

# **2013** **Annual** **Remuneration** **Disclosures**

**Incorporating the  
requirements of APS 330**  
as at 30 September 2013



**National  
Australia  
Bank**

This page has been left blank intentionally

## Contents

<b>1. Introduction</b>	<b>3</b>
<b>2. Remuneration Governance</b>	<b>3</b>
Use of External Advisers	3
Scope of the Remuneration Policy	3
<b>3. Remuneration Processes</b>	<b>4</b>
Remuneration Policy	4
Risk and Financial Control Employees	4
<b>4. Remuneration and Risk</b>	<b>4</b>
Risk Measures	5
Aligning Risk and Remuneration	6
<b>5. Linking Performance and Remuneration</b>	<b>6</b>
Short-Term Incentives	6
Executive Long-Term Incentive Plan	6
UK Long-Term Incentive Plan	7
Adjustment of Remuneration	7
<b>6. Adjusting Remuneration for Longer Term Performance</b>	<b>7</b>
Deferral arrangements	7
<b>7. Forms of Variable Remuneration</b>	<b>8</b>
<b>8. Quantitative Disclosures</b>	<b>9</b>
<b>9. Glossary</b>	<b>10</b>

## 1. Introduction

This document has been prepared in accordance with the Australian Prudential Regulation Authority's (APRA's) new remuneration disclosure requirements for Authorised Deposit-taking institutions under *Prudential Standard APS 330: Public Disclosure* (APS 330). These requirements are separate to disclosures published in the National Australia Bank Limited (ABN 12 004 044 937) (NAB) Annual Financial Report.

APRA measures the NAB Group's capital adequacy by assessing financial strength at three levels:

- Level 1: comprises NAB and its subsidiary entities approved by APRA as part of the Extended Licensed Entity (ELE)
- Level 2: comprises NAB and the entities it controls, subject to certain exceptions set out below
- Level 3: comprises the conglomerate NAB Group.

This report applies to the Level 2 consolidated group (the Level 2 Group) comprising NAB and its controlled entities (NAB Group) including Bank of New Zealand (BNZ), Clydesdale Bank (Clydesdale), Great Western Bank (GWB) and other financial entities (e.g. finance companies and leasing companies) and excluding wealth management and life insurance activities.

The disclosure relates to senior managers and material risk takers of the Level 2 Group, for the financial year ended 30 September 2013 (referred to as 2013 throughout this report). Individuals have been identified consistent with the definitions provided in paragraph 17 of APS 330 and paragraph 48(a) and (c) of *Prudential Standard CPS 510 Governance* (CPS 510).

	Number of individuals	Definition
Senior Managers	28	Members of the NAB Group Executive Committee, senior managers who are members of the NAB Group Risk Return Management Committee and business line Chief Risk Officers.
Material Risk Takers	17	Executives of NAB Group who can substantially impact the financial performance and capital position of the Level 2 Group.

## 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](http://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.

The Committee met 11 times during 2013.

The Committee Chairman receives an annual fee of \$50,000 and other members of the Committee receive an annual fee of \$22,500 for membership of the Committee.

### 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.

### Scope of the Remuneration Policy

NAB Group operates a global remuneration policy (the Policy) that applies to NAB and all its controlled entities, including the offshore controlled entities BNZ, Clydesdale and GWB. The Policy covers all employees, including senior managers and material risk takers. 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 the NAB Group's results.

### 3. Remuneration Processes

#### 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.

The Committee reviewed the Policy during 2013 to:

- Incorporate the requirements of the *Superannuation Prudential Standard SPS 510 Governance*; and
- Review and refine the definition of material risk takers.

#### Risk and Financial Control Employees

Risk and financial control employees (as defined in paragraph 48(b) of CPS 510) are critical to effective management of risk across the NAB Group. Independence from the business for these employees is assured through:

- Setting total remuneration to ensure that variable reward is not significant enough to encourage inappropriate behaviours while remaining competitive with the external market;
- The Risk or Finance function determining remuneration decisions, and not the business they support;
- Performance measures and targets are aligned to NAB Group and individual objectives that are specific to the function; and
- NAB Group performance and / or function performance is a key component for calculating individual incentive payments.

The Committee reviews remuneration structures for these employees and oversees the overall reward outcomes for employees in these roles at least annually.

