

ANNUAL REMUNERATION DISCLOSURES

30 September 2020

Incorporating the requirements of APS 330

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Section 1

Qualitative Disclosures

Introduction

This document has been prepared in accordance with APRA Prudential Standard APS 330 *Public Disclosure*, which requires disclosure of information to the market relating to risk management practices, including remuneration practices.

This disclosure has also been prepared in accordance with Article 450 of the European Union Capital Requirements Regulation, covering senior managers, risk managers and other material risk takers of London Branch as defined by the senior managers and certification regime in the United Kingdom (UK).

These disclosures outline qualitative information on the remuneration frameworks and policies and how they incorporate risk considerations for National Australia Bank Limited (NAB) and its controlled entities (the Group). The qualitative information is relevant for all employees of the Group, including:

- senior managers and material risk takers of the Group (in respect of which there are quantitative disclosures in section 2)
- senior managers, risk managers and other material risk takers of the London Branch (in respect of which there are quantitative disclosures in section 3).

The Group provides detailed information specific to remuneration for the Executive Leadership Team (ELT), who are also senior managers of the Group, in the Remuneration Report contained in the 2020 Annual Financial Report (2020 Remuneration Report).

The types of persons considered as senior managers and material risk takers for the Group are outlined in the following table, with details of the number of individuals who held those roles in the year ended 30 September 2020 (referred to as 2020 throughout this report). Individuals within this disclosure have been identified consistent with the definitions provided in paragraphs 22 of APS 330 and paragraph 57(a) and (c) of CPS 510 *Governance*.

	Number of individuals ⁽¹⁾	Definition
Senior managers	38	Members of the ELT, other Accountable Persons, senior managers who are members of the Group Executive Risk Committee, business line Chief Risk Officers and senior managers of regulated subsidiaries.
Material risk takers	42	Executives of the Group who can substantially impact the financial performance and capital position of the Group.

⁽¹⁾ There were 32 senior managers and 44 material risk takers identified for the 2019 disclosure.

The London Branch roles identified as senior managers, risk managers and other material risk takers are outlined in the following table, with details of the number of individuals who held those roles in 2020.

	Number of individuals ⁽¹⁾	Definition
Senior managers	8	Includes senior management of the London Branch operations and Group senior management who have significant management accountability for the London Branch.
Risk managers	13	Includes managers of credit and/or market risk takers.
Other material risk takers	46	Includes employees performing significant influence functions, employees who have responsibility and accountability for activities that could have a material impact on London Branch's risk profile, and employees in independent risk management, compliance or internal audit function roles.

⁽¹⁾ There were 11 senior managers, 14 risk managers and 50 other material risk takers identified for the 2019 disclosure.

Senior managers and material risk takers of the Group and senior managers, risk managers and other material risk takers of the London Branch are referred to collectively as Material Risk Takers throughout the remainder of this section.

Remuneration Governance

The Board People & Remuneration Committee (formerly known as the Board Remuneration Committee) has been established by the Board. The Board People & Remuneration Committee's charter sets out its scope, authority, duties and responsibilities. The full charter is available online at www.nab.com.au/about-us/corporate-governance.

As at the date of this report, the Board People & Remuneration Committee was comprised of three independent non-executive directors (including the Chair of the Board People & Remuneration Committee). In 2020, the Board People & Remuneration Committee met 10 times (2019: 22 times).

Remuneration Governance (continued)

In 2020, the Board People & Remuneration Committee Chair received an annual fee of \$55,000 (2019: \$55,000) and other members of the Board People & Remuneration Committee received an annual fee of \$27,500 (2019: \$27,500) in respect of their membership of the Board People & Remuneration Committee or a pro-rated amount where members fulfilled the role for part of the year.

The Board recognised the challenges faced by customers, shareholders and the community due to COVID-19 early in 2020. The Board Chair and non-executive directors have taken a 20% reduction in their base fees from 1 April 2020 to 30 September 2020. This reduction applied to all members of the Board People & Remuneration Committee.

The Board People & Remuneration Committee has not entered into any arrangements with external advisors during 2020. Previously, the Board People & Remuneration Committee retained KPMG-3dc to provide data and market insights. This arrangement ceased at the end of December 2019.

The Board People & Remuneration Committee conducts regular (at least annual) reviews of the Group Remuneration Policy (Policy) and makes recommendations to the Board and regulated subsidiary boards on the Policy's effectiveness and compliance with regulatory requirements. Where necessary, the Board People & Remuneration Committee recommends amendments to the Policy to the Board and regulated subsidiary boards.

Remuneration Process

Remuneration Policy

The Policy covers all employees of the Group, including Material Risk Takers. The objectives of the Policy are to:

- improve performance and behaviours that drive exceptional customer service, and progress the Group's desired culture with an emphasis on integrity and accountability
- ensure variable reward components of remuneration are designed to encourage behaviour that supports:
 - the Group's long-term financial soundness and deliver long-term sustainable returns
 - the Group's risk management framework
 - protecting the interests, and meeting the reasonable expectations, of beneficiaries.
- comply with jurisdictional remuneration regulations and the Group's diversity, inclusion and pay equity commitments.

