



UK Remuneration Regulatory Disclosures 2013

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1. Introduction

This document has been prepared in accordance with the United Kingdom (UK) remuneration disclosure requirements as described in the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU). The disclosures reflect the requirements of BIPRU 11.5.18 and are applicable to NAB Group's UK Banking and London Branch operations.

The disclosure relates to employees identified as Remuneration Code Staff (Code Staff), consistent with paragraph 19C.3.6 of the BIPRU Remuneration Code, for the financial year ended 30 September 2013 (referred to as 2013 throughout this report).

Code Staff Group	Roles
Senior Management	Includes members of the NAB Group Executive Committee with specific responsibilities in relation to the UK operations, the UK Executive Committee, and senior management in both Clydesdale and Wholesale Banking UK businesses.
Other Code Staff	Includes non-executive directors of the UK board, non-executive directors of the Principal Board with specific responsibilities in relation to the UK operations, employees performing Significant Influence Functions, employees who have responsibility and accountability that could have a material impact on the UK businesses, and employees in key control function roles.

2. Remuneration Governance

The Remuneration Committee (the Committee) has been established by the NAB Board (the Board). The Committee is responsible for reviewing, assessing and recommending to the Board, where necessary, remuneration policies and practices that meet the needs of NAB Group. Its Charter (which is approved by the Board) sets out the membership, responsibilities, authority and activities of the Committee. The full Charter is available online at www.nab.com.au.

As at 30 September 2013 the Committee was comprised of three independent non-executive directors (including the Chairman of the Committee). During 2013, a fourth member of the Committee, also an independent non-executive director, resigned from the Board and as Chairman of the Committee, effective on 2 August 2013.

Use of External Advisers

The Committee seeks and considers advice directly from external advisers, who are independent of management where appropriate.

During 2013, the Committee engaged Stephen Walmsley of jws consulting to review and provide recommendations and advice on remuneration and governance matters. On 1 September 2013, Mr Walmsley established a new company, 3 degrees consulting. The Committee transferred its engagement to 3 degrees consulting under the existing terms and

conditions that were in place with jws consulting from that date. Under the terms of a retainer arrangement, the Committee's external remuneration consultant provided recommendations on senior executive remuneration to the Committee during 2013.

3. Remuneration Framework

Scope of the Remuneration Policy

NAB Group operates a global remuneration policy (the Policy) that applies to NAB and all its controlled entities. The Policy covers all employees, including Code Staff. The NAB Group's overall philosophy is to adopt, where possible, a Total Reward methodology, which links remuneration directly to the behaviour and performance of an individual and NAB Group's results.

Remuneration Policy

The Policy aims to attract, recognise, motivate and retain employees to deliver sustainable and superior business performance. The Policy is underpinned by the following principles:

- Provide competitive, fair and consistent rewards, benefits and conditions within an integrated global strategy;
- Is designed to encourage behaviours that support the long-term financial soundness of the NAB Group and drive sustainable value in the short and long-term;
- Business and individual performance determines the size of an individual's variable reward;
- Support NAB Group's risk management framework;
- Further alignment of the interests of employees and shareholders through employee ownership of NAB securities;
- Risk adjustments and performance assurance principles are applied to deliver appropriate outcomes over short and long-term time horizons; and
- Application of regulatory requirements in all jurisdictions relevant to NAB Group's operations.

The Policy uses a range of components to focus individuals on achieving NAB Group's strategy and business objectives.

Each individual's actual remuneration will reflect:

- The degree of individual achievement in meeting performance measures and compliance obligations under the performance management framework;
- Parameters approved by the Board based on NAB Group's financial and risk performance and other qualitative factors;
- NAB's share price performance and relative shareholder returns; and
- The timing and level of deferred awards.

Total Reward consists of:

- Fixed remuneration provided as cash and benefits (including employer superannuation);
- Short-term incentive (STI) reflecting both individual and business performance for the current year that support the longer term objectives of NAB Group; and
- Long-term incentive (LTI) provided to senior executives to drive management decisions focussed on the long-term prosperity of NAB Group through the use of challenging performance hurdles.

Risk Adjustment

STI and LTI reward outcomes reflect risk at a number of levels:

Individual scorecards – Individuals have specific risk related measures relevant to the individual's role and are aligned with the Risk Appetite Statement where appropriate. The individual's performance against these risk measures is captured through the individual's STI reward. Individuals who participate in the LTI Plan and who do not meet minimum performance requirements will not be eligible for LTI.

Compliance Gateway – Supports NAB Group's risk and compliance culture. Individuals who do not pass the compliance expectations of their role will have their STI reduced in part, or in full, depending on the severity of the breach and may not participate in the LTI plan and/or may have LTI lapsed.

