APRA Prudential Standard APS 330

Rural Bank Limited
ABN 74 083 938 416
AFSL 238042

Basel III Pillar 3
Annual Remuneration Disclosures
as at 30 June 2018

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

The Bank is a wholly owned subsidiary of the Bendigo and Adelaide Bank ("the Group") and the Bank's Board ("the Board") has approved the Group's Remuneration Policy ("Policy") to apply to all employees of the Bank 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 Bank's Risk Management Framework.

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

1. Remuneration governance

The Group's Governance & HR Committee ("Committee") provides assistance to the Group Board and the Board and in relation to the remuneration arrangements of the Bank. The Group Board makes all final decisions in relation to those arrangements and advises the Board of those decisions. The current members of the Committee are all independent non-executive directors of the Group:

a. Tony Robinson (Chairman)
b. Robert Johanson
c. Jacquie Hey
d. Vicki Carter

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 Group'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 Group Board and the Board on:

a. The annual remuneration arrangements and reward outcomes for the managing director of the Bank and other members of the Bank's 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 2018 or 2017 financial years.

The Committee's remuneration responsibilities also include making recommendations to the Group Board and 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 Group, 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 four times during the financial year. Members of the committee receive a fixed director's fee from the Group, which is disclosed in the Group Remuneration Report section of the 2018 Annual Financial Report. No additional fees are paid for serving on Board committees.

2. Remuneration design and structure

The remuneration framework is designed to support the Group and the Bank'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 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 for annual allocations to a bonus pool used for the payment of short term incentives and bonuses;
g. The Board discretions to adjust deferred base pay and performance based pay for risk outcomes;
h. Hedging restrictions that apply to equity awards under the Policy;
i. Sign-on, retention and termination payments.

The Policy was reviewed on 31 July 2018 and on 29 August 2017.

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 or exercise price) to members of the executive committee and other senior management determined by the Board.

b. Variable remuneration

- **Short-term incentive** – provided as a cash payment (or a combination of cash and shares where specified thresholds are exceeded) to executive committee members and other senior managers determined by the Group Board under the Short Term Incentive Plan (STIP) or to other employees under the Value Created Dividend (VCD) 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 of the Bank.

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 Group Board sets the parameters for the annual review of fixed remuneration, having regard to the recommendation of the Committee.
b. The value of base remuneration is set for each employee by the line manager within the approved parameters and is subject to a two up manger approval process.
c. 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;
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 excluded from the Bank's annual STIP (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);

f. The allocation 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 bonuses for risk and financial control staff awarded as part of the annual remuneration review.

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 defined risk appetite which is linked to the strategy, planning framework and business objectives.

The Board, through its risk and credit committees, closely monitors the Bank'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 outcomes with performance and risk outcomes.

The Group 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 Group 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 and/or to respond to significant unexpected or unintended consequences that were not foreseen by the Board

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

The Group 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 Group 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 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.

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 measures are set for salaried staff applicable to their role. The risk goals are structured on four levels comprising executive, senior management, 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 the 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 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 having regard to the skill required, market practice and relativities and the financial outlook of the Group.

Deferred base: The annual grants of deferred shares are held on Trust and subject to a 2 year 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 incentives ("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 Group Board establishes a bonus pool for the Group. The conditions for the establishment of group bonus pool are determined by the Group 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 Group 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;

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 capital (RAROC), common equity tier 1 capital, cost to income, liquidity and credit quality. The Group 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 the Bank is decided by the Group 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 Bank performance and development process.

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

e. Contribution to meeting risk and compliance requirements for the Group, team and individual level is 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 Group Board.

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 Group Managing Director).

5. Adjusting remuneration for performance

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

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 Group; and

b. the shares are held on trust for two years.

The Group 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 three year performance period for the Group managing director and a four year performance period for other senior management.

The Group 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.

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 7 senior managers as at the end of the reporting period (30 June 2017: 7 senior managers). There were no material risk takers for the 2018 or 2017 financial years.

Table A: Variable remuneration awards during the year

APS330 Requirement	FY2018 Disclosure	FY2017 Disclosure
The number of persons having received a variable remuneration award during the financial year.	Short Term Incentive: 8 Long Term Incentive: 4	Short Term Incentive: 5 Long Term Incentive: 4

No guaranteed bonuses, sign-on awards or termination payments were made or granted during the above financial years to senior managers.

Table B: Total value of remuneration awards for senior managers

Total value of remuneration awards for the current financial year[1]	FY2018 Unrestricted ($000)	FY2018 Deferred ($000)	FY2017 Unrestricted ($000)	FY2017 Deferred ($000)
Fixed remuneration				
• Cash based [2]	$1,831	-	$1,863	-
• Shares and share linked instruments [3]	-	$76	-	$69
• Other [4]	$425	-	$403	-
Variable Remuneration				
• Cash-based [5]	$249	-	$100	-
• Shares and share linked instruments [6]	-	$134	-	$154
• 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 represent base salary, salary sacrifice and employer superannuation contributions.

[3] The amounts represent the fair value of annual deferred base pay 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 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 (FY2017: $50,000 or greater) are deferred for two years into shares in the Group.

[6] This represents the fair value of performance right grants amortised over the three 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)

	FY2018	FY2017
Deferred remuneration paid out (release of vested shares) [1]		
• Shares and share linked instruments	$55	$165
Outstanding deferred remuneration [2]		
• Cash	-	-
• Shares and share linked instruments	$532	$357
• Other	-	-
Deferred remuneration adjustments		
• Total amount of reductions during the financial year due to ex post explicit adjustments [3]	-	-
• Total amount of reductions during the financial year due to ex post implicit adjustments. [4]	-	-

[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 Group'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 Group's ordinary shares on the forfeiture or lapsing date.