Basel III Pillar 3
Annual Remuneration Disclosures
as at 30 June 2017

Bendigo and Adelaide Bank

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 2017 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 financial control personnel and material risk-takers, being additional management personnel having a significant portion of performance based remuneration and whose activities may affect the Group's financial soundness.

Senior Managers are the responsible persons determined in accordance with the Bank's Responsible Person Policy and comprise all members of the Group's executive committee and two 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 Committee met four times during the year and its membership comprises four independent non-executive directors, including the Chairman of the Committee.

The Committee members receive a fixed annual director's fee and no additional fees are paid for serving on the committee.

The Committee's charter sets out its remuneration related responsibilities. A summary of the Committee's remuneration responsibilities are presented below and the charter is available from the Bank's website at www.bendigoadelaide.com.au/public/corporate_governance

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 the Senior Managers;

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

c. The remuneration arrangements and reward outcomes for material risk takers;

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.

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

There were no material risk takers for the 2017 or 2016 financial years.

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

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 the organisation needs to deliver long 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 of the Bank.
- **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.

The Policy establishes the framework for managing remuneration and remuneration related matters and specifically deals with:

a. The components of remuneration available to employees 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 financial control personnel;

d. The base remuneration components available to different categories of employees including review and approval arrangements;

e. Participation in variable remuneration plans including grant terms and approval and deferral arrangements;

f. The measures and approval arrangements to establish the Group bonus pool used for the payment of short term incentives and bonuses;

g. The Board discretions to adjust variable remuneration for business and risk outcomes;

h. Hedging restrictions applicable to equity remuneration components;

i. Sign-on, retention and termination payments.

The Policy was reviewed on 27 September 2016 and on 29 August 2017. The main changes related to approval delegations and responsibilities, refine the remuneration principles and philosophy to more overtly align with the Sedgwick Report recommendations and consequential changes to the description of the new variable reward plan.

The 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) to all employees.

Deferred base remuneration: provided as annual grants of deferred shares (fully paid ordinary shares granted at no cost) to members of the executive committee and other senior management as determined by the Board. The grants are designed to provide an additional retention incentive linked to shareholder interests.

b. Variable remuneration

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

Awards of variable remuneration are at the discretion of the Board and subject to performance at the Group level, individual level and risk and compliance gateways.

The mix and value of variable remuneration will vary 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: provided as cash (or combination of cash and shares where specified thresholds are exceeded) to executive committee members and other senior management under the Short Term Incentive Plan (STIP) or to other salaried employees under the Value Created Dividend (VCD) Plan.

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

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

Participation in the Short Term Incentive Plan 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) as determined by the Board.

Eligibility to participate in the STIP, including the maximum percentage of at-risk remuneration, is determined as follows:

a. In the case of the Managing Director, non-administrative direct reports to the Managing Director and CEO, other responsible persons and any additional management personnel, 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 Managing Director and CEO and provided to the Committee for noting.

Awards or bonuses under the STI plans are decided after the end of the financial year.

STI awards for participants in the STIP are determined based on achievement of objectives within set parameters 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 VCD 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 subject to approval by the line manager.

To receive awards under the STI plans participants must first pass three gateways which involve demonstrating satisfactory values based behaviour, risk and compliance management as well as performance and contribution.

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. 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 employees who:

a. are in a role which requires leadership of a key organisation competency/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. The value of the base remuneration for each employee is set by the line manager within the approved parameters and is subject to a two-up manager approval process.
c. The maximum percentage of variable remuneration (as a percentage of total remuneration) is set at a lower level than responsible persons and at a percentage that is not significant enough to encourage inappropriate behaviour;
d. The performance objectives for risk and financial control personnel are set with consideration to overall performance, including consideration of the level of alignment of the employee's behaviours with the corporate values and are linked to individual, team and division performance;
e. Risk and financial control personnel are not permitted to participate in the annual STIP (except for risk and financial control personnel who are also executive members). Risk and financial control personnel are however eligible to participate in the Group Performance Bonus Plan;
f. The payment of short-term incentive awards for risk and financial control personnel (including any payment under the Group performance bonus plan) are determined by the line manager and are subject to a two-up manager approval process; and
g. The Chief Risk Officer approves all annual base salary increases and bonuses for risk and financial control personnel.

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 our 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 management framework and risk appetite.

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

Remuneration arrangements are structured to balance the focus between the achievement of short term business objectives and sustainable growth in shareholder value, 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.

