RURAL BANK

ANNUAL REPORT 2010


YOU KNOW YOU CAN DEPEND ON A BANK
WHEN IT'S BUILT ON THE SAME VALUES
THAT BUILT THE COUNTRY.

CONTENTS

WE WANT TO BE A PLACE WHERE YOU CAN PUT YOUR TRUST NOT JUST YOUR MONEY

Rural Bank's first metropolitan
Investment Centre
77 Grenfell Street, Adelaide

KEY HIGHLIGHTS

FINANCIAL

$55.4m

Net profit after tax up by 23 per cent to $55.4 million

16.8%

Return on average equity of 16.8 per cent

25.2%

Cost to income ratio of 25.2 per cent

$3.67b

Loans under management of $3.67 billion

$3.62b

Deposit book of $3.62 billion

SERVICE

Partners

Ongoing successful relationship with Elders. Development of Bendigo Bank and Ray White Rural distribution partnerships

New

Opened dedicated Rural Bank Investment Centres in Adelaide and Perth

Online

Developing a range of new products to complement our existing base including an improved online offering and asset financing

Award

Awarded ‘Best of the Best’ Award for the Bank’s Online Term Deposit by ‘Money’ magazine

CORPORATE

Brand

Increasing awareness of the ‘Rural Bank’ name and brand

Invest

Ongoing investment in the risk management and corporate governance framework

CHAIRMAN'S AND MANAGING DIRECTOR'S REPORT

Rural Bank Limited has posted a Net Profit after Tax of $55.4 million for the year ended 30 June 2010. The result represents an increase of 23% on the corresponding result of $45.1 million last year.

The result reflects the strength of the Bank's operating model and margin improvements during the period.

Despite significant pricing pressure for retail funds, Rural Bank's interest margins have improved as absolute higher funding costs during 2009 repriced to lower levels during the year.

Rural Bank's operating model has also continued to be a major strength of the Bank, with an efficient cost structure enhancing Rural Bank's performance. The Bank's cost to income ratio declined from 27.8% to 25.2% during the year.

Loans under management at year end of $3.667 billion were in line with the prior year ($3.678 billion) which is principally a reflection of the current trend for rural market debt which has declined by two percent over the last 12 months. This is primarily due to the economic climate and some softening in rural land values which have combined to slow rural debt growth over the last 18 months. The Bank expects rural debt demand to increase in the near future as the fundamentals for the agricultural sector remain strong.

Commodity prices are generally holding up well and have been buoyed by the recent improvement in wheat values. Furthermore, significant rainfalls across the eastern seaboard have provided a great start for the cropping season and excellent pasture for livestock.

The balance sheet continues to be principally funded by retail deposits which represent over 98% of Rural Bank's funding base. Metropolitan regions now contribute approximately half of the Bank's retail deposits.

Rural Bank has continued to strengthen its metropolitan presence with the establishment of branches in Adelaide and Perth during the year. Both have started well and are meeting growth targets.

The Bank has also undertaken a range of activities to improve brand awareness, including a significant television advertising campaign in regional Australia. Feedback from customers regarding the new brand continues to be very positive and research states that awareness levels are tracking ahead of plan.

Rural Bank's new distribution arrangement with Ray White Rural which was announced in February continues to proceed well, with the training and accreditation process currently underway. The Bank is also undertaking a major project to improve utilisation of its majority shareholder's (Bendigo and Adelaide Bank) distribution capability in rural and regional areas.

Whilst the bank is broadening its distribution capability, Elders remains an integral part of the Bank's operating model. This partnership between our two organisations remains very strong and both parties are committed to its ongoing success.

The Bank's management of credit continued to be both a strength and focus during the period. Whilst the agricultural sector was largely unaffected by the global financial crisis, there appears to have been some softening in rural property prices, particularly in Queensland.

Rural Bank's risk policies, systems and institutional knowledge of the rural sector continue to see the Bank well placed to manage credit risk. Whilst the Bank has experienced a small increase in credit loss expense on the prior period, its credit policy and approach is designed to manage the business throughout the agricultural cycle.

Rural Bank is also developing a range of new product initiatives including an improved online product offering and asset financing arrangements. These products are being developed in response to customer feedback and strengthen the Bank's position as a full financial services provider to the agricultural sector.

The Board and Executive management team would like to acknowledge and thank the staff of Rural Bank for their efforts in supporting the continued success of the Bank.

B H Walters

Bev Walters
Chairman

P.G. Hutchinson

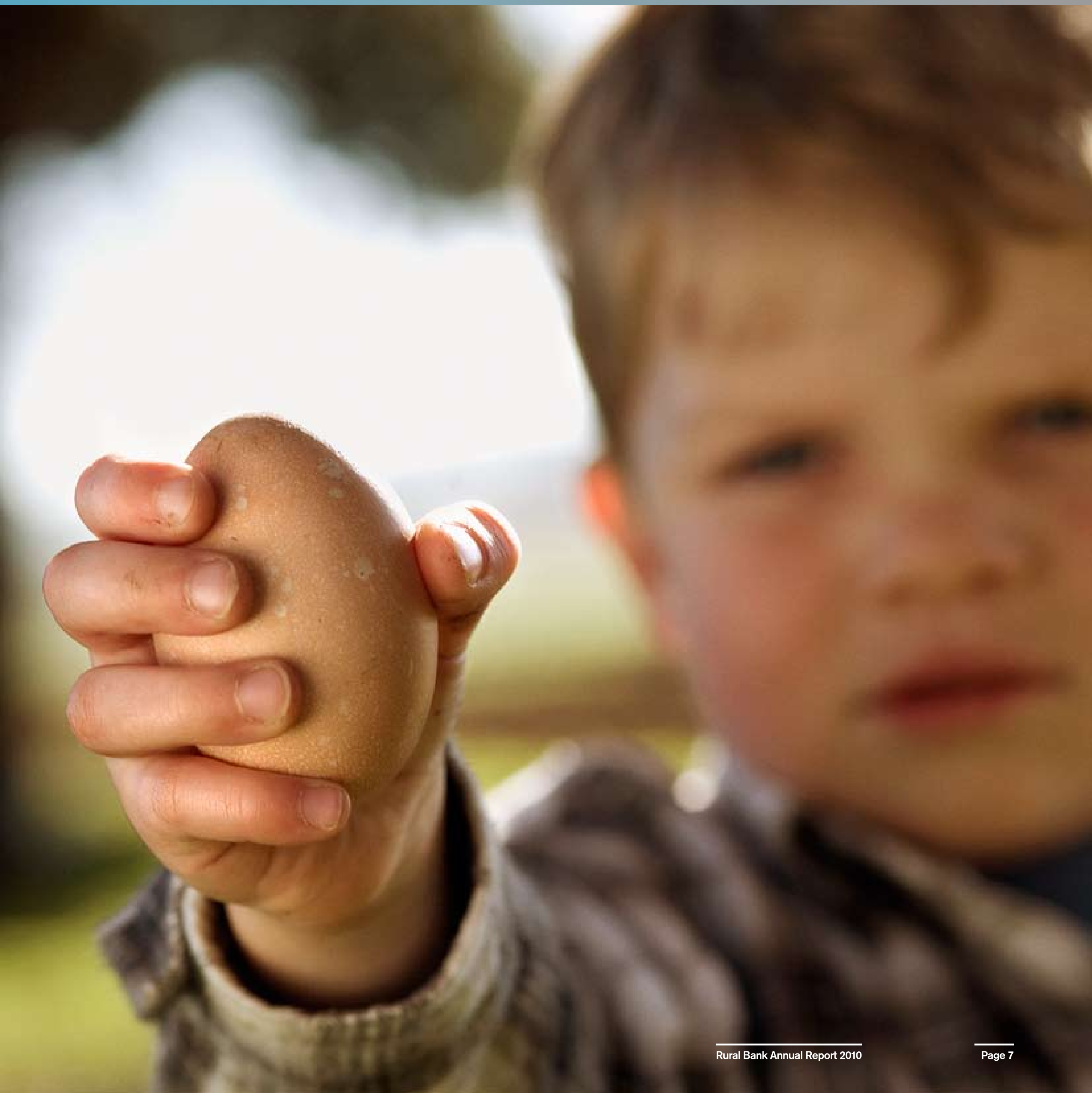
Paul Hutchinson
Managing Director

Dated the 25th of August 2010

"RURAL BANK HAS CONTINUED TO STRENGTHEN ITS METROPOLITAN PRESENCE WITH THE ESTABLISHMENT OF BRANCHES IN ADELAIDE AND PERTH DURING THE YEAR"

RURAL BANK IS PROUDLY AUSTRALIAN OWNED AND OPERATED, AND EVERY CENT DEPOSITED WITH US IS REINVESTED BACK INTO AUSTRALIA.

IT'S GOOD TO INVEST WITH PEOPLE WHO GROW THINGS FOR A LIVING ›



FIVE YEAR HISTORY

	2010 $000	2009 $000	2008 $000	2007 $000	2006 $000
FINANCIAL PERFORMANCE YEAR ENDED 30 JUNE					
Interest revenue	309,041	354,006	334,988	266,281	219,768
Interest expense	198,308	264,066	256,393	193,210	153,359
Net interest income	110,733	89,940	78,595	73,071	66,409
Non-interest income	7,519	8,042	7,360	5,204	4,993
Credit loss expense	8,789	5,685	2,044	1,994	1,411
Other operating expenses	30,309	27,633	25,243	24,730	24,898
Profit before income tax	79,154	64,664	58,668	51,551	45,093
Income tax expense	23,746	19,577	17,602	15,521	12,816
Net operating profit after tax	55,408	45,087	41,066	36,030	32,277
FINANCIAL POSITION AT 30 JUNE					
Total assets	4,244,550	4,368,854	4,316,541	3,770,826	3,313,152
Net loans and other receivables	3,640,704	3,660,868	3,639,631	3,240,992	2,844,450
Interest bearing deposits	3,618,604	3,752,872	3,729,305	3,230,799	2,892,456
Total equity	345,317	334,965	314,020	258,502	230,901
KEY RATIOS					
Return on Equity	16.8%	14.2%	16.4%	16.4%	15.6%
Cost to Income	25.2%	27.8%	28.8%	31.4%	31.2%
Non Performing/ Gross Loans	1.99%	1.09%	0.66%	0.65%	0.58%
Tier 1 Capital	7.89%	7.86%	7.27%	7.15%	7.30%
Tier 2 Capital	3.97%	3.52%	4.00%	4.21%	4.13%
Total risk-weighted capital ratio	11.86%	11.38%	11.27%	11.36%	11.43%

FINANCIAL RESULTS

Rural Bank recorded a net operating profit after tax of $55.4 million, an increase of 23% on the previous year. The result again highlights the strength of the Bank's operating model in what continues to be a challenging and volatile economic climate.

Despite the fact that the relative cost of retail funding has increased, the Bank has been able to improve interest rate margins in the current year to 2.67%. This has principally been achieved as the 2009 financial year's interest margin was adversely affected by the rapid reduction in official interest rates requiring a period of time for funding costs to re-price to normalised levels. Furthermore, bringing previously out-sourced functions into the Bank has had the net effect of reducing brokerage and commission expenses (which are included in the interest margin calculation).

The cost to income ratio has reduced to 25.2% and is a reflection of the operating model which leverages shareholder capability and the significant cost discipline which is practiced by the Bank.

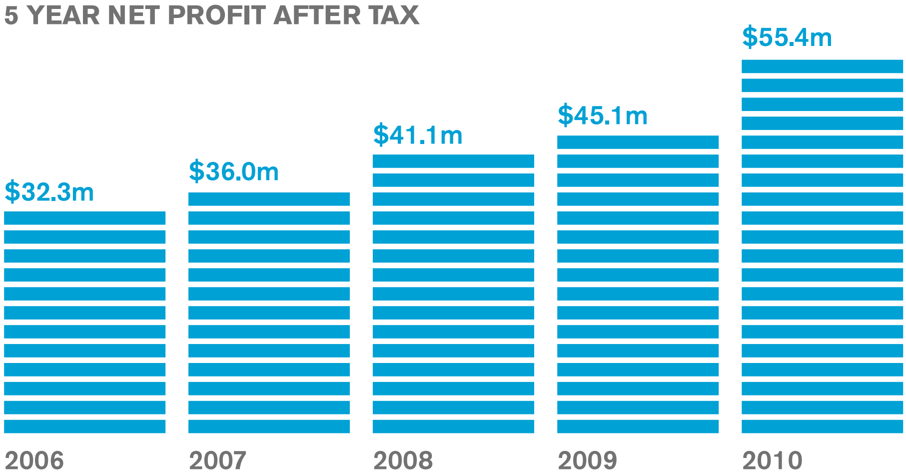
Return on average equity (ROE) for the financial year improved to 16.8% as a consequence of the stronger profit result and the fact that no capital calls were required during the year. The Board has maintained its dividend distribution policy of 70% of current accumulated profits, though the Bank did pay a special dividend during the year. Tier 1 and Tier 2 capital levels are higher than the comparative period.

Loan growth was flat during 2010 largely reflecting the overall rural debt market which declined by 2% over the last 12 months. The Bank's funding and liquidity position means that Rural Bank is well placed to provide additional lending should credit demand increase which is anticipated in the near future.

Rural Bank's credit risk management continues to be a major strength of the Bank. Whilst the ratio of non-performing loans to gross loans under management increased to 1.99%, this was primarily due to two accounts which have been adequately provided for in the financial statements.

Rural Bank continues to manage its capital base and balance the need to invest in the business whilst maximising returns to shareholders. The total risk-weighted capital adequacy ratio at 30 June 2010 was 11.86%, including 7.89% of which was Tier 1. Equity increased by 3%, to $345.3 million.

