

NAB's Reward Philosophy, and its Performance Management and Executive Talent Frameworks

NAB's Reward Strategy

NAB operates an integrated global reward strategy that covers all elements of performance and reward – ie. performance management, talent management, fixed remuneration, short-term incentive (STI), and long-term incentive (LTI). The following outlines the Group-wide philosophy and principles of that strategy.

The Remuneration Committee regularly reviews the reward philosophy and principles to ensure they remain contemporary and consistent with generally accepted market practice, both in Australia and within the global markets in which the Group operates.

Reward Philosophy

NAB's philosophy is to manage a 'Total Reward' framework designed to:

- link employee rewards to creating sustainable value for shareholders;
- attract, recognise and foster top talent;
- recognise capabilities and promote opportunities for career and professional development;
- motivate people with energy and passion;
- reward those who deliver superior performance;
- provide fair and consistent rewards, benefits and conditions within an integrated global strategy;
- provide rewards that are competitive within the global markets in which the Group operates; and
- build a partnership between employees and other shareholders through employee ownership of NAB shares and securities.

Performance and Talent Management

NAB's reward philosophy has been translated into a number of tangible reward principles. Central to this is that the highest performers and those showing greatest potential and future capability should receive the greatest rewards. The reward principles set out the manner in which performance should be assessed and recognised, and how performance should then impact the components of total reward.

The principles start with a robust 'Performance Management Framework' that is used across the Group, including both financial and non-financial key performance indicators (KPIs). Non-financial measures may include management and development of talent and behaviour. This is followed with a formal 'Executive Talent Process' for senior management, which provides a forward-looking view of an individual's potential capability. Both of these frameworks are set out in more detail below.

Performance management and executive talent outcomes are designed to drive superior rewards for the best relative performance and potential. For those employees, this means:

- fixed remuneration levels set at a higher market percentile;
- a greater STI reward; and
- a larger amount of LTI reward.

The key elements of the performance and talent management frameworks are as follows (and as shown in the following diagram):

- setting threshold 'quality gates', which are the threshold measures for compliance and behaviour, reflecting internal and external regulatory requirements and the Group's Corporate Principles. If an individual fails either gate, then no STI or LTI incentive can be provided. These quality gates must be met before the achievement of KPIs can be considered;
- setting corporate KPIs for the Group at the commencement of the performance period, which roll down into individual KPIs for each employee via an individual scorecard. Each individual performance scorecard defines what is required to achieve individual performance ratings, as shown on the performance curve in the following diagram;
- a peer review ('round table') process where peer managers review, compare and calibrate the performance of their collective group reports. The peer review process allows for performance to be differentiated, and confirms individual performance ratings and the related reward outcomes (fixed remuneration percentile and STI multiple). The peer review also identifies those employees who require development and those who are poor performers; and
- for management employees, the Talent Review follows on from the peer review process. The executive Talent Review has the dual aims of enabling succession planning for the Group (and management of business continuity risk) and career development for individuals. The Review identifies and tracks employees who contribute to the Group's high performance capability, through strong leadership behaviour as well as performance. In addition, potential for progression to roles of greater complexity is assessed. These elements in combination link directly into LTI outcomes.

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Performance and Talent Management Framework

| QUALITY GATES | |
|---|--|
| <ul style="list-style-type: none"> • Compliance • Behaviour | |



| CORPORATE/INDIVIDUAL SCORECARD | |
|---------------------------------|--|
| Financial / Business Management | Customer and Community |
| Employees | Process, Quality and Capability Leverage |



| PEER REVIEW |
|--|
| Rating measured against peers and final ranking determined |



| PERFORMANCE CURVE | | | | |
|---|---------------------------|--------------------------------|------------------------------|-----------|
| <i>Unsatisfactory/Developing</i> | <i>Valued Contributor</i> | <i>Significant Contributor</i> | <i>Exemplary Contributor</i> | |
| 10% ⁽¹⁾ | 65% | 15% | 10% | |
| | | | | |
| STI multiple of target | 0 | 0.6 – 1.1 | 1.2 – 1.5 | 1.6 – 2.0 |
| Fixed remuneration market percentile | P40 | P50 | P55 | P60 |
| <small>⁽¹⁾ 5% developing; 5% poor performers</small> | | | | |



| TALENT MATRIX | | | | |
|-----------------------|-----------|--------------|------------|---|
| | LTI = Low | LTI = Medium | LTI = High | |
| Leadership Behaviours | High | 7 | 8 | 9 |
| | Medium | 4 | 5 | 6 |
| | Low | 1 | 2 | 3 |
| | Low | Medium | High | |
| Business Results | | | | |