### 4. Remuneration and Risk

Risk exists in every aspect of the business and throughout NAB Group's operating environment. NAB Group identifies and manages its risks as part of a Group-wide Risk Management Framework (RMF). The RMF supports the successful implementation of NAB Group's strategies and allows NAB Group to run a sustainable, resilient business that is responsive to its changing environment. NAB Group's remuneration strategy, total reward framework, policies and practices are designed to support the RMF and align rewards with risk outcomes.

NAB Group regularly assesses risks so that appropriate action can be taken to manage them, within the Board approved risk appetite.

**Risk Measures**

A number of risk measures exist across each of the NAB Group's key categories of risk, including but not limited to:

Risk Category	Definition	Key Measures
Credit	The potential that a counterparty or customer will fail to meet its obligations to the NAB Group in accordance with agreed terms	<ul style="list-style-type: none"> <li>- Economic capital limits</li> <li>- Credit concentration limits e.g. single large exposures, industries, countries and products</li> <li>- Portfolio indicators in respect to credit quality having regard to probability of default, loss given default and exposure at default and a range of more granular measures applicable to the nature of the credit risk (e.g. loan to valuation ratios, days past due, impairments and write-offs)</li> </ul>
Operational	Inadequate or failed internal processes, people and systems or external events	<ul style="list-style-type: none"> <li>- Economic capital limits</li> <li>- Operational risk tolerances in respect to risk event types (e.g. number of loss events and near misses)</li> <li>- Operational Risk and Control Self-Assessment rating</li> </ul>
Non Traded Market	NAB Group's banking book activities e.g. capital, funding, liquidity, interest rate, foreign exchange and equity	<ul style="list-style-type: none"> <li>- Economic capital limits</li> <li>- Value at Risk (VaR) and Earnings at Risk (EaR) limits</li> <li>- Operational limits linked to a range of activities and risks (e.g. liquidity coverage ratio, customer and stable funding indexes, common equity tier 1 capital)</li> </ul>
Traded Market	NAB Group's trading activities, including proprietary trading, as a result of adverse movements in market prices	<ul style="list-style-type: none"> <li>- Economic capital limits</li> <li>- Trading desk limits and settings (e.g. stop loss limits)</li> <li>- Globally diversified VaR and inner stress limits</li> </ul>
Life Insurance	Claims exceeding those anticipated in the premiums collected and underlying investment income earned	<ul style="list-style-type: none"> <li>- Economic capital limits</li> <li>- Operational targets (e.g. for claims, lapses and solvency)</li> </ul>
Regulatory and Compliance	Failing to identify, influence and monitor changes in the regulatory environment, failing to comply with laws, regulations and licence conditions, and damaging the Group's relationship with its regulators	<ul style="list-style-type: none"> <li>- A range of measures linked to regulatory and compliance obligations (e.g. number of material breaches, time to respond to review findings, identification and management of regulatory changes in line with plan)</li> </ul>
Defined Benefit Pension	NAB Group's defined benefit pension scheme being in deficit (i.e. the assets available to meet pension liabilities are at a value below current and future pension scheme obligations)	<ul style="list-style-type: none"> <li>- Economic capital limits</li> <li>- VaR</li> </ul>
Strategic Positioning	Strategic choices and their ongoing viability, including improper management of the assumed or embedded risks within the strategic choices	<ul style="list-style-type: none"> <li>- Economic capital limits</li> </ul>
Strategic Execution	Failing to execute the chosen strategy including understanding the dependencies of success for the strategy and NAB Group's responsiveness to changes to these factors	<ul style="list-style-type: none"> <li>- Economic capital limits</li> </ul>

### Aligning Risk and Remuneration

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 capture a number of material risks (see Section 5 Linking Performance and Remuneration 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.

There have been no changes to the nature and type of key measures used to account for risks and how they impact remuneration during 2013.

## 5. Linking Performance and Remuneration

### 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	- Group cash earnings - ROE - ROTAE - Tier 1 capital ratio - Risk appetite
Strategic projects	- Technology and process transformation
Employees and culture	- Employee engagement - Diversity targets
Customer and community	- Customer satisfaction - Corporate responsibility objectives

Providing a portion of the STI reward as deferred equity or 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](http://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 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.

### Adjustment of Remuneration

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

The Committee, in consultation with the Principal Board Risk Committee, reviews financial and risk outcomes at the end of the performance year and recommends to the Board, the size of the STI pool, taking into account a qualitative overlay that reflects NAB Group's management of business risks (see *Section 4 Remuneration and Risk*), shareholder expectations and the quality of the financial results.

