Basel III
Pillar 3

ANNUAL REMUNERATION DISCLOSURES AS AT 30 JUNE 2019

Bendigo and Adelaide Bank

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

These disclosures are separate to the statutory financial reporting disclosures presented in the Bank's 2019 Remuneration Report which only related to Key Management Personnel ("KMP"). The following qualitative disclosures relate to the employees covered by the Group Remuneration Policy and the quantitative disclosures relate to Senior Managers and Material Risk Takers (MRTs).

The Board has approved a Group Remuneration Policy ("Remuneration Policy") which applies to all employees of the Bank and its controlled entities ("Group") including Senior Managers, Risk and Financial Control Personnel and MRTs.

Senior Managers are defined under the Bank's Responsible Person Policy and comprise all members of the Group's executive committee and three other key designated roles.

MRTs are additional management personnel who have a significant portion of performance-based remuneration and whose activities, individually or collectively, may affect the financial soundness of the Group. There were no material risk takers for the 2019 or 2018 financial years.

1. REMUNERATION GOVERNANCE

The Governance & HR Committee ("Committee") provides assistance to the Board in relation to the remuneration arrangements for the Group.

The Committee met six times during the year and its membership comprises four independent non-executive directors, including the Chairman. One of the meetings included a joint sitting of the Risk, Audit and Credit Committees.

The Committee members receive a fixed annual director's fee and no additional fees are paid for serving on the committee, total fees received for FY19 were $1.18 million.

The Committee's charter sets out its remuneration related responsibilities. A summary of the Committee's remuneration responsibilities is presented below and the charter is available from the Bank's website.

The Committee's remuneration responsibilities include reviewing and making recommendations to the Board on the remuneration framework and policy. The Committee is also responsible for making recommendations to the Board on:

a. The annual remuneration arrangements and reward outcomes for Senior Managers and MRTs;
b. The remuneration parameters for risk and financial control personnel;
c. Grants of equity-based remuneration including the terms on which the grants will be offered;
d. The pool of funds available for the payment of annual short-term incentives and bonuses; and
e. Any proposal for a sign-on, retention or termination payment to a Senior Manager or MRT.

The Committee's responsibilities also include making recommendations to the Board on adjustments to variable remuneration components to reflect actual business performance and the management of risk.

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.

2. REMUNERATION DESIGN AND STRUCTURE

The remuneration framework is documented in the Remuneration Policy. The framework is structured to attract, retain and motivate employees to achieve the organisation's objectives within the approved risk appetite.

The guiding principles for the remuneration framework are:

- **Simplicity:** The link between performance, value creation and reward should be clear and the framework easy for all employees to understand so that it effectively attracts, retains and motivates the talent needed to deliver longer term sustainable success.
- **Transparency and procedural fairness:** The Bank commits to providing employees with visibility wherever possible of the considerations made in making reward decisions and fairly undertaking all performance and reward processes to support the objective of fair remuneration, including gender pay equity.
- **Alignment with values:** Remuneration should reinforce the corporate values of teamwork, integrity, performance, engagement, leadership and passion. Individual reward outcomes are first dependent on the success of the Bank, Division and team.
- **Appropriate risk behaviour:** Remuneration should encourage innovation and prudent risk taking that supports the achievement of superior long-term results for shareholders and customers and supports the risk management framework; and
- **Supports good customer outcomes:** Reward structures and practices will be designed to minimise the risk of incentivising behaviours that may lead to poor customer outcomes.

1 The Bank has no foreign subsidiaries or branches

The Remuneration Policy sets out the remuneration objectives and structure of remuneration arrangements including, but not limited to:

a. The components of remuneration available to employees and the processes and responsibilities for reviewing and approving these arrangements;
b. The maximum indicative settings, as a percentage of total remuneration, for variable remuneration;
c. The remuneration framework and supporting approval responsibilities and processes that apply to risk and financial control personnel;
d. Participation in variable remuneration plans including grant terms and approval arrangements;
e. The performance measures and approval arrangements for establishing an annual bonus pool;
f. The responsibilities, parameters and criteria for allocating the annual bonus pool at a divisional and individual level;
g. The Board discretions to adjust variable remuneration for business and risk outcomes;
h. Hedging restrictions applicable to equity remuneration components; and
i. Sign-on, retention and termination payments.

