



UK Remuneration Regulatory Disclosures 2014

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1. Introduction

The Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD) (together, CRD IV) came into force on 1 January 2014. These rules are enforced in the United Kingdom (UK), together with implementing rules, by the Prudential Regulation authority (PRA). This document has been prepared in accordance with the remuneration disclosure requirements of Article 450 of the CRR and the Prudential Regulation Authority's (PRA's) Senior Management Arrangements, Systems and Controls sourcebook (SYSC) 19A.3.12A R and the disclosures 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 SYSC 19A.3.4 R and related guidance, for the financial year ended 30 September 2014 (referred to as 2014 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 London Branch UK businesses.
Other Code Staff	Includes non-executive directors of the UK board, non-executive directors of the National Australia Bank Limited (NAB) Board with specific responsibilities in relation to the UK operations, employees performing Significant Influence Functions, employees who have responsibility and accountability for activities that could have a material impact on the UK businesses' risk profile, and employees in key control function roles.

2. Remuneration Governance

The Remuneration Committee (the Committee) has been established by the NAB Board (the Board). 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.nabgroup.com. As at 30 September 2014 the Committee was comprised of three independent non-executive directors (including the Chairman of the Committee). A fourth independent non-executive director joined the Committee in November 2014.

The Committee met 13 times during 2014.

The Committee has established a Reward Assurance Committee (RAC) for the UK Banking region which is attended by the chairman of the Committee and reports annually to the Committee and to the Boards of Clydesdale Bank plc and National Australia Group Europe Limited. The purpose of the RAC is to support the UK Chief Executive Officer in ensuring adherence to the NAB Group remuneration governance structures and frameworks and to perform the role of a UK governing body in relation to Remuneration Code requirements.

Use of External Advisers

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

The Committee retained Mr Walmsley of 3 degrees consulting to review and provide recommendations and advice on remuneration and governance matters.

Under the terms of the retainer arrangement, the Committee's external remuneration consultant provided remuneration advice to the Committee (inclusive of remuneration recommendations on senior executive remuneration) during 2014.

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 methodology which links remuneration directly to the performance and behaviour of an individual, NAB Group's results and shareholder outcomes. Further information regarding remuneration is available in the *Remuneration Report* section of NAB's 2014 Annual Financial Report.

Remuneration Policy

The Policy is designed to:

- Attract, recognise, motivate and retain high performers;
- Provide competitive, fair and consistent rewards, benefits and conditions;
- Reward achievement of short and long-term individual objectives and business strategy;
- Support NAB Group's risk management framework;
- Align the interests of employees and shareholders through ownership of NAB securities.
- Deliver outcomes over short and long-term time horizons with appropriate risk adjustments and performance assurance principles applied.

The Policy uses a range of components to focus employees 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 pension);
- 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.

Changes for 2015

The following Policy changes have been made impacting remuneration from 1 October 2014 (the beginning of NAB Group's performance year):

- The ratio of the variable component (STI and LTI) of total reward to the fixed component may not exceed 1:1; and
- For London Branch, the introduction of a discretionary Role Based Allowance (RBA) as a component of fixed remuneration for certain positions. The amount of the RBA takes into account various factors including relevant professional experience, organisational responsibilities and market factors. The RBA will be reviewed annually as part of the NAB Group's annual remuneration review process taking into consideration changes to the accountabilities or responsibilities of the role, business and economic factors and regulatory changes.

UK Banking are not introducing RBAs at this time.

Control Function Employees

Employees engaged in control functions 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 or RAC, as appropriate, reviews remuneration structures for these employees and oversees the overall reward outcomes for employees in these roles at least annually.

Risk Adjustment

Committee decisions and recommendations are made as far as practicable to align remuneration with shareholder returns, in accordance with regulatory requirements and global regulatory trends. The Committee's remuneration decisions are based on a risk-adjusted view of NAB Group's financial performance. 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 fail 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 variable reward plan and jurisdictional requirements:

Role Grouping	Deferral Arrangement
NAB Group CEO, NAB Group Executives, NAB Group Senior Managers	50% of STI is deferred equally over 2 years LTI is deferred for no less than 4 years
Senior Code Staff earning more than £500,000 variable remuneration	60% of STI is deferred over 3 years LTI is deferred for no less than 4 years
Senior Code Staff	50% of STI is deferred for either 2 or 3 years Any LTI is deferred for no less than 4 years
Other Code Staff	40% of STI is deferred over 3 years
Financial Markets SIP	50% or 60% of STI is deferred equally over 3 years
Financial Markets SIP meeting de minimis conditions	50% of STI is deferred equally over 2 years
Code Staff meeting de minimis conditions	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. No further performance conditions apply to retention equity nor is the equity subject to any forfeiture conditions

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 applies.

