Bendigo and Adelaide Bank Limited
APRA Prudential Standard APS 330

Pillar 3 Remuneration Disclosures for the 2013 Financial Year

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The following remuneration disclosures have been prepared in accordance with the Australian Prudential Regulation Authority's (APRA's) remuneration requirements under Prudential Standard APS330 Public Disclosure (APS330) and Board approved remuneration policy.

These prudential disclosures are separate to the remuneration disclosures presented in the 2013 Remuneration Report which only covered Key Management Personnel (KMP). The qualitative remuneration disclosures are broader in scope and cover all individuals included in the Remuneration Policy as outlined in Prudential Standard CPS 510 Governance. The quantitative information relates to senior managers of the Group for the financial year ended 30 June, 2013.

For the purpose of these disclosures, the comments in italics are the Prudential Standard requirements and the comments in plain type are the responses. A table of key terms is provided at the end of the disclosures.

The Bank is required to make the following remuneration disclosures:

Qualitative Disclosures

(a) Information relating to the bodies that oversee remuneration. Disclosures must include:

- *the name, composition and mandate of the main body overseeing remuneration;*
- *the name of external consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process;*
- *a description of the scope of the ADI's Remuneration Policy (e.g. by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches; and*
- *a description of the types of persons considered as material risk takers and as senior managers as defined in paragraph 17 of this Prudential Standard, including the number of persons in each group.*

The Committee provides assistance to the Board in relation to the remuneration arrangements of the Bank. The Board makes all final decisions in relation to those arrangements. The current members of the Committee are all independent non-executive directors:

1. Tony Robinson (Chairman)
2. Jim Hazel
3. Robert Johanson
4. Deb Radford

The remuneration related responsibilities of the Committee are set out in the Committee's charter. In accordance with the charter the committee provides input into the Group's risk framework in relation to remuneration risk, in particular, recommending to the Board the remuneration arrangements for the senior executives including the Managing Director. Further details of the Committee's responsibilities for remuneration are summarised below and the committee charter is available from the Bank's website (www.bendigoadelaide.com.au).

The Committee's remuneration responsibilities include conducting regular reviews of, and making recommendations to the Board on, the remuneration policy taking into account the Bank's strategy, objectives, risk profile, shareholder interests, regulatory requirements, corporate governance practices and market developments.

The Committee is required to determine the persons whose activities, individually or collectively, may affect the financial soundness of the institution, and for whom a significant portion of total remuneration is based on performance. These persons are defined as 'additional management personnel'.

The Committee makes an annual recommendation to the Board on the remuneration for Senior Managers. The Committee also makes an annual recommendation to the Board on the remuneration of categories of persons covered by the remuneration policy, not addressed above, namely:

a. Other responsible persons (as defined in APRA's Prudential Standard CPS 520 Fit and Proper).
b. Risk and financial control personnel.

The Committee's remuneration responsibilities also include making recommendations to the Board on:

a. Changes to the structure of remuneration arrangements applicable to the persons described above; and
b. The basis on which performance based remuneration is provided, including the annual pool of funds available for distribution as bonuses to general staff and the persons described above.

The Committee makes recommendations to the Board on the exercise of the Board's discretion to adjust performance-based components of remuneration to reflect the outcomes of business activities, the risks relating to those activities and the time necessary for the outcomes of the business activities to be reliably measured. This includes adjusting performance-based components of remuneration downwards, to zero if appropriate, where necessary to protect the financial soundness of the Bank or to respond to significant, unexpected or unintended consequences that were not foreseen by the Board.

The Committee may consult a professional adviser or expert, at the cost of the Bank, if the committee considers it necessary to carry out its duties and responsibilities. No remuneration recommendations were obtained from external consultants during the reporting period.

The Board has approved a remuneration policy which applies to the Group. The policy does not apply to service contracts with third parties which are dealt with under the Group's risk management framework. The policy applies to all employees of the Group. This includes collective agreement employees and salaried employees. The policy deals with base remuneration and performance based remuneration including the deferral of short-term incentive payments and participation in equity plans.

