National Australia Bank

MIFID II

General Information Regarding Product Risks

ABOUT THIS DOCUMENT

This document relates to your dealings with National Australia Bank Limited ("**NAB**"), London Branch and not to dealings with other NAB offices, branches or entities.

You should obtain legal advice before taking any action (or refraining from doing so) in respect of any of the contents of this document. The information contained in this document is not legal advice and is not a complete explanation of any of the matters described. For a comprehensive explanation, please contact your legal advisers.

The merits or suitability of any instrument referred to in this document must be determined independently by any recipient of this document on the basis of its own investigation and evaluation. Any such determination should involve, among other things, an assessment of the legal, tax, accounting, regulatory, financial, credit and other related aspects of the instrument. Recipients are recommended to seek their own financial and other advice and should rely on that advice and their own judgement, review and analysis in evaluating the instrument.

This document does not contain, and should not be construed as, investment advice or a recommendation to purchase any instrument or enter into any transaction.

The regulations, regulatory guidance and market practice are subject to change and National Australia Bank Limited and its affiliates are not obliged to update you on such change (even if the contents of this document become incorrect). You should monitor the regulations relevant to you with your legal advisers.

The information on risks contained in this document is required under the (a) the Markets in Financial Instruments Regulation ("**MiFIR**") and the EU Markets in Financial Instruments Directive ("**MiFID II**") as it forms part of the law applicable in the EEA (collectively, "**EU MiFID II**"), and (b) MiFIR and MiFID II as they each form part of domestic law of the United Kingdom (collectively, "**UK MiFID II**").

Other information about NAB's response to MiFID II in general can also be found at www.nab.com.au/euregulatorydisclosures.

GENERAL RISKS

These risk warnings cannot, and do not purport to, set out all risks arising in relation to all transactions in these products, and should not be relied upon as doing so. The risks applicable to any particular transaction will depend on your particular circumstances and the terms of the relevant transaction. You should not deal in these products unless you understand their nature, the extent of your exposure to risk, and unless you are satisfied that the product is appropriate for you in light of your objectives, knowledge, experience, financial and operational resources, tax position, and other relevant circumstances. You should also read any relevant documentation, for example term sheets and offering memoranda, which may highlight a non-exhaustive set of additional risks associated with a product or service.

All financial products carry a degree of risk and even low-risk investment strategies contain an element of uncertainty. Prices may fluctuate and there is a risk you may lose some or all of your investment. The nature and extent of investment risk varies with, amongst other things, the type of investment, the location or domicile of the issuer, the diversification or concentration in a portfolio, the complexity of the transaction and/or the use of leverage. The price or value of an investment will depend on fluctuations in the financial markets and current performance, past performance, simulated past performance or forecast performance are no indicator of future performance.

Types of risks that may have an impact on your investment include (without limitation) liquidity risk, insolvency risk (including bail in risk), market risk (including volatility risk and the impact of market conditions), credit risk, settlement risk, currency risk (including taking a currency position under which a party loses the opportunity to participate in exchange rate movements that would otherwise be favourable), operational risk, business risk, tax risk, regulatory risk, legal risk, interest rate risk (including taking a fixed rate position under which a party loses the opportunity to participate in interest rate market movements that would otherwise be favourable), inflation risk (including taking a position under which a party loses the opportunity to participate in market movements that would otherwise be favourable), barriers to or restrictions on divestment, risks relating to leverage and margin requirements, risks inherent in "over the counter trading" and/or risks as a result of you assuming additional obligations in relation to the investment, including contingent liabilities. These risks may occur simultaneously and may have an unpredictable effect on the value of your investment.

PRODUCT RISKS FOR OTC DERIVATIVES

A derivative is a contract entered into between parties for the exchange of payments calculated by reference to an underlying asset, rate or index.

A derivative can be traded "over-the-counter" (i.e. outside of an exchange or other trading venue) ("**OTC**") or on an exchange ("**exchange- traded**"). OTC derivatives include options, forwards and swaps.