The Policy has been developed to support remuneration arrangements aligned with the following principles:

- reinforce our commitment to customers
- attract and retain the best people
- align reward with sustainable shareholder value
- reflect risk, reputation, conduct and values outcomes
- drive delivery of long-term performance.

Remuneration is provided in three components:

- fixed remuneration provided as cash and benefits (including employer superannuation), set to attract and retain a high performing team to deliver on the Group's strategy
- annual performance-based variable reward earned for delivery of annual goals that drive the Group's strategy
- long-term variable reward to align remuneration provided to the ELT with long-term shareholder outcomes.

The fixed remuneration and variable reward mix is balanced to ensure that the fixed component provides sufficient remuneration to take into account the possibility of paying no variable reward. Variable reward is set to be sufficiently meaningful to drive individual performance without encouraging inappropriate risk-taking or conduct.

The reward mix is based on market information and practices. In any year, the actual reward mix will vary, given the overlay of business performance and individual performance on variable reward outcomes. In the UK, actual variable reward does not exceed one times fixed remuneration for the relevant period.

The Board approves individual remuneration arrangements for the ELT and any other senior executives of the Group as determined by the Board. Regulated subsidiary boards will approve individual remuneration arrangements for senior managers of the subsidiary and other senior executives as determined by the subsidiary boards. Individual remuneration for other Material Risk Takers is approved by the appropriate manager in accordance with the Policy. The Board approves and monitors the remuneration framework and overall outcomes for Material Risk Takers.

There were no material changes to the Policy for 2020.

Remuneration Process (continued)

Variable Reward Plans

Material Risk Takers participate in one of three annual performance-based variable reward plans:

Group Variable Reward Plan (GVRP)

The table below explains the general features of the 2020 GVRP. Further detail on the application of the GVRP for members of the ELT is provided in the 2020 Remuneration Report. The majority of Material Risk Takers in Australia and the UK participate in the GVRP.

Feature	Description
Purpose	To reward eligible participants for delivery of annual goals that drive long-term sustainable performance. The plan provides an appropriate level of remuneration that varies based on the participant's performance for the financial year measured against agreed targets for financial and non-financial measures that deliver strategic objectives. The plan is not formulaic, judgement is applied through qualitative assessment of risk, reputation, sustainability and environment, conduct and values, the quality of Group and individual performance and any other matters determined by the Board.
Group performance	Group performance is assessed using the Group Performance Scorecard (known as the One NAB Score) comprising financial and non-financial measures linked to the Group's key strategic priorities, which is overlaid by a qualitative assessment to support any adjustment of the outcome. The qualitative assessment is integral to the outcome and may result in the outcome being adjusted upwards or downwards (including to zero), for risk, reputation, quality of performance or any other matters as determined by the Board. For 2020, the Group Performance Scorecard measures were: Return on Total Allocated Equity (ROTAE) (50%), Group cash earnings (25%), Strategic Net Promoter Score (NPS) ⁽¹⁾ (12.5%) and Transformation (12.5%). The One NAB Score assigned is between 0 and 130%. For 2020, the One NAB Score for eligible MLC Wealth Material Risk Takers was based on an assessment of MLC Wealth performance that included successful operational separation in June 2020, execution against agreed plan and strong management of the remediation portfolio.
Annual variable reward opportunity	The annual variable reward opportunity for participants is expressed as a percentage of fixed remuneration and is set having regard to a range of factors including the scope and accountabilities of the participant's role and market competitiveness. An eligible participant's actual variable reward outcome can be higher or lower than their target VR opportunity, but will not exceed their maximum VR opportunity, and will depend on the participant's individual score and the One NAB Score for the financial year. The maximum VR opportunity for ELT and other Accountable Persons is 150% of their target VR opportunity and for other Material Risk Takers the maximum VR opportunity is 260% of their target VR opportunity.
Individual performance	Each participant had a performance plan for 2020 comprised of up to five goals including mandatory risk and customer goals. The participant's performance is assessed against their performance plan including the participant's conduct and the extent to which they had demonstrated NAB's values. The participant is awarded an individual score from 0 to 2 depending on their overall performance.
Calculation and provision of GVRP funding	The Board determines the appropriate funding for the GVRP informed by an assessment of the Group Performance Scorecard and qualitative overlay. Each participant's VR outcome is determined based on the combination of Group and individual performance. Any amount may be awarded from zero up to their individual maximum VR opportunity.

A participant's VR award is calculated as:

One NAB Score (which reflects the Group's performance over the financial year) Adjusted for risk, reputation, sustainability and environment, any other matters determined by the Board	X	The participant's individual score (which reflects their performance over the financial year) Adjusted for conduct and values	X	The participant's target variable reward opportunity (\$) Fixed remuneration x variable reward target %
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⁽¹⁾ Strategic NPS: Sourced from DBM Atlas, measured on a six month rolling average. Definition has been updated to give all customers within the Business and Consumer segments equal voice. The overall Strategic NPS result combines the Consumer and Business segment results using a 50% weighting for each.

Discretionary Variable Reward (DVR)

For 2020 the Board approved additional funding for participants of the GVRP. The additional funding was provided to address increased retention risk and continue to attract and retain employees at all levels who have supported customers and communities impacted by COVID-19 and bushfires during 2020.

