The Rock Building Society Limited Full Year Results 30 June 2010

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Company Details

Shares on issue:	25M (Ordinary fully paid)
ASX Code:	ROK
Market Capitalisation:	$63M
12 month price range:	$2.36 - $2.92
Website:	www.therock.com.au
Auditor:	BDO Audit (QLD) Pty Ltd
Register management:	

Registrar	Link Market Services
Holders	3,569
Largest holding	0.55M shares (2.21%)
Top 20 holdings	4.44M shares (17.79%)

Figures as at 30 June 2010

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Top 10 Shareholders at 30 June 2010

Name	Shares	%
Trio C Pty Ltd	550,525	2.21
Queensland Trustees & Investment Limited	429,000	1.72
UBS Wealth Management	377,279	1.51
Cawarral Properties Pty Ltd	351,028	1.41
National Nominees Limited	305,219	1.22
Garmaral Pty Ltd	300,659	1.20
Lymal Pty Ltd	291,145	1.17
Colonial Nominees Pty Ltd	284,585	1.14
Mr Kim David Cannon & Mrs Aspasia Elizabeth Cannon	230,870	0.93
Mr Leslie Charles Smith	179,000	0.72

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Overview of the Business

- Founded in 1967.
- Based in Rockhampton, Central Queensland (CQ).
- Listed on the ASX in 1992.
- Employs 125 people.
- Retail deposit base expanded beyond CQ.
- Multiple funding sources – retail and wholesale.
- Maintained 2 international investment grade credit. ratings from S&P and Moody's.
- Housing loans written throughout Australia, using branch and mortgage broker distribution channels.
- Insurance brokerage services predominantly in CQ.

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Key Market Conditions in 2009/10

- Big four banks raised capital and increased market share at the expense of other financial institutions.
- Wholesale funds/securitisation market remained effectively closed, apart from the market support provided by the AOFM.
- Competition for deposit funds was intense.

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The GFC – 2008 to 2010

During the Global Financial Crisis (GFC), The Rock faced some significant challenges:

1. Limited alternative funding options, due to its historical reliance on the securitisation of residential mortgages.
2. Reliance on depositors in Central Queensland.
3. Pressure on margin and profitability due to a single product, home mortgage, business model.
4. Increased capital requirements to support planned on balance sheet asset growth, and enhanced prudential requirements.
5. Reliance on an old, heavily customised banking system.

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Meeting the Challenge – 2008 to 2010

The Rock addressed these challenges by:

1. Attracting new retail deposits from outside CQ.
2. Utilising the Reserve Bank of Australia repurchase facility.
3. Establishing a Negotiable Certificate of Deposit (NCD) programme, which allowed The Rock to issue promissory notes with a minimum face value of $100k, paying a fixed interest rate for a specified term.
4. Expanding its mini-branch network.
5. Investing in a new core banking system.

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Significant Board Changes

- The Rock now has 5 Directors, based in Melbourne, Brisbane and Rockhampton.
- Rod Davies was appointed in March 2010.
- The new Chairman, Stephen Lonie, was appointed in April 2010.


Stephen Lonie
Non-executive
Chairman


Ross Illingworth
Non-executive
Director


Rod Davies
Non-executive
Director


Brad Beasley
Non-executive
Director


Derek Lightfoot
Managing
Director

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Highlights of 2009/10 Results

The focus in 2009/10 was on profit, not growth:

1. Margins were impacted by significantly increased warehouse funding costs from 1 July 2009.
2. The priority was to manage funding costs ahead of growth in the loan book.
3. The loan book necessarily decreased in size.
4. The success in changing the funding mix is reflected in strong 2H profit performance.
5. The Rock's strong arrears position was maintained.

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Capital Raisings in 2009/10 Achieved in Difficult Capital Market

Capital was raised to support planned on-balance sheet asset growth, and satisfy heightened prudential requirements. It also introduced 400 new shareholders to The Rock, to improve the liquidity and negotiability of ROK securities. The four capital raisings were:

- Private Placement to new shareholders (September 2009):
  - 2,671,678 shares at $2.36 per share.
- Share Purchase Plan (September 2009):
  - 2,364,029 shares at $2.36 per share.
- Dividend Reinvestment Plan (October 2009 and March 2010):
  - 154,717 shares at $2.30 per share.
  - 153,059 shares at $2.55 per share.