In general, OTC derivatives involve the following risks:

(a) **Counterparty credit risk**: where the derivative transaction is uncleared and uncollateralised, the counterparties are exposed to the credit risk of the other party. The customer's entire investment could be lost in the event of default by or the insolvency of its counterparty (which is NAB for these products, except when the transaction is cleared in which case the counterparty is the relevant clearing house).

(b) **Loss of investment**: there is a risk that the customer will pay an upfront amount, but never receive any benefit from the transaction. An example of this could be if an option purchased is not in-the-money at the time it can be exercised.

(c) **Contingent liabilities**: derivatives transactions such as credit default swaps or options may involve contingent liabilities. This can result in the customer incurring losses much greater than its original investment (if any) or premium received (in the case of sold options or sold credit default swaps) should certain conditions be met, such as the occurrence of a credit event or an asset reaching a strike price.

(d) **Unlimited loss**: losses under certain derivatives transactions can theoretically be unlimited. In the context of an interest rate or FX swap, for as long as the interest or exchange rate continues to rise so too will the customer's loss if it is required to pay the variable rate under the transaction.

(e) **Leverage risk:** derivatives transactions may be entered into on a highly geared or leveraged basis. This may mean that even a relatively small movement in the value of the underlying asset or other specified factor(s) could result in a disproportionately large movement, unfavourable or favourable, in the amount payable between the parties to the transaction.

(f) **Legal risk:** if a counterparty goes into default and the derivative is terminated, the ability to recover value from the transaction is ordinarily dependent on netting gains against losses across different transactions and the value of the transactions against the value of the collateral. If the legal netting mechanism is not recognised in any jurisdiction, it may be that losses will be incurred.

(g) **Collateral risk:** parties to derivatives contracts are often required to post collateral to mitigate their credit exposure to one another.If the market value moves against their position, the investor may be called upon to pay substantial additional collateral on short notice. Failure to post collateral may lead to the contracts being closed out which could crystallise a loss position. There is no guarantee that collateral which is posted by the customer will be returned to the customer. Where collateral is held by a third-party custodian, the return of such collateral is subject to the credit and operational risk of that custodian.

(h) **Basis risk:** where a derivative transaction has been entered into to hedge price or other risks arising from ownership of a particular underlying, the performance of the derivative and the performance risk of the underlying may not be perfectly correlated, resulting in residual 'basis' risk.

(i) **Operational risk:** losses may occur due to the failures of processes and systems used in monitoring derivative transactions, including calculating and making payments or deliveries, exercising rights (such as options rights) before their expiry, monitoring lifecycle events and delivering notices in a timely manner. Such failures in third party systems may be subject to limitations on liability.

(j) **Delivery risk:** if you have entered into a physically settled derivative, you may be obliged to take or make delivery of the relevant asset or currency. In respect of commodities and natural resources, this may require significant operational resources to achieve.

(k) **Early termination:** derivative transactions may be subject to early termination due to a voluntary (at one party's discretion) or agreed early termination, 'events of default' or 'termination events' in relation to the customer or the provider (e.g. failure to pay, insolvency, force majeure, illegality, tax events) or extraordinary events relating to the underlying (e.g. merger, nationalisation or delisting of an equity, market disruptions, cancellation of an index, disruptions in the ability of one or more parties to hedge the transaction). Such events (with the exception of voluntary (where it is at the discretion of the customer) or agreed early termination) may be outside the control of the customer and such termination may, depending on the value of the transaction at such time, result in a substantial payment due from the customer (even where the provider is in default or the termination arises from an external event). Customers may not be able to establish replacement transactions or may incur significant costs in doing so such as charges for early termination even where such early termination is voluntary or agreed between the parties.