The Bank has no foreign subsidiaries or branches.

For the purposes of the accompanying quantitative remuneration disclosures, the 'senior managers' of the Bank, as defined by APRA, comprise the members of the executive committee (including the managing director), the heads of appropriate business divisions, the heads of crucial corporate support and assurance functions, the heads of operational, market and credit risk functions and the company secretary.

There were twenty senior managers, as defined by APRA, as at the end of the reporting period.

The accompanying quantitative remuneration disclosures must include the remuneration of 'material risk takers', as defined by APRA. The Bank did not have any material risk takers at any stage during the reporting period.

(b) Information relating to the design and structure of remuneration processes. Disclosures must include:

- *an overview of the key features and objectives of remuneration policy;*
- *whether the Remuneration Committee reviewed the ADI's Remuneration Policy during the past year, and if so, an overview of any changes that were made; and*
- *a discussion of how the ADI ensures that risk and financial control personnel (as defined in paragraph 48(b) of CPS 510) are remunerated independently of the businesses they oversee.*

The policy establishes a remuneration framework designed to attract, retain and motivate employees to achieve the objectives of the organisation within its risk appetite and risk management framework. The framework is structured to provide the desired flexibility and reward arrangements to support the Bank's strategy whilst recognising the need to provide remuneration arrangements aligned with shareholder interests and senior executive roles, responsibilities and market relativities.

The guiding principles for the remuneration framework are: simplicity, fairness, alignment with values, appropriate risk behaviour and transparency. The following philosophy applies to the remuneration framework at both an organisation and division level:

a. Remuneration should facilitate the delivery of superior long-term results for the business and shareholders and promote sound risk management principles.
b. Remuneration should support the corporate values and desired culture.
c. Remuneration should promote behaviour that meets customers' reasonable expectations and protects their interests.
d. Remuneration should support the attraction, retention, motivation and alignment of the talent needed to achieve business goals.
e. Remuneration should reinforce leadership, accountability, teamwork and innovation.
f. Remuneration should be aligned to the contribution and performance of businesses, teams and individuals.

In line with the above, the policy specifies the following requirements and arrangements for employee remuneration:

a. The policy deals with all components of remuneration including superannuation;
b. The policy includes maximum indicative settings for performance based remuneration as a percentage of total remuneration;
c. The policy defines the components included in fixed remuneration and the process and responsibilities for reviewing and approving fixed remuneration;
d. The policy defines the two short term incentive plans comprising the performance bonus plan which may be offered to salaried employees and the at-risk invitation plan that may be offered to executive committee members (but excluding risk and control personnel). The policy also specifies the rules on who is eligible to participate in the plans and the associated approval arrangements;

e. The policy sets out the rules, measures and approval arrangements for the annual allocation to a Group bonus pool used for the distribution of short term incentive payments. The policy also sets out the factors and considerations used to determine the amount of individual short term incentive payments as well as the approval arrangements and associated board discretions;

f. The policy provides for the deferral of short term incentive payments into equity in the Bank. The policy also authorises the Board to reduce short term and long term incentive remuneration components, to nil if appropriate, in order to protect the financial standing of the Bank.

g. The policy sets out the arrangements applicable to long term incentive arrangements. This includes the categories of staff eligible to participate in these arrangements, which is at the discretion of the Board. A hedging restriction also applies to equity grants;

h. The policy requires any retention or termination payments to executives, outside of standard employment contract terms, to be approved by the Board.

The Committee reviewed the remuneration policy during the reporting period. Changes to the policy, resulting from that review, related to:

a. clarification that Board approval is required for an offer of 'other benefits' to Senior Managers;

b. increase the indicative maximum variable remuneration setting for risk and control personnel from 20% to 30%;

c. increase the minimum threshold for deferring a component of short term incentive awards into shares;

d. broaden the application of the policy to apply to the Bank's APRA-regulated subsidiaries, Rural Bank Limited and Sandhurst Trustees Limited;

e. Include a reference to the Committee's delegated authority to approve the participation in long term incentive plans for staff other than Senior Managers (which require Board approval).

