2009/2010 ANNUAL REPORT

The Rock
BUILDING SOCIETY LIMITED

my rock. your rock.

your rock

IS FRIENDLY, SKILLED STAFF. THE ROCK'S STAFF REMAIN KEY TO EVERYDAY OPERATIONAL SUCCESS AND DELIVERY OF PERSONALISED CUSTOMER SERVICE.

CONTENTS

JOHN MAXWELL

While the past 12 months has been a time of solid progress for The Rock Building Society, it has also been a time of great loss, following the death of our former Chairman, John Maxwell.

John's passing on 15 April 2010, was a dark day for his family, friends, colleagues, The Rock and the wider Central Queensland community.

The impact was also felt well beyond the local region, with tributes flowing in from across the country. Industry leaders, members of the finance community and private individuals paid tribute to John's business acumen, loyalty, dedication to his family and love of life.

John served as The Rock's first General Manager, became a Director in 1975, served as Deputy Chairman from 1981 and became The Rock's Chairman in November 2007.

A practicing accountant in Rockhampton for more than 35 years, John was senior partner in the accounting firm Maxwell & Cameron Pty Ltd.

"John's influence on The Rock was immense," Managing Director Derek Lightfoot said. "He helped establish the organisation as an iconic Central Queensland business over 43 years from its inception and was instrumental in the level of success and growth that The Rock enjoys today.

"Yet John wasn't just an outstanding businessman. He was a "people person" who constantly helped and supported others and whose family and friends were paramount."

"John was endlessly positive and had a tremendous sense of humour.

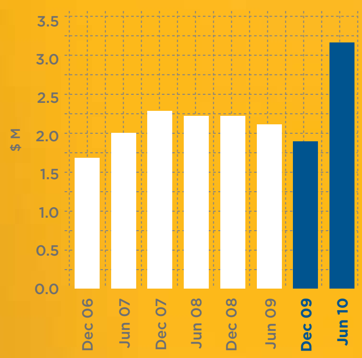
"He possessed the skills and presence that is expected of a Chairman of the Board, yet he maintained a down-to-earth outlook and never shied away from the everyday groundwork required to make the business a success.

"John was a cornerstone of The Rock. We will strive to honour his legacy," Derek said.

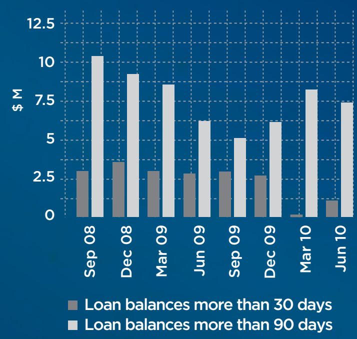
To honour the memory of John Maxwell and his contribution to the Rockhampton region, The Rock has established the John Maxwell Memorial Scholarship, in partnership with CQUniversity Australia. This scholarship recognises John's thirst for knowledge and desire to help others. The annual scholarship will be available to students entering their first year of a Bachelor of Accounting degree. The scholarship was launched on August 2010, with the first recipient to be announced in early 2011.

2009/ 2010 AT A GLANCE

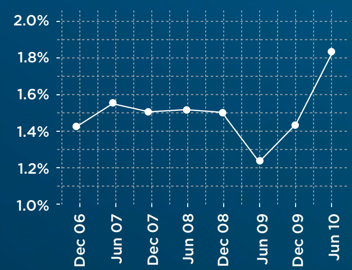
NET PROFIT AFTER TAX



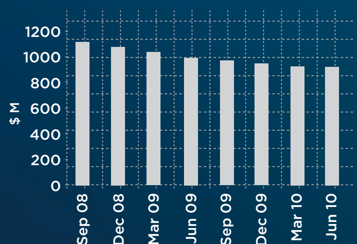
LOANS IN ARREARS



INTEREST MARGIN



LOAN BALANCES



Despite the decrease in loan balances, net profit after tax was not negatively impacted.

2009/2010

OUR ACHIEVEMENTS

17% increase in net profit after tax

Fundamental change in funding mix

Deployment of core banking system

38% increase in the mini-branch network

39% increase in the ATM network

Assigned additional investment grade ratings by Moody's Investors Service

Attained strong liquidity and capital positions

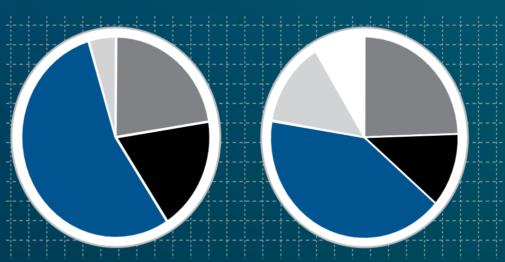
Maintained strong arrears position

2009/2010

OUR CHALLENGES

- Increased funding costs due to the Global Financial Crisis. This was managed through fundamentally altering our funding blend which, in turn, enabled The Rock to considerably increase our margin in the half year to 30 June 2010.
- Disintegration of the securitisation market. This was addressed by creating new funding opportunities through establishing a Negotiable Certificate of Deposit (NCD) program and attracting retail deposits outside Central Queensland.
- Heightened prudential requirements for capital holdings. The Rock addressed this industry-wide challenge by completing a successful Share Purchase Plan and Private Placement.

CHANGE IN FUNDING MIX



30 Jun 2009
- RBA Repurchase 5%
- Savings Accounts 22%
- Term Deposits 18%
- Securitisation 55%

30 Jun 2010
- RBA Repurchase 14%
- Negotiable Certificates of Deposit 9%
- Savings Accounts 24%
- Term Deposits 12%
- Securitisation 41%

your rock

IS FOCUSED ON SEEKING TO CAPITALISE ON ITS SOUND, COMPETITIVE POSITION.

COMPANY PROFILE

A CUSTOMER AND SHAREHOLDER FOCUSED BUSINESS

The Rock Building Society Limited (The Rock) is a customer-focused financial institution based in Central Queensland. Founded in Rockhampton in 1967, The Rock is an Approved Deposit Taking Institution (ADI) governed by the Australian Prudential Regulation Authority (APRA). The Company listed on the Australian Securities Exchange in 1992.

The Rock meets customers' financial needs through offering competitive banking products and services through a customer-focused organisation respected for its reliability and integrity. The Company provides a range of products and services, including home loans, term deposits, savings accounts and online financial products through its branch, mini-branch, ATM and mortgage broker networks, and insurance products and services through RockSure Insurance Broking Services (RockSure).

The Rock also aims to meet its shareholders' expectations by building a sustainable, progressive business. The business' strong foundation and ability to deliver shareholder value is principally built on its close relationships with customers and the communities in which it operates, along with the development of new products designed in consultation with customers.

The Rock's community links are fostered through an extensive Community Support Program, providing assistance to local charities, organisations and events, including the RSPCA, Camp Quality and Cancer Council Queensland.

VALUE-ADDED EXPANSION

A solid Central Queensland customer base, and a deep commitment to customer service, has provided a solid platform for The Rock to diversify its presence into other geographic markets, with the Company increasingly represented in both North and South-East Queensland. The Rock is now present in communities from Cairns to Ormeau and as far west as Emerald and Nanango.

At the centre of this development has been the expansion of the mini-branch network, where The Rock partners with local businesses, which have a similarly strong community standing and service ethos, to offer The Rock's banking services to local communities in a cost-effective manner. Along with nine branches and 29 mini-branches, The Rock also expanded its ATM network to 32 locations, providing convenient 24-hour access to funds in regional and suburban areas.

The expanded mini-branch network provides an excellent avenue for the continued growth of our insurance arm, RockSure, which has offered insurance broking services since 1988. RockSure is focused on offering a wide range of products, including risk insurance products such as life and trauma insurances.

The Rocks' ability to offer new products and improve its customer experience has been significantly enhanced with the introduction of a new, market-leading, core banking system, BaNCS. This system enhances The Rock's competitive advantage, enabling the Company to respond quickly to the changing needs of customers, while supporting the cost-efficient scaling of operations.

A COMMITMENT TO CORE VALUES

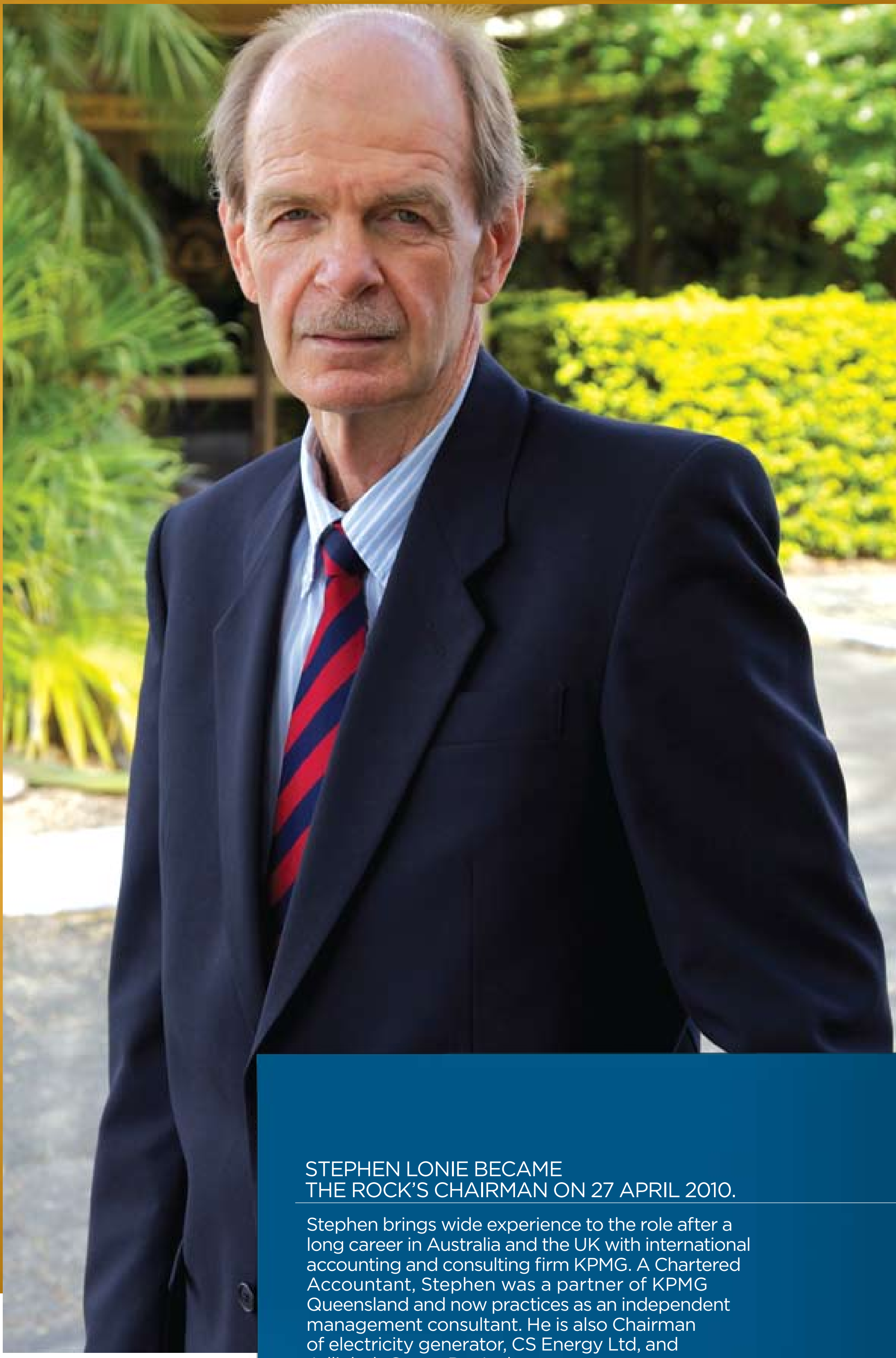
The Rock's success and commitment to customers has been built on its key corporate values of integrity, commitment, respect, achievement and teamwork.

The Rock's core values provide management with the flexibility to innovate and enhance the Company's competitive advantage. This flexibility was evidenced during the Global Financial Crisis when, despite significant market uncertainty, The Rock expanded its networks and product suite, deployed the new core banking system, and significantly diversified its funding sources.

The Rock's values are reflected in its staff. The business recognises that its people and teamwork are integral to its success, and seeks to support staff's career aspirations by creating a work environment conducive to job satisfaction and performance. The business directly employs 135 people and, indirectly, generates another 75 jobs through its mini-branch network.

A VISION FOR THE FUTURE

The Rock is now focused on seeking to capitalise on its sound, competitive position by seeking further opportunities to diversify its operations, expand its geographic reach, and enhance its customer offerings.



STEPHEN LONIE BECAME THE ROCK'S CHAIRMAN ON 27 APRIL 2010.

Stephen brings wide experience to the role after a long career in Australia and the UK with international accounting and consulting firm KPMG. A Chartered Accountant, Stephen was a partner of KPMG Queensland and now practices as an independent management consultant. He is also Chairman of electricity generator, CS Energy Ltd, and Jellinbah Group Pty Ltd.

CHAIRMAN'S REPORT

Dear fellow shareholders,

INTRODUCTION

It is an honour to serve The Rock as its third Chairman, since it was listed on the Australian Securities Exchange in 1992, following in the steps of Robert South and John Maxwell, both of whom served The Rock over a long period with great distinction.

Whilst only joining The Rock in late April 2010, following the tragic loss of the former Chairman John Maxwell in a car accident, I have had the opportunity to be involved in a range of important activities, particularly:

- The review of the 2010/11 financial year business plan and budget;
- The completion of the 2009/10 financial year and the preparation of the 2009/10 annual report and financial statements; and
- Addressing the strategic direction for The Rock.

THE COMPETITIVE LANDSCAPE

Clearly, the past two years have been challenging for smaller financial institutions in Australia due to the financial market conditions that have prevailed since the advent of the Global Financial Crisis (GFC). The biggest single issue for The Rock was the demise of the wholesale securitisation market for residential home mortgage securities, upon which it was highly dependent.

The loss of this key funding source for The Rock meant that it had to pursue other sources of funding upon which to base its business and, like most other Approved Deposit Taking Institutions (ADIs) across Australia, it went seeking retail and sophisticated investor depositors.

During this same time, the Big Four Australian banks increased their capital base with major equity raisings, as well as aggressively pursuing retail and wholesale domestic deposits and expanding their respective market shares. The Rock was not alone in seeing this aggressive activity being evident across the whole market.

ACHIEVEMENTS

To its credit, The Rock was able to grow its deposit base in the second half of the 2009/10 financial year through two key initiatives:

- The development of an important relationship with a large financial planning group, which has provided access to new sources of deposits; and
- The creation of a Negotiable Certificate of Deposit (NCD) Program. NCDs are deposit securities issued at a discount to face value, which The Rock has distributed through agents with access to financial institutions across Australia.

These two initiatives enabled The Rock to increase its net interest margin, particularly in the second half of the financial year, which was a key contributing factor to a stronger second half result. The Company has also reviewed its RockSure insurance broking business, with the aim of improving service levels, and offering a wider range of insurance products, to generate a better financial performance in this financial year.

The Rock has maintained its investment grade ratings with Standard & Poor's and added additional investment grade ratings from Moody's Investors Service, so that the Company is well placed to represent its credentials to the financial markets.