The Policy was reviewed during the year with the main changes relating to ensuring compliance with the Banking Executive Accountability Regime. This will result in future long-term incentive grants having a minimum 4-year total deferral period.

The Remuneration Policy provides for the following fixed and variable remuneration components:

a. Base remuneration

Fixed base remuneration: provided as cash (includes any salary sacrifice arrangements and Company superannuation).

Deferred base remuneration: provided as annual grants of deferred shares to members of the executive committee and other senior management as determined by the Board.

The deferred shares are held on trust for a two-year deferral period. Deferred shares are fully paid ordinary shares granted at no cost and are beneficially owned by the recipient from grant date. The grants are subject to a two-year service condition and risk adjustment at the discretion of the Board.

b. Variable remuneration

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

The mix and value of variable remuneration varies depending on the nature of the participant's role and responsibilities and their ability to influence the Bank's performance and financial standing.

Short-term incentive (STI): provided as cash (or combination of cash and shares where a specified threshold is exceeded) under the Short Term Incentive Plan (STIP) or Value Created Dividend Plan (VCD Plan).

The STI is designed to drive and reward short to medium term results whilst reflecting the level and time horizon of risk. STI awards require the achievement of financial and non-financial metrics at an organisational, divisional and individual level. The metrics are set at the start of each financial year.

Participation in the STIP may be offered to executive committee members and senior management (excluding risk and financial control unless they are also a member of the executive committee) at the discretion of the Board.

The maximum STIP opportunity is a fixed dollar amount which is capped at 100% of target with no opportunity to increase the payments for 'above target' performance.

Participation in the VCD Plan may be offered to other salaried employees (including risk and financial control personnel).

Participation in the STIP is determined as follows:

a. In relation to the Managing Director, non-administrative direct reports to the Managing Director and Material Risk Takers, participation is recommended by the Committee to the Board for decision.
b. In relation to other Senior Managers, the parameters for participation are set by the Board on recommendation of the Committee. The line manager decides the actual award within those parameters.
c. In the case of other salaried employees, participation is to be approved by the Managing Director and provided to the Committee for noting. The line manager decides the actual award within those parameters.

Awards or bonuses under the STI plans are decided after the end of the financial year and, in relation to Senior Managers, are approved by the Board on the recommendation of the Governance and HR Committee.

STI awards for other salaried employees are in the form of an annual discretionary bonus (VCD). The bonus parameters are set by the executive committee and individual awards are determined by the line manager.

To receive an STI award the employee must demonstrate satisfactory values-based behaviour, risk and compliance management as well as meet performance and contribution objectives.

Long-term incentive: provided as grants of performance rights to members of the executive committee and other senior management as determined by the Board.

The long term incentive is discretionary remuneration designed to drive and reward longer term growth and sustained shareholder value.

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

Vesting is subject to the achievement of performance measures outlined in Section 4. The grants are also subject to a service condition.

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

a. The long term creation of shareholder value.
b. The delivery of the long-term objectives and outcomes to maintain a financially sound and successful institution.
c. Effective risk stewardship.
d. Retention of personnel critical to achieving targeted business outcomes.

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

a. Are in a role which involves the leadership of a key organisational competency or governance requirement: and/or

b. Are in a role that has a direct linkage to the long term strategic success of the business; and/or
c. Are high performing with the potential to contribute even further to the organisation in a strategic and/or leadership capacity in the future; and
d. Whose values and behaviours strongly align with the organisation's corporate values.

Risk and financial control personnel

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 and variable remuneration, having regard to the recommendation of the Committee.
b. Base remuneration and STI awards are determined by the function's line manager within Board approved parameters and are subject to a two-up manager approval process. The remuneration is also confirmed by the Chief Risk Officer to ensure the independence of the staff and functions are not compromised.
c. Variable remuneration is capped at a lower percentage of total remuneration when compared to other staff, and at a level that should not promote inappropriate behaviour.
d. The performance objectives and individual STI awards are aligned with organisational performance and the responsibilities and performance of the relevant risk or financial control function.
e. Risk and financial control personnel are not permitted to participate in the annual STIP (except for the Chief Risk Officer).

3. REMUNERATION AND RISK

The Board is responsible for the risk management strategy which includes approving the risk management framework and risk appetite within which the business operates.

