Bendigo and Adelaide Bank Limited

BASEL III PILLAR 3 ANNUAL REMUNERATION DISCLOSURES AS AT 30 JUNE 2016

Bendigo and Adelaide Bank Limited ABN 11 068 049 178 AFSL 237879

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Annual Remuneration Disclosures as at 30 June 2016

The following remuneration disclosures are provided by Bendigo and Adelaide Bank Limited ("Bank")[1] in accordance with the requirements of the Australian Prudential Regulation Authority's Prudential Standard APS 330: Public Disclosure.

These disclosures are separate to the statutory financial reporting disclosures presented in the Bank's 2016 Remuneration Report which only related to Key Management Personnel ("KMP").

The Board has approved a Group Remuneration Policy ("Policy") which applies to all employees of the Bank and its controlled entities ("Group") including senior managers, risk and control personnel and material risk-takers. The Policy does not apply to service contracts with third parties which are dealt with under the Group Risk Management Framework.

Senior managers are the responsible persons determined in accordance with the Bank's Responsible Person Policy and comprise all executive members (including the Managing Director) and a small number of other designated roles.

1. Remuneration governance

The Governance & HR Committee ("Committee") provides assistance to the Board in relation to the remuneration arrangements for the Group. The current members of the Committee are all independent non-executive directors:

a. Tony Robinson (Chairman)

b. Jacquie Hey

c. Robert Johanson

d. Deb Radford

The Committee's charter sets out its remuneration related responsibilities which includes providing input into the management of remuneration risk. Further details of the Committee's remuneration responsibilities are summarised below and the 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 strategy and policy. The Committee is also responsible for making recommendations to the Board on:

a. The annual remuneration arrangements and reward outcomes for the managing director and other members of the executive committee. This includes setting the terms on which performance based remuneration will be provided;

b. The pool of funds available for the payment of short term incentives and bonuses;

c. The remuneration parameters and grants of variable remuneration for other responsible persons (as defined in Prudential Standard CPS 520: Fit and Proper);

d. The remuneration parameters for risk and financial control personnel; and

e. The remuneration arrangements and award outcomes for material risk-takers.

The Committee is required to determine the additional individuals (other than Senior Managers) 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 'material risk takers'. There were no material risk takers for the 2016 or 2015 financial years.

The Committee's remuneration responsibilities also include making recommendations to the Board on adjustments to incentive and performance-based components of remuneration to reflect the outcomes of business activities and the risks relating to those activities.

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 Committee met five times during the financial year. Members of the committee receive a fixed director's fee, which is disclosed in the Remuneration Report section of the 2016 Annual Financial Report. No additional fees are paid for serving on Board committees.

[1] The Bank has no foreign subsidiaries or branches.

2. Remuneration design and structure

The remuneration framework is designed to support the Group's strategy and risk management framework.

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; and
g. Remuneration processes and practices should support the achievement of fair remuneration, including gender pay equity.

The Policy provides a consistent framework for managing remuneration and remuneration related matters and specifically deals with:

a. The structure of remuneration arrangements for all employees including base pay, deferred base pay and performance based pay and the processes and responsibilities for reviewing and approving these arrangements;
b. The maximum indicative settings for performance based remuneration as a percentage of total remuneration;
c. The remuneration framework applicable to risk and control personnel;
d. The performance based short term incentive plans including deferral arrangements;
e. The performance based long term incentive plan including the categories of staff eligible to participate;
f. Hedging restrictions that apply to equity awards under the Policy;
g. The measures and approval arrangements for annual allocations to a Group bonus pool used for the payment of short term incentives and bonuses;
h. The Board discretions to adjust deferred base pay and performance based pay for risk outcomes;
i. Retention or termination payments to executives. Payments outside standard employment contract terms, which must be approved by the Board.

The Policy was reviewed on 1 September 2015. The main changes related to governance and approval responsibilities.

The Policy provides for the following remuneration components:

a. Base remuneration comprising:

- **Fixed base remuneration**; provided as cash and other benefits (includes any salary sacrifice arrangements and Company superannuation) to all employees; and
- **Deferred base remuneration**: provided as annual grants of deferred shares (fully paid ordinary shares granted at no cost or exercise price) to members of the executive committee and other senior management determined by the Board.

b. Performance based "at-risk" pay comprising:

- **Short-term incentive** – provided as a cash payment (or a combination of cash and shares where specified limits are exceeded) to executive committee members and other senior management determined by the Board under the At-Risk Invitation Plan or to other salaried employees under the Group Performance Bonus Plan; and
- **Long-term incentive** – provided as grants of performance rights to members of the executive committee and other senior management determined by the Board.

