- equally among themselves and with each of the other preference shares and other securities and instruments that National has issued or may issue that by their terms rank equally with respect to priority of payment of dividends, distribution or similar payments, otherwise than in a winding-up.

If we are liquidated, the National preference shares will rank:

- senior to our ordinary shares;
- equally with the claims of the holders of equal ranking instruments; and
- junior to all of our debts and liabilities to our depositors and other creditors, other than debts or liabilities under instruments that by their terms rank equally with or junior to the National preference shares.

In accordance with the terms of issue of the National preference shares, we may only issue preference shares that rank senior to the National preference shares with approval by a resolution passed at a meeting of holders holding at least 75% of the National preference shares then on issue or the consent of holders

holding at least 75% of the National preference shares then on issue.

**When will dividends begin to accrue on the National preference shares?**

Upon the occurrence of the exchange event and the issue of the National preference shares, the holders of National preference shares will be entitled to receive non-cumulative dividends in arrears, from and including the last distribution date for the trust preferred securities immediately preceding the date on which the exchange event occurs, or, if the exchange event occurs on a distribution date, from and including that date, to but excluding December 17, 2018, at a fixed rate equal to 5.62%, or £56.20 per National preference share, per year and, from and including December 17, 2018, in respect of each five-year dividend reset period, at a rate equal to the sum of the relevant five-year benchmark gilt rate plus 1.93%.

The dividend payment dates on the National preference shares will be the same days of the year as the distribution dates on the trust preferred securities on or after the date on which the exchange event occurs.

However, if (i) National fails to pay in full on or within five business days after any dividend payment date, the accrued dividends on the National preference shares for the immediately preceding dividend period or (ii) the exchange event has occurred as a result of any failure by National Capital Trust to pay in full the distribution payable on the trust preferred securities on or within five business days of any distribution payment date, then, unless the holders of a majority in liquidation amount of the National preference shares otherwise consent or we pay an optional dividend, the dividend and repurchase restrictions described in this offering memorandum will apply to us and, subject to certain exceptions, you will have the same voting rights as holders of our ordinary shares until we satisfy the conditions described below.

**When may we pay an optional dividend on the National preference shares?**

With APRA's approval, if required, we may pay an optional dividend on the National preference shares on any business day within 21 business days after the exchange event if the

exchange event is the failure by National Capital Trust to pay in full a distribution on the trust preferred securities on or within five business days after a distribution date. In that case, the optional dividend must equal the amount of the distribution that National Capital Trust failed to pay on that distribution payment date.

With APRA's approval, if required, we may also pay an optional dividend on the National preference shares on any date following our failure to pay in full a dividend on the National preference shares on or within five business days after a dividend payment date. In that case, the optional dividend must equal the dividends we failed to pay on the dividend payment dates that occurred during the twelve months immediately preceding the date on which we pay the optional dividend.

APRA must approve the payment of any optional dividend.

**What happens if National does not pay dividends on any dividend payment date, does not pay the applicable redemption price when due or fails to cause the GDRs to be delivered or held for delivery to you following the exchange event?**

We will pay dividends only if and when declared by our board of directors. Dividends on the National preference shares are not cumulative. This means that if our board of directors does not declare all or any part of a dividend payable on any dividend payment date, then you will have no right to receive that dividend at any time, even if we pay other dividends in the future.

However, if:

- we fail to pay the accrued dividends in full on the National preference shares on a dividend payment date;
- we fail to pay the applicable redemption price when due and payable;
- the exchange event has occurred as a result of any failure by National Capital Trust to pay in full the distribution payable on the trust preferred securities on or within five business days after any distribution payment date; or
- if, following the exchange event, we fail to cause the GDRs to be delivered or held for delivery to you,

then, unless the holders of a majority in liquidation amount of the National preference shares otherwise consent, subject to the exceptions described in this offering memorandum, we may not:

- declare or pay any dividend on, make any distribution with respect to, or redeem, purchase, acquire or make a liquidation payment in a winding-up with respect to, any other of our shares or other instruments that rank equally with or junior to the National preference shares other than *pro rata* payments on the National preference shares and shares that rank equally with the National preference shares as to distributions, redemption, purchase, acquisition or payment in a winding-up; or
- make any payment of principal, premium, if any, or interest on or repay, repurchase or redeem any securities or other instruments issued by us that rank equal or junior to the National preference shares, other than *pro rata* payments on the National preference shares and shares or other instruments that rank equally with the National preference shares,

unless and until, (A) in the case of any non-payment of a dividend, we have paid that dividend in full within five business days after that dividend payment date, we have paid an optional dividend or we have paid in full dividends for a period of twelve consecutive months on the National preference shares, (B) in the case of exchange as a result of any non-payment of a distribution, we have paid an optional dividend or we have paid in full dividends with respect to a period of twelve consecutive months on the National preference shares, (C) in the case of any non-payment of the applicable redemption price, we have paid the applicable redemption price, and (D) in the case of the failure to deliver GDRs following the exchange event, we have delivered the required number of GDRs.

These restrictions will not apply in certain circumstances. See “Description of the National Preference Shares—Restrictions on Certain Payments”.

#### **Are you responsible for paying Australian withholding taxes on the National preference shares?**

Generally, no. Subject to the exceptions and limitations described in this offering memorandum, if any such withholding or deduction is required by applicable law, we will pay additional amounts so that you will receive the amount you would have received if there were no such withholding or deduction.

#### **Can we redeem, buy back or undertake a reduction of capital with respect to the National preference shares for cash?**

Yes. We can redeem, buy back or undertake a reduction of capital with respect to the National preference shares for cash with APRA’s approval:

- at any time, in whole only (i) if a preference share dividend tax event or a preference share regulatory event has occurred; or (ii) following the occurrence of the exchange event, provided the exchange event was not our exercising our right to cause the exchange event to occur in our absolute discretion; and
- in whole or in part on December 17, 2018 and on any dividend rate reset date thereafter.

If we redeem, buy back or undertake a reduction of capital with respect to the National preference shares, the redemption, buy back or capital reduction price, except in the case of buy backs on the open market, will be an amount per share equal to (i) on any date other than December 17, 2018 or any subsequent dividend rate reset date, in the case of a preference share dividend tax event, the preference share par redemption price, and in any other case, the preference share make-whole redemption price and (ii) on December 17, 2018 and on any dividend rate reset date thereafter, the preference share par redemption price.

#### **What are your voting rights under the National preference shares?**

As a holder of National preference shares, you will not be entitled to vote at general meetings of shareholders except in the following circumstances:

- in all cases, with respect to certain matters specified in the terms of issue of the National



preference shares, as described in this offering memorandum; and

- during a special voting period, with respect to certain matters on which the holders of our ordinary shares are entitled to vote at general meetings of shareholders.

A special voting period is the period from and including:

- any dividend payment date on which National fails to pay in full the dividends accrued in respect of the dividend period then ended; or
- the 22nd business day after the date the trust preferred securities are exchanged for GDRs occurring as a result of any failure by National Capital Trust to pay in full distributions on the trust preferred securities unless, prior to such date, National has paid in full an optional dividend,

in either case, to but excluding the first dividend payment date thereafter as of which we have paid an optional dividend or dividends in full on the National preference shares for a period of twelve consecutive months.

The rights attached to the National preference shares may not be changed except with any required approvals of the applicable regulatory authority or any other governmental agency and with: (i) the approval of a resolution passed at a meeting of the holders of the National preference shares by the affirmative vote of holders holding at least 75% of the National preference shares then on issue; or (ii) if a quorum for a meeting of the holders of the National preference shares is not obtained or if an approving resolution is not carried at a meeting of such holders, the consent in writing of holders holding at least 75% of the issued National preference shares then on issue. See “Description of the National Preference Shares—Variation of Rights”.

#### **What transfer restrictions apply to the trust preferred securities?**

All trust preferred securities initially sold in the United States or to US persons will be restricted securities. The restricted securities will be issued only to qualified institutional buyers pursuant to Rule 144A. The restricted global certificate will bear a Securities Act legend, and

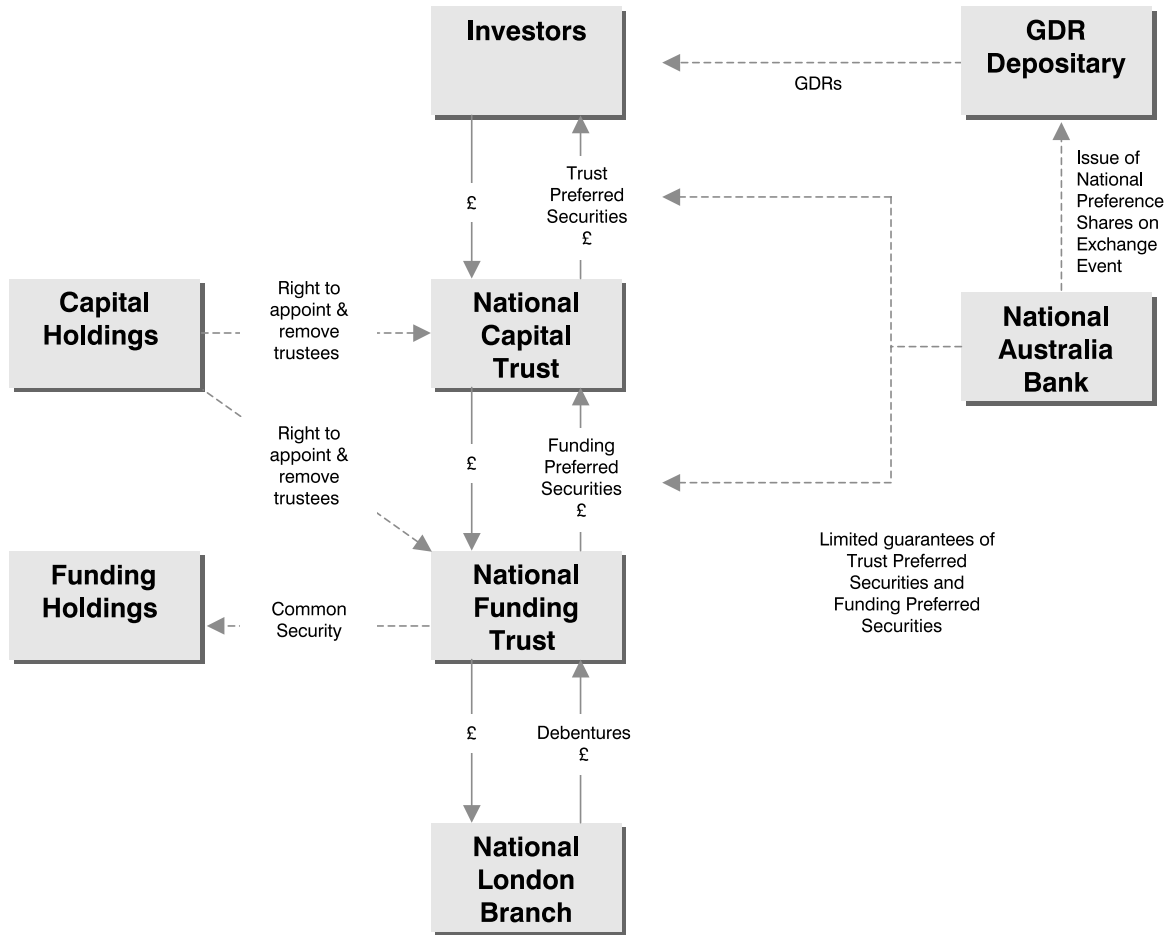
a restricted global certificate (or any beneficial interests therein) may not be transferred, except in compliance with the transfer restrictions set forth in that legend. In addition, no beneficial interests in a restricted global certificate bearing the Securities Act legend may be transferred to a person who takes delivery thereof through a Regulation S global certificate unless the transferor provides the capital property trustee with a written certification regarding compliance with certain transfer restrictions. A transfer of a beneficial interest in a Regulation S global certificate to a person who takes delivery through an interest in a restricted global certificate, if made on or prior to the 40th day referred to above, is also subject to certification requirements. See “Description of the Trust Preferred Securities—Form, Transfer and Exchange” and “Notice to Investors”. In addition, the trust preferred securities may not be purchased, held or transferred to benefit plan investors (as described under “ERISA Considerations”) other than pursuant to an applicable exemption to the prohibited transaction rules under ERISA and the Code.

#### **Can you tell me more about National?**

National Australia Bank Limited is a corporation incorporated in Australia and registered in the State of Victoria under the Corporations Act 2001 of Australia (the “Corporations Act”). Our principal office is located at Level 24, 500 Bourke Street, Melbourne, Victoria 3000, Commonwealth of Australia. Our telephone number is (61-3) 8641-3500. For further information about us, see the section entitled “Where You Can Find Additional Information” in this offering memorandum. See also the sections entitled “Financial Information Presentation”, “Ratios of Earnings to Combined Fixed Charges and Preferred Security Dividends and Earnings to Fixed Charges” and “Capitalization and Capital Adequacy” in this offering memorandum.

You should also consider the discussion of risks under the caption “Risk Factors—Risks Related to Our Business” in this offering memorandum and under the caption “Risk Factors” in our annual report on Form 20-F for the fiscal year ended September 30, 2002.

**TRANSACTION DIAGRAM**



## RISK FACTORS

*Your investment in the trust preferred securities will involve risks. You should carefully consider the following discussion of risks before deciding whether an investment in the trust preferred securities is suitable for you.*

### **Risks Related to the Trust Preferred Securities**

#### **If our financial condition were to deteriorate, you could lose all or a part of your investment.**

If our financial condition were to deteriorate, we could suspend distributions or other payments under the trust preferred securities, the funding preferred securities or the debentures and you would not receive any distributions or other payments. You should not assume that unfavorable market or other conditions or events will not harm our financial condition. If we liquidate, dissolve or wind up, you could lose all or a part of your investment. The trust preferred securities are not deposit liabilities of National for purposes of the Banking Act of 1959 of Australia or for the purposes of the FSMA regime in the United Kingdom and will not be insured by the US Federal Deposit Insurance Corporation or any other governmental agency or compensation scheme of the United States, Australia, the United Kingdom or any other jurisdiction.

#### **You will not receive cash payments if our London branch defers interest payments or otherwise fails to make cash payments in accordance with the terms of the debentures and you will not receive GDRs if we fail to deliver GDRs in accordance with the terms of the exchange agreement.**

National Capital Trust's ability to pay current distributions or make cash redemption payments on the trust preferred securities is dependent upon its receipt of cash payments as holder of the funding preferred securities. If our London branch fails to make interest payments on or fails to pay the redemption price of the debentures, then National Funding Trust will lack the funds necessary to pay current distributions or make cash redemption payments, as the case may be, on the funding preferred securities. If National Funding Trust does not make cash payments under the funding preferred securities, National Capital Trust will not have the funds required to pay current distributions or make cash redemption payments, as the case may be, on the trust preferred securities. In addition, in the event of the liquidation or dissolution of National Capital Trust, you may not receive the full liquidation amount of £1,000 per trust preferred security and the accrued and unpaid distribution for the then current distribution period if National Capital Trust does not have sufficient funds after it pays its creditors. We are obligated to make payments under the guarantees only to the extent specified in this offering memorandum and only to the extent that National Capital Trust or National Funding Trust, as the case may be, has funds available for payment.

Our London branch at any time may not make, and under specified circumstances is required to defer, interest payments on the debentures. See "Description of the Debentures".

If we do not deliver the GDRs pursuant to the exchange agreement upon the occurrence of the exchange event, you will continue to hold the trust preferred securities.

#### **Our obligations will be deeply subordinated and we will not make any payments under the guarantees or the debentures unless we can satisfy in full all of our other obligations that rank senior to those obligations.**

Our obligations under the guarantees and the debentures are unsecured and will rank subordinate and junior in right of payment to our obligations to our depositors and our creditors, including other subordinated creditors, other than subordinated creditors holding subordinated indebtedness that by its terms ranks equally with, or junior to, the holders of the debentures and the beneficiaries of the guarantees. Accordingly, our obligations under the guarantees and the debentures

will not be paid unless we can satisfy in full all of our other obligations ranking senior to the guarantees and the debentures.

At March 31, 2003, we had outstanding bonds, notes, subordinated debt and other debt issues (excluding depositors) aggregating approximately A\$20.7 billion which would have ranked senior to our obligations under the guarantees and the debentures. In addition, at such date, we had outstanding A\$1.945 billion of NIS and A\$730 million of TrUEPrS claims in respect of which in a winding-up of National would rank equally with our obligations under the debentures and the guarantees.

There are no terms in the trust preferred securities, the funding preferred securities, the guarantees or the debentures that limit our ability to incur additional indebtedness, including indebtedness that ranks senior to or equally with the guarantees and the debentures.

Because a significant portion of our business is operated through our subsidiaries, our right to participate in any distribution of the assets of certain of our subsidiaries, upon a subsidiary's dissolution, winding-up, liquidation or reorganization or otherwise, and thus your ability to benefit indirectly from such distribution, is subject to the prior claims of creditors of that subsidiary, except to the extent that we may be a creditor of that subsidiary and our claims are recognized. There are legal limitations on the extent to which some of our subsidiaries may extend credit, pay dividends or otherwise supply funds to, or engage in transactions with, us or some of our other subsidiaries. Accordingly, the trust preferred securities, the funding preferred securities, the debentures and the guarantees will be effectively subordinated to all existing and future liabilities of our subsidiaries, and holders of the trust preferred securities, the funding preferred securities, the debentures and the guarantees should look only to our assets for payments.

**The terms of certain of our outstanding instruments could limit National's ability to make payments on the trust preferred securities and the National preference shares.**

Under certain circumstances, the terms of the NIS, TrUEPrS, TrUEPrS preference shares and Excap preference shares could limit National's ability to make payments on the trust preferred securities and the National preference shares.

If a payment on the NIS or TrUEPrS preference shares, as the case may be, is missed, National will be unable to make certain payments under certain instruments ranking equally with or junior to those preference shares (including the trust preferred securities and the National preference shares) until four consecutive dividends on the NIS or TrUEPrS preference shares, as the case may be, have been paid in full or an optional dividend has been paid by National. If the Excap preference shares are issued, and if National misses a dividend on the Excap preference shares, National will be unable to pay dividends on the National preference shares until National has paid a special dividend on the Excap preference shares. Payments on the NIS and TrUEPrS may not be made if, among other things, National had insufficient consolidated net profits for the immediately preceding financial year, which may give rise to a stop on distributions on the trust preferred securities and the National preference shares even where National would otherwise have sufficient consolidated net profits for the immediately preceding two six-monthly financial periods that would otherwise allow National to make distributions on the trust preferred securities and the National preference shares. Copies of the documentation establishing the terms of our NIS, TrUEPrS and Excaps are available upon request to us at the address set forth in "Where You Can Find Additional Information".

**The trust preferred securities and the National preference shares together have no stated maturity date.**

The trust preferred securities are not repayable in cash prior to the occurrence of the exchange event unless our London branch, at its sole option but with the approval of APRA or other regulatory authority, if such approval is required, redeems the debentures for cash. Because the

debentures are not required to be repaid prior to the occurrence of the exchange event, neither National Capital Trust nor National Funding Trust or National is required to repay your investment except in the very limited circumstances described in this offering memorandum. In addition, the National preference shares are perpetual securities. Accordingly, unless our London branch redeems the debentures for cash or, after the exchange event, we redeem, buy back or undertake a reduction of capital with respect to the National preference shares for cash, if you wish to obtain the value of your investment you will have to sell the trust preferred securities or the National preference shares, as the case may be. Neither the rate of distribution on the trust preferred securities nor the dividend rate on the National preference shares will be adjusted to reflect subsequent changes in interest rates or other market conditions, our results of operations or financial condition or any decline in the market price of our ordinary shares. As a result, you may not be able to sell the trust preferred securities or the National preference shares for the amount of your original investment.

**You will not be entitled to recover missed distributions on the trust preferred securities because they are non-cumulative.**

Distributions on the trust preferred securities are not cumulative. If and to the extent National Capital Trust does not pay a distribution on or within five business days after any distribution date for any distribution period, unless we pay the distribution under the trust guarantee or an optional dividend on the National preference shares as described in this offering memorandum, you will not receive that distribution and will have no claim to that distribution, whether or not National Capital Trust subsequently pays distributions or has funds to pay subsequent distributions.

**You will not be entitled to recover missed dividends on the National preference shares because they are non-cumulative.**

Dividends on the National preference shares are not cumulative. If and to the extent National does not pay a dividend on or within five business days after any dividend payment date for any dividend period or an optional dividend with respect thereto, you will not receive that dividend and will have no claim to that dividend, whether or not National subsequently pays dividends or has funds to pay subsequent dividends.

Upon the occurrence of the exchange event, unless at the time of the event National is unable to issue the National preference shares, the trust preferred securities will automatically be exchanged for GDRs pursuant to the exchange agreement and the deposit agreement. Dividends on the National preference shares are not cumulative. If the exchange event is the failure of National Capital Trust to pay a distribution in full on the trust preferred securities on or within five business days after the day it is due, you will also not receive any dividends on the National preference shares for that distribution period, unless we pay an optional dividend with respect thereto.

We will pay dividends on the National preference shares only if and when declared by our board of directors or a duly authorized committee thereof. If our board of directors or a duly authorized committee thereof does not declare all or any part of a dividend payable on any dividend payment date, then you will have no right to receive that dividend at any time, even if we pay other dividends in the future.

**We are obligated to make cash payments under the guarantees only in specified circumstances.**

Under the trust guarantee and the funding guarantee, we will guarantee payment of:

- distribution payments on the trust preferred securities by National Capital Trust to you and on the funding preferred securities by National Funding Trust to National Capital Trust;

- the cash amount due if National Capital Trust redeems the trust preferred securities for cash or National Funding Trust redeems the funding preferred securities for cash; and
- the liquidation amount of the trust preferred securities and the funding preferred securities if National Capital Trust or National Funding Trust is liquidated or dissolved,

in each case only to the extent that National Capital Trust or National Funding Trust, as the case may be, has funds available for payment. See “Description of the Trust Guarantee” and “Description of the Funding Guarantee”.

**If National Capital Trust is dissolved pursuant to a trust special event and you receive funding preferred securities in redemption for the trust preferred securities, the funding preferred securities may trade at a lower price than the trust preferred securities.**

If one of the trust special events described under “Description of the Trust Preferred Securities—Trust Special Event Distribution” occurs, the regular trustees of National Capital Trust may dissolve National Capital Trust upon not less than 30 nor more than 60 days’ notice to you. As a result, after satisfaction of creditors of National Capital Trust, if any, funding preferred securities would be distributed proportionately to you, as a holder of the trust preferred securities, in liquidation of the holders’ interests in National Capital Trust. See “Description of the Trust Preferred Securities—Trust Special Event Distribution”. Because National Funding Trust is a partnership for US federal tax purposes, the tax reporting obligations in respect of income therefrom will be consistent with that of a partnership rather than with those in respect of a corporation or statutory trust such as National Capital Trust. In addition, as of the date of this offering memorandum, the funding preferred securities would not be eligible to trade through the book-entry facilities of Euroclear or Clearstream, Luxembourg. As a result of the foregoing, the funding preferred securities may trade at a lower price than the trust preferred securities.

**If our London branch redeems the debentures which would cause the redemption of the trust preferred securities, you may not be able to reinvest the redemption proceeds in a comparable security at a similar return on investment.**

If one of the make-whole special events or a withholding tax event described under “Description of the Debentures—Cash Redemption” occurs before December 17, 2018 or during any five-year interest reset period other than on an interest rate reset date, our London branch, with the approval of APRA or other regulatory authority, if required, may redeem for cash the debentures, in whole, but not in part, at any time at a redemption price equal to, in the case of a make-whole special event, the make-whole redemption price or, in the case of a withholding tax event, the debentures par redemption price. Our London branch can also redeem the debentures in whole or in part on December 17, 2018 and on any interest rate reset date thereafter at the debentures par redemption price. If our London branch redeems the debentures for cash, National Funding Trust will redeem all of the funding preferred securities. National Capital Trust, in turn, will use the cash it receives on the redemption of the funding preferred securities to redeem for cash a proportionate amount of the trust preferred securities. If the trust preferred securities are redeemed, you may not be able to invest the funds at a comparable rate of return.

The Australian Accounting Standards Board has announced an intention to issue an amended accounting standard in late 2003 for the classification of financial instruments such as the trust preferred securities. The proposed changes will conform with current changes proposed to international accounting standards IAS 32 Financial Instruments: Disclosure and Presentation. The Australian Accounting Standards Board has indicated that the proposed changes will apply for reporting periods beginning on or after January 1, 2005. If the changes proposed by the Australian Accounting Standards Board and the International Accounting Standards Board to the classification of financial instruments



are adopted, the accounting treatment of the trust preferred securities may change and such changes could cause APRA to no longer regard the trust preferred securities as “Tier 1” regulatory capital. Although we expect that APRA would “grandfather” outstanding instruments such as the trust preferred securities, if APRA were to fail to do so, we would be permitted to redeem the debentures, subject to APRA’s approval, which would thereby cause the redemption of the trust preferred securities.

**Any GDRs you may receive upon the occurrence of the exchange event may not trade at the same price as the trust preferred securities and may result in a decrease in the value of your investment.**

If you receive GDRs when the exchange event occurs, the trading value of those GDRs may be lower than the trading value of the trust preferred securities, which may result in a lower return upon your sale of those GDRs.

Because you will receive GDRs when the exchange event occurs, unless we are unable to issue the National preference shares at that time, in connection with your investment decision with regard to the trust preferred securities, you are also making an investment decision with regard to the GDRs and the National preference shares. Accordingly, you should carefully review all the information regarding the GDRs and the National preference shares contained in this offering memorandum.

**You have limited voting rights.**

As a holder of the trust preferred securities, you will have limited voting rights and generally will not be entitled to appoint, change or increase or decrease the number of trustees of National Capital Trust. Generally, the sponsor, initially Capital Holdings, is entitled to act on those matters. See “Description of the Trust Preferred Securities—Voting Rights and Rights of Action”.

As a holder of the GDRs after the exchange event, your voting rights will be limited to instructing the depositary how to vote the underlying National preference shares, as described in this offering memorandum, but only if we ask the depositary to ask for your instructions. Only under the limited circumstances described in this offering memorandum will you have the right to vote. See “Description of the National Preference Shares—Voting Rights”.

**You will not receive GDRs upon the occurrence of the exchange event if we are unable to issue National preference shares.**

If as a result of or at the time of the exchange event we are prohibited by law from issuing the National preference shares represented by the GDRs, we will issue the National preference shares if and when we are no longer prohibited from doing so. Under current Australian law, we may be prevented from issuing the National preference shares upon the exchange event if:

- we are in liquidation;
- APRA has assumed control of us under the Banking Act of 1959 of Australia and APRA does not cause us to issue the National preference shares; or
- APRA has appointed a statutory manager under the Banking Act of 1959 of Australia to take control of our business and the statutory manager does not cause us to issue the National preference shares.

See “Description of the National Preference Shares—Limitations on Issuance”.

**As a holder of trust preferred securities, you have no rights as a shareholder of National.**

As a holder of the trust preferred securities, you will not have any rights conferred on holders of the National preference shares, including rights to receive any dividends or other distributions on



them or to vote as a holder of the National preference shares, until National Capital Trust delivers the GDRs to you pursuant to the exchange agreement upon the occurrence of the exchange event.

**There is no prior market for the trust preferred securities, funding preferred securities, GDRs or National preference shares, and one may not develop.**

The trust preferred securities and the funding preferred securities constitute new issues of securities with no established trading market. Although the initial purchasers have indicated to us that they intend to make a market in the trust preferred securities, they are not obligated to do so and may discontinue any market-making activities at any time without notice. Accordingly, we cannot predict whether an active or liquid trading market for the trust preferred securities will develop or be sustained.

When issued, the GDRs and the underlying National preference shares will constitute a new issue of securities with no established trading market. We are obligated to use our reasonable endeavors to list the GDRs on an exchange, if the GDRs are delivered to you. However, we cannot assure you that we will obtain such listing, and we cannot predict whether an active or liquid trading market for the GDRs or the National preference shares will develop or be sustained.

#### **Risks Related to Our Business**

**Business conditions, competitive forces and general economic conditions could adversely impact our business.**

As an international financial services group, our businesses are affected by the external environment in the markets in which we operate. The profitability of our businesses could be adversely affected by a worsening of general economic conditions in Australia, the United Kingdom, Europe, the United States, or elsewhere, as well as by foreign and domestic trading market conditions. Such factors could also adversely affect the credit quality of our on-balance sheet and off-balance sheet assets. An economic downturn can impact our results and financial position by affecting demand for our products and services. Such a downturn, international disruption, dispute or event, or significantly higher interest rates could impact the credit quality of our counterparties, increasing the risk that a greater number of our customers would default on their loans or other obligations to us, or would refrain from seeking additional credit. We also face intense competition in the markets in which we operate.

**Government policies and economic controls relating to our business could adversely impact our results.**

Our businesses and earnings are affected by the fiscal or other policies that are adopted by various regulatory authorities of the Australian Commonwealth Government, foreign governments and international agencies. The nature and impact of future changes in such policies are not predictable, are beyond our control and could have a significant adverse effect on our financial condition and results of operations.

**We are subject to credit, market and operational risks which may adversely impact our results.**

Our provisions for doubtful debts provide for risks of losses inherent in loans and advances. Estimating potential losses is inherently uncertain and depends on many factors, including general economic conditions, rating migration, structural changes within industries that alter competitive positions, and other external factors such as legal and regulatory requirements. Our earnings are also subject to market risk exposures, principally changes in market interest and foreign exchange rates, commodity and equity prices, and associated financial derivatives. As an international financial services group, we are exposed to a number of other risks relating to people, processes and systems and from external events.

In addition, because we prepare our accounts in Australian dollars, changes in currency exchange rates, particularly between the Australian dollar and the British pound, the New Zealand dollar or the US dollar, may have an adverse effect on the earnings that we report.

**Future acquisitions could negatively impact our financial condition and results of operations.**

We have in the past and may in the future seek to grow our business by acquiring other companies in the financial services industry. We are generally not restricted under the terms of the trust preferred securities being offered hereby from pursuing any such acquisitions or business combinations. This strategy may cause us to face operational and financial risks that could adversely affect our business and results of operations. Depending on the type of transaction, it can take a substantial period of time for us to realize financial benefits of the transaction. Our failure to adequately manage the operational and financial risks associated with any acquisitions could have a material adverse effect on our financial condition and results of operations.

**Failure to implement control systems and programs may adversely impact our results.**

The implementation of control systems and programs is dependent upon such factors as our ability to acquire or develop necessary technology or systems, our ability to attract and retain qualified personnel, the competence and performance of our employees and third-party vendors and the cooperation of customers. If we fail to implement such control systems and programs, then we may suffer operational disruptions and adverse impacts on our financial results.

**USE OF PROCEEDS**

National Capital Trust will use the proceeds of £400,000,000 that it receives from the sale of the trust preferred securities to purchase the funding preferred securities. National Funding Trust, in turn, will use those proceeds to purchase the debentures from our London branch.

National Capital Trust will pay a commission to the initial purchasers in the amount of £4,000,000. Our London branch intends to use the net proceeds from the sale of the debentures of £396,000,000 for its general business purposes.

**RATIOS OF EARNINGS TO COMBINED FIXED CHARGES  
AND PREFERRED SECURITY DIVIDENDS AND EARNINGS TO FIXED CHARGES**

Set forth below are our ratios of earnings to combined fixed charges and preferred security dividends and earnings to fixed charges for the periods indicated, computed using amounts derived from our financial statements prepared in accordance with Australian GAAP and amounts derived from our financial statements reconciled to US GAAP.

For purposes of calculating these ratios:

- fixed charges include interest on all indebtedness, including interest on deposits, and one-third of rental charges (which is used to be representative of an interest factor);
- combined fixed charges and preferred security dividends include fixed charges and the amount of pre-tax earnings that is required to pay the dividends on outstanding preference securities; and
- earnings are computed after all operating and income deductions, except fixed charges, extraordinary items and tax based on profits, and are stated before minority interests.

<u>Earnings to combined fixed charges and preferred security dividends</u>	<u>Six Months Ended March 31, 2003</u>	<u>Year Ended September 30,</u>				
		<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Australian GAAP . . . . .	1.5x	1.4x	1.3x	1.4x	1.4x	1.3x
US GAAP . . . . .	1.6x	1.4x	1.3x	1.4x	1.4x	1.3x

<u>Earnings to fixed charges</u>	<u>Six Months Ended March 31, 2003</u>	<u>Year Ended September 30,</u>				
		<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Australian GAAP . . . . .	1.5x	1.5x	1.3x	1.4x	1.5x	1.3x
US GAAP . . . . .	1.6x	1.5x	1.3x	1.4x	1.5x	1.3x

## CAPITALIZATION AND CAPITAL ADEQUACY

The following tables set forth our capitalization and capital adequacy as of March 31, 2003 and as adjusted to give effect to the offering of the trust preferred securities as well as to the issuance on June 4, 2003 of €600,000,000 aggregate principal amount of our 3.875% subordinated notes due June 4, 2015 and the issuance on August 29, 2003 of US\$300,000,000 aggregate principal amount of our 3 month LIBOR plus 35 basis points subordinated notes due August 29, 2013. Other than as described herein, there has been no material change in our capitalization other than in the normal course of our business since March 31, 2003 to the date of this offering memorandum.

	As at March 31, 2003			
	Actual <sup>(1)</sup> £m	As Adjusted <sup>(1)</sup> £m	Actual A\$m	As Adjusted A\$m
<b>Loan Capital</b>				
Perpetual floating rate notes . . . . .	168	168	414	414
Dated subordinated debts . . . . .	1,894	1,894	4,666	4,666
Exchangeable capital units . . . . .	512	512	1,262	1,262
€600 million subordinated notes due June 4, 2015 <sup>(5)</sup> . . . . .	—	414	—	1,019
US\$300 million subordinated notes due August 29, 2013 <sup>(5)</sup> . . . . .	—	190	—	467
<b>Total Loan Capital</b> . . . . .	<u>2,574</u>	<u>3,178</u>	<u>6,342</u>	<u>7,828</u>
<b>Shareholders' Equity</b>				
Issued and paid up capital <sup>(2)</sup> . . . . .	3,674	3,674	9,052	9,052
Reserves . . . . .	509	509	1,254	1,254
Retained profits . . . . .	5,367	5,367	13,224	13,224
<b>Total Parent Entity Interest</b> . . . . .	<u>9,550</u>	<u>9,550</u>	<u>23,530</u>	<u>23,530</u>
Outside equity interest . . . . .	116	116	285	285
Trust preferred securities offered hereby <sup>(4)</sup> . . . . .	—	400	—	985
<b>Total shareholders' equity<sup>(6)</sup></b> . . . . .	<u>9,666</u>	<u>10,066</u>	<u>23,815</u>	<u>24,800</u>
<b>Total Shareholders' Equity and Loan Capital</b> . . . . .	<u>12,240</u>	<u>13,244</u>	<u>30,157</u>	<u>32,628</u>
	As at March 31, 2003			
	Actual <sup>(1)</sup> £m	As Adjusted <sup>(1)</sup> £m	Actual A\$m	As Adjusted A\$m
<b>Capital Adequacy</b>				
<b>Tier 1 Capital</b>				
Issued and paid up capital <sup>(2)</sup> . . . . .	3,674	3,674	9,052	9,052
Reserves . . . . .	509	509	1,254	1,254
Retained profits . . . . .	5,367	5,367	13,224	13,224
Outside equity interest . . . . .	116	516 <sup>(4)</sup>	285	1,270 <sup>(4)</sup>
Estimated reinvestment under dividend reinvestment plan . . . . .	66	66	163	163
<i>deduct</i>				
Goodwill . . . . .	(319)	(319)	(787)	(787)
Estimated dividend to shareholders <sup>(3)</sup> . . . . .	(489)	(489)	(1,205)	(1,205)
Intangible assets—Wealth Management . . . . .	(993)	(993)	(2,448)	(2,448)
Asset revaluation reserve . . . . .	(3)	(3)	(7)	(7)
Deconsolidation of Wealth Management profits (net of dividends) . . . . .	(51)	(51)	(125)	(125)
Future income tax benefits (other than those associated with general provisions for doubtful debts) . . . . .	(44)	(44)	(108)	(108)
Outside equity interests . . . . .	(116)	(116)	(285)	(285)
<b>Tier 1 Capital</b> . . . . .	<u>7,717</u>	<u>8,117</u>	<u>19,013</u>	<u>19,998</u>

	As at March 31, 2003			
	Actual <sup>(1)</sup> £m	As Adjusted <sup>(1)</sup> £m	Actual A\$m	As Adjusted <sup>(5)</sup> A\$m
<b>Tier 2 Capital</b>				
Asset revaluation reserve . . . . .	3	3	7	7
General provision for doubtful debts (net of future income tax benefits) . . . . .	537	537	1,323	1,323
Perpetual floating rate notes . . . . .	168	168	414	414
Dated subordinated debts . . . . .	1,894	2,498 <sup>(5)</sup>	4,666	6,152 <sup>(5)</sup>
Exchangeable capital units . . . . .	512	512	1,262	1,262
Notional revaluation of investment securities to market . . . . .	9	9	21	21
<b>Tier 2 Capital</b> . . . . .	<u>3,123</u>	<u>3,727</u>	<u>7,693</u>	<u>9,179</u>
<b>Deductions</b>				
Investment in non-consolidated controlled entities (net of intangible component deducted from Tier 1) . . . . .	(1,197)	(1,197)	(2,948)	(2,948)
Holdings of other financial institutions' capital instruments . . . . .	(181)	(181)	(445)	(445)
<b>Deductions</b> . . . . .	<u>(1,378)</u>	<u>(1,378)</u>	<u>(3,393)</u>	<u>(3,393)</u>
<b>Total Regulatory Capital</b> . . . . .	<u>9,462</u>	<u>10,466</u>	<u>23,313</u>	<u>25,784</u>
Risk-weighted assets . . . . .	103,243	103,243	254,369	254,369
<b>Capital Ratios</b>				
Tier 1 . . . . .	7.47%	7.86%	7.47%	7.86%
Tier 2 . . . . .	3.02%	3.61%	3.02%	3.61%
Deductions . . . . .	(1.33%)	(1.33%)	(1.33%)	(1.33%)
Total capital . . . . .	<u>9.16%</u>	<u>10.14%</u>	<u>9.16%</u>	<u>10.14%</u>

- (1) Australian dollar amounts have been translated into pounds sterling solely for the convenience of the reader at the rate of A\$1.00 = £0.4059, the Bank of England spot settlement rate on August 29, 2003. The Bank of England spot settlement rate on March 31, 2003 was A\$1.00 = £0.3815.
- (2) Does not reflect shares bought back or shares issued since March 31, 2003.
- (3) Actual dividend paid on July 1, 2003 amounted to A\$1,211 million.
- (4) Gives effect to the issuance and sale of the trust preferred securities offered hereby at the aggregate issuance amount of £400,000,000. This amount is prior to issuance expenses.
- (5) Gives effect to: (i) the issuance on June 4, 2003 of €600,000,000 aggregate principal amount of our 3.875% subordinated notes due June 4, 2015 and (ii) the issuance on August 29, 2003 of US\$300,000,000 aggregate principal amount of our 3 month LIBOR plus 35 basis points subordinated notes due August 29, 2013. Amounts were translated into Australian dollars using the Bank of England spot settlement rates on August 29, 2003 of A\$1.00 = €0.5886 and A\$1.00 = US\$0.6421.
- (6) Total shareholders' equity determined in accordance with US GAAP was A\$23,734 million as at March 31, 2003. For an explanation of the material differences between US GAAP and the accounting principles applicable to the preparation of our financial statements, see note 58 of our financial statements included in our annual report on Form 20-F for the fiscal year ended September 30, 2002, incorporated by reference herein, and "Selected Consolidated Financial and Operating Information" in this offering memorandum.

**SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION**

	Half year ended March 31			Year ended September 30					
	2003 £m	2003 A\$m	2002 A\$m	2002 £m	2002 A\$m	2001 A\$m	2000 A\$m	1999 A\$m	1998 A\$m
	<b>(unaudited)</b>								
<b>Consolidated income statement data</b>									
<i>Australian GAAP</i>									
Interest income . . . . .	3,423	8,435	8,285	6,687	16,475	19,919	17,517	15,066	15,427
Interest expense . . . . .	1,903	4,689	4,682	3,756	9,253	12,959	11,146	9,000	9,569
Net interest income . . . . .	1,520	3,746	3,603	2,931	7,222	6,960	6,371	6,066	5,858
Net life insurance income . . . . .	33	81	240	(4)	(10)	128	332	—	—
Other banking and financial services income . . . . .	987	2,432	4,588	2,844	7,006	4,749	4,124	4,027	3,630
Mortgage servicing and origination revenue . . . . .	—	—	271	153	378	810	640	536	323
Movement in the excess of net market value over net assets of life insurance controlled entities . . . . .	(97)	(239)	370	(63)	(155)	510	202	—	—
Significant revenue . . . . .	—	—	—	1,084	2,671	5,314	—	—	—
Operating expenses . . . . .	1,252	3,086	5,462	3,533	8,707	6,470	5,807	5,701	5,320
Amortisation of goodwill . . . . .	20	49	48	41	101	167	197	206	181
Charge to provide for doubtful debts . . .	131	322	417	283	697	989	588	581	587
Significant expenses . . . . .	—	—	24	1,326	3,266	6,866	204	—	749
<b>Profit from ordinary activities before income tax expense . . . . .</b>	<b>1,040</b>	<b>2,563</b>	<b>3,121</b>	<b>1,762</b>	<b>4,341</b>	<b>3,979</b>	<b>4,873</b>	<b>4,141</b>	<b>2,974</b>
Income tax expense relating to ordinary activities . . . . .	278	686	858	391	962	1,891	1,632	1,321	959
<b>Net profit . . . . .</b>	<b>762</b>	<b>1,877</b>	<b>2,263</b>	<b>1,371</b>	<b>3,379</b>	<b>2,088</b>	<b>3,241</b>	<b>2,820</b>	<b>2,015</b>
Net profit/(loss) attributable to outside equity interest . . . . .	4	10	7	2	6	5	2	(1)	1
<b>Net profit attributable to members of the Company . . . . .</b>	<b>758</b>	<b>1,867</b>	<b>2,256</b>	<b>1,369</b>	<b>3,373</b>	<b>2,083</b>	<b>3,239</b>	<b>2,821</b>	<b>2,014</b>
<b>Adjusted to accord with US GAAP<sup>(1)</sup></b>									
Net income . . . . .	899	2,216	1,468	1,420	3,499	1,866	3,051	2,862	2,099

	As at March 31			As at September 30					
	2003 £m	2003 A\$m	2002 A\$m	2002 £m	2002 A\$m	2001 A\$m	2000 A\$m	1999 A\$m	1998 A\$m
	<b>(unaudited)</b>								
<b>Consolidated balance sheet data</b>									
<i>Australian GAAP</i>									
<b>Assets</b>									
Cash assets . . . . .	2,460	6,060	8,423	2,555	6,294	7,993	6,868	3,649	4,152
Due from other financial institutions . . .	5,585	13,760	18,816	6,444	15,876	16,472	12,780	11,120	9,303
Due from customers on acceptances . . .	8,392	20,677	20,317	7,904	19,474	19,353	22,945	22,851	22,353
Trading securities . . . . .	8,691	21,414	17,131	7,951	19,590	19,713	15,112	12,853	11,446
Available for sale securities . . . . .	2,031	5,005	6,213	2,513	6,192	6,665	3,047	1,399	937
Investment securities . . . . .	4,434	10,925	10,556	5,496	13,541	10,697	7,452	8,951	8,228
Investments relating to life insurance business . . . . .	12,289	30,278	32,865	12,587	31,012	31,381	31,103	—	—
Loans and advances . . . . .	98,472	242,612	207,636	93,879	231,300	207,797	195,492	165,620	160,001
Mortgage loans held for sale . . . . .	5	12	101	34	85	3,688	2,656	1,980	3,473
Mortgage servicing rights . . . . .	—	—	6,044	728	1,794	5,445	8,226	5,345	2,998
Shares in entities and other securities . .	481	1,186	1,114	487	1,199	1,412	1,376	1,068	1,013
Regulatory deposits . . . . .	73	180	334	52	129	98	135	153	1,155
Property, plant and equipment . . . . .	1,012	2,493	2,558	1,072	2,640	2,869	2,437	2,032	2,219
Income tax assets . . . . .	492	1,213	1,194	524	1,292	1,296	1,207	1,137	1,138
Goodwill . . . . .	319	787	828	315	775	876	2,617	2,905	3,095
Other assets . . . . .	15,259	37,594	27,507	10,632	26,194	38,965	30,224	13,018	20,203
<b>Total assets . . . . .</b>	<b>159,995</b>	<b>394,196</b>	<b>361,637</b>	<b>153,173</b>	<b>377,387</b>	<b>374,720</b>	<b>343,677</b>	<b>254,081</b>	<b>251,714</b>
<b>Liabilities</b>									
Due to other financial institutions . . . . .	20,181	49,722	41,194	17,566	43,279	42,873	29,685	16,203	16,541
Liability on acceptances . . . . .	8,392	20,677	20,317	7,904	19,474	19,353	22,945	22,851	22,353
Deposits and other borrowings . . . . .	84,033	207,040	190,627	83,962	206,864	190,965	185,097	162,468	158,084

	As at March 31			As at September 30					
	2003 £m	2003 A\$m	2002 A\$m	2002 £m	2002 A\$m	2001 A\$m	2000 A\$m	1999 A\$m	1998 A\$m
	(unaudited)								
Life insurance policy liabilities . . . . .	12,260	30,206	32,056	12,349	30,425	30,257	29,879	—	—
Income tax liabilities . . . . .	509	1,255	2,045	653	1,609	2,575	2,920	1,979	1,953
Provisions . . . . .	508	1,251	2,202	1,140	2,809	2,440	2,154	1,743	1,680
Bonds, notes and subordinated debt . . .	7,684	18,933	22,499	9,007	22,192	24,984	21,051	13,437	15,115
Other debt issues . . . . .	734	1,808	1,926	757	1,866	1,985	1,907	1,645	1,683
Other liabilities . . . . .	16,028	39,489	25,320	10,398	25,618	35,731	26,632	15,235	18,541
<b>Total liabilities</b> . . . . .	<b>150,329</b>	<b>370,381</b>	<b>338,186</b>	<b>143,736</b>	<b>354,136</b>	<b>351,163</b>	<b>322,270</b>	<b>235,561</b>	<b>235,950</b>
<b>Net assets</b> . . . . .	<b>9,666</b>	<b>23,815</b>	<b>23,451</b>	<b>9,437</b>	<b>23,251</b>	<b>23,557</b>	<b>21,407</b>	<b>18,520</b>	<b>15,764</b>
<b>Equity</b>									
Contributed equity . . . . .	3,674	9,052	10,486	4,031	9,931	10,725	9,855	9,286	6,675
Reserves . . . . .	509	1,254	1,480	854	2,105	2,427	2,006	802	1,782
Retained profits . . . . .	5,367	13,224	11,416	4,525	11,148	10,337	9,500	8,432	7,304
Total parent entity interest . . . . .	9,550	23,530	23,382	9,410	23,184	23,489	21,361	18,520	15,761
Outside equity interest . . . . .	116	285	69	27	67	68	46	—	3
<b>Total equity</b> . . . . .	<b>9,666</b>	<b>23,815</b>	<b>23,451</b>	<b>9,437</b>	<b>23,251</b>	<b>23,557</b>	<b>21,407</b>	<b>18,520</b>	<b>15,764</b>
<b>Adjusted to accord with US GAAP<sup>(1)</sup></b>									
Total assets . . . . .	161,671	398,325	363,474	154,347	380,280	377,167	344,227	258,791	256,753
Total equity . . . . .	9,633	23,734	23,392	9,743	24,005	23,987	21,836	19,226	16,359

	Half year ended March 31			Year ended September 30							
	2003 £	2003 A\$	2002 A\$	2002 £	2002 A\$	2001 A\$	2000 A\$	1999 A\$	1998 A\$		
	(unaudited)										
<b>Earnings ratios</b>											
<i>Australian GAAP</i>											
Earnings per share											
Basic . . . . .			0.47	1.16	1.39	0.84	2.06	1.22	2.02	1.87	1.40
Diluted . . . . .			0.46	1.14	1.36	0.82	2.03	1.23	1.99	1.83	1.39
Earnings per share before significant items											
Basic . . . . .			0.47	1.16	1.40	0.94	2.32	2.47	2.11	1.87	1.75
Diluted . . . . .			0.46	1.14	1.37	0.90	2.21	2.43	2.08	1.83	1.72
Dividends per share <sup>(2)</sup> . . . . .			0.32	0.80	0.72	0.60	1.47	1.35	1.23	1.12	1.02
Dividend payout ratio(%) <sup>(2)</sup> . . . . .			67.96	67.96	51.60	71.12	71.12	111.23	61.10	60.25	73.09
<b>Adjusted to accord with US GAAP<sup>(1)</sup></b>											
Net income per share											
Basic . . . . .			0.56	1.39	0.88	0.87	2.14	1.07	1.90	1.89	1.46
Diluted . . . . .			0.54	1.34	0.87	0.84	2.08	1.09	1.84	1.84	1.44
Dividends as a percentage of net income (%) . . . . .			54.37	54.37	75.95	64.76	64.76	111.47	60.90	57.83	69.89



	Half year ended March 31		Year ended September 30				
	2003 %	2002 %	2002 %	2001 %	2000 %	1999 %	1998 %
<b>Summary of consolidated data</b>							
<b>Australian GAAP</b>							
Net profit before significant items as a percentage of average total assets (excluding statutory funds) . . . . .	0.5	0.7	1.2	1.3	1.2	1.1	1.1
Average equity <sup>(7)</sup> . . . . .	9.0	10.6	17.0	18.4	18.1	17.3	17.8
Net profit as a percentage of average total assets (excluding statutory funds) . . . . .	0.5	0.7	1.0	0.7	1.2	1.1	0.8
Average equity <sup>(7)</sup> . . . . .	9.0	10.5	15.1	9.0	17.3	17.3	14.3
Average equity to average total assets (excluding statutory funds) <sup>(7)</sup> . . . . .	6.0	6.7	7.2	7.3	7.3	6.7	5.9
Average net interest spread <sup>(3)</sup> . . . . .	2.2	2.4	2.4	2.3	2.4	2.5	2.6
Average net interest margin <sup>(4)</sup> . . . . .	2.6	2.7	2.7	2.7	2.9	3.0	3.2
Net profit before significant items per average full-time equivalent employee (\$'000) . . . . .	43.4	48.6	83.5	82.9	71.5	59.9	n/a
Gross non-accrual loans to gross loans and acceptances . .	0.59	0.75	0.62	0.75	0.66	0.82	0.79
Net impaired assets to total equity . . . . .	4.5	4.9	4.7	5.1	4.9	6.1	6.9
<b>Adjusted to accord with US GAAP<sup>(1)</sup></b>							
Net income as a percentage of average total assets (excluding statutory funds) . . . . .	0.6	0.4	1.0	0.5	1.2	1.1	0.9
Average equity . . . . .	9.3	6.2	14.7	8.0	14.9	16.4	14.4
Total equity as a percentage of total assets (excluding statutory funds) . . . . .	6.5	7.1	6.9	7.0	7.0	7.4	6.4
<b>Capital adequacy (at period end)</b>							
<b>Australian GAAP</b>							
Risk-weighted assets (A\$m) <sup>(5)</sup> . . . . .	254,369	237,232	247,838	257,513	238,589	197,096	199,476
Tier 1 capital (A\$m) . . . . .	19,013	18,757	19,231	19,230	15,831	15,337	12,652
Tier 2 capital (A\$m) . . . . .	7,693	9,549	9,329	10,149	9,548	5,616	6,270
Total capital (A\$m) <sup>(6)</sup> . . . . .	23,313	25,129	25,307	26,154	22,145	20,380	18,422
Tier 1 capital /risk-weighted assets . . . . .	7.5	7.9	7.8	7.5	6.6	7.8	6.4
Tier 2 capital/risk-weighted assets . . . . .	3.0	4.0	3.7	3.9	4.0	2.9	3.1
Total capital/risk-weighted assets . . . . .	9.2	10.6	10.2	10.2	9.3	10.4	9.2
<b>Other information</b>							
Total staff (No.)							
Full-time and part-time . . . . .	46,653	46,718	46,642	49,710	51,879	51,566	50,973
Full-time equivalent (core) . . . . .	41,434	41,973	41,428	44,983	47,417	45,676	46,300
Full-time equivalent . . . . .	43,002	43,658	43,202	47,597	49,514	46,837	n/a

- (1) National expects to restate these values in the 2003 Form 20-F due to a reinterpretation of US accounting pronouncement APB 25 on accounting for employee stock options. National expects the restated net income adjusted to accord with US GAAP to be: 2002: A\$3,455 million, 2001: A\$1,793 million, 2000: A\$3,004 million, 1999: A\$2,702 million, and 1998: A\$2,042 million.
- (2) Dividend amounts are for the year for which they are declared and include issues under the bonus share plan in lieu of cash and scrip dividends. Dividends per ordinary share are based on year-end fully paid equivalent ordinary shares, adjusted for loans and rights issues as appropriate. Net profit is based on amounts attributable to ordinary shareholders after deducting distributions to other equityholders.
- (3) Difference between the average interest rate earned and the average interest rate paid on funds.
- (4) Net interest income divided by average interest-earning assets for the period.
- (5) As defined by APRA.
- (6) Represents Tier 1 and Tier 2 regulatory capital less deductions under statutory guidelines imposed.
- (7) Average equity represents the average of total equity adjusted to exclude National Income Securities (A\$1,945 million), preference shares (A\$730 million) and outside equity interest.

## NATIONAL AUSTRALIA BANK LIMITED

We are an international financial services group that provides a comprehensive and integrated range of financial products and services. We trace our history back to the establishment of The National Bank of Australasia in 1858. National Australia Bank Limited is a public limited company, incorporated on June 23, 1893 in Australia, which is our main domicile. We operate under the requirements of the Banking Act 1959 of Australia and the Corporations Act.

### Strategy

#### *General*

We operate as one international financial services group, delivering advice and solutions to help customers achieve their goals. Moving forward, our focus will be on creating growth through excellent relationships. To achieve this, we will seek to:

- deliver solutions that meet customers' financial needs;
- build and sustain a high performance culture;
- build trusted relationships with all stakeholders;
- build and manage our portfolio of businesses to achieve strong and sustainable total shareholder returns; and
- create and leverage strategic assets and capabilities for competitive advantage.

#### *Positioning for Growth Strategic Review*

In October 2001, we launched a program to drive long-term growth, termed Positioning for Growth. Positioning for Growth was designed to ensure that we continued to meet our performance objectives while making the investments necessary to underpin future growth.

The program looked to strengthen and invigorate us through the simplification of our structure, systems and processes, and the development of our talent base. It also examined opportunities to maximise revenue, reduce cost structures and use resources more efficiently.

In January 2002, we announced plans for a new corporate structure based around our principal areas of operation and designed to support clearer accountability, greater customer focus, simpler reporting and reduced bureaucracy. Our new structure creates regional integrated financial services teams with broader authority and more control over distribution, products and services.

The key elements of our new structure are:

- creating three regional financial services business units—Australia, Europe and New Zealand;
- Corporate and Institutional Banking and Wealth Management remain as global businesses (while undergoing an internal restructure);
- the previous global divisions of Business and Personal Financial Services, Specialist and Emerging Businesses and National Shared Services have been integrated into our three regional financial services business units; and
- our support functions of Finance, Technology, Group Funding, People and Culture, Risk Management, Corporate Development and Office of the CEO are organized on a global basis; however, much of their functionality is integrated within our business units.

### ***Business Operating Model***

National consists of five lines of business:

- Financial Services Australia;
- Financial Services Europe;
- Financial Services New Zealand;
- Corporate and Institutional Banking; and
- Wealth Management.

These business lines are supported by the following global functions—Finance, Technology, Group Funding, People and Culture, Risk Management, Corporate Development and Office of the CEO.

#### ***Financial Services Australia***

Financial Services Australia is our Australian retail arm that provides a range of financial products and services that consistently meet the full financial needs of our 3.4 million customers in Australia. At September 30, 2002, Financial Services Australia had 19,100 full-time equivalent employees.

Financial Services Australia is one of the largest providers of financial services in Australia. Financial Services Australia is the largest provider of financial services to business.

#### ***Financial Services Europe***

Financial Services Europe is our European retailing arm that provides a range of financial products and services tailored to the needs of our 3.5 million customers in Great Britain and Ireland. At September 30, 2002, Financial Services Europe had 11,900 full-time equivalent employees.

Financial Services Europe's retailing activities in Europe (Great Britain and Ireland) are conducted through four regional banks: Clydesdale Bank, Yorkshire Bank, Northern Bank and National Irish Bank.

#### ***Financial Services New Zealand***

Financial Services New Zealand is our New Zealand retail arm that provides a range of financial products and services tailored to the needs of our more than 960,000 customers in New Zealand. At September 30, 2002, Financial Services New Zealand had 3,900 full-time equivalent employees.

Financial Services New Zealand's retailing activities in New Zealand operate under the Bank of New Zealand (BNZ) brand.

#### ***Corporate and Institutional Banking***

Corporate and Institutional Banking manages our relationships with large corporations, banks, financial institutions, supranationals (such as development banks) and government bodies. It operates in Australia, Europe, New Zealand, New York and Asia (Hong Kong, Singapore, Seoul and Tokyo). Each region has a dedicated leadership team to provide local, accessible senior management for customers.

At September 30, 2002, Corporate and Institutional Banking had 2,500 full-time equivalent employees.

Corporate and Institutional Banking comprises Corporate Banking, Markets, Specialised Finance, Financial Institutions Group, Custodian Services and a Support Services unit.

### ***Wealth Management***

Wealth Management manages a diverse portfolio of financial services businesses. It provides financial planning, insurance, private banking, superannuation and investment solutions to both retail and corporate customers and portfolio implementation systems and infrastructure services to financial advisers. It operates in Australia, New Zealand, Europe (Great Britain and Ireland) and Asia (Hong Kong, Thailand and Indonesia).

At September 30, 2002, Wealth Management had almost A\$65 billion in assets under management and administration and more than 2.8 million customers. It is the second largest retail fund manager in Australia with a 14.5% market share.

At September 30, 2002, Wealth Management had 5,500 full-time equivalent employees.

Wealth Management is comprised of three business units—Investments, Insurance and Other.

### **Other**

#### ***Support functions***

Our support functions focus on our strategic and policy direction and incorporate the following units: Finance, Technology, Group Funding, People and Culture, Risk Management, Corporate Development and Office of the CEO. While these support functions are organised on a global basis, many of their operations are integrated within our business lines and their contribution to us is reported within the results of those businesses.

#### ***Organizational Structure***

National Australia Bank Limited is our holding company, as well as our main operating company. During 2002, we had eight main operating subsidiaries: Bank of New Zealand, Clydesdale Bank PLC, MLC Limited, National Wealth Management Holdings Limited, National Irish Bank Limited, Northern Bank Limited, SR Investment, Inc., formerly HomeSide International, Inc., and Yorkshire Bank PLC. On August 27, 2002, we entered into a contract for the sale of SR Investment, Inc. The sale closed on October 1, 2002.

#### ***Description of Property***

We operate about 2,000 outlets and offices worldwide, of which 51% are in Australia, with the largest proportion of the remainder being in Great Britain. Approximately 19% of the 2,000 outlets and offices are owned directly by us, with the remainder being held under commercial leases.

In June 2001, we announced that Lend Lease Corporation Limited had won the bid to develop our new office complex at Victoria Harbour in the Docklands precinct of Melbourne, Australia. We entered into an agreement to lease two commercial buildings in the precinct, and the leases are expected to commence in November 2003 and August 2004, respectively. Construction is now well underway, with plans for more than 3,500 staff to move into the buildings at the commencement of the leases. The principles behind the design and workstyle practices employed at Docklands (i.e., those of a single working team) are to be representative of the way that our group wants to operate at all our locations in the future.

Our premises are subject to continuous maintenance and upgrading and are considered suitable and adequate for our current and future operations.

### *Certain Legal Proceedings*

We are defendants from time to time in legal proceedings arising from the conduct of our business.

On August 29, 2003, a civil class action complaint was filed in the United States District Court (Southern District of New York) against us and others for alleged violations of federal securities laws relating primarily to disclosure concerning the valuation of the mortgage servicing rights held by HomeSide Lending, Inc. (which we sold in October 2002). The complaint fails to specify any quantum of damages, but seeks unspecified compensatory damages. Based on preliminary legal advice we have received in relation to the matter, we believe that the action is without merit and should not succeed. We intend to defend the action vigorously.

We do not believe that the outcome of any proceedings is likely to have a material adverse effect on our consolidated financial position.

### **RECENT DEVELOPMENTS**

National is a listed disclosing entity pursuant to Chapter 6CA of the Corporations Act and as such is subject to the continuous disclosure requirements in the listing rules of the Australian Stock Exchange Limited, or the ASX. ASX listing rules oblige National, subject to certain exceptions, to immediately disclose to the ASX any information concerning National that a reasonable person would expect to have a material effect on the price or value of National's securities.

National recently announced to the ASX that on August 28, 2003 it had acquired 34.7 million shares in AMP Limited at A\$6.00 per share, representing approximately 2.3% of the outstanding share capital of AMP. This is a strategic investment for National, and National is awaiting detailed information to be provided in AMP's de-merger documents. National has no interest in acquiring AMP while AMP owns its United Kingdom business.

## NATIONAL CAPITAL TRUST I

National Capital Trust is a statutory trust formed under the Delaware Statutory Trust Act, as amended, pursuant to a declaration of trust and the filing of a certificate of trust with the Secretary of State of the State of Delaware on September 16, 2003 (the “capital trust declaration”). National Capital Trust will amend and restate in its entirety the capital trust declaration. Copies of the capital trust declaration, as amended and restated, are available for inspection by the holders of the trust preferred securities during normal business hours at the principal corporate trust office of the capital property trustee, currently located at 101 Barclay Street, Floor 21 West, New York, New York 10286.

Upon issuance of the trust preferred securities, the purchasers of the trust preferred securities will own all the trust preferred securities issued by National Capital Trust. See “Description of the Trust Preferred Securities”. Capital Holdings will initially be the sponsor of National Capital Trust. National Capital Trust will use all the proceeds derived from the issuance of the trust preferred securities to purchase the funding preferred securities from National Funding Trust.

The assets of National Capital Trust will consist solely of the funding preferred securities, the exchange agreement and National’s guarantee of the funding preferred securities (the “funding guarantee”).

National Capital Trust exists for the exclusive purpose of:

- issuing and selling the trust preferred securities representing undivided beneficial ownership interests in the assets of National Capital Trust;
- entering into the exchange agreement;
- investing the gross proceeds from the sale of the trust preferred securities in the funding preferred securities; and
- engaging in only those other activities necessary or incidental to the above purposes.

Under the capital trust declaration, National Capital Trust will initially have five trustees:

- three regular trustees who are US persons, each of whom will be an individual who is an employee or officer of, or who is affiliated with, National;
- a property trustee (the “capital property trustee”), which will be a financial institution that is not an affiliate of National; and
- a Delaware trustee, which will be an entity that maintains its principal place of business in the State of Delaware.

Initially, The Bank of New York, a New York banking corporation, will act as the capital property trustee and its affiliate, The Bank of New York (Delaware), a Delaware banking corporation, will act as Delaware trustee of National Capital Trust until, in each case, removed or replaced by the sponsor of National Capital Trust, initially Capital Holdings, or, in limited circumstances, by the holders of a majority in liquidation amount of the trust preferred securities.

The capital property trustee will hold the funding preferred securities for the benefit of National Capital Trust and the holders of the trust preferred securities. The capital property trustee will have the power to exercise all rights, powers and privileges with respect to the funding preferred securities, the funding guarantee and the exchange agreement under the capital trust declaration. In addition, the capital property trustee will maintain exclusive control of the property account of National Capital Trust, which is a segregated non-interest bearing trust account, to hold all cash paid for the benefit of National Capital Trust and the holders of the trust preferred securities. The Bank of New York, as the trust guarantee trustee (the “trust guarantee trustee”), will hold the trust guarantee for the benefit of National Capital Trust and the holders of the trust preferred securities.

The sponsor, initially Capital Holdings, will generally have the right to appoint, remove or replace any of the trustees and to increase or decrease the number of trustees, provided that at least



one trustee will be a Delaware trustee, at least one trustee will be the capital property trustee and at least one trustee will be a regular trustee. In limited circumstances, holders of a majority in liquidation amount of the trust preferred securities may appoint or remove the capital property trustee and the Delaware trustee.

Pursuant to the funding trust declaration and the exchange agreement, upon the occurrence of the exchange event, the funding property trustee will transfer the debentures to Funding Holdings, but only if National delivers the GDRs it is required pursuant to the exchange agreement to deliver to holders of the trust preferred securities or, if the funding preferred securities have been distributed by National Capital Trust following a trust special event, to holders of the funding preferred securities.

Pursuant to the terms of the debentures, National's London branch will pay all fees and expenses related to the organization and operations of National Capital Trust, including any taxes, assessments or other governmental charges of whatever nature imposed by any relevant jurisdiction or any other taxing authority upon National Capital Trust, other than withholding taxes with respect to which none of National, National's London branch, National Capital Trust and National Funding Trust is obligated to pay additional amounts.

For so long as the trust preferred securities remain outstanding, Capital Holdings, or another entity we control, will be obligated to:

- continue to be the sponsor of National Capital Trust;
- cause National Capital Trust to remain a statutory trust and not to voluntarily dissolve, wind up, liquidate or terminate, except as permitted by the capital trust declaration; and
- use its commercially reasonable efforts to ensure that National Capital Trust will not be:
  - (A) an investment company for purposes of the US Investment Company Act of 1940, as amended (the "Investment Company Act"); or
  - (B) classified as other than a grantor trust for United States federal income tax purposes.

In purchasing the trust preferred securities, investors will be entitled to the benefits and subject to the terms of the exchange agreement. See "Description of the Exchange Agreement".

The rights of the holders of the trust preferred securities, including economic rights, rights to information and voting rights, are as set forth in the capital trust declaration and the Delaware Statutory Trust Act. See "Description of the Trust Preferred Securities". The capital trust declaration incorporates by reference certain provisions of the US Trust Indenture Act of 1939, as amended (the "Trust Indenture Act").

The location of the principal executive office of National Capital Trust is 700 White Clay Center, Route 273, Newark, Delaware 19711, and its facsimile number is (302) 283-8279.

## NATIONAL FUNDING TRUST I

National Funding Trust is a statutory trust formed under the Delaware Statutory Trust Act, as amended, pursuant to a declaration of trust and the filing of a certificate of trust with the Secretary of State of the State of Delaware on September 16, 2003 (the “funding trust declaration”). National Funding Trust will amend and restate in its entirety the funding trust declaration. Copies of the funding trust declaration, as amended and restated, are available for inspection by the holders of the trust preferred securities during normal business hours at the principal corporate trust office of the funding property trustee, currently located at 101 Barclay Street, Floor 21 West, New York, New York 10286.

Upon issuance of the funding preferred securities, National Capital Trust will own all the funding preferred securities issued by National Funding Trust. See “Description of the Funding Preferred Securities”. Funding Holdings will acquire National Funding Trust’s common security. National Funding Trust will use all of the proceeds from the sale of the funding preferred securities to purchase the debentures from our London branch.

The funding preferred securities and the common security of National Funding Trust are collectively referred to in this offering memorandum as “funding securities”.

The assets of National Funding Trust will principally consist of the debentures, the exchange agreement and United Kingdom government securities. National Funding Trust exists for the purpose of:

- issuing and selling the funding preferred securities and the common security;
- investing the gross proceeds from the sale of the funding preferred securities in the debentures;
- investing the gross proceeds from the sale of its common security in United Kingdom government securities;
- entering into the exchange agreement; and
- engaging in only those other activities necessary or incidental to the above purposes.

Under the funding trust declaration, National Funding Trust will initially have five trustees:

- three regular trustees who are US persons, at least one of whom will be an individual who is an employee or officer of, or who is affiliated with, National;
- a property trustee (the “funding property trustee”), which will be a financial institution that is not an affiliate of National; and
- a Delaware trustee, which will be an entity that maintains its principal place of business in the State of Delaware.

Initially, The Bank of New York, a New York banking corporation, will act as the funding property trustee and its affiliate, The Bank of New York (Delaware), a Delaware banking corporation, will act as Delaware trustee of National Funding Trust until, in each case, removed or replaced by the holder of the common security of National Funding Trust, initially Funding Holdings, or, in limited circumstances, by the holders of a majority in liquidation amount of the funding preferred securities.

The funding property trustee will hold the debentures and the United Kingdom government securities for the benefit of National Funding Trust and the holders of the funding securities. The funding property trustee will have the power to exercise all rights, powers and privileges with respect to the debentures and the exchange agreement under the funding trust declaration. In addition, the funding property trustee will maintain exclusive control of the property account of National Funding Trust, which is a segregated non-interest bearing trust account, to hold all funds received pursuant to the debentures or United Kingdom government securities for the benefit of National Funding Trust, the holders of the funding preferred securities or the holder of the common security, as the case may be. The Bank of New York, as the funding guarantee trustee (the “funding guarantee trustee”), will hold

the funding guarantee for the benefit of National Capital Trust, as the holder of all the outstanding funding preferred securities acting separately as a class.

The sponsor of National Funding Trust, initially Capital Holdings, will generally have the right to appoint, remove or replace any of the trustees and to increase or decrease the number of trustees, provided that at least one trustee will be a Delaware trustee, at least one trustee will be the funding property trustee and at least one trustee will be a regular trustee. In limited circumstances, holders of a majority in liquidation amount of the funding preferred securities may appoint or remove the funding property trustee and the Delaware trustee acting separately as a class.

Pursuant to the terms of the debentures, National's London branch will pay all fees and expenses related to the organization and operations of National Funding Trust, including any taxes, assessments or other governmental charges of whatever nature imposed by any relevant jurisdiction or any other taxing authority upon National Funding Trust, other than withholding taxes with respect to which none of National, National's London branch, National Capital Trust and National Funding Trust is obligated to pay additional amounts.

For so long as the funding preferred securities remain outstanding, we, or an entity we control, will be obligated to:

- maintain 100% ownership of the common security of National Funding Trust and continue to be the sponsor of National Funding Trust;
- cause National Funding Trust to remain a statutory trust and not to voluntarily dissolve, wind up, liquidate or terminate, except as permitted by the funding trust declaration; and
- use our commercially reasonable efforts to ensure that National Funding Trust:
  - (A) will not be an investment company for purposes of the Investment Company Act, and
  - (B) will be classified as a partnership and will not be treated as a corporation for United States federal income tax purposes.

In purchasing the trust preferred securities, investors will be deemed to have agreed and will be subject to the terms of the exchange agreement to the extent that funding preferred securities are distributed to holders of trust preferred securities as described under "Description of the Trust Preferred Securities—Trust Special Event Distribution". See "Description of the Exchange Agreement".

The rights of the holders of the funding preferred securities, including economic rights, rights to information and voting rights, are as set forth in the funding trust declaration and the Delaware Statutory Trust Act. The funding trust declaration incorporates by reference certain provisions of the Trust Indenture Act.

If National Funding Trust receives from National's London branch any interest payment on the debentures more than five business days after the interest payment date therefor, upon receipt of this late interest, including any deferred interest, National Funding Trust will distribute the late interest, together with any interest received by National Funding Trust in respect of the late interest, to the holder of the common security of National Funding Trust, initially Funding Holdings. The holders of the funding preferred securities will not be entitled to receive any portion of these amounts. See "Description of the Funding Preferred Securities".

The location of the principal executive office of National Funding Trust is 700 White Clay Center, Route 273, Newark, Delaware 19711, and its facsimile number is (302) 283-8279.

## DESCRIPTION OF THE TRUST PREFERRED SECURITIES

National Capital Trust will issue the trust preferred securities under the terms of the capital trust declaration. The Bank of New York will act as capital property trustee under the capital trust declaration for National Capital Trust. The terms of the trust preferred securities will include those stated in the capital trust declaration. The following summary of the material terms and provisions of the trust preferred securities is subject to, and qualified in its entirety by reference to, the capital trust declaration and the Delaware Statutory Trust Act.

A paying agency agreement, to be dated as of September 29, 2003 (the “agency agreement”), will be entered into in relation to the trust preferred securities among National, National Funding Trust, National Capital Trust, The Bank of New York, as paying agent (the “paying agent”), and Deutsche Bank Luxembourg S.A., as Luxembourg paying agent (the “Luxembourg paying agent” and, together with the paying agent, the “paying agents”). A registrar and transfer agency agreement, to be dated as of September 29, 2003 (the “registrar and transfer agency agreement”), will be entered into in relation to the trust preferred securities among National, National Capital Trust, The Bank of New York, as registrar and transfer agent (the “registrar and transfer agent”), and Deutsche Bank Luxembourg S.A., as Luxembourg registrar and transfer agent (the “Luxembourg registrar and transfer agent” and, together with the registrar and transfer agent, the “registrar and transfer agents”). The terms “paying agent”, “exchange rate agent”, “Luxembourg paying agent” and “Luxembourg transfer agent” shall include any successors appointed from time to time in accordance with the provisions of the agency agreement, and any reference to “agent” or “agents” shall mean any or all (as applicable) of those persons.

National Capital Trust will also enter into a calculation agency agreement, to be dated as of September 29, 2003 (the “calculation agreement”), among National, National Funding Trust, National Capital Trust and Deutsche Bank AG London, as calculation agent.

The holders of the trust preferred securities are bound by, and are deemed to have notice of, the provisions of the agency agreement. Copies of the agency agreement are available for inspection during usual business hours at the principal office of the paying agent and the Luxembourg paying agent.

### General

The trust preferred securities will be issued in fully registered form without coupons, in minimum denominations of £1,000 and integral multiples of £1,000 in excess thereof.

Trust preferred securities sold to persons other than US persons in offshore transactions in reliance on Regulation S will be represented by one or more permanent global certificates (the “Regulation S global certificates”) and all trust preferred securities initially sold in the United States or to US persons will be restricted securities issued only to qualified institutional buyers pursuant to Rule 144A, in the form of one or more restricted global certificates (the “restricted global certificates”) and, together with the Regulation S global certificates, the “global certificates”). The global certificates will be registered in the name of a nominee of The Bank of New York, and will be deposited with The Bank of New York, as common depository for, and in respect of interests held through, Euroclear or Clearstream, Luxembourg. The global certificates will be subject to certain restrictions on transfer set forth therein and in the capital trust declaration and will bear the legend relating to such restrictions set forth under “Notice to Investors” in this offering memorandum.

The restricted global certificates will be subject to certain restrictions on transfer set forth therein and in the capital trust declaration and will bear the legend relating to such restrictions set forth under “Notice to Investors” in this offering memorandum.

Beneficial interests in the Regulation S global certificates and the restricted global certificates will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their respective participants. Except as otherwise described in this offering memorandum, certificates will not be issued in exchange for beneficial interests in the restricted global certificates and the Regulation S global certificates.

The capital trust declaration authorizes the regular trustees of National Capital Trust to execute, deliver, issue and sell the trust preferred securities, which represent undivided beneficial ownership interests in the assets of National Capital Trust. The capital property trustee will hold the funding preferred securities for the benefit of National Capital Trust and the holders of the trust preferred securities.

The capital trust declaration does not permit National Capital Trust to:

- invest any proceeds received in respect of the funding preferred securities;
- acquire any assets other than the funding preferred securities, the funding guarantee and the proceeds from those instruments and the right, title and interest in the exchange agreement;
- mortgage or pledge any property held by it;
- issue any securities or other evidences of beneficial ownership of, or beneficial ownership in, National Capital Trust, other than the trust preferred securities;
- make any loans or incur any indebtedness for borrowed money; or
- take any action that would cause National Capital Trust to be classified as other than a grantor trust for United States tax purposes.

Payments of distributions out of funds held by National Capital Trust, payments out of funds held by National Capital Trust upon a redemption of the trust preferred securities for cash or liquidation of National Capital Trust and the distribution of funding preferred securities upon the dissolution of National Capital Trust as a result of a trust special event as described under “—Trust Special Event Distribution” are guaranteed by National to the extent described under “Description of the Trust Guarantee”. Neither the trust preferred securities nor the trust guarantee will represent a deposit liability of National for purposes of the Banking Act of 1959 of Australia or for the purposes of the FSMA regime in the United Kingdom and none of them will be insured by the US Federal Deposit Insurance Corporation or any other governmental agency or compensation scheme in the United States, Australia, the United Kingdom or elsewhere.

The trust guarantee trustee will hold the trust guarantee for the benefit of the holders of the trust preferred securities. The trust guarantee does not cover payments of cash to the extent National Capital Trust does not have sufficient available cash.

## **Distributions**

The distribution rate on the trust preferred securities will be, from the date of issuance to but excluding December 17, 2018, a fixed rate equal to 5.62% of the liquidation amount of £1,000 per trust preferred security per year and, thereafter in respect of each five-year distribution reset period, a fixed rate equal to the relevant five-year benchmark gilt rate, determined for each five-year distribution reset period as set forth below, plus 1.93% (representing 100 basis points above the initial spread over the benchmark gilt rate by reference to which the debentures were priced) of the liquidation amount of £1,000 per trust preferred security per year and, in each case, will be paid if, as and when National Capital Trust has funds available for distribution.

Distributions on the trust preferred securities will be payable in cash semi-annually in arrears for each distribution period on each June 17 and December 17, beginning December 17, 2003 (each, a “distribution date”). If any distribution date is not a business day, National Capital Trust will make payment of the distribution payable on that date on the next succeeding day that is a business day, without adjustment of the amount of such distribution for interest or any other payment in respect of that delay, with the same force and effect as if made on the date on which the distribution was due to have been paid.

The distributions on the trust preferred securities are non-cumulative. This means that, if National Capital Trust does not pay a distribution in full on or within five business days after any distribution date, then, unless National pays the distribution or the unpaid portion thereof under the trust guarantee as described in this offering memorandum, you will not receive that distribution or such unpaid portion or any other distributions in respect of that distribution period and will have no claim to that distribution in the future, whether or not National Capital Trust subsequently pays distributions or has funds to pay subsequent distributions.

We refer to each period beginning on the date of original issuance of the trust preferred securities or on each distribution date thereafter to but excluding December 17, 2052 and ending on the day that precedes the next succeeding distribution date as a “distribution period”. The amount of distributions on each trust preferred security will be computed on the basis of the actual number of days in the distribution period divided by 365 (or, if any portion of the distribution period falls in a leap year, the sum of (a) the actual number of days in that portion of the distribution period falling in a leap year divided by 366 and (b) the actual number of days in that portion of the distribution period falling in a non-leap year divided by 365).

“Five-year benchmark gilt rate” means, in respect of a five-year distribution reset period, the gross redemption yield (as calculated by the calculation agent on the basis set out by the United Kingdom Debt Management Office in the paper “Formulae for Calculating Gilt Prices from Yields”, page 4, Section One: Price/Yield Formulae “Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date” (published June 8, 1998, as amended or updated from time to time)) on a semi-annual compounding basis (and rounded up (if necessary) to four decimal places) of the five-year benchmark gilt in respect of that five-year distribution reset period (converted to an annualized payment and expressed as a percentage rounded up (if necessary) to four decimal places), with the price of the five-year benchmark gilt for this purpose being the arithmetic average (rounded up (if necessary) to four decimal places) of the bid and offered prices of such five-year benchmark gilt quoted by the reference market makers at 3:00 p.m. (London time) on the relevant determination date on a dealing basis for settlement on the next following London business day.

“Five-year distribution reset period” means the period from and including a distribution rate reset date to but excluding the fifth anniversary thereafter, provided that the last five-year distribution reset period will end on but exclude the date on which the trust preferred securities are redeemed.

“Distribution rate reset date” means December 17, 2018 and each fifth year anniversary thereof.

“Reference market makers” means three brokers of gilts and/or gilt-edged market makers selected by the calculation agent in consultation with us.

“Determination date”, in relation to a five-year distribution reset period, means the fifth London business day prior to a distribution rate reset date; provided that if it is not possible for any reason to determine the five-year benchmark gilt rate on any such day, the determination date shall be postponed to the first London business day thereafter on which the calculation agent determines that it is possible to determine the five-year benchmark gilt rate.



“Calculation agent” means Deutsche Bank AG London or any successor appointed in respect of the trust preferred securities.

“Business day” means a day, other than a Saturday or Sunday, on which commercial banks are open for general business in London, United Kingdom, New York, New York and Melbourne, Australia and, in the case of a presentation or surrender of trust preferred securities or funding preferred securities, in the place of the specified office of the relevant paying agent to whom the security is presented or surrendered.

“Five-year benchmark gilt” means, in respect of a five-year distribution reset period, such United Kingdom government security having a maturity date on or about the last day of such five-year distribution reset period as the calculation agent, with the advice of the reference market makers, may determine to be appropriate.

“London business day” means a day, other than a Saturday or Sunday, on which commercial banks and the London Stock Exchange are open for business in London, United Kingdom.

All calculations of the calculation agent, in the absence of manifest error, will be conclusive for all purposes and binding on National Capital Trust and on the holders of the trust preferred securities. In no event shall the rate of distributions on the trust preferred securities be higher than the maximum rate permitted by New York law, as the same may be modified by United States law of general application. The calculation agent will, upon the request of any holder of the trust preferred securities, provide the rate of distributions then in effect.

National Capital Trust will make distributions on the trust preferred securities to the extent that it has funds available for the payment of the distributions in its property account. Amounts available to National Capital Trust for distribution to the holders of the trust preferred securities will be limited to payments National Capital Trust receives from National Funding Trust with respect to the funding preferred securities or from National with respect to the funding guarantee.

The assets of National Funding Trust will principally consist of the debentures. To the extent that National’s London branch defers or fails to make any payment in respect of the debentures, National Funding Trust will not have sufficient funds to pay and will not pay a distribution on the funding preferred securities. If National Funding Trust does not pay a distribution on the funding preferred securities and National does not pay the amount of such distribution under the funding guarantee, National Capital Trust will not have sufficient funds to make a distribution on the trust preferred securities. National is not obligated to make payments under the trust guarantee except to the extent National Capital Trust has sufficient funds available to pay those distributions. See “Description of the Funding Preferred Securities—Distributions” and “Description of the Trust Guarantee”.

National Capital Trust will pay distributions on the trust preferred securities to the holders as they appear on the books and records of National Capital Trust at the close of business on the date, whether or not a business day, immediately preceding the relevant distribution date. National Capital Trust will pay these distributions through the capital property trustee, which will hold amounts received in respect of the funding preferred securities and the funding guarantee in the property account of National Capital Trust for the benefit of National Capital Trust and the holders of the trust preferred securities. Subject to any applicable laws and regulations and the provisions of the capital trust declaration, National Capital Trust will make each payment as described under “—Book-Entry Ownership” below.

#### **Payment of Additional Amounts**

National Capital Trust will make all cash payments in respect of the trust preferred securities without withholding or deduction for, or on account of, any and all present and future taxes,

assessments or other governmental charges of whatever nature (“relevant tax”) imposed or levied by or on behalf of Australia, the United Kingdom, the United States or any other jurisdiction from which a substitute branch makes payment under the debentures, or any political subdivision or authority in or of any of the foregoing jurisdictions, unless the withholding or deduction is required by law. In that event, National Capital Trust will pay such additional amounts as may be necessary so that the net amount of cash received by a holder of the trust preferred securities, after such withholding or deduction, will equal the amount that the holder would have received in respect of the trust preferred securities without such withholding or deduction.

However, National Capital Trust will pay no additional amounts with respect to any trust preferred securities:

- to the extent that the relevant tax is imposed or levied by virtue of a holder, or a beneficial owner, of the trust preferred securities having some connection (whether present, past or future) with a relevant jurisdiction or being or having been engaged in any activity, trade or business in a relevant jurisdiction, other than being a holder, or a beneficial owner, of the trust preferred securities;
- to the extent that the relevant tax is imposed or levied by virtue of a holder, or a beneficial owner, of the trust preferred securities not complying with any statutory requirements or not having made a declaration of non-residence in, or other lack of connection with, the relevant jurisdiction or similar claim for exemption, if National Capital Trust or its agent has provided the holder, or the beneficial owner, of the trust preferred securities with at least 60 days’ prior written notice of an opportunity to comply with such statutory requirements or make a declaration or claim;
- to the extent that the relevant tax is a United States “back-up” withholding tax;
- to the extent that the relevant tax is imposed or levied on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting on November 26-27, 2000 or any law implementing or complying with, or introduced in order to conform to, such directive; or
- to the extent the relevant trust preferred security, funding preferred security or debenture is presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant trust preferred security, funding preferred security or debenture to another paying agent in a member state of the European Union.

### **Mandatory Redemption**

National Capital Trust will redeem the trust preferred securities upon the redemption of the funding preferred securities. Upon the occurrence of the exchange event, all of the trust preferred securities and all of the funding preferred securities will be deemed to have been called for redemption. Any redemption on any date other than (i) on December 17, 2018 or (ii) on any subsequent distribution rate reset date and any redemption upon the occurrence of the exchange event will be in whole and not in part and will be on any business day selected by National in its absolute discretion upon the occurrence of events specified below. Any redemption (other than a redemption upon the occurrence of the exchange event) on December 17, 2018 or on any subsequent distribution rate reset date may be in whole or in part on such date; provided that, if such distribution rate reset date is not a business day, payment of the redemption amount will be made on the next succeeding business day, without adjustment or any other payment in respect of that delay, with the same force and effect as if made on such date.

Upon the redemption of the funding preferred securities:

- if the funding preferred securities are redeemed for cash on any date other than December 17, 2018 or any subsequent distribution rate reset date, then National Capital Trust will apply the cash from the redemption of the funding preferred securities to redeem for cash all of the trust preferred securities at an amount per trust preferred security equal to, if redemption occurs as a result of a make-whole special event, the make-whole redemption price or, if redemption occurs as a result of a withholding tax event, the par redemption price;
- if the funding preferred securities are redeemed for cash on December 17, 2018 or on any subsequent distribution rate reset date, then National Capital Trust will apply the cash from the redemption of the funding preferred securities to redeem for cash a proportionate amount of trust preferred securities at an amount per trust preferred security equal to the par redemption price; or
- if the exchange event has occurred, then (i) pursuant to the exchange agreement and the deposit agreement, National will cause to be delivered or held for delivery to holders of trust preferred securities, or, if National Capital Trust has been dissolved following a trust special event (as defined below under “—Trust Special Event Distribution”), to the holders of funding preferred securities, one GDR representing one National preference share for each trust preferred security redeemed and (ii) if the exchange event occurs on an interest payment date on the debentures, interest has been declared payable on the debentures and no deferral condition as described under “Description of the Debentures—Deferral of Interest Payments” exists at the time, National Capital Trust will pay the accrued and unpaid distribution for the most recent distribution period if and to the extent interest for the corresponding interest payment period is received by National Funding Trust on the debentures and a distribution for the corresponding distribution period is received by National Capital Trust on the funding preferred securities.

See “Description of the Funding Preferred Securities—Mandatory Redemption”, “Description of the Debentures—Cash Redemption” and “Description of the Exchange Agreement”.

National Capital Trust’s delivery of cash to the holders of trust preferred securities upon a redemption of the funding preferred securities is guaranteed to the extent described under “Description of the Trust Guarantee”.

The “make-whole redemption price” means the greater of the make-whole redemption amount (which is intended to solely compensate you for any reinvestment loss from interest rate risk, and costs of reinvestment as a result of the early redemption of the debentures) and the par redemption price.

The “make-whole redemption amount”, with respect to each trust preferred security, will be equal to the sum of:

- the price, expressed as a percentage (rounded to four decimal places, 0.00005 being rounded upwards) of the liquidation amount per trust preferred security, at which the gross redemption yield on the trust preferred securities on the reference date (assuming for this purpose that the liquidation amount of the trust preferred securities is payable on December 17, 2018 or, if the redemption date falls on any subsequent date other than a distribution rate reset date, the next distribution rate reset date falling after such redemption date) is equal to the gross redemption yield (determined by reference to the middle market price) at 3:00 p.m. (London time) on the reference date of the benchmark gilt plus 0.25%;

- if the redemption date is on or within five business days following a distribution date, the distribution payable thereon on that distribution date (except to the extent such amount has been taken into account in determining the amount in the previous bullet point), to the extent unpaid; and
- any additional amounts.

“Benchmark gilt” means, in relation to any determination of the make-whole redemption amount in respect of a redemption to be made prior to December 17, 2018, such United Kingdom government security having a maturity date on or about December 17, 2018 as the calculation agent, with the advice of the reference market makers may determine to be appropriate, and thereafter, in relation to each five-year distribution reset period, the five-year benchmark gilt, or if any such stock is no longer in issue, such other United Kingdom government stock as the calculation agent may, with the advice of the reference market makers, determine to be appropriate at the relevant time.

“Gross redemption yield” means, with respect to a security, the gross redemption yield on such security, as calculated by the calculation agent on the basis set out by the United Kingdom Debt Management Office in the paper “Formulae for Calculating Gilt Prices from Yields”, page 4, Section One: Price/Yield Formulae “Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date” (published June 8, 1998, as amended or updated from time to time) on a semi-annual compounding basis (converted to an annualized yield and rounded up (if necessary) to four decimal places).

“Reference market makers” means three brokers of gilts and/or gilt edged market makers selected by the calculation agent in consultation with us.

“Reference date” means the third London business day prior to the redemption date.

The “par redemption price”, with respect to each trust preferred security, will be equal to the sum of £1,000, plus the accrued and unpaid distribution thereon for the then current distribution period and, if the redemption date is on or within five business days following a distribution date, the distribution payable thereon with respect to that distribution date, to the extent unpaid, and any additional amounts.

“Withholding tax event” has the meaning set out below in “Description of the Debentures—Cash Redemption”.