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Long Term Dividend Performance

- The Rock's focus is to produce stable and growing dividends that are fully franked over the long term.
- $4.5M franking credits available (18 cents per share)
- Dividend policy is based on a payout ratio of 75% of underlying after tax earnings, subject to the capital needs of the business.
- Recent dividend history:

FY	2005/06	2006/07	2007/08	2008/09	2009/10
Total dividends	24.5c	18.0c	20.5c	18.5c	15.0c
Payout ratio	96%	93%	88%	84%	75%
Shares on issue	18.0M	19.1M	19.3M	19.6M	25.0M

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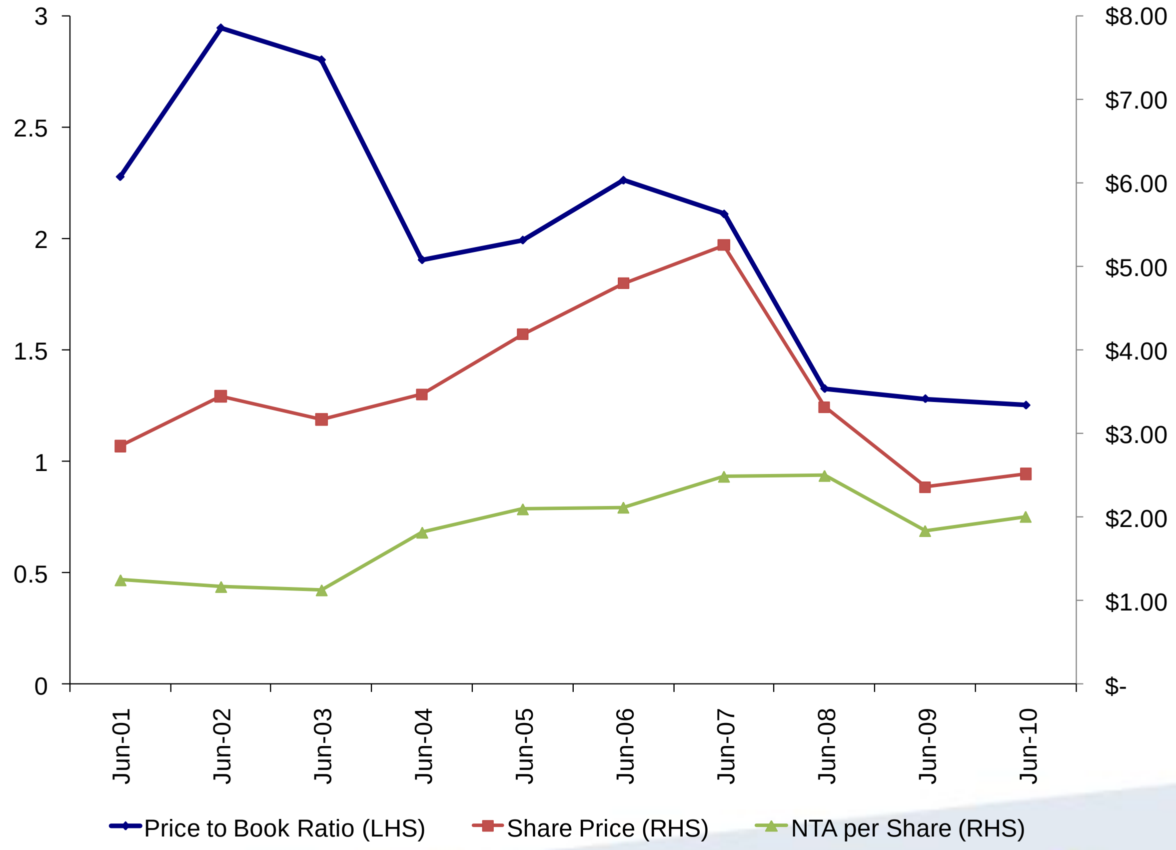
Ten Year Price to Book Ratio



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Key Results Analysis

	2009/10	2008/09	Change
Net Profit After Tax	$5.1M	$4.3M	19 %
Return on Equity (RoE)	9.4%	10.2%	(8)%
Earnings per Share (EPS)	21.4c	22.3c	(4)%
Cash EPS	27.8c	28.4c	(2) %
Full Year Dividend	15.0c (f/f)	18.5c (f/f)	(19) %
Cash RoE	12.3%	13.0%	(5)%
Cost/Income (C/I) Ratio	75.7%	76.6%	(1)%
Cash C/I Ratio	67.6%	70.1%	(4)%
Capital Adequacy	13.2%	11.2%	18 %
Liquidity Ratio	28.7%	27.5%	4 %
HQLA Ratio	17.0%	15.3%	11 %

f/f – fully franked

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Prudential Ratios

	30/06/10	30/06/09
Capital Adequacy	**13.2%**	**11.2%**
– Tier I	12.8%	10.8%
– Tier II	0.4%	0.4%
Liquidity		
– Total Liquidity	28.7%	27.5%
– High Quality Liquid Assets	17.0%	15.3%