4. Variable Remuneration Arrangements

Short-Term Incentive

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 (40%) - ROE (30%) - ROTAE (30%)
Business Unit	- Business Cash earnings (40%) - ROE (60%)

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 2014 were:

Key Business Driver	Measures
Financial and risk management	- Group cash earnings - ROE - ROTAE - Tier 1 capital ratio - Risk appetite
Strategic projects	- Technology - Customer model implementation - Non-core business strategy
Employees and culture	- Employee engagement - Diversity targets
Customer and community	- Customer satisfaction - Reputation

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 align management decisions with 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 2014 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.

Generally, NAB Group aims to provide deferred STI 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 receive deferred STI shares.

Retention, recognition and commencement awards may be provided to an individual depending on circumstances and are subject to restrictions. 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 NAB's ability to pay.

Poor performance, including non-compliance with Group policies, 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.

Individual employees have a responsibility to ensure they comply with Group policies, including the Group Securities Trading Policy and UK Code of Conduct. In particular, the Group Securities Trading Policy specifically prohibits directors and employees from protecting the value of unvested securities (including unvested deferred STI or LTI) with derivative instruments. Directors and employees can protect the value of vested securities in limited circumstances. Further details on the Group Securities Trading Policy are set out in the *Corporate governance* section of NAB's 2014 Annual Financial Report available online at www.nabgroup.com. The Group Securities Trading Policy is available online at www.nabgroup.com. Any employee found to be in breach of Group policies will be subject to disciplinary action.

6. Quantitative Disclosures

These quantitative disclosures have been prepared in accordance with CRR Article 450 for the year ended 30 September 2014. 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	53	38	40	131
Total remuneration (£000)	11,363	9,122	9,426	29,911

⁽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
	£000	£000	£000
Number of Code Staff	19	112	131
Fixed remuneration	7,615	11,277	18,892
Variable remuneration (cash)	785	3,166	3,951
Variable remuneration (retained shares)	275	1,475	1,750
Deferred remuneration (equity) ⁽¹⁾	1,781	3,536	5,317
Deferred remuneration (cash) ⁽¹⁾	-	1	1
Total variable remuneration	2,841	8,178	11,019
Total remuneration	10,456	19,455	29,911

⁽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 £000	Other Code Staff £000	Total £000
Outstanding - vested	2,119	1,386	3,505
Outstanding - unvested	5,930	12,045	17,975
Awarded during the year	6,038	5,280	11,318
Vested during the year	6,223	5,227	11,450
Reductions during the year through performance adjustments	(5,345)	(230)	(5,574)

Table 6.4: Other Remuneration

	Senior Management	Other Code Staff	Total
Commencement awards (£000)	-	5	5
Number of beneficiaries	-	1	1
Highest award to a single beneficiary (£000)	-	5	5
Termination payments (£000)	949	191	1,140
Number of beneficiaries	1	1	2
Highest award to a single beneficiary (£000)	949	191	1,140

Table 6.5: Remuneration by band

Remuneration band (£000) ⁽¹⁾	Number of Code Staff
1,589 - 1,986	1
1,192 - 1,589	-
795 - 1,192	4
Less than 795	126
Total	131

⁽¹⁾ Total remuneration has been calculated including fixed remuneration, allowances, variable remuneration in relation to the performance year, and fees for non-executive directors. Variable remuneration includes the annual short-term incentive and the long-term incentive award in respect of the 2014 financial year. Bands have been converted using a rate of 1 Euro = £0.7945, consistent with the European Commission's currency converter for September 2014.

7. Glossary

Term	Description
Compliance Gateway	All employees must satisfy threshold measures for compliance which reflect a range of internal and external regulatory requirements.
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. Each performance right entitles the holder to be provided with one NAB ordinary share subject to adjustment for capital actions. 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. Shares are issued on exercise of performance rights. Performance rights may be used instead of shares due to jurisdictional reasons, including 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.
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.
Shares	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.
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. Used as a measure for the LTI performance hurdle.
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 the Australian Prudential Regulation Authority 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 NAB 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.
Remuneration Code Staff (Code Staff)	Comprises categories of employees, identified by the SYSC 19A.3.4 R UK Remuneration Code and related guidance, 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.