The allocation of the funding to individual participants was primarily focused on key segments of front-line banking, critical technology roles and roles that have delivered upon key strategic priorities in 2020. The population who participated in the DVR was selected by senior management and directed to the appropriate participants. The DVR funding was allocated to participants on a discretionary basis and set to ensure it was meaningful.

The DVR is not a regular variable reward arrangement.

Deferral arrangements applying to variable reward provided under the GVRP and the DVR are described in *Adjusting Remuneration for Longer-Term Performance* and are subject to the terms and conditions outlined in *Other Features of the Group Remuneration Policy*.

Remuneration Process (continued)

Financial Market Specialist Incentive Plan (FMSIP)

The table below explains the general features of the 2020 FMSIP.

Feature	Description
Purpose	To reward participants for delivery of annual goals that drive long-term sustainable performance and provide market competitive remuneration for colleagues in specialist roles.
Funding (FMSIP pool)	Generation of funding is dependent on the participating business teams achieving a minimum Return on Allocated Equity (ROAE) hurdle as determined through the planning process and outlined in approved budgets. If the ROAE hurdle is achieved, the amount of FMSIP funding is determined as a percentage of the participating business teams' cash earnings. The level of funding is adjusted for appropriate risk and financial adjustments and to align with customer outcomes. The adjustment takes into account financial outcomes and non-financial factors such as business risks, shareholder expectations or the quality of the financial result and may be adjusted for Group performance outcomes. The Board People & Remuneration Committee approves the FMSIP funding.
Individual performance	Each participant had a performance plan for 2020 comprised of up to five goals including mandatory risk and customer goals. The participant's performance is assessed against their performance plan including the participant's conduct and the extent to which they had demonstrated NAB's values.
FMSIP awards	If FMSIP funding is generated, it is allocated to participants on a discretionary basis, taking into consideration the individual's financial performance against plan targets and performance relative to peers. Minimum performance and conduct conditions must be met for an award to be allocated.

Deferral arrangements applying to FMSIP awards are described in *Adjusting Remuneration for Longer-Term Performance* and are subject to the terms and conditions outlined in *Other Features of the Group Remuneration Policy*.

Asset Management Incentive Plan (AMIP)

The table below explains the general features of the 2020 AMIP.

Feature	Description
Purpose	To reward participants for delivery of annual goals that drive long-term sustainable performance and provide market competitive remuneration for colleagues in specialist roles.
Funding (AMIP pool)	Funding is established for distribution to AMIP participants. The AMIP pool is determined based on the three-year cash earnings performance of NAB's Asset Management business. For an AMIP pool to be generated a performance threshold must be met. The AMIP pool is adjusted to reflect the quality of Asset Management's financial and non-financial results. Financial metrics may include cash earnings, ROAE, impairments and profits or losses on the sale of interest in boutique investment fund managers. Non-financial metrics may include investment performance, employee engagement and risk maturity. The Board People & Remuneration Committee approves the AMIP pool.
Individual performance	Each participant had a performance plan for 2020 comprised of up to five goals including mandatory risk and customer goals. The participant's performance is assessed against their performance plan including the participant's conduct and the extent to which they had demonstrated NAB's values.
AMIP awards	If an AMIP pool is generated, all participants will be eligible for consideration for an AMIP award from the AMIP pool, subject to minimum performance requirements. The AMIP pool is allocated to participants on a discretionary basis, taking into account individual performance, contribution to Asset Management outcomes, risk outcomes and the values and behaviours demonstrated by the participant.

Deferral arrangements applying to AMIP awards are described in *Adjusting Remuneration for Longer-Term Performance* and are subject to the terms and conditions outlined in *Other Features of the Group Remuneration Policy*.

Bank of New Zealand (BNZ) Discretionary Variable Reward (DVRP)

The BNZ material risk takers participate in the DVRP. The DVRP operates on a similar basis to the GVRP. In this plan, BNZ performance is used instead of the One NAB Score. BNZ performance is assessed using the BNZ Performance Scorecard (known as the BNZ Score) comprising financial and non-financial measures linked to BNZ's key strategic priorities, which is overlaid by a qualitative assessment to support any adjustment of the outcome. The qualitative assessment is integral to the outcome and may result in the outcome being adjusted upwards or downwards (including to zero), for risk, reputation, quality of performance or any other matters as determined by the BNZ Board. For 2020, the BNZ Performance Scorecard measures were: Customer 25%; External Market Share 25%; and Financial 50%. The BNZ Score assigned is between 0 and 130%.

The BNZ Board determines the appropriate funding for the BNZ DVRP informed by an assessment of the BNZ Performance Scorecard and qualitative overlay. The NAB Board also approves the BNZ DVRP funding.

Each participant's VR outcome is determined based on the combination of BNZ and individual performance. Any amount may be awarded from zero up to their individual maximum VR opportunity. A participant's VR award is calculated as:

BNZ Score* (which reflects BNZ's performance over the financial year)	X	The participant's individual score (which reflects their performance over the financial year)	X	The participant's target variable reward opportunity (\$)
Adjusted for risk, reputation, sustainability and environment, any other matters determined by the BNZ Board		Adjusted for conduct and values		Fixed remuneration x variable reward target %

* The BNZ Board determined that for 2020, the annual variable reward for the Managing Director BNZ and the BNZ Executive Team would be calculated as 50% One NAB Score + 50% BNZ Score.