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Financial Performance – Full Years

	2009/10 $M	2008/09 $M	Change $M	Change %
• **Net Interest Income**	19.1	17.3	1.8	10
• **Other Income**	8.1	8.8	(0.7)	(8)
• **Expenses**	20.6	20.0	0.6	3
• **NPAT**	5.1	4.4	0.	17
• **Average realised loan interest rate**	6.9%	7.4%	(0.5)%	(7)

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Financial Performance - Half Years

	2009/10		2008/09	
	H2	H1	H2	H1
	$M	$M	$M	$M
• Net Interest Income	11.1	8.0	6.9	10.4
• Other Income	3.9	4.2	5.1	3.7
• Expenses	10.6	10.0	9.1	10.9
• NPAT	3.2	1.9	2.1	2.2

Stronger H2 2009/10 financial performance reflects improved interest margin, due to changed funding mix.

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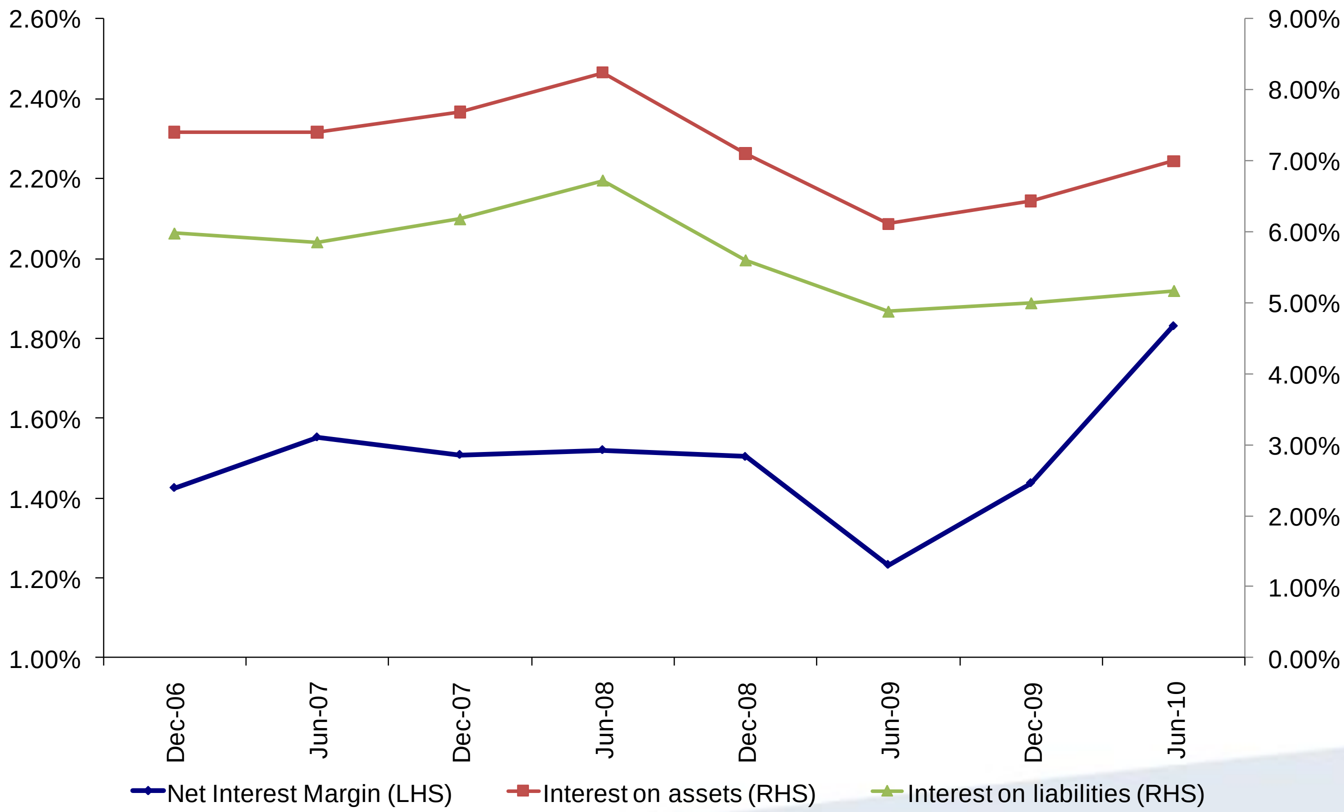
Interest margin trend