5 YEAR NET PROFIT AFTER TAX



EXECUTIVE TEAM ›

PAUL HUTCHINSON

Graduate of Harvard Business School, Executive Development

Australian Institute of Company Directors

Commenced October 2006

Current Appointment

Chief Executive Officer

Special Responsibilities

- Asset and Liability Management Committee
- Audit Committee (by invitation)
- Compliance Committee
- Corporate Governance Committee (by invitation)
- Credit Committee
- Executive Committee
- Pricing Committee
- Risk Committee

STEVEN LAIDLAW

BEc, BCom, GAICD, CA

Advanced Management Program (Harvard)

Commenced May 2006

Current Appointment

Chief Financial Officer

Company Secretary

Special Responsibilities

- Asset and Liability Management Committee
- Audit Committee (by invitation)
- Compliance Committee
- Credit Committee (by invitation)
- Executive Committee
- Pricing Committee
- Risk Committee (by invitation)

PETER COROLIS

BCom, Grad Dip App Fin & Invest, F Fin

General Management Program (Harvard)

Commenced August 2005

Current Appointment

General Manager, Operations

Special Responsibilities

- Asset and Liability Management Committee
- Audit Committee (by invitation)
- Compliance Committee
- Credit Committee (by invitation)
- Executive Committee
- Pricing Committee
- Risk Committee (by invitation)

TASO COROLIS

BEc, BCom, Grad Dip App Fin & Invest

Commenced May 2008

Current Appointment

General Manager, Risk

Special Responsibilities

- Asset and Liability Management Committee
- Audit Committee (by invitation)
- Compliance Committee
- Credit Committee (by invitation)
- Executive Committee
- Pricing Committee
- Risk Committee (by invitation)

JOHN MARSHALL

BA (Econ)

Commenced July 2010

Current Appointment

General Manager, Customer and Channel Management

Special Responsibilities

- Asset and Liability Management Committee
- Compliance Committee
- Credit Committee (by invitation)
- Executive Committee
- Pricing Committee

WHEN THE CURRENCIES ARE CROPS AND LIVESTOCK
ORDINARY FINANCIAL SOLUTIONS JUST WILL NOT DO.

Corporate Governance Perspective

The Bank's corporate governance framework is the system by which the Bank is directed and managed. It influences how the objectives of the Bank are set and achieved, how risk is monitored and assessed, and how performance is optimised. Similarly, the Bank's corporate governance structures encourage value creation and provide accountability and control systems commensurate with the risks involved.

The Bank recognises that good governance practices form an integral part of developing and sustaining any successful business, and is committed to infusing best-practice governance processes into all its operations.

Governance Strategies

The Bank's corporate governance framework incorporates a full range of governance objectives, a delineation of responsibilities at Board, Board Committee, Executive Committee and management level, and is integrated into all the Bank's operations. The interaction between executive management and non-executive Directors, and the emphasis, resources and structure given to independent executive management functions to champion corporate governance on a day-to-day basis and proactively assist the Board, Board Committees and individual Non-Executive Directors with corporate governance responsibilities are key features of the Bank's governance process.

The Bank's Board encourages the continued use of the ongoing guidance provided by the ASX, the Basel Committee on Banking Supervision and APRA for re-examining its corporate governance practices and to determine whether and to what extent the Bank may benefit from a change in approach, having regard to the Bank's particular circumstances. Where relevant, the Board Corporate Governance Committee will recommend changes to the Board's Corporate Governance Framework to ensure that it remains contemporary and in line with better practice.

Roles and Responsibilities of the Board and those of the Executives

Ultimately the Bank is governed by the Board whose principal source and rules of governance are the following:

- The Shareholders' Agreement; and
- The Constitution.

Additional sources of internal governance rules are:

- Charters of the Board Committees; and
- Board policy statements.

Importantly, the Bank is subject to the prudential governance requirements specified by APRA by way of Prudential Standards and other prudential guidelines.

Furthermore, the Bank, where appropriate and taking into account the Bank's ownership structure, adopts relevant ASX and "Better Practice" principles.

The Board's governance structure is also supported by a number of Board, Executive and management committees and various dedicated control functions including the risk management department and Internal Audit.

The various committees comprise members of the Board (the CEO and Non-Executive Directors), members of the Bank's Executive team, management and staff including members from the Bank's external auditor (Ernst & Young) and internal auditor (KPMG).

These governance structures all have a specific charter ensuring appropriate coverage of specific and interrelated risk areas. The Board, at least annually, formally assesses the effectiveness and membership of each Board Committee.

The Board has delegated specific authorities to each Board Committee, via a formal documented charter, and receives regular reports from the Chairman of each Board Committee. The Board appoints a Chairman to each Committee and the Corporate Governance Framework prescribes that only independent non-executive Directors of the Board may Chair a Board Committee.

Board established committees include:

- Board Corporate Governance Committee;
- Board Risk Committee;
- Board Credit Committee; and
- Board Audit Committee.

Executive management committees include:

- Executive Committee;
- Compliance Committee;
- Asset and Liability Management Committee (ALMAC); and
- Pricing Committee.

These Committees not only represent a fundamental component of the corporate governance structure but also form a critical part of the overall risk management framework. In addition, these Committees act as an independent review mechanism together with the external auditors and the outsourced internal audit function.

The result is considered to be a corporate governance framework that is robust, transparent, acceptable, well managed, optimised, compliant and independently reviewed. This translates into strong and effective Corporate Governance.

Independence of Directors

In the context of the Bank's Shareholders' Agreement, the Board considers 'independence' primarily on the basis of whether or not a Director is independent of (and not aligned with) either shareholder.

In reviewing its corporate governance framework, and in particular the definition of independence, the Bank has adopted principles consistent with those established by APRA.

Based on Prudential Standard APS 510:

- Independent Directors on the Board of the Bank's shareholders will also be considered independent in their role as directors of the Bank; and
- A Non-Executive Director is a director who is not a member of management.

Board Composition

The Board comprises Directors with the appropriate skills mix, experience and personal attributes that allow the Board to discharge its duties effectively, understand the business of the Bank and the environment in which the Bank operates and to assess the performance of management in meeting the Bank's objectives. The Bank's key guidelines in this respect are set out in the following documents:

- Corporate Governance Policy;
- Fit and Proper Policy; and
- Conflicts of Interest Policy.

The Board must have a minimum of five Directors at all times. The number of Directors (excluding alternate Directors) must not exceed twelve, unless the shareholders agree otherwise by unanimous vote.

During the year, the Board consisted of the following independent Directors as defined by APRA:

Name	Position
B H Walters	Chairman, Non-Executive
R Clubb	Non-Executive Director
J T Hazel	Non-Executive Director
R N Johanson	Non-Executive Director
I G MacDonald	Non-Executive Director
J P Patton	Non-Executive Director

Chairman

The Board elects the Chairman of the Board annually. The Chairman of the Board is an independent Director and the Chairman does not have, in addition to his separate vote as a Director, a casting vote. The same individual does not perform the role of both Chairman and Chief Executive Officer.

Voting at Board Meetings

In any Board meeting, each Director present at the meeting is entitled to exercise one vote unless disqualified by law from voting or otherwise precluded from doing so under the Board's Conflicts of Interest Policy.

Board Corporate Governance Committee

The Corporate Governance Committee is a Board committee and its members during the year were:

- B H Walters – Chairman (appointed March 2010);
- J T Hazel (resigned March 2010);
- P G Hutchinson – Executive Director (resigned April 2010);
- R N Johanson; and
- I G MacDonald.

This Committee's main responsibilities include:

- Reviewing and recommending corporate governance policies to the Board;
- Performing the function of a nominations and remuneration committee;
- Establishing and maintaining appropriate ethical standards;
- Setting criteria for Board membership of independent directors and ensuring other Board appointments are made in terms of the Shareholders' Agreement and APRA requirements;
- Reviewing the membership of the Board;
- Developing and recommending a strategy to manage conflicts of interest; and
- Developing and recommending strategies to facilitate communication between the Bank and its shareholders.

Board Risk Committee

The members of the Risk Committee during the year were:

- J P Patton – Chairman;
- P G Hutchinson – Executive Director;
- R Clubb;
- R N Johanson;
- M G Ormsby;
- T P Plant (resigned September 2009); and
- B H Walters (resigned March 2010).

The Committee's main responsibilities are:

- Formulating the risk strategy of the Bank;
- Determining policies that ensure the strategy is adhered to; and
- Monitoring adherence to those policies.

Board Credit Committee

The members of the Credit Committee during the year were:

- J T Hazel – Chairman (appointed March 2010);
- P G Hutchinson – Executive Director;
- M S Guerin (appointed September 2009 and resigned June 2010);
- I G MacDonald;
- S M Moore (appointed February 2010);
- M G Ormsby;
- P Riquier; and
- B H Walters (resigned March 2010).

The Committee's main responsibilities are:

- Reviewing and approving credit policies and credit exposure limits that support a robust credit risk management framework;
- Monitoring the Bank's exposure to credit risk;
- Monitoring the performance of the loan portfolio and all credit exposures of the Bank; and
- Monitoring adherence to Board approved credit and lending policies.

Board Audit Committee

The Audit Committee is the mechanism whereby the Bank focuses on particular issues relevant to verifying and safeguarding the integrity of the Bank's financial reporting. The Audit Committee operates under direction of a Board approved charter.

The members of the Audit Committee during the year were:

- J P Patton – Chairman;
- R Clubb;
- J de Ross (resigned November 2009);
- R Fennell (appointed March 2010);
- J T Hazel (resigned March 2010);
- M J Hirst (resigned March 2010);
- I G MacDonald; and
- B H Walters (appointed March 2010).

It is considered appropriate that members of the Audit Committee be financially literate and have a range of different backgrounds, skills and experiences having regard to the operations, financial and strategic risk profile of the Bank. The Board recognises the importance of the Audit Committee having members with appropriate accounting or financial expertise, as required by applicable laws, best practice guidelines and listing standards. All members of the Audit Committee are financially literate.

Structure to independently verify and safeguard the integrity of the Bank's financial reporting

The Bank requires the Managing Director in his capacity as Chief Executive Officer and the Chief Financial Officer to state in writing to the Board that the Bank's financial reports present a true and fair view, in all material respects, of the Bank's financial condition and operational results, and that they are in accordance with relevant accounting standards.

Communication with Shareholders

The Bank promotes timely and balanced disclosure of all material matters concerning the Bank. As the Bank has two shareholders, this is done by means of Board Meetings. Shareholder participation exists, with complete financial disclosure consistent with the appropriate ASX recommendations (being mindful that the two Bank shareholders are both ASX listed companies). Disclosure of both positive and negative information considering "balance" is deemed part of the Bank's value system. This communications strategy is to promote effective communication with shareholders and to encourage effective participation at Board meetings. The Bank's external auditor and internal auditor attend the Board Audit Committee meetings to answer shareholder questions about the conduct of audits and the preparation and content of the auditor's reports.

Policies on Risk Oversight and Management

The Bank's primary objective in relation to risk management is to ensure that risk is managed effectively and prudently and within the parameters established in Board policies. Furthermore, one of the other key objectives of the Board is to ensure, through the approved risk management framework, that the Bank complies with all prudential and statutory requirements.

Policies on risk oversight and management are the means to fulfill the Bank's objective of a robust risk management framework that is acceptable, well managed, optimised, compliant and independently confirmed. The Bank's risk management policies, processes and practices are documented and defined in its risk management systems descriptions.

A stated objective of the Bank's risk policies is to ensure alignment with and, where appropriate, subscription to recommendations pertaining to better risk management made by the Basel Committee on Banking Supervision.

The Bank is confident that statements given in accordance with the integrity of financial statements are founded on a sound system of risk management and internal compliance and control. Policies adopted by the Board are implemented and the Bank's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

Your Board of Directors has pleasure in presenting the Financial Statements of Rural Bank Limited for the year ended 30 June 2010.

DIRECTORS

The names of the Directors of the Board of Rural Bank (the 'Bank') who have held office during the year and up to the date of this Report are as follows:

BEVERLEY HUGH WALTERS

BSc Eng, BCom Admin, MBA
Elected to Board 2006

Current Appointment

Chairman, Rural Bank Limited

Other Directorships

- Tasmanian Public Finance Corporation
- AssetInsure Group of Companies
- Cumulus Wines Pty Ltd

Special Responsibilities

- Audit Committee
- Corporate Governance Committee

PAUL GEOFFREY HUTCHINSON

Graduate of Harvard Business School, Executive Development
Australian Institute of Company Directors
Elected to Board 2006

Current Appointment

Managing Director, Rural Bank Limited
Chief Executive Officer, Rural Bank Limited

Special Responsibilities

- Asset and Liability Management Committee
- Audit Committee (by invitation)
- Compliance Committee
- Corporate Governance Committee (by invitation)
- Credit Committee
- Executive Committee
- Pricing Committee
- Risk Committee

ROBYN CLUBB

BEc, CA F Fin, MAICD
Elected to Board 2007

Current Appointment

Company Director

Other Directorships

- Beef CRC Limited
- Landcom
- Rice Marketing Board of NSW

Special Responsibilities

- Audit Committee
- Risk Committee

MICHAEL SHANE GUERIN

Resigned 30 June 2010
Appointed 18 November 2009
BCom, BEc
Senior Fellow Financial Services Institute of Australasia
Diploma of Banking
Executive MBA
Elected to Board 2009

Appointment During Tenure

Chief Operating Officer, Elders Limited

Directorships During Tenure

- Elders Rural Services Australia Limited
- Elders Toepfer Grain Pty Ltd
- Elders Services Company Pty Ltd
- Elders Rural Services Limited
- ELF Australia Pty Ltd

Special Responsibilities

- Credit Committee

JAMES THOMAS HAZEL

BEc, FFin
Elected to Board 2000

Current Appointment

Company Director

Other Directorships

- Bendigo and Adelaide Bank Limited
- Centrex Metals Limited
- Impedimed Ltd
- Xenome Ltd, Chairman
- Valex Group Pty Ltd, Chairman
- RED Fund Management Pty Ltd, Chairman
- Motor Accident Commission of South Australia

Special Responsibilities

- Credit Committee

MICHAEL JOHN HIRST

BCom
Financial Sector Advisory Council
Business Council of Australia
Australian Bankers' Association
Elected to Board 2006

Current Appointment

Managing Director, Bendigo and Adelaide Bank Limited

Other Directorships

- Bendigo and Adelaide Bank Limited
- Treasury Corporation of Victoria

Special Responsibilities

- Audit Committee

ROBERT NIVEN JOHANSON

BA, LLM (Melb.), MBA (Harvard)
Elected to Board 1998

Current Appointment

Director (Melbourne), Grant Samuel Group

Other Directorships

- Bendigo and Adelaide Bank Limited, Chairman
- Member of the Council of the University of Melbourne & Chairman of its Investment Committee
- Robert Salzer Foundation Ltd