### **Trust Special Event Distribution**

If, at any time, a Trust tax event or a Trust investment company event (each as defined below, and each, a “trust special event”) occurs and is continuing, the regular trustees of National Capital Trust will, unless the funding preferred securities are redeemed in the limited circumstances described below, following the occurrence of such trust special event elect to either:

- dissolve National Capital Trust upon not less than 30 nor more than 60 days’ notice with the result that, after satisfaction of liabilities (or reasonable provision for payment of liabilities) to creditors of National Capital Trust, if any, funding preferred securities will be distributed on a *pro rata* basis to the holders of the trust preferred securities in liquidation of the holders’ interests in National Capital Trust; provided, however, that if at the time National Capital Trust has the opportunity to eliminate the trust special event by taking some ministerial action, such as filing a form or making an election, or pursuing some other similar reasonable measure that in the absolute discretion of the regular trustees does not or will not have any adverse effect on National, any of National’s subsidiaries or affiliates, National Capital Trust, National Funding Trust, or the holders of the trust preferred securities or the funding preferred securities and will not involve any material cost to any

such entity, National Capital Trust will pursue that measure in lieu of dissolution. The regular trustees may not dissolve National Capital Trust prior to, and any obligations of National Capital Trust under this provision terminate upon, the earlier of (i) the 90th day following the date of the trust special event and (ii) the date that the sponsor of National Capital Trust determines in its absolute discretion that not dissolving National Capital Trust has or will have an adverse effect on National, any of National's subsidiaries or affiliates, National Capital Trust, National Funding Trust, the holders of the trust preferred securities or the funding preferred securities or will involve material cost to any such entity; or

- cause the trust preferred securities to remain outstanding, provided that in the case of this clause, National's London branch will pay any and all expenses incurred by or payable by National Capital Trust attributable to the trust special event in accordance with the terms of the debentures.

In the event that funding preferred securities are distributed to holders of trust preferred securities following the occurrence of a trust special event, we will use reasonable endeavors to obtain a listing for the funding preferred securities on a recognized international stock exchange. However, there can be no certainty that the funding preferred securities will be listed on a recognized international stock exchange.

"Trust tax event" means that the regular trustees of National Capital Trust or National have requested and received an opinion of competent tax counsel to the effect that there has been:

- an amendment to, change in or announced proposed change in any laws, or any regulations under those laws;
- a judicial decision interpreting, applying or clarifying those laws or regulations;
- an administrative pronouncement or action that represents an official position, including a clarification of an official position, of the governmental authority or regulatory body making the administrative pronouncement or taking any action; or
- a challenge asserted or threatened in connection with an audit (including a United Kingdom Inland Revenue self assessment enquiry) of National, National's London branch, the sponsor of National Capital Trust, any of National's subsidiaries, National Funding Trust or National Capital Trust, or a challenge asserted or threatened in writing against any other taxpayer that has raised capital through the issuance of securities that are substantially similar to the debentures, the funding preferred securities, the trust preferred securities or the National preference shares,

which amendment or change is adopted or which proposed change, decision or pronouncement is announced or which action, clarification or challenge occurs on or after the date of this offering memorandum (collectively, a "Tax Action"), which Tax Action relates to either of the items described in (1) or (2) below, and that following the occurrence of any Tax Action there is more than an insubstantial risk that:

- (1) National Capital Trust is, or will be, subject to United States federal income tax with respect to income accrued or received on or with respect to the funding preferred securities; or
- (2) National Capital Trust is, or will be, subject to more than a *de minimis* increase in its costs as a result of any other taxes, assessments or other governmental charges.

"Trust investment company event" means that the regular trustees of National Capital Trust or National have requested and received an opinion of nationally recognized independent legal counsel in the United States experienced in these matters to the effect that, as a result of the occurrence on or after the date of this offering memorandum of a change in law or regulation or a change in

interpretation or application of law or regulation by any legislative body, court, governmental agency or regulatory authority, there is more than an insubstantial risk that National Capital Trust is or will be considered an investment company which is required to be registered under the Investment Company Act.

### **Redemption Procedures**

National Capital Trust must give holders of trust preferred securities not less than 30 and not more than 60 days' notice of any cash redemption. In the case of a redemption upon the occurrence of the exchange event, National Capital Trust will give holders of trust preferred securities notice of the redemption as soon as practicable after receipt by National Capital Trust of any notice it receives from National under the exchange agreement.

If National Capital Trust gives a notice of redemption in respect of the trust preferred securities, which notice will be irrevocable, or if the exchange event has occurred, and if National Funding Trust or National, as the case may be, has paid to the capital property trustee a sufficient amount of cash in connection with the redemption of the funding preferred securities, then, by 12:00 noon, London time, on the redemption date, National Capital Trust will irrevocably deposit with the paying agent as provided in the capital trust declaration, cash sufficient to pay the amount payable on redemption of the trust preferred securities to be redeemed and will give irrevocable instructions and authority to pay the redemption amount to the holders of trust preferred securities. See “—Book-Entry Ownership—Relationship of Participants with Clearing Systems”. If the trust preferred securities are being redeemed upon the occurrence of the exchange event, GDRs will be delivered or held for delivery to investors as described under “Description of the Exchange Agreement”.

If National Capital Trust has given notice of redemption and has deposited cash and, in the case of a redemption upon the occurrence of the exchange event, National has caused GDRs to be delivered or held for delivery in accordance with the exchange agreement and the deposit agreement, then immediately prior to the close of business on the date of deposit on which such deposit and, if applicable, delivery or holding for delivery has been so made, distributions will cease to accrue on the trust preferred securities redeemed and all rights of holders of any trust preferred securities called for redemption will cease, except the right of the holders of those trust preferred securities to receive, as applicable, any redemption amount pursuant to the funding trust declaration and GDRs pursuant to the exchange agreement and the deposit agreement, but without interest. If any date fixed for redemption of the trust preferred securities is not a business day, then National Capital Trust will pay the amount payable under the capital trust declaration and, pursuant to the exchange agreement, National will cause the required number of GDRs, if any, to be delivered or held for delivery on the next succeeding day that is a business day, without any interest or other payment in respect of the amount payable or GDRs to be distributed with the same force and effect as if made on the date fixed for redemption.

If either National Capital Trust or National, as guarantor under the trust guarantee described under “Description of the Trust Guarantee”, improperly withholds or refuses payment of the redemption price in respect of a cash redemption of the trust preferred securities or National fails to cause the GDRs to be delivered or held for delivery pursuant to the exchange agreement and the deposit agreement, distributions at the annual rate in effect for the current distribution period, or if the date fixed for redemption is a distribution date, the immediately preceding distribution period, will accrue on the redemption amount from the date on which the redemption was due to the date of payment.

If National Capital Trust redeems for cash fewer than all of the outstanding trust preferred securities, it will redeem for cash the trust preferred securities on a proportionate basis in accordance



with the procedures of the relevant depository through whom the trust preferred securities are then held. See “—Book-Entry Ownership”.

Subject to the foregoing and applicable law, including, without limitation, United States federal securities laws, National or its subsidiaries may at any time and from time to time purchase outstanding trust preferred securities or funding preferred securities by tender, in the open market or by private agreement.

### **Liquidation Distribution Upon Dissolution**

In the event of any voluntary or involuntary liquidation, dissolution or winding up of National Capital Trust, other than in connection with a trust special event or following a redemption of the trust preferred securities upon the occurrence of the exchange event, the then current holders of the trust preferred securities will be entitled to receive out of the assets of National Capital Trust distributions in cash or other immediately available funds in an amount equal to the lesser of (i) the stated liquidation amount of £1,000 per trust preferred security, plus the accrued and unpaid distribution for the then current distribution period to the date of payment or, if the date of payment is a distribution date, the accrued and unpaid distribution for the most recent distribution period and (ii) the amount of assets of National Capital Trust remaining available for distribution after satisfaction of liabilities (or the reasonable provision for payment of liabilities).

If, upon liquidation, National Capital Trust can pay the liquidation distribution only in part because it has insufficient assets available to pay in full the total liquidation distribution, then National Capital Trust will pay the amounts payable by it on the trust preferred securities on a *pro rata* basis.

Under the capital trust declaration, National Capital Trust will be dissolved and its affairs wound up:

- (1) upon the winding up of National;
- (2) upon the entry of a decree of a judicial dissolution of National Capital Trust;
- (3) upon the redemption of all the trust preferred securities and payment of all necessary amounts in connection with the redemption of the trust preferred securities or where the trust preferred securities have been called for redemption and National has caused GDRs to be delivered or held for delivery and, if the redemption date is a distribution date, distributed the accrued and unpaid distribution, as described above in “—Mandatory Redemption”; or
- (4) upon the election of the regular trustees of National Capital Trust, following the occurrence of a trust special event and the distribution of all of the funding preferred securities to the holders of trust preferred securities in exchange for all trust preferred securities.

In addition, National Capital Trust will terminate upon the filing of a certificate of cancellation after having obtained the consent of at least a majority in liquidation amount of the trust preferred securities to dissolve National Capital Trust.

### **Voting Rights and Rights of Action**

Except as described in this offering memorandum or as otherwise required under the Delaware Statutory Trust Act and the capital trust declaration, the holders of the trust preferred securities will have no voting rights.

The procedures by which holders of the trust preferred securities represented by the global certificates may exercise their rights are described below. See also “—Book-Entry Ownership”.

The procedures by which holders of the trust preferred securities may take direct action under the trust guarantee, the funding guarantee and the debentures are described in this offering memorandum under “Description of the Trust Guarantee”, “Description of the Funding Guarantee” and “Description of the Debentures”.

### ***Right to Direct the Capital Property Trustee***

Subject to the requirement of the capital property trustee to obtain a tax opinion as set forth in the next full paragraph, the holders of a majority in liquidation amount of the trust preferred securities have the right to direct the time, method and place of conducting any proceeding for any remedy available to the capital property trustee, or direct the exercise of any trust power conferred upon the capital property trustee as holder of the funding preferred securities, including the right to direct the capital property trustee to:

- exercise the remedies available to it under the exchange agreement;
- exercise the rights of the holders of the funding preferred securities under the funding guarantee;
- waive any past default and its consequences that are waivable under the funding trust declaration, the exchange agreement or the funding guarantee;
- exercise any right to rescind or annul a declaration that any amount in respect of the funding preferred securities or the funding guarantee is due and payable; or
- consent to any amendment, modification or termination of the funding trust declaration, the funding preferred securities, the exchange agreement or the funding guarantee where consent is required;

provided, however, that where a consent or action under the funding trust declaration, the funding preferred securities or the funding guarantee would require the consent or act of the holders of more than a majority of the total liquidation amount of funding preferred securities affected, only the holders of the percentage of the total stated liquidation amount of the trust preferred securities that is at least equal to the percentage required under the funding trust declaration or the funding guarantee, as the case may be, may direct the capital property trustee to give consent or take action on behalf of National Capital Trust. See “Description of the Funding Preferred Securities—Rights of Action”.

Except with respect to directing the time, method and place of conducting any remedy or exercising any trust power as described above, the capital property trustee will not take any of the actions described in the immediately preceding clauses unless it has obtained an opinion of independent United States tax counsel to the effect that National Capital Trust will not, as a result of that action, fail to be classified as a grantor trust for United States federal income tax purposes.

### ***Approval or Direction Procedures***

Any required approval or direction of holders of the trust preferred securities may be given at a meeting of the holders of trust preferred securities or pursuant to written consent. The regular trustees will cause a notice of any meeting at which holders of the trust preferred securities are entitled to take action, or of any matter upon which action by written consent of the holders is to be taken, to be mailed to each holder of record of the trust preferred securities. Each notice will include a statement setting forth the following information:

- (1) the date of the meeting or the date by which any action is to be taken;
- (2) a description of any resolution proposed for adoption at the meeting on which the holders are entitled to take action or of the matter upon which written consent is sought; and
- (3) instructions for the delivery of proxies or consents.

No action or consent of the holders of the trust preferred securities will be required for National Capital Trust to redeem and cancel the trust preferred securities or distribute the funding preferred securities upon the dissolution of National Capital Trust as a result of a trust special event as described under “—Trust Special Event Distribution”. Except as otherwise required under applicable

law, the holders of at least 5% of the liquidation amount of the trust preferred securities will constitute a quorum at any meeting of holders of the trust preferred securities.

Notwithstanding that holders of the trust preferred securities are entitled to take action or consent under any of the circumstances described above, if Capital Holdings or any other entity directly or indirectly controlled by, or under direct or indirect common control with, National beneficially owns any of the trust preferred securities at that time, Capital Holdings or the entity will not be entitled to take action or consent and those trust preferred securities will, for purposes of any action or consent, be treated as if they were not outstanding; provided, however, that persons, other than affiliates of National, to whom National or any of its subsidiaries have pledged the trust preferred securities may take action or consent with respect to the pledged trust preferred securities pursuant to the terms of the pledge. These provisions will not apply, however, if National or any affiliate of National owns or controls all of the outstanding trust preferred securities.

#### *Limited Rights to Appoint Trustees*

Holders of the trust preferred securities will have limited rights to appoint or remove the capital property trustee and the Delaware trustee, which may generally be appointed, removed or replaced by the sponsor, initially Capital Holdings. The regular trustees may be appointed, removed or replaced solely by the sponsor, initially Capital Holdings.

#### **Merger, Conversion, Consolidation or Amalgamation of National Capital Trust**

National Capital Trust may not consolidate, amalgamate, merge or convert with or into, or be replaced by, or convey, transfer or lease its properties and assets substantially as an entirety to, any corporation or other entity, except for the sole purpose of changing its domicile and as described below.

National Capital Trust may, with the consent of a majority of the regular trustees and without the consent of the holders of the trust preferred securities, the capital property trustee or the Delaware trustee, consolidate, amalgamate, merge or convert with or into, or be replaced by a trust organized as such under the laws of any state of the United States; provided that:

- (1) if National Capital Trust is not the surviving entity, the successor entity either:
  - expressly assumes all of the obligations of National Capital Trust under the trust preferred securities and the exchange agreement; or
  - substitutes for the trust preferred securities other securities having substantially the same terms as the trust preferred securities, so long as the successor securities rank the same as the trust preferred securities rank with respect to distributions, assets and payments upon liquidation, redemption and otherwise;
- (2) the successor entity has a trustee that possesses the same powers and duties as the capital property trustee as the holder of the funding preferred securities and the beneficiary of the funding guarantee;
- (3) the trust preferred securities or successor securities are listed, quoted or included for trading, or any successor securities shall be listed, quoted or included for trading upon notification of issuance, on any securities exchange or with another organization on which the trust preferred securities are then listed, quoted or included for trading;
- (4) any consolidation, amalgamation, merger, conversion or replacement does not cause the trust preferred securities, including any successor securities, to be downgraded by any “nationally recognized statistical rating agency” (as that term is defined for purposes of the Securities Act), or does not cause any such agency to publicly announce that it has the trust preferred securities or any other securities of National under surveillance or review for possible downgrade;

- (5) any consolidation, amalgamation, merger, conversion or replacement does not adversely affect the rights, preferences and privileges of the holders of the trust preferred securities or funding preferred securities, including any successor securities, in any material respect;
- (6) the successor entity has a purpose substantially identical to that of National Capital Trust;
- (7) Capital Holdings, or any permitted successor or assignee or another entity we control, is the sponsor of the successor entity and National guarantees the obligations of the successor entity under the successor securities to the same extent as provided by the trust guarantee; and
- (8) before any consolidation, amalgamation, merger, conversion or replacement, Capital Holdings has received an opinion of a nationally recognized independent counsel in the United States to National Capital Trust experienced in these matters to the effect that:
  - any consolidation, amalgamation, merger, conversion or replacement will not adversely affect the rights, preferences and privileges of the holders of the trust preferred securities, including any successor securities, in any material respect;
  - following any consolidation, amalgamation, merger, conversion or replacement, neither National Capital Trust nor the successor entity will be required to register as an investment company under the Investment Company Act;
  - following any consolidation, amalgamation, merger, conversion or replacement, National Capital Trust, or any successor trust, will continue to be classified as a grantor trust for United States federal income tax purposes;
  - following any consolidation, amalgamation, merger, conversion or replacement, National Funding Trust will continue to be classified as a partnership and will not be treated as a corporation for United States federal income tax purposes; and
  - such consolidation, amalgamation, merger, conversion or replacement will not cause the holders of the trust preferred securities or funding preferred securities to recognize income, gain or loss in respect of such securities for United States federal income tax purposes.

Notwithstanding the foregoing, National Capital Trust will not, except with the consent of holders of 100% in liquidation amount of the trust preferred securities, consolidate, amalgamate, merge or convert with or into, or be replaced by any other entity or permit any other entity to consolidate, amalgamate, merge or convert with or into, or replace it if any such consolidation, amalgamation, merger, conversion or replacement would cause National Capital Trust, or the successor entity, if any, to fail to be classified as a grantor trust for United States federal income tax purposes or cause National Funding Trust to be treated as a corporation for such purposes or cause the holders of the trust preferred securities or funding preferred securities to recognize income, gain or loss in respect of such securities for United States federal income tax purposes.

#### **Modification of the Capital Trust Declaration**

If any proposed modification or amendment to the capital trust declaration provides for:

- (1) any action that would materially adversely affect the rights, powers, privileges or preferences of the holders of the trust preferred securities, whether by way of modification or amendment to the capital trust declaration or otherwise; or
- (2) the dissolution, winding-up or termination of National Capital Trust other than under the terms of the capital trust declaration,

then the amendment or proposal will not be effective except with the approval of the holders of at least a majority in liquidation amount of the trust preferred securities.

The capital trust declaration may be amended without the consent of the holders of the trust preferred securities to:

- cure any ambiguity;
- correct or supplement any provision in the capital trust declaration that may be defective or inconsistent with any other provision of the capital trust declaration;
- modify the covenants, restrictions or obligations of the sponsor;
- conform to any change in the Investment Company Act or the grantor trust provisions of the Code or the rules or regulations under any of those laws; and
- modify, eliminate and add to any provision of the capital trust declaration to the extent as may be necessary or appropriate consistent with effectuating the purposes of the capital trust declaration,

provided that no such amendment would have a material adverse effect on the rights, preferences or privileges of the holders of the trust preferred securities or the covenants, restrictions or obligations of Capital Holdings.

No amendment or modification may be made to the capital trust declaration if the amendment or modification would:

- adversely affect only the sponsor of National Capital Trust;
- adversely affect the rights, powers, duties, obligations or immunities of the regular trustees of National Capital Trust;
- cause National Capital Trust to fail to be classified as a grantor trust for United States federal income tax purposes;
- cause National Funding Trust to fail to be classified as a partnership for United States federal income tax purposes;
- cause National Funding Trust to be treated as a corporation for United States federal income tax purposes;
- reduce or otherwise adversely affect the powers of the capital property trustee in contravention of any applicable law;
- cause National Capital Trust or National Funding Trust to be deemed an investment company that is required to be registered under the Investment Company Act; or
- cause any trustee to assume any duties or obligations not specifically set forth in the capital trust declaration.

No amendment or modification to the capital trust declaration that will affect the treatment by APRA of the trust preferred securities or, upon the dissolution of National Capital Trust as described under “—Trust Special Event Distribution” and the distribution of the funding preferred securities to the holders of the trust preferred securities, the funding preferred securities, as Tier 1 capital of National may be made unless APRA consents to the amendment or modification.

## **Form, Transfer and Exchange**

### ***General***

Subject to the restrictions on transfer contained in the capital trust declaration, and as described below and under “Notice to Investors”, and the limitations applicable to global certificates, trust preferred securities may be presented for exchange for other trust preferred securities of any authorized denominations and of a like tenor and aggregate liquidation amount or for registration of transfer by the holder or its attorney duly authorized in writing and, if so required by the regular trustees of National Capital Trust or the capital property trustee, with the form of transfer thereon duly

endorsed or accompanied by a written instrument of transfer in a form satisfactory to the regular trustees of National Capital Trust or the capital property trustee duly executed, at the office of the capital property trustee or at the office of any transfer agent designated by the regular trustees of National Capital Trust for such purpose. No service charge will be made for any exchange or registration of transfer of trust preferred securities, but the regular trustees of National Capital Trust may require payment of a sum by the holder of a trust preferred security sufficient to cover any tax or other governmental charge payable in connection therewith.

A transfer or exchange will be effected upon the capital property trustee or transfer agent, as the case may be, being satisfied with the documents of title and identity of the person making the request. The capital property trustee may decline to accept any request for an exchange or registration of transfer of any trust preferred security during the period of 15 days preceding the due date for any payment of the liquidation amount of or any other payments on or in respect of the trust preferred securities. The regular trustees of National Capital Trust may at any time designate additional transfer agents or rescind the designation of any transfer agent or approve a change in the office through which any transfer agent acts.

Upon the transfer, exchange or replacement of restricted securities bearing the legend referred to under “Notice to Investors”, or upon specific request for removal of such legend on a trust preferred security, the capital property trustee will deliver only trust preferred securities that bear that legend, or will refuse to remove that legend, as the case may be, unless there is delivered to the regular trustees of National Capital Trust or the capital property trustee satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the regular trustees of National Capital Trust or the capital property trustee that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

#### *Transfers between Global Certificates*

Prior to the expiration of the 40-day period beginning on the later of the commencement of this offering and the issue date (the “restriction period”), a beneficial interest in a Regulation S global certificate may be transferred to a person who takes delivery in the form of an interest in a restricted global certificate only upon receipt by the capital property trustee, as transfer agent, of a written certification from the transferee or the transferor, as the case may be (in the form provided in the capital trust declaration), to the effect that either (i) the transferee is purchasing the trust preferred securities for its own account or for accounts as to which it exercises sole investment discretion and that it and, if applicable, each account is a qualified institutional buyer within the meaning of Rule 144A, in each case, in a transaction meeting the requirements of Rule 144A or (ii) the transferor did not purchase the trust preferred securities as part of the initial distribution and the transfer is being effected pursuant to and in accordance with an applicable exemption from the registration requirements of the Securities Act and the transferor has delivered to the capital property trustee such additional evidence as the regular trustees of National Capital Trust or the capital property trustee may require as to compliance with such available exemption. After the restriction period, the certifications contemplated by this clause will no longer be required.

Beneficial interests in a restricted global certificate may be transferred to a person who takes delivery in the form of an interest in a Regulation S global certificate, whether before, during or after the restriction period, only upon receipt by the capital property trustee, as transfer agent, of a written certification from the transferor (in the forms provided in the capital trust declaration) to the effect that the transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S (as applicable) or Rule 144 under the Securities Act.

Any beneficial interest in any global certificate that is transferred to a person who takes delivery in the form of an interest in the other type of global certificate will, upon transfer, cease to be an interest in that global certificate and will become an interest in the other type of global certificate



and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the other type of global certificate for as long as it remains as that interest.

***Issuance of Trust Preferred Securities in Definitive Form***

The Regulation S global certificate and the restricted global certificate will only be exchanged for trust preferred securities in definitive form in the circumstances described in (i) through (iv) below. The capital property trustee will undertake in the capital trust declaration to deliver trust preferred securities in definitive form in exchange for either interests in the Regulation S global certificate or interests in the restricted global certificate to beneficial owners of the trust preferred securities in the following circumstances:

- (i) either Clearstream, Luxembourg or Euroclear notifies National Capital Trust that it is unwilling or unable to continue as the depository for the trust preferred securities and a successor depository is not appointed within 90 days;
- (ii) either Clearstream, Luxembourg or Euroclear is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or either Euroclear or Clearstream, Luxembourg announces an intention permanently to cease business or does in fact do so or announces an intention permanently to cease to make its book-entry system available or does in fact do so and, in each case, no alternative clearing system is available;
- (iii) an event of default occurs in respect of the debentures; or
- (iv) we determine in our sole discretion that the relevant global certificate should be exchanged for trust preferred securities in definitive form,

in each case within 120 days of the occurrence of the relevant event in (i) through (iv) above.

***Special Luxembourg Provisions Relating to Trust Preferred Securities***

It is currently contemplated that the trust preferred securities will only be held by investors through the facilities of Euroclear or Clearstream, Luxembourg. If, for whatever reason, the trust preferred securities are issued in definitive form, and if and so long as the trust preferred securities are listed on the Luxembourg Stock Exchange, payments of the liquidation amount upon cash redemption or liquidation, and distributions in respect of, the trust preferred securities may be made through the office of the Luxembourg paying agent in Luxembourg. Payments of the liquidation amount and distributions on the trust preferred securities will be made to holders of trust preferred securities as their names appear on the relevant record date in the records maintained by the registrar. In addition, the cash redemption price of the trust preferred securities will also be made upon presentation and surrender of such definitive trust preferred security at the office of the Luxembourg paying agent in Luxembourg.

For so long as the trust preferred securities are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, a holder of a trust preferred security may effect the transfer or exchange of a trust preferred security by presenting and surrendering such trust preferred securities at the office of the Luxembourg transfer agent. In the case of a partial transfer of a definitive trust preferred security, a new definitive trust preferred security in respect of the remaining balance of the liquidation amount of the definitive trust preferred security not transferred will also be delivered at the office of the Luxembourg transfer agent. If any trust preferred securities are lost, stolen, mutilated or destroyed, upon presentation of appropriate certifications, a holder thereof may obtain a new definitive trust preferred security from the Luxembourg transfer agent.

## **Book-Entry Ownership**

### ***Euroclear and Clearstream, Luxembourg***

Each global certificate will be registered in the name of a nominee for, and deposited with The Bank of New York, London branch, as common depository on behalf of, Euroclear and Clearstream, Luxembourg.

### ***Relationship of Participants with Clearing Systems***

Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg, as the holder of a trust preferred security represented by a global certificate, must look solely to Euroclear or Clearstream, Luxembourg for his share of each payment made by us to the holder of such global certificate and in relation to all other rights arising under the global certificates, subject to and in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg. We expect that, upon receipt of any payment in respect of trust preferred securities represented by a global certificate, the common depository will immediately credit the relevant participants' or accountholders' accounts in Euroclear or Clearstream, Luxembourg with payment in amounts proportionate to their respective beneficial interest in the principal amount of the relevant global certificate as shown on the records of Euroclear or Clearstream, Luxembourg or its nominee. We also expect that payments by direct participants in Euroclear or Clearstream, Luxembourg to owners of beneficial interests in any global certificate held through such direct participants will be governed by standing instructions and customary practices. Except as previously described, such persons shall have no claim directly against us in respect of payments due on the trust preferred securities for so long as the trust preferred securities are represented by such global certificate, and our obligations will be discharged by payment to the registered holder, as the case may be, of such global certificate in respect of each amount so paid. None of us, the capital property trustee or any agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any global certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

## **Settlement and Transfer of Trust Preferred Securities**

### ***General***

Subject to the rules and procedures of Euroclear or Clearstream, Luxembourg, purchases of trust preferred securities must be made by or through direct participants, which will receive a credit for such trust preferred securities on the respective clearing system's records. The ownership interest of each actual purchaser of each such trust preferred security (the "beneficial owner") will in turn be recorded on the direct and indirect participant's records. Beneficial owners will not receive written confirmation from Euroclear or Clearstream, Luxembourg of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct or indirect participant through which such beneficial owner entered into the transaction. Transfers of ownership interests in trust preferred securities held within Euroclear or Clearstream, Luxembourg will be effected by entries made on the books of participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in such trust preferred securities unless, and until, interests in any trust preferred securities held within Euroclear or Clearstream, Luxembourg are exchanged for definitive certificates.

Neither Euroclear nor Clearstream, Luxembourg have any knowledge of the actual beneficial owners of the trust preferred securities and their records will reflect only the identity of the direct participants to whose accounts such trust preferred securities are credited, which may or may not be the beneficial owners. The participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by Euroclear or Clearstream, Luxembourg to direct participants, by direct participants to indirect participants, and by

direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

***Trading Between Euroclear and Clearstream, Luxembourg Participants***

Secondary market sales of book-entry interests in the trust preferred securities held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the trust preferred securities held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional eurobonds.

**Registrar, Transfer Agent and Paying Agent**

The Bank of New York will act as registrar, transfer agent and paying agent for the trust preferred securities. In addition, for so long as the trust preferred securities are listed on the Luxembourg Stock Exchange, and the rules of the Luxembourg Stock Exchange so require, National Capital Trust will maintain a paying agent and transfer agent in Luxembourg which will make payments on the trust preferred securities, and effect transfers thereof, in the circumstances set forth in this offering memorandum. Pursuant to the agency agreement, Deutsche Bank Luxembourg S.A. will initially act as Luxembourg paying agent for the trust preferred securities.

In addition, a paying agent shall be maintained at all times with a specified office in a country in the European Union that will not be obliged to withhold or deduct tax pursuant to any European Union Directive or the taxation of savings implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 or any law implementing or complying with, or introduced in order to conform to, such directive.

Registration of transfers of the trust preferred securities will be effected without charge by or on behalf of National Capital Trust, but upon payment and with the giving of any indemnity as National Capital Trust or National may require, in respect of any tax or other governmental charges that may be imposed in relation to it.

National Capital Trust will not be required to register or cause to be registered the transfer of the trust preferred securities after the trust preferred securities have been called for redemption.

The paying agent will be permitted to resign as paying agent upon 30 days' written notice to the regular trustees. In the event that The Bank of New York will no longer be the paying agent, the regular trustees will appoint a successor to act as paying agent, which will be a bank or trust company.

**Information Concerning the Property Trustee**

The capital property trustee undertakes to perform only the duties as are specifically set forth in the capital trust declaration and, the capital property trustee is under no obligation to exercise any of the powers vested in it by the capital trust declaration at the request of any holder of the trust preferred securities, unless offered indemnity reasonably satisfactory to the capital property trustee by the holder against the costs, expenses and liabilities that might be incurred in connection with the exercise of any powers.

**Governing Law**

The capital trust declaration and the trust preferred securities will be governed by and interpreted in accordance with the internal laws of the State of Delaware.

**No Set-Off**

A person claiming under or in connection with the capital trust declaration may not exercise or seek to exercise or take any proceedings for the exercising of any right of set-off or counterclaim against National, National Capital Trust or National Funding Trust, in respect of any claim by National, National Capital Trust or National Funding Trust against that person.

**Miscellaneous**

The regular trustees are authorized and directed to conduct the affairs of and to operate National Capital Trust in such a way that National Capital Trust will not be deemed to be an investment company required to be registered under the Investment Company Act and will be classified as a grantor trust for United States federal income tax purposes. In this regard, the regular trustees are authorized to take any action, not inconsistent with applicable law, the certificate of trust or the capital trust declaration that the regular trustees determine in their discretion to be necessary or desirable for those purposes as long as such action does not materially adversely affect the interests of the holders of the trust preferred securities.

Holders of the trust preferred securities will have no pre-emptive rights.

## DESCRIPTION OF THE TRUST GUARANTEE

Set forth below is a summary of material information concerning the trust guarantee, which will be executed and delivered by National for the benefit of the holders from time to time of the trust preferred securities. This summary is subject in all respects to the provisions of, and is qualified in its entirety by reference to, the trust guarantee. You may request a copy of the trust guarantee at our address at Level 24, 500 Bourke Street, Melbourne, Victoria 3000, Australia. The trust guarantee incorporates by reference the terms of the Trust Indenture Act. The Bank of New York, as the trust guarantee trustee, will hold the trust guarantee for the benefit of the holders of the trust preferred securities.

### General

Under the trust guarantee, National will irrevocably and unconditionally agree, on a subordinated basis and to the extent set forth in the trust guarantee, to pay in full to the holders of the trust preferred securities, except to the extent paid by National Capital Trust, as and when due, regardless of any defense, right of set-off or counterclaim that National Capital Trust may have or assert, the following payments (the “trust guarantee payments”), without duplication:

- any accrued and unpaid distributions, including any additional amounts payable by National Capital Trust on distribution payments made by it, on the trust preferred securities for the most recent distribution period, to the extent National Capital Trust has funds available for distribution;
- the make-whole redemption price or the par redemption price, as the case may be, with respect to any trust preferred securities called for cash redemption by National Capital Trust, to the extent National Capital Trust has funds available for distribution;
- in connection with the redemption of the trust preferred securities upon the occurrence of the exchange event, if the exchange date is an interest payment date, interest has been declared payable by National’s board of directors or a duly authorized committee thereof and no deferral condition exists at that time, the accrued and unpaid distribution for the most recent distribution period, including additional amounts payable by National Capital Trust on such distributions made by it, if any, to the extent National Capital Trust has funds available for distribution; and
- upon a voluntary or involuntary dissolution, liquidation, winding up or termination of National Capital Trust, other than a dissolution of National Capital Trust as a result of a trust special event as described under “Description of the Trust Preferred Securities—Trust Special Event Distribution”, the lesser of (a) the aggregate of the stated liquidation amount and all accrued and unpaid distributions on the trust preferred securities for the then current distribution period to the date of payment or, if the date of payment is a distribution date, the accrued and unpaid distribution for the most recent distribution period, including additional amounts payable by National Capital Trust on such amounts made by it, if any, to the extent National Capital Trust has funds available for payment, and (b) the amount of assets of National Capital Trust, after satisfaction of liabilities (or the reasonable provision for payment of liabilities) to creditors, remaining available for distribution to holders in liquidation of National Capital Trust.

National’s obligation to make a trust guarantee payment may be satisfied by direct payment of the required amounts by National to the holders of the trust preferred securities or by causing National Capital Trust to pay these amounts to the holders of the trust preferred securities.

Under the trust guarantee, National also will irrevocably and unconditionally agree, as described above, to cause National Capital Trust to deliver to the holders of the trust preferred securities, upon dissolution of National Capital Trust as a result of a trust special event as described

under “Description of the Trust Preferred Securities—Trust Special Event Distribution”, one funding preferred security for each outstanding trust preferred security to the extent National Capital Trust has funding preferred securities available for distribution.

The trust guarantee will be a guarantee on a subordinated basis with respect to the trust preferred securities from the time of issuance of the trust preferred securities. It will only apply to any payment of distributions or the redemption price, or to payments or deliveries upon the liquidation, dissolution, winding-up or termination of National Capital Trust, to the extent National Capital Trust has funds or funding preferred securities, as the case may be, available. To the extent National Funding Trust fails to pay distributions on the funding preferred securities and National, as guarantor, fails to make guarantee payments under the funding guarantee, National Capital Trust will lack available funds for the payment of distributions or amounts payable on a cash redemption of the trust preferred securities or otherwise. In such an event, holders of the trust preferred securities will not be entitled to receive payment from National under the trust guarantee for payment of these amounts.

National will make all payments in respect of the trust guarantee without withholding or deduction for, or on account of, any relevant tax imposed or levied by or on behalf of Australia, the United Kingdom or the United States, or any political subdivision or authority in or of Australia, the United Kingdom or the United States or any other jurisdiction from which payments or deliveries under the trust guarantee are made, unless the withholding or deduction is required by law. In that event, National will pay such additional amounts as may be necessary so that the net amount of cash received by a holder of the trust preferred securities under the trust guarantee, after such withholding or deduction, will equal the amount that the holder would have received in respect of the trust guarantee without such withholding or deduction.

However, National will pay no additional amounts with respect to the trust guarantee:

- to the extent that the relevant tax is imposed or levied by virtue of a holder, or a beneficial owner, of the trust preferred securities having some connection (whether present, past or future) with a relevant jurisdiction or being or having been engaged in any activity, trade or business in a relevant jurisdiction, other than being a holder, or a beneficial owner, of the trust preferred securities;
- to the extent that the relevant tax is imposed or levied by virtue of a holder, or a beneficial owner, of the trust preferred securities not complying with any statutory requirements or not having made a declaration of non-residence in, or other lack of connection with the relevant jurisdiction or any similar claim for exemption, if National or its agent has provided the holder, or the beneficial owner, of the trust preferred securities with at least 60 days’ prior written notice of an opportunity to comply with such statutory requirements or make a declaration or claim;
- to the extent that the relevant tax is a United States “back-up” withholding tax;
- to the extent that the relevant tax is imposed or levied on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 or any law implementing or complying with, or introduced in order to conform to, such directive; or
- to the extent a claim for payment under the guarantee is made by or on behalf of a holder who would have been able to avoid such withholding or deduction by making that claim on another paying agent in a member state of the European Union.

The trust guarantee, when taken together with the obligation of National’s London branch to pay all fees and expenses of National Capital Trust and National Funding Trust and National’s obligations under the funding guarantee, constitutes a guarantee to the extent set forth in this offering memorandum by National of the distribution, cash redemption and liquidation payments payable to the



holders of the trust preferred securities. The trust guarantee does not apply, however, to current distributions or cash redemptions by National Capital Trust except to the extent National Capital Trust has funds legally available for distribution or payment, or to liquidating distributions except to the extent there are assets available for payment in National Capital Trust after payment of its creditors or to a distribution of funding preferred securities except to the extent there are funding preferred securities available for distribution. In addition, because the distributions are non-cumulative, the trust guarantee does not apply to past distributions that have not been paid by National Capital Trust.

### **Obligations of National**

Under the trust guarantee, National will agree that, if National is in default of its obligations under the funding guarantee or the trust guarantee, then, subject to the exceptions described below, unless the holders of a majority in liquidation amount of the trust preferred securities otherwise consent, National will not:

- declare or pay any dividends on, make any distribution on, or redeem, purchase, acquire or make a liquidation payment on, any of its shares that rank equally with or junior to the debentures other than *pro rata* payments on (1) the debentures and (2) (a) in the case of dividends or distributions, any shares that rank equally with the debentures as to distributions, (b) in the case of redemption, purchase or acquisition, any shares that rank equally with the debentures as to distributions or for payment in a winding up and (c) in the case of any payment in a winding up, any shares that rank equally with the debentures for payment in a winding up;
- make any payment of principal or interest or premium, if any, on or repay, repurchase or redeem any of its securities or other instruments that rank equal or junior to the debentures, other than *pro rata* payments on the (1) debentures and (2) (a) in the case of interest, any securities or other instruments that rank equally with the debentures as to interest, (b) in the case of repayment, repurchase or redemption, any securities or other instruments that rank equally with the debentures in a winding up, and (c) in the case of any payment in a winding up, any securities or other instruments that rank equally with the debentures in a winding up; or
- make any payment under any guarantee that ranks equal or junior to the trust guarantee, other than *pro rata* payments of amounts payable under the trust guarantee and the funding guarantee and any other guarantees that rank equal to the trust guarantee and the funding guarantee,

unless and until, (1) in the case of a default with respect to a distribution, the distribution is paid in full within five business days after the distribution date for such distribution or National Capital Trust has paid distributions in full for a period of twelve consecutive months, (2) in the case of a default with respect to redemption or liquidation, the amount payable upon such redemption or liquidation is paid in full or (3) in case of a default on its obligation to cause National Capital Trust to deliver funding preferred securities, National Capital Trust delivers the funding preferred securities. However, the foregoing restrictions do not apply to:

- repurchases, redemptions or other acquisitions of shares of National in connection with (1) any employment contract, benefit plan or other similar arrangement with or for the benefit of any one or more employees, officers, directors or consultants of National or any entity we control, (2) a dividend plan or shareholder share purchase plan or (3) the issuance of shares of National, or securities convertible into or exercisable for such shares, as consideration in an acquisition transaction entered into prior to such occurrence;
- an exchange, redemption or conversion of any class or series of National's shares, or any shares of a subsidiary of National, for any class or series of National's shares, or of any class or series of National's indebtedness for any class or series of National's shares;

- the purchase of fractional interests in shares of National under the conversion or exchange provisions of the shares or the security being converted or exchanged;
- any payment or declaration of a dividend in connection with any shareholder's rights plan, or the issuance of rights, shares or other property under any shareholder's rights plan, or the redemption or repurchase of rights pursuant to the plan; or
- any dividend in the form of shares, warrants, options or other rights where the dividend shares or the shares issuable upon exercise of such warrants, options or other rights are the same class or series of shares as those on which the dividend is being paid or rank equal or junior to those shares.

The restrictions described above will also apply if National defaults on its obligations under the exchange agreement. The restrictions described above will not apply if the trust guarantee terminates in accordance with its terms.

Neither National nor its affiliates will be prohibited from purchasing National's shares in connection with transactions for the account of customers of National or its affiliates or in connection with the distribution or trading of National's shares in the ordinary course of business.

#### **Events of Default; Enforcement of Trust Guarantee**

An event of default under the trust guarantee will occur upon the failure of National to perform any of its payment or other obligations set forth in the trust guarantee.

The holders of a majority in liquidation amount of the trust preferred securities have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trust guarantee trustee or to direct the exercise of any trust or power conferred upon the trust guarantee trustee under the trust guarantee. If the trust guarantee trustee fails to enforce its rights under the trust guarantee after a holder of the trust preferred securities has made a written request, the holder may institute a legal proceeding directly against National to enforce the trust guarantee trustee's rights under the trust guarantee, without first instituting a legal proceeding against National Capital Trust, the trust guarantee trustee or any other person or entity.

If National has failed to make a guarantee payment or to cause funding preferred securities to be delivered under the trust guarantee, a holder of the trust preferred securities may directly institute a proceeding in the holder's own name against National for enforcement of the trust guarantee for payment or delivery, as the case may be.

#### **Status of the Trust Guarantee; Subordination**

The trust guarantee will constitute an unsecured obligation of National and will rank equally with the debentures and the funding guarantee and junior to the claims of all our creditors other than creditors whose claims, by their terms, rank equally with or junior to the debentures, the funding guarantee and the trust guarantee. The trust guarantee will not represent a deposit liability of National for purposes of the Banking Act of 1959 of Australia or for the purposes of the FSMA regime in the United Kingdom, and will not be insured by the US Federal Deposit Insurance Corporation or any other governmental agency or compensation scheme in the United States, Australia, the United Kingdom or elsewhere.

Accordingly, the rights of the holders of the trust preferred securities to receive payments under the trust guarantee will be subject to the rights of the holders of any obligations of National that are senior in priority to the obligations under the trust guarantee. The terms of the trust preferred securities provide that each holder of trust preferred securities, by acceptance thereof, agrees to the subordination provisions and other terms of the trust guarantee.

The trust guarantee will constitute a guarantee of payment and not of collection. That is, the guaranteed party may directly institute a legal proceeding against National to enforce its rights under the trust guarantee without instituting a legal proceeding against any other person or entity.

### **Amendments and Assignment**

Except with respect to any changes that do not materially adversely affect the rights of holders of the trust preferred securities, in which case no action will be required, the trust guarantee may be amended only with the prior approval of the holders of at least a majority in liquidation amount of all the outstanding trust preferred securities excluding any trust preferred securities held by National or any of its affiliates. The trust guarantee may not be amended if such amendment would cause National Capital Trust to fail to be classified as a grantor trust for United States federal income tax purposes, require National Capital Trust to register as an investment company under the Investment Company Act or affect the treatment by APRA of the trust preferred securities or, upon the dissolution of National Capital Trust as described under “Description of the Trust Preferred Securities—Trust Special Event Distribution” and the distribution of the funding preferred securities to the holders of the trust preferred securities, the funding preferred securities as Tier 1 capital of National, unless APRA consents to the amendment. The manner of obtaining any approval of holders of the trust preferred securities will be as set forth under “Description of the Trust Preferred Securities—Voting Rights and Rights of Action”. All guarantees and agreements contained in the trust guarantee will bind the successors, assigns, receivers, trustees and representatives of National and will inure to the benefit of the holders of the trust preferred securities then outstanding. Except in connection with a permitted merger or consolidation of National with or into another entity or a permitted sale, transfer or lease of National’s assets to another entity in which the surviving corporation, if other than National, assumes National’s obligations under the trust guarantee, National may not assign its rights or delegate its obligations under the trust guarantee without the prior approval of the holders of at least a majority of the total liquidation amount of the trust preferred securities then outstanding.

### **Consolidation, Merger or Sale of Assets**

National may not consolidate with or merge into any other corporation or sell its assets substantially as an entirety, unless and to the extent permitted by law:

- National is the surviving person, or the corporation formed by such consolidation or into which National is merged or the corporation that acquires National’s assets is entitled to carry on its business and expressly assumes all of the obligations under the trust guarantee;
- if the corporation formed by the consolidation or into which National is merged or the corporation that acquires National’s assets (the “relevant corporation”) is not organized under the laws of Australia or any political subdivision of Australia,
  - (i) the successor corporation expressly agrees to indemnify each holder of the trust preferred securities and funding preferred securities against any tax, assessment or governmental charge required to be withheld or deducted from any payment to such holder as a consequence of such consolidation, merger or sale, and
  - (ii) if the relevant corporation is not organized under the laws of the United Kingdom or any state in the United States, the consolidation, merger or sale does not (A) result in a downgrade of the rating assigned by any “nationally recognized statistical rating agency” (as that term is defined for purposes of the Securities Act) to the trust preferred securities or any other securities of National then rated by any such agency or (B) cause any such agency to publicly announce that it has the trust preferred securities or any other securities of National under surveillance or review for possible downgrade;

- the consolidation, merger or sale will not require National Capital Trust to register as an investment company under the Investment Company Act; and
- immediately after giving effect to such transaction, no event of default under the trust guarantee has occurred and is continuing.

Upon such consolidation, merger or sale, the successor corporation formed by such consolidation or into which National is merged or to which such sale is made will succeed to and be substituted for National in the trust guarantee.