The Bank has established the following arrangements to ensure that risk and financial control personnel are remunerated independently of the business they oversee:

a. setting the proportion of their variable remuneration (as a percentage of total remuneration) at a lower level than senior managers;

b. excluding risk and financial control personnel from the Bank's annual short term incentive 'at-risk invitation plan'. Risk and control personnel are still eligible to receive an annual bonus payment under the Group's performance bonus plan;

c. establishing a threshold above which a component of any short term incentive bonus payment to risk and financial control personnel is required to be deferred into shares; and

d. requiring the remuneration of risk and financial control personnel (including any payment under the performance bonus plan) to be approved by the Executive Risk.

(c) Description of the ways in which current and future risks are taken into account in the remuneration processes. Disclosures must include:

- *an overview of the key risks that the ADI takes into account when implementing remuneration measures;*
- *an overview of the nature and type of the key measures used to take account of these risks, including risks difficult to measure (values need not be disclosed);*
- *a discussion of the ways in which these measures affect remuneration; and*
- *a discussion of how the nature and type of these measures has changed over the past year and reasons for the change, as well as the impact of changes on remuneration.*

The remuneration framework includes the following arrangements and processes designed to ensure that remuneration outcomes appropriately take into account the impact of business risks.

The Board has discretion, having regard to the recommendation of the Committee, to adjust variable remuneration to reflect the following:

a. the outcomes of business activities;

b. the risks related to the business activities taking into account, where relevant, the cost of the associated capital; and

c. the time necessary for the outcomes of these business activities to be reliably measured.

This includes adjusting variable remuneration downwards, to zero if appropriate, in relation to persons or classes of persons, if such adjustments are necessary to:

a. protect the financial soundness of the regulated institution; or

b. respond to significant unexpected or unintended consequences that were not foreseen by the Board.

The Board will take into account the Group's risk appetite including compliance with the tolerance limits set out in the risk appetite statement in deciding if an adjustment for risk is required.

Short term incentives: The Board has discretion whether to establish a bonus pool and, if there is a pool, in deciding the amount of the pool. In exercising this discretion, the Board will have regard to the following:

a. Financial measures: This includes cash earnings achieved in excess of a target minimum shareholder return and return on equity.

b. Risk measures: The pool will be adjusted to reflect the types and levels of risk involved in the performance, and the overall risk appetite of the Group.

Specific risk adjustment may include:

c. The business mix which contributes to the group cash earnings result versus the targeted business mix.

d. Prudential balance sheet metrics achieved (Tier 1 capital ratio, cost to income ratio, liquidity ratio, loan arrears performance, risk weighted assets and asset growth).

Risk and compliance requirements represent a gateway to whether a bonus payment is made and the size of the payment. Notwithstanding financial performance and an individual's contribution and performance, if the individual does not meet, or only partially meets, risk and compliance requirements, no award or a reduced award may be made.

In addition, deferred shares granted to senior executives, as deferred base pay, (see (d), below) are subject to risk adjustment at the discretion of the Board.

There were no changes to the nature or type of measures used during the reporting period.

(d) Description of the ways in which the ADI seeks to link performance during a performance measurement period with levels of remuneration. Disclosures must include:

- *an overview of the main performance metrics for the ADI, top-level business lines and individuals;*
- *a discussion of how amounts of individual remuneration are linked to institution-wide and individual performance; and*
- *a discussion of the measures the ADI will in general implement to adjust remuneration in the event that performance metrics are weak.*

The remuneration framework includes the following arrangements designed to ensure that remuneration outcomes are linked to Group performance:

(i) Base Pay comprising:

Fixed base: There is an annual review for all salaried employees. Group performance and outlook is taken into account as well as individual circumstances in deciding fixed remuneration arrangements.