The Company continues to maintain a close watch over its $4 million Quartz CDO investment, which is due to mature in December 2010. Whilst the successful repatriation of this investment remains at risk at 30 June 2010, there appears a reasonable expectation that this investment will be recovered in full in December 2010, generating $4 million in positive cash flow for the business at that date.

In addition, The Rock added to its Tier 1 capital base through a range of capital raisings, securing a total of $12 million in new equity, to meet both a prudential requirement for additional capital, as well as providing the capacity for The Rock to grow its business.

These three new sources of capital enabled The Rock to pursue new business opportunities, within a disciplined strategy to stay out of the very competitive first home owners market. The second half profit after tax of $3.2 million in a total year net profit after tax of $5.1 million, is clear evidence that this strategy delivered an improved outcome after a poor first half result. However, over the financial year, The Rock's loan book declined and it remains a challenge to reinvigorate the Company's performance in its core activity with the presentation of competitive fixed and variable interest loan products for the Company's broker distribution channel and its retail branches.

The Rock also invested $5 million in a new core banking system during the financial year, to provide the basis for a more efficient and flexible banking service. The key elements behind this investment decision were the need to address a range of escalating issues with the former system and the opportunity to engage key staff in its implementation at a time of decreased economic activity. The implementation of the Tata Consulting Services' BaNCS core banking system was completed in the year.

The Rock's expense to income ratio remains relatively high, although it stands reasonable comparison with other Australian ADIs of similar size. However, with the new BaNCS system now implemented, the Board has a clear expectation that the business will continue to improve its efficiency measures, to provide the return on this significant investment. The investment in this new system also enabled the Company to use research and development taxation allowances to reduce its effective tax rate this financial year.

Competitive products, supported by effective customer service, are also a key element in any successful ADI's operating regime and The Rock will continue to develop competitive offerings in response to consumer demand, such as its loan product for self managed superannuation funds.

The Rock has also had to respond to a regulatory inquiry in regard to the operation of certain deposit accounts late in the financial year. The Board takes any issue regarding The Rock's dealings with its customers as being of paramount importance and immediately implemented an independent investigation, to satisfy both the regulatory agency and The Rock's customers and shareholders that the issues raised by the regulatory agency have been resolved appropriately. As this process is yet to be completed to the satisfaction of the regulatory agency, it is not possible to close this matter but, to date, no issue of significance has been revealed. To date, The Rock has expended approximately $190,000 in addressing the issues raised by the regulator, the impact of which will be reflected in the first half results for the 2010/11 financial year. Until this matter is settled with the regulatory agency, no further commentary is appropriate.

The Rock is, and will remain, focused on customer service, through the products and services it offers to its customers, its client service platforms including experienced branch personnel, a growing fleet of ATMs across Queensland and more mini-branches, to enable The Rock to connect locally with its customer base across Queensland in a cost competitive manner. The new BaNCS system also affords The Rock's customers far better access to internet banking facilities, which are important to many of its customers.

The Rock also remains committed to the local communities in which it operates, both through donations to, and sponsorships of, local community activities and the direct involvement of its personnel in many worthy community causes. The Rock serves the local communities that support its operations, as it should.

FINANCIAL RESULTS

Overall, The Rock delivered a net profit after tax (NPAT) for the 2009/10 financial year of $5.1 million, in line with the Board's revised guidance, made up of a first half profit after tax of $1.9 million, followed by a much improved $3.2 million (NPAT) in the second half of the year. Whilst this improved result for the second half of the year is pleasing, the total weighted average return on equity of 9.4% was below the Board's desired risk adjusted rate of return. The Board is also conscious that The Rock's current market capitalisation approximately represents The Rock's current shareholder funds as at 30 June 2010.

The following Managing Director's Report provides you with a more detailed assessment of the 2009/10 financial year performance.

In line with its policy decision, in 2009, to pay out 75% of its net profit after tax as a dividend, the Board has declared a final dividend of nine cents per share, fully franked, which, when paid, will take the full 2009/10 dividend to 15 cents per share, fully franked. It is a credit to The Rock that it has continued to generate profits and pay dividends through its whole period as a listed company, including through the Global Financial Crisis.

The Board is also conscious of the need to focus on the efficient and productive use of its capital base, as The Rock currently has a capital adequacy ratio of 13.1%, which is in excess of the 12% required by the Board's own policy. The Rock's loan book declined in 2009/10, as The Rock chose not to compete for what it considered profitless business, but the Board is conscious of the need to offer competitive loan products in 2010/11, so that it can generate appropriate returns from its capital base.

STRATEGIC POSITION

The Board has also undertaken a strategic assessment of The Rock's position in the Australian financial services market, and has concluded that, despite its recent endeavours to improve its deposit base and enhance its Tier 1 capital, the Company needs to look at addressing three key challenges in its current business model:

- Its single focus on a residential, mortgage insured home loan product;

- Its lack of economic scale, particularly now that the Company has invested $5 million in a new core banking platform; and
- The continuing competitive landscape for deposit funds in Australia.

The Board considers that The Rock must remain focused on its current business, as well as explore other alternative options based upon its:

- Sound financial position and low risk business model;
- Strong regional franchise in central Queensland;
- Well established broker distribution network across Australia;
- Important relationships with organisations that can assist in delivering deposit funds to The Rock; and
- Core banking platform, which is scalable at minimum cost.

Initiatives to identify alternative options are already in progress and will be pursued in the coming financial year. The Board considers that The Rock particularly offers other mutual ADIs in Australia an attractive opportunity to both monatise their members' interest in their institution, as well as gain the benefits of operating efficiencies, particularly access to a more efficient banking platform that will support multi-branding channels to customers, enabling important brand and product offerings to be retained.

The Board considers that the current market conditions make it difficult to issue any forecast result for the 2010/11 financial year but it does appreciate that The Rock needs to look to deliver an improved outcome for its shareholders in the 2010/11 financial year through a continuation of the key operating initiatives detailed in this report and the pursuit of other alternative options, to enhance shareholder value.

On behalf of the Board, I would like to acknowledge the commitment of The Rock's management and staff through this challenging period, thank them for their considerable efforts, and look forward to their continued focus on customer service as the defining difference in doing business with The Rock.

JOHN MAXWELL

It was also a sad year for The Rock with the loss of my predecessor, John Maxwell, in April 2010. John was clearly a well respected and very popular man in the Rockhampton region and served The Rock in a range of roles over many years with great commitment and distinction. We trust that his legacy will live on in The Rock's culture as well as in the young people at the University of Central Queensland who will be beneficiaries of the John Maxwell Memorial Scholarship that has been established by The Rock in John's honour. Fittingly, this prize is directed to young accounting students about to begin their studies, which we trust would have met with John's approval.

The loss of John Maxwell was also traumatic for my colleagues on the Board and I would like to acknowledge their efforts and dedication, particularly through that difficult time in April 2010. They have all contributed significantly to the numerous issues that The Rock has addressed in the past year, including making me feel most welcome in difficult circumstances.

OTHER BOARD OF DIRECTORS CHANGES

Long serving Director John Wedderburn also left the Board this year and it is appropriate that his commitment and sound counsel is also acknowledged. Director Rod Davies joined the Board on 1 March 2010 and has already made a strong and valuable contribution to the Board's deliberations, bringing a wealth of banking experience to bear to complement the qualities of the other Board members.

CONCLUSION

To The Rock's shareholders, let me assure you that the Board is focused on enhancing shareholder value, and will pursue a number of initiatives, to both improve the performance of the current business, as well as explore other opportunities that may address the strategic challenges that The Rock must address in the 2010/11 financial year and beyond.

Stephen Lonie

Chairman
Board of Directors

your rock

IS NOW IN A STRONG POSITION TO GROW THE BUSINESS AS A REAL ALTERNATIVE TO THE MAJOR BANKS IN REGIONAL LOCATIONS.

MANAGING DIRECTOR'S REPORT

ACHIEVEMENTS

The Rock achieved the following major outcomes during the financial year:

- A 17% increase in net profit after tax (NPAT) to $5.1 million;
- A fundamental change in the funding base, to provide a sustainable advantage through funding flexibility, including the establishment of a Negotiable Certificate of Deposit (NCD) program;
- Deployment of a new core banking system;
- A 38% increase in the mini-branch network;
- A 39% increase in the ATM network;
- Additional investment grade ratings with Moody's Investors Service;
- Retention of investment grade ratings with Standard & Poor's;
- Low staff turnover of 3%;
- An extended product suite, with new lending and deposit products;
- Improved liquidity and capital positions; and
- Maintenance of a strong arrears position.

With the effects of the Global Financial Crisis (GFC) still apparent, the priority for 2009/10 was improving profitability, evidenced by a 17% increase in net profit after tax (NPAT) to $5.1 million.

NPAT for the six months to 31 December 2009 was $1.9 million, followed by a NPAT of $3.2 million for the second half of the financial year.

The increase in net profit was driven by an improved net interest margin, which was apparent in the second half, as The Rock's initiatives to diversify funding sources and reduce funding costs began to take effect.

Net interest margin for the first half of the year was $8 million and increased to $11.1 million in the final six months to 30 June 2010. Although non-interest income reduced by $0.7 million, prudent management of operational expenses contained any increase and contributed to the improved net profit result.

The fundamental changes to The Rock's funding mix, and resulting positive financial performance, were partly realised by attracting significant retail deposits from beyond Central Queensland, through the expanded mini-branch network and online cash management account. Offered in partnership with select, metropolitan-based financial planning and investment groups, this online cash management product has attracted over $100 million in new retail deposits since January 2009 and has led to a significant and necessary improvement in the business this financial year.

Further flexibility in funding was achieved through establishing an Exchange Settlement Account with the Reserve Bank of Australia (RBA), which enabled The Rock to take advantage of its repurchase facility. The Rock also implemented an NCD program, which raised a further $90 million in deposit funds between February and June 2010.

The Rock's new funding strategy was supported by the assignment of additional investment grade ratings. Moody's Investors Service assigned Baa3/Prime-3/Stable ratings to The Rock's deposits. The Rock also retained its Standard and Poor's BBB-/A-3/Stable investment grade ratings, which were assigned in November 2008.

The Rock's current financial strength is reflected in its balance sheet. During the year, the business raised approximately $12 million in additional share capital through a Share Purchase Plan, a Dividend Reinvestment Plan and Private Placement. These capital raisings issued five million ordinary shares at $2.36 per share and introduced approximately 400 new shareholders to the register.

The Rock's already strong liquidity position also improved during the year, which allowed the Company to be more selective in the extremely competitive deposit gathering and lending market environments.

EXPANDED NETWORKS

The Rock also significantly expanded its geographic presence throughout Queensland, with a 38% increase in the mini-branch network and a 39% increase in its ATM fleet.

Eight new mini-branches were opened in partnership with North and South-East Queensland business people in Cairns, Townsville, Biggenden and across suburban Brisbane. Nine additional ATMs were also installed.

This expanded network provides a stronger, regional presence and delivered convenient banking. This strategy has enabled The Rock to attract deposits efficiently, while increasing the distribution network for complementary products and services, including insurance broking services through RockSure.

The Rock remains focused on ensuring that it generates the best possible value from these new locations, and will continue to explore further expansion opportunities.

CORE BANKING UPGRADE

A key platform for The Rock's future growth is its new core banking solution, provided by Tata Consulting Services (TCS). The new BaNCS system was implemented during the year. The Rock took the opportunity to undertake this project during the GFC, to enable the business to take advantage of spare capacity afforded by reduced lending volumes and by being able to involve some of its most experienced people in the successful, cost-effective implementation of the system.

The new core banking system delivers multiple benefits, including the ability to offer an expanded product range, improved security, lower maintenance costs, streamlining of systems and processes, greater flexibility, increased speed to market for new products and services, and the ability to support multiple product and service brands. This new technology provides The Rock with a valuable competitive edge in the quest for new and improved customer-focused products, branded either by The Rock or by other providers.

This core banking system is state-of-the art, particularly for an organisation of The Rock's size, and The Rock will no longer face IT capacity constraints, which would have hindered the Company's ability to continue to grow efficiently and cost-effectively. The implementation of the new system was successful due to the hard work and dedication of our own staff and the software provider, TCS.

The innovation inherent in the new core banking system has enabled The Rock to claim a tax benefit under the Research and Development provisions of section 73B of the ITAA 1936 (Income Tax Assessment Act 1936). A financial benefit of approximately $380,000 is reflected as a reduction in income tax in the financial statements for the year to 30 June 2010. The majority of this benefit was included in arriving at the after tax profit for the six months to 31 December 2009.

OPERATIONAL COSTS

The Rock has maintained its position as an efficient cost-effective business for its size.

A reduction in the cost to income ratio to 75.9% was achieved, despite the considerable investment in IT systems, people and the ongoing expansion of its mini-branch and ATM networks.

The Rock has compared its operational expenses with similar sized institutions and considers that the annual cost base of $20.6 million compares favourably with the average annual cost base of at least $30 million for other financial institutions of a similar size.

However, The Rock also acknowledges that it must pursue continuous improvement in its operating efficiency, as its cost to income ratio is still relatively high in comparison to larger ADIs, which is an important reason behind the need to examine other scalable opportunities for the Company in the future.

LOOKING AHEAD

Looking ahead, financial markets will remain challenging. The lack of liquidity and intense competition for deposits also appear likely to continue. However, due to the diversification of The Rock's funding mix, the business is well positioned.

While the short-term priority was to continue to manage funding costs ahead of growth in the loan portfolio, lending activity increased considerably during the final quarter of the financial year and is expected to continue into the coming year.

Leveraging the expanding mini-branch network by extending the availability of products and services, including insurance broking, is also an immediate focus for The Rock. The business will continue to work closely with all mini-branch operators to take advantage of further business opportunities.

The Rock will also continue to develop new, customer-friendly deposit and loan products, characterised by flexibility and attractive features, taking advantage of the rapid and cost-effective development capability afforded by its new core banking system to compete for retail deposits and attract new borrowers from across Australia.

With the current challenges posed by the GFC having been addressed, The Rock is now in a strong position to grow the Company as a real alternative to the major banks in regional locations.

The Board has also resolved to pursue strategic opportunities to further address The Rock's lack of scale and deliver increasingly diversified products and services. These opportunities may include the prospect of merging with similar scale ADIs, to pursue economies of scale and expand market penetration, or the provision of complementary products and services through the acquisition, or some other combination, with other businesses.

With a clear strategic vision for the business, I look forward to leading our dedicated and enthusiastic team through the year ahead to deliver positive outcomes for all stakeholders.

I would also like to extend a sincere thanks to The Rock's staff, whose continuing hard work has been integral to this year's results.

D. Lightfoot

Derek Lightfoot
Managing Director

your rock

WILL CONTINUE TO DEVELOP NEW, CUSTOMER-FRIENDLY DEPOSIT AND LOAN PRODUCTS, TAKING ADVANTAGE OF THE RAPID AND COST-EFFECTIVE DEVELOPMENT CAPABILITY AFFORDED BY THE NEW CORE BANKING SYSTEM.

your rock

EXPANDED ITS FUNDING SOURCES. THIS ALLOWED THE COMPANY TO DRIVE DOWN FUNDING COSTS AND IMPROVE THE INTEREST MARGIN.