STI pool measures – The financial measures used to determine the STI pool are selected to capture the impact of a number of material risks (see *Section 4 Variable Remuneration Arrangements* for further discussion on how the financial measures take account of risk).

Risk adjustment of business outcomes – Whilst performance is assessed against compliance with the agreed risk measures and risk appetite, the Committee may recommend to the Board adjustment of the financial outcomes upon which STI and LTI rewards are determined based on a qualitative overlay that reflects NAB Group's management of business risks, shareholder expectations and the quality of the financial results.

Deferral Arrangements

STI and LTI rewards are subject to deferral for all Code Staff depending on the plan and jurisdictional requirements:

Role Grouping	Deferral Arrangement
NAB Group CEO, Group Executives, Other Senior Managers (not in categories below)	50% of STI is deferred equally over 2 years LTI is deferred for no less than 4 years
Clydesdale CEO	60% of STI is deferred equally over 2 years LTI is deferred for no less than 4 years
Senior Code Staff - Wholesale Banking UK	40% of STI is deferred equally over 3 years Any LTI is for no less than 4 years
Wholesale Banking SIP	50% or 60% of STI is deferred equally over 3 years
Other Code Staff	25% of STI deferred for 1 year

Deferred STI amounts are generally provided in either performance shares or performance rights.

A further retention period of six months applies to half of any 'up-front' cash STI payments and a further six month retention period applies to deferred STI and LTI after performance conditions have been satisfied. The retained amounts are restricted from being sold, transferred or exercised by the individual during the retention period. No further performance conditions apply to retention equity.

The Board may, in its absolute discretion, and subject to compliance with the law, determine that deferred STI equity be fully or partially forfeited/lapsed during the deferral period. In exercising its discretion, the Board will consider whether the rewards are appropriate given later individual or business performance. The Committee, in consultation with the Principal Board Risk Committee, will review on an annual basis the appropriateness of releasing deferred STI equity. At that time, NAB Group's Risk and Finance functions will advise the Committee of any known risk or business performance issues that are likely to have materially impacted the financial soundness of NAB Group. The Committee may, taking into account all relevant information, recommend to the Board the full or partial lapsing of any deferred STI equity. The Committee may recommend to the Board the full or partial lapsing of any deferred STI equity for any employees across NAB Group, by division, by role or by individual, depending on circumstances.

Once an award has vested or the performance restrictions have ceased, no further adjustment or 'clawback' applies.

4. Variable Remuneration Arrangements

Short-Term Incentives

STI rewards are determined based on a combination of business and individual performance.

Business performance is measured by a mix of growth in cash earnings, Return on Equity (ROE), and Return on Total Allocated Equity (ROTAE). These measures reasonably 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. STI pools are calculated at NAB Group and major business segment using the following key performance measures:

Performance Measures	
Group	- Group Cash earnings - ROE - ROTAE
Business Unit	- Business Cash earnings - ROE

An individual's performance is assessed against agreed measures and targets relevant to the individual's role. Performance measures are set as part of NAB Group's strategy development process, which cascades to scorecard measures for each individual supporting key business drivers. The measures under each business driver are selected for their alignment to NAB Group's strategic direction.

The key performance measures used for senior executives of the NAB Group and cascaded to employees throughout the NAB Group in 2013 were:

Key Business Driver	Measures
Financial and risk management	<ul style="list-style-type: none"> - Group cash earnings - ROE - ROTAE - Tier 1 capital ratio - Risk appetite
Strategic projects	<ul style="list-style-type: none"> - Technology and process transformation
Employees and culture	<ul style="list-style-type: none"> - Employee engagement - Diversity targets
Customer and community	<ul style="list-style-type: none"> - Customer satisfaction - Corporate responsibility objectives

Providing a portion of the STI reward as deferred equity or deferred cash, allows time to confirm that the initial business and individual performance outcomes are realised and for STI reward to be adjusted downwards if not.

STI plans link to NAB Group and business performance by delivering smaller STI pools when performance is less than plan and larger STI pools when performance is above plan.

Executive Long-Term Incentive Plan

The Executive LTI Plan helps to drive management decisions concerning the long-term prosperity of NAB Group. The Executive LTI Plan has three to five year performance periods (from 2012 the minimum is four years).

The performance measures for the LTI awarded in 2013 are:

- NAB's Total Shareholder Return (TSR) performance relative to the TSR performance of each company in the S&P/ASX Top 50 Index; and
- NAB's TSR performance relative to the TSR performance of a selection of financial services companies in the S&P/ASX 200 (which can be found at www.nabgroup.com).

The use of TSR directly links the individual's LTI reward to shareholder value over the medium to long-term.