2.1 Risk and financial control staff

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

a. The Board sets the parameters for the annual review of fixed remuneration, having regard to the recommendation of the Committee. The value of the base remuneration is for each employee is set by the line manager within the approved parameters and is also approved by the Chief Risk Officer.
b. The maximum percentage of variable remuneration (as a percentage of total remuneration) is set at a lower level than senior managers and at a percentage that is not significant enough to encourage inappropriate behaviour;
c. The specific performance objectives for risk and financial control personnel are primarily linked to individual, team and department performance;
d. Risk and financial control personnel are excluded from the Bank's annual short term incentive "at-risk invitation plan" (except for risk and financial control personnel who are also executive members). Risk and control personnel are however eligible to participate in the Group Performance Bonus Plan described in Section 6 (Variable Remuneration);

e. The allocation of short-term incentive awards for risk and financial control personnel (including any payment under the performance bonus plan) are determined by the line manager within the finance and risk functions, and not the business that the individual supports, and within parameters set by the Board; and

f. The Chief Risk Officer approves all bonuses for risk and financial control staff awarded as part of the annual remuneration review. The policy requirement also includes starting salaries (greater than $150,000) and out-of-cycle salary increases (greater than $10,000) for risk and financial control staff.

3. Remuneration and risk

The Bank has established a risk management framework which represents the approach used to manage the key risks associated with the Group's business activities.

All material risks are managed within a defined risk appetite which is linked to our strategy, planning framework and business objectives.

The Board, through its risk and credit committees, closely monitors the Group's risk profile against the approved risk management framework and risk appetite.

The remuneration framework and reward structures are designed to support the risk management framework and to align remuneration and incentive rewards with performance and risk outcomes.

The Board has adopted a relatively conservative approach to setting executive remuneration, with the total target reward for all executives tending towards the median of market levels.

The mix of executive remuneration is weighted more towards base remuneration than incentive based pay when compared with weightings generally adopted by the Australian banking sector and other Australian listed companies. This approach to remuneration mix has been in place for many years.

The Board has also sought to ensure that executives' total target reward includes a significant portion of equity-based remuneration. The executives' base remuneration and STI includes a deferred equity component and the LTI is also provided as equity and thereby directly links executive remuneration to the Bank's share price performance over the medium and longer term.

The Board has an absolute discretion, having regard to a recommendation by the Committee, to adjust deferred and performance based remuneration to reflect the outcomes of the business activities and the risks related to those activities.

This includes adjusting deferred and performance based remuneration downwards, to zero if appropriate, if such adjustments are necessary to protect the financial soundness of the Group.

The Board will take into account the risk profile including compliance with tolerance limits in deciding if any adjustment for risk is required.

The Board has an absolute discretion whether to establish a bonus pool and to decide the amount that is allocated to the pool. In exercising this discretion, the Board will have regard to the following:

a. Financial measures: This includes the annual cash earnings and cash earnings per share performance and return on equity performance.

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

Specific risk adjustment may include:

a. The business mix which contributes to the cash earnings result compared to the targeted business mix;

b. Risk-adjusted return on capital (RAROC) / economic profit; and

c. Key prudential and financial ratios.

In addition, a risk and compliance gateway applies to bonus and incentive awards.

As part of the internal performance and development process, risk goals and measures are set for salaried staff applicable to their role. The risk goals are structured on four levels comprising executive, senior management, branch / line management and other salaried employees. An individual's progress in achieving the risk goals is monitored and assessed by their line manager.

Notwithstanding the performance of the business, and the individual's contribution and performance, if the individual, team or Group does not meet or only partially meets risk and compliance requirements, no award or a reduced award will be made.

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

4. Linking remuneration and performance

The following arrangements are designed to ensure that remuneration outcomes are linked to performance:

Fixed base: The fixed base is designed to recognise an individual's skills and competencies as well as their role responsibilities.

The fixed base for all salaried employees is reviewed annually and takes into account market relativities and the financial outlook of the Group.

Deferred base: The annual grants of deferred shares are subject to a service condition and risk adjustment and directly link a portion of the base remuneration to the Bank's share price performance.

Short-term incentive ("STI"): STI awards link a component of remuneration with the achievement of annual financial and business goals, taking into account risk management and compliance outcomes, and an individual's contribution to longer term growth and performance. Details of the STI plans in place are set out in section 6 (Variable Remuneration).