Special Responsibilities

- Corporate Governance Committee
- Risk Committee

IAN GRAHAM MACDONALD

Senior Fellow Financial Services Institute of Australasia
Elected to Board 2006

Current Appointment

Company Director

Other Directorships

- Elders Limited
- Elders Forestry Management Ltd
- Elders Trustees Limited
- Arab Bank Australia Ltd
- CPT Global Ltd
- Tasmanian Public Finance Corporation

Special Responsibilities

- Audit Committee
- Corporate Governance Committee
- Credit Committee

SAM JAMES MCCLURE

Appointed 30 June 2010

BA Acc, LLB
Elected to Board 2010

Current Appointment

Elders Limited Group General Manager Strategy & Development

Other Directorships

- Aspen Development Fund No. 1 Limited
- AWH Pty Limited, Supervisory Board of Bremer Woll-Kämmerei AG
- Elders Insurance (Underwriting Agency) Pty Limited
- Elders Financial Planning Pty Limited

JAMIE MCPHEE

Resigned 2 February 2010
BA Eng (Hons), MBA, FAICD, SFFin
Elected to Board 2008

Appointment During Tenure

Chief Executive, Wholesale Bank, Bendigo and Adelaide Bank Limited

Directorships During Tenure

- Bendigo and Adelaide Bank Limited
- AMF Limited

SAMUEL MONTGOMERY MOORE

Appointed 17 February 2010
BCom, LLB
Elected to Board 2010

Current Appointment

Head of Joint Ventures, Bendigo and Adelaide Bank Limited

Other Directorships

- Homesafe Solutions Pty Limited

Special Responsibilities

- Credit Committee

MAXWELL GEORGE ORMSBY

Fellow Financial Services Institute of Australia
Fellow Australian Institute of Company Directors
Senior Associate, ANZIIF
Elected to Board 1998

Current Appointment

Company Director

Other Directorships

- Elders Trustees Limited
- Hifert Pty Limited
- Seed Technology and Marketing Pty Ltd.
- Master Fund (WA) Pty Ltd
- NM Superannuation Pty Ltd
- Australian Children's Performing Arts
- Foodbank SA Inc
- Agricultural Land Management Ltd

Special Responsibilities

- Credit Committee
- Risk Committee

JOHN PATRICK PATTON

Fellow of the Institute of Chartered Accountants
Elected to Board 2004

Current Appointment

Company Director

Other Directorships

- Lifeplan Australia Friendly Society Ltd & Related Entities

Special Responsibilities

- Audit Committee
- Risk Committee

ROSS EDWARD PINNEY

Appointed 21 July 2010
MBA, BCom
Fellow Australian Institute of Company Directors
Fellow Institute of Chartered Accountants
Fellow of the Australian Society of Certified Practicing Accountants
Fellow of the Financial Services Institute of Australia
Elected to Board 2010

Current Appointment

Company Director

Other Directorships

- Pelias Pty Ltd
- Australian Red Cross

Special Responsibilities

- Audit Committee
- Risk Committee

TIMOTHY PAUL PLANT

Resigned 23 September 2009
BAgrSc, GradDipAgEc, MBA, GAICD
Advanced Management Program (Harvard)
Elected to Board 2006

Appointment During Tenure

Managing Director, Elders Financial Services Group

Directorships During Tenure

- Insurance Council of Australia
- Elders Financial Services Group Pty. Ltd.
- Elders Insurance Limited
- Elders Insurance Agencies Pty Ltd
- Elders Trustees Limited
- Master Fund (WA) Pty Ltd

Special Responsibilities

- Risk Committee

No Director has held an interest in shares of the bank.

Company Secretary:

STEVEN P W LAIDLAW

BEc, BCom, GAICD, CA
Advanced Management Program (Harvard)

Current Appointment

Chief Financial Officer, Rural Bank Limited

Previous Appointments

General Manager Finance – Skycity Entertainment Group Ltd

Principal Activities

The principal activities of the Bank during the financial year were the provision of banking and other financial services, including seasonal and term lending to rural producers, and investment products.

Result

The operating profit, after providing for income tax, amounted to $55,408,000 (2009: $45,087,000).

Dividends Paid or Declared

Dividends paid:

Final Dividend 2009 of 5.36¢, paid October 2009	$16.45 million
Special Dividend 2010 of 4.89¢, paid April 2010	$15.00 million
Interim Dividend 2010 of 6.11¢, paid May 2010	$18.74 million

All dividends were fully franked.

Dividends declared:

Final Dividend 2010 of 6.53¢, declared by the Directors, payable October 2010, $20.04 million.

The Bank has maintained a dividend policy to distribute 70% of the accumulated profits of the current year to Shareholders.

Review of Operations

A review of operations and the results of those operations for the financial year are set out in the Chairman and Managing Director's Report.

Significant Changes in the State of Affairs

No significant changes in the state of affairs.

After Balance Date Events

No matters or circumstances have arisen since the end of the balance date to the date of this report that significantly affected or may significantly affect the operations of the entity, the results of those operations, or the state of affairs of the entity in subsequent financial periods.

Likely Developments and Expected Results

The Bank is committed to continue to build its portfolio of investment products and lending products. The Bank has invested in technology, and will use this to increase efficiencies in the lending process and to provide a full range of electronic banking facilities. The Bank is committed to developing its products through product innovation and providing a diverse product portfolio to meet the needs of current customers and to attract new customers.

Auditor Independence and Non-Audit Services

We have obtained the following independence declaration from our auditors, Ernst & Young.

Non-Audit services can be found in Note 31 of the Financial Statements.

TO UNDERSTAND YOUR CUSTOMER'S NEEDS FIRST UNDERSTAND THE STOCK THEY INVEST IN.

Ernst & Young Building
121 King William Street
Adelaide SA 5000 Australia
GPO Box 1271 Adelaide SA 5001

Tel: +61 8 8417 1600
Fax: +61 8 8417 1775
www.ey.com/au

Auditor's Independence Declaration to the Directors of Rural Bank Ltd

In relation to our audit of the financial report of Rural Bank Ltd for the year ended 30 June 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

T M Dring
Partner
Adelaide

25 August 2010

Liability limited by a scheme approved under Professional Standards Legislation

DIRECTORS' MEETING*

The number of meetings of the Bank's Directors (including meetings of committees of Directors) held during the year ended 30 June 2010, and the number of meetings attended by each director were:

	BOARD MEETING		CORPORATE GOVERNANCE		AUDIT		CREDIT		RISK	
DIRECTOR	Eligible	No.	Eligible	No.	Eligible	No.	Eligible	No.	Eligible	No.
B H Walters	8	8	1	1			9	8	6	6
P G Hutchinson	8	8	2	2			11	10	6	6
R Clubb	8	8			5	5			6	6
M S Guerin	5	4					4	4		
J T Hazel	8	8	2	2	5	5	2	2		
M J Hirst	8	8			4	4				
R N Johanson	8	6	3	3					6	4
I G MacDonald	8	8	3	3	5	5	11	10		
J McPhee	6	5								
S M Moore	2	2					4	4		
M G Ormsby	8	8					11	11	6	6
J P Patton	8	8			5	5			6	6
T P Plant	3	3							1	1

*The number of attendances at Board or Board Committee meetings recognises attendance by Directors or their alternates.

Indemnification and insurance of Directors and Officers

During or since the financial year-end, the Bank has paid premiums to insure certain officers of the Bank and related bodies corporate. The officers of the Bank covered by the insurance policy include the Directors listed above, the Secretary and General Managers of the Bank.

Disclosure of the nature of the liability and amount of the premium is prohibited by the confidentiality clause of the contract of insurance. The Bank has not provided any indemnity for the external auditor of the Bank, other than those covered by legislation.

Share Options

The Bank has not issued any share options.

Rounding of Amounts

The Bank is a company of the kind specified in Australian Securities and Investments Commission Class Order 98/0100. In accordance with that class order, amounts in the financial statements have been rounded to the nearest thousand dollar unless specifically stated to be otherwise.

Signed in accordance with a resolution of the Board of Directors:

B H Walters

Bev Walters
Chairman

P.G. Hutchinson

Paul Hutchinson
Managing Director

Signed in Adelaide this 25th of August 2010

FINANCIAL STATEMENTS CONTENTS

INCOME STATEMENT
for the year ended 30 June 2010

	NOTE	2010 $000	2009 $000
Interest revenue	2	309,041	354,006
Interest expense	3	198,308	264,066
NET INTEREST INCOME		110,733	89,940
Fee income	4	7,519	8,042
Credit loss expense	5	8,789	5,685
NET OPERATING INCOME		109,463	92,297
OPERATING EXPENSES			
Staff and related costs	6	18,033	17,172
Occupancy costs		1,708	1,697
Other operating expenses	7	10,025	8,412
Depreciation of plant and equipment		100	8
Amortisation of intangibles		443	344
TOTAL OPERATING EXPENSES		30,309	27,633
Profit before income tax		79,154	64,664
Income tax expense	8	23,746	19,577
PROFIT ATTRIBUTABLE TO MEMBERS FOR THE YEAR		55,408	45,087

The accompanying Notes form part of this Income Statement.

DISTRIBUTABLE EARNINGS
for the year ended 30 June 2010

PROFIT ATTRIBUTABLE TO MEMBERS FOR THE YEAR	55,408	45,087
Appropriations to credit loss reserve from profit during the year	-	-
NET PROFIT AVAILABLE FOR DISTRIBUTION	55,408	45,087

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2010

	2010 $000	2009 $000
PROFIT FOR THE YEAR	55,408	45,087
OTHER COMPREHENSIVE INCOME		
Net gain/(loss) on cash flow hedges	8,438	(30,987)
Income tax relating to net gain/(loss) on cash flow hedges	(2,531)	9,296
Net gain on available-for-sale financial assets	26	157
Income tax relating to net gain on available-for-sale financial assets	(8)	(47)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	5,925	(21,581)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	61,333	23,506

BALANCE SHEET
as at 30 June 2010

	NOTE	2010 $000	2009 $000
ASSETS			
Cash and balances with central bank	11	8,675	25,598
Cash and balances with other banks	11	48,189	14,856
Available for sale investments	12	135,152	134,722
Held to maturity investments	13	394,087	513,708
Loans and other receivables	14	3,640,704	3,660,868
Derivatives	15	426	813
Other assets		1,954	2,150
Intangibles	16	1,740	1,904
Plant and equipment	17	1,144	20
Deferred tax assets	8	12,479	14,215
TOTAL ASSETS		4,244,550	4,368,854
LIABILITIES			
Due to customers	18	3,618,604	3,752,872
Other payables	19	11,065	17,126
Current tax liabilities		13,216	6,604
Notes payable	20	81,351	94,821
Derivatives	15	11,914	20,761
Provision for dividends	10	20,045	16,445
Provision for employee benefits		3,503	3,474
Deferred tax liabilities	8	1,535	1,786
Subordinated capital notes	21	138,000	120,000
TOTAL LIABILITIES		3,899,233	4,033,889
NET ASSETS		345,317	334,965
EQUITY			
Contributed equity	22	321,638	321,638
Retained earnings		10,262	8,640
Reserves	23	13,417	4,687
TOTAL EQUITY		345,317	334,965

The accompanying Notes form part of this Balance Sheet.

CASH FLOW STATEMENT
for the year ended 30 June 2010

	NOTE	2010 $000	2009 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest and other items of similar nature received		315,406	386,290
Borrowing costs paid		(180,112)	(256,166)
Receipts from customers (excluding interest)		7,519	8,042
Payments to suppliers and employees		(58,098)	(55,929)
GST recovered		1,965	2,434
Income taxes paid		(18,187)	(28,098)
NET OPERATING CASH FLOWS	11(a)	68,493	56,573
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of plant and equipment		(1,224)	(24)
Additions to intangible costs		(279)	(1,384)
Purchases in held to maturity assets		(2,647,000)	(3,396,525)
Maturities in held to maturity assets		2,766,621	3,387,432
Net decrease/(increase) in balance of loans outstanding		2,850	(26,994)
NET INVESTING CASH FLOWS		120,968	(37,495)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from shares issued		-	63,000
Net (decrease)/increase in retail deposits		(132,379)	148,819
Issue of subordinated debt		42,000	-
Repayment of subordinated debt		(24,000)	(16,000)
Net proceeds from wholesale deposits		(8,056)	(125,252)
Dividends paid		(50,186)	(63,498)
NET FINANCING CASH FLOWS		(172,621)	7,069
NET INCREASE IN CASH HELD		16,840	26,147
Cash and cash equivalents at 1 July		175,176	149,029
CASH AND CASH EQUIVALENTS AT 30 JUNE	11(b)	192,016	175,176

The accompanying Notes form part of this Cash Flow Statement.

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2010

	ISSUED CAPITAL $000	RETAINED EARNINGS $000	RESERVE FOR UNREALISED SWAPS $000	GENERAL RESERVE FOR CREDIT LOSSES $000	UNREALISED GAINS ON AFS INVESTMENTS $000	RESERVE FOR EMPLOYEE BENEFITS $000	TOTAL $000
AT 1 JULY 2008	258,638	29,114	7,760	18,506	2	-	314,020
Profit for the period	-	45,087	-	-	-	-	45,087
Other comprehensive income	-	-	(21,691)	-	110	-	(21,581)
Transactions with owners as equity holders:							
Issue of share capital	63,000	-	-	-	-	-	63,000
Equity dividends	-	(65,561)	-	-	-	-	(65,561)
AT 30 JUNE 2009	321,638	8,640	(13,931)	18,506	112	-	334,965
Profit for the period	-	55,408	-	-	-	-	55,408
Other comprehensive income	-	-	5,907	-	18	-	5,925
Transactions with owners as equity holders:							
Issue of share capital	-	-	-	-	-	-	-
Share-based payment	-	-	-	-	-	2,805	2,805
Equity dividends	-	(53,786)	-	-	-	-	(53,786)
AT 30 JUNE 2010	321,638	10,262	(8,024)	18,506	130	2,805	345,317

The accompanying Notes form part of this Statement of Changes in Equity.