Deferred base: Annual grants of deferred shares are made to senior executives as part of their base pay that are subject to service and risk adjustment conditions. Deferred base pay exposes a percentage of senior executives' base pay to the market value of the Bank's shares.

(ii) Performance based 'at-risk' pay comprising:

Short Term Incentives ('STI'): The payment of STI awards may be adjusted at a number of levels for performance as well as financial and risk outcomes. In the first instance, the payment of STI awards is dependent on the Board's discretion, taking into account the performance of the Group, to establish a Group bonus pool for the payment of STI awards and bonuses.

As discussed above, in establishing any bonus pool, the Board will look to balance the interests of employees and shareholders and the capital needed to support future growth. The payment of individual STI awards takes into account the Bank's capacity under the bonus pool to make STI payments to both general staff and senior executives.

The maximum potential STI component for senior executives (including the managing director) is set by the Board at the start of each financial year. The STI is set at a level that does not encourage inappropriate behaviour or risk taking. Depending on the size of the bonus pool, the potential maximum STI awards may be adjusted downwards proportionately by the Board to reflect the Bank's capacity to pay bonus to both general staff and executives.

Typically financial measures will be the main basis used by the Board to determine the amount allocated to a bonus pool. The financial measures include the Bank's cash earnings achieved in excess of a target minimum shareholder return and return on equity.

In deciding the allocation of the bonus pool to business divisions, the Board may have regard to the following:

a. Contribution of division to earnings.

b. In the case of a business unit, assessment of risk management and compliance by the division.

c. In the case of a support function, assessment of the contribution to risk management and compliance by the function.

In determining the payment of a bonus to individuals, the factors taken into account include:

a. group financial and strategic performance;

b. business unit (team) financial and strategic performance;

c. individual contribution to team performance;

d. individual performance including alignment with corporate values and meeting performance objectives; and

e. Contribution to meeting risk and compliance requirements at group, team and individual level.

Long Term Incentives: Long term incentives are designed to link a component of remuneration with key performance measures that underpin sustainable longer term growth in shareholder value. They are issued subject to a service condition, a cash earnings per share hurdle and a relative total shareholder return hurdle.

(e) Description of the ways in which the ADI seeks to adjust remuneration to take account of longer-term performance. Disclosures must include:

- *a discussion of the ADI's policy on deferral and vesting of variable remuneration and, if the fraction of variable remuneration that is deferred differs across persons or groups of persons, a description of the factors that determine the fraction and their relative importance; and*
- *a discussion of the ADI's policy and criteria for adjusting deferred remuneration before vesting and after vesting through clawback arrangements.*

Short term incentives: Where a short term incentive payment of greater than $30,000 is awarded to senior managers or risk and control personnel:

a. one-third of the value of the award is deferred into shares in the Bank; and

b. the shares are held on trust for two years from the end of the financial year in respect of which the short term incentive is awarded.

The shares held on trust will be forfeited if the employee's employment with the group ends or the employee acts fraudulently or dishonestly, or in other cases decided by the Board.

Long Term Incentives: The Bank's long term incentive arrangement involves grants of performance shares that are subject to performance measures and a service condition.

Managing Director

In respect to the Managing Director, the LTI is subject to an Earnings per Share (EPS) gateway hurdle and a Total Shareholder Return (TSR) performance measure. TSR performance is the growth in share price, plus dividends paid, over the performance period, relative to a peer group of ASX100 companies.

Performance shares granted to the Managing Director under the plan vest in accordance with the following table provided the cash EPS gateway condition has been met.

Bank TSR ranking against TSR of peer group	Percentage of performance shares that vest
TSR below 50th percentile	Nil
TSR between 50th percentile and 75th percentile	65%
TSR above 75th percentile	100%

The vested shares are subject to a further two year dealing restriction.

To the extent the performance conditions attaching to performance shares granted under the plan are not satisfied at the end of the relevant performance periods, the performance shares that do not vest will be carried forward and retested. The performance shares that do not vest at the end of the final performance period will lapse.