#### **Termination of the Trust Guarantee**

The trust guarantee will terminate as to each holder of the trust preferred securities upon:

- full payment of the cash redemption price of all the trust preferred securities;
- delivery of all GDRs pursuant to the exchange agreement and full payment of any cash payable in connection with the redemption of the trust preferred securities, in each case upon the occurrence of the exchange event;
- the distribution of the funding preferred securities by National Capital Trust to the holders of the trust preferred securities as described under “Description of the Trust Preferred Securities—Trust Special Event Distribution”; or
- full payment of the amounts payable in accordance with the capital trust declaration upon liquidation of National Capital Trust.

The trust guarantee will continue to be effective or will be reinstated, as the case may be, if at any time any holder of the trust preferred securities must restore payment of any sum paid under the trust preferred securities or the trust guarantee.

#### **Information Concerning the Trust Guarantee Trustee**

The Bank of New York has been appointed as the trust guarantee trustee. We maintain banking relationships in the ordinary course of business with The Bank of New York.

The trust guarantee trustee, before the occurrence of an event of default and after curing or waiver of all events of default that may have occurred with respect to the trust guarantee, undertakes to perform only those duties as are specifically set forth in the trust guarantee and, after a default with respect to the trust guarantee is known to it, will exercise the rights and powers vested in it by the trust guarantee, and use the same degree of care and skill as a prudent individual would exercise under the circumstances in the conduct of his or her own affairs. Subject to that provision, the trust guarantee trustee is under no obligation to exercise any of the powers vested in it by the trust guarantee at the request of any holder of trust preferred securities unless it is offered indemnity reasonably satisfactory to it by the holder against the costs, expenses and liabilities that it might incur in connection with the exercise of those powers.

#### **No Set-Off**

A person claiming under or in connection with the trust guarantee may not exercise or seek to exercise or take any proceedings for the exercising of any right of set-off or counterclaim against National in respect of any claim by National against that person.

#### **Governing Law**

The trust guarantee will be governed by, and construed and interpreted in accordance with, the internal laws of the State of New York, except that certain subordination and related provisions of the trust guarantee will be governed by the laws of the State of Victoria, Australia.

## DESCRIPTION OF THE FUNDING PREFERRED SECURITIES

National Funding Trust will issue the funding preferred securities under the terms of the funding trust declaration. The Bank of New York will act as funding property trustee under the trust declaration for National Funding Trust. The terms of the funding preferred securities will include those stated in the funding trust declaration. The following summary of the material terms and provisions of the funding preferred securities is subject to, and qualified in its entirety by reference to, the funding trust declaration and the Delaware Statutory Trust Act.

### General

The funding preferred securities will be issued in fully registered form without coupons and will initially be held in definitive form by the capital property trustee.

The funding trust declaration authorizes the regular trustees of National Funding Trust to execute, deliver, issue and sell the funding securities, which represent preferred undivided beneficial ownership interests in the assets of National Funding Trust, and to enter into the exchange agreement. The funding property trustee will hold the debentures and the United Kingdom government securities and will enter into the exchange agreement on behalf of National Funding Trust for the benefit of National Funding Trust and the holders of the funding securities.

The funding trust declaration does not permit National Funding Trust to:

- invest any proceeds received in respect of the debentures;
- acquire any assets other than (i) the debentures and any cash proceeds received in respect thereto, (ii) United Kingdom government securities in an aggregate principal amount not to exceed the amount National Funding Trust received for its common security, and the proceeds from any of these United Kingdom government securities, (iii) the proceeds from the foregoing pending disbursement by the funding property trustee and (iv) the right, title and interest in the exchange agreement;
- mortgage or pledge any property held by it;
- issue any securities or other evidences of beneficial ownership of or beneficial interest in National Funding Trust other than the funding securities;
- possess trust property for other than a trust purpose; or
- make any loans or incur any indebtedness for borrowed money.

Payments of distributions out of funds held by National Funding Trust, and payments out of funds held by National Funding Trust upon a redemption of the funding preferred securities or liquidation of National Funding Trust, are guaranteed by National to the extent described under “Description of the Funding Guarantee”. Neither the funding preferred securities nor the funding guarantee will represent a deposit liability of National for purposes of the Banking Act of 1959 of Australia or for the purposes of the FSMA regime in the United Kingdom, or will be insured by the US Federal Deposit Insurance Corporation or any other governmental agency or compensation scheme in the United States, Australia, the United Kingdom or elsewhere.

The funding guarantee trustee will hold the funding guarantee for the benefit of the holders of the funding preferred securities. The funding guarantee does not cover payments of cash to the extent National Funding Trust does not have sufficient available cash.

### Distributions

The distribution rate on the funding preferred securities will be, from the date of issuance to but excluding December 17, 2018, a fixed rate equal to 5.62% of the liquidation amount of £1,000 per funding preferred security per year and, thereafter in respect of each five-year distribution reset period, a fixed rate equal to the relevant five-year benchmark gilt rate, determined for each five-year distribution reset period as set forth below, plus 1.93% (representing 100 basis points above the initial

spread over the benchmark gilt rate by reference to which the debentures were priced) of the liquidation amount of £1,000 per funding preferred security per year and, in each case, will be paid if, as and when National Funding Trust has funds available for distribution.

Distributions on the funding preferred securities will be payable in cash in arrears on each June 17 and December 17, beginning December 17, 2003. If any distribution date is not a business day, National Funding Trust will make payment of the distribution payable on that date on the next succeeding day that is a business day, without adjustment of the amount of such distribution for interest or any other payment in respect of that delay, which payment will have the same force and effect as if made on the date on which the distribution was scheduled to be paid.

The distributions on the funding preferred securities are non-cumulative. This means that, if National Funding Trust does not pay a distribution in full on or within five business days after any distribution date, then, unless National pays the distribution or the unpaid portion thereof under the funding guarantee as described in this offering memorandum, the holder of the funding preferred securities, initially National Capital Trust, will not receive that distribution and will have no claim to that distribution in the future whether or not National Funding Trust subsequently pays distributions or has funds to pay subsequent distributions.

The amount of distributions on each funding preferred security will be computed on the basis of the actual number of days in the distribution period divided by 365 (or, if any portion of the distribution period falls in a leap year, the sum of (a) the actual number of days in that portion of the distribution period falling in a leap year divided by 366 and (b) the actual number of days in that portion of the distribution period falling in a non-leap year divided by 365).

“Five-year benchmark gilt rate” means, in respect of a five-year distribution reset period, the gross redemption yield (as calculated by the calculation agent on the basis set out by the United Kingdom Debt Management Office in the paper “Formulae for Calculating Gilt Prices from Yields”, page 4, Section One: Price/Yield Formulae “Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date” (published June 8, 1998, as amended or updated from time to time)) on a semi-annual compounding basis (and rounded up (if necessary) to four decimal places) of the five-year benchmark gilt in respect of that five-year distribution reset period (converted to an annualized payment and expressed as a percentage rounded up (if necessary) to four decimal places), with the price of the five-year benchmark gilt for this purpose being the arithmetic average (rounded up (if necessary) to four decimal places) of the bid and offered prices of such five-year benchmark gilt quoted by the reference market makers at 3:00 p.m. (London time) on the relevant determination date on a dealing basis for settlement on the next following London business day.

“Five-year distribution reset period” means the period from and including a distribution rate reset date to but excluding the fifth anniversary thereafter, provided that the last five-year distribution reset period will end on but exclude the date on which the trust preferred securities are redeemed.

“Distribution rate reset date” means December 17, 2018 and each fifth year anniversary thereof.

“Reference market makers” means three brokers of gilts and/or gilt-edged market makers selected by the calculation agent in consultation with us.

“Determination date”, in relation to a five-year distribution reset period, means the fifth London business day prior to a distribution rate reset date; provided that if it is not possible for any reason to determine the five-year benchmark gilt rate on any such day, the determination date shall be postponed to the first London business day thereafter on which the calculation agent determines that it is possible to determine the five-year benchmark gilt rate.

“Calculation agent” means Deutsche Bank AG London or any successor appointed in respect of the funding preferred securities.



“Business day” means a day, other than a Saturday or Sunday, on which commercial banks are open for general business in London, United Kingdom, New York, New York and Melbourne, Australia and, in the case of a presentation or surrender of trust preferred securities or funding preferred securities, in the place of the specified office of the relevant paying agent to whom the security is presented or surrendered.

“Five-year benchmark gilt” means, in respect of a five-year distribution reset period, such United Kingdom government security having a maturity date on or about the last day of such five-year distribution reset period as the calculation agent, with the advice of the reference market makers, may determine to be appropriate.

“London business day” means a day, other than a Saturday or Sunday, on which commercial banks and the London Stock Exchange are open for business in London, United Kingdom.

All calculations of the calculation agent, in the absence of manifest error, will be conclusive for all purposes and binding on National Funding Trust and on the holders of the funding preferred securities. In no event shall the rate of distributions on the funding preferred securities be higher than the maximum rate permitted by New York law, as the same may be modified by United States law of general application. The calculation agent will, upon the request of any holder of the funding preferred securities or the trust preferred securities, provide the rate of distributions then in effect. Funding Holdings will provide that, for so long as the funding preferred securities remain outstanding, there will at all times from and after December 17, 2018 be a calculation agent for the purpose of the funding preferred securities. In the event of the calculation agent being unable or unwilling to continue to act as the calculation agent or in the case of the calculation agent failing duly to establish the five-year benchmark gilt rate for any five-year distribution reset period, Funding Holdings will appoint another leading bank engaged in the London market to act as such in its place. Funding Holdings may appoint a successor calculation agent with the written consent of the funding property trustee. Under the terms of its appointment, the calculation agent will not resign its duties without a successor having been appointed as aforesaid.

National Funding Trust will make distributions on the funding preferred securities to the extent that it has funds available for the payment of the distributions in its property account. Amounts available to National Funding Trust for distribution to National Capital Trust, as the holder of all the outstanding funding preferred securities, will be limited principally to payments received by National Funding Trust under the debentures, other than payments received by National Funding Trust more than five business days after the applicable interest payment date in respect of late interest, including any deferred interest, on the debentures and any compound interest on the late interest.

The assets of National Funding Trust will principally consist of the debentures. To the extent that National’s London branch defers or fails to make any payment in respect of the debentures, National Funding Trust will not have sufficient funds to pay and will not pay distributions on the funding preferred securities. In addition, if National Funding Trust subsequently receives any payment of interest more than five business days after the applicable interest payment date, including any deferred interest, in respect of the debentures, it is required under the funding trust declaration to pay this interest, together with any interest received in respect of the late interest, to the holder of the common security and not to National Capital Trust in respect of the funding preferred securities.

National Funding Trust will pay distributions on the funding preferred securities to the holders as they appear on the books and records of National Funding Trust at the close of business on the date, which will be the date, whether or not a business day, immediately preceding the relevant distribution dates. National Funding Trust will pay these distributions through the funding property trustee, who will hold the funds in the property account of National Funding Trust for the benefit of National Funding Trust and the holders of the funding securities.

### **Payment of Additional Amounts**

National Funding Trust will make all cash payments in respect of the funding preferred securities without withholding or deduction for, or on account of, any relevant tax imposed or levied by or on behalf of Australia, the United Kingdom, the United States or any other jurisdiction from which a substitute branch makes a payment under the debentures, or any political subdivision or authority in or of any of the foregoing jurisdictions, unless the withholding or deduction is required by law. In that event, National Funding Trust will pay such additional amounts as may be necessary so that the net amount of cash received by National Capital Trust, or any other holder of the funding preferred securities, after such withholding or deduction, will equal the amount that the holder would have received in respect of the funding preferred securities without such withholding or deduction.

However, National Funding Trust will pay no additional amounts with respect to any funding preferred securities:

- to the extent that the relevant tax is imposed or levied by virtue of a holder, or a beneficial owner, of the trust preferred securities or the funding preferred securities, other than National Capital Trust, having some connection (whether present, past or future) with a relevant jurisdiction or being or having been engaged in any activity, trade or business in a relevant jurisdiction, other than being a holder, or a beneficial owner, of the trust preferred securities or the funding preferred securities;
- to the extent that the relevant tax is imposed or levied by virtue of a holder, or a beneficial owner, of the trust preferred securities or the funding preferred securities, other than National Capital Trust, not complying with any statutory requirements or not having made a declaration of non-residence in, or other lack of connection with, the relevant jurisdiction or similar claim for exemption, if National Funding Trust or its agent has provided the holder, or a beneficial owner, of the funding preferred securities with at least 60 days' prior written notice of an opportunity to comply with such statutory requirements or make a declaration or claim;
- to the extent that the relevant tax is a United States "back-up" withholding tax;
- to the extent that the relevant tax is imposed or levied on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 or any law implementing or complying with, or introduced in order to conform to, such directive; or
- to the extent the relevant trust preferred security, funding preferred security or debenture is presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant trust preferred security, funding preferred security or debenture to another paying agent in a member state of the European Union.

### **Mandatory Redemption**

National Funding Trust will redeem the funding preferred securities upon the redemption of the debentures. Upon the occurrence of the exchange event, all of the funding preferred securities will be called for redemption. Any redemption on any date other than on (i) December 17, 2018 or (ii) on any subsequent distribution rate reset date and any redemption upon the occurrence of the exchange event will be in whole and not in part and will be on any business day selected by National in its absolute discretion upon the occurrence of events specified below. Any redemption (other than a redemption upon the occurrence of the exchange event) on December 17, 2018 or any subsequent distribution rate reset date may be in whole or in part on such date; provided that, if such distribution rate reset date is not a business day, payment of the redemption amount will be made on the next

succeeding business day, without adjustment or any other payment in respect of that delay, with the same force and effect as if made on such date. Upon the redemption of the debentures:

- if the debentures are redeemed for cash on any date other than December 17, 2018 or any subsequent distribution rate reset date, then National Funding Trust will apply the cash to redeem all of the funding preferred securities at an amount per funding preferred security equal to, if redemption occurs as a result of a make-whole special event, the make-whole redemption price or, if redemption occurs as result of a withholding tax event, the par redemption price; or
- if the debentures are redeemed for cash on December 17, 2018 or on any subsequent distribution rate reset date, then National Funding Trust will apply the cash to redeem a proportionate amount of funding preferred securities at an amount per funding preferred security equal to the par redemption price.

In addition, if the exchange event has occurred, then (i) pursuant to the exchange agreement and the deposit agreement, National will cause to be delivered or held for delivery to holders of the trust preferred securities or, if National Capital Trust has been dissolved following a National Capital Trust trust special event, the funding preferred securities, one GDR representing one National preference share, for each trust preferred security, if applicable, and funding preferred security to be redeemed and (ii) if the exchange event occurs on an interest payment date on the debentures, interest has been declared payable on the debentures and no deferral condition as described under “Description of the Debentures—Deferral of Interest Payments” exists at the time, National Funding Trust will pay the accrued and unpaid distribution for the most recent distribution period if and to the extent interest for the corresponding interest payment period is received by National Funding Trust on the debentures. See “Description of the Debentures—Cash Redemption” and “Description of the Exchange Agreement”.

National Funding Trust’s delivery of cash to National Capital Trust, as the holder of all the outstanding funding preferred securities, upon a redemption is guaranteed to the extent described under “Description of the Funding Guarantee”.

The “make-whole redemption price” means the greater of the make-whole redemption amount (which is intended to solely compensate you for reinvestment loss from interest rate risk, and costs of reinvestment as a result of early redemption of the debentures) and the par redemption price.

The “make-whole redemption amount”, with respect to each funding preferred security, will be equal to the sum of:

- the price, expressed as a percentage (rounded to four decimal places, 0.00005 being rounded upwards) of the liquidation amount per trust preferred security, at which the gross redemption yield on the trust preferred securities on the reference date (assuming for this purpose that the liquidation amount of the trust preferred securities is payable on December 17, 2018 or, if the redemption date falls on any subsequent date other than on a distribution rate reset date, the next distribution rate reset date falling after such redemption date) is equal to the gross redemption yield (determined by reference to the middle market price) at 3:00 p.m. (London time) on the reference date of the benchmark gilt plus 0.25%;
- if the redemption date is on or within five business days after a distribution date, the distribution payable thereon on that distribution date (except to the extent such amount has been taken into account in determining the amount in the previous bullet point), to the extent unpaid; and
- any additional amounts.

The definitions of certain terms relating to this definition of “make-whole redemption amount” can be found under “Description of the Trust Preferred Securities—Mandatory Redemption”.

The “par redemption price”, with respect to each funding preferred security, will be equal to the sum of £1,000, plus the accrued and unpaid distribution thereon for the then current distribution period and, if the redemption date is on or within five business days following a distribution date, the distribution payable thereon with respect to that distribution date, to the extent unpaid, and any additional amounts.

“Withholding tax event” has the meaning set out below in “Description of the Debentures—Cash Redemption”.

### **Redemption Procedures**

So long as National Capital Trust is the holder of all the outstanding funding preferred securities, National Funding Trust will give to National Capital Trust notice of any redemption of the debentures, including the date set for such redemption and the principal amount to be redeemed, as soon as practicable after receipt by National Funding Trust of any such notice it receives from National’s London branch. If National Capital Trust has distributed funding preferred securities to the holders of trust preferred securities as described under “Description of the Trust Preferred Securities—Trust Special Event Distribution”, then National Funding Trust must give holders of funding preferred securities not less than 30 and not more than 60 days’ notice of any cash redemption. In the case of a redemption upon the occurrence of the exchange event, National Funding Trust will give holders of the funding preferred securities notice of the redemption as soon as practicable after receipt by National Funding Trust of any notice it receives from National under the exchange agreement.

If National’s London branch has paid or delivered to the funding property trustee a sufficient amount of cash in connection with the redemption or, in the case of a redemption upon the occurrence of the exchange event, National has caused GDRs to be delivered in accordance with the exchange agreement, then, by 12:00 noon, London time, on the redemption date, National Funding Trust will irrevocably deposit with the capital property trustee cash sufficient to pay the amount payable and to pay any amount payable, as the case may be, on redemption of the funding preferred securities being redeemed. If you are holding the funding preferred securities at the time of redemption, the procedures for delivery of the redemption price or GDRs, as the case may be, are similar to those described under “Description of the Trust Preferred Securities—Redemption Procedures”.

If National Funding Trust has given notice of redemption and has deposited the cash and, if applicable, pounds sterling as required and, in the case of a redemption upon the occurrence of the exchange event, National has issued National preference shares and given the depositary irrevocable instructions to deliver or hold for delivery GDRs in accordance with the exchange agreement and the deposit agreement, then immediately prior to the close of business on the date on which such deposit and, if applicable, delivery or holding for delivery has been so made, distributions will cease to accrue on the funding preferred securities so redeemed and all rights of holders of any funding preferred securities, including National Capital Trust, called for redemption will cease, except the right of the holders of those funding preferred securities to receive any redemption amount pursuant to the funding trust declaration and any GDRs pursuant to the exchange agreement and the deposit agreement, but, in either case, without interest. If any date fixed for redemption of the funding preferred securities is not a business day, then National Funding Trust will pay the amount payable under the funding trust declaration and, pursuant to the exchange agreement and the deposit agreement, the depositary will deliver or hold for delivery the required number of GDRs, if any, on the next succeeding day that is a business day, without any interest or other payment in respect of the amount payable with respect to such delay.

If either National Funding Trust or National, as guarantor under the funding guarantee described under “Description of the Funding Guarantee”, improperly withholds or refuses payment of the redemption price in respect of any redemption of the funding preferred securities or, if applicable, the depositary fails to deliver or hold for delivery the GDRs pursuant to the exchange agreement and the deposit agreement, distributions at the annual rate in effect for the current distribution period, or if

the date fixed for redemption is a distribution date, the immediately preceding distribution period, will accrue on the redemption price from the date on which the redemption was due to the actual date of payment.

If National Funding Trust redeems for cash fewer than all of the outstanding funding preferred securities and the funding preferred securities have been distributed to the holders of the trust preferred securities upon the dissolution of National Capital Trust, National Funding Trust will redeem for cash the funding preferred securities on a proportionate basis in accordance with the procedures of the relevant depository through whom the trust preferred securities are then held in the same way as described under “Description of the Trust Preferred Securities—Book-Entry Ownership”.

Subject to the foregoing and applicable law, including, without limitation, United States federal securities laws, if the funding preferred securities have been distributed to the holders of the trust preferred securities upon the dissolution of National Capital Trust, National or its subsidiaries may at any time and from time to time purchase outstanding funding preferred securities by tender, in the open market or by private agreement.

#### **Liquidation Distribution Upon Dissolution**

In the event of any voluntary or involuntary liquidation, dissolution or winding-up of National Funding Trust, other than following the redemption of the funding preferred securities upon the occurrence of the exchange event, the then current holders of the funding preferred securities will be entitled to receive out of the assets of National Funding Trust distributions in cash or other immediately available funds in an amount equal to the lesser of (i) the stated liquidation amount of £1,000 per funding preferred security, plus the accrued and unpaid distribution for the then current distribution period to the actual date of payment or, if the date of payment is a distribution date, the accrued and unpaid distribution for the most recent distribution period and (ii) the amount of assets of National Funding Trust remaining available for distribution after satisfaction of liabilities (or the reasonable provision for payment of liabilities).

Subject to the preceding paragraph, in connection with the liquidation, dissolution or winding-up of National Funding Trust, any amounts received by National Funding Trust in respect of the debentures will be applied in the following order of priority:

- (1) first, to payment of the unpaid principal amount of the debentures;
- (2) second, to payment of accrued and unpaid interest for the then current interest payment period to the date of payment or, if the date of payment is a distribution date, all accrued and unpaid interest for the most recent interest payment period; and
- (3) third, to payment of unpaid interest, including deferred interest, and any compound interest on such late interest.

Funds available to National Funding Trust to make the liquidation distribution will be limited to funds that are received by National Funding Trust in respect of (i) the unpaid principal amount of the debentures and accrued and unpaid interest for the then current interest payment period or, if the date of payment is a distribution date, all accrued and unpaid interest for the most recent interest payment period ended immediately prior to such distribution date and (ii) United Kingdom government securities.

If, upon liquidation, National Funding Trust can pay the liquidation distribution only in part because it has insufficient assets available to pay in full the total liquidation distribution, then National Funding Trust will pay the amounts payable directly by it on the funding preferred securities on a proportionate basis.

Under the funding trust declaration, National Funding Trust will be dissolved and its affairs wound up:

- (1) upon the winding up of National;
- (2) upon the entry of a decree of a judicial dissolution of National Funding Trust; or



- (3) upon the redemption of all the funding securities and payment of all necessary amounts in connection with the redemption or where they have been called for redemption and National has caused GDRs to be delivered or held for delivery and, if the redemption date is a distribution date, distributed the accrued and unpaid distribution as described above under “—Mandatory Redemption”.

In addition, National Funding Trust will terminate upon the filing of a certificate of cancellation after having obtained the consent of at least a majority in liquidation amount of the funding securities, acting as a single class, to dissolve National Funding Trust.

### **Rights of Action**

Except as described in this offering memorandum or as otherwise required under the Delaware Statutory Trust Act and the funding trust declaration, the holders of the funding preferred securities will have no voting rights.

If National Capital Trust distributes the funding preferred securities to the holders of the trust preferred securities as described under “Description of the Trust Preferred Securities—Trust Special Event Distribution”, the procedures by which holders of the funding preferred securities represented by global certificates may exercise their rights are the same as those described under “Description of the Trust Preferred Securities—Book-Entry Ownership”.

#### ***Right to Direct the Funding Property Trustee***

Subject to the requirement of the funding property trustee to obtain a tax opinion as set forth in the next full paragraph, the capital property trustee, as the initial holder of all the outstanding funding preferred securities, has or, if National Capital Trust has distributed the funding preferred securities to the holders of the trust preferred securities as described under “Description of the Trust Preferred Securities—Trust Special Event Distribution”, the holders of a majority in liquidation amount of the funding preferred securities, acting separately as a class, have the right to direct the time, method and place of conducting any proceeding for any remedy available to the funding property trustee, or to direct the exercise of any trust power conferred upon the funding property trustee as holder of the debentures, or on behalf of National Funding Trust as a party to the exchange agreement, including the right to direct the funding property trustee to:

- exercise the remedies available to it under the debentures or under the exchange agreement;
- waive any past default and its consequences that are waivable under the debentures or under the exchange agreement;
- exercise any right to rescind or annul a declaration that any amount in respect of the debentures is due and payable; or
- consent to any amendment, modification or termination of the debentures or the exchange agreement where consent is required;

provided, however, that where a consent or action under the debentures would require the consent or act of the holders of more than a majority of the principal amount of the debentures affected, only the holders of the percentage of the total stated liquidation amount of the funding preferred securities that is at least equal to the percentage required under the debentures may direct the funding property trustee to give consent or take action on behalf of National Funding Trust. See “Description of the Debentures”.

Except with respect to directing the time, method and place of conducting a proceeding for a remedy or exercising a trust power as described above, the funding property trustee will not take any of the actions described in the immediately preceding clauses above unless it has obtained an opinion of independent United States tax counsel to the effect that National Funding Trust will continue to be classified as a partnership and will not, as a result of that action, be treated as a corporation for United



States federal income tax purposes and National Capital Trust will not, as a result of that action, fail to be classified as a grantor trust for such purposes.

#### ***Approval or Direction Procedures***

Any required approval or direction of National Capital Trust, as the initial holder of all the outstanding funding preferred securities, may be given pursuant to written consent. If National Capital Trust has distributed the funding preferred securities to the holders of the trust preferred securities as described under “Description of the Trust Preferred Securities—Trust Special Event Distribution”, any approval or direction of the holders of the funding preferred securities may be given at a separate meeting of holders of the funding preferred securities convened for that purpose, at a meeting of all of the holders of funding securities or pursuant to written consent. The regular trustees will cause a notice of any meeting at which holders of the funding preferred securities are entitled to take action, or of any matter upon which action by written consent of the holders is to be taken, to be mailed to each holder of record of the funding preferred securities. Each notice will include a statement setting forth the following information:

- (1) the date of the meeting or the date by which any action is to be taken;
- (2) a description of any resolution proposed for adoption at the meeting on which the holders are entitled to take action or of the matter upon which written consent is sought; and
- (3) instructions for the delivery of proxies or consents.

No action or consent of the holders of the funding preferred securities will be required for National Funding Trust to redeem and cancel the funding preferred securities. Except as otherwise required under applicable law, the holders of at least 5% of the liquidation amount of the funding preferred securities will constitute a quorum at any separate meeting of holders of the funding preferred securities.

Notwithstanding that holders of the funding preferred securities are entitled to take action or consent under any of the circumstances described above, if Funding Holdings or any entity directly or indirectly controlled by, or under direct or indirect common control with, National beneficially owns any of the funding preferred securities at that time, Funding Holdings or the entity will not be entitled to take action or consent and those funding preferred securities will, for purposes of any action or consent, be treated as if they were not outstanding; provided, however, that persons, other than affiliates of National, to whom National or any of its subsidiaries have pledged the funding preferred securities may take action or consent with respect to the pledged funding preferred securities pursuant to the terms of the pledge. These provisions will not apply, however, if National or any of its affiliates owns or controls all of the outstanding funding preferred securities.

#### ***Limited Rights to Appoint Trustees***

Holders of the funding preferred securities will have limited rights to appoint or remove the funding property trustee and the Delaware trustee, who may generally be appointed, removed or replaced by the holder of the common security of National Funding Trust, initially Funding Holdings. The regular trustees may be appointed, removed or replaced solely by the sponsor of National Funding Trust, initially Capital Holdings.

#### **Merger, Conversion, Consolidation or Amalgamation of National Funding Trust**

National Funding Trust may not consolidate, amalgamate, merge or convert with or into, or be replaced by, or convey, transfer or lease its properties and assets substantially as an entirety to, any corporation or other entity, except for the sole purpose of changing its domicile and as described below.

National Funding Trust may, with the consent of a majority of the regular trustees and without the consent of the holders of the funding securities, the funding property trustee or the Delaware trustee consolidate, amalgamate, merge or convert with or into, or be replaced by a trust organized as such under the laws of any state of the United States, provided that:

- (1) if National Funding Trust is not the surviving entity, the successor entity expressly assumes all of the obligations of National Funding Trust under the exchange agreement and either:
  - expressly assumes all of the obligations of National Funding Trust under the funding securities; or
  - substitutes for the funding preferred securities other securities having substantially the same terms as the funding preferred securities, so long as the successor securities rank the same as the funding preferred securities rank with respect to distributions, assets and payments upon liquidation, redemption and otherwise;
- (2) the successor entity has a trustee that possesses the same powers and duties as the funding property trustee as the holder of the property of National Funding Trust;
- (3) any consolidation, amalgamation, merger, conversion or replacement does not cause the trust preferred securities or, if National Capital Trust has distributed the funding preferred securities to the holders of the trust preferred securities as described under “Description of the Trust Preferred Securities—Trust Special Event Distribution”, the funding preferred securities, including any successor securities, to be downgraded by any “nationally recognized statistical rating agency” (as that term is defined for purposes of the Securities Act), or does not cause any such agency to publicly announce that it has the trust preferred securities, funding preferred securities or any other securities of National under surveillance or review for possible downgrade;
- (4) any consolidation, amalgamation, merger, conversion or replacement does not adversely affect the rights, preferences and privileges of the holders of the trust preferred securities or the funding preferred securities, including any successor securities, in any material respect;
- (5) the successor entity has a purpose substantially identical to that of National Funding Trust;
- (6) Funding Holdings, or another entity we control, owns all of the common securities of the successor entity and National guarantees the obligations of the successor entity under the successor securities at least to the extent provided by the funding guarantee; and
- (7) before any consolidation, amalgamation, merger, conversion or replacement, Funding Holdings has received an opinion of a nationally recognized independent counsel in the United States to National Funding Trust experienced in these matters to the effect that:
  - any consolidation, amalgamation, merger, conversion or replacement will not adversely affect the rights, preferences and privileges of the holders of the funding preferred securities, including any successor securities, in any material respect;
  - following any consolidation, amalgamation, merger, conversion or replacement, neither National Funding Trust nor the successor entity will be required to register as an investment company under the Investment Company Act;
  - following any consolidation, amalgamation, merger, conversion or replacement, National Funding Trust, or any successor trust, will continue to be classified as a partnership and will not be treated as a corporation for United States federal income tax purposes;

- following any consolidation, amalgamation, merger, conversion or replacement, National Capital Trust will continue to be classified as a grantor trust for United States federal income tax purposes; and
- such consolidation, amalgamation, merger, conversion or replacement will not cause National Funding Trust nor any holder of funding preferred securities or trust preferred securities to recognize any income, gain or loss in respect of such securities for United States federal income tax purposes.

Notwithstanding the foregoing, National Funding Trust will not, except with the consent of the holders of 100% in liquidation amount of the funding securities, consolidate, amalgamate, merge or convert with or into, or be replaced by any other entity or permit any other entity to consolidate, amalgamate, merge or convert with or into, or replace it if any such consolidation, amalgamation, merger, conversion or replacement would cause National Funding Trust or the successor entity, if any, to be treated as a corporation for United States federal income tax purposes or cause National Capital Trust to fail to be classified as a grantor trust for such purposes.

#### **Modification of the Funding Trust Declaration**

If any proposed modification or amendment to the funding trust declaration provides for:

- (1) any action that would materially adversely affect the rights, powers, privileges or preferences of holders of funding securities, whether by way of modification or amendment to the funding trust declaration or otherwise; or
- (2) the dissolution, winding-up or termination of National Funding Trust other than under the terms of the funding trust declaration,

then, in each case, only the holders of the funding securities, acting together as a single class, will be entitled to take action on the amendment or proposal and the amendment or proposal will not be effective except with the approval of at least a majority in liquidation amount of the funding securities; provided that if any amendment or proposal referred to in clause (1) above would materially adversely affect only the funding preferred securities, then only the holders of the funding preferred securities will be entitled to take action on the amendment or proposal and the amendment or proposal will not be effective except with the approval of a majority in liquidation amount of the holders of the funding preferred securities.

The funding trust declaration may be modified or amended without the consent of the holders of the funding securities to:

- cure any ambiguity;
- correct or supplement any provision in the funding trust declaration that may be defective or inconsistent with any other provision of the funding trust declaration;
- modify the covenants, restrictions or obligations of the holder of the common security of National Funding Trust;
- conform to any change in the Investment Company Act or the Trust Indenture Act or the rules or regulations thereunder; and
- modify, eliminate and add to any provision of the funding trust declaration to the extent as may be necessary or appropriate consistent with effectuating the purposes of the funding trust declaration,

provided that no such modification or amendment would have a material adverse effect on the rights, preferences or privileges of the holders of the funding securities or the trust preferred securities or the covenants, restrictions or obligations of the sponsor of National Funding Trust or the holder of the common security of National Funding Trust.

No amendment or modification may be made to the funding trust declaration if the amendment or modification would:

- adversely affect only the holder of the common security of National Funding Trust;
- adversely affect the rights, powers, duties, obligations or immunities of the regular trustees of National Funding Trust;
- cause National Capital Trust to fail to be classified as a grantor trust for United States federal income tax purposes;
- cause National Funding Trust to fail to be classified as a partnership for United States federal income tax purposes;
- cause National Funding Trust to be treated as a corporation for United States federal income tax purposes;
- reduce or otherwise adversely affect the powers of the funding property trustee in contravention of any applicable law;
- cause National Capital Trust or National Funding Trust to be deemed an investment company that is required to be registered under the Investment Company Act; or
- cause any trustee to assume any duties or obligations not specifically set forth in the funding trust declaration.

No amendment or modification to the funding trust declaration that will affect the treatment by APRA of the trust preferred securities or, upon the dissolution of National Capital Trust as described under “Description of the Trust Preferred Securities—Trust Special Event Distribution” and the distribution of the funding preferred securities to the holders of the trust preferred securities, the funding preferred securities as Tier 1 capital of National may be made unless APRA consents to the amendment or modification.

### **Book-Entry Only Holding**

If National Capital Trust distributes the funding preferred securities to the holders of the trust preferred securities as described under “Description of the Trust Preferred Securities—Trust Special Event Distribution”, your funding preferred securities will be subject to the same transfer restrictions applicable to the trust preferred securities to the extent applicable in the circumstances existing at that time as described under “Description of the Trust Preferred Securities—Form, Transfer or Exchange”. We will also endeavor to enable you to hold the funding preferred securities in book-entry only form, in the same way as you held the trust preferred securities as described under “Description of the Trust Preferred Securities—Book-Entry Ownership”. However, there can be no assurance that we will be able to do so. As of the date of this offering memorandum, the funding preferred securities would not be eligible to trade through the book-entry facilities of Euroclear or Clearstream, Luxembourg.

### **Payment**

Payments will be made to the capital property trustee so long as it is the holder of all the outstanding funding preferred securities. If National Capital Trust distributes the funding preferred securities to the holders of the trust preferred securities as described under “Description of the Trust Preferred Securities—Trust Special Event Distribution”, payments and distributions in respect of the funding preferred securities will be made to the holders through the facilities of the applicable clearing system.

### **Registrar, Transfer Agent and Paying Agent**

The Bank of New York will act as registrar, transfer agent and paying agent for the funding preferred securities.

In addition, a paying agent shall be maintained at all times with a specified office in a country in the European Union that will not be obliged to withhold or deduct tax pursuant to any European Union Directive or the taxation of savings implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 or any law implementing or complying with, or introduced in order to conform to, such directive.

If National Capital Trust distributes the funding preferred securities to the holders of the trust preferred securities as described under “Description of the Trust Preferred Securities—Trust Special Event Distribution”, registration of transfers of the funding preferred securities will be effected without charge by or on behalf of National Funding Trust, but upon payment and with the giving of any indemnity as National Funding Trust or National may require, in respect of any tax or other governmental charges that may be imposed in relation to it.

National Funding Trust will not be required to register or cause to be registered the transfer of the funding preferred securities after the funding preferred securities have been called for redemption.

#### **Information Concerning the Property Trustee**

The funding property trustee undertakes to perform only the duties as are specifically set forth in the funding trust declaration. The funding property trustee is under no obligation to exercise any of the powers vested in it by the funding trust declaration at the request of any holder of the funding preferred securities, unless offered indemnity reasonably satisfactory to the funding property trustee by the holder against the costs, expenses and liabilities that might be incurred in connection with the exercise of any powers.

#### **Governing Law**

The funding trust declaration and the funding preferred securities will be governed by and interpreted in accordance with the internal laws of the State of Delaware.

#### **No Set-Off**

A person claiming under or in connection with the funding trust declaration may not exercise or seek to exercise or take any proceedings for the exercising of any right of set-off or counter claim against National, National Capital Trust or National Funding Trust in respect of any claim by National, National Capital Trust or National Funding Trust against that person.

#### **Miscellaneous**

The regular trustees are authorized and directed to conduct the affairs of and to operate National Funding Trust in such a way that National Funding Trust will not be deemed to be an investment company required to be registered under the Investment Company Act, will be classified as a partnership for United States federal income tax purposes, will not be treated as a corporation for such purposes and National Capital Trust will not be classified as other than a grantor trust for such purposes. In this regard, the regular trustees are authorized to take any action, not inconsistent with applicable law, the certificate of trust or the funding trust declaration that the regular trustees determine in their discretion to be necessary or desirable for those purposes as long as such action does not materially adversely affect the interests of the holders of the funding securities.

The holders of the funding preferred securities have no pre-emptive rights.

## DESCRIPTION OF THE FUNDING GUARANTEE

Set forth below is a summary of material information concerning the funding guarantee, which will be executed and delivered by National for the benefit of the holders from time to time of the funding preferred securities, initially the capital property trustee, on behalf of National Capital Trust. This summary is subject in all respects to the provisions of, and is qualified in its entirety by reference to, the funding guarantee. You may request a copy of the funding guarantee at our address at Level 24, 500 Bourke Street, Melbourne, Victoria 3000, Australia. The funding guarantee incorporates by reference the terms of the Trust Indenture Act. The Bank of New York, as the funding guarantee trustee, will hold the funding guarantee for the benefit of the holders of the funding preferred securities.

### General

Under the funding guarantee, National will irrevocably and unconditionally agree, on a subordinated basis and to the extent set forth in the funding guarantee, to pay in full to the holders of the funding preferred securities, except to the extent paid by National Funding Trust, as and when due, regardless of any defense, right of set-off or counterclaim that National Funding Trust may have or assert, the following payments (the “funding guarantee payments”), without duplication:

- any accrued and unpaid distributions, including any additional amounts payable by National Funding Trust on distribution payments made by it, on the funding preferred securities for the most recent distribution period, to the extent National Funding Trust has funds available for distribution;
- the make-whole redemption price or the par redemption price, as the case may be, with respect to any funding preferred securities called for cash redemption by National Funding Trust, to the extent National Funding Trust has funds available for distribution;
- in connection with the redemption of the funding preferred securities upon the occurrence of the exchange event, if the exchange date is an interest payment date, interest has been declared payable by National’s board of directors or a duly authorized committee thereof and no deferral condition exists at that time, the accrued and unpaid distribution for the most recent distribution period, including additional amounts payable by National Funding Trust on the distributions to be made by it, if any, to the extent National Funding Trust has funds available for distribution; and
- upon a voluntary or involuntary dissolution, liquidation, winding up or termination of National Funding Trust, the lesser of (a) the aggregate of the stated liquidation amount and the accrued and unpaid distribution on the funding preferred securities for the then current distribution period to the date of payment or, if the date of payment is a distribution date, the accrued and unpaid distribution for the most recent distribution period, including additional amounts payable by National Funding Trust on such amounts made by it, if any, to the extent National Funding Trust has funds available for payment, and (b) the amount of assets of National Funding Trust, after satisfaction of liabilities (or the reasonable provision for payment of liabilities) to creditors, remaining available for distribution to holders in liquidation of National Funding Trust.

National’s obligation to make a funding guarantee payment may be satisfied by direct payment of the required amounts by National to the holders of the funding preferred securities or by causing National Funding Trust to pay these amounts to the holders of the funding preferred securities.

The funding guarantee will be a guarantee on a subordinated basis with respect to the funding preferred securities from the time of issuance of the funding preferred securities. It will only apply to any payment of distributions or the redemption price, or to payments upon the liquidation, dissolution,



winding-up or termination of National Funding Trust, to the extent National Funding Trust has funds available. To the extent National's London branch defers or fails to make interest or redemption payments on the debentures, National Funding Trust will lack available funds for the payment of distributions or amounts payable on a cash redemption of the funding preferred securities. In such an event, the holders of the funding preferred securities will not be entitled to receive payment of these amounts from National under the funding guarantee.

National will make all payments in respect of the funding guarantee without withholding or deduction for, or on account of, any relevant tax imposed or levied by or on behalf of Australia, the United Kingdom or the United States, or any political subdivision or authority in or of Australia, the United Kingdom or the United States or any other jurisdiction from which payments under the funding guarantee are made, unless the withholding or deduction is required by law. In that event, National will pay such additional amounts as may be necessary so that the net amount of cash received by a holder of the funding preferred securities, initially National Capital Trust, under the funding guarantee after such withholding or deduction, will equal the amount that the holder would have received in respect of the funding guarantee without such withholding or deduction.

However, National will pay no additional amounts with respect to the funding guarantee:

- to the extent that the relevant tax is imposed or levied by virtue of a holder, or a beneficial owner, of the trust preferred securities or the funding preferred securities, other than National Capital Trust, having some connection (whether present, past or future) with a relevant jurisdiction or being or having been engaged in any activity, trade or business in a relevant jurisdiction, other than being a holder, or a beneficial owner, of the trust preferred securities or the funding preferred securities;
- to the extent that the relevant tax is imposed or levied by virtue of a holder, or a beneficial owner, of the trust preferred securities or the funding preferred securities, other than National Capital Trust, not complying with any statutory requirements or not having made a declaration of non-residence in, or other lack of connection with, the relevant jurisdiction or any similar claim for exemption, if National or its agent has provided the holder of the funding preferred securities with at least 60 days' prior written notice of an opportunity to comply with such statutory requirements or make a declaration or claim;
- to the extent that the relevant tax is a United States "back-up" withholding tax;
- to the extent that the relevant tax is imposed or levied on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 or any law implementing or complying with, or introduced in order to conform to, such directive; or
- to the extent a claim for payment under the guarantee is made by or on behalf of a holder of funding preferred securities who would have been able to avoid such withholding or deduction by making that claim on another paying agent in a member state of the European Union.

The funding guarantee, when taken together with National's London branch's obligation to pay the fees and expenses of National Funding Trust, constitutes a guarantee to the extent set forth in this offering memorandum by National of the distribution, cash redemption and liquidation payments payable to the holders of the funding preferred securities. The funding guarantee does not apply, however, to current distributions or cash redemptions by National Funding Trust except to the extent National Funding Trust has funds legally available for distribution or payment, to liquidating distributions except to the extent there are assets available for payment in National Funding Trust after

payment of its creditors. In addition, because the distributions are non-cumulative, the funding guarantee does not apply to past distributions that have not been paid by National Funding Trust.

### **Obligations of National**

Under the funding guarantee, National will agree that, if National is in default on its obligations under the funding guarantee, then, subject to the exceptions described below, unless the holders of a majority in liquidation amount of the trust preferred securities or, upon the dissolution of National Capital Trust as described under “Description of the Trust Preferred Securities—Trust Special Event Distribution” and the distribution of the funding preferred securities to the holders of the trust preferred securities, the funding preferred securities otherwise consent, National will not:

- declare or pay any dividends on, make any distribution on, or redeem, purchase, acquire, or make a liquidation payment on any of its shares that rank equally with or junior to the debentures other than *pro rata* payments on (1) the debentures and (2) (a) in the case of dividends or distributions, any shares that rank equally with the debentures as to distributions, (b) in the case of redemption, purchase or acquisition, any shares that rank equally with the debentures as to distributions or for payment in a winding up and (c) in the case of any payment in a winding up, any shares that rank equally with the debentures for payment in a winding up;
- make any payment of principal or interest or premium, if any, on or repay, repurchase or redeem any of its securities or other instruments that rank equal or junior to the debentures, other than *pro rata* payments on (1) the debentures and (2) (a) in the case of interest, any securities or other instruments that rank equally with the debentures as to interest, (b) in the case of repayment, repurchase or redemption, any securities or other instruments that rank equally with the debentures in a winding up, and (c) in the case of any payment in a winding up, any securities or other instruments that rank equally with the debentures in a winding up; or
- make any payment under any guarantee that ranks equal or junior to the trust guarantee and the funding guarantee, other than *pro rata* payments on the trust guarantee and the funding guarantee and guarantees that rank equal to the trust guarantee and the funding guarantee,

unless and until, (1) in the case of a default with respect to a distribution, the distribution is paid in full within five business days after the distribution date for such distribution or National Funding Trust has paid distributions in full on the funding preferred securities for a period of twelve consecutive months or (2) in the case of a default with respect to redemption or liquidation, the amount payable upon such redemption or liquidation is paid in full. However, the foregoing restrictions do not apply to:

- repurchases, redemptions or other acquisitions of shares of National in connection with (1) any employment contract, benefit plan or other similar arrangement with or for the benefit of any one or more employees, officers, directors or consultants of National or any entity we control, (2) a dividend plan or shareholder share purchase plan or (3) the issuance of shares of National, or securities convertible into or exercisable for such shares, as consideration in an acquisition transaction entered into prior to such occurrence;
- an exchange, redemption or conversion of any class or series of National’s shares, or any shares of a subsidiary of National, for any class or series of National’s shares, or of any class or series of National’s indebtedness for any class or series of National’s shares;
- the purchase of fractional interests in shares of National under the conversion or exchange provisions of the shares or the security being converted or exchanged;

- any payment or declaration of a dividend in connection with any shareholder's rights plan, or the issuance of rights, shares or other property under any shareholder's rights plan, or the redemption or repurchase of rights pursuant to the plan; or
- any dividend in the form of shares, warrants, options or other rights where the dividend shares or the shares issuable upon exercise of such warrants, options or other rights are the same class or series of shares as those on which the dividend is being paid or rank equal or junior to those shares.