All matters relating to the remuneration of BNZ colleagues, including the BNZ DVRP are approved by the BNZ Board as required under BNZ's Conditions of Registration which are set by the Reserve Bank of New Zealand.

Long Term Variable Reward (LTVR)

Members of the ELT may also be eligible to receive LTVR. The LTVR is described in the 2020 Remuneration Report.

Remuneration Process (continued)

Other Features of the Group Remuneration Policy

Board discretion

The Board regularly reviews Group performance for risk, reputation, conduct and performance considerations. The Board's review may include the Group's quality of financial results, shareholder experience and other sustainability metrics relevant at the time. Board discretion may apply to any employee across the Group, by division, by role or individual, depending on circumstances.

The Board has absolute discretion to adjust variable reward down, including to zero, where appropriate (including because of the occurrence of malus⁽¹⁾). This includes:

- determining the initial value of variable reward
- reducing the value of deferred variable reward during the deferral or performance period, including at vesting
- through clawback of paid and vested variable reward.

The Board has absolute discretion to extend the deferral period at any time for any variable reward. For example, the Board may do so if the Board has reason to believe that an employee may not meet conduct standards or comply with their accountability obligations under the *Banking Act 1959* (Cth) (Banking Act) or any other legislation or regulations.

Malus (forfeiture or lapsing of unvested variable reward)

Unvested variable reward will be forfeited or lapsed if:

- the employee resigns
- the Board determines that some, or all, of the unvested variable reward be forfeited on cessation of employment with the Group
- the Board determines that the unvested variable reward should be forfeited due to conduct standards not being met as set out in NAB's Code of Conduct
- the Board determines that the unvested variable reward will be forfeited following the occurrence of a malus event, and/or
- the Board exercises its discretion as described above.

Clawback (recovery of paid and vested variable reward)

Paid and vested variable reward, including retention rewards, is subject to clawback. The Board may apply clawback to the ELT, other Accountable Persons, some UK employees and other employees in certain circumstances. In the UK, clawback applies for up to seven years from the award date for some material risk takers and up to 10 years from the award date for senior managers (under the UK senior managers and certification regime).

For Accountable Persons who have not complied with their accountability requirements under the Banking Act, the employee will be required to repay an amount determined by the Board (in its absolute discretion), if the Board determines that clawback is required to comply with the Group's obligations under the Banking Act related to variable remuneration.

For material risk takers in the UK, the employee will be required to repay, up to the full amount, any performance-based variable reward, where the Board (in its absolute discretion) determines that one or more of the following circumstances have arisen before the seventh anniversary of the relevant award date:

- the employee has participated in, or was responsible for, conduct which resulted in significant losses to the Group or relevant business
- the employee has failed to meet appropriate standards of fitness and propriety
- the Group has reasonable evidence of employee misbehaviour or material error
- the Group, or the relevant business suffered a material failure of risk management, taking into account the employee's level of responsibility.

Clawback may apply to other Material Risk Takers and other employees of the Group depending on their individual employment arrangements and the terms and conditions of the variable reward plan.

Mandatory shareholding requirement

Members of the ELT are required to accumulate and retain NAB equity over a five-year period from commencement in an ELT role, to an amount equal to:

- two times fixed remuneration for the Group Chief Executive Officer
- one times fixed remuneration for other ELT members.

Details of individual ELT members' NAB equity holdings are set out in the 2020 Remuneration Report.

⁽¹⁾ Such as where a person has engaged in fraud, dishonesty, gross misconduct, behaviour that may negatively impact the Group's long-term financial soundness, prudential standing, prudential reputation or that brings the Group into disrepute, has materially breached a representation, warranty, undertaking or any other obligation to the Group, or has failed to comply with their accountability obligations under the Banking Executive Accountability Regime, or the financial results that led to the variable reward being awarded is subsequently shown to be materially misstated or there has been a significant and unintended deterioration in the financial performance of the Group resulting directly or indirectly from an act or omission by the person.

Remuneration Process (continued)

Commencement, retention and guaranteed awards

Commencement awards are used to buy-out unvested equity, variable reward or other benefits from a new employee's previous employment. The amount, timing and performance hurdles relevant to any such awards are based on evidence provided by the new employee of the benefit offered by the previous employer, had the person remained in their previous employment. The awards are provided in the form of NAB equity or cash, subject to performance hurdles, restrictions and certain forfeiture conditions, including forfeiture on resignation, with these unique to each offer. In the UK, commencement awards may be reduced or completely forfeited if a reduction notice is received from the employee's previous employer.

The Group provides retention awards for key employees in roles where retention is critical over a medium-term timeframe (generally two to three years). These are normally provided in the form of NAB equity or cash, subject to a restriction period, achievement of individual performance standards and forfeiture conditions, including forfeiture on resignation. In the UK, retention payments require prior approval from the regulator.

Guaranteed incentives or bonuses do not support the Group's performance-based culture and are not provided as part of the Policy.

Remuneration of Risk and Financial Control Employees

Risk and financial control employees (as defined in paragraph 57(b) of CPS 510) are critical to effective management of risk across the Group.