STI awards (and general staff bonuses) are only paid if the Board establishes a group bonus pool. The conditions for the establishment of a group bonus pool are determined by the Board at the start of each year. The conditions typically require the achievement of a minimum level of financial performance before a bonus pool will be established, above which the pool will increase in line with the level of outperformance over the minimum level.

Financial and risk measures are the main criteria used by the Board to determine the amount allocated to a bonus pool and include:

a. a threshold hurdle requiring the achievement of 95% of the targeted cash earnings for the financial year; and

b. a maximum potential bonus pool allocation based on 110 percent of the targeted cash earnings result.

The actual bonus pool determined using the above formula will be adjusted with reference to financial and risk measures including risk-adjusted return on equity, core tier 1 capital, cost to income, liquidity and credit quality.

The allocation of the bonus pool to Group business divisions and units is decided by the Managing Director having regard to the following factors:

a. The division's contribution to Group earnings with consideration to the level of risk assumed.

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

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

The following performance and contribution factors are used in determining individual incentive awards:

a. Group financial and strategic performance including cash earnings, RAROC / economic profit and customer advocacy.

b. Business unit (team) financial and strategic performance including earnings contribution, RAROC / economic profit, customer advocacy and new initiatives.

c. Individual contribution to team performance as assessed through the Group performance and development process.

d. Individual performance, including alignment with corporate values, code of conduct and meeting performance objectives as assessed through Group performance and development process.

e. Contribution to meeting risk and compliance requirements at Group, team and individual level also assessed through the Group remuneration review process.

Long-term incentive: The long term incentive is designed to link reward with key performance measures that underpin sustainable longer term growth in shareholder value. Participation is at the discretion of the Board.

Grants are issued subject to a service condition and cash earnings per share ("EPS") and relative total shareholder return hurdle ("TSR").

The long term incentive grants are subject to a cash EPS performance measure tested over a twelve month performance period and a market relative TSR measure over a three year performance period.

Adjusting remuneration for performance

Deferred base pay: The Board has discretion to fully or partially forfeit deferred base equity awards during the two year deferral period. The deferred equity component enables the Board to adjust the value of base remuneration for unforeseen business or risk outcomes.

Short-term incentive: Where a short term incentive payment of more than $50,000 is awarded to senior managers:

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.

The Board has discretion to fully or partially forfeit the deferred short term incentive awards during the deferral period to reflect any unforeseen performance or risk outcomes identified during the deferral period.

Deferral also applies to STI awards for other employees where the award is $100,000 or more.

Long-term incentive: The performance right grants current at 30 June 2016 are deferred over a three year performance period for the managing director and a four year performance period for other senior executives.

In respect to the Managing Director, the vested shares are subject to a further one year dealing restriction. There is no dealing restriction for other participants.

The Board may adjust the number of vested performance rights taking into account any unforeseen circumstances or outcomes during the performance, and if applicable, the dealing restriction period. This includes a risk adjustment to reflect the outcomes of business activities and risks related to those activities.

The mix and value of short and long term incentive awards differs across individuals invited to participate in these plans due to the nature of the participant's role, their responsibilities, market relativities and their ability to influence the Bank's performance and financial standing.

5. Variable remuneration

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

Short-term Incentive

STI are discretionary performance-based remuneration designed to drive and reward short to medium term results whilst reflecting the level and time horizon of risk.

STI may be offered under the Group Performance Bonus Plan or At-Risk Invitation Plan. The Group Performance Bonus Plan may be offered to salaried employees (including risk and control personnel).

The At-Risk Invitation Plan may be offered to executive committee members and other senior management (excluding risk and control) as determined by the Board.

Eligibility to participate in the At-Risk Invitation Plan, including the maximum percentage of at-risk remuneration, is determined as follows:

a. In the case of the Managing Director and other Executives, participation is recommended by the Committee to the Board for decision.

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

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

Awards or bonuses under the STI plans, including the amount of any bonus/award, are decided after the end of the financial year.

STI awards for participants in the At-Risk Invitation Plan are determined based on achievement of objectives within the parameters set and are on a discretionary basis.

Awards are approved by the Board on the recommendation of the Governance and HR Committee for senior managers and by the line manager within the parameters set by the executive committee for any other participants.

STI awards for other salaried employees under the Group Performance Bonus Plan are in the form of an annual bonus on a discretionary basis. The bonus award parameters are set by the executive committee and individual awards are subject to approval by the line manager.

To receive awards under the STI plans participants must meet a performance gateway which involves demonstrating satisfactory values based behaviour, risk and compliance management as well as performance and contribution.