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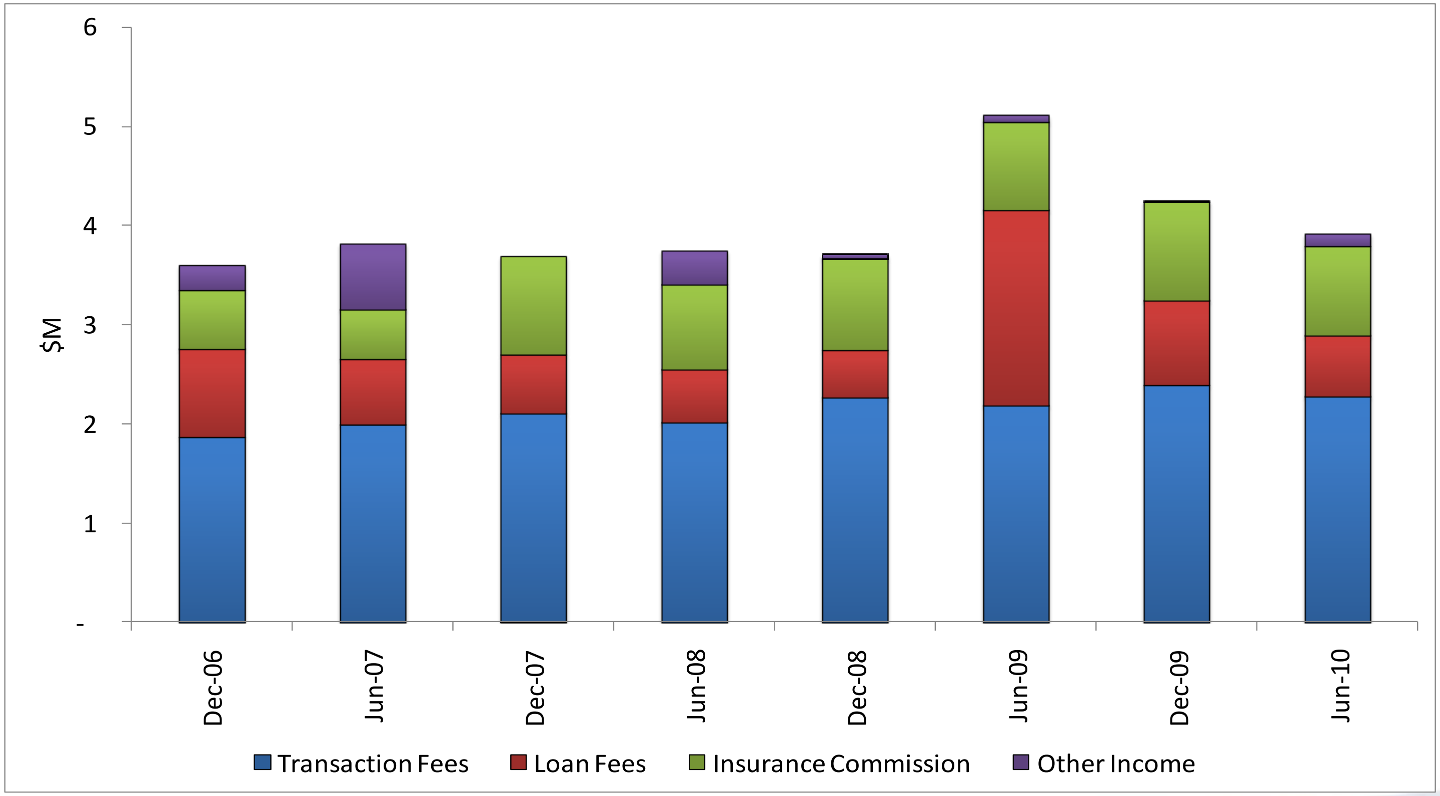
Other Income