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF PREPARATION

Rural Bank Limited (the 'Bank') is an unlisted public company incorporated and domiciled in Australia. Financial statements prepared in compliance with the Banking Act 1959 are deemed to comply with the provisions of the Corporations Act (2001).

The financial report of the Bank is a general purpose financial report prepared in accordance with the Banking Act, applicable Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board, the Corporations Act (2001) and the requirements of law so far as they are applicable to Australian banking corporations. The financial report for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the directors on 25 August 2010.

The financial report has been prepared in accordance with the historical cost convention, except for derivative financial instruments and available-for-sale financial assets which are measured at their fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($000) unless otherwise stated.

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year Financial Statements.

Compliance with IFRS

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board.

New accounting standards and interpretations

Australian Accounting Standards that have recently been amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2010. The following table outlines each of these amended standards and the expected change in accounting policy when applied, if any:

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD	IMPACT ON THE BANK'S FINANCIAL REPORT	APPLICATION DATE FOR BANK
AASB 2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting except for the following: The amendment to AASB 117 removes the specific guidance on classifying land as a lease so that only the general guidance remains. Assessing land leases based on the general criteria may result in more land leases being classified as finance leases and if so, the type of asset which is to be recorded (intangible vs. property, plant and equipment) needs to be determined. The amendment to AASB 101 stipulates that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification. The amendment to AASB 107 explicitly states that only expenditure that results in a recognised asset can be classified as a cash flow from investing activities. The amendment to AASB 118 provides additional guidance to determine whether an entity is acting as a principal or as an agent. The features indicating an entity is acting as a principal are whether the entity: – has primary responsibility for providing the goods or service; – has inventory risk; – has discretion in establishing prices; – bears the credit risk. The amendment to AASB 136 clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment, as defined in IFRS 8 before aggregation for reporting purposes. The main change to AASB 139 clarifies that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract. The other changes clarify the scope exemption for business combination contracts and provide clarification in relation to accounting for cash flow hedges.	1 January 2010	The Bank is still determining the extent of impact, if any.	1 July 2010

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD	IMPACT ON THE BANK'S FINANCIAL REPORT	APPLICATION DATE FOR BANK
AASB 124 (Revised)	Related Party Disclosures (December 2009)	The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including: (a) the definition now identifies a subsidiary and an associate with the same investor as related parties of each other; (b) entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and (c) the definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other. A partial exemption is also provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures.	1 January 2011	The Bank is still determining the extent of impact, if any.	1 July 2011
AASB 2010-3	Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]	Limits the scope of the measurement choices of non-controlling interest at proportionate share of net assets in the event of liquidation. Other components of NCI are measured at fair value. Requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses. Clarifies that contingent consideration from a business combination that occurred before the effective date of AASB 3 Revised is not restated. Eliminates the requirement to restate financial statements for a reporting period when significant influence or joint control is lost and the reporting entity accounts for the remaining investment under AASB 139. This includes the effect on accumulated foreign exchange differences on such investments.	1 July 2010	The Bank is still determining the extent of impact, if any.	1 July 2010
AASB 2010-2	Amendments to Australian Accounting Standards arising from reduced disclosure requirements	This Standard gives effect to Australian Accounting Standards – Reduced Disclosure Requirements. AASB 1053 provides further information regarding the differential reporting framework and the two tiers of reporting requirements for preparing general purpose financial statements.	1 July 2013	The Bank is still determining the extent of impact, if any.	1 July 2013

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD	IMPACT ON THE BANK'S FINANCIAL REPORT	APPLICATION DATE FOR BANK
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement). These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes from AASB 139 are described below. (a) Financial assets are classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria. (b) AASB 9 allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.	1 January 2013	The Bank is still determining the extent of impact, if any.	1 July 2013
AASB 2009-14	Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement	These amendments arise from the issuance of Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14). The requirements of IFRIC 14 meant that some entities that were subject to minimum funding requirements could not treat any surplus in a defined benefit pension plan as an economic benefit. The amendment requires entities to treat the benefit of such an early payment as a pension asset. Subsequently, the remaining surplus in the plan, if any, is subject to the same analysis as if no prepayment had been made.	1 January 2011	The Bank does not have a defined benefit pension plan. IFRIC 14 not applicable to the Bank.	1 July 2011

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD	IMPACT ON THE BANK'S FINANCIAL REPORT	APPLICATION DATE FOR BANK
AASB 2009-8	Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]	This Standard makes amendments to Australian Accounting Standard AASB 2 *Share-based Payment* and supersedes *Interpretation 8 Scope of AASB 2* and Interpretation 11 *AASB 2 – Group and Treasury Share Transactions*. The amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments clarify the scope of AASB 2 by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash.	1 January 2010	The Bank has share-based payment arrangements that may be affected by these amendments. However, the Bank has not yet determined the extent of the impact, if any.	1 July 2010
AASB 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations. The amendment to AASB 124 clarifies and simplifies the definition of a related party as well as providing some relief for government-related entities (as defined in the amended standard) to disclose details of all transactions with other government-related entities (as well as with the government itself).	1 January 2011	These comprise editorial amendments and are expected to have no major impact on the requirements of the amended pronouncements.	1 July 2011
Interpretation 19	Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	This interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are "consideration paid" in accordance with paragraph 41 of IAS 39. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability. The interpretation states that equity instruments issued in a debt for equity swap should be measured at the fair value of the equity instruments issued, if this can be determined reliably. If the fair value of the equity instruments issued is not reliably determinable, the equity instruments should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment.	1 July 2010	The Bank currently does not issue equity instruments to creditors. This will only affect the Bank if the decision is made to issue equity instruments to extinguish financial liabilities.	1 July 2010

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD	IMPACT ON THE BANK'S FINANCIAL REPORT	APPLICATION DATE FOR BANK
AASB 1053	Application of Tiers of Australian Accounting Standards	This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements: (a) Tier 1: Australian Accounting Standards; and (b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements. Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements. The following entities apply Tier 1 requirements in preparing general purpose financial statements: (a) for-profit entities in the private sector that have public accountability (as defined in this Standard); and (b) the Australian Government and State, Territory and Local Governments. The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements: (a) for-profit private sector entities that do not have public accountability; (b) all not-for-profit private sector entities; and public sector entities other than the Australian Government and State, Territory and Local Governments.	1 July 2013	The Bank is still determining the extent of impact, if any.	1 July 2013
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]	Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments. Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions Clarify that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.	1 January 2011	The Bank is still determining the extent of impact, if any.	1 July 2011

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD	IMPACT ON THE BANK'S FINANCIAL REPORT	APPLICATION DATE FOR BANK
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes: • two categories for financial assets being amortised cost or fair value • removal of the requirement to separate embedded derivatives in financial assets • strict requirements to determine which financial assets can be classified as amortised cost or fair value. Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows • an option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition • reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes • changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income.	1 January 2013	The Bank is still determining the extent of impact, if any.	1 July 2013

(B) SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Bank's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates are as follows:

Impairment losses on loans and advances

The Bank reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This takes into consideration factors such as any deterioration in the agricultural industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

(C) CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the cash flow statement, cash includes cash on hand and in banks, and short-term money market investments readily convertible into cash with less than three months maturity from the date of acquisition and with insignificant risk of change in value, net of outstanding overdrafts.

Cash and cash equivalents are brought to account at the face value or the gross value of the outstanding balance where appropriate.

(D) INVESTMENTS AND OTHER FINANCIAL ASSETS

Investments and financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are categorised as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Designation is re-evaluated at each financial year end, but there are restrictions on reclassifying to other categories.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through the profit and loss, directly attributable transaction costs.

Recognition and Derecognition

All regular way purchases and sales of financial assets are recognised on the trade date ie. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or been transferred.

(i) Held-to-maturity financial investments

Held-to-maturity financial investments are those which carry fixed or determinable payments and have fixed maturities and which the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'Interest revenue' in the income statement.

(ii) Available-for-sale financial investments

Available-for-sale financial investments are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity or loans and advances. They include equity instruments, investments in mutual funds and money market and other debt instruments.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity in the 'Available-for-sale reserve'. When the security is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement in 'Other operating income' or 'Other operating expenses'. Where the Bank holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the effective interest rate. Dividends earned whilst holding available-for-sale financial investments are recognised in the income statement as 'Other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the income statement and removed from the available-for-sale reserve.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market and which are not classified as 'available for sale'.

Loans and receivables are carried at amortised cost, using the effective interest method. The effective interest rate calculation includes the future cash flows included in the contractual terms of a loan together with all fees, transaction costs and other premiums or discounts.

Renegotiated loans

It is not the Bank's usual practice to restructure loans or renegotiate terms. Instead loans with failing risk grades are reported and regularly monitored. Where possible, the Bank seeks to work with its clients to bring the loan back into order, rather than to take possession of collateral.

Loans with renegotiated terms are accounted for in the same manner, taking account of any change to the terms of the loan.

Impairment

All loans are subject to continuous management review. The Bank formally assesses at each balance date whether there is objective evidence of impairment for loans that are individually significant, and individually or collectively for loans that are not individually significant.

A loan is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recording of the loan prior to the balance sheet date, and that loss event or events has had an impact on the estimated future cash flows of the loan that can be reliably measured.

Specific provisions may be raised as a result of an individual loan assessment. Impairment loss is measured as the difference between the loan's carrying amount and the value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective interest rate. Impairment losses are recognised in the income statement. Following impairment, interest income is recognised using the original effective interest rate which was used to discount the future cash flows for the purposes of measuring the impairment loss.

Loans that are not individually assessed are grouped together according to their risk characteristics and are then collectively assessed for impairment. The Bank determines its collective provision based on historical loss data and current available information.

In addition, APRA amended prudential standards (effective 1 July 2006) requires banks to maintain an allocation of capital, as a reserve for credit losses to cover doubtful debts which are not yet identified. The level of the reserve will be determined on a bilateral basis between the Bank and APRA. The Bank has established the reserve at a benchmark level of 0.5 per cent (tax effected) of risk-weighted exposures. Any collective provision is taken into consideration when determining the reserve for credit losses requirement. Adjustments to the reserve for credit losses are recognised as an appropriation to or from retained earnings.

(iv) Securitisation

As part of its operational activities, the Bank securitises financial assets, generally through the sale of these assets to special purpose entities which issue securities to investors. The transferred assets may qualify for derecognition in full or in part. Interests in the securitised financial assets may be retained by the Bank and are primarily classified as loans and receivables. The corresponding liability is classified as notes payable.

(E) DERIVATIVE FINANCIAL INSTRUMENTS

The Bank uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuations. All derivative financial instruments are stated at fair value. The fair value of interest rate swap contracts are determined by reference to market values for similar instruments.

For the purpose of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction. The Bank predominantly uses cash flow hedging in respect of its interest rate risk.

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognised directly in equity in the cash flow hedge reserve. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item is amortised to the income statement on an effective yield basis such that it is fully amortised by maturity.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement.

(F) INTANGIBLES

Intangible assets acquired separately are initially measured at cost.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of these intangible assets are assessed to be either finite or indefinite. Where amortisation is charged on assets with finite lives, this expense is taken to the income statement.

Intangible assets, excluding software development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

Capitalised software development costs are amortised on a straight-line basis over their expected useful life of not more than 3 years.

(G) PROPERTY, PLANT AND EQUIPMENT

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Plant and equipment is depreciated on a straight-line basis over their expected useful lives of not more than 10 years. The assets' residual values, useful lives and amortisation methods are reviewed and adjusted if appropriate, at each financial year end. An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

(H) IMPAIRMENT OF ASSETS

At each reporting date, the Bank assesses whether there is objective evidence that an asset may be impaired. Where an indicator of impairment exists, the Bank makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(I) PAYABLES

Other payables are carried at amortised cost. They represent liabilities for goods and services provided to the Bank prior to the end of the financial year that are unpaid and arise when the Bank becomes obliged to make future payments in respect of the purchase of those goods and services.

(J) INTEREST-BEARING DEPOSITS AND BORROWINGS

All deposits and borrowings are initially recognised at the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest-bearing borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised and as well as through the amortisation process.

(K) FINANCIAL GUARANTEES

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit and guarantees. Financial guarantees are initially recognised at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

The premium received is recognised in the income statement in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

(L) PROVISIONS

Provisions are recognised when the Bank has a legal or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

A provision for dividend is not recognised as a liability unless the dividend is declared, before the reporting date.

(M) CONTRIBUTED EQUITY

Issued and paid up capital is recognised at the fair value of the consideration received by the Bank. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(N) SHARE-BASED PAYMENT TRANSACTIONS

(i) Equity-settled transactions

The Share Appreciation Rights Plan (SARP) is offered to Senior Executives of the Bank.

The cost of equity-settled transactions is measured initially at fair value at the grant date using the Black-Scholes formula, taking into account the terms and conditions upon which the instruments were granted (Note 24). This fair value is expensed in 'Staff and related costs' over the period until vesting with recognition of a corresponding reserve.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

(ii) Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date using the Black-Scholes formula, taking into account the terms and conditions upon which the instruments were granted. This fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is remeasured at each balance sheet date up to and including settlement date, with changes in fair value recognised in the income statement.

(O) REVENUE

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest, Fees and Commissions

Interest, fee and commission revenue is brought to account on an accrual basis. Interest is accrued using the effective interest rate method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of financial instrument.

Service fees

Unless included in the effective interest calculation, fees and commissions are recognised on an accruals basis when the service has been provided, or upon completion of the underlying transaction.

Loan origination fees

Loan origination fees are amortised as a component of the calculation of the effective interest rate method in relation to originated loans. They therefore reduce the interest recognised in relation to this portfolio of loans.

The average life and interest recognition pattern of loans in the originated portfolio is reviewed annually to ensure the amortisation methodology is appropriate.

(P) FEES TO INTERMEDIARIES

Payments are made to intermediaries for the introduction and management of loans and deposits. A component of these payments is made upfront upon the introduction of the loan and is amortised over the expected life of the asset, or written off at time of discharge if earlier. In line with AASB 139 Financial Instruments: Recognition and Measurement, fees to intermediaries have been classified in the Income Statement as a yield adjustment to net interest income and the balance has been classified within net loans and advances.