(l) **Liquidity risk:** uncleared derivative contracts can be amended or transferred only pursuant to their express terms or by agreement of the parties. Where consent of the dealer to transfer or unwind an OTC derivative transaction is required, it may not provide such consent, for reasons which it is not obliged to disclose. In addition, there may not be another dealer who is willing to provide the same or a similar transaction. OTC derivative transactions on standardised terms (e.g. credit default swaps with set payment dates and maturity dates) will be more liquid than bespoke transactions. OTC derivative transactions may involve greater risk than investing in exchange-traded derivatives because there is no exchange market on which to close out an open position. It may therefore be impossible to liquidate an existing position, to assess the value of the position arising from an off-exchange transaction or to assess the exposure to risk.

(m) **Risk of adjustments:** the occurrence of certain events relating to the underlying of the derivative transaction may trigger the right of the calculation agent to make certain adjustments to the economic terms (e.g. market disruption events, stock splits, or the payment of unexpected or extraordinary dividends, currency controls). Such adjustments may involve an element of discretion on the part of the calculation agent. Exposure to an underlying via a derivative may not correspond in all cases with exposure obtained by holding the underlying directly.

(n) **Clearing risk**: cleared OTC derivatives are OTC derivatives which have been submitted to and accepted for clearing by a clearing house. Such cleared derivatives are subject to the rules of the clearing house, including collateral arrangements required by the clearing house. Therefore, participants may be required to post collateral on short notice to cover losses incurred under the cleared OTC derivative contracts. Failure to post collateral may lead to the contracts being closed out which could crystallise a loss position. The terms and conditions of cleared OTC derivatives contracts (including the strike or forward price) may be modified by the clearing house without notice to reflect changes or events in respect of the underlying asset or otherwise.

PRODUCT RISKS FOR DEBT INSTRUMENTS AND STRUCTURED DEPOSITS

Bonds are negotiable debt instruments issued in bearer or registered form by a company, a government body or other entity to creditors and whose par value at issuance represents a fraction of the total amount of the debt. The duration of the debt as well as the terms and conditions of repayment are determined in advance. Unless stipulated otherwise, the bond is repaid either at the maturity date, by means of periodic payments, as a result of unscheduled events (such as the exercise of an option or the occurrence of a stipulated event) or at different times determined by drawing lots. The interest payments on bonds may be either (i) fixed for the entire duration or (ii) variable and often linked to reference rates (e.g. LIBOR). The purchaser of a bond (the creditor) has a claim against the issuer (or debtor).

Investments in bonds may involve risks including but not limited to the following:

(a) **Insolvency risk**: the issuer may become temporarily or permanently insolvent, resulting in its incapacity to pay the interest or redeem the bond. The solvency of an issuer may change due to one or more of a range of factors including the issuer, the issuer's economic sector and/or the political and economic status of the countries concerned. The deterioration of the issuer's solvency will influence the price of the bonds that it issues.

(b) **Interest rate risk:** uncertainty concerning interest rate movements means that purchasers of fixed-rate bonds carry the risk of a fall in the prices of such bonds if interest rates rise. The longer the duration of the loan and the lower the interest rate, the higher a bond's sensitivity to a rise in the market rates.

(c) **Credit risk**: the value of a bond will fall in the event of a default or reduced credit rating of the issuer. Generally, the higher the relative rate of interest (that is, relative to the interest rate on a risk-free security of similar maturity and interest rate structure), the higher the perceived credit risk of the issuer.

(d) **Early redemption risk**: the issuer of a bond may include a provision allowing early redemption of the bond if market interest rates fall or otherwise. Such early redemption may result in a change to the expected yield.

(e) **Risks specific to bonds redeemable by drawing lots**: bonds redeemable by drawing (i.e. where a random selection ofoutstanding bonds is chosen for redemption) have a maturity that is difficult to determine, so unexpected changes in the yield on these bonds may occur.