The restrictions described above will also apply if National defaults on its obligations under the exchange agreement. The restrictions described above will not apply if the funding guarantee terminates in accordance with its terms.

Neither National nor its affiliates will be prohibited from purchasing National's shares in connection with transactions for the account of customers of National or its affiliates or in connection with the distribution or trading of National's shares in the ordinary course of business.

#### **Events of Default; Enforcement of Funding Guarantee**

An event of default under the funding guarantee will occur upon the failure of National to perform any of its payment or other obligations set forth in the funding guarantee.

The holders of a majority in liquidation amount of the funding preferred securities, initially the capital property trustee, have the right to direct the time, method and place of conducting any proceeding for any remedy available to the funding guarantee trustee or to direct the exercise of any trust or power conferred upon the funding guarantee trustee under the funding guarantee. If the funding guarantee trustee fails to enforce its rights under the funding guarantee after a holder of the funding preferred securities has made a written request, the holder may institute a legal proceeding directly against National to enforce the funding guarantee trustee's rights under the funding guarantee, without first instituting a legal proceeding against National Funding Trust, the funding guarantee trustee or any other person or entity.

If National has failed to make a guarantee payment, a holder of the funding preferred securities may directly institute a proceeding in its own name against National for enforcement of the funding guarantee for payment.

#### **Status of the Funding Guarantee; Subordination**

The funding guarantee will constitute an unsecured obligation of National and will rank equally with the debentures and the trust guarantee and junior to the claims of all our creditors other than creditors whose claims, by their terms, rank equally with or junior to the debentures. The funding guarantee will not represent a deposit liability of National for purposes of the Banking Act of 1959 of Australia or for the purposes of the FSMA regime in the United Kingdom and will not be insured by the US Federal Deposit Insurance Corporation or any other governmental agency or compensation scheme in the United States, Australia, the United Kingdom or elsewhere.

Accordingly, the rights of the holders of the funding preferred securities to receive payments under the funding guarantee will be subject to the rights of the holders of any obligations of National that are senior in priority to the obligations under the funding guarantee. The terms of the funding preferred securities provide that each holder of funding preferred securities, by acceptance thereof, agrees to the subordination provisions and other terms of the funding guarantee.

The funding guarantee will constitute a guarantee of payment and not of collection. That is, the guaranteed party may directly institute a legal proceeding against National to enforce its rights under the funding guarantee without instituting a legal proceeding against any other person or entity.

## **Amendments and Assignment**

Except with respect to any changes that do not materially adversely affect the rights of holders of the funding preferred securities, in which case no action will be required, the funding guarantee may be amended only with the prior approval of the holders of at least a majority in liquidation amount of all the outstanding funding preferred securities excluding any funding preferred securities held by National or any of its affiliates, initially the capital property trustee. The funding guarantee may not be amended if such amendment would cause National Funding Trust to be treated as a corporation for United States federal income tax purposes or cause National Capital Trust to fail to be classified as a grantor trust for these purposes, require National Funding Trust to register as an investment company under the Investment Company Act or affect the treatment by APRA of the trust preferred securities or, upon the dissolution of National Capital Trust as described under “Description of the Trust Preferred Securities—Trust Special Event Distribution” and the distribution of the funding preferred securities to the holders of the trust preferred securities, the funding preferred securities as Tier 1 capital of National, unless APRA consents to the amendment. The manner of obtaining any approval of holders of the funding preferred securities will be as set forth under “Description of the Funding Preferred Securities—Rights of Action”. All guarantees and agreements contained in the funding guarantee will bind the successors, assigns, receivers, trustees and representatives of National and will inure to the benefit of the holders of the funding preferred securities then outstanding. Except in connection with a permitted merger or consolidation of National with or into another entity or a permitted sale, transfer or lease of National’s assets to another entity in which the surviving corporation, if other than National, assumes National’s obligations under the funding guarantee, National may not assign its rights or delegate its obligations under the funding guarantee without the prior approval of the holders of at least a majority in liquidation amount of the funding preferred securities then outstanding, initially the capital property trustee.

## **Consolidation, Merger or Sale of Assets**

National may not consolidate with or merge into any other corporation or sell its assets substantially as an entirety, unless and to the extent permitted by law:

- National is the surviving person, or the corporation formed by such consolidation or into which National is merged or the corporation that acquires National’s assets is entitled to carry on its business and expressly assumes all of the obligations under the funding guarantee;
- if the corporation formed by the consolidation or into which National is merged or the corporation that acquires National’s assets (the “relevant corporation”) is not organized under the laws of Australia or any political subdivision of Australia,
  - (i) the successor corporation expressly agrees to indemnify each holder of the trust preferred securities and funding preferred securities against any tax, assessment or governmental charge required to be withheld or deducted from any payment to such holder as a consequence of such consolidation, merger or sale, and
  - (ii) if the relevant corporation is not organized under the laws of the United Kingdom or any state in the United States, the consolidation, merger or sale does not (A) result in a downgrade of the rating assigned by any “nationally recognized statistical rating agency” (as that term is defined for purposes of the Securities Act) to the trust preferred securities or any other securities of National then rated by any such agency or (B) cause any such agency to publicly announce that it has the trust preferred securities or any other securities of National under surveillance or review for possible downgrade;

- the consolidation, merger or sale will not require National Funding Trust to register as an investment company under the Investment Company Act; and
- immediately after giving effect to such transaction, no event of default under the funding guarantee has occurred and is continuing.

Upon such consolidation, merger or sale, the successor corporation formed by such consolidation or into which National is merged or to which such sale is made will succeed to and be substituted for National in the funding guarantee.

### **Termination of the Funding Guarantee**

The funding guarantee will terminate as to each holder of the funding preferred securities upon:

- full payment of the cash redemption price of all the funding preferred securities;
- delivery of all the GDRs pursuant to the exchange agreement and full payment of any cash payable in connection with the redemption of the funding preferred securities upon the occurrence of the exchange event; or
- full payment of the amounts payable in accordance with the funding trust declaration upon liquidation of National Funding Trust.

The funding guarantee will continue to be effective or will be reinstated, as the case may be, if at any time any holder of the funding preferred securities must restore payment of any sum paid under the funding preferred securities or the funding guarantee.

### **Information Concerning the Funding Guarantee Trustee**

The Bank of New York has been appointed as the funding guarantee trustee. We maintain banking relationships in the ordinary course of business with The Bank of New York.

The funding guarantee trustee, before the occurrence of an event of default and after curing or waiver of all events of default that may have occurred with respect to the funding guarantee, undertakes to perform only those duties as are specifically set forth in the funding guarantee and, after a default with respect to the funding guarantee which default is known to it, will exercise the rights and powers vested in it by the funding guarantee, and use the same degree of care and skill as a prudent individual would exercise under the circumstances in the conduct of his or her own affairs. Subject to that provision, the funding guarantee trustee is under no obligation to exercise any of the powers vested in it by the funding guarantee at the request of any holder of funding preferred securities unless it is offered indemnity reasonably satisfactory to it by the holder against the costs, expenses and liabilities that might be incurred in connection with the exercise of those powers.

### **No Set-Off**

A person claiming under or in connection with the funding guarantee may not exercise or seek to exercise or take any proceedings for the exercising of any right of set-off or counterclaim against National in respect of any claim by National against that person.

### **Governing Law**

The funding guarantee will be governed by, and construed and interpreted in accordance with, the internal laws of the State of New York, except that certain subordination and related provisions of the funding guarantee will be governed by the laws of the State of Victoria, Australia.

## DESCRIPTION OF THE DEBENTURES

National, acting through its London branch, will issue the debentures. The following summary of the material terms and provisions of the debentures is subject to, and qualified in its entirety by reference to, the terms of the debentures. You may request a copy of the debentures at our address at Level 24, 500 Bourke Street, Melbourne, Victoria 3000, Australia.

### General Description of the Debentures

The debentures will be unsecured, junior subordinated obligations of National. The debentures will be limited in aggregate principal amount to £400,000,000 and will be listed on the Channel Islands Stock Exchange. The principal amount will be limited to the aggregate stated liquidation amount of the trust preferred securities.

The debentures contain no sinking fund provisions and mature on January 2, 2053.

### Subordination

The debentures will be unsecured, junior subordinated obligations of National and, as to payments of interest, principal and other amounts prior to and in a winding up of National, will rank, without any preference among themselves, (A) senior to the claims of the holders of our ordinary shares, (B) equal to the claims of the holders of equal ranking instruments and (C) subordinate and junior in right of payment of interest, principal and other amounts to National's obligations to its depositors and creditors, including other subordinated creditors, other than subordinated creditors whose claims rank equally with, or junior to, the holders of the debentures. Under the terms of the debentures, we may issue preference shares senior to the debentures, only with the approval of the holders of at least 75% of the principal amount of the debentures then outstanding voting at a meeting to approve the issuance of each such series of preference shares or with the consent of holders holding at least 75% of the principal amount of the debentures.

The debentures will not represent a deposit liability of National for purposes of the Banking Act of 1959 of Australia or for the purposes of the FSMA regime in the United Kingdom, and are not insured by the US Federal Deposit Insurance Corporation or any other governmental agency or compensation scheme in the United States, Australia, the United Kingdom or elsewhere.

### Interest

The debentures will bear interest, from the issuance date to but excluding December 17, 2018, at a fixed rate equal to 5.62% per year of the principal amount of the debentures and thereafter in respect of each five-year interest reset period, at a fixed rate equal to the relevant five-year benchmark gilt rate, determined for each five-year interest reset period as set forth below, plus 1.93% (representing 100 basis points above the initial spread over the benchmark gilt rate by reference to which the debentures were priced) per year of the principal amount of the debentures.

Interest payments on the debentures will be payable in cash semi-annually in arrears for each interest rate period on each June 17 and December 17, commencing December 17, 2003, only if, as and when declared by our board of directors, or a duly authorized committee of our board. The record date will be the date, whether or not a business day, immediately preceding the relevant interest payment dates. Interest payments not paid on any interest payment date will accrue interest, compounded semi-annually at a fixed rate equal to 5.62% and, from and including December 17, 2018, at the relevant five-year benchmark gilt rate plus 1.93%.

If any date on which interest is payable on the debentures is not a business day, National's London branch will make payment of the interest payable on that date on the next succeeding day that is a business day, without adjustment of the amount of interest or any other payment in respect of that delay, with the same force and effect as if made on the date on which the interest payment was scheduled to be paid.



We refer to each period beginning on the date of original issuance of the debentures or on each interest payment date thereafter to but excluding the day that precedes the next interest payment date as an “interest rate period.”

The amount of interest payable on each debenture for any interest rate period will be computed for any full interest rate period on the basis of the actual number of days in the interest rate period divided by 365 (or, if any portion of the interest rate period falls in a leap year, the sum of (a) the actual number of days in that portion of the interest rate period falling in a leap year divided by 366 and (b) the actual number of days in that portion of the interest rate period falling in a non-leap year divided by 365).

“Five-year benchmark gilt rate” means, in respect of a five-year interest reset period, the gross redemption yield (as calculated by the calculation agent on the basis set out by the United Kingdom Debt Management Office in the paper “Formulae for Calculating Gilt Prices from Yields”, page 4, Section One: Price/Yield Formulae “Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date” (published June 8, 1998, as amended or updated from time to time)) on a semi-annual compounding basis (and rounded up (if necessary) to four decimal places) of the five-year benchmark gilt in respect of that five-year interest reset period (converted to an annualized payment and expressed as a percentage rounded up (if necessary) to four decimal places), with the price of the five-year benchmark gilt for this purpose being the arithmetic average (rounded up (if necessary) to four decimal places) of the bid and offered prices of such five-year benchmark gilt quoted by the reference market makers at 3:00 p.m. (London time) on the relevant determination date on a dealing basis for settlement on the next following London business day.

“Five-year interest reset period” means the period from and including an interest rate reset date to but excluding the fifth anniversary thereafter, provided that the last five-year interest reset period will end on but exclude the date on which the principal amount of the debentures is paid.

“Interest rate reset date” means December 17, 2018 and each fifth year anniversary thereof.

“Reference market makers” means three brokers of gilts and/or gilt-edged market makers selected by the calculation agent in consultation with us.

“Determination date”, in relation to a five-year interest reset period, means the fifth London business day prior to an interest rate reset date; provided that, if it is not possible for any reason to determine the five-year benchmark gilt rate on any such day, the determination date shall be postponed to the first London business day thereafter on which the calculation agent determines that it is possible to determine the five-year benchmark gilt rate.

“Calculation agent” means Deutsche Bank AG London or any successor appointed in respect of the debentures.

“Business day” means a day, other than a Saturday or Sunday, on which commercial banks are open for general business in London, United Kingdom, New York, New York and Melbourne, Australia.

“Five-year benchmark gilt” means, in respect of a five-year interest reset period, such United Kingdom government security having a maturity date on or about the last day of such five-year interest reset period as the calculation agent, with the advice of the reference market makers, may determine to be appropriate.

“London business day” means a day, other than a Saturday or Sunday, on which commercial banks and the London Stock Exchange are open for business in London, United Kingdom.

All calculations of the calculation agent, in the absence of manifest error, will be conclusive for all purposes and binding on National’s London branch and on the holders of the debentures. In no event shall the rate of interest on the debentures be higher than the maximum rate permitted by New York law, as the same may be modified by United States law of general application. The calculation agent will, upon the request of any holder of the debentures, provide the interest rate then in effect.

National's London branch will provide that, for so long as the debentures remain outstanding, there will at all times from and after December 17, 2018 be a calculation agent for the purpose of the debentures. If the calculation agent is unable or unwilling to continue to act as the calculation agent or in the case that the calculation agent fails duly to establish the relevant five-year benchmark gilt rate for any five-year interest reset period, National's London branch will appoint another leading bank to act as such in its place. Under the terms of its appointment, the calculation agent will not resign its duties without a successor having been appointed as described above.

### **Principal**

National's London branch is required to repay the principal only if it exercises its right to redeem the debentures for cash, if the principal is declared due and payable at maturity or upon an event of default in accordance with the terms of the debentures.

### **Deferral of Interest Payments**

If National's board of directors or a duly authorized committee thereof does not declare interest payable on or within five business days of an interest payment date or any deferral condition exists, then, unless otherwise approved by APRA, National's London branch will not pay the interest on the debentures otherwise due and payable on that date, and the exchange event will occur. Unless approved by APRA, National's London branch is not permitted to pay any deferred interest until the first interest payment date thereafter on which no deferral condition exists, and, unless already declared, National's board of directors or a duly authorized committee thereof declares this deferred interest to be payable unless the debenture has been redeemed.

The deferral conditions are:

- the failure of National to have sufficient distributable profits, which means that the Australian dollar equivalent of the value of the pounds sterling payable in respect of interest on the debentures on any interest payment date, together with the aggregate amount of dividends or distributions paid or payable by National or any of its subsidiaries or the Australian dollar equivalent of any such amount payable in any foreign currency on or before that interest payment date during the current fiscal year of National on (1) the funding preferred securities, other than distributions payable on the date corresponding to that interest payment date, (2) any Tier 1 qualifying capital security of National or any of its subsidiaries (the "Group Tier 1 Securities") but not including any dividend or distribution paid or payable to National or any of its subsidiaries and (3) any other share capital of National (including ordinary shares), would exceed the consolidated net profit attributable to the members of National for the immediately preceding two six-monthly (or, if applicable, four quarterly) financial periods for which results have been publicly announced by National or any other amount as determined by APRA in its discretion to be appropriate in National's circumstances for the purposes of National's Tier 1 capital and APRA does not approve the payment; or
- the payment of the interest payable on the debentures or the corresponding distribution thereof by National Funding Trust or National Capital Trust would be objected to by APRA or prohibited or limited by applicable law, regulation or administrative decree or by the provisions of any Group Tier 1 Securities or any other instruments or agreements to which National is subject.

On the first interest payment date on which no deferral condition exists and National's board of directors declares interest to be payable, National's London branch will pay the deferred interest then accrued and unpaid, together with interest on the accrued and unpaid deferred interest as permitted by law, at an annual rate equal to 5.62%, compounded semi-annually prior to but excluding December 17, 2018 and at an annual rate equal to the relevant five-year benchmark gilt rate plus

1.93%, compounded semi-annually from and including December 17, 2018. However, under the funding trust declaration, upon receipt from National's London branch of any deferred interest or compound interest, National Funding Trust is required to pay the deferred interest, together with any compound interest, to the holder of the common security of National Funding Trust, initially Funding Holdings, and Funding Holdings will direct that amount to be paid to National. The holders of the funding preferred securities will not be entitled to receive any portion of these amounts, even if National fails to issue or deliver the National preference shares. Any amount paid on or within five business days after such first interest payment date shall be deemed, first, to be a payment in respect of deferred interest and, second, to be a payment in respect of unpaid interest.

If the funding property trustee is a holder of outstanding debentures, National's London branch will give the regular trustees of National Funding Trust and the funding property trustee notice of the occurrence of a deferral condition of which it has knowledge, at least five business days before the earlier of:

- the next distribution date for the funding preferred securities; or
- the date the regular trustees of National Capital Trust or, if National Capital Trust has been dissolved and the funding preferred securities have been distributed to the holders of the trust preferred securities as described under "Description of the Trust Preferred Securities—Trust Special Event Distribution", of National Funding Trust are required to give notice to the holders of record as of the record date for the trust preferred securities or the funding preferred securities.

The regular trustees of National Funding Trust will give notice of the deferral of the interest payment for the then current interest payment period to the regular trustees of National Capital Trust, the capital property trustee and the exchange trustee. The regular trustees of National Capital Trust, in turn, will give notice of the occurrence of the deferral to the holders of the trust preferred securities. If National Capital Trust has been dissolved and the funding preferred securities have been distributed to the holders of the trust preferred securities as described under "Description of the Trust Preferred Securities—Trust Special Event Distribution", the regular trustees of National Funding Trust will give notice of the deferral of the interest payment for the then current interest payment period to the holders of the funding preferred securities.

#### **Additional Amounts**

National's London branch will make all cash payments in respect of the debentures without withholding or deduction for, or on account of, any relevant tax imposed or levied by or on behalf of Australia, the United Kingdom, the United States, or any jurisdiction from which a substitute branch makes a payment under the debentures, or any political subdivision or authority in or of any of the foregoing, unless the withholding or deduction is required by law. In that event, National's London branch will pay such additional amounts as may be necessary so that the net amount received by National Funding Trust, as the holder of all the outstanding debentures, after such withholding or deduction, will equal the amount that National Funding Trust would have received in respect of the debentures without such withholding or deduction.

However, National's London branch will pay no additional amounts with respect to any debentures:

- to the extent that the relevant tax is imposed or levied by virtue of a holder, or a beneficial owner, of the trust preferred securities, the funding preferred securities or the debentures, other than National Capital Trust or National Funding Trust, having some connection (whether present, past or future) with a relevant jurisdiction or being or having been engaged in any activity, trade or business in a relevant jurisdiction other than being a

holder, or a beneficial owner, of the trust preferred securities, the funding preferred securities or the debentures;

- to the extent that the relevant tax is imposed or levied by virtue of a holder, or a beneficial owner, of the trust preferred securities, the funding preferred securities or the debentures, other than National Capital Trust or National Funding Trust, not complying with any statutory requirements or not having made a declaration of non-residence in, or other lack of connection with, a relevant jurisdiction or any similar claim for exemption, if National's London branch or its agent has provided the holder of the trust preferred securities, the funding preferred securities or the debentures with at least 60 days' prior written notice of an opportunity to comply with such statutory requirements or make a declaration or claim;
- to the extent that the relevant tax is a United States "back-up" withholding tax;
- to the extent that the relevant tax is imposed or levied on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 or any law implementing or complying with, or introduced in order to conform to, such directive; or
- to the extent the relevant trust preferred security, funding preferred security or debenture is presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant trust preferred security, funding preferred security or debenture to another paying agent in a member state of the European Union.

### **Cash Redemption**

National's London branch has the right, after receipt of the prior approval by APRA or other regulatory authority, if approval is then required, to redeem the debentures for cash:

- on December 17, 2018 and on any interest rate reset date thereafter, in whole or in part, at the debentures par redemption price;
- on any date other than on (i) December 17, 2018 or (ii) on any subsequent interest rate reset date, in whole only, at any time following the occurrence and continuance of a withholding tax event, at the debentures par redemption price; and
- on any date other than December 17, 2018 or any subsequent interest rate reset date, in whole only, at any time following the occurrence and continuance of a National other tax event, an investment company event or a regulatory event (each as defined below, and each, a "make-whole special event"), at the debentures make-whole redemption price,

provided, however, that the right of National's London branch to redeem the debentures for cash due to a withholding tax event or a make-whole special event is subject to the condition that, if at the time there is available to National, National Capital Trust, National Funding Trust, Funding Holdings or Capital Holdings, as applicable, the opportunity to eliminate the withholding tax event or make-whole special event by substituting the London branch with another obligor under the debentures or amending the terms of the debentures or by taking some ministerial action, such as filing a form or making an election, or pursuing some other similar reasonable measure that, in each case, in the absolute discretion of National, will not have any adverse effect on National, any of National's subsidiaries or affiliates, National Capital Trust, National Funding Trust, Funding Holdings or Capital Holdings or the holders of the trust preferred securities or the funding preferred securities and will not involve any material cost, National will pursue or will allow National Capital Trust or National Funding Trust to pursue that measure in lieu of redemption. National's London branch may not redeem any debentures for cash prior to, and any obligations of National under this provision terminate upon, the

earlier of (i) the 90th day following the date of the withholding tax event or make-whole special event and (ii) the date that National determines in its absolute discretion that substituting the London branch with another obligor under the debentures or amending the terms of the debentures or the taking of some ministerial action will have an adverse effect on National, any of National's subsidiaries or affiliates, National Capital Trust, National Funding Trust, Funding Holdings, Capital Holdings, the holders of the trust preferred securities or the funding preferred securities or will involve material cost to any such entity.

The "debentures make-whole redemption price" means the greater of the debentures make-whole redemption amount (which is intended to solely compensate you for reinvestment loss from interest rate risk, and costs of reinvestment as a result of early redemption of the debentures) and the debentures par redemption price.

The "debentures make-whole redemption amount" will be equal to the sum of:

- the price, expressed as a percentage (rounded to four decimal places, 0.00005 being rounded upwards) of £1,000 principal amount of debentures, at which the gross redemption yield on the debentures on the reference date (assuming for this purpose that the principal amount of the debentures is payable on December 17, 2018 or, if the redemption date falls on any subsequent date other than on an interest rate reset date, the next interest rate reset date falling after such redemption date) is equal to the gross redemption yield (determined by reference to the middle market price) at 3:00 p.m. (London time) on the reference date of the benchmark gilt plus 0.25%;
- any accrued and unpaid interest on the principal amount (including any deferred and unpaid interest) to but excluding the redemption date (to the extent such amount has not been taken into account in determining the amount in the previous bullet point) to the extent unpaid; and
- any additional amounts.

The definitions of certain terms relating to this definition of "debentures make-whole redemption amount" can be found under "Description of the Trust Preferred Securities—Mandatory Redemption."

The "debentures par redemption price", with respect to each debenture, will be equal to 100% of the principal amount of such debenture, plus any accrued and unpaid interest thereon (including deferred and unpaid interest) to but excluding the date of redemption, to the extent unpaid, and any additional amounts.

"Withholding tax event" means that National has received an opinion of competent tax counsel to the effect that there has been:

- an amendment to, change in or announced proposed change in any laws, or any regulations under those laws;
- a judicial decision interpreting, applying or clarifying those laws or regulations;
- an administrative pronouncement or action that represents an official position, including a clarification of an official position, of the governmental authority or regulatory body making the administrative pronouncement or taking any action; or
- a challenge asserted or threatened in connection with an audit (including a United Kingdom Inland Revenue self assessment enquiry) of National, National's London branch, any of National's subsidiaries, National Funding Trust or National Capital Trust, or a challenge asserted or threatened in writing against any other taxpayer that has raised capital through the issuance of securities that are substantially similar to the debentures, the funding preferred securities, the trust preferred securities or the National preference shares,

which amendment or change is adopted or which proposed change, decision or pronouncement is announced or which action or clarification or challenge occurs on or after the date of this offering memorandum (collectively, a “Tax Law Change”), and that following the occurrence of such Tax Law Change there is more than an insubstantial risk that any payment on the debentures, funding preferred securities, trust preferred securities or guarantees is, or will be subject to an amount of withholding or deduction in respect of any relevant tax for which National’s London branch, National Funding Trust, National Capital Trust or National must pay additional amounts as described in this offering memorandum.

“National other tax event” means any Tax Law Change (other than a Tax Law Change which would result in a withholding tax event) which would result in there being more than an insubstantial risk that any of National, Capital Holdings, Funding Holdings, National Capital Trust or National Funding Trust would be exposed to more than a *de minimis* increase in its costs (including, without limitation, a more than *de minimis* adverse change in the deductibility of interest payments on the debentures under the tax law applicable to the London branch through which the debentures are issued or where initial payments on the debentures or distributions on the trust preferred securities or funding preferred securities are treated as frankable distributions) in relation to the London branch debentures, funding preferred securities, trust preferred securities, guarantees, exchange agreement or the National preference shares as a result of any taxes, duties or other governmental charges.

Notwithstanding the foregoing, a National other tax event will not occur if the increase in cost to National is attributable to a restriction or denial of any tax deduction in respect of interest on the London branch debentures in the computation of the profits of the London branch for United Kingdom corporation tax purposes by virtue of the application of Section 11AA of the Income and Corporation Taxes Act 1988, or any reenactment thereof in the same form (“Section 11AA”) as is in effect on the date of this offering memorandum.

Section 11AA determines the taxable profits of a United Kingdom branch of a corporation which is not a United Kingdom resident for UK tax purposes (a “United Kingdom branch”). In the context of the deductibility of interest, the practical effect of Section 11AA is to determine how much of the actual interest costs incurred by a United Kingdom branch are deductible in calculating the United Kingdom branch’s taxable profits under UK tax law by treating the United Kingdom branch, in carrying on its business, as an entity which is distinct and separate from the corporation of which it is a part. This is based on certain assumptions, including that the United Kingdom branch has the same credit rating as the corporation of which it is a part and that the United Kingdom branch has equity capital and loan capital which is consistent with it being treated as an entity which is distinct and separate from the corporation of which it is a part.

Under Australian tax law, a “frankable distribution” is a dividend paid on a share which is not a debt interest, or a distribution paid on a security which is not a share but which is classified as an equity interest for Australian tax purposes, which in either case qualifies to confer certain tax benefits on the recipient share or security holder, those tax benefits being determined in each particular case primarily by reference to the amount of Australian income tax paid by the company paying the dividend or making the distribution. The payments to be made on the funding preferred securities and on the trust preferred securities will, under current law, not be frankable distributions because neither National Funding Trust nor National Capital Trust is a resident of Australia. Also under current law, payments on the debentures will not be frankable distributions because National is an Australian tax resident authorized deposit-taking institution, the debentures will be issued through National’s London branch and form part of National’s Tier 1 capital and National will use the proceeds of the issue for the purpose of the business of its London branch.

“Investment company event” means that National has requested and received an opinion of nationally recognized independent legal counsel in the United States experienced in these matters to the effect that, as a result of the occurrence, on or after the date of this offering memorandum



pursuant to which the trust preferred securities are sold, of a change in law or regulation or a change in interpretation or application of law or regulation by any legislative body, court, governmental agency or regulatory authority, there is more than an insubstantial risk that National Capital Trust or National Funding Trust is or will be considered an investment company which is required to be registered under the Investment Company Act.

“Regulatory event” means (1) the introduction of, or an amendment or clarification to or change in (or announcement of a prospective introduction of, amendment or clarification to or change in) a law or regulation of the Commonwealth of Australia or any state or territory thereof or any direction, order, requirement, guideline or statement of APRA which has the effect that the trust preferred securities do not constitute Tier 1 capital of National on a level 1, level 2 or level 3 (if applicable) basis, (2) that National has received any written statement, notification or advice from APRA that the trust preferred securities or, if National Capital Trust has been dissolved and the funding preferred securities have been distributed to holders of the trust preferred securities as described under “Description of the Trust Preferred Securities—Trust Special Event Distribution”, the funding preferred securities are not included in the Tier 1 capital on a level 1, level 2 or level 3 (if applicable) basis, or its then equivalent, of National, or (3) an opinion of nationally recognized independent legal counsel in Australia experienced in these matters to the effect that as a result of the occurrence on or after the date of this offering memorandum of a change in law, regulation or prudential statement or a change in interpretation or application of law, regulation or prudential statement by any legislative body, court, governmental agency or regulatory authority, the trust preferred securities or, if National Capital Trust has been dissolved and the funding preferred securities have been distributed to holders of the trust preferred securities as described under “Description of the Trust Preferred Securities—Trust Special Event Distribution”, the funding preferred securities are not, or will not within 90 days of such opinion be, included in the Tier 1 capital, or its then equivalent, of National on a level 1, level 2 or level 3 (if applicable) basis.

#### **Enforcement of Certain Rights by Holders of Trust Preferred Securities**

If National’s London branch fails to pay interest or the redemption price of the debentures when due (after taking into account any applicable grace period), a registered holder of the trust preferred securities or the funding preferred securities may institute a legal proceeding directly against National’s London branch or National for enforcement of the payment to that holder of the interest or the redemption price with respect to such principal amount of debentures as is equal to such holder’s proportionate holding of trust preferred securities or funding preferred securities, as applicable. National’s London branch may not amend the terms of the debentures to remove the foregoing right to bring a direct action without the prior written consent of the holders of all the trust preferred securities and all the funding preferred securities then outstanding.

#### **Restrictions on Certain Payments**

Unless the holders of a majority in liquidation amount of the trust preferred securities or, upon the dissolution of National Capital Trust as described under “Description of the Trust Preferred Securities—Trust Special Event Distribution” and the distribution of the funding preferred securities to the holders of the trust preferred securities, the funding preferred securities otherwise consent, National will not:

- declare or pay any dividend on, make any distribution on, or redeem, purchase, acquire or make a liquidation payment on any of its shares that rank equally with or junior to the debentures other than *pro rata* payments on (1) the debentures and (2) (a) in the case of dividends or distributions, any shares that rank equally with the debentures as to distributions, (b) in the case of redemption, purchase or acquisition any shares that rank equally with the debentures as to interest or for payment in a winding up and (c) in the

case of any payment in a winding up, any shares that rank equally with the debentures for payment in a winding up; or

- make any payment of principal or interest or premium, if any, on or repay, repurchase or redeem any securities or other instruments that rank equal or junior to the debentures, other than *pro rata* payments on (1) the debentures and (2) (a) in the case of interest, any securities or other instruments that rank equally with the debentures as to interest, (b) in the case of repayment, repurchase or redemption, any securities or other instruments that rank equally with the debentures as to interest or for payment in a winding up, and (c) in the case of any payment in a winding up, any securities or other instruments that rank equally with the debentures in a winding up; or,

if at such time the debentures are outstanding and National's London branch has failed to pay an interest payment on an interest payment date, or the redemption price when due and payable, on the debentures or National has failed to deliver GDRs representing National preference shares in accordance with the terms of the exchange agreement, unless and until, (A) in the case of non-payment of interest on or within five business days after an interest payment date, National's London branch has paid in full interest payments for a period of twelve consecutive months on the debentures; (B) in the case of non-payment of interest on any interest payment date which is subsequently paid in full on or within five business days of such interest payment date, National's London branch has paid such interest in full; (C) in the case of any non-payment of the redemption price, National's London branch has paid the redemption price; or (D) in the case of any failure to deliver GDRs, National has delivered those GDRs. In all cases, the restrictions above will not apply if the GDRs representing National preference shares have been delivered in accordance with the terms of the exchange agreement.

The restrictions listed above do not apply to:

- repurchases, redemptions or other acquisitions of shares of National in connection with (1) any employment contract, benefit plan or other similar plan or arrangement with or for the benefit of any one or more employees, officers, directors or consultants of National or any entity we control, (2) a dividend plan or shareholder share purchase plan or (3) the issuance of shares of National, or securities convertible into or exercisable for those shares, as consideration in an acquisition transaction entered into prior to that occurrence;
- an exchange, redemption or conversion of any class or series of National's shares, or any shares of a subsidiary of National, for any class or series of National's shares, or of any class or series of National's indebtedness for any class or series of National's shares;
- the purchase of fractional interests in shares of National under the conversion or exchange provisions of the shares or the security being converted or exchanged;
- any payment or declaration of a dividend in connection with any shareholder's rights plan, or the issuance of rights, shares or other property under any shareholder's rights plan, or the redemption or repurchase of rights pursuant to the plan;
- payments by National under the trust guarantee or the funding guarantee; or
- any dividend in the form of shares, warrants, options or other rights where the dividend shares or the shares issuable upon exercise of such warrants, options or other rights are the same class or series of shares as those on which the dividend is being paid or rank equal or junior to those shares.

The restrictions described above will also apply if National defaults on its obligations under the trust guarantee, the funding guarantee or the exchange agreement.

Neither National nor its affiliates will be prohibited from purchasing National's shares in connection with transactions for the account of customers of National or its affiliates or in connection with the distribution or trading of National's shares in the ordinary course of business.

#### **Certain Covenants of National Applicable to the Debentures**

In addition, so long as the debentures are outstanding, National agrees:

- to cause Capital Holdings or another entity we control to remain the sponsor of National Capital Trust and National Funding Trust;
- to cause Funding Holdings or another entity we control to hold the common security of National Funding Trust;
- to cause the sponsor not to voluntarily dissolve, wind up or liquidate National Capital Trust, other than (1) as part of the redemption of trust preferred securities and issuance of GDRs pursuant to the terms of the exchange agreement upon the occurrence of the exchange event, (2) as part of the redemption of trust preferred securities for cash that is permitted under the capital trust declaration, (3) as part of a merger, consolidation or amalgamation which is permitted under the capital trust declaration or (4) upon the occurrence of a trust special event;
- to cause the holder of the common security of National Funding Trust not to voluntarily dissolve, wind up or liquidate National Funding Trust, other than (1) as part of the redemption of funding preferred securities for cash that is permitted under the funding trust declaration or (2) as part of a merger, consolidation or amalgamation which is permitted under the funding trust declaration;
- to cause the sponsor to use its reasonable efforts, consistent with the terms and provisions of the capital trust declaration, to cause National Capital Trust to continue to be classified as a grantor trust for United States federal income tax purposes; and
- to cause the holder of the common security of National Funding Trust to use its reasonable efforts, consistent with the terms and provisions of the funding trust declaration, to cause National Funding Trust to continue to be classified as a partnership and not to be treated as a corporation for United States federal income tax purposes.

#### **Consolidation, Merger or Sale of Assets**

National may not consolidate with or merge into any other corporation or sell its assets substantially as an entirety, unless and to the extent permitted by law:

- National is the surviving person, or the corporation formed by such consolidation or into which National is merged or the corporation that acquires National's assets is entitled to carry on its business and expressly assumes all of the obligations under the debentures;
- if the corporation formed by the consolidation or into which National is merged or the corporation that acquires National's assets (the "relevant corporation") is not organized under the laws of Australia or any political subdivision of Australia,
  - (i) the successor corporation expressly agrees to indemnify each holder of the trust preferred securities, the funding preferred securities and the debentures against any tax, assessment or governmental charge required to be withheld or deducted from any payment to such holder as a consequence of such consolidation, merger or sale, and
  - (ii) if the relevant corporation is not organized under the laws of the United Kingdom or any state in the United States, the consolidation, merger or sale does not (A) result in a downgrade of the rating assigned by any "nationally recognized statistical rating agency"

(as that term is defined for purposes of the Securities Act) to the trust preferred securities or any other securities of National then rated by any such agency or (B) cause any such agency to publicly announce that it has the trust preferred securities or any other securities of National under surveillance or review for possible downgrade;

- the consolidation, merger or sale will not require National Capital Trust or National Funding Trust to register as an investment company under the Investment Company Act; and
- immediately after giving effect to such transaction, no event of default under the debentures has occurred and is continuing.

Upon such consolidation, merger or sale, the successor corporation formed by such consolidation or into which National is merged or to which such sale is made will succeed to and be substituted for National under the debentures.

### **Substitution**

National's London branch may, subject to all necessary authorizations, regulatory and governmental approvals and consents (including from APRA), without the consent of the holders of the debentures substitute another branch of National as the issuer of the debentures (in any such case, the "substitute branch") pursuant to an amendment to the terms of the debentures pursuant to which such substitute branch assumes in full all of the obligations of National's London branch under the debentures.

Notwithstanding the foregoing, National's London branch will not be permitted to effect the substitution of the substitute branch in accordance with the foregoing if such substitution would:

- cause National Capital Trust to fail to be classified as a grantor trust for United States federal income tax purposes;
- cause National Funding Trust to be treated as a corporation for United States federal income tax purposes;
- cause National Capital Trust or National Funding Trust to be deemed to be an investment company required to be registered under the Investment Company Act;
- cause the holders of trust preferred securities or funding preferred securities to recognize income, gain or loss in respect of such securities for United States federal income tax purposes;
- cause National to be required to pay additional amounts as set forth above under "—Additional Amounts"; or
- otherwise adversely affect the interests of the holders of the trust preferred securities or funding preferred securities.

### **Modification of the Debentures**

If any of the trust preferred securities or the funding preferred securities are outstanding:

- no modification may be made to the debentures that materially adversely affects the holders of the funding preferred securities or the trust preferred securities;
- no termination of the debentures may occur; and
- no waiver of any default or event of default under the debentures or compliance with any covenant under the debentures may be effective,

without the prior consent of all the holders of the trust preferred securities and the funding preferred securities, unless and until the principal amount of the debentures and all accrued and unpaid interest

thereon have been paid in full or GDRs have been delivered in full pursuant to the exchange agreement if the exchange event has occurred.

In addition, if any of the trust preferred securities or the funding preferred securities are outstanding, all the holders of the trust preferred securities and the funding preferred securities must consent if National wants to amend the debentures to:

- remove or modify the rights of holders of the funding preferred securities or the trust preferred securities to institute a direct action;
- remove any obligation to obtain the consent of holders of the funding preferred securities or the trust preferred securities; or
- change the percentage of holders of the funding preferred securities or the trust preferred securities required to amend or waive any provision of the debentures.

No modification or amendment to the debentures that will affect the treatment by APRA of the trust preferred securities or, upon the dissolution of National Capital Trust as described under “Description of the Trust Preferred Securities—Trust Special Event Distribution” and the distribution of the funding preferred securities to the holders of the trust preferred securities, the funding preferred securities as Tier 1 capital of National may be made unless APRA consents to the modification or amendment.

#### **Events of Default Under the Debentures**

An event of default with respect to the debentures will occur only upon the making of an order by a court of competent jurisdiction in Australia or a court with appellate jurisdiction from such court which is not successfully appealed or permanently stayed within 60 days of the entry of such order, or the valid adoption of an effective shareholders’ resolution, in either case providing for the winding-up of National (other than under or in connection with a compromise, arrangement or a scheme of amalgamation or reconstruction not involving a bankruptcy or insolvency).

#### **Paying Agent**

The Bank of New York will be appointed as the paying agent for the debentures.

The paying agent will be permitted to resign as paying agent upon 30 days’ notice to National, National Capital Trust and National Funding Trust. In the event that The Bank of New York will no longer be paying agent, National will appoint a successor to act as paying agent, which will be a bank or trust company.

In addition, a paying agent shall be maintained at all times with a specified office in a country in the European Union that will not be obliged to withhold or deduct tax pursuant to any European Union Directive or the taxation of savings implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 or any law implementing or complying with, or introduced in order to conform to, such directive.

#### **No Set-Off**

The holder of a debenture may not exercise or seek to exercise or take any proceedings for the exercising of any right of set-off or counterclaim against National in respect of any claim by National against that holder.

#### **Governing Law**

The debentures will be governed and construed in accordance with the laws of the State of New York, except that certain subordination and related provisions will be governed by the laws of the State of Victoria, Australia.

## DESCRIPTION OF THE EXCHANGE AGREEMENT

The following summary of the material terms and provisions of the exchange agreement is subject to, and qualified in its entirety by reference to, the exchange agreement. You may request a copy of the exchange agreement at our address at Level 24, 500 Bourke Street, Melbourne, Victoria 3000, Australia.

### Exchange Event

Unless the trust preferred securities have already been redeemed, upon the occurrence of the exchange event, National will issue in the name of the depositary and deliver to the depositary National preference shares and cause the depositary to deliver to holders of trust preferred securities or to hold for delivery to holders of trust preferred securities GDRs evidencing the GDSs representing the National preference shares, subject only to completion of any transfer documentation or other action required of the holder under the deposit agreement. In connection with the delivery of GDRs, the funding preferred securities and the trust preferred securities, subject to the delivery of the GDRs, will be redeemed by National Funding Trust and National Capital Trust, respectively. On the occurrence of the exchange event, holders will be entitled to receive one GDR for each trust preferred security they hold. Holders of trust preferred securities will not be entitled to a distribution payment in respect of their trust preferred securities upon delivery of the GDRs unless the exchange event occurs on an interest payment date for the debentures.

The exchange event will be the earliest occurrence of any of the following dates or events:

- December 17, 2052;
- any date that National selects in its absolute discretion;
- National Capital Trust or National, as guarantor under the trust guarantee, fails to pay a distribution on the trust preferred securities in full on or within five business days after any distribution date or, if any distribution date is not a business day, any other date on which that distribution is due and payable;
- National Funding Trust or National, as guarantor under the funding guarantee, fails to pay a distribution on the funding preferred securities in full on or within five business days after any distribution date or, if any distribution date is not a business day, any other date on which that distribution is due and payable;
- National's London branch fails to pay in full any interest payment, on or within five business days after any interest payment date, or fails to pay the redemption price in full on or within five business days after that payment is due and payable;
- Capital Holdings, or another entity we control, ceases to have the power to appoint the trustees of National Capital Trust;
- Funding Holdings, or another entity we control, ceases to own the outstanding common security of National Funding Trust;
- the following events required by APRA:
  - (1) APRA determines in writing that National has a Tier 1 capital ratio of less than 5% (or any other percentage as required by APRA from time to time) or a total capital ratio of less than 8% (or any other percentage as required by APRA from time to time) at either or both of level 1 or level 2;
  - (2) APRA issues a written direction to National under Section 11CA of the Banking Act of 1959 of Australia for National to increase its capital;
  - (3) APRA appoints a statutory manager to National or APRA assumes control of National pursuant to Subsection 13A(1) of the Banking Act of 1959 of Australia or proceedings



are commenced for the winding-up of National (other than solvent reconstructions approved by APRA); or

- (4) the retained earnings of National have become negative unless APRA otherwise approves;
- an event of default under the debentures;
  - the dissolution of National Capital Trust in accordance with the terms of the capital trust declaration unless the dissolution is in connection with the distribution of the funding preferred securities to the holders of the trust preferred securities in connection with a trust special event as described under “Description of the Trust Preferred Securities—Trust Special Event Distribution”; or
  - the dissolution of National Funding Trust in accordance with the terms of the funding trust declaration.

If the exchange event is the appointment by APRA of a statutory manager, the commencement of proceedings for the winding up of National or an event of default under the debentures, or National is otherwise prohibited by applicable statute, governmental rule or regulation or court or administrative ruling, order or decree from issuing the National preference shares, National will only be obligated to issue the National preference shares if and when it subsequently becomes able to issue the National preference shares.

If funding preferred securities are distributed to holders of the trust preferred securities as described under “Description of the Trust Preferred Securities—Trust Special Event Distribution”, the provisions of the exchange agreement will apply to the funding preferred securities as if they were the trust preferred securities in respect of which the funding preferred securities had been distributed.

In the event that GDRs are distributed to holders of trust preferred securities following the occurrence of the exchange event, we will use reasonable endeavors to obtain a listing for the GDRs on a recognized international stock exchange, which may include the Luxembourg Stock Exchange. However, there can be no certainty that the GDRs will be listed on a recognized international stock exchange.

### **Exchange Procedures**

If the exchange event has occurred, unless National is then unable to issue the National preference shares, National will issue to and deposit with a custodian for The Bank of New York, the depository for the GDRs, the number of National preference shares to be represented by the number of GDRs deliverable by National upon the occurrence of the exchange event. The depository, in turn, will, as soon as practicable, deposit with the relevant clearing system the number of GDRs equal to the number of outstanding trust preferred securities with instructions to credit the accounts of the holders of the trust preferred securities. See “Description of the National Preference Shares—Initial Issuance” and “Description of the GDRs”.