All material risks are managed within a risk appetite linked to our strategy, planning framework and business objectives. The risk appetite is defined using quantitative and qualitative measures for the major risk categories of credit risk, interest rate risk in the banking book, traded market risk, liquidity risk, operational risk and strategic risk.

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

The remuneration structures are designed to support the risk management framework. This is achieved by aligning remuneration outcomes with risk outcomes, staff behaviour and the financial soundness of the organisation.

The Board has adopted a relatively conservative approach to remuneration. In particular, the proportion of incentive-based pay, particularly STI, is relatively low when compared to other listed entities in Australia, especially in the banking sector.

The STI links a modest percentage of remuneration to annual financial and business performance and is subject to passing a risk, compliance and values gateway.

The mix also includes three equity components designed to build executives' personal exposure to the Bank's share price performance. The equity components are also directly linked to risk management outcomes as discussed below.

This mix reflects our long-held view that remuneration which is highly leveraged towards short-term performance can create a disconnect between executive reward and longer-term shareholder interests, customer outcomes and broader community and regulatory expectations.

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

This includes adjusting variable based remuneration downwards, to zero if appropriate, if such adjustments are necessary to protect the financial soundness of the Group and/or to respond to significant unexpected or unintended consequences that were not foreseen by the Board.

The Board will take into account compliance with the risk management framework including regulatory and policy requirements in deciding if an adjustment for risk is required.

In making its decision the Board considers the outcomes of the risk management declaration program along the recommendations of the Risk, Audit and Credit Committees which held a joint meeting with the Governance and HR Committee. The Chief Risk Officer also provides his perspectives on the risk performance of individual executives.

The payment of STI awards is subject to the establishment of an annual bonus pool. The Board decides the annual bonus pool and in exercising this discretion it has regard to the following:

a. Financial measures: This includes the annual cash earnings 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 adjustments 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;
c. Key prudential and financial ratios;
d. Performance in relation to risk, compliance and audit matters; and
e. Material adverse customer outcomes.

The Board also applies a qualitative overlay to take into account the underlying performance of the business and shareholder interests.

As part of the internal performance and development process, risk goals and performance measures are set for general salaried staff as applicable to their role. The risk goals are structured on several levels comprising 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.

4. LINKING REMUNERATION AND PERFORMANCE

The following arrangements are designed to link remuneration outcomes with organisational performance:

Fixed base: The fixed base is designed to recognise an individual's experience, skills, competencies and responsibilities. The fixed base remuneration for all salaried employees is reviewed annually having regard to market relativities and the Group's financial outlook.

Deferred base: The annual grants of deferred shares are held on trust and are subject to a two year deferral period, service condition and risk adjustment, and directly link a portion of the base remuneration to the Bank's share price performance over the deferral period.

Short-term incentive ("STI"): STI awards link a component of remuneration to 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.

STI awards 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 is established, above which the pool increases in line with the level of outperformance above the minimum level.

Financial and risk measures are the main criteria used by the Board to determine the annual bonus pool allocation 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 bonus pool determined using the above formula will be adjusted with reference to financial and risk measures including risk-adjusted return on equity (RAROC), common equity tier 1 capital, liquidity and credit quality.

The Board decides the amount of the bonus pool after financial year-end, on recommendation from the Governance & HR Committee.

The allocation of the bonus pool at a divisional level is decided by the Managing Director having regard to the following:

a. The division's contribution to Group earnings with consideration to the level of risk assumed.
b. The division's progress towards the achievement of key strategic initiatives.
c. In the case of a business unit, an assessment of risk management and compliance by the unit.
d. In the case of a support function, an assessment of the contribution to risk management and compliance by the support function.

Individual performance is assessed after each year end. The following performance and contribution criteria are used in determining individual incentive awards:

a. Group financial and strategic performance including cash earnings, RAROC and customer advocacy.
b. Business unit financial and strategic performance including earnings contribution, RAROC, 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, the code of conduct and meeting performance objectives as assessed as part of the internal performance and development process.
e. Contribution to meeting risk and compliance requirements at Group, team and individual level which is assessed as part of the internal performance and development 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.

Grants are issued subject to a service condition and the achievement of a combination of customer advocacy and market relative total shareholder return ("TSR") hurdles.

The customer advocacy and TSR measures are tested over a three year performance period (four years for the Managing Director).