(f) **Risks specific to certain types of bond**: additional risks may be associated with certain types of bond, for example, floating rate notes, reverse floating rate notes, zero coupon bonds, foreign currency bonds, convertible bonds, reverse convertible notes, indexed bonds, senior non-preferred bonds and other lower-ranking subordinated bonds. For such bonds, you are advised to make inquiries about the risks referred to in the issuance prospectus (or other offering materials) and not to purchase such securities before being certain that all risks are fully understood. In the case of senior non-preferred bonds and other lower-ranking subordinated bonds, you are advised to enquire about the ranking of the series of bonds within the debenture as well as the ranking of the bonds compared to the bonds in the issuer's other debentures. Indeed, if the issuer becomes bankrupt, those bonds will only be redeemed after repayment of all higher ranked creditors, including more senior bondholders, and as such there is a risk that you will not be reimbursed. In the case of reverse convertible notes, there is a risk that you will not be entirely reimbursed but will receive only an amount equivalent to the underlying securities at maturity.

(g) **Tax call risk:** the issuer of the bond may have the right to call the bond should there be an adverse change to the tax laws that affect it. This may mean that the yield on the bond is lower than anticipated.

Certificates of deposit and commercial paper are money market instruments, which is a general term for short term debt instruments with maturities of between one day and 397 days. NAB issues certificates of deposit and commercial paper to customers/investors which can be transferred. Some certificates of deposits ("**callable CDs**") are callable at NAB's option.

Structured Deposits are deposits with an option for NAB to repay early or choose an alternative currency of payment. Structured deposits have similar economic characteristics to money mark instruments, in that they are interest bearing obligations of the issuer/deposit taker (and are generally of a comparable tenor). However, structured deposits are not transferrable by the investor/deposit holder.

NAB's optionality under the terms of Structured Deposits and callable CDs can introduce or exacerbate risks.

Similar risks to those listed above for bonds apply to certificates of deposit, commercial paper and structured deposits. In the case of specific instruments, the importance of each generic risk will depend on the nature of the specific instruments. In this regard, it is important that you consider the instrument-specific materials provided.

PRODUCT RISKS FOR SECURITIES FINANCING TRANSACTIONS

Securities financing transactions ("**SFTs**") include repurchase agreements, sell/buy-back agreements and securities lending. In the case of repurchase agreements and sell/buy-back agreements, one party (the "**seller**") sells securities to the other (the "**buyer**"). The seller agrees to repurchase the securities at a later date and pays a return on the cash which is put at its disposal. In the case of securities lending, one party (the "**borrower**") borrows securities from the lender of the securities for a fee.

Participation in STFs may involve risks including but not limited to the following:

(a) **Credit risk**: a party to an SFT is exposed to credit risk - its counterparty may become insolvent or otherwise unable to meet its obligations (either to repurchase or to re-deliver, as the case may be). This could cause a loss if, for example, the buyer is not adequately collateralised.

(b) **Collateral risk:** parties to SFTs are required to post collateral to mitigate their exposure to one another. If the market value moves against their position, the counterparty may be called upon to pay substantial additional collateral on short notice. Failure to post collateral may lead to default and the contracts being closed out. There is

no guarantee that collateral which is posted by the customer will be returned to the customer. Where collateral is held by a third- party custodian, the return of such collateral is subject to the credit and operational risk of that custodian.

(c) **Operational risk:** losses may occur due to the failures of processes and systems used in monitoring SFTs, including calculating and making payments or deliveries, monitoring lifecycle events and delivering notices in a timely manner. Such failures in third party systems may be subject to limitations on liability.

(d) **Delivery risk:** you may be obliged to make delivery of the relevant securities, which relies on the liquidity of the relevant market. If you cannot obtain the securities (or can only do so at an elevated price), this may lead to default and loss.

(e) **Interest Rate Risk**: for longer-dated SFTs, there can be interest rate risk, in that parties are locked into paying/receiving a specific interest rate that is higher/lower than the prevailing rate.