On the date National has issued and deposited with the depository National preference shares as required and the depository has delivered or holds for delivery the GDRs in accordance with the exchange agreement and the deposit agreement, the trust preferred securities will have been redeemed and the persons who held the trust preferred securities, as such, will have no further rights, except the right to receive any distributions and interest as may be payable pursuant to the funding trust declaration and the capital trust declaration. See “Description of the Trust Preferred Securities—Mandatory Redemption” and “Description of the Funding Preferred Securities—Mandatory Redemption”. If any date fixed for depositing of the National preference shares is not a business day, then National will deposit the National preference shares on the next succeeding day that is a business day, without any interest or other payment in respect of the GDRs to be delivered. Simultaneously with the foregoing, National Funding Trust will transfer the debentures to Funding Holdings and the trust preferred securities and the funding preferred securities will be redeemed.

If following the occurrence of the exchange event, the exchange procedures are to occur on a day that is not a business day, the exchange procedures shall occur on the next succeeding day that is a business day. If this would cause the exchange procedures to occur on the stated maturity date of the debentures, the exchange procedures will occur on such date prior to the time at which the principal amount of the debentures is payable on that date.

#### **Enforcement of Certain Rights by Holders of Trust Preferred Securities**

If National fails to deliver GDRs representing National preference shares in accordance with the terms of the exchange agreement and the exchange trustee fails to enforce its rights under the exchange agreement after a holder has made a written request, a registered holder of the trust preferred securities or the funding preferred securities, as the case may be, may institute a legal proceeding directly against National for enforcement of the delivery of the GDRs. If the exchange event has occurred, but the National preference shares have not been issued, and National is unable to issue the preference shares, National Funding Trust will not transfer the debentures to Funding Holdings and holders of the trust preferred securities or funding preferred securities, as the case may be, will continue to hold the trust preferred securities or funding preferred securities until such time as the National preference shares are issued. If National is in liquidation, holders of the trust preferred securities and the funding preferred securities will only be entitled to assert a claim under the debentures, the trust preferred securities and the funding preferred securities for an amount equal to the sum of the aggregate liquidation preference with respect to the National preference shares issuable upon the occurrence of the exchange event plus any accrued and unpaid distributions for the current distribution period. National's London branch may not amend the terms of the exchange agreement to remove the foregoing right to bring a direct action without the prior written consent of the holders of all the trust preferred securities and all the funding preferred securities.

#### **Restrictions on Certain Payments**

If and so long as National fails to deliver GDRs upon the occurrence of the exchange event in accordance with the exchange agreement, the restriction described under "Description of the Debentures—Restrictions on Certain Payments" shall apply.

#### **Consolidation, Merger or Sale of Assets**

National may not consolidate with or merge into any other corporation or sell its assets substantially as an entirety, unless and to the extent permitted by law:

- National is the surviving person, or the corporation formed by such consolidation or into which National is merged or the corporation that acquires National's assets is entitled to carry on its business and expressly assumes all of the obligations under the exchange agreement, including but not limited to, the obligation to issue preference shares on terms substantially identical to the National preference shares;
- if the corporation formed by the consolidation or into which National is merged or the corporation that acquires National's assets (the "relevant corporation") is not organized under the laws of Australia or any political subdivision of Australia,
  - (i) the successor corporation expressly agrees to indemnify each holder of the trust preferred securities, funding preferred securities and National preference shares against any tax, assessment or governmental charge required to be withheld or deducted from any payment to such holder as a consequence of such consolidation, merger or sale, and
  - (ii) if the relevant corporation is not organized under the laws of the United Kingdom or any state in the United States, the consolidation, merger or sale does not (A) result in a downgrade of the rating assigned by any "nationally recognized statistical rating agency" (as that term is defined for purposes of the Securities Act) to the trust preferred

- securities or any other securities of National then rated by any such agency or (B) cause any such agency to publicly announce that it has the trust preferred securities or any other securities of National under surveillance or review for possible downgrade;
- the consolidation, merger or sale will not require National Capital Trust or National Funding Trust to register as an investment company under the Investment Company Act; and
  - immediately after giving effect to such transaction, no event of default under the exchange agreement has occurred and is continuing.

Upon such consolidation, merger or sale, the successor corporation formed by such consolidation or into which National is merged or to which such sale is made will succeed to and be substituted for National in the exchange agreement.

#### **Modification of the Exchange Agreement**

Except with respect to any changes that do not materially adversely affect the rights of holders of the funding preferred securities or trust preferred securities, in which case no action will be required, the exchange agreement may be amended only with the prior approval of the holders of at least a majority in liquidation amount of all the outstanding funding preferred securities and trust preferred securities. The exchange agreement may not be amended if such amendment would cause National Funding Trust to be treated as a corporation for United States federal income tax purposes or cause National Capital Trust to fail to be classified as a grantor trust for these purposes, require National Funding Trust or National Capital Trust to register as an investment company under the Investment Company Act or affect the treatment by APRA of the trust preferred securities or, upon the dissolution of National Capital Trust as described under “Description of the Trust Preferred Securities—Trust Special Event Distribution” and the distribution of the funding preferred securities to the holders of the trust preferred securities, the funding preferred securities as Tier 1 capital of National, unless APRA consents to the amendment. National may not amend the exchange agreement to remove the rights of holders of trust preferred securities to institute a direct action without the prior written consent of all holders of trust preferred securities and funding preferred securities. All agreements contained in the exchange agreement will bind the successors, assigns, receivers, trustees and representatives of National and will inure to the benefit of the holders of the funding preferred securities and the trust preferred securities then outstanding. Except in connection with a permitted merger or consolidation of National as described under the heading “—Consolidation, Merger or Sale of Assets”, National may not assign its rights or delegate its obligations under the exchange agreement without the prior approval of the holders of at least a majority in liquidation amount of the funding preferred securities and trust preferred securities then outstanding.

#### **Information Concerning the Exchange Trustee**

The Bank of New York has been appointed as the exchange trustee. We maintain banking relationships in the ordinary course of business with The Bank of New York.

The exchange trustee, before the occurrence of a default with respect to the exchange agreement, undertakes to perform only those duties as are specifically set forth in the exchange agreement and, after default with respect to the exchange agreement, which default is known to it, will exercise the same degree of care and skill as a prudent individual would exercise under the circumstances in the conduct of his or her own affairs. Subject to that provision, the exchange trustee is under no obligation to exercise any of the powers vested in it by the exchange agreement at the request of any holder of trust preferred securities unless it is offered indemnity reasonably satisfactory to it by the holder against the costs, expenses and liabilities that it might incur in connection with the exercise of those powers.

#### **Governing Law**

The exchange agreement will be governed and construed in accordance with the laws of the State of New York.

## DESCRIPTION OF THE NATIONAL PREFERENCE SHARES

Set forth below is a summary of material information concerning the National preference shares. This summary is subject in all respects to the provisions of, and is qualified in its entirety by reference to, our constitution and the resolutions adopted by our board of directors establishing the rights, preferences, privileges, limitations and restrictions relating to the National preference shares. You may inspect a copy of our constitution and the terms of issue of the National preference shares at our address at Level 24, 500 Bourke Street, Melbourne, Victoria 3000, Australia.

### General

Our constitution is the equivalent of the articles of incorporation and by-laws of a corporation organized in the United States. Under our constitution, our board of directors is authorized to provide for the issuance of shares with such preferred, deferred or other rights as to dividends, entitlement to profit, voting, return of capital or otherwise as our board of directors, in its discretion, may determine. Our board of directors may also issue preference shares which are redeemable.

Our board of directors has authorized the creation and issue of the National preference shares, which constitute a class of our preference shares. As of the date of this offering memorandum, we have the following preference shares outstanding: if paid up in accordance with the terms of the NIS A\$2.0 billion aggregate liquidation amount of NIS preference shares and US\$450.1 million aggregate liquidation amount of TrUEPrS preference shares. We may also issue US\$1.0 billion aggregate liquidation amount of Excap preference shares in connection with the Excaps. We may authorize additional issues of preference shares in the future, including additional preference shares ranking equally with or, with the approval or consent of the holders of 75% of the National preference shares then on issue in accordance with the procedures described below under “—Variation of Rights”, in priority to, the National preference shares.

We will issue each National preference share at an issue price equal to £1,000. Each National preference share will be fully paid. We will pay dividends, if any, on the National preference shares in pounds sterling. Payments, if any, on our liquidation will be payable in pounds sterling or, if it is not possible to pay the liquidation preference in pounds sterling, in Australian dollars.

The National preference shares will be redeemable by us and also are subject to a mandatory repurchase by us in our absolute discretion in the circumstances described below under “—Redemption, Buy Back or Reduction of Capital”.

The National preference shares will have the dividend, voting, liquidation and other rights described below.

Except as described in this offering memorandum, a holder of National preference shares will have no further right to participate in our profits or surplus assets. Additionally, the holder will have no right to participate in our dividend plans or in any other new issues of securities issued by us to holders of our ordinary shares.

### Initial Issuance

On the first date on which we issue National preference shares, we will deliver one National preference share for each trust preferred security or funding preferred security being called for redemption as described under “Description of the Exchange Agreement” to the depositary for deposit under the deposit agreement. See “Description of the Exchange Agreement—Exchange Procedures” and “Description of the GDRs”.

### **Limitations on Issuance**

We may not be able to issue the National preference shares upon the occurrence of the exchange event if:

- we are in liquidation;
- APRA has assumed control of us under the Banking Act of 1959 of Australia and APRA does not cause National to issue preference shares; or
- APRA has appointed a statutory manager under the Banking Act of 1959 of Australia to take control of our business and the statutory manager does not cause National to issue preference shares.

APRA can appoint a statutory manager to take control of our business or can itself take control of our business if we are, or it is likely that we will become, unable to meet our obligations or we suspend, or are likely to suspend, our payment obligations or if we are in breach of the Banking Act of 1959 of Australia.

### **Dividend Rights**

Upon the occurrence of the exchange event and the issue of the National preference shares, if declared by our directors and subject to the preconditions set out under “—Limitation on the Payment of Dividends”, the holders of National preference shares will be entitled to receive non-cumulative dividends in arrears, from and including the last distribution date for the trust preferred securities and the funding preferred securities before the date on which the exchange event occurs, or, if the exchange event occurs on a distribution date, from and including that date, to and including December 17, 2018, at a fixed rate equal to 5.62% of £1,000 per National preference share per year and, from and including December 17, 2018 in respect of a five-year dividend reset period, at a fixed rate equal to the relevant five-year benchmark gilt rate plus 1.93% per year of £1,000 per National preference share. The dividend payment dates and the dividend periods for the National preference shares will be the same days of the year as the distribution dates on the trust preferred securities on or after the date on which the exchange event occurs and dividends in respect of the National preference shares will be calculated on the basis of the actual number of days in the distribution period divided by 365 (or, if any portion of the distribution period falls in a leap year, the sum of (a) the actual number of days in that portion of the distribution period falling in a leap year divided by 366 and (b) the actual number of days in that portion of the distribution period falling in a non-leap year divided by 365). If any dividend payment date is not a business day, then the dividend payment will be made on the next succeeding day that is a business day (without any interest or other payment in respect of that delay).

“Five-year benchmark gilt rate” means, in respect of a five-year dividend reset period, the gross redemption yield (as calculated by the preference share calculation agent on the basis set out by the United Kingdom Debt Management Office in the paper “Formulae for Calculating Gilt Prices from Yields”, page 4, Section One: Price/Yield Formulae “Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date” (published June 8, 1998, as amended or updated from time to time)) on a semi-annual compounding basis (and rounded up (if necessary) to four decimal places) of the five-year benchmark gilt in respect of that five-year dividend reset period (converted to an annualized payment and expressed as a percentage rounded up (if necessary) to four decimal places), with the price of the five-year benchmark gilt for this purpose being the arithmetic average (rounded up (if necessary) to four decimal places) of the bid and offered prices of such five-year benchmark gilt quoted by the reference market makers at 3:00 p.m. (London time) on the relevant determination date on a dealing basis for settlement on the next following London business day.

“Five-year dividend reset period” means the period from and including a dividend rate reset date to but excluding the fifth anniversary thereafter, provided that the last five-year dividend reset period will end on but exclude the date on which the National preference shares are redeemed, bought back or cancelled.

“Dividend rate reset date” means December 17, 2018 and each fifth year anniversary thereof.

“Reference market makers” means three brokers of gilts and/or gilt-edged market makers selected by the preference share calculation agent in consultation with us.

“Determination date”, in relation to a five-year dividend reset period, means the fifth London business day prior to a dividend rate reset date; provided that, if it is not possible for any reason to determine the five year benchmark gilt rate on any such day, the determination date shall be postponed to the first London business day thereafter on which the calculation agent determines that it is possible to determine the five-year benchmark gilt rate.

“Preference shares calculation agent” means Deutsche Bank AG London or any successor appointed by National.

“Business day” means a day, other than a Saturday or a Sunday, on which commercial banks are open for general business in London, United Kingdom, New York, New York and Melbourne, Australia.

“London business day” means a day, other than a Saturday or Sunday, on which commercial banks and the London Stock Exchange are open for business in London, United Kingdom.

All calculations of the preference shares calculation agent, in the absence of manifest error, will be final and conclusive and binding on National and on the holders of the National preference shares. The preference shares calculation agent will, upon the request of any holder of the National preference shares, provide the dividend rate then in effect. National will provide that, for so long as the National preference shares remain outstanding, from and after the fifth London business day preceding December 17, 2018, there will at all times be a preference shares calculation agent for the purpose of the National preference shares. In the event of the preference shares calculation agent being unable or unwilling to continue to act as the preference shares calculation agent or in the case of the preference shares calculation agent failing duly to establish the relevant five-year benchmark gilt rate for any five-year dividend reset period, National will appoint another leading bank to act as such in its place. Under the terms of its appointment, the preference shares calculation agent will not resign its duties without a successor having been appointed as aforesaid. National may also, at its option, appoint a leading bank to act as successor preference share calculation agent.

We will pay a dividend in respect of a National preference share to a holder of the National preference shares only if the holder holds the National preference share on the applicable record date. The record date is a date not less than 20 days and not more than 60 days before the dividend payment date as determined by National and with respect to an optional dividend, the date prior to its date of payment as determined by National.

Dividends are payable in pounds sterling. We will pay a dividend by mailing a check drawn on a bank in London to the registered address of the holder of the National preference shares or, at our election, by wire transfer. If we mail a check in connection with a dividend payment on the National preference shares on or prior to the dividend payment date, the dividend will be regarded as having been paid on the dividend payment date.

Dividends on the National preference shares will be non-cumulative. This means that, if or to the extent our board of directors does not declare and pay a dividend or any part of a dividend on any dividend payment date, then the holder will have no claim in respect of such non-payment, and we will have no obligation to pay the dividend or any part of the dividend for the dividend period ending on



that dividend payment date (or to pay any interest on it), whether or not we pay any dividends on the National preference shares in the future.

### **Ranking**

The National preference shares will rank with respect to dividends senior to our ordinary shares and equally among themselves and with each of the other preference shares and other securities and instruments that National has issued or may issue that by their terms rank equally with respect to priority of payment of dividends, distributions or similar payments, otherwise than in a winding up.

If we are liquidated, the National preference shares will rank senior to our ordinary shares, equally among themselves and with the claims of the holders of equal ranking instruments and junior to all of our debts and liabilities to our depositors and other creditors, other than debts or liabilities under instruments that by their terms rank equally with or junior to the National preference shares.

The National preference share terms require approval by APRA (if required) and a resolution passed at a meeting of holders holding at least 75% of the National preference shares or, if a quorum for a meeting of the holders is not obtained or if an approving resolution is not carried at a meeting of the holders, the consent of holders holding at least 75% of the National preference shares, before senior ranking preference shares can be issued, as described under “—Variation of Rights” below.

### **Restrictions on Certain Payments**

If:

- we fail to pay a dividend in full on the National preference shares on a dividend payment date;
- we fail to pay the applicable redemption price when due and payable; or
- the exchange event giving rise to the issue of the National preference shares is the failure of National Capital Trust to pay in full a distribution on the trust preferred securities (or the failure of National Funding Trust to pay in full a distribution on the funding preferred securities, where funding preferred securities have been distributed to the holders of the trust preferred securities) on or after five business days of that distribution date in respect of the distribution period ended immediately prior to that distribution date,

then, unless the holders of a majority of the National preference shares otherwise consent, we may not:

- declare or pay any dividend on, make any distribution on, or redeem, purchase, acquire or make a liquidation payment on, any of our shares that rank equally with or junior to the National preference shares other than *pro rata* payments on (1) the National preference shares and (2) (a) in the case of dividends or distributions, any shares that rank equally with the National preference shares as to dividends or distributions, (b) in the case of redemption, purchase or acquisition, any shares that rank equally with the National preference shares for payment in a winding up, and (c) in the case of any payment in a winding up, any shares that rank equally with the National preference shares in a winding up; or
- make any payment of principal or interest or premium, if any, on or repay, repurchase or redeem any securities or other instruments that rank equal or junior to the National preference shares, other than *pro rata* payments on (1) the National preference shares and (2) (a) in the case of interest, any securities or other instruments that rank equally with the National preference shares as to dividends, distributions or other similar payments, (b) in the case of repayment, repurchase or redemption, any securities or other instruments that rank equally with the National preference shares in a winding up, and (c) in the case of any

payment in a winding up, any securities or other instruments that rank equally with the National preference shares for payment in a winding up,

unless and until, (A) in the case of any non-payment of a dividend, we have paid that dividend in full within five business days after that dividend payment date or, with APRA's prior written approval, if required, we have paid an optional dividend or we have paid in full dividends with respect to a period of twelve consecutive months on the National preference shares, (B) in the case of exchange as a result of any non-payment of distributions, we have paid an optional dividend or paid dividends in full with respect to a period of twelve consecutive months on the National preference shares and (C) in the case of any non-payment of the applicable redemption price, we have paid the applicable redemption price. However, the foregoing restrictions do not apply to:

- repurchases, redemptions or other acquisitions of our shares in connection with (1) any employment contract, benefit plan or other similar arrangement with or for the benefit of any one or more employees, officers, directors or consultants of National or any entity we control, (2) a dividend plan or shareholder share purchase plan or (3) the issuance of our shares, or securities convertible into or exercisable for such shares, as consideration in an acquisition transaction entered into prior to such occurrence;
- an exchange, redemption or conversion of any class or series of our shares, or any shares of a subsidiary of ours, for any other class or series of our shares, or of any class or series of our indebtedness for any class or series of our shares;
- the purchase of fractional interests in our shares under the conversion or exchange provisions of the shares or the security being converted or exchanged;
- any payment or declaration of a dividend in connection with any shareholder's rights plan, or the issuance of rights, shares or other property under any shareholder's rights plan, or the redemption or repurchase of rights pursuant to the plan; or
- any dividend in the form of shares, warrants, options or other rights where the dividend shares or the shares issuable upon exercise of such warrants, options or other rights are the same class or series of shares as those on which the dividend is being paid or rank equal or junior to those shares.

Neither we nor an entity we control (as defined in the Corporations Act) will be prohibited from purchasing our shares in connection with transactions for the account of our customers or customers of our controlled entities or in connection with the distribution or trading of our shares in the ordinary course of business.

With APRA's approval, if required, we may pay an optional dividend if the exchange event is the failure by National Capital Trust to pay in full a distribution on the trust preferred securities or by National Funding Trust to pay in full a distribution on the funding preferred securities if a trust special event has occurred. If the optional dividend is paid within 21 business days of the exchange event, the optional dividend must equal the amount of the distribution that National Capital Trust or National Funding Trust, as the case may be, failed to pay on that distribution payment date. If the optional dividend is paid after 21 business days of the exchange event, the optional dividend must equal the unpaid amount of the distributions or dividends scheduled to have been paid on the trust preferred securities or the National preference shares during the twelve months immediately preceding the date on which we pay the optional dividend. With APRA's approval, if required, we may also pay an optional dividend on any date following our failure to pay in full a dividend on the National preference shares on or within five business days after a dividend payment date. In that case, the optional dividend must equal the unpaid amount of the distributions or dividends scheduled to be paid on the trust preferred securities or the National preference shares during the twelve months immediately preceding the date on which we pay the optional dividend.

### **Additional Amounts**

We will make all payments in respect of the National preference shares without withholding or deduction for, or on account of, any relevant tax imposed or levied by or on behalf of Australia or any political subdivision or authority in or of Australia, unless the withholding or deduction is required by law. In that event, we will pay, as further dividends, such additional amounts as may be necessary so that the net amount received by a holder of the National preference shares, after such withholding or deduction, will equal the amount that the holder would have received in respect of the National preference shares without such withholding or deduction. However, we will pay no additional amounts with respect to any National preference shares:

- to the extent the additional amount, if it were a dividend, would not be lawfully able to be paid or would not be payable (in addition to the amount from which the withholding or deduction was made);
- to the extent that the relevant tax is imposed or levied by virtue of a holder, or a beneficial owner, of the National preference shares having some connection with (whether present, past or future) or being or having been engaged in any activity, trade or business in a relevant jurisdiction, other than being a holder, or a beneficial owner, of the National preference shares;
- to the extent that the relevant tax is imposed or levied by virtue of a holder, or a beneficial owner, of the National preference shares not complying with any statutory requirements or not having made a declaration of non-residence in, or other lack of connection with, the relevant jurisdiction or similar claim for exemption, if National or its agent has provided the holder, or beneficial owner, of the National preference shares with at least 60 days' prior written notice of an opportunity to comply with such statutory requirements or make a declaration or claim;
- to the extent that the relevant tax is imposed or levied on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 or any law implementing or complying with, or introduced in order to conform to, such directive; or
- to the extent the relevant National preference share or GDR is presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant National preference share or GDR to another paying agent in a member state of the European Union.

### **Limitation on the Payment of Dividends**

The payment of dividends is subject to the directors in their sole discretion resolving to pay a dividend on the National preference shares on the relevant dividend payment date.

Unless APRA otherwise agrees:

- payment of the dividends on the National preference shares may not cause the total capital adequacy ratio or the Tier 1 capital ratio of National, on a level 1 basis, or of the relevant entities within the group, on a level 2 or level 3 basis (in each case, either as reported quarterly by National to APRA or as determined at any time by APRA in its absolute discretion), not to comply with APRA's then current capital adequacy guidelines as they are applied to National or those entities within the group, as the case may be, at the time; and

- the amount of dividends payable on the National preference shares may not exceed distributable profits as defined under “Description of the Debentures—Deferral of Interest Payments” on the relevant dividend payment date.

The payment of dividends is also subject to APRA not objecting to such payment. For purposes of the foregoing, the “group” means National and its consolidated subsidiaries. Payments of dividends may also be restricted by the terms of some of our outstanding securities. See “Risk Factors—The terms of certain of our outstanding instruments could limit National’s ability to make payments on the trust preferred securities and the National preference shares”.

### **Rights Upon Liquidation**

In a winding up of National, a National preference share confers upon its holder the right to payment in cash of the liquidation preference out of the surplus, if any, available for distribution to shareholders, but no further or other right to participate in the assets of National or a return of capital in the winding up.

The liquidation preference of each National preference share is the sum of:

- £1,000 or, if it is not possible in accordance with applicable law to pay £1,000 in pounds sterling, the Australian dollar equivalent of £1,000; and
- any accrued but unpaid dividends for the dividend period current at the date of commencement of the winding up or, if the date of commencement of the winding up is a dividend payment date, the accrued and unpaid dividend for the then most recent dividend period in pounds sterling or, if it is not possible in accordance with applicable law to pay those dividends in pounds sterling, the Australian dollar equivalent of those accrued but unpaid dividends; and
- if the amount described above is paid in Australian dollars, an amount in Australian dollars equal to the additional amount, if any, estimated by the liquidator of National in his absolute discretion to be required to convert the Australian dollar amount referred to in the first paragraph into pounds sterling equal to £1,000 and the Australian dollar amount referred to in the second paragraph into pounds sterling equal to the accrued but unpaid dividends, including but not limited to amounts required to pay any estimated charges and expenses regarded by the liquidator of National as likely to be incurred in effecting such conversion.

For purposes of the first two paragraphs above, the Australian dollar equivalent of an amount expressed in pounds sterling will be calculated by applying the spot settlement rate as published by the Bank of England on the date of payment of the amount in Australian dollars or, if that day is not a business day, on the business day immediately preceding the date of payment or, if that rate ceases to be available, the average of the rates quoted to the liquidator of National by at least three banks selected by the liquidator for the purchase by the liquidator of pounds sterling with Australian dollars.

### **Redemption, Buy Back or Undertaking a Reduction of Capital**

We have the right, after receipt of the prior written approval by APRA, if approval is then required, and any other approval required by our constitution or applicable law, for cash, to redeem, buy back or undertake a reduction of capital or any combination thereof in connection with the National preference shares:

- on December 17, 2018 or on any subsequent dividend rate reset date, in whole or in part; or

- on any date other than December 17, 2018 or any subsequent dividend rate reset date, in whole only, at any time following (A) the occurrence and continuance of a National preference event or (B) the issuance of the National preference shares, provided that if no National preference event has occurred which is continuing, the exchange event giving rise to the issue of the National preference shares was not National exercising its right to cause the exchange event to occur in its absolute discretion (a “National discretionary event”).

“National preference event” means that:

- the introduction of, or an amendment or clarification to or change in (or announcement of a prospective introduction of, amendment or clarification to or change in) a law or regulation of the Commonwealth of Australia or any state or territory thereof or any directive, order, requirement, guideline or statement of APRA which has the effect that the National preference shares do not constitute Tier 1 capital of National on a level 1, level 2 or level 3 (if applicable) basis;
- National has received any written statement, notification or advice from APRA that the National preference shares are not included in the Tier 1 capital on a level 1, level 2 or level 3 (if applicable) basis, or its then equivalent, of National;
- National has received an opinion of nationally recognized independent legal counsel in Australia experienced in these matters to the effect that as a result of the occurrence on or after the date of this offering memorandum of a change in law, regulation or prudential statement or a change in interpretation or application of law, regulation or prudential statement by any legislative body, court, governmental agency or regulatory authority, the National preference shares are not, or will not within 90 days of such opinion be, included in the Tier 1 capital, or its then equivalent, of National on a level 1, level 2 or level 3 (if applicable) basis (together with the two preceding points, referred to as a “preference share regulatory event”); or
- National has received an opinion of competent tax counsel to the effect that there has been a Tax Law Change and that as a result of such Tax Law Change there is more than an insubstantial risk that the withholding or other Australian tax payable, or which will be payable, on the dividends on the National preference shares is, or will be increased to, greater than 30% of the dividends paid (a “preference share dividend tax event”).

If we decide to redeem, buy back or undertake a reduction of capital in connection with National preference shares for cash in these circumstances, the redemption price, buy back price or amount in respect of a reduction of capital of each National preference share redeemed, bought-back or as to which a capital reduction is made, except in the case of buy backs on the open market, will be equal to (i) if on any date other than December 17, 2018 or any subsequent dividend rate reset date and (A) a preference share dividend tax event has not occurred which is continuing, the preference share make-whole redemption price or (B) a preference share dividend tax event has occurred which is continuing, the preference share par redemption price and (ii) if on December 17, 2018 or on any subsequent dividend rate reset date, the preference share par redemption price. The preference share make-whole redemption price or the preference share par redemption price, as applicable, may be paid by redemption, buy back, reduction of capital or any combination thereof.

The “preference share make-whole redemption price” means the greater of the preference share make-whole redemption amount (which is intended to solely compensate you for reinvestment loss from interest rate risk, and costs of reinvestment as a result of early redemption of the preference shares) and the preference share par redemption price.

The “preference share make-whole redemption amount”, with respect to each National preference share, will be equal to the sum of:

- the price, expressed as a percentage (rounded to four decimal places, 0.00005 being rounded upwards) of £1,000 per National preference share, at which the gross redemption yield on the National preference shares on the reference date (assuming for this purpose that £1,000 per National preference share is payable on December 17, 2018 or, if redemption falls on any subsequent date other than on a dividend rate reset date, the next dividend rate reset date falling after such redemption date) is equal to the gross redemption yield (determined by reference to the middle market price) at 3:00 p.m. (London time) on the reference date of the benchmark gilt plus 0.25%;
- if the redemption date is on or within five business days following a dividend payment date, the dividends that would have been payable thereon on that dividend payment date, to the extent unpaid; and
- any additional amounts in respect of withholdings or deductions.

The “preference share par redemption price”, with respect to each National preference share, will be equal to the sum of £1,000, plus any undeclared and unpaid dividends or unpaid dividends calculated for the then current dividend period and, if the redemption date is on or within five business days following a dividend payment date or distribution date, the dividend or distribution payable with respect to that dividend payment date, or distribution date, as the case may be, in each case to the extent unpaid, and any additional amounts in respect of withholdings or deductions.

“Benchmark gilt” means, in relation to any determination of the preference share make-whole redemption amount in respect of a redemption to be made prior to December 17, 2018, such United Kingdom government security having a maturity date on or about December 17, 2018 as the calculation agent, with the advice of the reference market makers may determine to be appropriate and thereafter, in relation to each five-year dividend reset period, the five-year benchmark gilt, or if any such stock is no longer in issue, such other United Kingdom government stock as the preference shares calculation agent may, with the advice of the reference market makers, determine to be appropriate at the relevant time.

“Gross redemption yield” means, with respect to a security, the gross redemption yield on such security, as calculated by National on the basis set out by the United Kingdom Debt Management Office in the paper “Formulae for Calculating Gilt Prices from Yields”, page 4, Section One: Price/Yield Formulae “Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date” (published June 8, 1998, as amended or updated from time to time) on a semi-annual compounding basis (converted to an annualized yield and rounded up (if necessary) to four decimal places).

“Reference market makers” means three brokers of gilts and/or gilt edged market makers selected by National.

“Reference date” means the third London business day prior to the redemption date.

From and after the redemption date or buy back of or reduction of capital with respect to any National preference shares, all rights of holders of the National preference shares called for redemption, buy back or reduction of capital will cease except for the right to receive the applicable redemption price, and such National preference shares will cease to be outstanding.



We must give notice of any redemption, buy back or reduction of capital with respect to the National preference shares, except in the case of buy backs on the open market, not less than 30 nor more than 60 days prior to the date fixed for the redemption, buy back or reduction of capital. We must mail the notice by first-class mail to the registered address of the holder or the address of the depositary or to the depositary in accordance with the deposit agreement. In the case of any partial redemption, buy back or reduction of capital, we, or our registrar/transfer agent, will select the National preference shares for redemption, buy back or reduction of capital in compliance with the requirements of the principal securities exchange or quotation system, if any, on which the National preference shares or GDRs representing the National preference shares are then listed or quoted or, if the National preference shares or GDRs representing the National preference shares are not listed on a securities exchange, proportionately, by lot or such other method as we, in our sole discretion, deem fair and appropriate. In the case of a partial redemption, buy back or reduction of capital, the number of National preference shares remaining after the redemption, buy back or reduction of capital must be not less than the minimum number of shares required to maintain any listing or quotation of the National preference shares on any stock exchange on which they are listed or any quotation system on which they are quoted immediately prior to the partial redemption, buy back or reduction of capital.

Each notice of redemption, buy back or reduction of capital of National preference shares must state:

- (i) the redemption, buy back or reduction of capital date;
- (ii) if less than all outstanding National preference shares are subject to redemption, buy back or reduction of capital, the identification of the National preference shares subject to the redemption, buy back or reduction of capital;
- (iii) that, as from the redemption, buy back or reduction of capital date, dividends will cease to be payable and the only rights holders of National preference shares will have will be to obtain the redemption, buy back or reduction of capital price payable in accordance with the terms of issue;
- (iv) the place or places where the certificates, if any, for the National preference shares may be submitted and the redemption, buy back or reduction of capital price collected by holders;
- (v) whether the preference share make-whole redemption price or the preference share par redemption price (as applicable) is payable by redemption, buy back, reduction of capital or any combination thereof; and
- (vi) any other information required by the stock exchange or quotation system where the National preference shares or the GDRs are listed or quoted or otherwise required by applicable law.

The Corporations Act provides that redeemable preference shares, which includes the National preference shares, may be redeemed only if they are fully paid up and then only out of profits or out of the proceeds of a new issue of shares made for purposes of the redemption.

Each holder of National preference shares from time to time agrees with us that, upon National determining to buy back the National preference shares and following the procedures for buy back in the terms of issue, they will accept the buy back offer for the National preference shares that are the subject of such buy back offer and will be deemed to have sold to us the National preference shares on receipt of the notice of redemption. This agreement will have no force or effect with respect to any National preference shares until we have sent a buy back notice in accordance with the terms of issue.

Depending on the circumstances relating to the proposed buy back, our right to elect to buy back any of the National preference shares may be subject to the approval of our ordinary shareholders by a special resolution.

National may, with the consent of APRA, buy back the National preference shares at any time and at any price by an on market buy-back within the meaning of the Corporations Act.

Alternatively, we may reduce capital in connection with a National preference share. Each holder has agreed that if the reduction of capital involves the cancellation of shares and under applicable law the holder is entitled to vote on a resolution to approve that reduction, the holder will vote in favour of that resolution.

Our right to reduce capital with respect to a National preference share is subject to approval by a special resolution passed at a general meeting of the company or a resolution agreed to at a general meeting of the company by all ordinary shareholders.

### **Liens**

Under our constitution, we have a lien and charge upon all the shares, including the National preference shares, of a holder of record and upon the dividends or interest accruing on such shares with respect to certain debts and liabilities, direct or indirect, of that holder of record to us. Our constitution does not provide for the creation of any lien or charge upon shares with respect to any debts or liabilities owing to us by a holder of an interest in shares who is not the holder of record, including, for example, a holder of GDRs or any beneficial owner holding through a custodian or nominee.

### **Notice of Meetings**

A holder of National preference shares will have the same rights as those conferred by our constitution on the holders of our ordinary shares with respect to receiving our notices of general meetings, reports, balance sheets and accounts and attending and speaking at our general meetings.

### **Voting Rights**

A National preference share does not entitle its holder to vote at any general meeting of National except in the following circumstances:

- any proposal to reduce our share capital other than a resolution to approve a redemption, buy back (other than an on market buy-back as defined in the Corporations Act) or reduction of capital in connection with the National preference shares;
- any proposal that affects rights attached to a National preference share;
- any proposal to wind up National;
- any proposal for the disposal of the whole of our property, business and undertaking;
- any resolution to approve the terms of a share buy back agreement other than a resolution to approve a redemption, buy back (other than an on market buy-back as defined in the Corporations Act) or reduction of capital in connection with the National preference shares;
- any matter during our winding up; and
- during a Special Voting Period, with respect to all matters on which the holders of our ordinary shares are entitled to vote other than a resolution to approve a redemption, buy back (other than an on market buy-back as defined in the Corporations Act) or reduction of capital in connection with the National preference shares.

A “Special Voting Period” is the period from and including:

- any dividend payment date on which we fail to pay in full the dividends calculated in respect of the National preference shares for the immediately preceding dividend period; or
- the 22nd business day after the exchange event occurs if the exchange event occurred as a result of non-payment of distributions on the trust preferred securities or the funding preferred securities unless prior to such date National has paid in full an optional dividend,

in each case, to but excluding the first dividend payment date after that date on which we have paid in full an optional dividend or dividends on the National preference shares for a period of twelve consecutive months.

In order to confer the voting rights outlined above, we have secured a waiver from Listing Rule 6.3 of the Listing Rules of the ASX.

### **Variation of Rights**

The allotment or issue of preference shares, or the conversion of existing shares into preference shares, ranking equally with or junior to the National preference shares then on issue (and whether entitled to cumulative or non-cumulative dividends) is expressly permitted and authorized by the terms of issue of the National preference shares and does not constitute a modification or variation of the rights or privileges attached to the National preference shares then on issue.

The issue of preference shares, or conversion of existing shares into preference shares, ranking in priority to the National preference shares then on issue in respect of dividends or in respect of payments in a winding up will constitute a variation of the rights attached to the National preference shares.

A buy back, redemption, reduction or return or other distribution of capital in respect of any share in the capital of National (a “Relevant Share”) or for the benefit of the holder of any Relevant Share other than a National preference share of other holders (whether that Relevant Share ranks equally with or senior or junior to the National preference shares) is expressly permitted by the terms of issue of the National preference shares and shall not constitute a variation, modification or abrogation of the rights or privileges attached to the National preference shares.

The rights attached to the National preference shares may not be varied or abrogated except with any required approvals of APRA and with:

- the approval of a resolution passed at a meeting of holders of the National preference shares by the affirmative vote of holders holding at least 75% of the National preference shares then on issue; or
- if a quorum for a meeting of holders of the National preference shares is not obtained or if an approving resolution is not carried at a meeting of holders of the National preference shares, the consent in writing of holders holding at least 75% of the National preference shares then on issue.

The National preference shares may be modified or amended without the consent of the holders of the National preference shares to:

- cure any ambiguity;
- correct or supplement any provision in the National preference shares that may be defective or inconsistent with any other provision of the National preference shares;

- modify the covenants, restrictions or obligations of National with respect to the National preference shares; or
- modify, eliminate and add to any provision of the National preference shares to such extent as may be necessary or appropriate consistent with effectuating the purposes hereof;

provided that no such modifications or amendments would have a material adverse effect on the rights, preferences or privileges of the holders of the National preference shares.

#### **No Set-Off**

The holder of a National preference share may not exercise or seek to exercise or take any proceedings for the exercising of any right of set-off or counterclaim against us in respect of any claim by us against that holder.

#### **No Deposit**

The National preference shares will not represent a deposit liability of National for purposes of the Banking Act of 1959 of Australia or for the purposes of the FSMA regime in the United Kingdom and will not be insured by the US Federal Deposit Insurance Corporation or any other governmental agency or compensation scheme in the United States, Australia, the United Kingdom or elsewhere.

#### **Restrictions on Ownership and Transfer**

The acquisition of shares in Australian public companies listed on the ASX is regulated by detailed and comprehensive legislation and the rules of the ASX. Legislation also affects the offer of shares for sale in certain circumstances.

The most common manner in which a controlling shareholding is acquired in an Australian listed company is by a takeover bid. The form and content of the bid documentation is regulated by law. Australian takeover law purports to have extra-territorial force. Australian law may therefore apply to a transaction outside Australia with respect to a non-Australian company if the transaction affects the control of voting power in an Australian publicly listed company. See “—Takeovers and Substantial Shareholding Provisions”.

Australian law also regulates the acquisition of shares in Australian corporations by foreign persons under the Foreign Acquisitions and Takeovers Act 1975. The Foreign Acquisitions and Takeovers Act (the “Takeovers Act”) empowers the Australian Treasurer to prohibit a proposed acquisition of shares in an Australian corporation where the result of the acquisition will be that a foreign person (together with its associates) would have an interest of not less than 15% of the issued shares of a corporation, or two or more foreign persons (together with their associates) would in aggregate have an interest in 40% of the issued shares of a corporation that has total assets valued at A\$50,000,000 or more, such as National. In addition, the Takeovers Act requires foreign persons who propose to make such acquisitions to first notify the Australian Treasurer of their intention to do so. Failure to notify the Treasurer of a proposed acquisition is an offense under the Takeovers Act. Proposals notified to the Treasurer are examined under the test of whether the proposal is contrary to Australia’s national interest. Where such an acquisition has already occurred without notice having been given, the Australian Treasurer has the power to order a person that acquired the shares to dispose of them. The concepts of acquisition, interest, associate and foreign person are very widely defined in the Takeovers Act and investors should seek their own advice on the application of such Act.

Australian law also regulates acquisitions of shares in Australian companies which would have the effect, or be likely to have the effect, of substantially lessening competition in a market in Australia, or in a state or territory thereof, under the Trade Practices Act 1974. Investors should seek their own advice on the application of such Act.

There are also restrictions placed upon shareholdings in Australian banks generally under the Financial Sector (Shareholdings) Act 1998 (the “Financial Sector Act”). Under the Financial Sector Act, the Australian Treasurer’s prior approval is required before any person, including a corporation, may acquire shares in an authorized deposit-taking institution, of which we are one, in Australia where the acquisition would take that person’s stake in that institution to more than 15%. A person’s stake relates to the direct control interest of that person or its associates in the shares of a company. The concepts of stake, direct control interests, voting power, associates and shares are broadly defined in the Financial Sector Act and investors should seek their own advice on the application of such Act.

### **Takeovers and Substantial Shareholder Provisions**

Under the Corporations Act, a person cannot acquire voting shares in a listed company (such as National) if that person’s or someone else’s voting power in the company increases from 20% or below to more than 20%, or from a starting point that is above 20% and below 90%, unless those shares are acquired in a manner specifically permitted under an exception. Exceptions include that the acquisition was previously consented to by the shareholders of the company or that the acquisition is made under a court-approved scheme of arrangement or that the acquisition results from the acceptance of an offer under a takeover bid made to all shareholders holding the same class of voting shares for all or a proportion, being an equal proportion for each holder, of their voting shares in the company. Generally, the concept of a voting share does not include certain types of preference shares with limited voting rights. Because holders of the National preference shares have been conferred the voting rights described under “Description of the National Preference Shares”, the National preference shares will be treated as voting shares under the Corporations Act. Therefore, any person considering the acquisition of trust preferred securities should consider the effect of the voting power which will arise upon the issue to them of National preference shares following the exchange event in combination with any voting power that they have in other issued voting shares of National and seek appropriate advice in the context of the regulatory thresholds summarized under this section.

The Corporations Act also obliges persons who begin to have, or cease to have, a substantial holding in a listed company (being a relevant interest of that person, or their associates, in 5% or more of the voting shares of the company), or whose substantial holding moved at least 1%, to give notice to the company and to the ASX of their substantial shareholdings and such movements.

The concepts of “relevant interest”, “associates” and “acquire” are very broadly defined and investors should seek their own advice on the application of the Corporations Act. In very general terms:

- a person’s voting power equals the votes attached to the voting shares in which the person and its associates have a relevant interest, which is basically where they hold, or have or control the exercise of, the right or power to vote or dispose of the shares, expressed as a percentage of all the voting shares in the company, but there are additional inclusions and certain exceptions;
- a person acquires shares in a company if, as a direct or indirect result of a transaction in relation to securities of any body corporate, that person acquires a relevant interest in those shares and, as a result of extensive tracing provisions concerning relevant interests, a person may be taken to have acquired our shares for example as a result of the purchase of securities in another body corporate if that body corporate holds or acquires a relevant interest in our shares; and
- an associate (the second person) of the primary person is widely defined in division 2 of part 1.2 of the Corporations Act and includes, among others, a body corporate the primary person controls, a body corporate that controls the primary person, or a body corporate that is controlled by an entity that controls the primary person as well as persons acting, or agreeing or proposing to agree to act, in concert in relation to the listed company’s affairs.

## DESCRIPTION OF THE GDRs

### General

The Bank of New York, as depositary, will execute and deliver GDRs evidencing the GDSs. Each GDS will represent an ownership interest in one National preference share that we will deposit with the custodian.

Regulation S global depositary shares (“Regulation S GDSs”) will be issued under the Regulation S deposit agreement among ourselves, the depositary and registered holders and beneficial owners of Regulation S GDSs issued thereunder. Regulation S GDSs will be evidenced by Regulation S global depositary receipts (“Regulation S GDRs”).

Rule 144A global depositary shares (“Rule 144A GDSs” and, together with the Regulation S GDSs, the “GDSs”) will be issued under the Rule 144A deposit agreement among ourselves, the depositary and registered holders and beneficial owners of Rule 144A GDSs issued thereunder. Rule 144A GDSs will be evidenced by Rule 144A global depositary receipts (“Rule 144A GDRs” and, together with the Regulation S GDRs, the “GDRs”).

In the future, each GDS will also represent any securities, cash or other property deposited with the depositary but not distributed by it directly to you.

The depositary’s office is located at 101 Barclay Street, Floor 22 West, New York, New York 10286.

The initial purchasers and National will make application to each of Euroclear and Clearstream, Luxembourg for acceptance of the GDSs for their respective book-entry settlement systems. If those applications are accepted, a global Regulation S GDR (the “Master Regulation S GDR”) and a global Rule 144A GDR (the “Master Rule 144A GDR” and, together with the Master Regulation S GDR, the “Master GDRs”) will be issued to, and registered in the name of, a common depositary for Euroclear and Clearstream, Luxembourg. Accordingly, each person owning a beneficial interest in the Master GDRs must rely on the procedures of the institutions having accounts with Euroclear or Clearstream, Luxembourg to exercise or be entitled to any of the rights of a registered holder of GDSs described in this section. So long as Euroclear or Clearstream, Luxembourg’s settlement system is available for the GDSs, (i) beneficial ownership of GDSs will be shown on, and the transfer of that ownership will be effected only through, records maintained by Euroclear, Clearstream, Luxembourg and their respective account holders and (ii) no beneficial owner will be entitled to receive a separate GDR evidencing GDSs.

National will use reasonable endeavors to obtain a listing for the GDRs on a recognized international stock exchange.

If Euroclear and Clearstream, Luxembourg applications are not accepted or Euroclear or Clearstream, Luxembourg ceases to make its book-entry system available for the GDSs, National will consult with the depositary regarding other arrangements for book-entry settlement. In the event that it is impracticable without undue effort or expense to continue to have the GDSs available in book-entry form, National will instruct the depositary to make separate GDRs available to beneficial owners of the affected class of GDSs, with such modification to the form of GDRs and the deposit agreement as National and the depositary may, from time to time, agree, subject to the terms of the applicable deposit agreement.