## 6. Adjusting Remuneration for Longer Term Performance

Longer term performance is reflected in the design of NAB Group's STI and LTI arrangements.

STI plans contain annual performance metrics that are set to achieve NAB Group's longer term strategy. Deferral of a portion of the STI reward allows for the reward to be adjusted after the initial performance assessment to reflect longer term performance outcomes.

NAB Group's LTI plan has a minimum four year performance period to align senior management decisions with the achievement of sustained positive performance by NAB Group.

### Deferral arrangements

STI rewards are subject to deferral for all senior managers and material risk takers depending on the STI plan and jurisdictional requirements:

Role Grouping	Deferral Arrangement
Group CEO, Group Executive, Other Senior Managers and Executive Material Risk Takers (not in categories below)	50% of STI is deferred equally over 2 years
Material Risk Takers (not in categories below)	25% of STI is deferred for 1 year
Senior UK Code Staff	60% (Clydesdale CEO only) or 50% of STI is deferred equally over 2 years
Wholesale Banking Sales Incentive Plan (SIP)	Incentive amounts above 50% of annual base salary are deferred equally over 2 years
Wholesale Banking SIP – UK Code Staff	60% of STI is deferred equally over 3 years

*Note: Other deferral arrangements apply to employees not identified as senior managers or material risk takers.*

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 to UK Code Staff 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.



## 7. Forms of Variable Remuneration

NAB Group provides variable remuneration in the following forms:

Form	Use
Cash	<ul style="list-style-type: none"> <li>- All or a portion of the STI award that relates to the current performance year.</li> <li>- Portion of the 2013 UK LTI.</li> <li>- Occasionally for deferred STI where an employee is entitled to receive deferred STI but has ceased employment with NAB Group prior to allocation of any performance shares/rights.</li> </ul>
Performance shares	<ul style="list-style-type: none"> <li>- Deferred STI (except as noted otherwise).</li> <li>- General employee share offers.</li> <li>- Retention and recognition awards.</li> <li>- Commencement awards.</li> </ul>
Performance rights	<ul style="list-style-type: none"> <li>- Deferred STI for some employees for jurisdictional reasons.</li> <li>- Deferred STI for executives receiving an LTI award.</li> <li>- LTI awards.</li> <li>- Retention and recognition awards.</li> <li>- Commencement awards.</li> </ul>

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 6 Adjusting Remuneration for Longer Term Performance*).

LTI awards are provided to senior executives of NAB Group. Not all senior managers or material risk takers will participate in the LTI program. Senior managers and material risk takers who do not participate in the LTI program will generally not receive deferred STI performance rights.

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

## 8. Quantitative Disclosures

These quantitative disclosures have been prepared in accordance with APS 330 Attachment E for the year ended 30 September 2013. All dollar amounts are in Australian Dollars.

**Table 8.1: Total Value of Remuneration Awards <sup>(1)</sup>**

	Senior Managers		Material Risk Takers	
	Unrestricted	Deferred	Unrestricted	Deferred
	\$000	\$000	\$000	\$000
Fixed remuneration				
Cash-based <sup>(2)</sup>	17,844	-	6,833	-
Other <sup>(3)</sup>	842	-	496	-
Variable remuneration <sup>(4)</sup>				
Cash-based <sup>(5)</sup>	6,656	-	6,825	-
Shares and share-linked instruments <sup>(6)</sup>	-	18,685	-	7,964

<sup>(1)</sup> Prepared in accordance with APS 330 Attachment E Table 18A. There were no amounts of fixed remuneration paid in shares or share-linked instruments. Cash-based deferred variable remuneration was awarded during 2013, however in accordance with the relevant accounting standard (AASB 119) no portion of this amount has been accrued in 2013. No other forms of variable remuneration were provided.

<sup>(2)</sup> 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 and other benefits (including any related fringe benefits tax).

<sup>(3)</sup> Other fixed remuneration includes employer contributions to superannuation (in Australia) 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.

<sup>(4)</sup> 26 senior managers and 16 material risk takers received variable remuneration in respect of 2013. Some senior managers and material risk takers did not receive variable remuneration as they ceased employment with NAB Group during 2013.

<sup>(5)</sup> The cash component of the STI received in respect of 2013.

<sup>(6)</sup> 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 shown is the portion relating to the 2013 accounting expense accrual and includes amounts relating to 2013 and prior year awards.