RESULTS AT A GLANCE	2009/10	2008/09
Net profit after tax The increase in net profit was due to an improved net interest margin, particularly in the second half of the financial year, as The Rock's initiatives to diversify its funding sources and reduce funding costs began to take effect. The net interest margin increased by $2.7m, and, although non-interest income reduced by $0.7M, prudent management of operational expenses contained the increase in costs, contributing to an increase in net profit of $0.8M.	**$5.1 million**	**$4.3 million**
Weighted average earnings per share The calculation of earnings per share for 2010 includes the issue of 5.3M shares through The Rock's Dividend Reinvestment Plan, and through a Share Purchase Plan and a Private Placement in September 2009.	**21.4 cents**	**22.3 cents**
Cost to income ratio The reduction in cost to income ratio was achieved despite a continued investment in systems, people, processes, premises and further expansion of The Rock's mini-branch and ATM networks.	**75.9%**	**76.6%**
Capital Adequacy Capital adequacy increased to 13.1% at 30 June 2010, largely as a result of the capital raisings undertaken in late 2009. The Rock raised $12.3M of Tier 1 capital through the issue of 5.3M ordinary shares.	**13.1%**	**11.2%**
HQLA Liquidity HQLA liquidity increased during the year and is well above the minimum required by APRA and The Rock's internal minimum liquidity limit. More than 86% of The Rock's investment portfolio is deposits held with Australian ADIs, and 9% is held in AAA rated RMBS that are eligible for repurchase transactions with the Reserve Bank of Australia (RBA).	**17.0%**	**15.3%**
Loan portfolio The Rock's loan portfolio reduced by $70M during the year as a further consequence of the Global Financial Crisis and a strategic decision to limit its lending, particularly to first home buyers wanting to borrow more than 95% of the value of their property.	**$938 million**	**$1,008 million**
Arrears greater than 30 days The value of loans more than 30 days in arrears increased by $1.2M during the year, however, these loans comprised only 0.7% of the loan book at 30 June 2010. Loans in arrears greater than 90 days increased by $0.1M to $1.7M, representing just 0.18% of the loan book at 30 June 2010. These figures remain amongst the lowest in the residential housing market. Virtually all mortgage loans (99.7%) continue to be 100% individually mortgage insured.	**$7.1 million**	**$5.9 million**
Deposits Retail deposits increased by $23M over the year. Whilst The Rock's term deposits decreased, this was more than compensated-for by the growth in savings accounts, and the success of the NCD programme which was launched in February 2010.	**$572 million**	**$549 million**
Dividend payout ratio The Board of The Rock has established a maximum dividend payout ratio of 75%, as being a prudent and appropriate payout level, given the continuing uncertainty in financial markets.	**75%**	**84%**

CHIEF FINANCIAL OFFICER'S REPORT

FINANCIAL RESULT

The improved profit for 2009/10 is a particularly satisfying result given the continuing distortion of financial markets, and high funding costs. The results show a year of two distinct halves. Net profit after tax (NPAT) for the first half of the year was $1.9 million, with the benefit of a reduction in the tax charge of almost $300,000 in the form of a Research and Development (R&D) Allowance, which recognised the innovation involved in the development and implementation of The Rock's new core banking system.

By contrast, profit after tax for the second half of the year was $3.2 million, due to a significant improvement in the interest margin as a result of reduced funding costs. Again, the profit result benefited from an R&D allowance, however, to a smaller extent, the tax benefit for the second half of the year being $80,000.

FUNDING

The Rock's strategy of expanding its funding sources allowed it to drive down funding costs and improve the interest margin. The Rock's cash management account increased in popularity, and the Negotiable Certificate of Deposit (NCD) program, launched in February 2010, attracted approximately $90 million by 30 June 2010. The Rock also continued to take advantage of funding available through repurchase transactions with the Reserve Bank of Australia (RBA).

CAPITAL MANAGEMENT

The Rock raised $12.3 million in ordinary share capital in late 2009, through a Share Purchase Plan and Private Placement. The Rock's Dividend Reinvestment Plan also applied to the dividend for the half year to December 2009. The effective closure of the securitisation market required the Company to fund loans from its balance sheet, and, consequently, The Rock required increased capital to support this on-balance sheet growth.

The Rock now has a Capital Adequacy Ratio of 13.1%, and, as a consequence, the Board has suspended the Dividend Reinvestment Plan for the final dividend for 2009/10. The Board has established a maximum dividend payout ratio of 75% of after tax earnings for the 2009/10 financial year, compared to a dividend payout ratio of 84% for the year to 30 June 2009. This approach is considered prudent in times of continuing uncertainty in financial markets, and has, together with the increased capital base, reduced The Rock's dividends per share, despite the uplift in net profit.

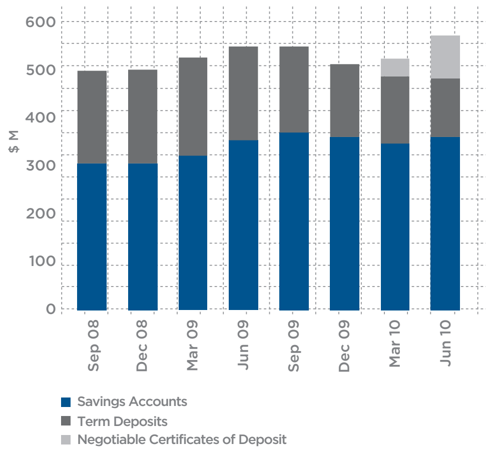
LIQUIDITY AND INVESTMENT

The Rock continued to increase its liquidity during the year. In an effort to improve profitability and to take advantage of this excess liquidity, The Rock has diversified its investment practices to include Australian Residential Mortgage Backed Securities (RMBS). The risk adjusted returns available from these investments make them an attractive option at this time. Many of these instruments are being sold at significant discounts in the secondary market, whilst still providing a high level of protection against credit risk through high levels of subordination, low loan-to-value ratios, and lender's mortgage insurance on the underlying asset pools. Liquidity risk is managed by The Rock investing in short-dated RMBS, with the majority of The Rock's RMBS investments being eligible for repurchase transactions with the RBA.

COST MANAGEMENT

Cost management remained a key focus for The Rock's Board and management throughout 2009/10. There are a number of scale disadvantages for small, listed Approved Deposit Taking Institutions (ADIs), however, despite continuing investment in its mini-branch network and ATM fleet, the increase in operational costs was restricted to 5%, and the Cost to Income Ratio reduced from 76.6% to 75.9%.

ON-BALANCE SHEET FUNDING



your rock

EXPANDED ITS MINI-BRANCH AND ATM NETWORK TO REACH MORE CUSTOMERS WITH MORE PRODUCTS, IN A DIVERSE RANGE OF GEOGRAPHIC LOCATIONS.

In May 2010, The Rock delivered a major boost to the banking convenience of Biggenden residents, installing the town's first 24-hour ATM.

"The Rock gave Biggenden its first ever 24-hour ATM, and it's had a tremendous impact on our community," said Carol Williams, who owns and operates Biggenden Newsagency and Travel, and The Rock's Biggenden mini-branch, with her husband, Ian.

"People often fail to realise how important, yet unusual, it can be for country communities like ours to have 24-hour access to their own money.

"We don't know how the town got by before The Rock put in the new service, especially on weekends," Carol said.

The Biggenden mini-branch, which gives locals access to a full range of savings and loans products, forms part of The Rock's mini-branch network, which grew significantly during the year.

OUR BUSINESS

OPERATIONS

During the year, The Rock continued its strong focus on improving operational efficiency, while maintaining a cost-efficient base.

Personalised customer service to its 40,000 deposit customers and 8,000 loan customers, has helped clearly differentiate The Rock from its competitors, through employing well-trained, attentive and pleasant staff throughout the organisation. Unlike other businesses, which have adopted computerised telephone management systems or outsourced call centre operations to offshore locations, The Rock's Customer Care Centre is manned by staff who answer an average of 300 calls per day, ensuring that The Rock's customers have a central, easily accessible point of contact using a 1800 telephone number. Importantly, customers can also access their local branch or mini-branch directly, while mortgage brokers are provided with their own 1300 hotline number and centralised help desk service.

In May 2010, The Rock embarked on a project to enhance customer experience and deliver future growth opportunities through upgrading its internal and external websites and implementing a Content Management System (CMS). This online upgrade will enhance The Rock's customer service experience, while also increasing the capacity of this important business channel to deliver future growth opportunities.

In determining the future face of our public online channel, The Rock engaged both existing and prospective customers, whose feedback, together with feedback gathered internally, will form the basis of our new website to be deployed in 2010/11.

RETAIL BANKING AND ATMS

The Rock's retail banking operations underwent significant expansion through the year, with the opening of eight new mini-branches. The Company's retail network comprised nine Central Queensland branches and 29 mini-branches as at 30 June, 2010. These are located statewide, from Cairns in the north to Ormeau in the south.

The Rock's ATM network, which provides the convenience of 24-hour access to funds, has expanded by 39% in the past year, with 32 ATMs in locations stretching from Cairns in the north, to suburban Brisbane in the south and west to the Central Highlands and Wide Bay/Burnett regions. The Rock's expansion into Biggenden, north-west of Brisbane, resulted in a community milestone with The Rock's ATM being the town's first 24-hour banking facility.

The mini-branch and ATM network expansion enables The Rock to reach more customers with more products, in a diverse range of geographic locations.

The rollout of these retail banking and ATM facilities, together with the introduction of an expanded range of products, has improved The Rock's standing as a competitive alternative to the major banks, particularly in regional locales typically underserviced by larger institutions.

DEPOSITS AND SAVINGS ACCOUNTS

Despite intense competition for retail deposit funds, The Rock's deposit levels increased by four per cent last year, to $572 million. This positive result was largely realised through expanding the product suite and developing new offerings in direct response to customer feedback and input.

New products implemented during the year included the Children's and Teen Accounts, designed to offer increasingly sophisticated banking options to young customers as they mature, and the Seniors' Platinum Account, which was developed as a companion product to The Rock's existing Seniors' Account.

Understanding and attending to customer needs drives product development, with customer groups often directly engaged through this process. This strategy was utilised in structuring the two new youth accounts to ensure their features would be both appealing and practical.

LOAN PORTFOLIO

During the first half of the financial year, The Rock's short-term priority was to continue to manage funding costs ahead of growth in the loan portfolio. As a result, the loan book decreased by seven per cent, to $938 million as at 30 June, 2010. Having built suitable levels of liquidity and re-focused on the market, settlement levels increased significantly in the final quarter of 2009/10, to $46.9M for the period. As at the end of the financial year, settlement levels were at their highest level for the past two years and were recovering toward pre-Global Financial Crisis (GFC) levels.

The quality of The Rock's loan portfolio remains extremely strong, with no mortgagee in possession loans and loan arrears over 30 days of 0.75% of total loans as at 30 June 2010, which compares well with industry benchmarks.

The Rock has received direct acknowledgement from its mortgage insurers of the strength of its loan verification procedures, credit policy and practices. All loans are currently mortgage insured, except for loans for residential property purchases through self-managed superannuation funds, which are subject to lending limits of 65%. The average loan to value ratio of The Rock's entire mortgage portfolio was approximately 68% as at 30 June 2010.

The business made a strategic decision in 2009/10 not to actively pursue the first home owners market due to their high loan-to-value ratios and concerns regarding the potential impact of rising interest rates.

Nevertheless, The Rock's loan portfolio is geographically diverse. The distribution of loans originated during 2009/10 was 58% in Queensland, 21.5% in NSW, and 16.5% in Victoria, with the remaining four per cent being shared between SA, WA and NT.

More than 80% of loans were sourced through mortgage brokers, while the remaining 20% were originated through The Rock's branch and mini-branch channels.

New lending products introduced during the year included a Self-Managed Super Fund (SMSF) Housing Loan. This new product caters for individuals who are in the growth stage of their investment life and want to hold property in their superannuation portfolio.

The Rock's loan products earned industry recognition during the year, placing well in a number of categories in the Building Societies and Credit Unions section of Your Mortgage Magazine's Mortgage of the Year Awards. The Rock collected Gold Medals for Best 3 Year Fixed Loan – The Rock Star Fixed Rate Loan 3 yr, Best Low Doc – Lo Doc Loan Fixed 5 year, and a Bronze Medal for Best Line of Credit – The RockStar Line of Credit >$250k.

ROCKSURE INSURANCE BROKERS

The Rock's insurance brokerage business, RockSure Insurance Brokers, continued to grow and now has 11,000 customers benefiting from its service of sourcing the best deal on the best insurance products for their needs.

RockSure is now pursuing growth, supported by a tripling in staff who have regular, direct customer contact.

To drive future growth, RockSure has also broadened its brokerage offerings to include life, income protection and trauma insurance. The brokerage also teamed with Allianz to offer a Compulsory Third Party (CTP) bonus fuel card to existing and prospective customers switching to Allianz CTP through RockSure.

CORE BANKING PROJECT

During the year, The Rock successfully deployed its new BaNCS core banking solution across its head office, branch, mini-branch and ATM networks. The new system provides multiple benefits, including greater security, improved flexibility and control over product development, greater flexibility for expansion, shorter time to market for new products and improved workflow efficiencies. The new core banking solution provides industry-standard reliability on a platform comprising intel-compatible servers, Linux operating system and storage area networks in a virtualised environment, that will cost significantly less than traditional infrastructure to maintain.

The core banking solution provides The Rock with an excellent platform for future growth, through enabling the efficient upscaling of the business and by supporting multi-branding. The Rock can now expand to four times its current size without incurring further software licensing costs. The new system also positions The Rock to support other Approved Deposit Taking Institutions (ADIs) seeking to improve, replace or upgrade their systems.

your rock

SHARES A COMMON COMMUNITY FOCUS WITH LOCAL BUSINESSES.

Rockhampton's Scottvale Park Squash Centre has been part of the Central Queensland sporting scene for decades, producing many of Australia's squash champions.

"Scottvale Park Squash has always been more than just a sporting facility," said Sandra Rowcliffe *(pictured)*, who owns the Centre with husband, Michael. "It's a community hub where groups of all ages have been socialising for decades."

Sandra said the common community focus they share with RockSure is a key reason why they are customers of the brokerage.

"RockSure are locally owned and run, and have been a part of the Rocky community for as long as I can remember," she said. "The RockSure staff are locals, they are friendly, helpful and professional."

Sandra said RockSure made their choice of insurance broker easy. "In the early days we tried a few different insurance providers, but were always left disappointed," she said. "But now that we're with RockSure, we're finally getting the right policy at the best price."

your rock

ENGAGES EXISTING AND PROSPECTIVE CUSTOMERS TO GAIN THEIR INPUT ABOUT THE BUSINESS' PRODUCTS AND SERVICES.

When The Rock embarked on a project in May 2010 to upgrade its internal and external websites, it turned to existing and prospective customers for input.

Participants in the project's customer focus group had their say about what information they wanted online, how it should be organised and displayed.

The group not only included existing customers but non-customers from the wider community, including Capricorn Coast resident, Victoria Bradshaw *(pictured)*.