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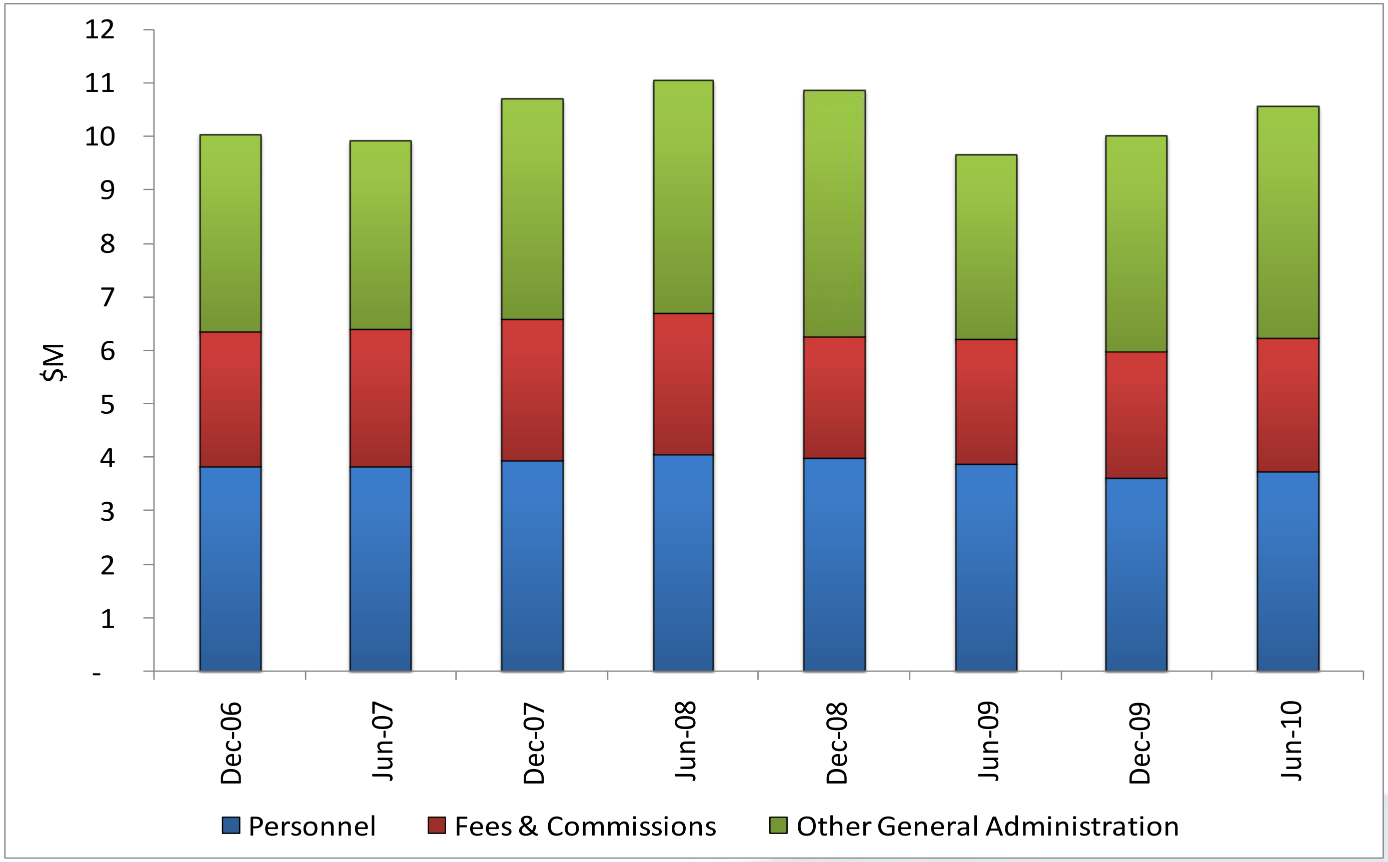
Operating Expenses



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Net Profit After Tax

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Changing Funding Mix

Traditional Sources:

- Securitisation warehouse - $350M facility with $30M spare capacity.
- Retail deposits - mainly in Central Queensland.

New Sources:

- Retail deposits outside Central Queensland – 1,600 new accounts opened since 1 January 2009, attracting $100M in new funds, at an average cost of 5.3%.
- NCD Program - $90M issued since February 2010, at an average cost of 5.4%.