NAB's TSR ranking compared to the peer groups will determine the proportion of performance rights that will vest.

UK Long-Term Incentive Plan

The performance measures for the UK LTI awarded in 2013 to the Clydesdale leadership team directly link to Clydesdale's achievement of their business plan. The measures are equally weighted and are:

- Clydesdale cash earnings and ROE. Both measures must be at or above target for 100% vesting. No vesting occurs for performance below target on either or both measures; and
- Clydesdale economic profit at or above target for 100% vesting. No vesting occurs for performance below target.

Generally, NAB Group aims to provide deferred and LTI awards as equity to align the interests of employees and shareholders. Performance rights are provided where NAB Group does not consider it appropriate to pay dividends during deferral or restriction periods.

The mix of different forms of variable remuneration is dependent on the individual's role and external market relativities.

All individuals are eligible to participate in an STI plan. STI awards will generally be provided in a combination of cash and equity as described above in *Deferral Arrangements* (see *Section 3 Remuneration Framework*).

LTI awards are provided to senior executives of NAB Group. Not all Code Staff will participate in the LTI program. Code Staff who do not participate in the LTI program generally do not receive deferred STI performance rights.

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

5. Linking Performance and Remuneration

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

Fixed remuneration is set based on a combination of market position, individual performance and the NAB's ability to pay.

Poor performance during a performance period will be reflected in the STI awarded or amount of LTI that vests at the end of the performance period. If performance is significantly weak, this may result in no STI being awarded, no LTI vesting and / or prior deferred awards being forfeited/lapsed.

6. Quantitative Disclosures

These quantitative disclosures have been prepared in accordance with BIPRU 11.5.18 for the year ended 30 September 2013. All monetary amounts are in GBP.

Table 6.1: Aggregate Remuneration of Code Staff by Operating Segment

	London Branch	UK Banking	Group Functions and Other ⁽¹⁾	Total
Number of Code Staff	15	28	30	73
Total remuneration (£m)	9.1	9.0	15.8	33.9

⁽¹⁾ Includes non-executive directors, Risk employees and other Group-based employees.

Table 6.2: Total Value of Remuneration Awards

	Senior Management	Other Code Staff	Total
Number of Code Staff	20	53	73
	£m	£m	£m
Fixed remuneration	9.6	8.9	18.5
Variable remuneration (cash)	1.9	2.4	4.3
Variable remuneration (retained shares)	0.6	1.0	1.6
Deferred remuneration (equity) ⁽¹⁾	5.9	3.3	9.2
Deferred remuneration (cash) ⁽¹⁾	0.3	-	0.3
Total variable remuneration	8.7	6.7	15.4
Total remuneration	18.3	15.6	33.9

⁽¹⁾ The Group provides all deferred remuneration in Company equity or cash. The amount shown includes any LTI awards.

Table 6.3: Deferred Remuneration

	Senior Management £m	Other Code Staff £m	Total £m
Outstanding - vested	3.1	0.7	3.8
Outstanding - unvested	21.0	8.0	29.0
Awarded during the year	5.9	5.0	10.9
Vested during the year	6.8	3.4	10.2
Reductions during the year through performance adjustments	(2.1)	-	(2.1)

Table 6.4: Other Remuneration ⁽¹⁾

	Senior Management	Other Code Staff	Total
Termination payments	0.6	0.7	1.3
Number of beneficiaries	2	4	6
Highest award to a single beneficiary	0.4	0.3	0.7

⁽¹⁾ No commencement payments were provided to Code Staff during 2013.

