



Media Release

9 August 2010

Full Year Profit Announcement

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.

Chief Executive Officer, Paul Hutchinson said that the result reflected 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," Mr Hutchinson said.

"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 25.6% during the year," Mr Hutchinson said.

Loans under management at year end of \$3.667 billion were in line with the prior year (\$3.678 billion).

Mr Hutchinson stated that the rural debt market had declined by approximately two percent over the last 12 months which is reflected in Rural Bank's stable balance sheet position.

"The economic climate and some softening in rural land values have combined to slow rural debt growth which has flattened over the last 18 months. We expect rural debt demand to increase in the near future as the fundamentals for the agricultural sector remain strong," Mr Hutchinson said.

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

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.

"We have continued to strengthen our metropolitan presence with the establishment of branches in Adelaide and Perth during the year. Both have started well and are meeting growth targets," Mr Hutchinson said.

Mr Hutchinson stated that awareness levels of the change in brand to Rural Bank which was implemented in August 2009 continued to be very pleasing.

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

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, Mr Hutchinson stated that Elders remained an integral and very successful part of the Bank's operating model.

"The partnership between Rural Bank and Elders has been critical to the success of the Bank. The relationship between our two organisations remains very strong and we are committed to continuing our successful and longstanding partnership," Mr Hutchinson said.

Mr Hutchinson stated that 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, we have seen some softening in rural property prices, particularly in Queensland," Mr Hutchinson said.

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 we have seen a small increase in credit loss expense on the prior period, our credit policy and approach is designed to manage the business throughout the agricultural cycle," Mr Hutchinson said.

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 our position as a full financial services provider to the agricultural sector," Mr Hutchinson said.

Mr Hutchinson thanked the staff of Rural Bank and its shareholders for their ongoing commitment and support.

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