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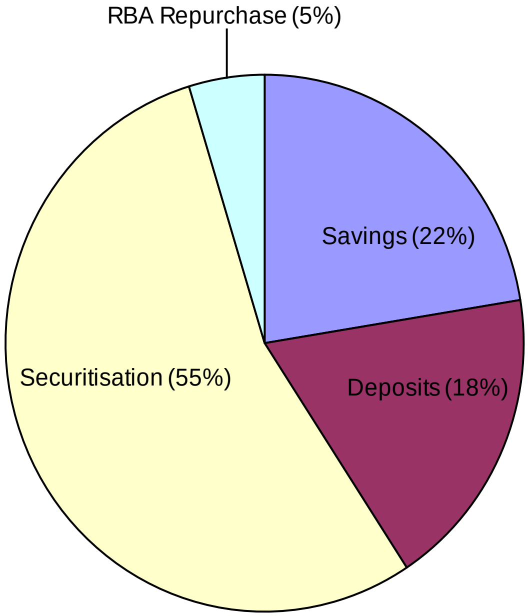
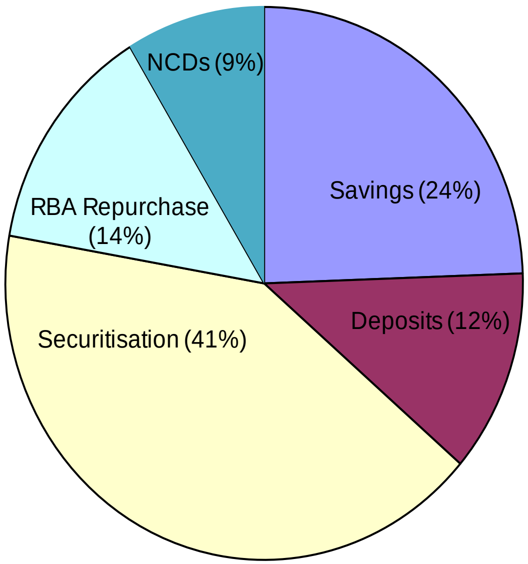
Change in Funding Mix

30 June 2009



30 June 2010



Quartz CDO Status

- $4m face value.
- Purchased - August 2005.
- Matures - December 2010.
- References a portfolio of 100 major corporates.
- Asset quality monitored closely and currently well within default limits.
- Interest payments continue to be made in full.
- Principal to be repaid in full on maturity, in December 2010.

Subsequent Event

- On 24 July 2010, a regulator made enquiries regarding certain customer complaints.
- To date, investigations have indicated that there are no significant issues of note.
- The Rock has incurred costs of approximately $250k.
- The final cost is not possible to determine at this date.

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Key Business Statistics

	At 30/06/10	At 30/06/09	Change
Loan portfolio	$938M	$1.01b	(7%)
Retail deposits	$572M	$549M	4%
Branches	9	10	(10%)
Mini-branches	29	21	38%
ATMs	32	23	39%

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New Products & Markets

- Farm Management Deposit Account.
- On-line Cash Management Account.
- Student Account.
- Enhanced loan products – including loans to Self-Managed Superannuation Funds.

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Network Expansion

- Mini-branch network expansion continues.

- New Mini-branches opened at:

North Queensland:	South Queensland:
Bayview Gardens (Cairns).	Belmont (Brisbane).
Bentley Park (Cairns).	Runcorn (Brisbane).
Trinity Beach (Cairns).	Biggenden (Wide Bay/Burnett).
Aitkenvale (Townsville).	Deagon (Brisbane).

- ATM network expanded by 38%.

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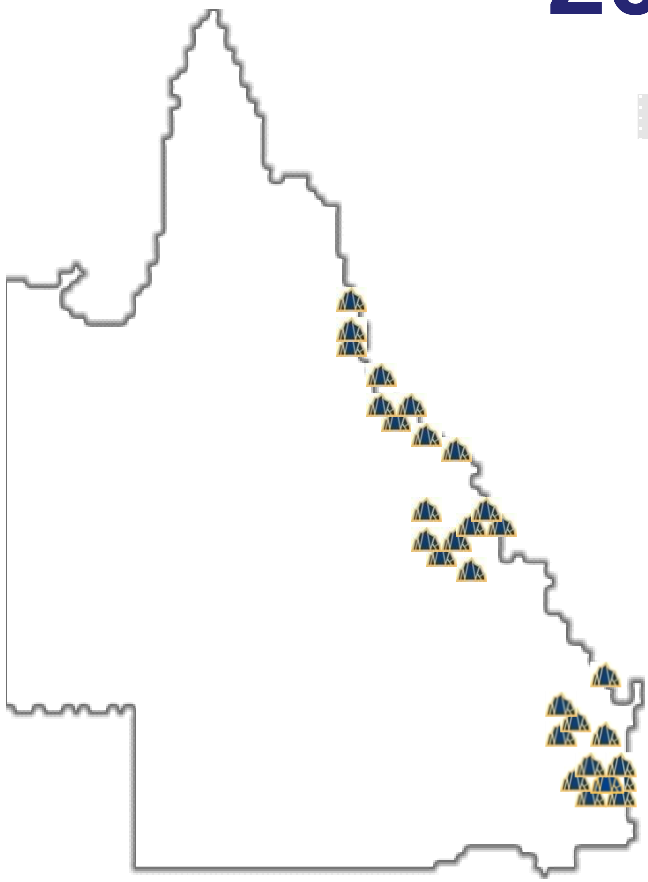
Mini-branch Expansion 2008 - 2010