7. Glossary

Term	Description
Board	Principal Board of Directors of NAB.
Compliance Gateway	All employees must satisfy threshold measures for compliance which reflect a range of internal and external regulatory requirements.
Clawback	Clawback arrangements are a contractual agreement between the employee and employer in which the employee agrees to return previously paid or vested remuneration to the employer under certain circumstances. Clawbacks may operate beyond the end of a deferral period (i.e. after vesting is complete) but may also be effective during the vesting period depending on how the clawback is designed.
Economic capital	Economic capital represents NAB Group's internal assessment of the amount of capital required to protect against potential unexpected future losses arising from its business activities, in line with its target credit rating.
Economic profit	Economic profit represents underlying profit less allocated equity adjusted for the cost of equity.
Group cash earnings	Group cash earnings is defined as net profit attributable to owners of NAB, adjusted for the items NAB considers appropriate to better reflect the underlying performance of NAB. In September 2013 cash earnings has been adjusted for the following: <ul style="list-style-type: none"> – Distributions – Treasury shares – Fair value and hedge ineffectiveness – IoRE discount rate variation – Litigation expenses and recovery – Amortisation of acquired intangible assets – Payment Protection Insurance and Customer redress provisions.
Investment earnings on Retained Earnings (IoRE)	Investment earnings (net of tax) on shareholders' retained profits and capital from life businesses, net of capital funding costs, IoRE is comprised of three items: <ul style="list-style-type: none"> – Investment earnings on surplus assets which are held in the Statutory Funds to meet capital adequacy requirements under the <i>Life Insurance Act 1995</i> (Cth); – Interest on deferred acquisition costs (net of reinsurance) included in insurance policy liabilities resulting from the unwind of discounting; and – Less the borrowing costs of any capital funding initiatives.
IoRE discount rate variation	The profit impact of a change in value of deferred acquisition costs (net of reinsurance) included in insurance policy liabilities resulting from a movement in the inflation adjusted risk-free discount rate.
Malus	A malus arrangement permits NAB to prevent vesting of all or part of deferred remuneration. Malus adjustments to remuneration may be done at NAB's discretion, or may be controlled by a pre-set formula. Malus arrangements do not reverse vesting after it has already occurred, so they have no force after the end of the deferral period.
NAB	National Australia Bank Limited ABN 12 004 044 937.
NAB Group	NAB and its controlled entities.
Performance rights	A performance right is a right to acquire one NAB ordinary share, once the performance right has vested based on achievement of the related performance hurdle or at the Board's discretion. The performance right is issued at no charge to the employee. To acquire a share, the holder must exercise the right but there is no exercise price to be paid. Performance rights may be used instead of shares due to jurisdictional reasons for awards such as deferred STI and commencement and other retention programs. The terms and conditions, including lapsing, will vary for each particular grant. Performance rights are issued by NAB. No dividend income is provided to the employee until the end of the restriction period and the performance conditions have been met and the performance rights are exercised.
Performance shares	Performance shares are NAB ordinary shares, allocated at no charge to the employee, which provide dividend income to the employee from allocation. The shares are held on trust for at least one year, are restricted from trading and may be fully or partially forfeited if individual or business performance warrants. The shares are forfeited if the participant fails to meet the Compliance Gateway, or if they resign or are dismissed prior to vesting. The shares may be retained on cessation of employment in other circumstances.
Return on Equity (ROE)	ROE is calculated as cash earnings divided by average shareholders' equity, excluding non-controlling interests and other equity instruments and adjusted for treasury shares. It allows for risk to the extent that actual equity aligns with target equity and Risk Weighted Assets (RWA). RWA measures the risk exposure of NAB Group's assets that are used to determine quantitative minimum capital requirements. ROE also measures inorganic growth.
Return on Total Allocated Equity (ROTAE)	ROTAE is a function of cash earnings, combined divisional Risk-Weighted Assets (and by capital adequacy for Wealth Management) and target regulatory capital ratios.
Risk appetite	Risk appetite defines the level of risk NAB Group is prepared to accept as part of its business. The resulting level of risk is a direct input into NAB Group's capital requirements.
Risk-Weighted Assets	A quantitative measure of NAB Group's 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.
Statutory Fund	A Statutory Fund is a fund that: <ul style="list-style-type: none"> – is established in the records of a life company; and relates solely to the life insurance business of NAB or a particular part of that business.
S&P/ASX Top 50 Index	A Standard & Poors (S&P)/ASX capitalisation index comprised of the 50 largest companies by market capitalisation in Australia.
Tier 1 Capital	Tier 1 Capital comprises the highest quality components of capital that fully satisfy all of the characteristics outlined under APRA's prudential framework. It provides a permanent and unrestricted commitment of funds that are freely available to absorb losses, do not impose any unavoidable servicing charge against earnings, and rank behind the claims of depositors and other creditors in the event of winding-up.
Tier 1 Capital ratio	Tier 1 Capital as defined by APRA divided by risk-weighted assets.
Total Shareholder Return (TSR)	A measure of the return that a shareholder receives through dividends (and any other distributions) together with capital gains over a specific period. TSR is calculated on the basis that all dividends and distributions are reinvested in Company shares. TSR

Term	Description
	is an external measure which aligns shareholder wealth creation and market expectations for employee equity plans. TSR is a common measure for the LTI performance hurdle.
Remuneration Code Staff (Code Staff)	Comprises categories of employees, identified by the BIPRU Remuneration Code, including senior management, risk takers, employees engaged in control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers, whose professional activities have a material impact on Clydesdale's or NAB Group's UK operations risk profile.
Value at Risk (VaR)	VaR is a mathematical technique that uses statistical analysis of historical data to estimate the likelihood that a given portfolio's losses will exceed a certain amount.

www.nab.com.au