Victoria said, in her experience, it was unusual for businesses to directly involve customers in such a major project.

"I think it's a great approach. It makes perfect sense, yet not enough businesses actually take time out to ask what their customers want or need," she said.

Marketing Executive Marilyn Steel said the exercise demonstrated the strong rapport The Rock enjoys with the community.

"It says volumes about The Rock that both customers and non-customers gave freely of their time to help us improve our business. They gave us valuable input and the completed websites will reflect that."

LEGISLATIVE CHANGES

The introduction of the National Consumer Credit Protection (NCCP) legislation required significant effort during the year, to ensure the Company was prepared for the 1 July 2010 implementation.

Having registered for a Credit Licence, completed comprehensive training and introduced significant process changes, The Rock is now able to meet its obligations under this new legislation.

OUR PARTNERSHIPS

Core to The Rock's growth during the year has been its partnerships with groups which share a similar business ethos:

FINANCIAL PLANNERS/INVESTOR GROUPS

The Rock has attracted significant retail deposits from beyond Central Queensland through its online cash management account. Offered in partnership with select, metropolitan-based financial planning and investment groups, this online product has attracted over $100 million in new retail deposits since January 2009.

NATIONAL MORTGAGE BROKERS

In February 2010, The Rock partnered with National Mortgage Brokers (nMB) to offer home buyers and their mortgage brokers a competitive alternative to the major banks. The Rock has worked alongside nMB in developing a number of home loan products, branded for nMB, for the exclusive use of their brokers and clients.

This partnership has resulted in a nationwide roll-out of these select home loan options through the nMB network and provides another avenue through which the business can grow lending volumes.

MINI-BRANCHES

The Rock's mini-branches continue to be established in partnership with trusted, local and regionally-based business people who have a commitment to service. These partnerships enable The Rock to provide local communities with convenient access to a full range of savings, investment and lending products.

In June 2010, the business furthered its investment in North Queensland, opening three mini-branches in Cairns at Trinity Beach, Bayview Gardens and Bentley Park. In the same month, The Rock also extended its commitment in the Wide Bay/Burnett region, establishing a mini-branch at Biggenden, complete with the community's first 24-hour ATM. In April 2010, the network extended to Townsville's Stockland Plaza, becoming one of only two staffed banking facilities in the city's busiest shopping centre. This network expansion also extended to the state's south-east, with new mini-branches opened in suburban Brisbane at Belmont and Runcorn in November 2009, and Deagon in June 2010.

your rock

HAS AN ORGANISATIONAL CULTURE WHICH HINGES ON A TRUE OPEN-DOOR POLICY AND DIRECT STAFF INPUT.

OUR PEOPLE

DEVELOPMENT AND TRAINING

The Rock's staff remain key to everyday operational success and delivery of personalised customer service. The Company aims to be an employer of choice, providing a workplace where employees can enjoy job satisfaction, feel valued and meet their career aspirations.

Happy and motivated staff are a key imperative in meeting The Rock's objective of being the financial institution of choice in regional Australia through providing genuine, personalised service to customers.

Accordingly, the business has a strong focus on training and development. A dedicated internal training officer provides systems and product-based training. Staff also participate in external training and networking opportunities, such as industry conferences and workshops, and local business networking groups.

In the past year, The Rock's staff development program has extended to encompass significant cross-training, to support succession planning across the business and help optimise The Rock's customer experience.

In January 2010, the Company began the process of transferring its branch and operational staff to the Banking, Finance and Insurance Award, resulting in salary and wage increases for these award-based staff.

STAFF SATISFACTION

The strength of The Rock's organisational culture, which hinges on a true open-door policy and direct staff input, is reflected in an extremely modest staff turnover rate of just three per cent for the year, while 53% of staff have been employed for at least three years. The 2009 internal staff survey revealed more than 75% of respondents were satisfied in their roles.

The Rock's management team has also remained stable over the past three years, enabling significant focus on the strategic positioning of the business.

Beyond the workplace, The Rock encourages staff to adopt the same community spirit as exhibited by the business. Staff are offered opportunities to engage directly with their communities and fellow staff members through local sponsorships and community partners. Staff can volunteer for events, including the annual Camp Quality CQ kids' camps and Horse Riding for the Disabled, by volunteering their time during work hours. Our employees also participated in fundraising for Cancer Council Queensland, RSPCA and Autism Queensland throughout the year.

The Rock's Area Manager for Branches Gayle Alloway *(pictured)* **first joined The Rock in 1990, spending two years at the Blackwater mini-branch.**

She rejoined The Rock in 1997 as a part-time Client Service Officer at the Gladstone Valley Branch, and was employed full-time the following year. Gayle has since held a number of positions with the Company.

"It doesn't matter where you start at The Rock, you always have the opportunity to move ahead and learn new skills," Gayle said.

After working as a branch Team Leader, Gayle was appointed as The Rock's first Training Officer four years ago. Gayle now oversees The Rock's nine branches in her Area Manager role.

"The branch staff are on the front line as far as our customer service goes," she said. "Our reputation is largely built on the experience customers have when interacting with our staff and I'm proud to be part of a business which is determined to make sure that's the best possible experience." ■

your rock

SUPPORTS EDUCATION THROUGH THE ROCK BUILDING SOCIETY GENERAL EXCELLENCE SCHOLARSHIP AT ROCKHAMPTON GIRLS GRAMMAR SCHOOL.

OUR COMMUNITY

COMMUNITY SUPPORT PROGRAM

The Rock is committed to active involvement in the communities in which its customers, shareholders and staff live. The Company is proud to support a significant number of key events, charities and organisations through a highly-regarded Community Support Program.

This program is focused on improving the lives and wellbeing of a wide cross-section of the community through a range of sponsorships and donations, joint fundraising initiatives, in-kind support, and corporate partnerships. In a bid to make a tangible difference, The Rock typically seeks long-term partnerships and provides ongoing support, enabling it to become part of the solution to community issues.

As the inaugural winner of The Rock Building Society General Excellence Scholarship, Rockhampton Girls Grammar School (RGGS) Year 11 student, Sarah Adamson *(pictured)*, **is a step closer to realising her academic goals.**

The scholarship, offered by The Rock and RGGS for the first time in 2010, requiring the recipient to have a strong community service focus, will meet Sarah's tuition fees during her senior studies.

After graduating from Year 12, Sarah plans to further her education at University, studying Architecture, Psychology or Medicine.

"Winning The Rock scholarship gave me a great sense of achievement and self pride. When my family and I were told that I was the winner of the scholarship, we were ecstatic," Sarah said.

Sarah is currently studying English, Maths B, Accounting, Information Technology Systems, Art and Home Economics. Her favourite subjects are Maths and Art. ■

During 2009/10, The Rock spent more than $114,000 on its strategic sponsorships, including The Rock Yeppoon Surfing Festival, the Rockhampton Jockey Club winter racing carnival, Rockhampton Horseriding for the Disabled, the Sporting Wheelies and Disabled Association CQ wheelchair basketball league, Gladstone Harbour Festival and school academic awards. Another $35,000 was directed to community partnerships, including RSCPA Central Queensland and Cancer Council Queensland's new Central Queensland Cancer Support Centre, where The Rock is the major sponsor of its multi-purpose Education Centre.

The Company also provided public relations assistance to charities and community groups, including Camp Quality and in-kind support to an array of small, local groups ranging from sporting clubs to schools.

During 2009/10, the Community Program was extended to sponsor the inaugural Rock Building Society Cancer Council Queensland Cancer Champions Awards. These awards were designed to acknowledge individuals, groups and businesses across the Rockhampton region which work in the fight against cancer, but whose contribution goes largely unrecognised.

AWARDS

During the year, The Rock attracted several awards recognising the staff's hard work in key areas such as customer service and community involvement.

The Rock's commitment to the community was recognised when The Rock was awarded the CQUniversity Australia Community Contribution of the Year Award at the 2009 Rockhampton Regional Development and Ergon Energy Business Excellence Awards.

The Awards recognise organisations which practise good corporate citizenship and demonstrate environmental and social responsibility in the communities in which they operate. The Company was also a finalist in the Stanwell Major Business of the Year and AusIndustry Innovative Business of the Year categories.

Customers again nominated The Rock for the Morning Bulletin Best in the Business Awards in the finance and banking category. The awards are determined solely by customer votes and recognise businesses in the Rockhampton area which excel at customer service.

your rock

SUPPORTS YOUTH THROUGH SCHOOL ACADEMIC AWARDS AND SPORTING TEAM SPONSORSHIPS.

Imparting confidence and team building skills are two of the key benefits of The Rock's ongoing sponsorship of the award-winning Glenmore State High School Glenmore Dragons Cheerleaders. The squad has 18 members, taken from Years 8 to 12.

"Cheerleading teaches the participants team building skills and enables them to work with students they normally wouldn't interact with," squad coach Ashley Fergus said. "It also gives them great confidence."

The Rock has sponsored the squad for the past two years, with the Company's support enabling the team to purchase the uniforms that give the group a professional edge.

Their professional appearance, together with their enthusiasm and hard work, has earned the squad multiple accolades.

In September 2009, the Dragons earned multiple placings at the World Cup Cheer and Dance National Titles in Brisbane including a first place in the Cheer section. The Dragons also performed strongly at the Rockhampton Regional Titles in May 2010. ■

your rock

SUPPORTS THE FIGHT AGAINST CANCER. THE ROCK EDUCATION CENTRE HAS ENABLED CANCER COUNCIL QUEENSLAND TO DRAMATICALLY INCREASE THE NUMBER OF SUPPORT PROGRAMS CONDUCTED IN THE ROCKHAMPTON AREA.

The Rock continued its strong support of Cancer Council Queensland (CCQ) in 2009/10, positively impacting the lives of Central Queensland cancer sufferers, survivors and their families.

The Rock is the major sponsor of The Rock Building Society Education Centre, which is a centerpiece of the new Central Queensland Cancer Support Centre, officially opened in September 2009. In addition to donating an initial $150,000 to the project, The Rock donated a further $6,500 during the year, with the funds being raised by Rock staff and customers through the "Clancy the Cancer Bear" campaign, the sale of Rock merchandise at community events, and staff fundraising efforts.

Cancer Council Queensland Regional Manager (Central Queensland), Victoria Bradshaw, said The Rock Education Centre has enabled CCQ to dramatically increase the number of support programs being conducted for cancer patients, survivors, their families, and others touched by cancer.

A total of 47 support program events were held at the Centre in the nine months to July 2010, including regular 'Look Good, Feel Better' workshops and Breast Cancer and Cancer Support Volunteers program meetings. CCQ branch meetings, awareness and fundraising activities are also held at the Centre.

"We've also had 12 non-profit organisations and seven government departments use the Centre since last September, with major events including the CCQ volunteer conference, the Camp Quality 2010 Kids Camp launch, Australia's Biggest Morning Tea, and the Pink Ribbon High Tea fundraiser," Victoria said. ■

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1 DEREK LIGHTFOOT
MANAGING DIRECTOR

2 LEN SANDERS
INFORMATION TECHNOLOGY EXECUTIVE

3 WARREN BELZ
CORPORATE SERVICES EXECUTIVE

4 DUNCAN C MARTIN
CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY

5 VICKI OLIVER
HUMAN RESOURCES EXECUTIVE

6 DALE GROUNDS
OPERATIONS EXECUTIVE

7 LEIGH ZIMMERLIE
RETAIL BANKING EXECUTIVE

8 MARILYN STEEL
MARKETING EXECUTIVE

9 WARREN DARNILL
LENDING EXECUTIVE

10 JOHN HANBY
CORPORATE DEVELOPMENT EXECUTIVE

MANAGEMENT TEAM

TEAM PROFILES

DEREK LIGHTFOOT
MANAGING DIRECTOR

Derek Lightfoot joined The Rock in February 2005 as Chief Financial Officer. In June 2006, he was appointed to Chief Executive Officer and then Managing Director in November 2007. During his career, he spent 10 years with KPMG in Brisbane and London, specialising in the banking and finance industry. Eight years were also spent in senior management roles with a regional financial institution. Prior to joining The Rock, Derek was with the Brisbane City Council as the Executive Manager Customer Service. He holds a Bachelor of Commerce, is a Fellow of the Institute of Chartered Accountants in Australia, a Fellow of the Financial Services Institute of Australasia and a Graduate Member of the Australian Institute of Company Directors. Derek is also a member of the National Committee of the Australian Securitisation Forum.

DUNCAN C MARTIN
CHIEF FINANCIAL OFFICER
AND COMPANY SECRETARY

Duncan Martin joined The Rock in October 2006 with extensive experience in the finance industry. Over a period of 18 years, he held senior positions with KPMG in the UK and Brisbane, including eight years with KPMG's specialist Building Society group in the UK and four years as head of KPMG's Information Risk Management practice in Brisbane. In addition, Duncan was Chief Operating Officer for the UK body governing UK mortgage brokers' compliance with the Mortgage Code. He also spent three years with the Brisbane City Council. Duncan holds a Bachelor of Science and a Master of Business Administration, and is a qualified Chartered Accountant, Certified Internal Auditor and Certified Information Systems Auditor.

WARREN BELZ
CORPORATE SERVICES EXECUTIVE

Born and educated in Rockhampton, Warren Belz joined The Rock in 1999, holding senior management positions in marketing, insurance and IT prior to his current appointment in 2006. Prior to The Rock, he spent 30 years in the local insurance industry with 12 years as District Manager, QBE Insurance. Warren is a Senior Associate of the Australian Institute of Insurance and Finance and holds a Diploma in Financial Services.

WARREN DARNILL
LENDING EXECUTIVE

Warren Darnill has 30 years experience in the finance industry. He has worked for several financial institutions and held many roles within branches and operations. Warren has 17 years experience working with the mortgage broker market, including his role as State Manager in NSW with Australian Finance Group Ltd.

DALE GROUNDS
OPERATIONS EXECUTIVE

Dale Grounds has worked in the finance industry for over 26 years. He has experience in managing a wide range of back and front office areas with a range of organisations. Dale joined The Rock in 2006 after five years as Operations Manager within the internal treasury area of a large not-for-profit organisation. His previous roles have included Branch Manager, Manager Banking Operations, Manager Loan Processing and Business Analyst for a regional financial institution. He holds a BA (Econ), a Master of Business Administration and two post-graduate diplomas in Business and Financial Administration.

JOHN HANBY
CORPORATE DEVELOPMENT EXECUTIVE

John Hanby joined The Rock in mid-2008 to develop new strategic partnerships and to build funding alternatives beyond the existing deposit base. In late 2009, he was charged with the growing The Rock's insurance brokerage, RockSure, and more recently, was assigned with developing and further expanding The Rock's branch and mini-branch network.

Previous to joining The Rock, John diverse career included designing and driving large-scale, organisational-wide business development and change projects in the finance sector, managing and growing divisions of financial institutions and national manufacturing and service companies, as well as co-owning two successful start-up businesses and a bank agency.

Earlier in his career, John was a senior executive with a national trustee firm and a consultant in the area of industrial psychology. He holds a post–graduate Masters Degree in Social Science.