South QLD	Central QLD	North QLD
Parkinson	Northside Plaza	Kirwan
Ormeau	Theodore	Hermit Park
Pelican Waters	Blackwater	Mackay
St. Lucia	Moura	Ingham
Nanango	Gracemere	Aitkenvale
Goomeri	Baralaba	Bowen
Belmont	Emu Park	Bayview Gardens
Runcorn	Mt. Morgan	Bentley Park
Victoria Point	Hervey Bay	Trinity Beach
Biggenden		
Deagon		

- - Mini-branches in 2008
- - Mini branches opened since 2008

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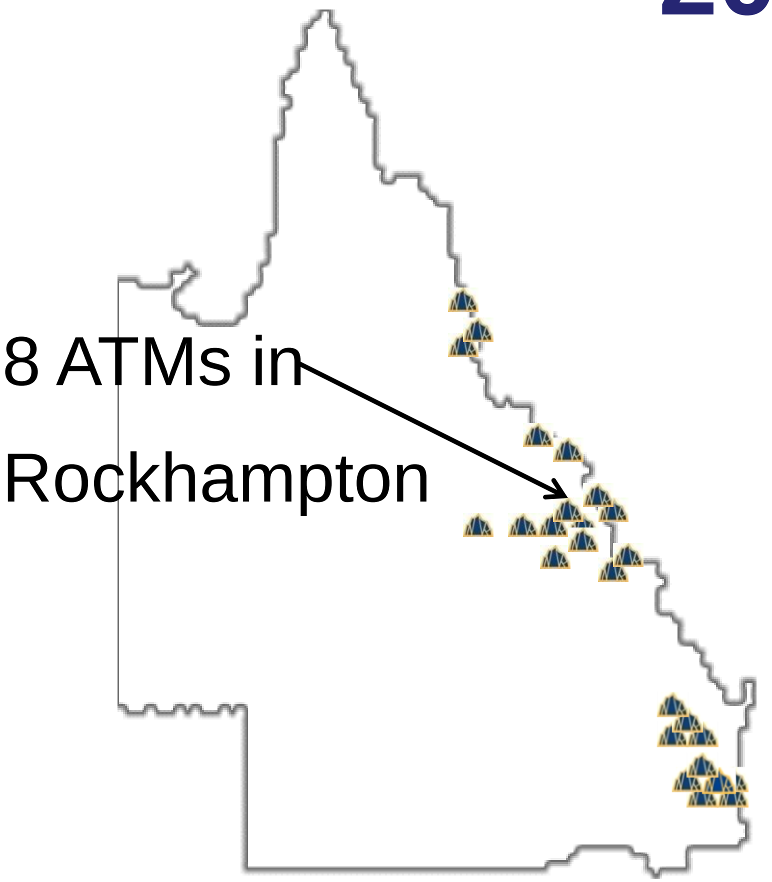
ATM Expansion 2008 - 2010



South QLD	Central QLD	North QLD
Parkinson	Northside Plaza	Trinity Beach
Ormeau	Cedar Park	Bentley Park
St. Lucia	Blackwater	Mackay
Nanango	Moura	Cairns CBD
Goomeri	Gracemere	Bowen
Deagon	Yeppoon	
Runcorn	Glenmore	
Maleny	Mt. Morgan	
Biggenden	George St	
	Head Office	
	Frenchville	
	Allenstown	
	Biloela	
	Gladstone Valley	
	Gladstone Central	
	East Street	
	Stocklands	
	Emerald	

- ATMs in 2008 (blue)
- ATMs installed since 2008 (red)

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New Core Banking System

- Implementation was completed successfully.
- There were issues during implementation, which were addressed.
- Provides efficiency, flexibility and enhanced security, and a platform for product and service enhancement.
- Has significant expansion capability, and supports multi-branding.
- Can support other ADIs on same system.