(Q) EMPLOYEE BENEFITS

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries have been recognised and measured as the amount which the Bank has a present obligation to pay, at balance date, in respect of employees' service up to that date. Liabilities have been calculated at nominal amounts based on wage and salary rates current at the balance date.

Annual leave liabilities are accrued on the basis of full pro rata entitlement.

Long service leave

Long service leave has been assessed at full pro rata entitlement in respect of all employees with more than seven years service in South Australia and ten years service in other states. In addition pre-entitlement leave has been included for all employees based on probability of qualifying.

The amount provided meets the requirement of Accounting Standard AASB 119 "Employee Benefits", which requires the assessment of the likely number of employees that will ultimately be entitled to long service leave, the estimated salary rates that will apply when the leave is paid, calculated using the projected unit credit method and discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Superannuation

Contributions are made to an employee accumulation superannuation fund and are charged to expenses when incurred.

(R) LEASES

The determination of whether an arrangement contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses over the period of the lease on a straight-line basis.

(S) INCOME TAX

The income tax expense for the period is the tax payable on the current period's taxable income based on the national income tax rate, adjusted for changes in deferred tax assets and liabilities and unused tax losses.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

(T) GOODS AND SERVICES TAX (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Balance Sheet. Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

	2010 $000	2009 $000
2. TOTAL INTEREST INCOME		
Cash balances	1,229	1,935
Financial investments – available-for-sale	7,414	9,555
Financial investments – held-to-maturity	17,611	29,594
Loans and other receivables	294,096	332,836
Fees paid to intermediaries	(11,309)	(19,914)
TOTAL	309,041	354,006
3. TOTAL INTEREST EXPENSE		
Due to customers	175,721	235,426
Wholesale	3,716	11,901
Subordinated debt	6,843	8,839
Fees paid to intermediaries	12,028	7,900
TOTAL	198,308	264,066
4. NET FEE INCOME		
Fee income:		
Service fees	6,560	6,952
Other	959	1,090
TOTAL	7,519	8,042
5. CREDIT LOSS EXPENSE		
Specific provisions	11,265	7,353
Collective provisions	763	1,079
Bad and doubtful debts recovered	(3,324)	(2,763)
Other	85	16
TOTAL	8,789	5,685
6. STAFF AND RELATED COSTS		
Salaries and operational costs	16,147	14,751
Share and equity based payments	805	1,400
Superannuation expense	1,081	1,021
TOTAL	18,033	17,172

	2010 $000	2009 $000

7. OTHER OPERATING EXPENSES

	2010 $000	2009 $000
Computer systems	2,869	2,970
General administration expenses	7,164	5,446
Gains from sales of available-for-sale financial investments	(8)	(4)
TOTAL	10,025	8,412

8. INCOME TAX EXPENSE

a) Income tax expense

	2010 $000	2009 $000
Major components of income tax expense are:		
Current income tax		
Current income tax	25,645	22,154
Adjustments in respect of tax in prior years	-	14
Deferred income tax		
Relating to the origination and reversal of temporary differences	(1,899)	(2,591)
Income tax expense reported in the income statement	23,746	19,577

b) Deferred income tax related to items charged or credited directly to equity

	2010 $000	2009 $000
Derivatives	2,531	(9,296)
Unrealised (gains)/losses on available for sale investments	8	47
Deferred tax income/(expense)	2,539	(9,249)

c) A reconciliation between tax expense and the accounting profit multiplied by the Bank's tax rate for the year:

	2010 $000	2009 $000
Accounting profit before tax	79,154	64,664
Income tax expense at a rate of 30% (2009: 30%)	23,746	19,399
Adjustments in respect of current income tax of previous years	-	14
Other	-	164
At effective income tax rate	23,746	19,577

	BALANCE SHEET 2010 $000	BALANCE SHEET 2009 $000	INCOME STATEMENT 2010 $000	INCOME STATEMENT 2009 $000

8. INCOME TAX EXPENSE (cont)

d) Deferred income tax

Deferred income tax at 30 June 2010 relates to the following:

	BALANCE SHEET 2010 $000	BALANCE SHEET 2009 $000	INCOME STATEMENT 2010 $000	INCOME STATEMENT 2009 $000
Deferred tax liabilities				
Upfront fees	985	1,170	(185)	(340)
Capitalised costs	258	208	50	71
Derivatives	292	408	(116)	392
	1,535	1,786		
Deferred tax assets				
Accruals	592	1,724	(59)	(352)
Deferred Income	262	466	204	87
Derivatives	3,574	6,229	123	(726)
Provisions	7,210	5,796	(1,675)	(1,723)
Reserve for employee benefits	841	-	(241)	-
	12,479	14,215		
Deferred tax income/(expense) reported in the income statement			(1,899)	(2,591)

Amounts charged directly to reserves are shown in the derivatives balance within deferred tax liabilities and assets above.

e) Tax losses

At 30 June 2010, the Bank has no tax losses.

f) Unrecognised temporary differences

At 30 June 2010, there are no unrecognised temporary differences associated with the Bank as the Bank has no liability for additional taxation should unremitted earnings be remitted (2009:$nil).

g) Taxation of financial arrangements (TOFA)

Legislation is in place which changes the tax treatment of financial arrangements including the tax treatment of hedging transactions. The Bank has assessed the potential impact of these changes on the Bank's tax position. No impact has been recognised and no adjustments have been made to the deferred tax and income tax balances at 30 June 2010 (2009: $Nil).

9. AVERAGE BALANCE SHEET AND RELATED INTEREST EARNINGS[1]

Year ended 30 June 2010

	AVERAGE BALANCE $000	INTEREST $000	AVERAGE RATE (ANNUALISED) %
Interest Earning Assets			
Seasonal loans	724,165	72,422	10.00
AMIS loans[2]	102,874	10,634	10.34
Term loans	2,677,256	199,730	7.46
Liquids	643,520	26,255	4.08
	4,147,815	309,041	7.45
Non Interest Assets			
Plant and equipment	582		
Provisions for impairment	(23,665)		
Other	64,224		
Total assets	4,188,956		
Interest Bearing Liabilities			
Deposits	3,651,765	191,465	5.24
Subordinated debt	124,667	6,843	5.49
	3,776,432	198,308	5.25
Non Interest Liabilities			
Other	65,859		
Shareholders equity	346,665		
Total liabilities and equity	4,188,956		
Interest margin and interest spread			
Interest earning assets	4,147,815	309,041	7.45
Interest bearing liabilities	3,776,432	198,308	5.25
Net interest income and interest spread[3]		110,733	2.20
Net free liabilities and equity	346,665		0.47
Net interest margin[4]			2.67

1. Average balance is based on monthly closing balances from July 2009 to June 2010 inclusive.
2. Agricultural Managed Investment Scheme (“AMIS”) Loans.
3. Interest spread is the difference between the average interest rate earned on assets and the average interest paid on funds.
4. Interest margin is the net interest income as a percentage of average interest earning assets.

9. AVERAGE BALANCE SHEET AND RELATED INTEREST EARNINGS[1] (cont.)

	AVERAGE BALANCE $000	INTEREST $000	AVERAGE RATE (ANNUALISED) %
Year ended 30 June 2009			
Interest Earning Assets			
Seasonal loans	831,465	88,370	10.63
AMIS loans[2]	116,618	12,222	10.48
Term loans	2,602,767	212,330	8.16
Liquids	785,260	41,084	5.23
	4,336,110	354,006	8.16
Non Interest Assets			
Plant and equipment	16		
Provisions for doubtful debts	(16,361)		
Other	42,900		
Total assets	4,362,665		
Interest Bearing Liabilities			
Deposits	3,850,753	255,227	6.63
Subordinated debt	129,000	8,839	6.85
	3,979,753	264,066	6.64
Non Interest Liabilities			
Other	63,475		
Shareholders equity	319,437		
Total liabilities and equity	4,362,665		
Interest margin and interest spread			
Interest earning assets	4,336,110	354,006	8.16
Interest bearing liabilities	3,979,753	264,066	6.64
Net interest income and interest spread[3]		89,940	1.52
Net free liabilities and equity	319,437		0.55
Net interest margin[4]			2.07

1. Average balance is based on monthly closing balances from July 2008 to June 2009 inclusive.
2. Agricultural Managed Investment Scheme ("AMIS") Loans.
3. Interest spread is the difference between the average interest rate earned on assets and the average interest paid on funds.
4. Interest margin is the net interest income as a percentage of average interest earning assets.

	2010 $000	2009 $000

10. DIVIDENDS PAID OR PROVIDED FOR ON ORDINARY SHARES

	2010 $000	2009 $000
Dividends paid during the year:		
Final dividend – 2009 5.36c per share (2008 5.90c per share)	16,445	14,382
Interim dividend – 2010 6.11c per share (2009 5.54c per share)	18,741	15,116
Special dividend – 2010 4.89c per share (2009 12.46c per share)	15,000	34,000
	50,186	63,498
Dividends declared:		
Final dividend – 2010 6.53c per share	20,045	16,445

Dividend franking account

The amount of franking credits available for the subsequent financial year are:

	2010 $000	2009 $000
• franking account balance as at the end of the financial year 30% (2009: 30%)	17,123	20,448
• franking credits that will arise from the payment of income tax payable as at the end of the financial year	13,216	6,606
• franking debits that will arise from the payment of dividends as at the end of the financial year	(8,591)	(7,048)
TOTAL	21,748	20,006

The tax rate at which the dividends have or will be franked will be 30%.

	2010 $000	2009 $000
11. CASH FLOW STATEMENT RECONCILIATION		
(a) Reconciliation of profit attributable to members to net cash flows from operations:		
Profit attributable to members for the year:	55,408	45,087
Non-cash item adjustments		
Credit loss expense	8,789	5,685
Depreciation and amortisation	543	352
Changes in assets and liabilities		
Decrease in trade and other debtors	197	248
Decrease/(Increase) in deferred tax assets	1,736	(8,217)
Decrease in deferred tax liabilities	(251)	(3,657)
Increase in current tax liability	6,610	3,353
Increase in employee entitlements	2,001	401
(Decrease)/Increase in payables	(8,032)	952
(Decrease)/Increase in financial derivatives	(2,535)	12,369
Increase in accrued interest	1,222	-
Increase in employee benefits reserve	2,805	-
NET CASH FLOWS FROM OPERATING ACTIVITIES	68,493	56,573
(b) Reconciliation of cash		
Cash and balances with central bank	8,675	25,598
Cash and balances with other banks	48,189	14,856
Available for sale investments	135,152	134,722
TOTAL	192,016	175,176

	2010 $000	2009 $000
12. FINANCIAL ASSETS AVAILABLE FOR SALE		
Bank accepted bills of exchange	4,946	15,031
Negotiable certificates of deposit	130,206	119,691
TOTAL	135,152	134,722

Bank accepted bills of exchange held have an average maturity of 82 days (2009: 39 days) with effective interest rates of 4.96% (2009: 3.25% to 3.30%).

Negotiable certificates of deposit held have an average maturity of 47 days (2009: 34 days) with effective interest rates of 4.70% to 5.70% (2009: 3.08% to 3.75%).

	2010 $000	2009 $000
13. HELD TO MATURITY FINANCIAL ASSETS		
Negotiable certificates of deposit	285,112	354,243
Other	108,975	159,465
TOTAL	394,087	513,708
Maturity Analysis		
Less than 12 months	349,249	463,522
Greater than 12 months	44,838	50,186
TOTAL FINANCIAL ASSETS HELD TO MATURITY	394,087	513,708

Negotiable certificates of deposit held have an average maturity of 48 days (2009: 53 days) with effective interest rates of 4.71% to 5.65% (2009: 3.06% to 3.81%).

Other deposits held have an average maturity of 378 days (2009: 414 days) with effective interest rates of 3.00% to 5.90% (2009: 3.00% to 4.36%).

	2010 $000	2009 $000
14. LOANS AND OTHER RECEIVABLES		
Seasonal loans	724,480	786,599
Term loans	2,775,785	2,743,368
AMIS loans	96,064	110,955
Gross non-performing loans	73,119	40,144
Gross loans before provisioning	3,669,448	3,681,066
Less allowances for impairment loans:		
Individual impairment	25,025	17,242
Collective impairment	3,719	2,956
NET LOANS AND OTHER RECEIVABLES	3,640,704	3,660,868

Maturity Analysis

	2010 $000	2009 $000
Less than 12 months	1,366,326	1,366,750
Greater than 12 months	2,274,378	2,294,118
NET LOANS AND OTHER RECEIVABLES	3,640,704	3,660,868

Impairment allowance for loans and other receivables

The following is a reconciliation of the individual and collective allowances for impairment losses on loans and advances:

	INDIVIDUAL IMPAIRMENT 2010 $000	COLLECTIVE IMPAIRMENT 2010 $000	TOTAL 2010 $000	INDIVIDUAL IMPAIRMENT 2009 $000	COLLECTIVE IMPAIRMENT 2009 $000	TOTAL 2009 $000
At 1 July	17,242	2,956	20,198	11,987	1,876	13,863
Charge for the year	18,896	4,470	23,366	12,073	1,788	13,153
Recoveries	(5,145)	(3,707)	(8,852)	(4,785)	(708)	(4,785)
Amounts written off	(5,968)	-	(5,968)	(2,033)	-	(2,033)
At 30 June	25,025	3,719	28,744	17,242	2,956	20,198

14. LOANS AND OTHER RECEIVABLES (cont.)

The collateral that the Bank holds relating to loans individually determined to be impaired at balance date consists of cash, securities, letters of guarantee and properties. For a more detailed description see 'Collateral and other credit enhancements' at Note 28.

Collateral repossessed

Net fair value of properties acquired through the enforcement of security was $3.71mil (2009: nil).

Derecognition of a loan portfolio

In June 2005 and June 2007, the Bank sold a portfolio of Rural Loans (receivables) totaling $53.1 million and $50.7 million respectively to a third party through a Receivables Purchase Agreement (RPA). Under the terms of the sale through this RPA, the Bank remains the Servicer and Manager of the receivables and retains all collections relating to the receivables in excess of an agreed return to the third party.

