



Wednesday, 19 September 2018

ASX Announcement

NAB introduces simpler executive remuneration framework

National Australia Bank has introduced a new and simplified executive remuneration framework for the NAB Group Chief Executive Officer and Executive Leadership Team (ELT).

NAB Chairman, Dr Ken Henry, said the framework was designed to offer greater simplicity in how executives are rewarded and incentivise performance in a way which represents the interests of all NAB stakeholders.

“The NAB Board is determined to drive customer focus at every level of the organisation. This lens needs to be considered alongside financial metrics when assessing executive performance if we are to deliver long-term, sustainable performance for shareholders,” Dr Henry said.

“The new framework provides the right tools to assure performance. NAB is a complex business and the Board recognises it is important to attract, retain and reward skilled executives, while remaining mindful of the quantum of executive remuneration. Where NAB falls short of customer, shareholder and community expectations, the new framework provides the Board with the ability to hold leaders accountable.”

The new framework will apply to the current 2018 financial year and to future years.

Total CEO reward for this year, at target levels, is reduced by approximately 11 per cent compared to 2017 and 18 per cent compared to 2016 (this includes allowance for the value of dividends as illustrated below).¹

The aggregate 2018 ELT total reward at target levels (including CEO) has reduced by approximately 15 per cent compared to the prior year, including allowance for the value of dividends under the new framework.²

The Board will determine actual individual executive outcomes for financial year 2018 based on the new framework. These outcomes will be published in NAB's 2018 Remuneration Report available on 16 November 2018.

Key changes include:

1. A single variable reward based on performance (replacing short-term and long-term incentives):
 - The Board determines the size of the executive remuneration variable reward pool for each financial year based on Group Performance including a mix of customer, risk and financial metrics. It will also have discretion to adjust the size of the pool having regard to regulatory compliance, customer outcomes and issues that impact on the Group's reputation.
 - The Board expects to see greater differentiation in individual performance outcomes.
2. Alignment to long-term performance through deferral in shares:
 - 40 per cent of the variable reward will be paid in cash following the end of the financial year and the remaining 60 per cent will be awarded in shares that will be deferred for at least four years (deferred

¹ Refer to table on page 2 of this announcement for the basis of calculation.

² The ELT FY17 target total reward is based on STI target value and LTI value for each executive. The calculation of the values for the STI target and LTI amounts was made using the allocation fair values for these awards and NAB's 5 day weighted average share price immediately before the end of 30 September 2017. The ELT FY18 target total reward includes a gross value for dividends based on a share price of \$30 and a dividend of 99 cents, for illustrative purposes only, (including the value of the imputation credits applying to the dividends) payable during the 4 year deferral period. The CEO's target total reward used for this calculation is the same as in the table below. For further detail regarding equity allocations, please see NAB's 2017 Remuneration Report. Note that actual rewards may vary from target awards and the maximum opportunity has not been reduced by the same amount.

shares). For executives other than the CEO, this exceeds the level of deferral required by the Banking Executive Accountability Regime (BEAR).

- During the four-year deferral period, executives will receive any dividends paid on the deferred shares, but will not be able to sell or otherwise deal with the deferred shares.
- Vesting of deferred shares will be monitored and reviewed by the Board periodically throughout the deferral period.
- Deferred shares will be allocated based on face value, instead of fair value. This is simpler and provides transparency for the value of remuneration earned.

3. Variable reward can be forfeited, further deferred or clawed back:

- Upon resignation, dismissal for cause, failure to meet threshold conduct requirements, or if the Board determines that it should exercise its discretion, the executive will forfeit any entitlement to variable reward.
- The Board has the power to extend the deferral period beyond four years if it considers that circumstances warrant.
- The whole variable reward (both cash and deferred shares) will be subject to clawback in certain circumstances.

The new framework is compliant with the Banking Executive Accountability Regime.

The framework was developed based on detailed and ongoing engagement with investors, proxy advisors, regulators and executives, and taking into consideration NAB customer and community sentiment.

Potential Reward Available by Role

CEO, NAB Group

The CEO's actual variable reward will be between zero and 300 per cent of fixed remuneration, depending on business and individual performance.

The CEO's "at target" total reward is \$7.94 million, which is \$1.05 million less than in 2017.

CEO Remuneration	FY16			FY17			FY18		
	Minimum Opportunity	At Target	Maximum Opportunity	Minimum Opportunity	At Target	Maximum Opportunity	Minimum Opportunity	At Target ¹	Maximum Opportunity ¹
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Fixed remuneration	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
STI ²	0	2.44	4.26	0	2.44	4.26	-	-	-
Variable reward							0	4.6	6.9
LTI ^{3,4}	0	4.98	4.98	0	2.99	2.99			
Illustrative dividends	-	-	-	0	1.27	1.27	0	1.04	1.56
Total reward	2.3	9.72	11.54	2.3	8.99	10.82	2.3	7.94	10.76
% Decrease from FY16							0%	-18%	-7%
% Decrease from FY17							0%	-11%	-1%

1. During the deferral period, executives will also receive any dividends paid on the deferred shares. The gross value of the illustrative dividends is based on a share price of \$30 and a dividend of 99 cents for illustrative purposes only (including the value of the imputation credits applying to the dividends) payable during the 4 year deferral period.
2. The amount shown for the FY16 and FY17 STI includes the face value of the deferred component (which was 50% of the total STI) calculated using NAB's 5 day weighted average share price immediately before 11 November 2016 and 30 September 2017 respectively. The fair value of the deferred component for allocation purposes (50 per cent of total STI) was \$1.15m at target and \$2.01m at maximum opportunity.
3. The FY16 LTI amount is the face value calculated using NAB's 5 day weighted average share price immediately before 10 December 2016. (There is no allowance for the value of dividends payable on this award as it was actually allocated on a fair value basis.)
4. The FY17 LTI amount is the face value calculated using NAB's 5 day weighted average share price immediately before 30 September 2017. The CEO will also receive a cash amount following the end of the LTI restriction period equivalent to the gross value of any dividends (including payment for the value of the imputation credits applying to the dividends) which would have been paid to him if he had held a number of shares equivalent to any LTI that vests during the period 1 October 2017 to the end of the LTI restriction period in December 2021. This amount has been included in the illustrative dividends for FY17 based on the LTI fully vesting and a share price of \$30 and a dividend of 99 cents.

NAB Executive Leadership Team Members

For NAB's Chief Risk Officer and Chief Legal & Commercial Counsel, the actual variable reward will be between zero and 180% of fixed remuneration, depending on business and individual performance. The variable reward target will be 120% of fixed remuneration.

For other executives, the actual reward will be between zero and 255% of fixed remuneration, depending on business and individual performance, with the variable reward target being 170% of fixed remuneration.

Full details will be provided in NAB's 2018 Remuneration Report.

Ends.

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