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Security & Prudence

- All loans (excluding Self Managed Super Fund loans) are individually mortgage insured with independent insurers.
- Arrears continued to be well managed – total SPIN arrears of 0.75% at 30 June 2010.
- 86% of investments are deposits and NCDs with Australian ADIs.
- 9% of investments are Australian RMBS investments rated AAA, which are RBA repurchase eligible.
- 3% of investments are Australian RMBS investments, which are rated between AAA- and AA-.
- The Australian Government Deposit Guarantee is available for retail deposits up to $1M.
- Investment Grade Ratings from both S&P and Moody's.

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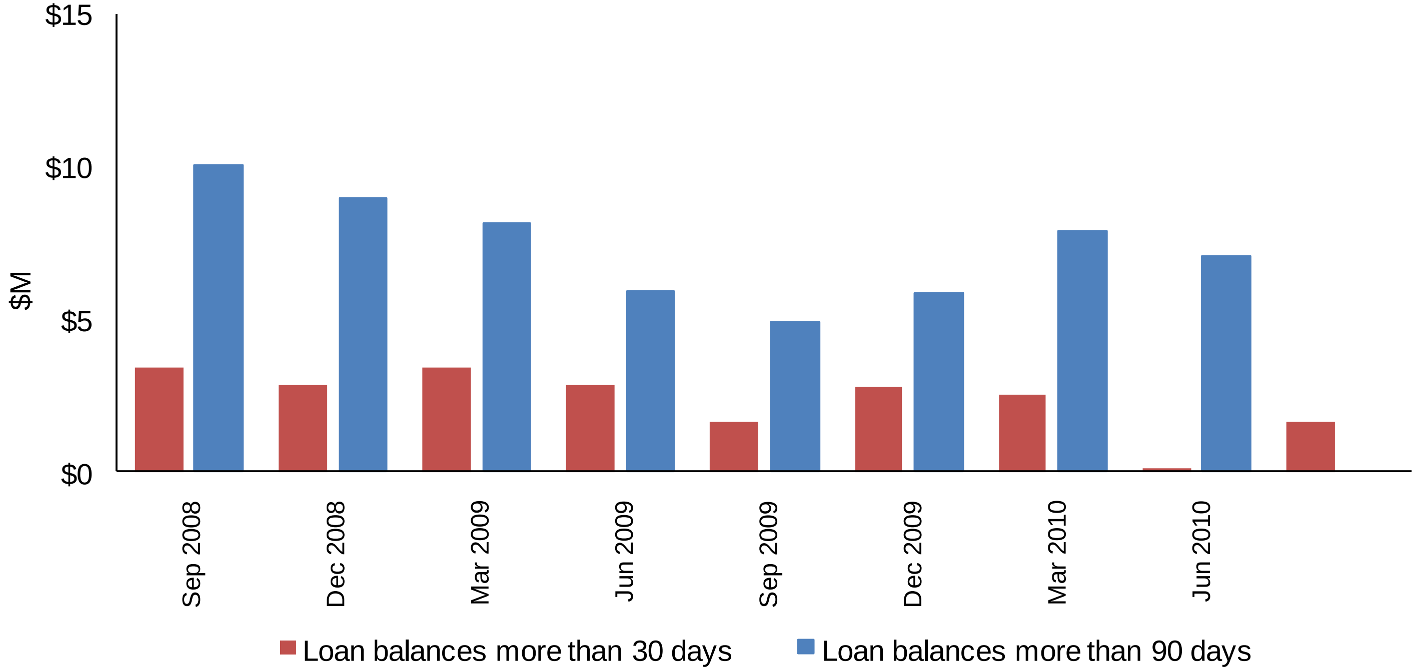
Loans in Arrears



Current Challenges

- Uncertain market conditions.
- Access to, and cost of, deposit funds.
- Economic scale of business.
- Lack of product diversification.

FY11 Financial Guidance

- Directors are confident that the increased profitability will be continued in FY11, however, financial markets and funding costs remain uncertain and volatile.
- No 2010/11 earnings guidance is being provided, given the current uncertainty in market conditions.
- Dividend payout policy to remain at 75%, subject to review of capital requirements.

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The Rock's Strategic Direction

- Drive for further efficiencies to reduce operating expenses following implementation of the new core banking system.
- Compete for retail deposits through product innovation and further development of new channels to market.
- Identify opportunities to merge with other ADIs, to pursue economies of scale and expand market penetration.

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The Rock's Future

- Sound financial position.
- Remain a strong regionally focused financial institution.
- Focus on achieving economic scale.
- Product diversification, which will come with growth.

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