Independence from the business for these employees is assured through:

- setting the reward mix so that variable reward is not significant enough to encourage inappropriate behaviours while remaining competitive with the external market
- the Risk function and Finance function making remuneration decisions for these employees, rather than the business these employees support
- performance of the Group and the Risk/Finance function are key components for calculating employee variable reward, rather than the performance of the business these employees support.

The Board People & Remuneration Committee reviews, and the Board approves, remuneration structures for these employees and oversees the overall remuneration outcomes for employees in these roles at least annually.

Remuneration and Risk

The Board People & Remuneration Committee oversees the Group Performance Scorecard by establishing robust performance measures and targets that support performance and conduct aligned to NAB's Code of Conduct and makes recommendations to the Board in relation to the performance and remuneration outcomes for the ELT, other Accountable Persons and other persons as determined by the Board.

In making recommendations to the Board, the Board People & Remuneration Committee receives input from the Board Risk & Compliance Committee, Board Audit Committee and the Board Customer Committee. This input provides oversight of matters that may be relevant in the determination of performance and remuneration outcomes including any prior year malus or clawback adjustments.

Risk is the potential for harm and is inherently part of the Group's business. The ability to manage risk effectively is critical to NAB being a safe and secure bank that can serve customers well and help communities prosper.

Risk is the responsibility of all employees of the Group. A sound risk culture is where the mindset, decisions and behaviour of employees are aligned to the Group's ambition and contribute to sustainable outcomes for customers, shareholders and external stakeholders. The Board and ELT influence culture by focusing on leadership behaviour, systems and colleagues reinforced through performance and remuneration outcomes. Regular reporting is provided to the Board on culture and the impact this may have on risk management outcomes.

Risk Measures and Aligning Risk and Reward

A number of risk measures exist across each of the Group's material risks, as detailed in the *Risk Governance and Management* section of the 30 September 2020 Pillar 3 Report.

Variable reward outcomes reflect risk at a number of levels:

Component	Description
Risk assessment	<ul style="list-style-type: none"> All employees have a performance plan inclusive of a mandatory risk goal. The risk goal requires performance in three key areas: <ul style="list-style-type: none"> Customer outcomes - early identification, escalation and remediation of customer issues Management of non-financial risks - actions taken to improve the management of compliance operational, regulatory and people risks Attitude to risk management - maintain compliance with risk appetite, obligations and policies; deliver intended outcomes from risk initiatives within expected timelines; continuously improve risk capability; proactively contribute to a desired risk culture. Divisional chief risk officers provide active oversight, challenge and independent input to the performance review process. The Group Chief Risk Officer (Group CRO) prepares a detailed assessment of the risk outcomes for the each member of the ELT. The Board Risk & Compliance Committee assesses the Group CRO's risk outcomes. These assessments are used by the Board in determining individual ELT variable reward outcomes. Employees receive higher variable reward if they are driving improvements in the management of risk and compliance. If risk is not appropriately managed, the individual's variable reward will be reduced and other consequences may be applied.
Conduct gate	<ul style="list-style-type: none"> Employees must conduct themselves in accordance with the behavioural expectations outlined in NAB's Code of Conduct. This includes ensuring they comply with Group policies, including the Group Securities Trading Policy and Conflicts of Interest Policy. In particular, the Group Securities Trading Policy specifically prohibits directors and employees from protecting the value of unvested securities (including unvested deferred variable remuneration) with derivative instruments. Directors and employees can protect the value of vested securities in limited circumstances. Employees who do not meet the conduct standards will have their variable reward reduced in part, or in full, depending on the severity of the breach and may have unvested variable reward forfeited or lapsed. They may also be subject to other disciplinary action. The Board or the Risk function has the ability to adjust an employee's overall variable remuneration down, including to zero, where conduct standards have not been met.
Risk adjustment	<ul style="list-style-type: none"> On recommendation from the Board People & Remuneration Committee, the Board may adjust the 'in-year' funding level of variable reward outcomes or reduce variable reward for individuals to align with risk outcomes. The Board People & Remuneration Committee considers Group reward outcomes taking into account the quality of the Group's financial results, management of risk, reputation, shareholder expectations, sustainability and the environment. Considerations include the Group's overall risk profile, prudential compliance, breaches and incidents, timeliness of escalation and management of events and breaches.
Malus and clawback	<ul style="list-style-type: none"> Malus and clawback may be used to reduce variable reward to align with risk outcomes. Malus (or forfeiture / lapsing of unvested awards) applies to all employees. Clawback applies to paid and vested variable reward provided to Accountable Persons since July 2018. The Board may apply clawback to the ELT, other Accountable Persons, some UK employees and other employees in certain circumstances.

Linking Performance and Remuneration

Performance is linked to remuneration through both fixed remuneration and variable reward components.

Fixed remuneration is set with consideration of role complexity and responsibilities, the individual's capabilities, experience and knowledge, individual performance, internal and external market role relativities, and pay equity considerations.

Variable reward is determined based on a combination of individual performance and business performance.

Overview of performance metrics

Group performance for 2020 was measured by a mix of ROTAE (50%), Group cash earnings (25%), Strategic NPS (12.5%) and Transformation (12.5%). These measures capture the effects of a number of material risks and minimise actions that promote short-term results at the expense of longer-term business growth and success. The One NAB Score impacts variable reward outcomes for the ELT and the GRVP which most employees participate in.