The credit risk and exposure of these receivables has been transferred to the third party. The Bank has determined that not substantially all the risks and rewards of the receivables have been transferred. Therefore, the Bank continues to recognise the receivables at their continuing involvement for an amount equivalent to $32.3 million and $49.0 million respectively.

15. DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair value of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

	ASSETS 2010 $000	LIABILITIES 2010 $000	NOTIONAL AMOUNT 2010 $000	ASSETS 2009 $000	LIABILITIES 2009 $000	NOTIONAL AMOUNT 2009 $000
Derivatives held as cash flow hedges						
Interest rate swaps	426	11,914	484,740	813	20,761	549,934

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest.

Derivative financial instruments held or issued for hedging purposes

As part of its asset and liability management, the Bank uses derivatives for hedging purposes in order to reduce its exposure to market risks. This is achieved by hedging specific financial instruments and portfolios of fixed rate financial instruments.

The accounting treatment explained in Note 1(e) varies according to the nature of the item hedged and compliance with the hedge criteria.

15. DERIVATIVE FINANCIAL INSTRUMENTS (cont.)

Cash flow hedges

The Bank is exposed to variability in future interest cash flows on non-trading assets and liabilities which bear interest at a variable rate. The Bank uses interest rate swaps as cash flow hedges of these interest rate risks.
A schedule indicating as at 30 June 2010 the periods when the hedged cash flows are expected to occur and when they are expected to affect the income statement is as follows:

	WITHIN 1 YEAR $000	1-3 YEARS $000	3-8 YEARS $000	OVER 8 YEARS $000
Cash inflows (Assets)	17,197	15,702	8,282	-
Cash outflows (Liabilities)	(27,234)	(25,128)	(11,054)	-
Net cash inflow	(10,037)	(9,246)	(2,772)	-
Income statement	(5,749)	(5,297)	(2,440)	-

Net gain on cash flow hedges reclassified to the income statement:	2010 $000	2009 $000
Interest income	22	815
Taxation	(7)	(245)
Net gain on cash flow hedges reclassified to the income statement	15	570

	2010 $000	2009 $000

16. INTANGIBLE ASSETS

Computer software

	2010 $000	2009 $000
Cost:		
Opening amount at beginning of year	9,980	8,596
Additions	279	1,384
Closing balance	10,259	9,980
Amortisation:		
Opening amount at beginning of year	(8,076)	(7,732)
Amortisation charge for the year	(443)	(344)
Closing balance	(8,519)	(8,076)
Net book value:		
At 30 June	1,740	1,904

Finite useful life

Computer software includes internally developed software and software that is not an integral part of the related hardware. Intangible software is capitalised at cost and is amortised over the assessed useful life of the asset on a straight line basis. This is generally a period of 3 years.

17. PLANT AND EQUIPMENT

Plant and equipment

	2010 $000	2009 $000
Cost:		
Opening amount at beginning of year	65	41
Additions	1,224	24
Closing balance	1,289	65
Depreciation and impairment:		
Opening amount at beginning of year	(45)	(37)
Depreciation charge for the year	(100)	(8)
Closing balance	(145)	(45)
Net book value:		
At 30 June	1,144	20

	2010 $000	2009 $000
18. DUE TO CUSTOMERS		
Retail customers	3,548,789	3,675,001
Wholesale customers	69,815	77,871
TOTAL DEPOSITS	3,618,604	3,752,872
Maturity Analysis		
Not longer than 12 months	3,518,080	3,621,984
Longer than 1 year and not longer than 5 years	99,850	130,214
Longer than 5 years	674	674
TOTAL DEPOSITS	3,618,604	3,752,872

Deposits: Retail deposits consists of a variety of transactional and investor products which can be on an at call or term deposit basis. Fixed and Floating Rate term deposits are available. Interest is payable monthly, quarterly, half-yearly, annually or at a maturity of the deposit, depending on the term. At call accounts pay interest monthly. At call accounts also attract transaction fees, which are generally charged on a monthly basis and some accounts are eligible for transaction fee rebates. A term deposit interest rate can be reduced during the term should a customer withdraw all or part of the initial balance before maturity. Carded interest rates are based on a tiered structure depending on the account balance and range from 0% to 6.30% (2009: 0% to 5.10%).

Domestic deposits include certificates of deposit with an average maturity of 82 days (2009: 184 days) with effective interest rates of 3.43% to 7.00% (2009: 3.43% to 4.48%). Fixed and Floating Rate term deposits have an average maturity of 129 days (2009: 125 days).

	2010 $000	2009 $000
19. OTHER PAYABLES		
Accounts payable	8,705	13,008
Accrued expenses	2,360	4,118
TOTAL	11,065	17,126
20. NOTES PAYABLES		
Securitised Loans	81,351	94,821
TOTAL	81,351	94,821

	2010 $000	2009 $000

21. SUBORDINATED CAPITAL NOTES

	2010	2009
Subordinated capital notes[1]	138,000	120,000
TOTAL	138,000	120,000

(1) Subordinated capital notes were issued for a term of 10 years maturing 2014 to 2020. Issues prior to 22nd June 2010 had an option to redeem at par after five years subject to APRA's written approval.

Outstanding subordinated capital notes are currently:

Issue Date	Interim Maturity	Final Maturity	Effective interest rate	2010	2009
22-Sep-04	22-Sep-09	22-Sep-14	BBSW+110	-	$3,000,000
23-Mar-05	23-Mar-10	23-Mar-15	BBSW+90	-	$21,000,000
13-Jul-05	13-Jul-10	13-Jul-15	BBSW+85	$20,000,000	$20,000,000
23-Aug-05	23-Aug-10	23-Aug-15	BBSW+83	$5,000,000	$5,000,000
1-Sep-05	1-Sep-10	1-Sep-15	BBSW+83	$2,500,000	$2,500,000
5-Sep-05	6-Sep-10	6-Sep-15	BBSW+83	$3,000,000	$3,000,000
13-Oct-05	13-Oct-10	13-Oct-15	BBSW+75	$11,000,000	$11,000,000
16-Mar-06	16-Mar-11	16-Mar-16	BBSW+69	$5,000,000	$5,000,000
5-Apr-06	5-Apr-11	5-Apr-16	BBSW+69	$1,000,000	$1,000,000
8-Jun-06	8-Jun-11	8-Jun-16	BBSW+67	$5,000,000	$5,000,000
15-Jun-06	15-Jun-11	15-Jun-16	BBSW+65	$5,000,000	$5,000,000
6-Mar-07	6-Mar-12	6-Mar-17	BBSW+60	$5,000,000	$5,000,000
8-Jun-07	8-Jun-12	8-Jun-17	BBSW+59	$10,000,000	$10,000,000
14-Dec-07	14-Dec-12	14-Dec-17	BBSW+200	$2,000,000	$2,000,000
30-Apr-08	30-Apr-13	30-Apr-18	BBSW+350	$1,500,000	$1,500,000
26-Jun-08	26-Jun-13	26-Jun-18	BBSW+350	$20,000,000	$20,000,000
12-Feb-10	12-Feb-15	12-Feb-20	BBSW+398	$9,000,000	-
12-Feb-10	12-Feb-15	12-Feb-20	BBSW+398	$3,000,000	-
12-Feb-10	12-Feb-15	12-Feb-20	BBSW+400	$20,000,000	-
22-Jun-10	n/a	22- Jun-20	BBSW+425	$10,000,000	-
				$138,000,000	$120,000,000

	2010 No.	2009 No.	2010 $000	2009 $000
22. CONTRIBUTED EQUITY				
Issued and paid up capital				
Opening balance at the beginning of the year	306,900,000	243,900,000	321,638	258,638
Ordinary shares fully paid @ $1 issued during the year	-	63,000,000	-	63,000
Total ordinary shares at the reporting date	306,900,000	306,900,000	321,638	321,638

Effective 1 July 1998, the Corporations legislation abolished the concepts of authorised capital and par value shares. Accordingly the Bank does not have authorised capital nor par value in respect of its issued capital.

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

23. RESERVES

	2010 $000	2009 $000
Reserve for unrealised swaps	(8,024)	(13,931)
General reserve for credit losses	18,506	18,506
Net unrealised gains on available for sale investments	130	112
Reserve for employee benefits, equity settled	2,805	-
Total Reserves	13,417	4,687

Reserve for unrealised swaps

(a) Nature and purpose

The reserve for unrealised swaps records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge

(b) Movements

	2010 $000	2009 $000
Opening Balance	(13,931)	7,760
Net (loss)/gains on cash flow hedges for year	8,438	(30,987)
Income tax relating to net gain/(loss) on cash flow hedges	(2,531)	9,296
Closing balance	(8,024)	(13,931)

	2010 $000	2009 $000

23. RESERVES (cont)

General reserve for credit losses

(a) Nature and purpose

The general reserve for credit losses records the value of a reserve maintained to recognise credit losses inherent in the Bank's lending portfolio, but not yet identified. The Bank is required to maintain general provisions (includes general reserve for credit losses and collective provision) by APRA at a minimum level of 0.5% (net of tax) of risk-weighted assets.

(b) Movements

	2010 $000	2009 $000
Opening balance	18,506	18,506
Net appropriations from retained earnings for year	-	-
Closing balance	18,506	18,506

Net unrealised gains on available for sale investments

(a) Nature and purpose

This reserve compromises changes in fair value of available for sale investments

(b) Movements

	2010 $000	2009 $000
Opening balance	112	2
Net losses on fair valuation of available for sale investments for the year	26	157
Tax on net losses on fair valuation of available for sale investments for the year	(8)	(47)
Closing balance	130	112

Reserve for employee benefits, equity settled

(a) Nature and purpose

The employee benefits reserve is used to record the assessed cost granted to executive employees under the Share Appreciation Rights Plan

(b) Movements

	2010 $000	2009 $000
Opening balance	-	-
Net increase in employee benefits	2,805	-
Closing balance	2,805	-

	2010 $000	2009 $000

24. SHARE BASED PAYMENT PLANS

(a) Recognised share-based payment expenses

The expense recognised for employee services received during the year is shown in the table below:

	2010 $000	2009 $000
Expense arising from equity-settled share-based payment transactions	805	-
Expense arising from cash-settled share-based payment transactions	-	1,400
Total expense arising from share-based payment transactions	805	1,400

(b) Share-based payment plans

Share Appreciation Rights Plan (SARP) for executives

SARs are granted to senior executives as approved by the Board or Corporate Governance Committee of the Bank. To be eligible, the Bank must have achieved the Board approved budget for the preceding financial year and the executive must have been employed for the duration of that financial year.

The SARP is designed to align participants' interests with those of shareholders by increasing the value of the Bank's shares.

Under the SARP, the exercise price of the options is set according to a fixed price/earnings multiple based on the preceding year's profit available for distribution and divided by the number of issued shares at 30 June.

When a participant ceases employment prior to the vesting of their SARs, the SARs are forfeited unless cessation of employment is due to termination initiated by the Bank for reasons other than poor performance, gross misconduct, material breach, gross negligence or other conduct justifying termination without notice.

In the event of the listing of the Bank on the ASX or if one of the shareholders at the time of the grant ceases to be a shareholder, SARs will vest.

SARs vest on the third anniversary of their grant date. The contractual life of each option granted is five years. The default settlement mechanism is the equivalent value in Bendigo and Adelaide Bank Limited shares.

(c) Summaries of SARs granted under the SARP

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, SARs issued during the year:

	2010 NO.	2010 WAEP	2009 NO.	2009 WAEP
Outstanding at the beginning of the year	3,945,500	2.11	2,074,073	1.98
Granted during the year	2,236,109	2.06	1,871,427	2.25
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at the end of the year	6,181,609	2.09	3,945,500	2.11

24. SHARE BASED PAYMENT PLANS (cont.)

The SARs granted in 2007 vest on 1/9/2010 and expire on 1/9/2012.

The SARs granted in 2008 vest on 1/9/2011 and expire on 1/9/2013.

The SARs granted in 2009 vest on 1/9/2012 and expire on 1/9/2014.

There were nil options exercisable at the end of the year.

(d) Weighted average remaining contractual life

The weighted average remaining contractual life for the SARs outstanding as at 30 June 2010 is 3.19 years (2009: 3.72 years).

(e) Range of exercise price

The range of exercise prices for SARs outstanding at the end of the year was $1.98 – $2.25 (2009: $1.98 – $2.25).

(f) Weighted average fair value

The weighted average fair value of SARs granted during the year was $0.36 (2009: $0.35).

(g) Option pricing model: SARs

The fair value of the equity or cash settled SARs is estimated as at 30th of June of the preceding financial year using the Black-Scholes Model taking into account the terms and conditions upon which the SARs were granted.

The following table lists the inputs to the models used for the 2010, 2009 and 2008 grant years. The 2010 grant year is based on year ended 30 June 2009 financial results, the 2009 grant year is based on year ended 30 June 2008 financial results and the 2008 grant year is based on year ended 30 June 2007 financial results.

	2010 ISSUE (F09 FINANCIALS)	2009 ISSUE (F08 FINANCIALS)	2008 ISSUE (F07 FINANCIALS)
Dividend yield (%)	5.00%	5.00%	5.00%
Expected volatility (%)	30%	25%	20%
Risk-free interest rate (%)	4.56%	5.65%	6.45%
Expected life of option (years)	3	3	3
Option exercise price ($)	2.06	2.25	1.98
Weighted average share price at measurement date ($)	2.70	3.22	3.49
Model used	Black-Scholes	Black-Scholes	Black-Scholes

The effects of early exercise have been incorporated into the calculations by using an expected life for the option that is shorter than the contractual life based on expected exercise behaviour, which is not necessarily indicative of exercise patterns that may occur in the future. The expected volatility was determined using an historical sample of broadly comparable banking companies listed on the ASX. The resulting expected volatility therefore reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

(h) Recognised equity and cash-settled share based payment

The carrying amount relating to equity and cash-settled SARP at 30 June 2010 is $2.8m (2009: $2.0m).
No equity or cash-settled awards vested during the period ended 30 June 2010 (2009: Nil).