Other Participants (LTI)

In respect to other participants, the grants are subject to an initial EPS performance measure and a market relative TSR measure.

The performance period consists of a 12 month initial performance period for EPS testing and a 3 year performance period for relative TSR testing.

a. **EPS hurdle:** The grant will be reduced by 50% at the end of the initial performance period if the cash earnings per share are not equal to or better than the cash earnings per share for the previous year.

b. **TSR hurdle:** During the 3 year TSR performance period, vesting of the performance shares (as adjusted for the EPS performance hurdle) will be conditional on TSR being at least equal to the median performance of a peer group consisting of the ASX100 Companies (excluding property trusts and resources). Median performance will result in 65% of the performance shares vesting, with 100% vesting if the Bank's relative TSR performance is 75% or above.

The performance shares are also subject to the senior executive's continued employment with the Bank for the performance period. The performance shares that do not vest at the end of the performance period will lapse. There is no dealing restriction on vested shares.

In addition to the above, a small number of selected leaders participated in a legacy Performance Share Plan with an EPS performance measure and service condition which completes at the end of FY2015.

The value of long term incentive awards to participants will vary depending on the role of each participant and their ability to influence the Bank's performance and financial standing.

All share-based payments are subject to claw-back at the discretion of the Board during the applicable performance and deferral periods.

(f) Description of the different forms of variable remuneration that the ADI utilises and the rationale for using these different forms. Disclosures must include:

- *an overview of the forms of variable remuneration offered (i.e., cash, shares and share-linked instruments and other forms); and*
- *a discussion of the use of the different forms of variable remuneration and, (if the mix of different forms of variable remuneration differs across persons or groups of persons), a description of the factors that determine the mix and their relative importance.*

The Bank offers variable remuneration to employees in the form of short term incentives and long term incentives.

Short term incentives are discretionary performance-based remuneration designed to drive and reward medium term results, reflecting the level and time horizon of risk. This includes financial and non-financial results and metrics at an organisation, division and individual (and team) level, as reflected in the allocation of the organisational/divisional pools, and individual awards as set out in (c) and (d) above. Where the total award exceeds a $30,000 threshold, one-third of value is deferred equity in the Bank for two years.

Short term incentive remuneration can be offered to salaried employees under the following plans:

1. Group performance bonus plan

Invitations to participate in this plan may be offered to salaried employees. Whether there is a bonus, including the amount of any bonus and participation in the plan is decided after the end of the financial year.

2. At risk invitation plan

Invitations to participate in this plan may be offered to executive committee members and other salaried employees (excluding risk and control) as determined by the Board. Eligibility to participate in the plan, including the maximum % of at risk remuneration (taking into account the amount of base remuneration or maximum at-risk amount) is set as follows:

a. In the case of a Senior Manager, participation is to be recommended by the Committee to the Board for approval.

b. In the case of other responsible persons, the parameters for participation are set by the Board on the recommendation of the Committee. The line manager decides participation within those parameters.

c. In the case of additional management personnel, the participation for each employee is decided by the Board having regard to the recommendation of the Committee.

d. In the case of other employees, participation is to be approved by the executive committee and provided to the Committee for noting.

Short term incentives for collective agreement employees are in the form of an annual bonus made in accordance with the terms of the Bank's collective agreement. For the reporting period this was 1.5% of the total employment cost for collective agreement staff. The bonus is discretionary and can be paid in the form of cash or equity.

The long term incentive is discretionary remuneration designed to drive and reward long term growth and sustained Bank value and align the interests of shareholders and participants. The form of long term incentives is at the discretion of the Board. The long-term incentive plans involve grants of performance shares that are subject to long term performance and service conditions.

The Board, having regard to the recommendations of the Committee will decide the conditions, which are set out in the long term incentive plan rules or invitation. The criteria used in establishing the grant terms and performance measures include the following:

a. The long term creation of value for shareholders.

b. The delivery of the long term objectives and outcomes needed to maintain a financially sound and successful institution.

c. Effective risk stewardship.

d. Retention of personnel critical to achieving the outcomes.