Examples of performance measures used across the Group at divisional and individual level in 2020 were:

Category	Example performance measures
Customers <i>Deliver a great customer experience and grow customer advocacy</i>	- Customer advocacy (NPS)
Risk and Controls <i>Taking the right risk, with the right controls for the right risk and return outcomes</i>	- Adherence to risk frameworks and policies with no material breaches - Adherence to risk settings and limits applicable to role - First line risk accountabilities
People <i>Only outstanding leaders</i>	- Improve engagement score - Create an inclusive workplace
Other <i>Goal relevant to specific role</i>	- ROAE - Deliver on financial plan - Implement initiative by timeframe and budget

Linking individual remuneration to business performance

A colleague's individual performance is assessed across all performance elements, inclusive of the what and the how:

- conduct - whether they have conducted themselves in compliance with NAB's Code of Conduct
- risk - whether they have met their risk goal
- goals - progress in achieving their agreed goals
- values and behaviours - how they demonstrate the Group's values and behaviours.

A colleague's performance plan defines goals, performance measures and targets relevant to the colleague's role that support delivery of the Group's longer-term strategy. Colleagues must achieve the expectations of their core role and the minimum conduct requirements to be eligible for variable reward.

A portion of variable reward is provided as deferred equity or deferred cash. The quantum and period of deferral is commensurate with the level of risk within a role and the ability to reliably measure business outcomes. This allows time to confirm that the initial individual performance and business performance outcomes are realised and if not, for the deferred variable reward to be adjusted downwards. Deferral is generally only applied to variable reward amounts of \$50,000 or more.

Variable reward links to Group and business performance by delivering a smaller One NAB Score when performance is less than target and a larger One NAB Score when performance is above target.

Adjusting for poor performance

Poor performance during a performance period at a business and individual level, will be reflected in the variable reward awarded to an individual for the current year and the level of vesting of other variable rewards from prior years. If performance is significantly weak, this may result in no variable reward being awarded, no vesting of other awards and/or clawback.

Adjusting Remuneration for Longer-Term Performance

Longer-term performance is reflected in the design of the Group's variable reward arrangements. Variable reward plans contain performance metrics that are set to achieve the Group's longer-term strategy. Deferral of a portion of variable reward allows for the reward to be adjusted after the initial performance assessment to reflect longer-term performance outcomes.

Deferral Arrangements

Variable reward is subject to deferral for Material Risk Takers depending on the variable reward plan and jurisdictional requirements as summarised in the following table:

Role grouping	Deferral arrangement
ELT - Annual Variable Reward Plan ⁽¹⁾	50% of variable reward is deferred equally over 4 years
ELT - Long Term Variable Reward Plan ⁽¹⁾	100% of variable reward is deferred for 4 years
Accountable Persons (other than NAB Directors or ELT) ⁽¹⁾	40% of variable reward is deferred for 4 years
Senior managers and material risk takers (not in categories below) ⁽¹⁾	Depending on role: 40% of variable reward is deferred for 3 years or 30% of variable reward is deferred for 2 years
Asset Management Incentive Plan and BNZ other material risk takers ⁽²⁾	25% of variable reward is deferred for 1 year
UK senior managers (including Financial Markets Specialist Incentive Plan senior managers) ⁽³⁾⁽⁴⁾	40% of variable reward is deferred over 7 years, vesting equally from 3 to 7 years
UK risk managers (including Financial Markets Specialist Incentive Plan risk managers) ⁽³⁾⁽⁴⁾	40% of variable reward is deferred equally over 5 years
UK other material risk takers (not in categories below) ⁽³⁾⁽⁴⁾	40% of variable reward is deferred equally over 3 years
Financial Markets Specialist Incentive Plan senior Material Risk Takers ⁽²⁾	50% of variable reward is deferred for 3 years
Financial Markets Specialist Incentive Plan other material risk takers ⁽²⁾	50% of variable reward is deferred equally over 3 years

⁽¹⁾ Only applies if the employee's variable reward is \$50,000 or more.

⁽²⁾ Only applies if the employee's deferred amount is \$2,000 or more.

⁽³⁾ Only applies if the employee's variable reward is more than 33% of total remuneration and total remuneration is more than £500,000.

⁽⁴⁾ For UK employees, if annual variable reward is £500,000 or more, then 60% of the incentive is deferred. Other deferral arrangements apply to employees not identified as senior managers or material risk takers.

Deferred variable reward is generally provided in either shares or performance rights.

For senior managers, risk managers and material risk takers in the UK, half of any 'up-front' variable reward (the undeferred component of variable reward) is provided as cash. The remaining half is provided as equity subject to a retention period. A retention period also applies to deferred variable reward after performance conditions have been satisfied. For senior managers and material risk takers the retention period is 12 months, while for risk managers the retention period is six months. The retained amounts are restricted from being sold, transferred or exercised by the employee during the retention period. No further performance conditions apply to retention equity.

The Board has absolute discretion to extend the deferral period for any reason, including if the Board has reason to believe that an individual is likely to have failed to meet threshold measures of conduct or comply with their accountability obligations.