Adjusting remuneration for performance

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 performance or risk outcomes identified by the end of the deferral period.

One third of STI awards of $100,000 or more are deferred into shares in the Bank which are held in 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.

The performance right grants are deferred over a four-year performance period for the managing director and a three year performance period for other senior managers.

The Board may adjust the number of performance rights that vest at the end of the performance period to take into account poor performance including any unforeseen circumstances or risk outcomes.

5. QUANTITATIVE DISCLOSURES: SENIOR MANAGERS AND MATERIAL RISK-TAKERS

The following quantitative disclosures are provided in accordance with Prudential Standard APS 330: Public Disclosures.
The Senior Managers comprise all members of the executive committee and other roles identified under the Responsible Persons Policy. There were 13 senior managers as at the end of the reporting period (30 June 2018: 11 Senior Managers). There were no material risk takers for the 2019 or 2018 financial years.

Table A: Variable remuneration awards during the year

APS330 Requirement	FY2019 Disclosure	FY2018 Disclosure
The number of persons having received a variable remuneration award in relation to the financial year.	Short Term Incentive: 0 Long Term Incentive: 12	Short Term Incentive: 11 Long Term Incentive: 11

No guaranteed bonuses, sign-on awards were made or granted during the above financial years to senior managers. There was one termination payment of $15,862 made to one senior manager.

Table B: Total value of remuneration awards for senior managers

Total value of remuneration awards for the current financial year [1, 2]	FY2019 Unrestricted ($'000)	FY2019 Deferred ($'000)	FY2018 Unrestricted ($'000)	FY2018 Deferred ($'000)
Base remuneration				
• Cash based [3]	$5,271	-	$5,699	-
• Shares and share linked instruments [4]	-	$1,386	-	$1,817
• Other [5]	$44	-	$92	-
Variable Remuneration				
• Cash based [6]	$0	-	$812	-
• Shares and share linked instruments [7]	-	$1,105	-	$1,387
• Other	-	-	-	-

1 The remuneration details relate to the individuals who held Senior Manager roles both during and as at the end of the financial year. The details for individuals who held Senior Manager roles for part of the year have been pro-rated.
2 The amounts 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.
3 The amounts represent base salary, salary sacrifice and employer superannuation contributions.
4 The amounts represent the fair value of annual deferred base pay grants amortised over the two-year deferral period.
5 This comprises annual leave and long service leave entitlements accrued but not taken during the financial year.
6 This represents the cash component of STI awards accrued but not paid in respect to the financial year. The awards are paid to the Senior Managers after the financial year end. One-third of the STI awards of $100,000 or greater are deferred for two years into shares in the Bank.
7 This represents the fair value of performance right grants amortised over the applicable three or four year performance periods 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)[1]

	FY2019 ($'000)	FY2018 ($'000)
Deferred remuneration paid out during the year [2]		
• Shares and share linked instruments	$695	$2,653
Total outstanding deferred remuneration [3]		
• Cash	-	-
• Shares and share linked instruments	$2,650	$7,267
• Other	-	-
Deferred remuneration adjustments		
• Total amount of reductions during the financial year due to ex post explicit adjustments [4]	$1,048	$1,132
• Total amount of reductions during the financial year due to ex post implicit adjustments [5]	$199	$(290)

1 The remuneration details relate to the individuals who held Senior Manager roles both during and as at the end of the financial year.

2 The amounts represent the value of deferred shares that had vested and were released during the year and the value of ordinary shares, allocated in respect to vested and exercised performance rights, that were released during the year. The amounts have been calculated using a volume weighted average closing price of the Bank's shares at release date.

3 The amounts represent the value of deferred share and performance right grants that are still subject to the relevant deferral or performance period and will be tested in future periods and the value of deferred share and performance right grants that had completed the deferral or performance period but had not been tested and released as at the end of the financial year. The amounts have been calculated using the accounting fair values.

4 The amounts represent the value of deferred share and performance right grants that were forfeited and expired during the financial year due to a failure to meet the required performance hurdles or service conditions. The value is calculated using the closing price of the Bank's ordinary shares on the forfeiture or lapsing date.

5 This includes any reductions to the value of the outstanding awards due to downward movements in the Bank's share price during the year, noting that in 2019 there was no reduction in value.