VICKI OLIVER
HUMAN RESOURCES EXECUTIVE

Vicki Oliver has been employed with The Rock since 1992, and has over 33 years' experience in the banking and finance industry. Since joining The Rock, Vicki has held a variety of positions including Branch Network Manager and Branch Supervisor. She has also worked in the finance division of an Aged Care facility and has 13 years' experience working for a community credit union prior to joining The Rock.

LEN SANDERS
INFORMATION TECHNOLOGY EXECUTIVE

Len Sanders has worked in information technology for over 30 years with all but three years in banking and finance. During this time, Len spent 10 years working for regional financial institutions, before joining The Rock in December 2006. Len has experience in all areas of IT, including operations, infrastructure, systems development, program management, strategic sourcing and vendor management.

MARILYN STEEL
MARKETING EXECUTIVE

Marilyn Steel has worked in the media and marketing industries for 20 years, spending 12 years as a journalist working across both regional and agricultural media. She made the transition to the public relations sphere through her employment with the Central Queensland Ports Authority and continued to grow her marketing, corporate and community relations experience with international financier, Rabobank, and Rio Tinto. Marilyn began her role with The Rock in May 2007. She holds a Bachelor of Arts degree.

LEIGH ZIMMERLIE
RETAIL BANKING EXECUTIVE

Leigh Zimmerlie has 21 years' experience in retail banking, have spent nine of these years with The Rock. Leigh also managed a regional bank as Manager Sales & Service. Other positions she has held with The Rock include Area Manager/ Loans Consultant and Branch Supervisor. She manages The Rock branches, mini-branches and business banking areas. Leigh is a Director of Gladstone Area Promotion and Development Limited and a member of the Communities for Children board. She is an associate of the Australian Institute of Finance.

your rock

HAS EXPANDED ITS ATM NETWORK BY 39% IN 2009/10, WITH 32 ATMS LOCATED ACROSS REGIONAL QUEENSLAND.

your rock

IS GOVERNED BY A BOARD WHICH ACKNOWLEDGES ITS ACCOUNTABILITY TO SHAREHOLDERS FOR ENSURING THAT THEIR INTERESTS ARE PROTECTED.

CORPORATE GOVERNANCE

STOCK EXCHANGE REQUIREMENTS

The Rock Building Society Limited (The Rock) shares are listed on the Australian Securities Exchange and traded under the code "ROK".

Listed securities are ordinary shares. At the date of this report, there were 24,956,880 ordinary shares on issue.

CORPORATE GOVERNANCE STATEMENT

The Board of Directors recognises that good Corporate Governance is an integral part of business and, as such, has developed a comprehensive Corporate Governance Framework. This framework has been designed to meet the requirements of the Australian Prudential Regulation Authority (APRA) Prudential Standards APS 510 – Corporate Governance and APS 520 – Fit and Proper, and the recommendations outlined in the ASX Corporate Governance Principles and Recommendations 2nd Edition, published in August 2007.

This statement addresses the recommendations outlined in the ASX Corporate Governance Principles and Recommendations and provides an overview of The Rock's Corporate Governance Framework. More detailed information regarding The Rock's Corporate Governance Policies can be found on The Rock's website: www.therock.com.au/about_us/governance.php

THE ROLES OF THE BOARD AND MANAGEMENT

The Board acknowledges its accountability to shareholders of The Rock for ensuring that their interests are protected and the confidence of investment markets is maintained, taking into account the interests of other relevant stakeholders, including customers, employees, suppliers and the community. The Board achieves this outcome by providing strategic guidance to The Rock and an effective oversight of management.

The Board Charter establishes the relationship between the Board and management and describes their roles and responsibilities. A copy of the Board Charter is available on The Rock's website: www.therock.com.au/about_us/governance.php

The Board has specifically reserved control over the following decisions:

(a) Charting the overall business strategy and direction of The Rock through the ratification of The Rock's strategic, financial and operational plans and performance of The Rock, including the approval of business proposals for capital investments such as acquisitions, joint ventures and any other material change to the organisational structure or direction of The Rock;

(b) Overseeing compliance with regulatory requirements including, but not limited to, the annual review and approval of The Rock's Risk Management and Corporate Governance Frameworks and their associated policies, management policies, controls and accountability systems;

(c) Appointing the Managing Director (or equivalent), including annual performance reviews against the Board approved position description and key performance indicators;

(d) Ratifying and approving the appointment, remuneration and, where appropriate, the removal of the Chief Financial Officer, the Company Secretary and Senior Executives, as recommended by the Managing Director, including the monitoring of Senior Executive performance and ensuring that appropriate resources are available;

(e) Planning for Board and Executive succession;

(f) Considering matters which are outside the delegated authorities given to management;

(g) Appointment of the external auditor and approval of the annual scope of the audit;

(h) Approving and monitoring of financial and other management performance, including monthly reporting of performance against budget, and the review of half-yearly and annual financial statements;

(i) Approval of the issue of any shares, options, equity instruments or other equity security of The Rock; and

(j) Determination of dividends to be paid to shareholders.

The Board has delegated to management, from time to time, responsibility for:

(a) Developing corporate strategies for consideration by the Board;

(b) Implementing the strategies and policies approved by the Board;

(c) Marketing of The Rock, including business development initiatives and the identification of new business opportunities;

(d) Maintaining effective risk management systems and keeping the Board fully informed about material risks;

(e) Developing The Rock's annual budget and managing the day-to-day operations within the budget;

(f) Human resources, including recruitment, training and development, and performance evaluation;

(g) Ensuring the appropriate systems and resources are in place to meet the needs of the business; and

(h) Developing and maintaining key external relationships, including with business partners, suppliers, shareholders, media and other industry participants.

BOARD STRUCTURE

The Board has been structured to ensure it has the comprehensive range of skills and experience including, but not limited to, legal, insurance, accounting and financial services industries required to ensure a proper understanding of, and the competence to deal with, current and emerging issues within The Rock and the financial services industry, and to exercise independent judgement, and is committed to discharging its responsibilities and duties. The names of the directors in office at the date of this report and their qualifications, experience and tenure are provided in the Directors' Report. This information can also be located on The Rock's website: www.therock.com.au/about_us/board_of_directors.php

On 1 March 2010, Mr Rod Davies was appointed to the Board and Mr John Wedderburn resigned from the Board. Mr Ross Illingworth was appointed Chairman of the Audit, Risk and Compliance Committee in Mr Wedderburn's place.

On 16 April 2010, the Board announced the untimely death, on 15 April 2010, of its Chairman Mr John Maxwell. On that date, Mr Ross Illingworth was appointed acting Chairman of the Board, and Mr Rod Davies acting Chairman of the Audit Risk & Compliance Committee.

On 27 April 2010, The Board announced the appointment of Mr Stephen Lonie as Chairman of the Board. On the same date, Mr Ross Illingworth resumed the position of Chairman of the Audit Risk & Compliance Committee.

At the time of this report, the Board is comprised of four non-executive Directors, including the Chairman together with one executive Director - the Managing Director. The Chairperson is independent and separate from the role of the Managing Director. Total Board membership, at five members, is within the range of five to nine directors as required by The Rock's constitution and specified in the Board Charter.

BOARD COMMITTEES

To assist the Board in discharging its responsibilities, it has established three standing committees comprising some or all of its members, being:

(a) An Audit, Risk and Compliance Committee;

(b) A Nomination and Remuneration Committee; and

(c) A Credit Committee.

Each Committee has a charter which can be found on The Rock's website: www.therock.com.au/about_us/governance.php

These Committees review matters on behalf of the Board and make recommendations for consideration by the Board.

The number of meetings held by the Board and Board committees, and attended by each of the Directors for the financial year ended 30 June 2010 are set out in the Directors' Report. Details of each Board member's qualifications and experience are provided in the Directors' Report.

AUDIT, RISK AND COMPLIANCE COMMITTEE

The Audit, Risk and Compliance Committee assists the Board to monitor the internal control policies and procedures designed to safeguard company assets and to verify and safeguard the integrity of The Rock's financial reporting. The Audit, Risk and Compliance Committee is responsible for recommending to the Board the appointment and, if necessary, the removal of the external auditor and for the ongoing monitoring of the auditor's performance and independence. The Committee is also responsible for assessing the performance and objectivity of the internal audit function.

The Audit, Risk and Compliance Committee comprises all non-executive members of the Board. All members can read and understand financial statements and are financially literate. Mr Ross Illingworth was appointed Chairman of the Audit, Risk and Compliance Committee following the resignation of Mr John Wedderburn. Mr Illingworth has considerable experience in the fields of audit and governance, as well as financial and accounting matters.

NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee assists the Board to ensure that the Board is comprised of individuals who are able to discharge the responsibilities of Directors and ensuring that The Rock has remuneration policies and practices which enable it to attract and retain Directors and Executives who will best contribute towards achieving positive outcomes for The Rock and its stakeholders. Mr Stephen Lonie is the Chairman of the Nomination and Remuneration Committee.

CREDIT COMMITTEE

The Credit Committee oversees, directs and reviews the management of credit risk within the loan portfolio of The Rock. Mr Brad Beasley is the Chairman of the Credit Committee.

RETIREMENT AND RE-ELECTION OF DIRECTORS

With the exception of the Managing Director, Directors must retire from office no later than the longer of the third annual general meeting or three years following their appointment or election. Retiring Directors are eligible for re-election by shareholders.

DIRECTOR INDEPENDENCE

The Board has reviewed the position and associations of each of the Directors in office at the date of this report and considers that the Board is composed of a majority of independent, non-executive Directors.

When determining a non-executive Director's independence, the Board assesses whether the Director is independent of management and free of any material business or any other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement.

The Board has determined that, with the exception of Mr Brad Beasley, all the non-executive Directors are independent. Mr Beasley is a non-executive Director and a Partner of South and Geldard Solicitors, the major provider of legal services to The Rock. Mr Beasley provides significant knowledge from his experience within the legal and property industries. Mr Beasley does not participate in discussions regarding the provision of legal services. The Board has determined that the relationship does not interfere with Mr Beasley's ability to exercise independent judgement and considers that his knowledge of the law is a skill that is necessary and desirable to have on the Board.

INDEPENDENT PROFESSIONAL ADVICE

Every Director of the Board is entitled, with prior written approval by the Chairman of the Board, to seek independent professional advice, including, but not limited to, legal, accounting and financial advice, at The Rock's expense on any matter connected with the discharge of their responsibilities. No Director availed himself of this right during the course of the year.

DIRECTOR & EXECUTIVE INDUCTION AND PERFORMANCE REVIEW

The Nomination and Remuneration Committee is responsible for monitoring the skills and experience of existing Directors and the balance between experience and new skills, which may lead to consideration of the appointment of new Directors.

The Rock has implemented a comprehensive induction program for all new Directors and Executives, designed to ensure that they are able to make an active contribution to The Rock at the earliest opportunity. Materials provided as part of the induction program include copies of The Rock's Strategic Plan, Risk Management System and Organisation Chart, descriptions of the roles of the Board and management, an overview of The Rock's financial position and operations, together with the relevant Position Description outlining the specific key performance indicators, responsibilities and duties of the inductee's role.

The former Chairman of the Board, John Maxwell, had completed a review of individual Director performance, fitness and propriety within this reporting period, in August 2009. The new Chairman, Stephen Lonie, has also completed a review of Director performance, fitness and propriety prior to the completion of these financial statements. Both these reviews were completed against key performance indicators relating to skills, experience and knowledge, as well as contribution to the Board towards achieving the goals outlined in The Rock's Strategic plan.

The Nomination and Remuneration Committee has completed reviews of the performance of the Board and Board committees during this reporting period. These reviews considered performance against key performance indicators which align with the charters for each committee and the Board.

Executives of The Rock are subject to annual performance evaluations, which have been completed for this reporting period and were weighed against the key performance indicators, responsibilities and duties outlined in individual Position Descriptions which are aligned with the objectives of The Rock's Strategic Plan.

REMUNERATION

EXECUTIVE REMUNERATION POLICY

The Rock is committed to remunerating its Executives in a manner that is market-competitive and consistent with best practice, as well as supporting the interests of shareholders. Consequently, the remuneration of Executives may be comprised of the following:

(a) Fixed salary that is determined from a review of the market and reflects the core performance requirements and expectations;

(b) A bonus, awarded at the discretion of the Board, to reward performance by the individual;

(c) Participation in employee share schemes within any thresholds requiring approval by shareholders; and

(d) Statutory superannuation.

The Rock aims to align the interests of Executives with those of shareholders. The remuneration details of Senior Executives, including both monetary and non-monetary components, are provided in the remuneration report in the Directors' Report.

NON-EXECUTIVE DIRECTOR REMUNERATION POLICY

Non-executive Directors are paid fees out of a maximum aggregate amount approved by shareholders. Non-executive Directors do not receive performance based bonuses and do not participate in equity schemes of The Rock. Non-executive Directors are entitled to statutory superannuation.

The Rock does not offer equity based remuneration to any Directors, Executives or employees.

your rock

HAS CONTINUED TO FOCUS ON CONTAINING OPERATIONAL COSTS DESPITE THE CONSIDERABLE INVESTMENT IN SYSTEMS, PEOPLE AND THE ONGOING EXPANSIONS OF ITS MINI-BRANCH AND ATM NETWORKS.

BUSINESS CONDUCT

The Rock has adopted a Code of Conduct for Directors and Executives and a Corporate Code of Conduct for all other employees, to ensure that the highest standards of honesty, integrity and ethical behaviour are maintained throughout The Rock.

The Share and Other Financial Instruments Trading Policy regulates the dealing in shares, options and other securities issued by The Rock by Directors, Executives and employees of The Rock. This policy also outlines the rules for trading in The Rock's shares and trading restrictions.

The Code of Conduct for Directors and Executives, the Corporate Code of Conduct, and the Share and Other Financial Instruments Trading Policy are available on The Rock's website: www.therock.com.au/about_us/governance.php

FITNESS AND PROPRIETY

The Rock has developed a Fit and Proper Policy that satisfies the requirements of APRA Prudential Standard APS 520 – Fit and Proper, which has been approved by the Board. This policy requires the assessment of responsible persons, as defined by the standard, on appointment and no less than annually throughout the course of their appointment, to ensure they have the appropriate skills, experience and knowledge to perform their role, and that they act with honesty and integrity.

Fit and Proper assessments have been completed for all responsible persons within this reporting period. All responsible persons were found to be fit and proper.

FINANCIAL REPORTING

The Rock prepares financial statements in accordance with the Corporations Act 2001, applicable Accounting Standards, other mandatory professional reporting requirements, and other authoritative pronouncements of the Australian Accounting Standards Board. The Board is committed to providing financial statements that present a balanced and clear assessment of The Rock's financial position and prospects.

The Managing Director and the Chief Financial Officer certify to the Board, in writing, that The Rock's Financial Statements and Reports present a true and fair view, in all material respects, of The Rock's financial condition and operational results, and are in accordance with relevant Accounting Standards.

CONTINUOUS DISCLOSURE & SHAREHOLDER COMMUNICATION

The Rock values the rights of its shareholders and seeks to facilitate shareholders in effectively exercising those rights. The Rock is committed to:

(a) Effectively communicating with shareholders through releases to the market via the ASX, The Rock's website, mailing information regularly to shareholders, and via general meetings of The Rock; and

(b) Giving shareholders ready access to balanced and understandable information about The Rock and corporate presentations.