The awards under the STI plans are generally provided in the form of cash with the exception of individuals whose awards are provided using a combination of cash and equity as described at Section 5 (Adjusting Remuneration for Performance).

Long-term incentive

The long term incentive is discretionary remuneration designed to drive and reward longer term growth and sustained shareholder value. The long-term incentive plan involves grants of performance rights that are subject to performance and service conditions.

A performance right represents a right to one fully-paid ordinary share and is issued at no cost and a nil exercise price.

The Board decides the conditions that apply to each grant. The criteria used in establishing the grant terms and performance measures include:

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.

Individuals who may be invited to participate in the plan may include managers who:

a. are in a role which requires leadership of a key organisation competency/governance requirement; and

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

6. Quantitative Disclosures: Senior Managers and Material Risk-Takers

The following quantitative disclosures are provided in accordance with Attachment G to Prudential Standard APS 330: Public Disclosures. The senior managers comprise all members of the executive committee and other key roles identified under the Bank's Responsible Persons Policy. There were 12 senior managers as at the end of the reporting period (30 June 2015: 13 senior managers). There were no material risk takers for the 2016 or 2015 financial years.

Table A: Variable remuneration awards during the year

APS330 Requirement	FY2016 Disclosure		FY2015 Disclosure	
The number of persons having received a variable remuneration award during the financial year.	Cash Bonuses/Incentives:	0	Cash Bonuses/Incentives:	13
	Deferred shares (STI):	0	Deferred shares (STI):	5
	Performance Shares:	11	Performance Shares:	12

No guaranteed bonuses or sign-on awards were made or granted during the above financial years to senior managers. Two termination payments totalling $1,187,155 were made to senior managers for the 2016 financial year (FY2015: Nil)

Table B: Total value of remuneration awards for senior managers

Total value of remuneration awards for the current financial year[1]	FY2016 Unrestricted	FY2016 Deferred	FY2015 Unrestricted	FY2015 Deferred
Fixed remuneration				
• Cash based [2]	$6,253,851	-	$6,320,718	-
• Shares and share linked instruments [3]	-	$1,814,012	-	$1,724,985
• Other [4]	($59,587)	-	$102,722	-
Variable Remuneration				
• Cash-based [5]	-	-	$508,193	-
• Shares and share linked instruments [6]	-	$1,088,512	-	$1,053,139
• Other	-	-	-	-

[1] The amounts set out in the table do not align with the statutory table prepared in accordance with the requirements of section 300A of the Corporations Act as it applies to a different population (i.e. senior managers) which includes the Key Management Personnel reported under the Corporations Act.

[2] This includes base salary, salary sacrifice and superannuation payments.

[3] This represents the fair value of deferred base pay (awarded as grants of deferred shares) amortised over the two-year deferral period. The amount disclosed for FY2016 includes the annual amortised fair value for the 2016 and 2015 grants. The comparative amount includes the annual amortised fair value for the 2015 and 2014 grants.

[4] This comprises annual leave and long service leave accruals.

[5] This represents the cash component of STI awards paid in respect of the relevant financial year. For senior managers, one-third of the STI awards that exceed a $50,000 threshold are deferred for two years into shares in the Bank.

[6] This represents the fair value of performance share grants amortised over the applicable performance period and the fair value STI deferred share grants amortised over the two-year deferral period.

Table C: Summary of deferred remuneration (released, outstanding and adjusted)

	FY2016	FY2015
Deferred remuneration paid out (release of vested shares) [1]		
• Shares and share linked instruments	$2,874,825	$6,625,570
Outstanding deferred remuneration [2]		
• Cash	-	-
• Shares and share linked instruments	$7,829,767	$9,174,964
• Other	-	-
Deferred remuneration adjustments		
• Total amount of reductions during the financial year due to ex post explicit adjustments.	$92,105	-
• Total amount of reductions during the financial year due to ex	-	-

[1] The amount represents the value of deferred shares that had vested and were released to senior managers during the year and the value of ordinary shares allocated to senior managers in relation to vested and exercised performance shares that were released during the year. The amounts have been calculated using the volume weighted average closing price of the Bank's shares for the 5 trading days prior to the release date.

[2] The amount represents the value of unvested deferred shares granted to senior managers that are still subject to the two year deferral period and the value of unvested performance shares granted to senior managers that will be tested in future financial periods. The amount also includes the value of ordinary shares allocated to senior managers (on the vesting and exercise of performance shares) that are subject to a dealing restriction or which have not been released by the Board. The amounts have been calculated using the accounting fair value of the securities.

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