Once deferred variable reward has vested or performance restrictions have ceased, no further adjustment (including as a result of malus) applies. Clawback may be applied to vested variable reward including for Accountable Persons and some employees in the UK.

Forms of Variable Reward

The Group provides variable reward in the following forms:

Form	Use
Cash	<ul style="list-style-type: none">- All or a portion of the variable reward that relates to the current performance year- For deferred variable reward where an employee is entitled to receive deferred variable reward but has ceased employment with the Group prior to allocation of any shares or performance rights or for jurisdictional reasons- Retention and recognition awards- Commencement awards
Shares	<ul style="list-style-type: none">- Deferred variable reward- General employee share offers- Retention and recognition awards- Commencement awards
Performance rights	<ul style="list-style-type: none">- Deferred variable reward- Long-term variable reward- Retention and recognition awards- Commencement awards

Generally, the Group aims to provide deferred variable reward as equity to align the interests of employees and shareholders. Performance rights are generally provided where the Group does not consider it appropriate to pay dividends during deferral or restriction periods or for jurisdictional reasons. The mix of different forms of variable reward is dependent on the employee's role and external market relativities and practice.

All permanent employees are eligible to participate in a variable reward plan. Variable reward will generally be provided in a combination of cash (including employer superannuation if required) and equity.

Retention, recognition and commencement awards are provided to an employee depending on circumstances. The quantum and form will vary depending on the specific circumstances at the time of the award.

Section 2

Quantitative Remuneration Disclosures for the Group

Table 2A: Total Value of Remuneration Awards

The following table provides details of remuneration awarded to senior managers and material risk takers of the Group.

	As at 30 Sep 20				As at 30 Sep 19			
	Senior managers		Material risk takers		Senior managers		Material risk takers	
	Unrestricted \$000	Deferred \$000	Unrestricted \$000	Deferred \$000	Unrestricted \$000	Deferred \$000	Unrestricted \$000	Deferred \$000
Fixed remuneration								
Cash-based ⁽¹⁾	25,596	-	20,845	-	21,918	-	21,403	-
Other ⁽²⁾	955	-	928	-	846	-	1,223	-
Variable reward⁽³⁾								
Cash-based	4,812	790	5,552	24	3,292	-	7,789	-
Equity ⁽⁴⁾	-	7,183	-	7,080	-	2,130	-	8,559

⁽¹⁾ Includes cash salary, cash allowances, short-term compensated absences (such as annual leave entitlements accrued but not taken during the year), motor vehicle benefits, parking, relocation costs and other benefits (including any related fringe benefits tax). The 2019 comparative amount for senior managers has been restated from that previously disclosed (\$21,946,000).

⁽²⁾ Other fixed remuneration includes employer contributions to superannuation (in Australia and New Zealand) and National Insurance Contributions (in the UK) and long service leave entitlements accrued but not taken during the year. The long service leave entitlements are recognised as accruing on an annual basis subject to an actuarial calculation.

⁽³⁾ 22 (2019: 20) senior managers and 33 (2019: 42) material risk takers received variable reward in respect of the relevant year. Some senior managers and material risk takers did not receive variable reward as they ceased employment with the Group or did not meet minimum performance requirements or due to a decision to not award variable reward due to COVID-19. The 2019 comparative number of senior managers has been adjusted from that previously disclosed (29).

⁽⁴⁾ Equity includes all shares and share-linked instruments. Amounts are determined based on the grant date fair value amortised on a straight line basis over the expected vesting period. The amount represents the accounting expense for the relevant year, which includes amounts relating to the relevant year and prior year awards (if any). The 2019 comparative amount for senior managers has been restated from that previously disclosed (\$1,895,000).

Table 2B: Deferred Reward

The following table provides details of deferred reward for senior managers and material risk takers, including the amount outstanding as at the reporting date and the amount paid and reductions during the year. Reductions are split into those that are implicit (such as due to fluctuations in the value of NAB shares and share-linked instruments) and explicit (including reductions as a result of forfeitures and lapses due to failure to meet performance hurdles, resignations or malus adjustments).

	As at 30 Sep 20		As at 30 Sep 19	
	Senior managers	Material risk takers	Senior managers	Material risk takers
	\$000	\$000	\$000	\$000
Outstanding deferred reward as at the reporting date⁽¹⁾	35,142	16,637	37,641	23,993
of which: cash-based	4,014	160	-	93
of which: equity	31,128	16,477	37,641	23,900
Paid out during the year ⁽²⁾	7,357	8,853	7,624	7,569
Reductions due to explicit adjustments during the year ⁽³⁾	(9,522)	(1,690)	(27,674)	(3,143)
Reductions due to implicit adjustments during the year	(934)	(611)	(1,564)	(1,609)

⁽¹⁾ The value of deferred cash awards is the grant value and for deferred equity awards is the grant fair value. Outstanding deferred reward provided as shares and share-linked instruments is fully exposed to ex post explicit and/or implicit adjustments.

⁽²⁾ Includes the value of vested awards using the closing share price of NAB shares on the vesting date.

⁽³⁾ Calculated using the closing share price of NAB shares on the forfeiture or lapsing date.