The Rock also recognises that people other than shareholders, such as potential investors or other interested stakeholders, may have an interest in information about its operations. The Rock issues a Shareholder Bulletin half yearly to all shareholders. The Shareholder Bulletin is also published on The Rock's website: www.therock.com.au/about_us/shareholder_update.php

The Rock has established a Shareholder Communication Policy, designed to ensure compliance with ASX Listing Rule disclosure requirements. The Board has designated the

Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX, as well as communicating with the ASX. In accordance with the ASX Listing Rules, The Rock immediately notifies the ASX of information:

(a) Concerning The Rock that a reasonable person would expect to have a material effect on the price or value of The Rock's securities; and

(b) That would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of The Rock's securities.

Upon confirmation of receipt from the ASX, The Rock posts all information disclosed in accordance with this policy on its website. The Rock's Shareholder Communication policy, together with information disclosed in accordance with the policy, can be viewed on The Rock's website: www.therock.com.au/about_us/governance.php

AUDIT GOVERNANCE AND INDEPENDENCE

EXTERNAL AUDITOR APPOINTMENT AND SUPERVISION

The Board has developed and approved a Policy for the Appointment, Review and Rotation of the External Auditor, which defines the guidelines used by The Rock in the selection, rotation and review of its external auditor to ensure that The Rock is meeting the legislative requirements of APRA and the Corporations Act, as well as meeting the requirements set out in the Audit Committee Charter and Fit and Proper Policy. Copies of these are on The Rock's website: www.therock.com.au/about_us/governance.php

INDEPENDENCE DECLARATION

The Rock's External Auditor, BDO Audit (QLD) Pty Ltd, has provided the Audit, Risk and Compliance Committee with a declaration that the auditor has maintained independence in accordance with the Corporations Act 2001 amendments and the rules of the professional accounting bodies.

ATTENDANCE AT ANNUAL GENERAL MEETINGS

The Board requests that the External Auditor attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

INTERNAL AUDIT

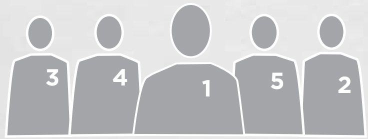
The Rock has an independent internal audit function, which reports on a monthly basis to the Audit, Risk and Compliance Committee. The objectives of the internal audit function include the evaluation of the adequacy and effectiveness of the financial and risk management framework of The Rock. The internal audit function has, at all times, unfettered access to the Board, and all of The Rock's business areas and support functions.

RISK IDENTIFICATION AND MANAGEMENT

The Rock recognises the importance of managing risk and has established systems to manage risk. The Audit, Risk and Compliance Committee is responsible for the risk management function and has established appropriate policies and procedures. These policies and procedures are periodically reviewed by the Board and by APRA as part of their regular inspections.

The Audit, Risk and Compliance Committee receives an Internal Audit Report as a standing item at each Committee meeting.

On 24 August 2010, Mr Derek G Lightfoot (Managing Director) and Mr Duncan C Martin (Chief Financial Officer) provided the Board with a written assurance, in accordance with section 295A of the Corporations Act, that the financial statements are founded on a sound system of risk management and internal compliance. Their statement also assured the Board that the risk management and internal compliance and control system is operating efficiently and effectively in all material respects.



1 STEPHEN LONIE
CHAIRMAN

2 DEREK LIGHTFOOT
MANAGING DIRECTOR

3 BRADFORD V R BEASLEY
NON-EXECUTIVE DIRECTOR

4 ROD DAVIES
NON-EXECUTIVE DIRECTOR

5 ROSS A ILLINGWORTH
NON-EXECUTIVE DIRECTOR

NOT PICTURED
JOHN W WEDDERBURN
& JOHN T MAXWELL

DIRECTORS' REPORT

The Directors' present their statutory report on the affairs of The Rock Building Society Limited ("The Rock") and its controlled entities for the year ended 30 June 2010.

The Rock is a company registered under the Corporations Act 2001.

INFORMATION ON DIRECTORS

The Directors of The Rock in office at any time during or since the end of the year are:

STEPHEN E LONIE (CHAIRMAN)

BCom MBA CA FFin FAICD FIMCA

Independent, Non-Executive Director – appointed 24 April 2010.

Mr Lonie joined the Board on 24 April 2010, and was elected Chairman on 27 April 2010. Mr Lonie is a Chartered Accountant and a former partner of the international accounting and consulting firm KPMG. He now practices as an independent management consultant. He is also currently Chairman of electricity generator CS Energy Ltd and Central Queensland mining group, Jellinbah Resources Pty Ltd. Mr Lonie is also Chairman of The Rock's Remuneration and Nomination Committee, and a member of its Audit, Risk and Compliance Committee.

JOHN T MAXWELL (FORMER CHAIRMAN)

FCPA FPS

(not pictured)

Independent, Non-Executive Director since 1975 – deceased 15 April 2010.

Mr Maxwell was the senior partner in the accounting firm Maxwell and Cameron Pty Ltd, Certified Practising Accountants until May 2006. Mr Maxwell practised as an Accountant in Rockhampton for 35 years.

BRADFORD V R BEASLEY

LL.B (Hons)

Non-Executive Director since 17 August 1999.

Mr Beasley is a partner of the Rockhampton firm of Solicitors, South and Geldard which has acted as Solicitor to The Rock for over 20 years. Mr Beasley is also Chairman of the Board of Trustees of the Rockhampton Grammar School. He is Chairman of The Rock's Credit Committee, a member of its Audit, Risk and Compliance Committee, and a member of its Remuneration and Nomination Committee.

ROSS A ILLINGWORTH

GAICD CFP BBus HR Deakin (Victoria College)

Independent, Non-Executive Director - appointed 15 January 2009.

Mr Illingworth is Chief Investment Officer and Executive Director of Carnbrea & Co Limited. He is non-executive Director of The Sir Robert Menzies Memorial Foundation Ltd and a member of its Investment Committee. He is also a non-executive Director of Arthritis Victoria and a member of its Audit and Investment Committee. He is Chairman of The Rock's Audit Risk and Compliance Committee, and a member of its Remuneration and Nomination Committee.

ROD DAVIES

FFin MAICD

Independent, Non-Executive Director – appointed 1 March 2010.

Mr Davies joined the Board in March 2010. Mr Davies held various executive management positions at Suncorp Metway Limited during more than 21 years of service. Mr Davies has extensive business experience in the banking sector. During his time at Suncorp Metway Limited, he was a Director of Suncorp Financial Planning Pty Ltd, Metway Star Limited, Graham & Company Limited, and LJ Hooker Corporate Limited. He is a member of The Rock's Audit, Risk and Compliance Committee, and Remuneration and Nomination Committee.

DEREK G LIGHTFOOT

BCom FCA FFin GAICD

Managing Director since 26 November 2007.

Mr Lightfoot joined The Rock in February 2005 as Chief Financial Officer. He was appointed Chief Executive Officer in June 2006 and Managing Director in November 2007. During his career, he spent ten years with KPMG in Brisbane and London, specialising in the banking and finance industry. He also spent eight years in senior management positions at a regional bank. Mr Lightfoot has been a member of the National Committee of the Australian Securitisation Forum since September 2008.

JOHN W WEDDERBURN

BA MCom

(not pictured)

Independent, Non-Executive Director since 2004 – resigned 1 March 2010.

Mr Wedderburn has extensive business experience, particularly in the general insurance industry, having held senior positions with AMP and QBE Insurance in Brisbane and Sydney.

COMPANY SECRETARY

DUNCAN C MARTIN BSc ACA CIA CISA MBA

Company Secretary since 6 November 2006.

Mr Martin obtained considerable experience in the banking and finance industry with KPMG in the United Kingdom and Australia, as a senior member of its United Kingdom Building Societies Centre of Excellence in Leeds, and as a senior member of its Information Risk Management division in its Brisbane office.

DIRECTORS' MEETINGS ATTENDANCE

During the financial year, the Board held a number of Directors' Meetings, of which each Director's attendance is set out in the following table:

DIRECTOR	J.T. MAXWELL	B.V.R. BEASLEY	R.A. ILLINGWORTH	R.A. DAVIES	J.W. WEDDERBURN	S.E. LONIE	D.G. LIGHTFOOT
Directors' Meetings Eligible to Attend	10	14	14	5	9	2	14
Directors' Meetings Attended	10	14	14	5	9	2	14
Audit, Risk and Compliance Committee Meetings Eligible to Attend	9	12	12	4	8	2	-
Audit, Risk and Compliance Committee Meetings Attended	9	12	12	4	8	2	-
Nomination and Remuneration Committee Meetings Eligible to Attend	3	6	6	4	2	-	-
Nomination and Remuneration Committee Meetings Attended	3	6	6	4	2	-	-
Credit Committee Meetings Eligible to Attend	-	6	-	-	-	-	6
Credit Committee Meetings Attended	-	6	-	-	-	-	5

All Non-Executive Directors are members of The Rock's Audit, Risk and Compliance Committee, which oversees the preparation of financial statements to members, the activities of both internal and external audit, and ensures compliance with Australian Prudential Regulation Authority (APRA) Prudential Standards.

Mr R A Illingworth is Chairman of the Audit, Risk and Compliance Committee. Mr J W Wedderburn was Chairman of this Committee until his resignation from the Board, effective 1 March 2010.

Mr S E Lonie is Chairman of the Nomination and Remuneration Committee. Mr J T Maxwell was Chairman of this Committee until his untimely death on 15 April 2010.

Mr B V R Beasley is Chairman of the Credit Committee.

DIRECTORS' SHAREHOLDINGS

The Directors currently hold, or have a relevant interest in ordinary shares, as follows:

DIRECTOR	ORDINARY SHARES
S E Lonie	31,348
B V R Beasley	62,752
R A Illingworth	284,585
R A Davies	10,000
D G Lightfoot	29,926

A register containing information about the Directors, including details of each Director's interests in securities issued, is open for inspection by members and any other persons at The Rock's registered office, 102 Bolsover Street, Rockhampton.

RELATED PARTY DISCLOSURES

During or since the end of the year, no Directors have received or become entitled to receive a benefit by reason of a contract made by The Rock, except Mr B V R Beasley, who is a partner in the firm of South and Geldard, Solicitors, which receives normal professional fees for legal services to the consolidated entity, including the preparation of securities for loans made to customers.

PRINCIPAL ACTIVITY

The principal activity during the financial year was the conduct of banking services, including the raising of retail deposit funds and the provision of housing finance. All housing loans, with the exception of loans made to self managed superannuation funds, are secured by registered mortgage over residential property. Loans are funded by a combination of retail deposits and wholesale funding. The Rock also provides insurance broking services. There was no significant change in principal activities during the year.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There have been no significant changes in the state of affairs of The Rock other than the raising of additional capital.

REVIEW OF OPERATIONS

PROFITABILITY

The consolidated net profit after income tax for the year ended 30 June 2010 was $5.1 million, compared to $4.3 million for the year ended 30 June 2009, representing an increase of 18%.

The Rock earned a net profit after tax of $1.9 million in the first half to 31 December 2009, followed by $3.2 million in the second six months to 30 June 2010, due to the impact of improved market conditions.

Cash profit after tax for the year ended 30 June 2010, excluding non-cash depreciation and amortisation items was $6.6 million, an increase of 20% compared with $5.5 million for the year ended 30 June 2009.

Cash profit after tax has been derived from accounting net profit after tax by the following adjustments:

	2010 $000	2009 $000
Net profit after tax	**5,075**	**4,325**
After-tax non-cash expenses:		
Depreciation of property, plant & equipment		
Buildings	43	43
Plant and equipment	617	491
Amortisation		
Leasehold improvements	69	87
Establishment costs	274	290
Computer software	449	182
Insurance book	90	96
Cash profit after tax	**6,617**	**5,514**

INCOME

Net interest income for the year ended 30 June 2010 was $19.1 million, compared to $17.3 million for the year ended 30 June 2009, representing an increase of 10%.

Other income for the year ended 30 June 2010 was $8.1 million, compared to $8.8 million for the year ended 30 June 2009, representing a decrease of 8%.

EXPENSES

The Rock's expenses for the year ended 30 June 2010 were $20.6 million, compared to $20.0 million for the year ended 30 June 2009, representing an increase of 3%. The major increase was additional depreciation and amortisation of computer hardware and software, particularly in relation to The Rock's new Core Banking platform, which was implemented during the financial year.

EFFICIENCY

The Rock's cost to income ratio for the year ended 30 June 2010 was 75.9%, compared to 76.6% for the year to 30 June 2009.

After adjustment for non-cash depreciation and amortisation items, The Rock's cash cost to income ratio for the year ended 30 June 2010 was 67.6%, compared to 70.1% for the year to 30 June 2009.

ASSET QUALITY

Mortgage insurance

The vast majority of the loans on The Rock's balance sheet (99.7%) are individually fully lender's mortgage insured, compared to 100% at the previous year end. The change is due to the decision not to mortgage insure loans provided to customers to purchase investment properties through their self managed superannuation funds, as there is no readily available insurance product for these loans. The maximum loan to valuation ratio permitted by The Rock for these superannuation fund loans is 65%.

Arrears

Arrears continue to be well managed. Loans in arrears greater than 30 days amounted to $7.1 million as at 30 June 2010, representing 0.74% of the total loan book, compared to $5.9 million as at 30 June 2009, which represented 0.59% of the loan book. The value of loans in arrears greater than 90 days at 30 June 2010 was $1.7 million, compared to $1.6 million at 30 June 2009, representing 0.18% and 0.16% of the total loan book as at those dates respectively.

LENDING APPROVALS AND ASSET MOVEMENTS

New loans advanced during the year ended 30 June 2010 totalled $155 million, compared to $108 million during the year ended 30 June 2009.

The Rock's loan book decreased by $70 million (6.9%) during the year, from $1,008 million at 30 June 2009 to $938 million at 30 June 2010.

In the same period, The Rock's investment portfolio increased by $39 million to $266 million at 30 June 2010, from $227 million at 30 June 2009. The diversity and overall profitability of The Rock's investment portfolio has been increased by the addition of investments in high quality Australian Residential Mortgage Backed Securities (RMBS). The Rock started investing in these instruments during the 2010 year, and held $25 million of these investments at 30 June 2010. The majority of these investments are eligible for repurchase transactions with the Reserve Bank of Australia (RBA) and, accordingly, contribute to The Rock's High Quality Liquid Assets (HQLA) portfolio.

Total assets, as at 30 June 2010, stood at $1,225 million, compared to $1,257 million at 30 June 2009, a decrease of 2.5%.

DEPOSIT GROWTH AND FUNDING

Total deposits, as at 30 June 2010, were $572 million, compared to $549 million at 30 June 2009, representing an increase of 4.2% over the year.

The Rock diversified its funding sources during the year by establishing a Negotiable Certificate of Deposit (NCD) programme, and increased its funding from the RBA through repurchase agreements.

The NCD programme, which was launched in February 2010, allows The Rock to issue promissory notes with a minimum face value of $100,000, which pay a fixed interest rate for a specified term. These deposits can be traded in a highly liquid secondary market, and are accepted for repurchase transactions with the RBA. The programme attracted $89 million in deposits by 30 June 2010.