Executive committee members and other salaried staff decided by the Board, having regard to recommendations of the Governance and HR Committee, may be invited to participate in long term incentive plans. Participants may include managers who:

a. Are in a role which requires leadership of a key organisation competency/governance requirement.

b. The role has a direct linkage to the long term strategic success of the business.

The timing and form of any grant will be at the discretion of the Board. The mix of the different forms of variable remuneration will depend on an individual's role and their ability to influence the Bank's performance and financial standing.

Quantitative Disclosures – Senior Managers / Material Risk Takers

As outlined in the qualitative disclosure (above), there were no material risk takers for the 2013 financial year.

APS330 Requirement	Disclosure
Number of meetings held by the main body overseeing remuneration during the financial year and the remuneration paid to its members.	The Committee met 4 times during the financial year. Members of the committee receive a fixed director's fee, which is disclosed in the Bank's remuneration report. No additional fees are paid for serving on board committees.
The number of persons having received a variable remuneration award during the financial year.	Bonuses/Incentives: 19 Deferred shares (STI): 8 Performance Shares: 9
Number and total amount of guaranteed bonuses awarded during the financial year.	Nil
Number and total amount of sign-on awards made during the financial year.	Nil
Number and total amount of termination payments made during the financial year.	Nil
Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms.	Cash: nil Deferred Shares: $1,068,310 Performance Shares: $8,899,781
Total amount of deferred remuneration paid out in the financial year.	$837,940 consisting of 105,005 vested Performance Shares.
Breakdown of the amount of remuneration awards for the financial year in accordance with Table 18A below to show: – fixed and variable; – deferred and non-deferred; and – the different forms used (cash, shares and share-linked instruments and other forms).	See table 18A below.
Quantitative information about persons' exposure to implicit (e.g. fluctuations in the value of shares or performance units) and explicit adjustments (e.g. malus, clawbacks or similar reversals or downward revaluations of awards) of deferred remuneration and retained remuneration:	
• Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/ or implicit adjustments.	Deferred Shares: $1,068,310 Performance Shares: $8,899,781 Total deferred and retained remuneration: $9,968,090
• Total amount of reductions during the financial year due to ex post explicit adjustments.	Nil
• Total amount of reductions during the financial year due to ex post implicit adjustments.	Nil

Table 18A Total value of remuneration awards for senior managers for the 2013 financial year

Total value of remuneration awards for the current financial year[1]	Unrestricted	Deferred
Fixed remuneration		
• Cash based	$7,071,036	Nil
• Other		
> Superannuation	Nil	$351,842
> Deferred base pay	Nil	$311,664
Variable Remuneration		
• Cash-based	$678,067	Nil
• Shares and share linked instruments	Nil	$1,470,695
• Other	Nil	Nil

Note:

1. The amounts set out in the table do not align with the statutory table prepared in accordance with the requirements of the Corporations Act S.300A as (a) it applies to a different population (i.e. responsible persons) which include Key Management Personnel reported under the Corporations Act requirements and (b) the break up of remuneration required is different to the accounting standard based categories required by Corporations Act regulations. For share based instruments the amortised fair value has been used to provide information on an equivalent basis to the requirements under the Corporations Act regulations.

Table of key terms

The following key terms and abbreviations are used in the remuneration disclosures.

Expression	Meaning
APRA	Australian Prudential Regulation Authority
Bank	Bendigo and Adelaide Bank Limited
Base Remuneration	Base pay comprising fixed remuneration and deferred base pay
Board	Board of Bendigo and Adelaide Bank Limited
Committee	Governance & HR Committee
Group	Bendigo and Adelaide Bank Limited and its wholly-owned subsidiaries
Performance Based/Variable Remuneration	Comprises short term incentives and long term incentives
Senior Executive	Executive committee members (excluding the Managing Director)
Senior Manager	Managing Director, Senior Executives, non-administrative direct reports to the managing director and any additional management personnel

(S47035)(11/13)