Each GDR will be endorsed with a legend regarding certain restrictions on transfer in substantially the applicable form set forth under “Notice to Investors” unless National and the depositary agree otherwise in accordance with applicable law.

Because the depositary’s nominee will actually be the registered owner of the National preference shares, you must rely on it to receive the benefits of ownership of the National preference



shares. The obligations of the depositary and its agents are set out in the deposit agreements. The deposit agreements and the GDSs are governed by New York law.

The following summary of the material terms and provisions of the deposit agreements is subject to, and qualified in its entirety by reference to, the deposit agreements and the forms of GDR, which contain the terms of your GDSs.

The term “deliver”, when used with respect to GDSs, shall mean (i) one or more book-entry transfers of GDSs to an account or accounts at Euroclear or Clearstream, Luxembourg designated by the person entitled to the delivery or (ii) in the limited circumstances permitted under the deposit agreements, delivery at the depositary’s office of one or more GDRs. The term “surrender”, when used with respect to GDSs, shall mean (i) one or more book-entry transfers of GDSs to the Euroclear account of the depositary or (ii) surrender to the depositary at its office of one or more GDRs.

#### **Available Information**

National will agree in the deposit agreements that if, at any time prior to the termination of the deposit agreement or, in the case of the Regulation S deposit agreement, during the restricted period referred to below, National is neither a reporting company under Section 13 or 15(d) of the Exchange Act, nor exempt from the reporting requirements pursuant to Rule 12g3-2(b) under that Act, National will provide to any holder of GDSs or the National preference shares or any prospective purchaser of GDSs or the National preference shares underlying GDSs designated by such person, upon request of any such holder or prospective purchaser, the information required by Rule 144(d)(4)(i) under the Securities Act and otherwise comply with Rule 144A(d)(4) under the Securities Act.

#### **Dividends and Other Distributions**

The depositary has agreed to pay to you the cash dividends or other distributions it or the custodian receives on the National preference shares or other deposited securities, after deducting its fees and expenses. You will receive these distributions in proportion to the number of underlying National preference shares your GDSs represent.

National may make various types of distributions with respect to the National preference shares. Except as stated below, to the extent the depositary is legally permitted it will deliver such distributions to GDS holders in proportion to their interests in the following manner:

- *Cash.* The depositary shall convert cash distributions from a currency other than pounds sterling to pounds sterling if this is permissible and can be done on a reasonable basis. The depositary will endeavor to distribute such cash in a practicable manner, and may deduct any taxes required to be withheld and expenses of converting foreign currency and transferring funds to the United Kingdom, and certain other expenses and adjustments. If the exchange rates fluctuate during a time when the depositary cannot convert the currency, you may lose some or all of the value of the distribution.
- *Shares.* In the case of a distribution on the National preference shares, the depositary may deliver additional GDSs representing such preference shares. Only whole GDSs will be issued. Any National preference shares that would result in fractional GDSs will be sold and the net proceeds of any such sale will be distributed to the GDS holders entitled thereto.
- *Rights to subscribe for additional National preference shares.* In the case of a distribution of rights to subscribe for additional National preference shares or other rights, if we provide satisfactory evidence that the depositary may lawfully distribute such rights, the depositary may arrange for GDS holders to instruct the depositary as to the exercise of such rights. However, if we do not furnish such evidence, the depositary may:
  - sell such rights if practicable and distribute the net proceeds as cash, or

- allow such rights to lapse, whereupon GDS holders will receive nothing.

We have no obligation to file a registration statement under the Securities Act in order to make any rights available to GDS holders.

- *Other Distributions.* In the case of a distribution of securities or property other than those described above, the depositary may either (i) distribute such securities or property in any manner it deems fair and equitable or (ii) sell such securities or property and distribute any net proceeds in the same way it distributes cash.

Any US dollars will be distributed by checks drawn on a bank in the United States for whole dollars and cents (fractional cents will be rounded to the nearest cent).

The depositary may choose any practical method of distribution for any specific GDS holder, including the distribution of foreign currency, securities or property, or it may retain such items, without paying interest on or investing it, on behalf of the GDS holder as deposited securities.

*There can be no assurances that the depositary will be able to convert any currency at a specified exchange rate or sell any property, rights, shares or other securities at a specified price, nor that any of such transactions can be completed within a specified time period.*

## **Deposit, Withdrawal and Cancellation**

### *Issuance of GDSs*

The depositary will deliver GDSs if you or your broker deposits shares or evidence of rights to receive National preference shares with the custodian. In the case of the GDSs to be issued upon the exchange event, we will deposit such National preference shares upon the occurrence of the exchange event.

National preference shares deposited in the future with the custodian must be accompanied by certain documents, including instruments showing that such shares have been properly transferred or endorsed to the person on whose behalf the deposit is being made.

Any deposit of the National preference shares for Rule 144A GDSs must be accompanied by (i) a written acknowledgment that the Rule 144A GDSs and the National preference shares have not been and will not be registered under the Securities Act; (ii) a written certification by or on behalf of the person who will be the beneficial owner of the Rule 144A GDSs to be issued upon deposit of such shares, to the effect that it is acquiring the Rule 144A GDSs for its own account or an account of another person who confirmed acknowledgment of (i) above and that it or such account is a QIB and it is aware that any sale of Rule 144A GDSs to it will be made in reliance on Rule 144A under the Securities Act, and (iii) an agreement that it will comply with the applicable restrictions set forth under “Notice to Investors” on transfers of the Rule 144A GDSs and the preference shares represented thereby. The custodian will also refuse to accept certain National preference shares for deposit when notified in writing that the shares are listed on a US securities exchange or quoted on a US automated inter-dealer quotation system, unless accompanied by evidence satisfactory to the depositary that any National preference shares presented for deposit are eligible for resale pursuant to Rule 144A. However, the certification and agreement described above will not be required if the depositary has received evidence satisfactory to it that (x) delivery of Rule 144A GDSs will not be subject to the registration requirements of the Securities Act and the National preference shares to be deposited are not restricted securities within the meaning of Rule 144(a)(3) under the Securities Act or (y) a registration statement has become effective for the Rule 144A GDSs under the Securities Act.

Any deposit of National preference shares for Regulation S GDSs must be accompanied by (a) a written acknowledgment and certification by or on behalf of the person who will be the beneficial owner of the Regulation S GDSs to be issued upon deposit of such shares that (i) the Regulation S GDSs, and the shares represented thereby have not been registered under the Securities Act, (ii) it is not a U.S. person (within the meaning of Regulation S) and is located outside the United States

(within the meaning of Regulation S) and acquired, or has agreed to acquire and will acquire, the shares to be deposited outside the United States, (iii) it is not an affiliate of National or a person acting on behalf of such an affiliate and (iv) it is not in the business of buying and selling securities or, if it is in such business, it did not acquire the shares to be deposited from National or any affiliate thereof and (b) an agreement that, during the Restricted Period, (i) it will comply with the applicable restrictions on transfer set forth under “Notice to Investors” on transfers of the Regulation S GDSs and the National preference shares represented thereby and (ii) if it sells or otherwise transfers the Regulation S GDSs evidenced by the Regulation S GDRs or the Shares represented thereby during the Restricted Period in accordance with such Regulation S GDR transfer restrictions to a person it reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A it will cause such shares to be withdrawn in accordance with the terms and conditions of the Regulation S deposit agreement and deposited under the Rule 144A deposit agreement for issuance of Rule 144A GDSs in accordance with the terms and conditions of the Rule 144A deposit agreement. However, the certification and agreement described in the preceding sentence will not be required if a registration statement under the Securities Act is effective with respect to the Regulation S GDSs.

During the restricted period (defined as a period of 40 days after the later of the commencement of the offering of the GDSs and the related closing), the depository will also refuse to accept National preference shares for deposit if notified in writing that the shares are listed on a US securities exchange or quoted on a US automated inter-dealer quotation system, unless accompanied by evidence satisfactory to the depository that the shares presented for deposit are eligible for resale pursuant to Rule 144A.

The custodian will hold all deposited National preference shares (including those being deposited by or on behalf of us upon the occurrence of the exchange event) for the account of the depository. GDS holders thus have no direct ownership interest in the National preference shares and only have such rights as are contained in the deposit agreement. The custodian will also hold any additional securities, property and cash received on or in substitution for the deposited National preference shares. The deposited National preference shares and any such additional items are referred to as “deposited securities”.

Upon each deposit of the National preference shares, receipt of related delivery documentation and compliance with the other provisions of the deposit agreement, including the payment of the fees and charges of the depository, the depository will deliver to the person entitled thereto the number of GDSs issuable in respect of that deposit.

#### ***Withdrawal and Cancellation***

When you turn in your GDSs at the depository’s office, the depository will, upon payment of certain applicable fees, charges and taxes, deliver at the custodian’s office the number of National preference shares those GDSs represent. At your risk, expense and request, the depository may arrange for the delivery of the National preference shares and the registration of the preference shares in your name.

Notwithstanding the foregoing, no deposited securities may be withdrawn upon surrender of Rule 144A GDSs in the manner described in the preceding paragraph unless, at or prior to the time of surrender, the depository has received a written certificate and agreement by or on behalf of the person surrendering such Rule 144A GDSs who after withdrawal will be the beneficial owner of the National preference shares withdrawn, acknowledging that such preference shares have not been and will not be registered under the Securities Act, certifying as to whether or not such shares will remain restricted upon withdrawal and, in the case of preference shares that will remain restricted, agreeing (a) not to offer, sell, pledge or otherwise transfer such preference shares except in a transaction that complies with the restrictions on transfer set forth under “Notice to Investors” and (b) not to deposit or cause to be deposited such preference shares into any unrestricted depository receipt facility established or

maintained by a depositary bank (including another facility maintained by the depositary) relating to such preference shares unless such preference shares are no longer deemed to be restricted securities within the meaning of Rule 144(a)(3) under the Securities Act. However, the certification and agreement described in the preceding sentence will not be required if the depositary has received evidence satisfactory to it that the deposited securities are no longer restricted securities within the meaning of Rule 144(a)(3) under the Securities Act.

Notwithstanding the foregoing, during the restricted period, no deposited securities may be withdrawn upon surrender of Regulation S GDSs in the manner described above unless at or prior to the time of surrender, the depositary has received a written certificate and agreement by or on behalf of the person surrendering such Regulation S GDSs who after withdrawal will be the beneficial owner of the deposited securities withdrawn, (a) acknowledging that such deposited securities have not been registered and will not be registered under the Securities Act, (b) certifying as to whether or not such deposited securities will remain restricted upon withdrawal and, (c) in the case of deposited securities that will remain restricted, agreeing (i) during the restricted period not to offer, sell, pledge or otherwise transfer such deposited securities except in a transaction that complies with the applicable restrictions on transfer set forth below under “Notice to Investors” and (ii) during the restricted period, if such deposited securities are being transferred to a QIB in the form of GDSs, that it will cause such shares to be deposited under the Rule 144A deposit agreement for issuance of Rule 144A GDSs in accordance with the terms and conditions of the Rule 144A deposit agreement.

At any time after a registration statement covering the GDSs becomes effective under the Securities Act, the depositary may only restrict the withdrawal of deposited securities in connection with:

- temporary delays caused by closing our transfer books or the transfer books of the depositary or the deposit of the National preference shares in connection with voting at a shareholders’ meeting, or the payment of dividends;
- the payment of fees, taxes and similar charges; or
- compliance with any US or foreign laws or governmental regulations relating to the GDSs or the withdrawal of deposited securities.

This right of withdrawal may not be limited by any other provision of the deposit agreement.

### **Voting Rights**

If you are a GDS holder and the depositary asks you to provide it with voting instructions, you may instruct the depositary how to exercise the voting rights for the National preference shares that underlie your GDSs. After receiving voting materials from National, if it asks, the depositary will notify all of the GDS holders of any shareholder meeting or solicitation of consents or proxies, This notice will describe the information contained in the voting materials received from National and how you may instruct the depositary to exercise the voting rights for the National preference shares that underlie your GDSs. For instructions to be valid, the depositary must receive them on or before the date specified. The depositary will try, as far as practical, subject to the provisions of and governing the underlying National preference shares or other deposited securities, to vote or to have its agents vote the National preference shares or other deposited securities as you instruct. The depositary will only vote or attempt to vote as you instruct. The depositary will not itself exercise any voting discretion. Furthermore, neither the depositary nor its agents are responsible for any failure to carry out any voting instructions, for the manner in which any vote is cast or for the effect of any vote.

Because we may elect not to solicit your instructions and because there is no guarantee that you will receive voting materials in time to instruct the depositary to vote, it is possible that you, or persons who hold their GDSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to vote.

## **Fees and Expenses**

Persons depositing National preference shares for the issuance of GDSs will be charged a fee for each issuance of GDSs, including issuances resulting from distributions of shares, rights and other property, and for each surrender of GDSs in exchange for deposited securities, including if the deposit agreement terminates. The fee in each case is up to US\$5.00 for each 100 GDSs (or any portion thereof) issued or surrendered. GDS holders or persons depositing shares may also be charged the following expenses:

- stock transfer or other taxes and other governmental charges;
- cable, telex and facsimile transmission and delivery charges incurred at the request of holders depositing or delivering GDSs;
- transfer or registration fees for the registration of transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities; and
- expenses of the depository in connection with the conversion of foreign currency into US dollars.

In addition, the depository will charge holders of GDSs (1) a fee of US\$0.02 or less per GDS (or portion thereof) for any cash distribution made by the depository pursuant to the deposit agreement; (2) a fee for the distribution of securities pursuant to the deposit agreement, such fee being in an amount equal to the fee for the execution and delivery of GDSs referred to above which would have been charged as a result of the deposit of such securities (for purposes of this clause (2) treating all such securities as if they were National preference shares) but which securities are instead distributed by the depository to holders of GDSs; (3) a fee of US\$0.02 or less per GDS (or portion thereof) for depository services, which will accrue on the last day of each calendar year and which will be payable as provided in clause (4) below; provided, however, that no fee will be assessed under this clause (3) to the extent that a fee of US\$0.02 was charged pursuant to clause (1) above during that calendar year; and (4) any other charges payable by the depository, any of the depository's agents, including the custodian, or the agents of the depository's agents, including the custodian, in connection with the servicing of the National preference shares or other deposited securities (which charge shall be assessed against holders of the GDSs as of the date or dates set by the depository and shall be collected at the sole discretion of the depository by billing such holders for such charge or by deducting such charge from one or more cash dividends or other cash distributions).

The depository, subject to the terms of the deposit agreement, may own and deal in any class of securities of National and its affiliates and in GDSs.

We will pay all other charges and expenses of the depository and any agent of the depository (except the custodian) pursuant to agreements from time to time between the depository and us. The fees described above may be amended from time to time.

## **Payment of Taxes**

GDS holders must pay any tax or other governmental charge payable by the custodian or the depository on any GDS, deposited security or distribution. If a GDS holder owes any tax or other governmental charge, the depository may (i) deduct the amount thereof from any cash distributions, or (ii) sell deposited securities and deduct the amount owing from the net proceeds of such sale. In either case, the GDS holder remains liable for any shortfall. Additionally, if any tax or governmental charge is unpaid, the depository may also refuse to effect any registration, registration of transfer, split-up or combination of deposited securities or any withdrawal of deposited securities (except under limited circumstances mandated by securities regulations). If any tax or governmental charge is required to be withheld by the depository or the custodian on any non-cash distribution, the depository may sell the distributed property or securities to pay such taxes and distribute any remaining net proceeds to the GDS holders entitled thereto.



### **Reclassifications, Recapitalizations and Mergers**

If National takes certain actions that affect the deposited securities, including (i) any change in par value, split-up, consolidation, cancellation or other reclassification of deposited securities and (ii) any recapitalization, reorganization, merger, consolidation, liquidation, receivership, bankruptcy or sale of all or substantially all of our assets, then the depositary may choose to:

- (1) amend the form of GDS;
- (2) distribute additional or amended GDSs;
- (3) distribute cash, securities or other property it has received in connection with such actions;
- (4) sell any securities or property received and distribute the proceeds as cash; or
- (5) none of the above.

If the depositary does not choose any of (1) through (4) above, any of the cash, securities or other property it receives shall constitute part of the deposited securities and each GDS will then represent a proportionate interest in such property.

### **Redemption, Buy Back or Reduction of Capital**

Subject to the terms and conditions of the deposit agreement, upon notice of any redemption, buy back of, in whole or in part, or reduction of capital with respect to, the National preference shares on a certain date, the depositary will call for redemption a number of GDSs corresponding to the number of deposited National preference shares that were called for redemption, buy back or reduction of capital. In the case of any partial redemption, buy back or reduction of capital, we or our registrar/transfer agent will select the National preference shares for redemption, buy back or reduction of capital in compliance with the requirements of the principal securities exchange or quotation system, if any, on which the National preference shares or GDRs representing the National preference shares are then listed or quoted or, if the National preference shares or GDRs representing the National preference shares are not listed on a securities exchange, proportionately, by lot or such other method as we, in our sole discretion, deem fair and appropriate. If we exercise our right to redeem, buy back or reduce the capital with respect to National preference shares, except in the case of buy backs on the open market, we must give notice to the depositary not less than 30 days nor more than 60 days prior to the date fixed for redemption, buy back or capital reduction. After receiving any such notice of redemption, buy back or capital reduction, the depositary will give notice to all holders. The depositary will not be liable to any holder or other person in connection with its performance or omission of any act performed or omitted in connection with any redemption, buy back or reduction of capital, provided that any such act or omission was in good faith.

### **Amendment and Termination of the Deposit Agreement**

#### *Amendment*

National may agree with the depositary to amend the deposit agreements and the GDSs without your consent for any reason. GDS holders must be given at least 30 days' notice of any amendment that imposes or increases any fees or charges (except for taxes and other charges specifically payable by GDS holders under the deposit agreement), or affects any substantial existing right of GDS holders. If a GDS holder continues to hold GDSs after being so notified, such GDS holder is deemed to agree to such amendment.

No amendment will impair your right to surrender your GDSs and receive the underlying securities.



### ***Termination***

The depositary may terminate the deposit agreement by mailing notice of termination to National and the GDS holders if at least 90 days have passed since the depositary gave written notice of its election to resign and a successor depositary has not been appointed pursuant to the deposit agreement, and it must do so at National's request pursuant to the terms of the deposit agreement. After termination, the depositary's only responsibility will be (i) to deliver deposited securities to GDS holders who surrender their GDSs and (ii) to hold or sell distributions received on deposited securities. After the expiration of one year from the termination date, the depositary may sell the deposited securities that remain and hold the net proceeds of such sales, without liability for interest, in trust for the GDS holders who have not yet surrendered their GDSs. After making such sale, the depositary will have no obligations except to account for such proceeds and other cash. After the date fixed for termination, National will be discharged from all obligations under the deposit agreement except for the obligations to the depositary and its agents.

### **Limitations on Obligations and Liability to GDS Holders**

The deposit agreement expressly limits the obligations and liability of the depositary, National and their respective agents. Neither National nor the depositary will be liable:

- if National or the depositary, as the case may be, is prevented or hindered in performing any obligation by circumstances beyond its control, including, without limitation, requirements of law, rule, regulation, the terms of the deposited securities, acts of God and war;
- for exercising or failing to exercise discretion under the deposit agreement or the GDSs;
- if National or the depositary performs its obligations without gross negligence or bad faith; or
- for any action based on advice or information from legal counsel, accountants, any person presenting shares for deposit, any holder or other qualified person.

Neither the depositary nor its agents have any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any deposited securities or the GDSs.

The depositary will not be responsible for failing to carry out instructions to vote the GDSs or for the manner in which the GDSs are voted or the effect of the vote.

### **Requirements for Depositary Actions**

National, the depositary or the custodian may refuse to:

- deliver, register or transfer a GDS or GDSs;
- effect a split-up or combination of GDSs;
- deliver distributions on any such GDSs; or
- permit the withdrawal of deposited securities (unless the deposit agreement provides otherwise)

until the following conditions have been met:

- the holder has paid all taxes, governmental charges, and fees and expenses as required in the deposit agreement;
- the holder has provided the depositary with any information it may deem necessary or proper, including, without limitation, proof of identity and the genuineness of any signature; and
- the holder has complied with such regulations as the depositary may establish under the deposit agreement.

The depositary may also suspend the issuance of GDSs, the deposit of the National preference shares, the registration, transfer, split-up or combination of GDSs, or the withdrawal of deposited securities (unless the deposit agreement provides otherwise) if the register for GDSs or any deposited securities is closed or if the depositary or we decide any such action is advisable.

### **Pre-release of GDSs**

The depositary may also deliver GDSs prior to the deposit with the custodian of National preference shares (or rights to receive shares). This is called a pre-release of the GDSs. A pre-release is closed out as soon as the underlying National preference shares are delivered to the depositary. The depositary may pre-release GDSs only if:

- the depositary has received collateral for the full market value of the pre-released GDSs; and
- each recipient of pre-released GDSs agrees in writing that he or she:
  - owns the underlying shares;
  - assigns all rights in such shares to the depositary;
  - holds such shares for the account of the depositary; and
  - will deliver such shares to the custodian as soon as practicable, and within five business days if the depositary so demands.

In general, the number of pre-released GDSs will not evidence more than 30% of all GDSs outstanding at any given time (excluding pre-released GDSs). However, the depositary may change or disregard such limit from time to time under certain circumstances.

## **CERTAIN TAX CONSEQUENCES**

### **Certain United Kingdom Tax Consequences**

The comments below are of a general nature based on current United Kingdom law and practice as at the date of this offering memorandum. They do not purport to be a complete analysis of all tax considerations relating to the trust preferred securities or the GDRs representing National preference shares. They do not necessarily apply where the income is deemed for tax purposes to be the income of any other person. They relate only to the position of holders who are the absolute beneficial owners of their trust preferred securities and may not apply to certain classes of persons such as dealers or certain professional investors. Any holders who are in doubt as to their own tax position should consult their professional advisers. The comments below are based on the opinion of Linklaters, our UK tax counsel.

#### *Classification of National Capital Trust and National Funding Trust*

National has been advised that both National Capital Trust and National Funding Trust should be treated as transparent (and not classified as an offshore fund) for United Kingdom tax purposes. Accordingly, holders who are UK residents, or in the case of individuals, ordinarily resident in the United Kingdom, for tax purposes should, broadly, be subject to UK tax as if they have a beneficial interest in the debentures. It is possible, however, that the Inland Revenue may seek to treat UK investors in National Capital Trust as holding interests in an “offshore fund”. The following paragraphs therefore also summarize the anticipated tax consequences for UK corporate investors, UK pension funds and UK individuals if this alternative classification of National Capital Trust and/or National Funding Trust were to prevail. UK investors who are in any doubt as to their tax position in respect of the trust preferred securities (or, on an exchange of trust preferred securities, the GDRs representing National preference shares) are strongly recommended to consult their professional advisers.

#### *UK Corporate Investors*

On the basis that National Capital Trust and National Funding Trust are treated for UK tax purposes as transparent, holders of trust preferred securities within the charge to corporation tax should be treated as being entitled to, for the purposes of the “loan relationship” rules in the Finance Act 1996, an appropriate share of the total debits and credits arising in respect of National Capital Trust’s ownership of the debentures through National Funding Trust. Such holders would also be liable to tax as income under the same rules on profits arising to them on transfer or redemption (including an exchange) of their trust preferred securities.

If National Capital Trust and/or National Funding Trust were classified as an offshore fund, then holders within the charge to corporation tax would be treated as if their holding in National Capital Trust were itself a loan relationship in respect of which they were obliged to use an authorized mark to market basis of accounting.

#### *UK Pension Funds*

Whether National Capital Trust and National Funding Trust are treated as transparent or classified as an offshore fund, exempt approved pension funds should not be subject to UK tax on any return from their holding of trust preferred securities (including any profit on transfer or redemption (including an exchange)), provided that such returns do not constitute trading profits.

#### *UK Individuals*

If National Capital Trust and National Funding Trust are treated as transparent, an individual resident in the United Kingdom and holding trust preferred securities should be subject to UK income tax in respect of distributions on the trust preferred securities. UK individuals disposing of trust preferred securities may in practice be treated as if they had disposed of their underlying share of the

debentures held by National Capital Trust through National Funding Trust. The debentures are “qualifying corporate bonds” with the result that on a disposal of the trust preferred securities neither chargeable gains nor allowable losses will arise for the purposes of taxation of capital gains. A transfer of a trust preferred security by a UK individual could also give rise to a charge under the “accrued income scheme”.

If National Capital Trust and/or National Funding Trust is classified as an offshore fund, then a UK resident individual would be liable to income tax on distributions and on any profit on disposal, transfer or redemption (including an exchange) of their trust preferred securities.

#### ***Distributions on the Trust Preferred Securities and the Funding Preferred Securities***

Once the debentures held by National Funding Trust are listed on a recognized stock exchange within the meaning of section 841 of the Income and Corporation Taxes Act 1988, distributions on the trust preferred securities and the funding preferred securities should not be subject to United Kingdom withholding tax. It is expected that the debentures will be listed on or about the closing date. The Channel Islands Stock Exchange is a recognized stock exchange for these purposes.

Persons in the United Kingdom paying interest to or receiving interest on behalf of another person may be required to provide certain information to the United Kingdom Inland Revenue regarding the identity of the payee or person entitled to the interest and, in certain circumstances, such information may be exchanged with tax authorities in other countries.

#### ***Interest on the Debentures***

Once the debentures held by National Funding Trust are listed on a recognized stock exchange within the meaning of section 841 of the Income and Corporation Taxes Act 1988, payments of interest may be made without withholding or deduction for or on account of income tax. The Channel Islands Stock Exchange is a recognized stock exchange for these purposes. It is expected that the debentures will be listed on or about the closing date.

#### ***Payments Under the Guarantees***

Although the position is not clear, payments made under the guarantees should not be subject to UK withholding tax. In the event there is a withholding tax liability in respect of payments made under the guarantees we would, subject to certain exceptions, be obliged to pay additional amounts so that you receive the amount you would have received absent the withholding.

#### ***EU Directive on the Taxation of Savings Income***

The Council of the European Union has adopted a new directive regarding the taxation of savings income. Subject to a number of important conditions being met, Member States will be required from January 1, 2005 to provide to the tax authorities of another Member State details of payments of interest (or other similar income) paid by a person within its jurisdiction to or for the benefit of an individual resident in that other Member State, except that Belgium, Luxembourg and Austria will instead operate a withholding system for a transitional period in relation to such payments.

It is anticipated that a number of third countries and territories, including the United States, will adopt similar measures with effect from January 1, 2005.

#### ***Dividends on the GDRs representing National Preference Shares***

A holder of GDRs who is resident in the United Kingdom for tax purposes, or a holder of GDRs who is carrying on a trade, profession or vocation in the United Kingdom through a branch or agency, or in the case of a corporate holder, through a permanent establishment (in respect of accounting periods commencing on or after January 1, 2003), in connection with which the GDRs are

held, will generally, depending upon the holder's particular circumstances, be subject to United Kingdom income tax or corporation tax, as the case may be, on the gross amount of any dividends paid by National on the GDRs, before deduction of any Australian tax withheld.

The section headed "Certain Australian Tax Consequences—Dividends Paid on National Preference Shares—Holder Who Is Resident of the United Kingdom" below contains information on the Australian withholding tax which may be deducted from dividends paid by National. A credit for Australian withholding tax would generally be given against any United Kingdom tax liability in respect of the dividends. For an individual who is liable to United Kingdom income tax, the dividends will (depending on the amount of the holder's overall taxable income) be taxable at the Schedule F ordinary rate (10% in 2003-2004) and/or the Schedule F upper rate (32.5% in 2003-2004).

An individual holder who is resident, but not domiciled, in the United Kingdom or a Commonwealth citizen or citizen of the Republic of Ireland who is resident, but not ordinarily resident, in the United Kingdom will be liable to United Kingdom income tax only to the extent that dividends paid by National are remitted or deemed to be remitted to the United Kingdom.

#### *Disposal of GDRs representing National Preference Shares*

A disposal of GDRs by a holder who is resident or ordinarily resident in the United Kingdom for tax purposes may, depending on the holder's individual circumstances (including the availability of exemptions, reliefs and allowable losses), give rise to a chargeable gain or allowable loss for the purposes of United Kingdom taxation of capital gains.

An individual holder who is resident or ordinarily resident in the United Kingdom but not domiciled in the United Kingdom will be liable to United Kingdom capital gains tax only to the extent that chargeable gains made on the disposal of GDRs are remitted or deemed to be remitted to the United Kingdom.

Holders who are not and have not been resident or ordinarily resident in the United Kingdom will not be liable for United Kingdom tax on capital gains on the disposal of their GDRs unless that holder carries on a trade, profession or vocation in the United Kingdom through a branch or agency, or in the case of a corporate holder, through a permanent establishment (in respect of accounting periods commencing on or after January 1, 2003) and the GDRs disposed of are (i) situated in the United Kingdom and (ii) used in, held or acquired for use by, or for the purposes of, the trade, branch or agency or permanent establishment, as the case may be. Holders who are temporarily non-resident for a period of less than five years may be subject to United Kingdom tax on capital gains on disposals of their GDRs when not resident in the United Kingdom as if, broadly, the disposal was made in such holder's years of return to the United Kingdom.

#### *Stamp Duty and Stamp Duty Reserve Tax ("SDRT")*

No UK stamp duty or SDRT will be payable on the issue of the trust preferred securities or the debentures.

No UK stamp duty will be payable on a transfer of trust preferred securities, provided that the instrument of transfer is executed and remains at all times outside of the United Kingdom.

No UK SDRT will be payable on an agreement to transfer trust preferred securities.

No UK stamp duty or SDRT will be payable on an agreement to transfer, or a transfer of, debentures.

No UK stamp duty or SDRT will be payable on the issue of the GDRs.

No UK stamp duty will be payable on the transfer of GDRs provided that the instrument of transfer is executed and remains at all times outside of the United Kingdom.

No UK SDRT will be payable on an agreement to transfer GDRs.

### **Certain United States Federal Income Tax Consequences**

This section describes the material US federal income tax consequences of the acquisition, ownership and disposition of the trust preferred securities and GDRs. It is the opinion of Sullivan & Cromwell LLP, counsel to National, National Capital Trust and National Funding Trust. It applies to you only if you acquire trust preferred securities in this offering and hold the trust preferred securities and GDRs as capital assets for tax purposes. This section does not apply to you if you are a member of a special class of holders subject to special rules, including:

- a dealer in securities;
- a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings;
- a tax-exempt organization;
- a life insurance company;
- a person liable for alternative minimum tax;
- a person that actually or constructively owns 10% or more of the voting stock of National;
- a person that holds trust preferred securities or GDRs as part of a straddle, hedging or conversion transaction; or
- a person whose functional currency is not the US dollar.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis. This section does not address any aspects of state, local, foreign or other tax laws.

You are a “US holder” if you are a beneficial owner of trust preferred securities or GDRs and you are:

- a citizen or resident of the United States;
- a corporation created or organized in or under the laws of the United States or any state thereof or the District of Columbia;
- an estate whose income is subject to US federal income taxation, regardless of its source; or
- a trust if a US court can exercise primary supervision over the trust’s administration and one or more US persons are authorized to control all substantial decisions of such trust.

A “non-US holder” is a beneficial owner of shares or GDRs that is not a United States person for United States federal income tax purposes.

Holders should consult their own tax advisors regarding the US federal, state, local and the foreign and other tax consequences of purchasing, owning and disposing of trust preferred securities or GDRs in their particular circumstances.

### ***Classification of National Capital Trust and National Funding Trust***

Assuming full compliance with the terms of the capital trust declaration and the funding trust declaration, (a) National Capital Trust will be classified as a grantor trust for US federal income tax purposes and (b) National Capital Trust and National Funding Trust will not be classified as associations or publicly traded partnerships taxable as corporations for US federal income tax purposes. National Capital Trust, National Funding Trust and National intend to, and beneficial owners of the trust preferred securities (by acceptance of a beneficial interest in the trust preferred securities) agree



to, treat National Funding Trust as a partnership for US federal income tax purposes. Alternatively, it is possible that National Funding Trust will be treated as a grantor trust for US federal income tax purposes. A US holder, however, would not be materially adversely affected if National Funding Trust is treated as a grantor trust, and the discussion below assumes that National Funding Trust will be treated as a partnership for US federal income tax purposes.

#### *Classification of the Debentures*

Although there is no statutory, judicial or administrative authority that directly addresses the US federal income tax treatment of an issuance of securities similar to the debentures, the debentures held by National Funding Trust should be treated as equity of National for US federal income tax purposes. National Capital Trust, National Funding Trust, National and the holders of the trust preferred securities (by acceptance of a beneficial interest in a trust preferred security) will agree to treat the debentures as equity of National for such purposes and the discussion below assumes that the debentures will be so treated.

#### **US Holders**

##### *Taxation of Trust Preferred Securities*

A US holder of trust preferred securities will be required to include in its gross income its share of the taxable income realized by National Funding Trust. If such holder's taxable year is the calendar year, such holder's share of such income generally will be equal to the amount of the cash distributions such holder actually or constructively receives with respect to the trust preferred securities.

The character of the income included by a US holder of trust preferred securities generally will reflect the character of National Funding Trust's income. Interest paid on the debentures (before reduction for any withholding taxes) and additional amounts paid with respect to withholding taxes, if any, will constitute dividends for US federal income tax purposes to the extent paid out of current or accumulated earnings and profits of National (as determined for US federal income tax purposes). Although it is not certain, such dividends, to the extent received by an individual in a taxable year beginning on or before December 31, 2008, should be eligible for the preferential rate of taxation generally applicable to dividends received by individual investors. The dividends generally will not be eligible for the corporate dividends-received deduction allowed to US corporations in respect of dividends received from other US corporations. The amount of the distribution that a US holder must include in income will be the US dollar value of the pounds sterling payments made, determined at the spot pounds sterling/US dollar rate on the date the dividend distribution is includible in income, regardless of whether the payment is in fact converted into US dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date a US holder includes the pounds sterling distribution payment in income to the date the US holder converts the pounds sterling payment into US dollars will be treated as ordinary income or loss and will not be eligible for the preferential tax rate applicable to qualified dividend income. Such gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for US federal income tax purposes, will be treated as a non-taxable return of capital to the extent of the US holder's tax basis in the trust preferred securities and thereafter as capital gain.

Subject to certain limitations, any Australian withholding tax that is withheld from dividends on trust preferred securities owned by a US holder may be claimed by the US holder as a credit or deduction for US federal income tax purposes.

Dividends will be income from sources outside the United States, but generally will be "passive income" or "financial services income" which is treated separately from other types of income for purposes of computing the foreign tax credit allowable to a US holder.

### ***Sale of Trust Preferred Securities***

A US holder that sells its trust preferred securities will generally recognize capital gain or loss in an amount equal to the difference between the US dollar value of the amount it realizes upon such sale and its tax basis determined in US dollars in its trust preferred securities. In general, a US holder's tax basis in its trust preferred securities will be equal to the amount it paid for its trust preferred securities. Any capital gain or loss recognized by a US holder will generally be long-term capital gain or loss if the US holder held the trust preferred securities for more than one year immediately prior to the disposition. Long-term capital gain of non-corporate US holders is generally taxed at a reduced rate of taxation. The deductibility of capital losses is subject to limitations. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date a US holder includes pounds sterling sale proceeds in income to the date the US holder converts the proceeds into US dollars will be treated as ordinary income or loss. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes.

### ***Exchange of Trust Preferred Securities for GDRs***

Upon the occurrence of the exchange event, as described under "Description of the Exchange Agreement", the trust preferred securities will be exchanged for GDRs in connection with the redemption of the funding preferred securities and trust preferred securities. The exchange of the trust preferred securities for GDRs and the deemed distribution of the GDRs by National Funding Trust and National Capital Trust should not be a taxable event to a US holder of trust preferred securities for US federal income tax purposes. A US holder's tax basis in the GDRs so received should generally be the same as such holder's tax basis in the trust preferred securities redeemed, and a US holder's holding period in the GDRs will generally include such holder's holding period in the trust preferred securities redeemed.

### ***Redemption of the Trust Preferred Securities for Cash***

Under certain circumstances, as described in this offering memorandum, National may redeem the debentures for cash in which event National Funding Trust will redeem the funding preferred securities and National Capital Trust will redeem the trust preferred securities. Payments received upon a redemption of the debentures will generally be treated as received in exchange for the debentures and National Funding Trust will, therefore, generally recognize capital gain or loss in an amount equal to the difference between the US dollar value of the redemption proceeds and National Funding Trust's tax basis in the debentures redeemed. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date a US holder includes the pounds sterling redemption payment in income to the date the US holder converts the payment into US dollars will be treated as ordinary income or loss. Such gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. Each US holder of the trust preferred securities must include in income its share of any income, gain or loss recognized by National Funding Trust with respect to a redemption of the debentures. Payments received by a US holder upon a redemption, in whole or in part, of the trust preferred securities will first be treated as reducing such holder's adjusted tax basis in its trust preferred securities, and any excess generally will be treated as capital gain in the manner described above under "—Sale of Trust Preferred Securities".

### ***Dissolution of National Capital Trust***

Under certain circumstances, as described under "Description of the Trust Preferred Securities—Trust Special Event Distribution", National Capital Trust may be dissolved and the funding preferred securities distributed to holders of the trust preferred securities. Unless the dissolution of National Capital Trust occurs as a result of its being subject to US federal income tax, such a distribution of the funding preferred securities to a US holder of trust preferred securities will not be a taxable event to such US holder for US federal income tax purposes, such holder's tax basis in the

funding preferred securities received will generally be the same as such holder's tax basis in its trust preferred securities, and such holder's holding period in the funding preferred securities received will generally include such holder's holding period in the trust preferred securities redeemed. If, however, the dissolution of National Capital Trust were to occur as a result of National Capital Trust being subject to US federal income tax, the distribution of the funding preferred securities to a US holder of trust preferred securities by National Capital Trust would likely be a taxable event to National Capital Trust and to such holder, and such a holder would generally recognize gain or loss equal to the difference between the fair market value of the funding preferred securities received and such holder's tax basis in its trust preferred securities.

In the event of a distribution of the funding preferred securities to holders of the trust preferred securities upon the dissolution of National Capital Trust, National Funding Trust will thereafter furnish each holder of funding preferred securities with a Schedule K-1 each year setting forth such holder's allocable share of income for the prior calendar year. Copies of each Schedule K-1 will be provided to the Internal Revenue Service.

#### *Ownership and Disposition of GDRs*

A US holder of GDRs will be treated as holding the underlying National preference shares represented by those GDRs. The gross amount of any dividends received by a US holder (before reduction for any withholding taxes) with respect to GDRs will be subject to US federal income tax to the extent paid by National out of National's current or accumulated earnings and profits (as determined for US federal income tax purposes). Although it is not certain, such dividends, to the extent received by an individual in a taxable year beginning on or before December 31, 2008, should be eligible for the preferential rate of taxation generally applicable to dividends received by individual investors. Any such dividend generally will not be eligible for the dividends received deduction allowed to US corporations in respect of dividends received from other US corporations. The amount of the dividend distribution that a US holder must include in income will be the US dollar value of the pounds sterling payments made, determined at the spot pounds sterling/US dollar rate on the date the dividend distribution is includible in income, regardless of whether the payment is in fact converted into US dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date a US holder includes the pounds sterling distribution payment in income to the date the US holder converts the payment into US dollars will be treated as ordinary income or loss and will not be eligible for the preferential tax rate applicable to qualified dividend income. Such gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for US federal income tax purposes, will be treated as a non-taxable return of capital to the extent of the US holder's tax basis in the GDRs and thereafter as capital gain.

Subject to certain limitations, any Australian withholding tax that is withheld from dividends on GDRs owned by a US holder may be claimed by the US holder as a credit or deduction for US federal income tax purposes.

Dividends will be income from sources outside the United States, but generally will be "passive income" or "financial services income" which is treated separately from other types of income for purposes of computing the foreign tax credit allowable to a US holder.

Upon a sale or other disposition of GDRs, a US holder will generally recognize capital gain or loss equal to the difference between the US dollar value of the amount realized and the US holder's tax basis in the GDRs. Such capital gain or loss will generally be long-term capital gain or loss if the US holder held the GDRs for more than one year immediately prior to the disposition. Long-term capital gain of non-corporate US holders is generally taxed at a reduced rate of taxation. The deductibility of capital losses is subject to limitations.

### ***Information Reporting and Back-up Withholding***

Payments made on and proceeds from the sale of the trust preferred securities or GDRs generally will be reported to US holders on an Internal Revenue Service Form 1099, and may be subject to “back-up” withholding tax unless the holder complies with certain identification requirements or is otherwise exempt. Any amount so withheld generally will be allowed as a credit against a US holder’s federal income tax, provided the required information is timely filed with the Internal Revenue Service.

### ***Reportable Transactions***

In certain circumstances, a US holder of trust preferred securities, funding preferred securities or GDRs who recognizes significant losses in excess of certain threshold amounts on (a) the disposition of these securities or (b) the disposition of pounds sterling received in connection with the ownership of these securities may be obligated to disclose its participation in such transaction in accordance with applicable Treasury regulations. Investors should consult their tax advisors concerning any possible disclosure obligation under such regulations.

### **Non-US Holders**

National Funding Trust intends to operate such that it will not derive US source income or income effectively connected with the conduct of a trade or business in the United States for United States federal income tax purposes. Accordingly, subject to the discussion of back-up withholding below, a non-US holder will not be subject to United States federal income tax (including withholding tax) on any income in respect of the trust preferred securities or GDRs, or on any gain realized by the non-US holder on the sale or exchange of trust preferred securities or GDRs unless (i) such income or gain is effectively connected with the conduct of a trade or business by the non-US holder in the United States or (ii) in the case of gain realized by an individual non-US holder, the non-US holder is present in the United States for 183 days or more in the taxable year and certain other conditions are met.

In general, information reporting and back-up withholding may apply to payments made on and proceeds from the sale of the trust preferred securities or GDRs unless the non-US holder complies with applicable certification procedures to establish that it is not a US person for US federal income tax purposes.

### **Certain Australian Tax Consequences**

#### **General**

The discussion below outlines certain Australian taxation consequences of the purchase, ownership and disposition of trust preferred securities and the acquisition, ownership and disposition of GDRs representing the National preference shares. This summary is based on the opinion of Mallesons Stephen Jaques, our Australian taxation advisers. The discussion is intended only as a descriptive summary and does not purport to be a complete technical analysis or to list all potential Australian tax effects. This discussion is based upon laws, regulations, rulings and judicial decisions now in effect and is subject to changes in Australian law, including changes in any double taxation agreement between Australia and the United States (the “Australian/US Treaty”) or between Australia and the United Kingdom (the “Australian/UK Treaty”), including retroactive changes in legislation or possible differing interpretations of existing legislation.

This summary assumes that the holder of trust preferred securities and the holder of GDRs representing National preference shares (i) will not be a “resident” of Australia for Australian income tax purposes and (ii) will not hold the trust preferred securities or GDRs representing National preference shares as part of a business carried on by that holder at or through a permanent establishment in Australia. Further, it is assumed that the holder will be a resident of either: (i) the

United States of America for the purposes of the Australian income tax law and the Australian/US Treaty; or (ii) the United Kingdom for the purposes of the Australian income tax law and the Australian/UK Treaty.

A holder who is not a resident of Australia, the United States of America or the United Kingdom should consult their own tax advisors as to whether there are any Australian income tax consequences to them of holding trust preferred securities, and in particular, whether there is a Double Tax Agreement that is applicable to their circumstances.

This summary also assumes that the trust preferred securities and GDRs will be issued and held in accordance with their terms of issue and that National Capital Trust and National Funding Trust will only undertake the activities described in this offering memorandum.

Persons considering the purchase of trust preferred securities should consult their own tax advisors concerning the application of Australia's tax laws to their particular situations as well as any consequences of the acquisition, ownership and disposition of trust preferred securities or the GDRs representing National preference shares under the laws of any other taxing jurisdiction.

### **Distributions**

This discussion is relevant to trust preferred securities. National Capital Trust and National Funding Trust will not be treated as residents of Australia for Australian income tax purposes. They will not be subject to Australian income tax on the income that they earn.

The periodic distributions by National Capital Trust will not be subject to Australian income tax in the hands of holders of the trust preferred securities, whether by withholding or otherwise.

### **Sale or Disposal of Trust Preferred Securities or GDRs Representing National Preference Shares**

The sale of trust preferred securities or the GDRs representing National preference shares may prima facie give rise to ordinary income which is included in the assessable income of certain holders, such as banks, insurance companies and other parties in the business of investment, where the consideration received for the trust preferred securities or the GDRs representing National preference shares exceeds the cost of those securities to the holder. However, the provisions of both the Australian/US Treaty and the Australian/UK Treaty are designed to ensure that this income, less all allowable deductions, is subject to Australian tax only if the holder carries on business in Australia at or through a permanent establishment and the assessable income is effectively connected with that permanent establishment.