CAPITAL MANAGEMENT

The Rock's Capital Adequacy ratio at 30 June 2010 was 13.1%, compared to 11.2% at 30 June 2009.

The Rock raised $12.3 million in ordinary share capital during the year, after capital raising costs, through the issue of 5.34 million shares through The Rock's Dividend Reinvestment Plan (154,717 shares at $2.30 per share and 153,059 shares at $2.55 per share), a Share Purchase Plan (2,364,029 shares at $2.36 per share), and a Private Placement to sophisticated and professional investors (2,671,678 shares at $2.36 per share). There were 24,956,880 shares on issue at 30 June 2010, compared to 19,613,397 shares on issue at 30 June 2009.

LIQUIDITY MANAGEMENT

The Rock's High quality Liquid Assets (HQLA) ratio at 30 June 2010 was 17.0%, compared to a 30 June 2009 HQLA ratio of 15.3%.

BRANCH AND ATM NETWORK EXPANSION

The Rock opened 8 new mini-branches during the year, representing a 38% increase in the mini-branch network, which reached a total of 29 at 30 June 2010. The Rock also maintained its network of 9 full service branches.

In the same period, The Rock commissioned 9 new ATMs, increasing the size of its ATM fleet by 39% to 32 machines, located throughout Queensland.

SHAREHOLDER RETURNS

Earnings per share for the year ended 30 June 2010 was 21.4 cents per share, compared to 22.3 cents per share in the year to 30 June 2009, representing a decrease of 4.0%. The weighted average number of shares on issue over the year was 23.8 million, compared to 19.4 million during the year to 30 June 2009, an increase of 22.7%.

Cash earnings per share for the year to 30 June 2010 was 27.8 cents per share, which was a reduction of 2.1%, from 28.4 cents per share for the year to 30 June 2009.

The Board of Directors has declared a fully franked final dividend for the year ended 30 June 2010 of 9 cents per share, an increase of 0.5 cents (6%) compared to the final dividend of 8.5 cents per share for the year ended 30 June 2009. This final dividend takes the full year dividend for the year ended 30 June 2010 to 15 cents per share, compared to a full year dividend of 18.5 cents per share for the year ended 30 June 2009. This payout ratio is in line with The Rock's dividend policy of distributing no more than 75% of after tax earnings. This policy was first adopted during the year ended 30 June 2009.

OPTIONS

No options over unissued shares or interests in The Rock or a controlled entity were granted during or since the end of the financial year, and there were no options outstanding at the date of this report.

DIVIDENDS

Dividends paid or declared since the end of the last financial year are as follows:

	2010 $000	2009 $000
Ordinary shares		
A final dividend for year ended 30 June 2009 of 8.5 cents (2008: 10.5 cents) per share, fully franked, was paid on 2 October 2009 (30 September 2008)	1,667	2,021
An interim dividend for year ended 30 June 2010 of 6.0 cents (2009: 10.0 cents) per share, fully franked, was paid on 31 March 2010 (6 April 2009)	1,488	1,940
A final dividend for year ended 30 June 2010 of 9.0 cents (2009: 8.5 cents) per share, fully franked, has been declared and will be paid on 30 September 2010 (2 October 2009)	2,246	1,667

PEOPLE

Mr Rod Davies was appointed to the Board on 1 March 2010. On the same date, Mr John Wedderburn resigned from the Board. As a result of the resignation of Mr Wedderburn, Mr Ross Illingworth was appointed Chairman of the Audit, Risk and Compliance Committee.

Mr John Maxwell was tragically killed in a road traffic accident on 15 April 2010. As a result, Mr Ross Illingworth became acting Chairman of The Rock, and Mr Davies was appointed acting Chairman of the Audit Risk and Compliance Committee on that date.

Mr Stephen Lonie was appointed to the Board on 24 April 2010, and was elected Chairman of The Rock on 27 April 2010. Mr Ross Illingworth resumed Chairmanship of the Audit, Risk and Compliance Committee on that date.

Remuneration Report (Audited)

PRINCIPLES OF COMPENSATION

The Rock's policy for determining the nature and amount of remuneration of key management personnel of The Rock is set out in the following report.

NON-EXECUTIVE DIRECTORS

The aggregate fees for Non-Executive Directors are determined with reference to a range of issues, including the amount of time spent by Directors on the business of The Rock, the size of The Rock, and The Rock's profitability and growth rate in comparison to industry standards. The aggregate fees for Non-Executive Directors are approved by shareholders and the individual allocation of fees is determined by the Board within this aggregate limit.

EXECUTIVE OFFICERS

The Board determines the remuneration of the Managing Director and Senior Executives. The remuneration structure for executive officers, including Executive Directors, is based on a number of factors, including length of service, particular experience of the individual concerned, as well as the individual's duties and responsibilities and is designed to promote superior performance and enhance their commitment to corporate objectives.

The Managing Director's contract is for a fixed period of five years. The contract commenced on 27 June 2006. A period of three months notice is required with termination of the Managing Director's contract.

The Rock has entered into service contracts with other executives on a continuing basis, with between one and three months notice on termination, with the exception of the Managing Director. The Rock retains the right to terminate any contract immediately, by making a payment equal to pay in lieu of the notice period. Executives are also entitled to receive, on termination of employment, their statutory entitlements of annual leave and long service leave, together with any superannuation payments and a relocation allowance.

The service contracts outline the components of compensation paid to executives but do not prescribe how compensation levels are modified from year to year. Compensation levels are reviewed each year, to consider cost of living changes, any change in the scope of the role of the executive, and the individual performance of the executive.

Executives, as part of the terms and conditions of their employment, may take a portion of their compensation in the form of non-cash benefits. Non-cash benefits typically include club memberships and motor vehicles. The Rock pays fringe benefits tax on these benefits.

Executives may also obtain loans from The Rock at commercial rates of interest and on commercial terms. These loans do not represent a benefit to the recipient. All loans are fully secured by registered first mortgage over the borrower's residence and are fully mortgage insured, with the exception of loans to borrowers to purchase properties through their superannuation funds. These loans comprised 0.3% of The Rock's loan book at 30 June 2010 (2009: 0%). No amounts have been written down or recorded as allowances, as the balances are considered fully collectable.

Other financial services provided by The Rock are available to executives at commercial rates of interest and on commercial terms.

With the exception of a $20,000 special bonus paid to The Rock's Information Technology executive, Mr Len Sanders, pursuant to the implementation of the new core banking system, no performance-based payments were made to executive officers during the year ended 30 June 2010 (2009: Nil).

No element of the remuneration of any executive officer is dependant upon a performance condition of The Rock.

CONSEQUENCES OF PERFORMANCE ON SHAREHOLDER WEALTH

To enable assessment of the consolidated entity's performance, the following table shows the post-tax earnings, earnings per share and dividends for the last 5 years for the consolidated entity, as well as the share price at the end of the respective financial years:

ITEM	2006	2007	2008	2009	2010
After-tax earnings ($000)	4,606	3,681	4,484	4,325	5,075
Earnings per share	25.5c	20.1c	23.4c	22.4c	21.4c
Dividends paid ($000)	4,329	4,059	3,629	3,961	3,155
Share price	$4.80	$5.26	$3.32	$2.36	$2.52

The following table details the key management personnel of the consolidated entity at any time during the reporting period and, unless otherwise indicated, were key management personnel for the entire period:

KEY MANAGEMENT PERSON	POSITION
Non-Executive Directors	
Mr S E Lonie	Director - effective 24 April 2010. Chairman - effective 27 April 2010.
Mr J T Maxwell	Chairman - deceased 15 April 2010.
Mr B V R Beasley	Director.
Mr R Davies	Director - effective 1 March 2010.
Mr J W Wedderburn	Director - resigned 1 March 2010.
Mr R A Illingworth	Director (Acting Chairman 16 April 2010 to 27 April 2010).
Executive Director	
Mr D G Lightfoot	Managing Director.
Executives	
Mr D C Martin	Chief Financial Officer and Company Secretary.
Mr L M Sanders	Information Technology Executive.
Mr D F Grounds	Operations Executive.
Mr W S Darnill	Lending Executive.
Mr J P Hanby	Corporate Development Executive.

REMUNERATION OF DIRECTORS AND EXECUTIVES

Details of the nature and amount of each major element of remuneration of each Director of The Rock and each of the named Executives are set out in the following tables.

REMUNERATION 2010 FINANCIAL YEAR

		SHORT TERM EMPLOYEE BENEFITS			POST EMPLOYMENT	TOTAL
	SALARY FEES & COMMISSIONS $000	CASH BONUS $000	OTHER BENEFITS $000	NON - CASH BENEFITS $000	SUPERANNUATION CONTRIBUTIONS $000	$000
Non-Executive Directors						
Mr S E Lonie [1]	20	-	-	-	2	22
Mr J T Maxwell [2]	104	-	-	-	9	113
Mr B V R Beasley	55	-	-	-	5	60
Mr R Davies [3]	18	-	-	-	2	20
Mr J W Wedderburn [4]	37	-	-	-	3	40
Mr R A Illingworth [5]	55	-	-	-	5	60
Total Non-Executive Directors	**289**	**-**	**-**	**-**	**26**	**315**
Executive Director						
Mr D G Lightfoot	325	-	-	26	44	395
Executives						
Mr D C Martin	161	-	-	-	14	175
Mr L M Sanders	113	20	-	27	12	172
Mr D F Grounds	111	-	-	19	10	140
Mr W S Darnill	124	-	-	5	11	140
Mr J P Hanby	166	-	-	5	15	186
Total Executives	**1,000**	**20**	**-**	**82**	**106**	**1,208**
Total	**1,289**	**20**	**-**	**82**	**132**	**1,523**

1 Effective 24 April 2010
2 Deceased 15 April 2010
3 Effective 1 March 2010
4 Resigned 1 March 2010
5 Acting Chair 16 April 2010 to 27 April 2010

The bonus paid to the Information Technology Executive was paid in December 2009 at the discretion of the Board of Directors, in recognition of the successful implementation of the new core banking system.

REMUNERATION 2009 FINANCIAL YEAR

	SHORT TERM EMPLOYEE BENEFITS				POST EMPLOYMENT	TOTAL
	SALARY FEES & COMMISSIONS $000	CASH BONUS $000	OTHER BENEFITS $000	NON-CASH BENEFITS $000	SUPERANNUATION CONTRIBUTIONS $000	$000
Non-Executive Directors						
Mr J T Maxwell	121	-	-	-	11	132
Mr B V R Beasley	55	-	-	-	5	60
Mr J W Wedderburn	55	-	-	-	5	60
Mr I J Johnston[1]	30	-	-	-	3	32
Mr R A Illingworth[2]	25	-	-	-	2	27
Total Non-Executive Directors	**286**	**-**	**-**	**-**	**26**	**312**
Executive Director						
Mr D G Lightfoot	271	-	2	26	100	399
Executives						
Mr D C Martin	162	3	-	1	15	181
Mr L M Sanders	111	3	-	27	10	151
Mr D F Grounds	110	3	-	15	10	138
Mr W S Darnill	119	5	-	3	12	139
Mr J P Hanby[3]	39	-	-	-	34	73
Total Executives	**812**	**14**	**2**	**72**	**181**	**1,081**
Total	**1,098**	**14**	**2**	**72**	**207**	**1,393**

1 Resigned 15 January 2009
2 Appointed 15 January 2009
3 Appointed 1 January 2009

End of Remuneration Report

INDEMNIFYING DIRECTORS AND OFFICERS OR AUDITOR

The Directors and Officers of The Rock and its controlled entities are covered against certain liabilities arising from their respective positions by a Directors' and Officers' Insurance Contract. The premium for this insurance is paid by The Rock. The Directors have not included details of the nature of the liabilities covered or the amount of premium paid, as such disclosure is prohibited under the terms of the insurance policy.

No insurance cover has been provided for the benefit of the auditors of The Rock and its controlled entities.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Subsequent to the reporting date, The Board declared a final dividend of 9 cents per fully paid ordinary share ($2,246,000) for the year ended 30 June 2010, payable on 30 September 2010. The final dividend is fully franked at 30%. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2010 and will be recognised in the subsequent financial year.

On 24 July 2010, a regulator made enquiries of The Rock regarding certain customer complaints. The regulator has subsequently requested further information and documentation. To date, investigations have indicated that there are no significant issues of note, however, although well advanced, these investigations are not yet complete. The Rock has incurred approximately $190,000 in costs in relation to its investigation, and is likely to incur further costs in the 2010/11 financial year, the final amount of which it is not possible to determine at this date.

The Directors are not aware of any other matter or circumstance which has arisen since 30 June 2010 that has significantly affected, or may significantly affect, the operations of The Rock and its controlled entities, the results of those operations, or the state of affairs of The Rock and its controlled entities.

LIKELY DEVELOPMENTS

The Rock will continue to provide financial services, including an increasing range of savings, home loan and insurance broking services to its customers through its network of branches and agencies, predominantly throughout regional Queensland, and third party mortgage brokers throughout Australia.

Looking forward, The Rock still faces a challenging market, given its size and position. In response, The Rock remains focused on improving its current business through initiatives to both increase revenues and improve efficiencies, particularly around optimisation of the new core banking system.

The Directors also consider that The Rock is well positioned, and will be a willing participant, in any potential consolidation of the industry, as:

- The Rock is in a sound financial position;
- The Rock has an established regional market franchise; and
- The Rock has a modern banking system that provides a platform for increased efficiency and the potential to capture scale economies, if opportunities to expand emerge in the following year.

Further information on likely developments in the operations of the group and the expected results of operations have not been included in these financial statements because the Directors consider that it would be likely to result in unreasonable prejudice to The Rock.

PROCEEDINGS ON BEHALF OF THE CONSOLIDATED ENTITY

No person has applied for leave of court to bring proceedings on behalf of the consolidated entity, or to intervene in any proceedings to which the consolidated entity is a party, for the purpose of taking responsibility on behalf of the consolidated entity for all or any part of those proceedings. The consolidated entity was not a party to any such proceedings during the year.

NON-AUDIT SERVICES

The Board of Directors, in accordance with advice from the Audit, Risk and Compliance Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the following services disclosed did not compromise the external auditor's independence for the following reasons:

- All non-audit services are reviewed and approved by the Audit, Risk and Compliance Committee prior to commencement, to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- The nature of the services provided do not compromise the general principles relating to auditor independence, as set out in APES 110 Code of Ethics for Professional Accountants.

The following fees for services not related to the audit of the financial statements were paid or payable to the external auditor during the year ended 30 June 2010:

Securitisation program loan audits and reporting	$17,000
Taxation Services	$33,000
AGM-related activities	$ 3,000
Other activities	$10,000

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration is set out on page 51 and forms part of the Directors' Report for the financial year ended 30 June 2010.

ENVIRONMENTAL ISSUES

The Rock's operations are not regulated by any significant environmental regulations under a law of the Commonwealth or a State or Territory.

ROUNDING

The amounts contained in the financial statements and the Directors' Report have been rounded to the nearest one thousand dollars, in accordance with ASIC Class order 98/100. The Rock is permitted to round to the nearest one thousand dollars ($000) for all amounts, except for prescribed disclosures which are shown in whole dollars.