**Table 8.2: Deferred Remuneration**

	Senior Managers	Material Risk Takers
	\$000	\$000
<b>Total outstanding deferred remuneration <sup>(1)</sup></b>	<b>63,389</b>	<b>20,427</b>
Cash-based	586	339
Shares and share-linked instruments	62,803	20,088
Paid out during the year <sup>(2)</sup>	17,000	7,220
Reductions due to explicit adjustments <sup>(3)</sup>	(12,311)	(62)
Reductions due to implicit adjustments <sup>(4)</sup>	(1,097)	(268)

<sup>(1)</sup> The value of deferred cash awards is the grant value and for deferred equity awards is the grant fair value. Includes amounts for senior managers and material risk takers as at 30 September 2013. Outstanding deferred remuneration provided as shares and share-linked instruments is fully exposed to ex post explicit and/or implicit adjustments.

<sup>(2)</sup> Includes the value of vested awards during 2013 for all senior managers and material risk takers during 2013.

<sup>(3)</sup> Includes any reductions to awards as a result of forfeitures and lapses due to failure to meet performance hurdles, resignations, or malus adjustments for all senior managers and material risk takers during 2013.

<sup>(4)</sup> Includes any reductions to awards vested during 2013 due to the downward movement of NAB's share price since the grant date for all senior managers and material risk takers during 2013.

**Table 8.3: Other Remuneration <sup>(1)</sup>**

	Senior Managers		Material Risk Takers	
	No. of individuals	Total amount \$000	No. of individuals	Total amount \$000
Commencement awards <sup>(2)</sup>	-	-	1	760
Termination payments <sup>(3)</sup>	2	1,696	1	242

<sup>(1)</sup> No senior managers or material risk takers received a guaranteed bonus during 2013.

<sup>(2)</sup> The full value of these awards and payments is shown with no expensing adjustments made.

<sup>(3)</sup> Termination payments are made in accordance with the NAB Enterprise Agreement 2011 and/or the individual's employment agreement. Individuals 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 in line with NAB Group's policy and practice in such circumstances.

## 9. Glossary

Term	Description
ADI	Authorised Deposit-taking Institution.
APRA	Australian Prudential Regulation Authority.
APS	Prudential Standards issued by APRA applicable to ADIs.
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.
ELE	The Extended Licensed Entity (ELE) comprises the ADI itself and any APRA approved subsidiary entities assessed as effectively part of a single 'stand-alone' entity, as defined in APS 222 Associations with Related Entities.
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"> <li>- Distributions</li> <li>- Treasury shares</li> <li>- Fair value and hedge ineffectiveness</li> <li>- IoRE discount rate variation</li> <li>- Litigation expenses and recovery</li> <li>- Amortisation of acquired intangible assets</li> <li>- Payment Protection Insurance and Customer redress provisions.</li> </ul>
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"> <li>- 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);</li> <li>- Interest on deferred acquisition costs (net of reinsurance) included in insurance policy liabilities resulting from the unwind of discounting; and</li> <li>- Less the borrowing costs of any capital funding initiatives.</li> </ul>
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.
Level 2 Group	The Level 2 Group, being NAB and the entities it controls subject to certain exceptions set out in <i>Section 1 Introduction</i> of this report.
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.
Material risk taker	Consistent with paragraph 17 of APS 330 and paragraph 48(c) of <i>Prudential Standard CPS 510 Governance</i> (CPS 510) Individuals (other than Senior Managers) who have a significant portion of total remuneration based on performance and whose activities, individually or collectively, may affect the financial soundness of the Level 2 Group.
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.
Senior managers	Consistent with paragraph 17 of APS 330 and paragraph 48(a) of <i>Prudential Standard CPS 510 Governance</i> (CPS 510) senior managers are Responsible Persons under NAB Group's Fit and Proper Policy, including members of the NAB Group Executive Committee, senior managers who are members of the NAB Group Risk Return Management Committee and business line Chief Risk Officers. Non-executive directors of NAB Group and NAB's appointed auditor are excluded.
Statutory Fund	A Statutory Fund is a fund that: <ul style="list-style-type: none"> <li>– is established in the records of a life company; and</li> <li>– relates solely to the life insurance business of NAB or a particular part of that business.</li> </ul>
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 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.
UK Code Staff	Comprises categories of employees, identified by the UK Remuneration Code regulation, 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.