25. KEY MANAGEMENT PERSONNEL

(a) Details of Key Management Personnel

(i) Directors of Rural Bank Limited who have held office during the financial year are:

Beverley H Walters	Chairman (Non-Executive)
Paul G Hutchinson	Managing Director
Robyn Clubb	Director (Non-Executive)
James T Hazel	Director (Non-Executive)
Michael J Hirst	Director (Non-Executive)
Robert G Hunt, AM	Director (Non-Executive)
Robert N Johanson	Director (Non-Executive)
Michael S Guerin	Director (Non-Executive) (appointed 18 November 2009 & resigned 30 June 2010)
Ian G MacDonald	Director (Non-Executive)
Jamie McPhee	Director (Non-Executive) (resigned 2 February 2010)
Samuel M Moore	Director (Non-Executive) (appointed 17 February 2010)
Maxwell G Ormsby	Director (Non-Executive)
John P Patton	Director (Non-Executive)
Timothy P Plant	Director (Non-Executive) (resigned 23 September 2009)

(ii) Executives of Rural Bank Limited who have held office during the financial year are:

Steven Laidlaw	Chief Financial Officer and Company Secretary
Peter Corolis	General Manager, Operations
Taso Corolis	General Manager, Risk
Simon Dundon	General Manager, Sales and Distribution – ceased 30 June 2010

(b) Compensation of Key Management Personnel

Compensation by category	2010 $	2009 $
Short-term	3,087,578	2,968,065
Long-term	31,706	21,690
Post employment	164,577	177,332
Termination	275,000	-
Share-based payment	805,000	1,400,000
Total	4,363,861	4,567,087

25. KEY MANAGEMENT PERSONNEL (cont.)

(c) Loans to Key Management Personnel including personally related entities

(i) Details of aggregates of loans to key management personnel including personally related entities are as follows:

	BALANCE AT BEGINNING OF YEAR $000	INTEREST CHARGED $000	INTEREST NOT CHARGED $000	WRITE-OFF $000	PAYMENTS RECEIVED $000	BALANCE AT END OF YEAR $000	NUMBER IN BANK
30 June 2010 Total	500	38	-	-	(38)	500	1
30 June 2009 Total	500	42	-	-	(42)	500	1

(ii) Details of individuals (including their personally related entities) with loans above $100,000 in the reporting period are as follows:

Directors	BALANCE AT BEGINNING OF YEAR $000	INTEREST CHARGED $000	INTEREST NOT CHARGED $000	WRITE-OFF $000	PAYMENTS RECEIVED $000	BALANCE AT END OF YEAR $000	HIGHEST OWING IN THE YEAR $000
30 June 2010							
R N Johanson	500	38	-	-	(38)	500	500
30 June 2009							
R N Johanson	500	42	-	-	(42)	500	500

The above financial instrument transactions with a Director of the Bank occurred in the ordinary course of business with the Bank on an arms-length basis.

26. RELATED PARTY DISCLOSURE

(a) Shareholders with significant influence over the Bank

Bendigo and Adelaide Bank Limited and Elders Limited (formerly Futuris Corporation Limited), both of which are incorporated in Australia, acquired all the shares in the bank on 4 January 1999 and continue to contribute further capital.

On 27 May 2009 Bendigo and Adelaide Bank Limited purchased 10% of the shares in the Bank from Elders Limited. Currently Bendigo and Adelaide Bank Limited owns 60% and Elders Limited 40% of the shares in the Bank.

(b) Transactions with other related entities

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year.

	2010 $000	2009 $000
Transaction Type		
1. Elders Rural Services Limited Group Commission paid	22,785	26,488
Payments for goods and services provided	16,927	16,989
Receipts for services provided	33	33
Transaction Type		
2. Bendigo and Adelaide Bank Limited Group		
Commission paid	1,609	1,382
Payment for goods and services	10,490	8,209

(c) Amounts due to and receivable from other related parties

	2010 $000	2009 $000
Aggregate current amount (payable)/receivable at balance date to:		
Shareholders	(3,507)	(4,558)
Key Management Personnel loans	500	500

	2010 $000	2009 $000

27. CONTINGENT LIABILITIES AND COMMITMENTS

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the balance sheet, they do contain credit risk and are therefore part of the overall risk of the Bank.

(a) Contingent liabilities

Letters of credit, guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the encashment of cheques. Guarantees and standby letters of credit carry the same credit risk as loans.

The total outstanding contingent liabilities are as follows:

	2010 $000	2009 $000
Financial guarantees	2,847	3,261
Letters of credit	237	315
TOTAL	3,084	3,576

(b) Undrawn commitments to lend

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

However, the potential credit loss is less than the total unused commitments since most commitments to extend are contingent upon customers maintaining specific standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

	2010 $000	2009 $000
TOTAL	55,560	21,661

(c) Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, the Bank had no unresolved legal claims.

(d) Lease commitments

Operating lease commitments – Bank as lessee

Future minimum lease payments under non-cancellable operating leases as at 30 June are as follows:

	2010 $000	2009 $000
Within one year	200	-
After one year but no more than five years	850	-
After more than five years	79	
TOTAL	1,129	-

28. RISK MANAGEMENT

The recognition and management of risk is a critical function of the Bank. Risks are inherent in a bank's day-to-day operations with the success of a bank being reliant upon its ability to manage risk.

The Bank has a structured risk management framework linking its business strategy and operations to its risk management objectives. The framework incorporates the Board of Directors as the body ultimately responsible; the Board Risk, Credit and Audit Committees; the Executive Committee appointed to manage the business; the Compliance Committee to ensure compliance with legislation and policy; the Asset and Liability Management Committee and various support and control functions including the Risk Management Department and Internal Audit.

The Bank's risk strategy is underpinned by an integrated framework of responsibilities and functions driven from the Board level down to operational levels, covering all aspects of risk, most notably credit risk, liquidity risk, operational risk and interest rate risk. From an operational perspective, the Bank takes a whole of business approach to managing risk. In this regard, a 'Risk Advocate' is embedded within each area of the Bank, providing each department with access to a risk resource to effect the Bank's risk management policies and practices. The 'Risk Advocate' role is in addition to the dedicated resources employed within the Bank's Risk Management Department which provide guidance, support and oversight to the business as a whole.

28.1 CREDIT RISK

Credit risk is the potential risk that the Bank will suffer a financial loss due to the unwillingness or inability of a counterparty to meet their contractual obligations.

The Bank's Board Credit Committee and the Risk Management Department is responsible for monitoring adherence to credit policies, practices and procedures within the Bank. The Board Credit Committee has established an effective limit framework and structured delegations to minimise the risk of default by any one counterparty or any group of related counterparties. A dedicated Asset Management Unit exists to provide specialist management of lower rated and/or impaired loans.

The Bank has established a credit quality review process to provide early identification of possible changes in creditworthiness of counterparties, including regular collateral revisions. A standard risk grading methodology exists throughout the entity to assess, measure and report on the quality of lending assets. Risk ratings are also subject to regular review and periodic reviews of the ratings methodology are also undertaken. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

The Bank's maximum exposures to credit risk at balance date in relation to each class of recognised financial assets, other than derivatives, is the carrying amount of those assets as indicated in the Balance Sheet.

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum credit risk exposure does not take into account the value of any collateral or other security held, in the event other entities/parties fail to perform their obligations under the financial instruments in question.

	NOTES	GROSS MAXIMUM EXPOSURE 2010 $000	GROSS MAXIMUM EXPOSURE 2009 $000
28. RISK MANAGEMENT (cont.)			
Cash and balances with central bank	11	8,675	25,598
Cash and balances with other banks	11	48,189	14,856
Available for sale investments	12	135,152	134,722
Held to maturity investments	13	394,087	513,708
Loans and other receivables	14	3,669,448	3,681,066
Derivatives	15	426	813
Other assts		1,954	2,150
TOTAL		4,257,931	4,372,913
Contingent liabilities	27	3,084	3,576
Commitments	27	55,560	21,661
TOTAL		58,644	25,237
Total credit risk exposure		4,316,575	4,398,150

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector.

The Bank's credit risk exposure, before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

	2010 $000	2009 $000
New South Wales	1,126,889	1,275,982
Victoria	615,282	565,627
Queensland	946,573	980,289
South Australia	475,853	458,824
Northern Territory	110,961	93,053
Western Australia	955,617	945,670
Tasmania	75,835	69,106
ACT	6,099	6,286
Overseas/Other	3,466	3,313
TOTAL	4,316,575	4,398,150

	2010 $000	2009 $000

28. RISK MANAGEMENT (cont.)

An industry sector analysis of the Bank's credit risk exposure, before taking into account any collateral held or other credit enhancements, is as follows:

	2010 $000	2009 $000
Grain growing	216,274	213,135
Grain-sheep and grain-beef cattle farming	1,152,787	1,161,486
Sheep-beef cattle farming	537,367	527,491
Sheep farming	216,709	227,703
Beef cattle farming	962,085	981,379
Dairy cattle farming	164,968	166,154
Horticulture and viticulture	101,154	99,651
Agriculture services	61,910	70,627
Financial services	645,205	714,934
Other	258,116	235,590
TOTAL	4,316,575	4,398,150

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The Bank has established guidelines regarding the acceptability of different types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- mortgages over farm properties and stock; and
- mortgages over residential properties.

The Bank also obtains guarantees from parent companies for loans to subsidiaries, but the guarantees are relied upon for security valuation purposes and are not included in the above table.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

28. RISK MANAGEMENT (cont.)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for loan-related balance sheet lines, based on the Bank's credit rating system.

	NEITHER PAST DUE NOR IMPAIRED						
30 June 2010	STRONG GRADE $000	SATISFACTORY GRADE $000	SUB-STANDARD GRADE $000	UNRATED $000	PAST DUE $000	IMPAIRED $000	TOTAL $000
Cash and balances at central bank	8,675	-	-	-	-	-	8,675
Cash and balances at other banks	48,189	-	-	-	-	-	48,189
Available for sale	135,152	-	-	-	-	-	135,152
Held to maturity	394,087	-	-	-	-	-	394,087
Financial investments	529,239	-	-	-	-	-	529,239
Seasonal	298,800	326,255	53,314	-	46,112	24,587	749,068
Term	1,126,155	1,350,457	268,477	-	30,696	44,837	2,820,622
AMIS loans	-	94,895	-	-	1,169	3,695	99,759
Gross loans and other receivables	1,424,955	1,771,607	321,791	-	77,977	73,119	3,669,449
Derivatives	-	-	-	426	-	-	426
Other assets	-	-	-	1,954	-	-	1,954
TOTAL	2,011,058	1,771,607	321,791	2,380	77,977	73,119	4,257,932

28. RISK MANAGEMENT (cont.)

30 June 2009	NEITHER PAST DUE NOR IMPAIRED STRONG GRADE $000	SATISFACTORY GRADE $000	SUB-STANDARD GRADE $000	UNRATED $000	PAST DUE $000	IMPAIRED $000	TOTAL $000
Cash and balances at central bank	25,598	-	-	-	-	-	25,598
Cash and balances at other banks	14,856	-	-	-	-	-	14,856
Available for sale	134,722	-	-	-	-	-	134,722
Held to maturity	513,708	-	-	-	-	-	513,708
Financial investments	648,430	-	-	-	-	-	648,430
Seasonal	337,876	362,259	64,435	-	22,029	14,683	801,282
Term	1,128,058	1,357,499	250,307	-	7,504	23,607	2,766,975
AMIS loans	-	110,901	-	-	54	1,854	112,809
Gross loans and other receivables	1,465,934	1,830,659	314,742	-	29,587	40,144	3,681,066
Derivatives	-	-	-	813	-	-	813
Other assets	-	-	-	2,150	-	-	2,150
TOTAL	2,154,818	1,830,659	314,742	2,963	29,587	40,144	4,372,913

The Bank does not hold any credit derivatives to offset its credit exposures.

Credit risk exposure for each internal risk rating

It is the Bank's policy to maintain accurate and consistent risk ratings of nine categories across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

28. RISK MANAGEMENT (cont.)

Aging Analysis of past due but not impaired loans and other receivables

	90 TO 119 DAYS $000	120 DAYS OR MORE $000	TOTAL $000
30 June 2010			
Loans and other receivables			
Seasonal	4,308	41,804	46,112
Term	6,369	24,327	30,696
AMIS	-	1,169	1,169
Total	10,677	67,300	77,977
30 June 2009			
Loans and other receivables			
Seasonal	1,970	20,059	22,029
Term	1,206	6,298	7,504
AMIS	-	54	54
TOTAL	3,176	26,411	29,587

See Note 14 for more detailed information with respect to the allowance for impairment losses on loans and other receivables.

The fair value of collateral that the Bank holds relating to loans individually determined to be impaired and loans past due at 30 June 2010 amounts to $538.7 million (2009: $219.8 million). The collateral consists of cash, securities, letters of guarantee and properties.

Impairment assessment

The main considerations for the loan impairment assessment includes whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

28. RISK MANAGEMENT (cont.)

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated regularly and at a minimum at each report date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and other receivables that are inherent in the existing overall credit portfolio (including seasonal and term) but not yet specifically identifiable. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are calculated by using a determined loss ratio based on the risk rating and the historical losses on the loans in that portfolio and reporting that tracks downward movements in a client's credit risk rating.

28.2 LIQUIDITY RISK

Liquidity risk is the risk that the Bank will be unable to access sufficient funds, due to either anticipated or unforeseen events, which may lead to the Bank being unable to meet its obligations in an orderly manner as they arise or foregoing investment opportunities.

The Chief Financial Officer is responsible for implementing liquidity risk management strategies determined by the Board Risk Committee. This includes maintaining prudent levels of liquid reserves and a diverse range of funding options to meet daily, short-term and long-term liquidity requirements. The most important measure is to maintain limits on the ratio of net liquid assets to customer liabilities, set to reflect market conditions. Net liquid assets consists of cash, short term bank deposits and liquid debt securities available for immediate sale.