#### ***Holder Who Is a Resident of the United States of America***

The sale of trust preferred securities or GDRs representing National preference shares by a holder will not attract any Australian capital gains tax consequences unless:

- the trust preferred securities or GDRs representing National preference shares are held by a US citizen or a US corporation who is also a resident of Australia for the purposes of both the Australian/US Treaty and the Australian income tax law;
- in the case of GDRs representing National preference shares, the US holder is a non-Australian resident but the US holder and the US holder's associates together beneficially hold or at any time during the five years prior to the sale held shares or interest in shares representing ten percent or more in value of the issued capital of National; or
- the US holder is a non-Australian resident but has at any time used the trust preferred securities or GDRs representing National preference shares in carrying on a trade or business through a permanent establishment in Australia,



and the consideration received for, as the case may be, the trust preferred securities or the GDRs representing National preference shares (or their market value, if the disposition is not at arm's length or for no consideration) exceeds the holder's cost base in the trust preferred securities or the GDRs representing National preference shares.

*Holder Who Is a Resident of the United Kingdom*

Australia and the United Kingdom have signed a new double tax treaty (the "new Australian/UK Treaty") which will replace the existing Australian/UK Treaty (and amending Protocols). The new Australian/UK Treaty has not yet entered into force and, insofar as is relevant to this summary, its provisions will become operational on the first of July next following the date upon which both the Australian and UK governments have completed their respective constitutional processes as required for it to enter into force.

Under the existing Australian/UK Treaty, the sale of trust preferred securities or GDRs representing National preference shares by a holder will not attract any Australian capital gains tax consequences unless:

- the trust preferred securities or GDRs representing National preference shares are held by a person who is treated solely as a resident of the United Kingdom for the purposes of the Australian/UK Treaty but who is also regarded as a resident of Australia for the purposes of Australian income tax law (unless the person is subject to tax in the United Kingdom on any income arising from the sale, and such income has a source in either the United Kingdom, or a country that is not Australia or the United Kingdom);
- in the case of GDRs representing National preference shares, the UK holder is a non-Australian resident for the purposes of both Australian income tax law and the Australian/UK Treaty, but the UK holder and the UK holder's associates together beneficially hold or at any time during the five years prior to the sale held shares or interest in shares representing ten percent or more in value of the issued capital of National; or
- the UK holder is a non-Australian resident but has at any time used the trust preferred securities or GDRs representing National preference shares in carrying on a trade or business through a permanent establishment in Australia,

and the consideration received for the trust preferred securities or the GDRs representing National preference shares (or their market value, if the disposition is not at arm's length or for no consideration) exceeds the holder's cost base in the trust preferred securities or the GDRs representing National preference shares.

Under the new Australian/UK Treaty, the sale of trust preferred securities or GDRs representing National preference shares by a holder will not attract any Australian capital gains tax consequences unless:

- in the case of GDRs representing National preference shares, the UK holder is a non-Australian resident but the UK holder and the UK holder's associates together beneficially hold or at any time during the five years prior to the sale held shares or interest in shares representing ten percent or more in value of the issued capital of National; or
- the UK holder is a non-Australian resident but has at any time used the trust preferred securities or GDRs representing National preference shares in carrying on a trade or business through a permanent establishment in Australia,

and the consideration received for the trust preferred securities or the GDRs representing National preference shares (or their market value, if the disposition is not at arm's length or for no consideration) exceeds the holder's cost base in the trust preferred securities or the GDRs representing National preference shares.



### **Redemption of Trust Preferred Securities (Other Than Upon the Exchange Event)**

If the trust preferred securities are redeemed for cash, the circumstances in which a holder would be liable for Australian income tax are as set out above in relation to the sale or other disposal of such securities.

### **Redemption of Trust Preferred Securities and Issue of GDRs Upon the Exchange Event**

If the holder of trust preferred securities receives GDRs upon the redemption of trust preferred securities following an exchange event, the holder would be liable for Australian income tax where the value of the GDRs received exceeds the cost of the trust preferred securities redeemed and the circumstances set out above in relation to the sale or other disposal of such securities apply.

### **Dividends Paid on National Preference Shares**

Dividends paid by National may be either franked or unfranked dividends. Australian corporations are required to provide shareholders with notices detailing the extent to which the dividend is franked or unfranked and the deductions (if any) of dividend withholding tax. Broadly, to the extent to which those dividends are paid out of profits which have been subject to Australian corporate income tax, they will be franked dividends. Fully franked dividends to a non-resident will be exempt from Australian dividend withholding tax. Unfranked or partially franked dividends will be subject to Australian dividend withholding tax to the extent to which the dividend is unfranked, unless a specific exemption is available.

Dividends are also exempt from dividend withholding tax to the extent to which they are the subject of an “FDA Declaration”; being a declaration that the dividend is sourced from certain non-Australian dividends received by that company. Where National makes an FDA declaration in relation to a dividend, it will be required to give to the shareholders before or at the time of payment of the dividend a statement specifying certain matters including the extent to which the dividend is either franked or subject to an FDA declaration.

#### ***Holder Who Is Resident of United States of America***

The interaction of Australian income tax law and the Australian/US Treaty limits the Australian dividend withholding tax on unfranked or partially franked dividends paid to a US resident who is beneficially entitled to the dividends as follows:

- Australian dividend withholding tax of 5% of the unfranked part of the gross dividends is payable if the person beneficially entitled to the dividends is a company which holds at least 10 percent of the voting power in National;
- in other circumstances, Australian dividend withholding tax of 15 percent of the unfranked part of the gross dividends is payable.

However, where the US resident carries on business in Australia at or through a permanent establishment or performs independent personal services from a fixed base in Australia and the holding is effectively connected with the permanent establishment or fixed base, the 15 percent limit should not apply and dividend withholding tax at the rate of 30 percent should apply in respect of such dividends in such circumstances.

#### ***Holder Who Is Resident of the United Kingdom***

The interaction of the Australian income tax law and the existing Australian/UK Treaty limits the Australian dividend withholding tax on unfranked or partially franked dividends paid to a United Kingdom resident who is beneficially entitled to the dividends to 15 percent of the unfranked part of the gross dividends.

The interaction of Australian income tax law and the new Australian/UK Treaty will limit the Australian dividend withholding tax on unfranked or partially franked dividends paid to a United Kingdom resident who is beneficially entitled to the dividends as follows:

- Australian dividend withholding tax of 5 percent of the unfranked part of the gross dividends is payable if the person beneficially entitled to the dividends is a company which holds at least 10 percent of the voting power in National;
- in other circumstances, Australian dividend withholding tax of 15 percent of the unfranked part of the gross dividends is payable.

However, under both the existing Australian/UK Treaty and the new Australian/UK Treaty, where the United Kingdom resident carries on business in Australia at or through a permanent establishment in Australia and the holding is effectively connected with the permanent establishment the 15 percent limit should not apply and dividend withholding tax at the rate of 30 percent should apply in respect of such dividends in such circumstances.

#### **Other Taxes**

No Australian stamp duty will be payable on the issue of the trust preferred securities or in respect of the acquisition or disposal thereof under the book entry system described above.

No stamp duty should be payable on the issue of National preference shares following the occurrence of the exchange event. Nor should any stamp duty be payable on any transfer of the National preference shares. The Duties Act 2000 (Vic) removed stamp duty from transfers of shares that take place or occur on or after July 1, 2002. As Australian stamp duty laws change over time, the position of each holder should be reviewed on a regular basis.

Under current Australian law, there are no estate duties or other inheritance taxes payable in respect of the transmission of shares of the company upon the death of the holder.

Goods and Services Tax (“GST”) will also not be payable in respect of any transfer of the National preference shares or the trust preferred securities.

## NOTICE TO INVESTORS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of any of the securities offered hereby. The following restrictions apply to, and references to “securities” in this section mean, the trust preferred securities and any securities issuable upon redemption or exchange thereof unless the context requires otherwise.

### **Offers and Sales by the Initial Purchasers**

The securities have not been and will not be registered under the Securities Act or any other applicable securities laws, and may not be offered, sold or delivered in the United States or to, or for the account or benefit of, any US person, except pursuant to an effective registration statement or in a transaction not subject to the registration requirements of the Securities Act or in accordance with an applicable exemption from the registration requirements and such other laws. Accordingly, the securities are being offered and sold only (1) to qualified institutional buyers in a private sale exempt from the registration requirements of the Securities Act pursuant to Rule 144A thereunder and any other applicable securities laws and (2) outside the United States in compliance with Regulation S.

In addition, the securities (including, for the avoidance of doubt, the trust preferred securities, the funding preferred securities, National preference shares or GDRs) are not being offered for issue or sale in Australia. No prospectus or product disclosure statement in relation to such securities has been or will be prepared or lodged with the Australia Securities & Investment Commission (“ASIC”). No conduct in relation to the offer or issue of the securities has been authorized to occur in Australia.

### **Investors’ Representations and Restrictions on Resale**

Each purchaser of the securities offered hereby will be deemed to have represented and agreed as follows (terms used in this section that are defined in Rule 144A or in Regulation S under the Securities Act are used in this section as defined in those rules or regulations):

1. the purchaser (i) is a qualified institutional buyer, is aware that the sale of the securities is being made in reliance on an exemption from registration under the Securities Act and is acquiring the securities for its own account or the account of one or more other qualified institutional buyers over which it exercises sole investment discretion or (ii) is acquiring the securities for its own account or as a fiduciary or agent for others in an offshore transaction pursuant to Regulation S under the Securities Act;
2. the purchaser understands that the securities have not been and will not be registered under the Securities Act and they may not be offered, sold or delivered in the United States or to, or for the account or benefit of, any US person except as set forth below;
3. the purchaser understands and agrees that the securities are being offered in a transaction not involving any public offering within the meaning of the Securities Act, and that any future resale, pledge or transfer of securities on which the legend set forth below appears may be made only to National, National Capital Trust or, if funding preferred securities have been issued to investors, National Funding Trust, or to a person who the seller reasonably believes is a qualified institutional buyer acquiring for its own account or for the account of one or more other qualified institutional buyers in a transaction meeting the requirements of Rule 144A and to whom notice is given that such resale, pledge or transfer is being made in reliance on Rule 144A, in an offshore transaction meeting the requirements of Rule 904 of Regulation S under the Securities Act, pursuant to an exemption from registration under the Securities Act provided by Rule 144 (if available) or any other available exemption under the Securities Act, or pursuant to an effective registration statement under the Securities Act (which it acknowledges we are

not obligated to file and have declared effective), in each case in accordance with any applicable securities laws of any state of the United States or other jurisdictions;

4. the purchaser will, and each subsequent purchaser is required to, notify any purchaser of securities from it of the resale restrictions referred to in (3) above, if then applicable;
5. the purchaser understands that (i) the securities initially offered outside the United States to non-US persons will be represented by a Regulation S global certificate and (ii) with respect to any transfer of interests in the Regulation S global certificate, on or prior to the 40th day after the later of the commencement of this offering and the issue date, if to a transferee who takes delivery in the form of an interest in a restricted global certificate, the capital property trustee will require written certification from the transferee or transferor, as the case may be (in the forms provided in the capital trust declaration), to the effect that (a) the transferee is acquiring the interest in the restricted global certificate for its own account or for accounts as to which it exercises sole investment discretion and that it and, if applicable, each account is a qualified institutional buyer within the meaning of Rule 144A, in each case, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction or (b) the transferor did not acquire the interest in the Regulation S global certificate as part of the initial distribution thereof and the transfer is being effected pursuant to and in accordance with an applicable exemption from the registration requirements of the Securities Act and the transferor has delivered to the capital property trustee any additional evidence as we or the capital property trustee may require as to compliance with any available exemption;
6. the purchaser understands and agrees that (i) the securities initially offered in the United States or to US persons will be represented by a restricted global certificate and (ii) with respect to any transfer of any interest in the restricted global certificate, (a) if to a transferee that takes delivery in the form of an interest in the restricted global certificate, the capital property trustee will not require any written certification from the transferor or the transferee, and (b) if to a transferee that takes delivery in the form of an interest in the Regulation S global certificate, the capital property trustee will require written certification from the transferor (in the forms provided in the capital trust declaration), the form of which may be obtained from the capital property trustee, to the effect that the transfer complies with Rule 903 or Rule 904 of Regulation S under the Securities Act;
7. the purchaser understands that the restricted global certificate will bear a legend to the following effect unless otherwise agreed by us:

“NEITHER THIS GLOBAL CERTIFICATE, ANY BENEFICIAL INTEREST HEREIN NOR ANY SECURITY WHICH MAY BE DELIVERED UPON EXCHANGE OR REDEMPTION HEREOF HAS BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”). EACH HOLDER HEREOF AND EACH HOLDER OF A BENEFICIAL INTEREST HEREIN, BY HOLDING THIS GLOBAL CERTIFICATE AND ACQUIRING THE BENEFICIAL INTERESTS HEREIN, RESPECTIVELY, AGREES FOR THE BENEFIT OF NATIONAL CAPITAL TRUST I (THE “TRUST”), NATIONAL FUNDING TRUST I AND NATIONAL AUSTRALIA BANK LIMITED (THE “OFFERORS”) THAT THIS GLOBAL CERTIFICATE AND BENEFICIAL INTERESTS HEREIN MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) TO THE OFFERORS, (2) SO LONG AS THIS CERTIFICATE IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”), TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A IN ACCORDANCE WITH

RULE 144A AND TO WHOM NOTICE IS GIVEN THAT SUCH RESALE, PLEDGE OR TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (3) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 (AS APPLICABLE) OF REGULATION S UNDER THE SECURITIES ACT, (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION IN ACCORDANCE WITH RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTIONS. EACH OWNER OF A BENEFICIAL INTEREST IN THIS GLOBAL CERTIFICATE, BY ACQUIRING SUCH BENEFICIAL INTEREST, REPRESENTS AND AGREES FOR THE BENEFIT OF THE OFFERORS THAT IT WILL NOTIFY ANY PURCHASER OF SUCH BENEFICIAL INTEREST FROM IT OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THIS LEGEND WILL BE REMOVED ONLY IN THE CIRCUMSTANCES SPECIFIED IN THE AMENDED AND RESTATED DECLARATION OF TRUST OF THE TRUST.”

“ANY PURCHASER OR HOLDER OF THE TRUST PREFERRED SECURITIES OR ANY INTEREST THEREIN WILL BE DEEMED TO HAVE REPRESENTED BY ITS PURCHASE OR HOLDING THEREOF THAT EITHER (I) IT IS NOT A PLAN, PROGRAM OR ARRANGEMENT SUBJECT TO ERISA OR SECTION 4975 OF THE CODE AND IT IS NOT PURCHASING SUCH SECURITIES ON BEHALF OF OR USING THE ASSETS OF ANY SUCH PLAN, PROGRAM OR ARRANGEMENT OR (II) SUCH PURCHASE OR HOLDING IS COVERED BY THE EXEMPTIVE RELIEF PROVIDED BY PROHIBITED TRANSACTION CLASS EXEMPTION (“PTCE”) 96-23, 95-60, 91-38, 90-1 OR 84-14.”

8. the purchaser understands that any securities transferred in reliance on Regulation S will be represented by the Regulation S global certificate; the purchaser further understands that the Regulation S global certificate will bear a legend to the following effect, unless we determine otherwise in accordance with applicable law:

“THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”) AND MAY NOT BE OFFERED, SOLD OR DELIVERED IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY US PERSON, UNLESS THIS CERTIFICATE IS REGISTERED UNDER THE SECURITIES ACT OR EXEMPTION FROM THE REGISTRATION REQUIREMENTS THEREOF IS AVAILABLE. THE FOREGOING SHALL NOT APPLY FOLLOWING THE EXPIRATION OF FORTY DAYS FROM THE LATER OF THE COMMENCEMENT OF THIS OFFERING AND THE DATE OF ISSUANCE OF THIS CERTIFICATE.”;

“ANY PURCHASER OR HOLDER OF THE TRUST PREFERRED SECURITIES OR ANY INTEREST THEREIN WILL BE DEEMED TO HAVE REPRESENTED BY ITS PURCHASE OR HOLDING THEREOF THAT EITHER (I) IT IS NOT A PLAN, PROGRAM OR ARRANGEMENT SUBJECT TO ERISA OR SECTION 4975 OF THE CODE AND IT IS NOT PURCHASING SUCH SECURITIES ON BEHALF OF OR USING THE ASSETS OF ANY SUCH PLAN, PROGRAM OR ARRANGEMENT OR (II) SUCH PURCHASE OR HOLDING IS COVERED BY THE EXEMPTIVE RELIEF PROVIDED BY PROHIBITED TRANSACTION CLASS EXEMPTION (“PTCE”) 96-23, 95-60, 91-38, 90-1 OR 84-14.”

9. each purchaser of the securities (including, for the avoidance of doubt, the trust preferred securities, funding preferred securities, National preference shares or GDRs) offered hereby will be deemed to have represented and agreed as follows:
  - it has not offered or sold and, prior to the expiry of a period of six months from the date of issue of the trust preferred securities, will not offer or sell any such trust preferred securities to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments, as principal or agent, for the purposes of their business or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, as amended, or the FSMA;
  - it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of the trust preferred securities in circumstances in which section 21(1) of the FSMA would not, if National Capital Trust were not an authorized person, apply to National Capital Trust; and
  - it has complied and will comply with all applicable provisions of the Public Offers of Securities Regulations 1995 and of the FSMA with respect to anything done by it in relation to the trust preferred securities in, from or otherwise involving the United Kingdom;
10. each purchaser of the securities (including, for the avoidance of doubt, the trust preferred securities, the funding preferred securities, National preference shares or GDRs) offered hereby will be deemed to have represented and agreed as follows (terms used in this section that are defined in the Corporations Act are used in this section as defined in the Corporations Act):
  - the purchaser understands that no prospectus or product disclosure statement in relation to the trust preferred securities has been lodged with ASIC or the ASX;
  - no offer or invitation in or received in Australia may be made in relation to the issue, sale or purchase of any trust preferred securities, funding preferred securities, National preference shares or GDRs and no trust preferred securities, funding preferred securities, National preference shares or GDRs may be sold in Australia, unless the offeree is required to pay at least an aggregate of A\$500,000 or its foreign currency equivalent (disregarding amounts, if any, lent by National or its associates (within the meaning of those expressions in Part 6D.2 of the Corporations Act)) for the trust preferred securities, funding preferred securities, National preference shares or GDRs, or it is otherwise an offer or invitation for which by virtue of Section 708 of the Corporations Act no disclosure is required to be made under Part 6D.2 of the Corporations Act; and
  - no disclosure document or product disclosure statement may be circulated or issued or caused to be received in Australia which requires lodging under Division 5 of Part 6D.2 of the Corporations Act or which is required under Division 2 of Part 7.9 of the Corporations Act;
11. the purchaser will not hold and will not acquire interests or beneficial interests in the trust preferred securities or the funding preferred securities as the trustee of a trust estate which is an Australian resident trust estate for Australian tax purposes; and



12. the purchaser acknowledges that National Capital Trust, National Funding Trust, National, the initial purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations, warranties and agreements and the ERISA representations set forth below, and agrees that if any of the acknowledgments, representations or warranties made by it are no longer accurate, it will promptly notify National Capital Trust, National and the initial purchasers. If it is acquiring any trust preferred security as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each account and it has full power to make the foregoing representations, warranties and agreements on behalf of each account.

Any purchaser or holder of the trust preferred securities or any interest therein will be deemed to have represented by its purchase or holding thereof that either (i) it is not a plan, program or arrangement subject to ERISA or Section 4975 of the Code and it is not purchasing such securities on behalf of or using the assets of any such plan, program or arrangement or (ii) such purchase or holding is covered by the exemptive relief provided by PTCE 96-23, 95-60, 91-38, 90-1 or 84-14. Unless National, National's London branch or National Capital Trust determines otherwise, the trust preferred securities will bear a legend to the effect of the foregoing.

For a further discussion of the requirements (including the presentation of transfer certificates) under the capital trust declaration to effect exchanges or transfers of interests in global certificates, see "Description of the Trust Preferred Securities—Form, Transfer and Exchange."

We recognize that neither Euroclear nor Clearstream, Luxembourg in any way undertakes to, and neither Euroclear nor Clearstream, Luxembourg has any responsibility to, monitor or ascertain the compliance of any transactions in the securities with any exemptions from registration under the Securities Act or of any other state or federal securities law.

#### **Restrictions on Transfers of the GDRs and the National Preference Shares Represented by the GDRs**

Each Rule 144A GDR will bear a legend substantially as follows, unless National and the depositary agree otherwise in accordance with applicable law, and purchasers of the trust preferred securities acknowledge that the Rule 144A GDRs and the National preference shares represented by the Rule 144A GDRs will be subject to the restrictions set forth in that legend, if any:

"THE RULE 144A GLOBAL DEPOSITARY SHARES EVIDENCED HEREBY AND THE PREFERENCE SHARES OF NATIONAL AUSTRALIA BANK LIMITED ("SHARES") REPRESENTED THEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THOSE SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) TO A PERSON WHOM THE BENEFICIAL OWNER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF THE SECURITIES ACT IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (2) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR ANY OTHER AVAILABLE EXEMPTION UNDER THE SECURITIES ACT, OR (3) IN ACCORDANCE WITH RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GLOBAL DEPOSITARY RECEIPT MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY ESTABLISHED OR MAINTAINED BY A

DEPOSITARY BANK, OTHER THAN A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE “RESTRICTED SECURITIES” WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT.”

Each Regulation S GDR will bear a legend substantially as follows, unless National and the depositary agree otherwise in accordance with applicable law, and purchasers of the trust preferred securities acknowledge that the Regulation S GDRs and the National preference shares represented by the Regulation S GDRs will be subject to the restrictions set forth in that legend, if any:

“NEITHER THE REGULATION S GLOBAL DEPOSITARY SHARES EVIDENCED HEREBY, NOR THE PREFERENCE SHARES OF NATIONAL AUSTRALIA BANK LIMITED (“SHARES”) REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION, AND THOSE SECURITIES MAY NOT BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED PRIOR TO THE EXPIRATION OF THE RESTRICTED PERIOD (DEFINED AS 40 DAYS AFTER THE LATER OF (I) THE COMMENCEMENT OF THE OFFERING OF REGULATION S GLOBAL DEPOSITARY SHARES AND SHARES AND (II) THE RELATED CLOSING) EXCEPT (1) OUTSIDE THE UNITED STATES TO A PERSON OTHER THAN A U.S. PERSON (AS SUCH TERMS ARE DEFINED IN REGULATION S UNDER THE SECURITIES ACT) IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (2) TO A PERSON WHOM THE BENEFICIAL OWNER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES; PROVIDED THAT IN CONNECTION WITH ANY TRANSFER UNDER (2) ABOVE, THE TRANSFEROR SHALL, PRIOR TO THE SETTLEMENT OF SUCH SALE, WITHDRAW THE SHARES IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THE REGULATION S DEPOSIT AGREEMENT AND INSTRUCT THAT SUCH SHARES BE DELIVERED TO THE CUSTODIAN UNDER THE RULE 144A DEPOSIT AGREEMENT FOR ISSUANCE IN ACCORDANCE WITH THE TERMS AND CONDITIONS THEREOF, OF RULE 144A GLOBAL DEPOSITARY SHARES TO OR FOR THE ACCOUNT OF SUCH QUALIFIED INSTITUTIONAL BUYER.”

“UPON THE EXPIRATION OF THE RESTRICTED PERIOD, THE REGULATION S GLOBAL DEPOSITARY SHARES EVIDENCED HEREBY AND THE DEPOSITED SECURITIES REPRESENTED THEREBY SHALL NO LONGER BE SUBJECT TO THE RESTRICTIONS ON TRANSFER PROVIDED IN THIS LEGEND IF, AT THE TIME OF SUCH EXPIRATION, THE OFFER AND SALE OF THE REGULATION S GLOBAL DEPOSITARY SHARES EVIDENCED HEREBY AND THE DEPOSITED SECURITIES REPRESENTED THEREBY BY THE HOLDER THEREOF IN THE UNITED STATES WOULD NOT BE RESTRICTED UNDER THE SECURITIES LAWS OF THE UNITED STATES OR ANY OTHER STATE OF THE UNITED STATES.”

## ERISA CONSIDERATIONS

Before authorizing an investment in the trust preferred securities, fiduciaries of a pension, profit-sharing or other employee benefit plan (a “Plan”) subject to ERISA should consider, among other matters, (a) ERISA’s fiduciary standards, (b) whether such investment in the trust preferred securities by the Plan satisfies the prudence and diversification requirements of ERISA, taking into account the overall investment policies of the Plan, the composition of the Plan’s portfolio and the limitations on the marketability of the trust preferred securities, (c) whether such fiduciaries have authority to make such investment in the trust preferred securities under applicable Plan investment policies and governing instruments and (d) rules under ERISA and the Code that prohibit Plan fiduciaries from causing a Plan to engage in a “prohibited transaction”.

**Due to the complexity of these rules and the penalties that may be imposed upon persons involved in nonexempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing the trust preferred securities on behalf of or with “plan assets” of any Plan consult with their counsel regarding the potential consequences if the assets of National Capital Trust were deemed to be “plan assets” and the availability of exemptive relief under Applicable Exemptions (as defined below).**

Section 406 of ERISA and Section 4975 of the Code prohibit Plans, any entity whose underlying assets include “plan assets” by reason of any Plan’s investment in the entity (a “Plan Asset Entity”), as well as individual retirement accounts and Keogh and other plans subject to Section 4975 of the Code (also “Plans”), from, among other things, engaging in certain transactions involving “plan assets” of a Plan with persons who are “parties in interest” under ERISA or “disqualified persons” under Section 4975 of the Code (“Parties in Interest”) with respect to such Plan. A violation of these “prohibited transaction” rules may result in imposition of an excise tax or other liabilities and adverse consequences under ERISA and/or Section 4975 of the Code for such persons, unless exemptive relief is available under an applicable statutory or administrative exemption. Employee benefit plans that are governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and foreign plans (as described in Section 4(b)(5) of ERISA) are not subject to the requirements of ERISA or Section 4975 of the Code.

Under a regulation (the “Plan Assets Regulation”) issued by the US Department of Labor (the “DOL”), the assets of National Capital Trust (and, consequently, the assets of National Funding Trust) would be deemed to be “plan assets” of a Plan for purposes of ERISA and Section 4975 of the Code if “plan assets” of the Plan and/or a Plan Asset Entity were used to acquire an equity interest in National Capital Trust and no exception were applicable under the Plan Assets Regulation. An “equity interest” is defined under the Plan Assets Regulation as any interest in an entity other than an instrument which is treated as indebtedness under applicable local law and which has no substantial equity features and specifically includes a beneficial interest in trust. For purposes of the Plan Assets Regulation, the trust preferred securities are likely to be treated as “equity interests”.

Pursuant to an exception contained in the Plan Assets Regulation, the assets of National Capital Trust would not be deemed to be “plan assets” of investing Plans if, immediately after the most recent acquisition of any equity interest in National Capital Trust, less than 25% of the value of each class of equity interests in National Capital Trust were held by Plans, other employee benefit plans not subject to ERISA or Section 4975 of the Code (such as governmental, church and foreign plans), and Plan Asset Entities (collectively, “Benefit Plan Investors”). No monitoring or other measures will be taken with respect to limiting the value of the trust preferred securities held by Benefit Plan Investors to less than 25% of the total value of such trust preferred securities at the completion of the initial offering or thereafter. Thus, the conditions of the 25% exception may not be satisfied.

Under the terms of the Plan Assets Regulation, if National Capital Trust and National Funding Trust were deemed to hold plan assets by reason of a Plan’s investment in the trust preferred

securities, such Plan assets would include an undivided interest in the assets held by National Capital Trust (i.e., the funding preferred securities) and the assets held by National Funding Trust (i.e., the debentures). In such event, the persons providing services with respect to the assets of National Capital Trust or National Funding Trust may become Parties in Interest with respect to such an investing Plan and may become subject to the fiduciary responsibility provisions of Title I of ERISA and the prohibited transaction provisions of ERISA and the Code with respect to transactions involving such assets. In this regard, if the person or persons with discretionary responsibility with respect to such assets were affiliated with National, any such discretionary actions taken with respect to such assets could be deemed to constitute a prohibited transaction under ERISA or the Code (e.g., the use of such fiduciary authority or responsibility in circumstances under which such persons have interests that may conflict with the interests of the Plans for which they act and affect the exercise of their best judgment as fiduciaries). In order to help avoid such prohibited transactions, each investing Plan, by purchasing one or more trust preferred securities, will be deemed to have (i) directed National Capital Trust to invest in the funding preferred securities, (ii) directed National Funding Trust to invest in the debentures and (iii) appointed the capital property trustee, the funding property trustee, the Delaware trustees and the initial regular trustees of each of National Capital Trust and National Funding Trust.

In addition, the purchase and holding of the trust preferred securities and certain transactions involving National Capital Trust, National Funding Trust and their affiliates could be deemed to constitute direct or indirect prohibited transactions under ERISA and Section 4975 of the Code with respect to a Plan if the trust preferred securities were acquired with “plan assets” of such Plan and/or assets of National Capital Trust were deemed to be “plan assets” of Plans investing in National Capital Trust. For example, if National is a Party in Interest with respect to an investing Plan (or becomes a Party in Interest in connection with this transaction), indirect extensions of credit between National and National Capital Trust (as represented by the debentures and National Capital Trust’s ownership of 100% of the funding preferred securities) would likely be prohibited by Section 406(a)(1)(B) of ERISA and Section 4975(c)(1)(B) of the Code, unless exemptive relief were available under an applicable administrative exemption (see below).

The DOL has issued five prohibited transaction class exemptions (“PTCEs”) that may provide exemptive relief if required for direct or indirect prohibited transactions that may arise from the purchase or holding of the trust preferred securities if the trust preferred securities are acquired directly or indirectly from or for the benefit of a Party in Interest. Those class exemptions are PTCE 96-23 (for certain transactions determined by in-house asset managers), PTCE 95-60 (for certain transactions involving insurance company general accounts), PTCE 91-38 (for certain transactions involving bank collective investment funds), PTCE 90-1 (for certain transactions involving insurance company pooled separate accounts) and PTCE 84-14 (for certain transactions determined by independent qualified professional asset managers).

Because of the foregoing restrictions, the trust preferred securities may not be purchased or held by any Plan, any Plan Asset Entity or any person investing “plan assets” of any Plan, unless such purchase or holding is covered by the exemptive relief provided by PTCE 96-23, 95-60, 91-38, 90-1 or 84-14 (collectively, “Applicable Exemptions”). Any purchaser or holder of the trust preferred securities or any interest therein will be deemed to have represented by its purchase and holding thereof that either (a) it is not a Plan or a Plan Asset Entity and is not purchasing such securities on behalf of or with “plan assets” of any Plan or (b) the purchase and holding of the trust preferred securities is covered by the exemptive relief provided by an Applicable Exemption.

Even if the conditions of one or more of the foregoing exemptions are satisfied, no assurance can be given that such exemptions would apply to discretionary actions taken by the respective property trustees, regular trustees or Delaware trustees of National Capital Trust or National Funding Trust, if the need for such discretionary actions were to arise. For this reason, in order to lessen any potential conflicts of interest, each of the declarations of trust for National Capital Trust and National Funding

Trust specifically enumerates the duties of each such trustee and provides that no such trustee shall have any duties other than as specifically set forth in the applicable trust declaration.

Governmental plans, as defined in Section 3(32) of ERISA, are not subject to ERISA, and are also not subject to the prohibited transaction provisions under Section 4975 of the Code. However, state laws or regulations governing the investment and management of the assets of such plans may contain fiduciary and prohibited transaction requirements similar to those under ERISA and the Code discussed above. Accordingly, fiduciaries of governmental plans, in consultation with their advisors, should consider the impact of their respective state pension codes on investments in the trust preferred securities and the considerations discussed above, to the extent applicable.

## PLAN OF DISTRIBUTION

Subject to the terms and conditions set forth in a purchase agreement among National, National Funding Trust, National Capital Trust and Deutsche Bank AG London and Merrill Lynch International (together, the “initial purchasers”), National Capital Trust has agreed to sell to each of the initial purchasers, and each of the initial purchasers has severally agreed to purchase, all of the trust preferred securities offered hereby. In the purchase agreement, the initial purchasers have agreed, subject to the terms and conditions set forth therein, to purchase all of the trust preferred securities offered by this offering memorandum if any of the trust preferred securities are purchased.

The initial purchasers are offering the trust preferred securities, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, and other conditions contained in the purchase agreement, such as the receipt by the initial purchasers of officer’s certificates and legal opinions. The initial purchasers reserve the right to withdraw, cancel or modify offers to investors and to reject orders in whole or in part.

National, National Funding Trust and National Capital Trust have agreed that, without the prior written consent of the initial purchasers, neither National, National Funding Trust nor National Capital Trust will, during the period ending 30 days after the date of this offering memorandum:

- directly or indirectly, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of any trust preferred securities, funding preferred securities, GDRs representing preference shares issuable upon the exchange of trust preferred securities, preference shares issuable upon the exchange of the trust preferred securities in each case that would constitute Tier 1 regulatory capital for National and for its consolidated subsidiaries (collectively, the “Securities”) or any other preference shares or securities of National or its subsidiaries convertible into or exercisable or exchangeable for the Securities (other than to an affiliate (as defined in Rule 12b-2 under the Exchange Act) of National) (collectively, the “Restricted Securities”) or file any registration statement under the Securities Act with respect to any Restricted Securities, or
- enter into any swap or any other agreement or any transaction (other than any agreement entered into pursuant to this offering of trust preferred securities) that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of any Restricted Securities, whether any such swap or transaction is to be settled by delivery of Restricted Securities, in cash or otherwise.

### Commissions

In the purchase agreement, subject to the conditions thereof, the initial purchasers have agreed to purchase the trust preferred securities at a price per trust preferred security of £1,000. The initial purchasers have advised National and National Capital Trust that they propose initially to offer the trust preferred securities directly to investors at the price to investors set forth on the cover page of this offering memorandum. After the initial offering, the offering price to investors, concessions and discounts may be changed. National Capital Trust will pay the initial purchasers a commission of £10 per trust preferred security, or £4,000,000 in total.

### Securities Are Not Being Registered

The trust preferred securities offered hereby have not been registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. See “Notice to Investors”.



The initial purchasers propose to offer the trust preferred securities for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Rule 144A. The initial purchasers will not offer or sell the trust preferred securities except to persons whom they reasonably believe to be QIBs in reliance on Rule 144A or to non-US persons outside the United States to whom offers and sales may be made under Regulation S of the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of the trust preferred securities within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A. In making a purchase of the trust preferred securities, each purchaser will be deemed to have made certain representations and agreements as set forth under “Notice to Investors”.

## **Selling Restrictions**

### ***General Selling Restrictions***

With respect to any sale of the trust preferred securities, each initial purchaser will not take any action to permit a public offering of the securities in any jurisdiction outside the United States where action would be required for such purpose. The initial purchasers will not offer or sell any trust preferred securities in any jurisdiction outside the United States except under circumstances that will result in compliance with all applicable laws thereof.

### ***Australian Selling Restrictions***

No prospectus or product disclosure statement in relation to the trust preferred securities has been lodged with ASIC or the ASX.

No offer or invitation in or received in Australia may be made in relation to the issue, sale or purchase of any trust preferred securities, funding preferred securities, National preference shares or GDRs and no trust preferred securities, funding preferred securities, National preference shares or GDRs may be sold in Australia, unless the offeree is required to pay at least an aggregate of A\$500,000 or its foreign currency equivalent (disregarding amounts, if any, lent by National or its associates (within the meaning of those expressions in Part 6D.2 of the Corporations Act)) for the trust preferred securities, funding preferred securities, National preference shares or GDRs, or it is otherwise an offer or invitation for which by virtue of Section 708 of the Corporations Act no disclosure is required to be made under Part 6D.2 of the Corporations Act.

No disclosure document or product disclosure statement may be circulated or issued or caused to be received in Australia which requires lodging under Division 5 of Part 6D.2 of the Corporations Act or which is required under Division 2 of Part 7.9 of the Corporations Act.

### ***United Kingdom Selling Restrictions***

Each initial purchaser of the trust preferred securities has represented and agreed:

- it has not offered or sold and, prior to the expiry of a period of six months from the date of issue of the trust preferred securities, will not offer or sell any trust preferred securities to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 or the FSMA;

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of the trust preferred securities in circumstances in which section 21(1) of the FSMA would not apply to National Capital Trust; and
- it has complied and will comply with all applicable provisions of the Public Offers of Securities Regulations 1995 and the FSMA with respect to anything done by it in relation to the trust preferred securities in, from or otherwise involving the United Kingdom.

### **New Issue of Securities**

The trust preferred securities are a new issue of securities with no established trading market. We have been advised by the initial purchasers that they presently intend to make a market in the trust preferred securities. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. Neither National nor National Funding Trust, National Capital Trust or the initial purchasers can assure the liquidity of the trading market for the trust preferred securities or that an active public market for the trust preferred securities will develop. If an active public trading market for the trust preferred securities does not develop, the market price and liquidity of the trust preferred securities may be adversely affected.

### **Price Stabilization and Short Positions**

Until the distribution of the trust preferred securities is completed, rules of the SEC may limit the ability of the initial purchasers to bid for and purchase the trust preferred securities. As an exception to these rules, the initial purchasers are permitted to engage in certain transactions that stabilize the price of the trust preferred securities. Such transactions consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the trust preferred securities. Stabilization is to take place in accordance with applicable laws in all relevant jurisdictions.

If the initial purchasers create a short position in the trust preferred securities in connection with the offering, i.e., if they sell more trust preferred securities than are set forth on the cover page of this offering memorandum, the initial purchasers may reduce that short position by purchasing trust preferred securities in the open market.

The initial purchasers also may impose a penalty bid. This occurs when a particular initial purchaser repays to the initial purchasers a portion of the commission received by it because the representatives have repurchased the trust preferred securities sold by or for the account of such initial purchaser in stabilizing or short covering transactions.

In general, purchases of a security for the purpose of stabilization or to reduce a short position could cause the price of the security to be higher than it might be in the absence of such purchases. The imposition of a penalty bid might also have an effect on the price of a security if it were to discourage resales of the security.

Neither National nor National Funding Trust, National Capital Trust or the initial purchasers make any representations or predictions as to the direction or magnitude of any effect that the transactions described above may have on the price of the trust preferred securities. In addition, neither National nor National Funding Trust, National Capital Trust or the initial purchasers make any representations that the initial purchasers will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

**Other Relationships**

The initial purchasers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with National. The initial purchasers have received customary fees and commissions for these transactions.

National has agreed to indemnify the several initial purchasers against certain liabilities, including liabilities under the Securities Act.

**LEGAL OPINIONS**

Richards, Layton & Finger, P.A., special Delaware counsel to National Capital Trust, National Funding Trust and National, will pass upon certain matters of Delaware law relating to the legality of the trust preferred securities and the funding preferred securities. Sullivan & Cromwell, our US counsel, will pass upon certain legal matters on behalf of National Capital Trust, National Funding Trust and National. Sidley Austin Brown & Wood LLP, New York, New York, will pass upon certain legal matters on behalf of the initial purchasers. Mallesons Stephen Jaques, Melbourne, Victoria, Australia, will pass upon certain matters of Australian law on behalf of National and Funding Holdings. Sidley Austin Brown & Wood LLP from time to time provides legal services to National and its subsidiaries. Linklaters and CMS Cameron McKenna, London, United Kingdom, will each pass upon certain matters of English law on behalf of National.

**INDEPENDENT ACCOUNTANTS**

The audited consolidated financial statements of National Australia Bank Limited have been audited by KPMG, independent public accountants, as indicated in their report with respect thereto, and are incorporated by reference in this offering memorandum in reliance upon the authority of said accountants as experts in accounting and auditing in giving said reports.

## GENERAL INFORMATION

### Listing

Application has been made to list the trust preferred securities on the Luxembourg Stock Exchange. Our constitution and the legal notice relating to the issue of the trust preferred securities will be deposited prior to the listing with the Registrar of Commerce and Companies in Luxembourg, Registre de Commerce et des Sociétés à Luxembourg, where such documents are available for inspection and where copies may be obtained on request, free of charge. As long as the trust preferred securities are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, an agent for making payments on the trust preferred securities will be maintained in Luxembourg.

### Management of National Australia Bank Limited

Our corporate headquarters are located at 500 Bourke Street, Melbourne, Victoria 3000, Australia. The following people comprise the management of National Australia Bank Limited:

- Frank J. Cicutto, Group Managing Director and Chief Executive Officer;
- Ian R. Crouch, Chief Information Officer;
- Michael T. Laing, Executive General Manager, Corporate Strategy and Investments;
- Christopher D. Lewis, Executive General Manager, Risk Management;
- Ian G. MacDonald, Executive General Manager, Financial Services Australia;
- Peter A. McKinnon, Executive General Manager, People and Culture;
- Richard E. McKinnon, Chief Financial Officer, Finance and Planning;
- Ross E. Pinney, Executive General Manager, Office of the CEO;
- Ian F. Scholes, Executive General Manager, Corporate and Institutional Banking;
- Peter B. Scott, Executive General Manager, Wealth Management;
- John M. Stewart, Executive Managing Director and Chief Executive Officer, National Australia Group Europe Limited; and
- Peter L. Thodey, Executive General Manager, Financial Services New Zealand.

### Consents

We have obtained all material consents, approvals and authorizations in connection with the issue of the trust preferred securities. The issuance of the trust preferred securities was authorized by resolutions of our board of directors.

### Incorporation by Reference

As described in the section “Where You Can Find Additional Information” in this offering memorandum, we incorporate by reference certain documents filed by us with the SEC under the Exchange Act. Those documents are available free of charge at the office of the Luxembourg listing agent. None of the information on our website is incorporated by reference herein or otherwise deemed to be a part of this offering memorandum. Any references to our website are for informational purposes only.

## Documents

Interested persons may inspect copies of the following documents, as well as any other agreement referenced in this offering memorandum, at the specified office of the Luxembourg listing agent:

- our constitution;
- the purchase agreement relating to the trust preferred securities;
- the amended and restated declarations of trust relating to each of National Capital Trust and National Funding Trust;
- the exchange agreement;
- the debentures; and
- the guarantees.

In addition to information available as indicated under the section “Where You Can Find Additional Information”, copies of our most recent consolidated financial statements for the preceding financial year, and any interim semi-annual financial statements published, will be available, free of charge, at the specified office of the listing agent in Luxembourg for so long as the trust preferred securities are listed on the Luxembourg Stock Exchange. National Australia Bank Limited publishes only consolidated financial statements.

The Luxembourg listing agent will act as intermediary between National Australia Bank Limited and the holders of trust preferred securities.

Other than as described in this offering memorandum and the documents incorporated by reference herein, there has been no material adverse change in our financial position since September 30, 2002.

## Clearing Systems

The trust preferred securities have been accepted for clearance through the facilities of Clearstream, Luxembourg and Euroclear. Relevant trading information is set forth below.

	<u>ISIN</u>	<u>Common Code</u>
Regulation S	XS0177395901	017739590
Rule 144A	XS0177403937	17740393

## Notices

All notices will be deemed to have been made upon (i) the mailing by first-class mail, postage prepaid, of the notices to holders of the trust preferred securities at their registered addresses as recorded in the register, and (ii) so long as the trust preferred securities are listed on the Luxembourg Stock Exchange and it is required by the rules of the Luxembourg Stock Exchange, publication of the notice to the holders of the trust preferred securities in English in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, if that publication is not applicable, in one other leading English language daily newspaper with general circulation in Europe, that is published each business day in morning editions, whether or not published in Saturday, Sunday or holiday editions.

We will provide notice to holders of the trust preferred securities of any redemption of trust preferred securities not less than 30 days nor more than 60 days prior to such redemption.

**Litigation**

A number of legal proceedings and claims are pending or have been asserted against us, some of which may be covered by third parties, including insurance companies. We believe that the final outcome of such proceedings and claims will not have a material adverse effect on our earnings, cash flow or financial position. See the section entitled “National Australia Bank Limited”.

**Governing Law and Jurisdiction**

The trust preferred securities will be governed by, and construed in accordance with, the laws of the State of Delaware. The debentures, the exchange agreement and the guarantees will be governed by, and construed in accordance with, the laws of the State of New York. However, as described elsewhere in this offering memorandum, certain subordination and related provisions of the debentures and the guarantees will be governed by, and construed in accordance with, the laws of the State of Victoria, Australia.

Any New York State or United States federal court sitting in the State of New York shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the trust preferred securities.



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Deutsche Bank Luxembourg S.A.  
2 Bld Konrad Adenauer, L-1115 Luxembourg

**PROPERTY TRUSTEE**

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101 Barclay Street  
Floor 21 West  
New York, New York 10286  
United States

**DELAWARE TRUSTEE**

The Bank of New York  
(Delaware)  
700 White Clay Center  
Newark, Delaware 19711  
United States

**DEPOSITARY**

The Bank of New York  
101 Barclay Street  
Floor 22 West  
New York, New York 10286  
United States

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**£400,000,000**

**National Capital Trust I**

**Trust Preferred Securities**

(liquidation amount of £1,000 per Trust Preferred Security)

guaranteed to the extent described in this offering memorandum by, and each redeemable upon delivery of one GDR representing one preference share (liquidation amount of £1,000 per share) of,

**National Australia Bank Limited**

**ABN 12 004 044 937**

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**OFFERING MEMORANDUM**

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**Deutsche Bank**

**Merrill Lynch & Co.**

**September 22, 2003**

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