Quantitative Remuneration Disclosures for the Group

Table 2C: Other Remuneration

The following table provides details of the commencement awards and termination payments for senior managers and material risk takers.

	As at 30 Sep 20				As at 30 Sep 19			
	Senior managers		Material risk takers		Senior managers		Material risk takers	
	No. of individuals	Total amount \$000	No. of individuals	Total amount \$000	No. of individuals	Total amount \$000	No. of individuals	Total amount \$000
Commencement awards ⁽¹⁾	3	1,305	13	2,681	4	2,549	11	6,103
Termination payments ⁽²⁾	4	3,037	4	1,069	3	2,238	2	1,460

⁽¹⁾ The full value of the commencement awards provided.

⁽²⁾ Termination payments are made in accordance with the relevant NAB Enterprise Agreement and/or the employee's employment agreement. Employees may also retain shares and performance rights in accordance with the relevant terms and conditions of each grant, which remain subject to the relevant performance hurdles and restriction periods. These arrangements are consistent with the Group's policy and practice in such circumstances.

Section 3

Quantitative Remuneration Disclosures for the London Branch

The following quantitative disclosures relate to senior managers, risk managers and other material risk takers of London Branch. Amounts are presented in British pounds unless otherwise stated and have been rounded to the nearest thousand pounds (£000).

Table 3A: Total Value of Remuneration Awards

	12 months ended 30 Sep 20		
	Senior managers	Risk managers & Other material risk takers	Total
Number of material risk takers	8	59	67
	Senior managers	Risk managers & Other material risk takers	Total
	£000	£000	£000
Fixed remuneration	3,674	16,805	20,479
Variable reward (cash)	115	1,180	1,295
Variable reward (retained shares)	21	110	131
Deferred reward (equity) ⁽¹⁾	28	470	498
Deferred reward (cash) ⁽¹⁾	-	1	1
Total variable reward	164	1,761	1,925
Total remuneration	3,838	18,566	22,404

⁽¹⁾ The Group provides all deferred remuneration in NAB equity or cash.

Table 3B: Deferred Reward

	Senior managers	Risk managers & Other material risk takers	Total
	£000	£000	£000
Outstanding - vested as at 30 Sep 2020	90	183	273
Outstanding - unvested as at 30 Sep 2020	223	1,978	2,201
Awarded during 2020	47	701	748
Vested during 2020	184	1,319	1,503
Reductions during 2020 through performance adjustments	-	(74)	(74)

Table 3C: Other Remuneration

	Senior manager ⁽¹⁾	Risk managers & Other material risk takers ⁽¹⁾	Total
	£000	£000	£000
Commencement payments (£000)	-	12	12
Number of beneficiaries	-	1	1
Highest award to a single beneficiary (£000)	-	12	12
Termination payments (£000)	309	283	592
Number of beneficiaries	1	2	3
Highest award to a single beneficiary (£000)	309	177	486

⁽¹⁾ No retention awards were provided to senior managers or material risk takers during 2020.

Other Remuneration Information

In 2020 all senior managers, risk managers and other material risk takers were remunerated less than EUR 1 million (equivalent to less than £894,680 converted using a rate of 1 Euro = £0.89468, consistent with the European Commission's currency converter for 30 September 2020). Total remuneration includes fixed remuneration, allowances and variable reward.

Glossary

Section 4

Glossary

Term	Description
Accountable Person	An accountable person for the purposes of the <i>Banking Act 1959 (Cth)</i> . Members of the Executive Leadership Team are Accountable Persons.
APRA	Australian Prudential Regulation Authority.
APS	Prudential Standards issued by APRA applicable to Authorised Deposit-taking Institutions.
Cash earnings	Cash earnings is defined as net profit attributable to owners of NAB from continuing operations, adjusted for the items NAB considers appropriate to better reflect the underlying performance of the Group. Cash earnings for the 2020 financial year was adjusted for the following: <ul style="list-style-type: none">- Distributions- Fair value and hedge ineffectiveness- Amortisation and impairment of acquired intangible assets.
CPS	Prudential Standards issued by APRA applicable to regulated entities, including Authorised Deposit-taking Institutions.
Distributions	Payments to holders of equity instruments other than ordinary shares (National Income Securities).
ELT	Executive Leadership Team.
Fair value and hedge ineffectiveness	Volatility from the Group's assets and liabilities designated at fair value, hedge accounting ineffectiveness from designated accounting hedge relationships, or from economic hedges where hedge accounting has not been applied.
Group	NAB and its controlled entities.
NAB	National Australia Bank Limited ABN 12 004 044 937.
Net Promoter Score (NPS)	Net Promoter® and NPS® are registered trademarks, and Net Promoter Score and Net Promoter System are trademarks of Bain & Company, Satmetrix Systems and Fred Reichheld. Net Promoter Score measures the likelihood of a customer's recommendation to others for retail or business banking.
Return on Total Allocated Equity (ROTAE)	ROTAE is a function of cash earnings, risk-weighted assets, regulatory capital deductions and target capital ratios at a divisional or business unit level.
Risk-weighted assets	A quantitative measure of risk required by the APRA risk-based capital adequacy framework, covering credit risk for on and off-balance sheet exposures, market risk, operational risk and interest rate risk in the banking book.