The ratio during the year was as follows:

	2010 %	2009 %
30 June	15.77	18.29
Daily average during the period	17.23	20.57
Highest	19.86	25.14
Lowest	14.59	16.35

28. RISK MANAGEMENT (cont.)

The table below summarises the maturity profile of the Bank's financial liabilities at 30 June 2010 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

30 June 2010	ON DEMAND $000	LESS THAN 3 MONTHS $000	3 TO 12 MONTHS $000	1 TO 5 YEARS $000	OVER 5 YEARS $000	TOTAL $000
Financial Liabilities						
Deposits – Retail	436,668	1,153,428	1,963,707	122,627	2,066	3,678,496
Deposits – Wholesale	-	60,921	10,395	-	-	71,316
Other payables	-	11,065	-	-	-	11,065
Notes payable	-	15,933	18,366	62,177	1,441	97,917
Subordinated debt	-	2,460	7,299	39,062	160,215	209,036
Financial Guarantees	3,116	-	-	-	-	3,116
Derivatives	-	27,570	150,170	272,952	34,048	484,740
	439,784	1,271,377	2,149,937	496,818	197,770	4,555,686

30 June 2009	ON DEMAND $000	LESS THAN 3 MONTHS $000	3 TO 12 MONTHS $000	1 TO 5 YEARS $000	OVER 5 YEARS $000	TOTAL $000
Financial Liabilities						
Deposits – Retail	562,198	1,590,499	1,451,659	153,636	2,080	3,760,072
Deposits – Wholesale	-	762	80,088	-	-	80,850
Other payables	-	17,126	-	-	-	17,126
Notes payable	-	11,644	18,552	77,043	4,621	111,860
Subordinated debt	-	2,759	8,186	43,807	140,822	195,574
Financial Guarantees	3,576	-	-	-	-	3,576
Derivatives	-	21,400	97,965	354,961	75,608	549,934
	565,774	1,644,190	1,656,449	629,447	223,131	4,718,991

28.3 MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates.

Interest rate risk

Interest rate risk is the risk of loss of earnings to the Bank due to adverse movements in interest rates.

The following table summarises interest rate risk for the Bank, together with effective interest rates at balance date:

	WEIGHTED AVERAGE INTEREST RATE			FIXED INTEREST RATE REPRICING					
30 June 2010	FLOATING %	FIXED %	FLOATING INTEREST RATE $000	LESS THAN 3 MONTHS $000	3 MONTHS TO 1 YEAR $000	OVER 1 TO 5 YEARS $000	MORE THAN 5 YEARS $000	NON INTEREST BEARING $000	TOTAL $000
Financial Assets									
Cash and liquid assets	4.31	4.62	56,543	460,866	23,552	44,821	-	321	586,103
Loans and other receivables	9.19	8.24	2,895,850	12,232	73,030	433,610	179,218	46,764	3,640,704
Other	-	-	-	-	-	-	-	2,380	2,380
			2,952,393	473,098	96,582	478,431	179,218	49,465	4,229,187
Weighted average interest rates			9.10%	4.60%	7.38%	7.88%	8.59%		
Financial Liabilities									
Deposits – Retail	4.41	6.09	647,017	1,545,189	1,259,889	91,831	4,797	67	3,548,790
Deposits – Wholesale	-	5.26	-	69,815	-	-	-	-	69,815
Accounts payable	-	-	-	-	-	-	-	11,065	11,065
Notes payable	5.96	-	81,351	-	-	-	-	-	81,351
Subordinated debt	7.07	-	138,000	-	-	-	-	-	138,000
Derivative financial instruments	4.77	6.31	(382,740)	27,570	72,170	248,952	34,048	-	-
			483,628	1,642,574	1,332,059	340,783	38,845	11,132	3,849,021
Weighted average interest rates			8.92%	5.79%	5.93%	1.77%	6.37%		

28. RISK MANAGEMENT (cont.)

30 June 2009	WEIGHTED AVERAGE INTEREST RATE FLOATING %	WEIGHTED AVERAGE INTEREST RATE FIXED %	FLOATING INTEREST RATE $000	FIXED INTEREST RATE REPRICING LESS THAN 3 MONTHS $000	FIXED INTEREST RATE REPRICING 3 MONTHS TO 1 YEAR $000	FIXED INTEREST RATE REPRICING OVER 1 TO 5 YEARS $000	FIXED INTEREST RATE REPRICING MORE THAN 5 YEARS $000	NON INTEREST BEARING $000	TOTAL $000
Financial Assets									
Cash and liquid assets	2.79	3.40	55,182	593,209	5,009	50,211	-	(14,727)	688,884
Loans and other receivables	8.07	8.32	2,557,680	48,957	134,146	771,839	125,955	22,291	3,660,868
Other	-	-	-	-	-	-	-	2,963	2,963
			2,612,862	642,166	139,155	822,050	125,955	10,527	4,352,715
Weighted average interest rates			5.17%	3.88%	8.46%	7.73%	9.29%		
Financial Liabilities									
Deposits – Retail	3.14	4.56	826,954	1,740,879	980,241	119,189	7,678	60	3,675,001
Deposits – Wholesale	-	3.92	-	24,830	53,041	-	-	-	77,871
Accounts payable	-	-	-	-	-	-	-	19,097	19,097
Notes payable	4.41	-	94,821	-	-	-	-	-	94,821
Subordinated debt	4.51	-	120,000	-	-	-	-	-	120,000
Derivative financial instruments	3.19	6.43	(471,934)	21,400	97,965	276,961	75,608	-	-
			569,841	1,787,109	1,131,247	396,150	83,286	19,157	3,986,790
Weighted average interest rates			3.95%	4.35%	4.73%	5.83%	5.82%		

28. RISK MANAGEMENT (cont.)

Interest rate risk is managed by the Bank in accordance with the Bank's Board approved Treasury Policy Statement. The Bank's exposure to interest rate risk is monitored and managed using gap and simulation modelling techniques. The objective is to protect and enhance the earnings performance of the Bank by minimising the fluctuations in net interest income that may occur over time as a result of changes in interest rates.

Managing interest rate risk may involve specific actions to vary the physical term or structure of the various portfolios, or the use of derivative financial instruments, including swaps, futures and options. The use of derivatives is governed by the Treasury Policy Statement and the derivatives can only be entered into for the purpose of hedging. The interest rate risk is assessed before entering into hedge transactions, which must be authorised by the appropriate level of seniority within the Bank. The effectiveness of hedges is assessed by the Treasury department (based on economic considerations rather than the IFRS hedge accounting regulations).

The following table demonstrates the sensitivity to a potential change in interest rates, with all other variables held constant, of the Bank's income statement.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at 30 June 2010, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets, including the effect of any associated hedges, and swaps designated as cash flow hedges, at 30 June 2010 for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset or swap. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

INCREASE/ DECREASE IN BASIS POINTS	SENSITIVITY OF NET PROFIT AFTER TAX 2010 $000	SENSITIVITY OF EQUITY 2010 $000	SENSITIVITY OF NET PROFIT AFTER TAX 2009 $000	SENSITIVITY OF EQUITY 2009 $000
+100	4,536	2,282	1,970	2,848
-100	(4,536)	(2,282)	(1,970)	(2,848)

28. RISK MANAGEMENT (cont.)

28.4 FAIR VALUE RISK

The Bank uses various methods in estimating the fair value of a financial instrument. The methods compromise:

Level 1 – the fair value is calculated using quoted prices in active markets.

Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the table below.

	YEAR ENDED 30 JUNE 2010				YEAR ENDED 30 JUNE 2009			
	QUOTED MARKET PRICE (LEVEL 1) $000	VALUATION TECHNIQUE - MARKET OBSERVABLE INPUTS (LEVEL 2) $000	VALUATION TECHNIQUE - NON MARKET OBSERVABLE INPUTS (LEVEL 3) $000	TOTAL $000	QUOTED MARKET PRICE (LEVEL 1) $000	VALUATION TECHNIQUE - MARKET OBSERVABLE INPUTS (LEVEL 2) $000	VALUATION TECHNIQUE - NON MARKET OBSERVABLE INPUTS (LEVEL 3) $000	TOTAL $000
Financial Assets								
Derivative financial instruments	-	426	-	426	-	813	-	813
Available for sale investments	-	135,152	-	135,152	-	134,722	-	134,722
	-	135,578	-	135,578	-	135,535	-	135,535
Financial Liabilities								
Derivative financial instruments	-	11,914	-	11,914	-	20,761	-	20,761
	-	11,914	-	11,914	-	20,761	-	20,761

28. RISK MANAGEMENT (cont.)

Quoted market price represents the fair value determined based on quoted prices on active markets as at the reporting date without any deduction for transaction costs.

For financial instruments not quoted in active markets, the Bank uses valuation techniques such as present value techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

Financial instruments that use valuation techniques with only observable market inputs or unobservable inputs that are not significant to the overall valuation include interest rate swaps not traded on a recognised exchange.

Transfer between categories

There were no transfers between Level 1 and Level 2 during the year.

28.5 OPERATIONAL RISK

Operational risk is the risk of direct or indirect losses resulting from inadequate or failed internal processes, people, and systems or from external events.

The Audit Committee and Risk Committee are responsible for oversight of the policies and processes involved in minimising operational risk. The Audit Committee draws upon other committees, and support and control structures within the Bank to ensure the effectiveness of these policies.

The responsibility for managing operational risk resides with each business unit within the Bank, consistent with the Bank's operational risk policy. The Bank's Risk Management Department utilises appropriate monitoring and reporting capabilities to ensure operational risk is effectively managed. The management of operational risk on a day to day basis is assisted by the function performed by the 'Risk Advocates' across the Bank. The Bank's internal audit function also provides an independent review of the management of components of operational risk.

29. CAPITAL ADEQUACY

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Australian Prudential Regulation Authority (APRA) guidelines require capital to be allocated against certain risks. Banks must maintain a ratio of qualifying capital (comprising Tier 1 and Tier 2 capital), to risk weighted assets, and off-balance sheet exposures determined on a risk-weighted basis of which at least half must be Tier 1 capital. In order to maintain the minimum required amount of capital, the Bank will call on capital from its two shareholders.

In accordance with APRA requirements, capital adequacy calculations for the year ended 30 June 2010 are made under Basel II.

Risk-weighted capital ratios	2010 %	2009 %
Tier 1	7.89	7.86
Tier 2	3.97	3.52
Total capital ratio	11.86	11.38

Qualifying capital	2010 $000	2009 $000
Tier 1		
Paid-up ordinary shares	321,638	321,638
Reserves	13,417	4,688
Retained earnings	10,262	8,640
Deductions from Tier 1 capital	(28,982)	(21,207)
Total Tier 1 capital	316,335	313,759
Total Tier 2 capital	159,109	140,575
Total qualifying capital	475,444	454,334

Tier 1 capital compromises share capital and retained earnings including current year profit less net deferred tax assets, debt raising costs and capitalised costs. Tier 2 capital compromises subordinated debt and the general reserve for credit losses.

	2010 $000	2009 $000
29. CAPITAL ADEQUACY (cont.)		
Risk-weighted assets		
Total on-balance sheet assets	3,678,363	3,686,338
Total off-balance sheet exposure	52,138	41,890
Operational risk	279,908	263,411
Total risk-weighted assets	4,010,409	3,991,639

30. SUBSEQUENT EVENTS

No matters or circumstances have arisen since the end of the financial year that significantly affected or may significantly affect the operations of the Bank, the results of those operations, or the state of affairs of the Bank in subsequent financial years.

31. AUDITOR'S REMUNERATION

	2010 $	2009 $
Amounts received, or due and receivable by Ernst & Young (Australia) for:		
- an external audit or review of the financial report of the entity	207,500	203,500
- other services in relation to the entity		
- tax compliance	23,670	7,500
- assurance related	-	2,500
- special audits required by regulators	31,700	31,000
- other	10,800	9,403
TOTAL	273,670	253,903

DIRECTORS DECLARATION

In accordance with a resolution of the directors of Rural Bank Limited, we state that:

In the opinion of the directors:

(a) the financial statements and notes of the Company are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1; and

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

B H Walters

Bev Walters
Chairman

P.G. Hutchinson

Paul Hutchinson
Managing Director

Signed in Adelaide this 25th of August 2010

ERNST & YOUNG

Ernst & Young Building
121 King William Street
Adelaide SA 5000 Australia
GPO Box 1271 Adelaide SA 5001

Tel: +61 8 8417 1600
Fax: +61 8 8417 1775
www.ey.com/au

Report on the Financial Report

We have audited the accompanying financial report of Rural Bank Limited, which comprises the balance sheet as at 30 June 2010, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have met the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Ernst & Young Building
121 King William Street
Adelaide SA 5000 Australia
GPO Box 1271 Adelaide SA 5001

Tel: +61 8 8417 1600
Fax: +61 8 8417 1775
www.ey.com/au

Auditor's Opinion

In our opinion:

1. the financial report of Rural Bank Limited is in accordance with the Corporations Act 2001, including:
   (i) giving a true and fair view of the financial position of Rural Bank Limited at 30 June 2010 and of its performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Ernst & Young

T M Dring
Partner
Adelaide

25 August 2010

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CORPORATE DIRECTORY

DIRECTORS
Beverley H Walters, Chairman
Paul G Hutchinson, Chief Executive Officer
Robyn Clubb
James T Hazel
Michael J Hirst
Robert N Johanson
Ian G MacDonald
Sam J McClure
Samuel M Moore
Maxwell G Ormsby
John P Patton
Ross E Pinney

REGISTERED OFFICE
27 Currie Street, Adelaide SA 5000
Phone: (08) 8425 6080

EXTERNAL AUDITORS
Ernst & Young

SECRETARY & SHARE REGISTRAR
S P W Laidlaw

INTERNAL AUDITORS
KPMG

EXECUTIVES
Chief Executive Officer – Paul Hutchinson
Chief Financial Officer – Steven Laidlaw
General Manager, Operations – Peter Corolis
General Manager, Risk – Taso Corolis
General Manager, Customer and Channel Management – John Marshall

SHAREHOLDERS
Bendigo and Adelaide Bank Limited
Elders Limited

Rural Bank Limited
ABN 74 083 938 416
AFSL 238042

Postal Address:
GPO Box 551
Adelaide, SA 5001

Registered Office:
Level 1, 27 Currie Street
Adelaide, SA 5000

Telephone:1300 660 115
Facsimile: 08 8121 0106
service@ruralbank.com.au
www.ruralbank.com.au