This reflects the Board's view that remuneration which is highly leveraged towards short-term performance can create a disconnect between the individual's interests and the interests of customers and shareholders and maintaining a strong risk culture.

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 appetite, and regulatory and policy requirements, in deciding if any adjustment for risk is required.

The Board also decides the amount of the annual bonus pool used for the payment of short term incentive awards and bonuses. In exercising this discretion, the Board will have 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 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.

The Board also applies a qualitative overlay to take into account the underlying performance of the business and shareholder interest. In addition, a risk and compliance gateway applies to annual bonus and incentive awards.

As part of the internal performance and development process, risk goals and performance 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.

4. Linking remuneration and performance

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

Fixed base: The fixed base is designed to recognise an individual's skills and competencies and responsibilities. The fixed base remuneration for all salaried employees is reviewed annually having regard to the required skill and experience, market practice and 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 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 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 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 (RAROC), common equity tier 1 capital, liquidity and credit quality. The Board also applies a discretionary overlay to take into account the underlying quality of the result and shareholder outcomes for the year.

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 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. 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 / 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 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 cash earnings per share ("EPS"), customer advocacy and market relative total shareholder return ("TSR") hurdles.

The cash EPS performance measure is tested over an initial twelve month performance period and the customer advocacy and TSR measures are tested over a three year performance period (four years for the Managing Director).

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

Short-term incentive: Where a short term incentive payment of $50,000 or more 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 are deferred over a four year performance period for the managing director and a three year performance period for other senior management.

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 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 2016: 12 senior managers). There were no material risk takers for the 2017 or 2016 financial years.

Table A: Variable remuneration awards during the year

APS330 Requirement	FY2017 Disclosure	FY2016 Disclosure
The number of persons having received a variable remuneration award in relation to the financial year.	Short Term Incentive: 12 Long Term Incentive: 12	Short Term Incentive: 0 Long Term Incentive : 11

Except as set out below, no guaranteed bonuses, sign-on awards or termination payments were made or granted during the above financial years to Senior Managers.

Two termination payments totalling $1,187,155 were made to Senior Managers during the 2016 financial year.

Table B: Total value of remuneration awards for senior managers

Total value of remuneration awards for the current financial year[1]	FY2017 Unrestricted ($'000)	FY2017 Deferred ($'000)	FY2016 Unrestricted ($'000)	FY2016 Deferred ($'000)
Fixed remuneration				
• Cash based [2]	$5,835	-	$6,254	-
• Shares and share linked instruments [3]	-	$1,410	-	$1,814
• Other [4]	($66)	-	$($65)	-
Variable Remuneration				
• Cash-based [5]	$747	-	-	-
• Shares and share linked instruments [6]	-	$1,006	-	$1,089
• 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, employer superannuation contributions.

[3] This represents the fair value of annual deferred base pay (deferred share grants) amortised over the two-year deferral period.

[4] This comprises annual leave and long service leave entitlements accrued but not taken during the financial year.

[5] This represents the cash component of STI awards accrued but not paid in relation to the financial year. The awards are paid to the senior managers after the financial year end. For senior managers, one-third of the STI awards of $50,000 or greater 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)

Total value of remuneration awards for the current financial year[1]	FY2017 ($'000)	FY2017 ($'000)
Deferred remuneration paid out during the year [1]		
• Shares and share linked instruments	$3,036	$2,875
Total outstanding deferred remuneration [2]		
• Cash	-	-
• Shares and share linked instruments	$8,172	$7,830
• Other	-	-
Deferred remuneration adjustments		
• Total amount of reductions during the financial year due to ex post explicit adjustments.[3]	$3,235	$92
• Total amount of reductions during the financial year due to ex post implicit adjustments.[4]	-	($3,446)

[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 rights 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 rights granted to senior managers that will be tested in subsequent financial periods. The amount also includes the value of ordinary shares allocated to senior managers (on the vesting and exercise of performance rights) 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.

[3] This includes any reductions to award as a result of forfeitures and lapses due to failure to meet performance hurdles or resignations for all senior managers during the relevant year. The value is calculated using the VWACP of Bank shares on the forfeiture or lapsing date.

[4] This includes any reductions to the value of the outstanding awards due to downward movements in the Bank's share price during the year. The reduction in value is calculated using the VWACP for the 5 days up to and including 30 June 2016 and 30 June 2017.