Signed for and on behalf of the Directors, in accordance with a resolution of the Board.

Stephen Lonie

Chairman
Board of Directors

24 August 2010
Brisbane

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BDO Kendalls

The Directors
The Rock Building Society Limited
PO Box 562
ROCKHAMPTON QLD 4700

Dear Directors

DECLARATION OF INDEPENDENCE BY T J KENDALL TO THE DIRECTORS OF THE ROCK BUILDING SOCIETY LIMITED

As lead auditor of The Rock Building Society Limited for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

• the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

• any applicable code of professional conduct in relation to the audit.

This declaration is in respect of The Rock Building Society Limited and the entities it controlled during the period

Tim Kendall

T J Kendall
Director
BDO Audit (QLD) Pty Ltd

Brisbane, 24 August 2010

BDO Audit (QLD) Pty Ltd ABN 33 134 022 870 is a member of a national association of independent entities which are all members of BDO (Australia) Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit (QLD) Pty Ltd and BDO (Australia) Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation (other than for the acts or omissions of financial services licensees) in each State or Territory other than Tasmania.

your rock

DELIVERED AN INCREASED NET PROFIT AFTER TAX (NPAT) OF $5.1M. THE 17% INCREASE IN NPAT WAS DUE TO AN IMPROVED NET INTEREST MARGIN, PARTICULARLY IN THE SECOND HALF OF THE FINANCIAL YEAR.

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2010

	NOTES	CONSOLIDATED 2010 $000	CONSOLIDATED 2009 $000	SOCIETY 2010 $000	SOCIETY 2009 $000
Interest income	2	69,045	82,157	38,464	33,493
Interest expense	2	(49,967)	(64,817)	(26,206)	(22,688)
Net interest income		19,078	17,340	12,258	10,805
Fees, commission and other income	3	8,150	8,823	16,938	4,732
Net impairment losses on loans and advances	11(c)	(101)	(39)	(101)	(39)
Personnel costs	4	(7,366)	(7,875)	(7,366)	(7,875)
Occupancy expenses	4	(778)	(765)	(778)	(765)
Depreciation and amortisation expense	4	(2,201)	(1,698)	(2,201)	(1,698)
Other expenses	4	(10,157)	(9,658)	(9,630)	(10,031)
Profit / (Loss) before income tax		6,625	6,128	9,120	(4,871)
Income tax (expense) / benefit	5	(1,550)	(1,803)	(2,298)	1,489
Profit /(Loss) for the year		**5,075**	**4,325**	**6,822**	**(3,382)**
Other comprehensive income, net of income tax					
Net changes on revaluation of Land and Buildings		(747)	-	(747)	-
Net changes in cash flow hedges		7,939	(18,836)	-	-
Income tax (expense) / benefit on items of other comprehensive income	5(g)	(2,157)	5,651	224	-
Total Other Comprehensive Income for the year, net of income tax		**5,035**	**(13,185)**	**(523)**	**-**
Total Comprehensive Income for the year		**10,110**	**(8,860)**	**6,299**	**(3,382)**
Profit attributable to:					
Non-controlling interest		-	-	-	-
Controlling Interest		5,075	4,325	6,822	(3,382)
Profit /(Loss) for the year		**5,075**	**4,325**	**6,822**	**(3,382)**
Total Comprehensive attributable to:					
Non-controlling interest		-	-	-	-
Controlling Interest		10,110	(8,860)	6,299	(3,382)
Total Comprehensive Income for the year		**10,110**	**(8,860)**	**6,299**	**(3,382)**
Overall operations					
Basic earnings per share (cents per share)	6	21.4	22.3		
Diluted earnings per share (cents per share)	6	21.4	22.3		

The above statement should be read in conjunction with the attached notes

BALANCE SHEET

AS AT 30 JUNE 2010

	NOTES	CONSOLIDATED 2010 $000	CONSOLIDATED 2009 $000	SOCIETY 2010 $000	SOCIETY 2009 $000
Assets					
Cash and cash equivalents	7	56,888	40,897	30,363	12,105
Trade and other receivables	8	4,103	3,308	7,715	6,489
Financial assets available for sale	12	25,339	234	194,468	172,917
Financial assets held-to-maturity	9	183,693	186,091	183,693	186,091
Loans and advances	10	938,480	1,008,212	349,845	262,098
Derivatives	13	-	-	2,373	8,119
Property, plant and equipment	14	5,954	10,129	5,954	10,129
Other assets	15	419	290	419	290
Deferred tax assets	5(e)	1,692	4,180	1,684	4,172
Intangible assets	16	8,682	3,284	8,682	3,284
Total assets		**1,225,250**	**1,256,625**	**785,196**	**665,694**
Liabilities					
Deposits	17	572,095	548,752	572,095	548,752
Trade and other payables	18	10,440	6,294	7,570	5,360
Derivatives	13	3,320	11,346	3,320	11,346
Income tax payable	5(c)	965	1,392	952	1,307
Deferred tax liability	5(d)	1,092	1,315	1,804	3,750
Provisions	19	303	253	303	253
Borrowings	20	578,286	647,824	138,736	50,000
Total liabilities		**1,166,501**	**1,217,176**	**724,780**	**620,768**
Net assets		**58,749**	**39,449**	**60,416**	**44,926**
Equity					
Issued capital	21	34,363	22,017	34,363	22,017
Retained earnings		24,387	22,467	23,730	20,063
Reserves	22	(1)	(5,035)	2,323	2,846
Controlling interest		58,749	39,449	60,416	44,926
Non-controlling interest		-	-	-	-
Total equity		**58,749**	**39,449**	**60,416**	**44,926**

The above statement should be read in conjunction with the attached notes

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2010

	NOTES	CONSOLIDATED 2010 $000	CONSOLIDATED 2009 $000	SOCIETY 2010 $000	SOCIETY 2009 $000
Cash flows from operating activities					
Interest received - loans		57,152	74,796	18,788	27,268
New loans advanced		(155,479)	(108,293)	(225,156)	(162,531)
Principal collected from loans		225,156	266,029	59,431	140,315
Interest & bill discounts - investments		710	(2,439)	14,048	4,295
Net movement in investments		(22,330)	(103,390)	(18,775)	(103,390)
Fees and commissions received		8,330	8,652	16,334	15,013
Fees and commissions paid		(4,760)	(3,084)	(4,247)	(2,632)
Interest paid		(37,198)	(56,321)	(20,964)	(20,701)
Net movement in deposits		23,319	50,040	23,319	50,040
Proceeds from mortgages securitised		-	-	77,922	23,612
Net movement in notes issued over securitised loans		(158,274)	(150,750)	-	-
Proceeds from borrowings		88,736	50,000	88,736	50,000
Cash paid to suppliers & employees		(12,551)	(14,773)	(14,383)	(14,837)
Income tax paid	5(c)	(1,765)	(1,434)	(1,765)	(1,434)
Other income		46	112	71	86
Net cash provided by operating activities	**31(b)**	**11,092**	**9,145**	**13,359**	**5,104**
Cash flows from investing activities					
Purchase of software	16(d)	(1,374)	(555)	(1,374)	(555)
Purchase of property, plant and equipment	14(f)	(2,591)	(2,954)	(2,591)	(2,954)
Adjustment to final purchase price of insurance book		(32)	(75)	(32)	(75)
Proceeds from sale of property, plant, equipment and motor vehicles		13	13	13	13
Payment of SPV establishment costs	16(d)	(186)	(510)	(186)	(510)
Net cash used in investing activities		**(4,170)**	**(4,081)**	**(4,170)**	**(4,081)**
Cash flows from financing activities					
Dividends paid		(3,155)	(3,961)	(3,155)	(3,961)
Proceeds from share issues		12,224	883	12,224	883
Net cash provided by financing activities		**9,069**	**(3,078)**	**9,069**	**(3,078)**
Net movement in cash		15,991	1,986	18,258	(2,055)
Cash at beginning of year		40,897	38,911	12,105	14,160
Cash at end of year	31(a)	56,888	40,897	30,363	12,105

The above statement should be read in conjunction with the attached notes

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2010

CONSOLIDATED	ISSUED CAPITAL $000	RETAINED EARNINGS $000	ASSET REVALUATION RESERVE $000	HEDGING RESERVE $000	GENERAL RESERVE FOR CREDIT LOSSES $000	TOTAL $000
Balance at 30 June 2008	**21,134**	**22,103**	**2,509**	**5,304**	**337**	**51,387**
Total comprehensive income for the year						
Profit for the year	-	4,325	-	-	-	4,325
Other comprehensive income						
- Net changes on revaluation of land and buildings, net of tax	-	-	-	-	-	-
- Net changes in cash flow hedges, net of tax	-	-	-	(13,185)	-	(13,185)
Total comprehensive income for the year	**-**	**4,325**	**-**	**(13,185)**	**-**	**(8,860)**
Transactions with owners in their capacity as owners						
Shares issued	883	-	-	-	-	883
Capital raising costs	-	-	-	-	-	-
Dividends paid	-	(3,961)	-	-	-	(3,961)
Total transactions with owners in their capacity as owners	**883**	**(3,961)**	**-**	**-**	**-**	**(3,078)**
Balance at 30 June 2009	**22,017**	**22,467**	**2,509**	**(7,881)**	**337**	**39,449**
Total comprehensive income for the year						
Profit for the year	-	5,075	-	-	-	5,075
Other comprehensive income						
- Net changes on revaluation of land and buildings, net of tax	-	-	(523)	-	-	(523)
- Net changes in cash flow hedges, net of tax	-	-	-	5,558	-	5,558
Total comprehensive income for the year	**-**	**5,075**	**(523)**	**5,558**	**-**	**10,110**
Transactions with owners in their capacity as owners						
Shares issued	12,631	-	-	-	-	12,631
Capital raising costs	(285)	-	-	-	-	(285)
Dividends paid	-	(3,155)	-	-	-	(3,155)
Total transactions with owners in their capacity as owners	**12,346**	**(3,155)**	**-**	**-**	**-**	**9,191**
Balance at 30 June 2010	**34,363**	**24,387**	**1,986**	**(2,323)**	**337**	**58,750**

The above statement should be read in conjunction with the attached notes

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2010

SOCIETY	ISSUED CAPITAL $000	RETAINED EARNINGS $000	ASSET REVALUATION RESERVE $000	HEDGING RESERVE $000	GENERAL RESERVE FOR CREDIT LOSSES $000	TOTAL $000
Balance at 30 June 2008	**21,134**	**27,406**	**2,509**	**-**	**337**	**51,386**
Total comprehensive income for the year						
Profit for the year	-	(3,382)	-	-	-	(3,382)
Other comprehensive income						-
- Net changes on revaluation of land and buildings, net of tax	-	-	-	-	-	-
- Net changes in cash flow hedges, net of tax	-	-	-	-	-	-
Total comprehensive income for the year	**-**	**(3,382)**	**-**	**-**	**-**	**(3,382)**
Transactions with owners in their capacity as owners						
Shares issued	883	-	-	-	-	883
Capital raising costs	-	-	-	-	-	-
Dividends paid	-	(3,961)	-	-	-	(3,961)
Total transactions with owners in their capacity as owners	**883**	**(3,961)**	**-**	**-**	**-**	**(3,078)**
Balance at 30 June 2009	**22,017**	**20,063**	**2,509**	**-**	**337**	**44,926**
Total comprehensive income for the year						
Profit for the year	-	6,822	-	-	-	6,822
Other comprehensive income						
- Net changes on revaluation of land and buildings, net of tax	-	-	(523)	-	-	(523)
- Net changes in cash flow hedges, net of tax	-	-	-	-	-	-
Total comprehensive income for the year	**-**	**6,822**	**(523)**	**-**	**-**	**6,299**
Transactions with owners in their capacity as owners						
Shares issued	12,631	-	-	-	-	12,631
Capital raising costs	(285)	-	-	-	-	(285)
Dividends paid	-	(3,155)	-	-	-	(3,155)
Total transactions with owners in their capacity as owners	**12,346**	**(3,155)**	**-**	**-**	**-**	**9,191**
Balance at 30 June 2010	**34,363**	**23,730**	**1,986**	**-**	**337**	**60,416**

The above statement should be read in conjunction with the attached notes

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

1 Basis of Preparation

The Rock Building Society Limited ("The Rock") is a listed public company incorporated and domiciled in Australia. The financial statements include The Rock as an individual entity and its controlled entities, together referred to as "the consolidated entity". The Society financial statements were presented together with the consolidated financial statements as allowed by ASIC class order 10/654.

1.1 Basis of Accounting

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards (AASBs), including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board, the Corporations Act 2001 and the Prudential Standards set down by the Australian Prudential Regulation Authority (APRA).

Compliance with Australian Accounting Standards ensures that the financial statements and notes of the consolidated entity and The Rock comply with all International Financial Reporting Standards (IFRS) and interpretations in their entirety.

The following material accounting policies have been consistently adopted by the consolidated entity in the preparation of the financial statements, unless otherwise stated.

The financial statements are presented in Australian dollars.

The financial statements have been prepared on an accrual basis and are based on historical costs, modified by the revaluation of selected non-current assets and financial instruments such as derivatives and financial assets available for sale for which the fair value basis of accounting has been applied.

1.2 Date of Issue

The financial statements were authorised for issue by the Board of Directors on 24 August 2010.

1.3 Comparatives

Where required by Australian Accounting Standards, comparative figures have been adjusted to conform to changes in presentation in the current year.

1.4 Principles of Consolidation

The consolidated statements of the consolidated entity include the financial statements of The Rock, being the parent entity, and its controlled entities. The controlled entities are a subsidiary and special purpose vehicles in the form of trusts.

A subsidiary is an entity over which The Rock has the power to govern the financial and operating policies in order to obtain benefits from the subsidiary's activities.

Special purpose vehicles are those entities over which The Rock has no ownership but, in effect, the substance of the relationships is such that The Rock controls the entities in order to obtain the majority of benefits from their operations.

A list of controlled entities is contained in Note 23 to the financial statements. The financial statements of the controlled entities are prepared for the same reporting period as The Rock, using consistent accounting policies.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements, as well as their results for the year ended on that date.

In The Rock's financial statements, the investment in the subsidiary is carried at cost.

The controlled entities are fully consolidated from the dates on which control by The Rock is established, and cease to be consolidated from the dates on which control by The Rock ceases.

Transactions eliminated on consolidation

Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

Business combinations

Business combinations occur where control over another business is established, which results in the consolidation of its assets and liabilities. All business combinations, including those combinations involving entities under common control, are accounted for by applying the acquisition method.

The purchase method requires an acquirer of the business to be identified and for the cost of the acquisition and fair values of identifiable assets, liabilities, and contingent liabilities to be determined at the acquisition date, being the date that control is established. Cost is determined as the aggregate of fair values of assets given, equity issued and liabilities assumed in exchange for control. Any deferred consideration payable is discounted to present value using the entity's incremental borrowing rate.

Goodwill is recognised initially as the excess of cost over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the fair value of the acquirer's interest is greater than cost, the surplus is immediately recognised in profit or loss.

1.5 Receivables Due From Other Financial Institutions

Receivables from other financial institutions are primarily settlement account balances due from banks, building societies and credit unions and exclude call and term deposits with other Authorised Deposit Taking Institutions (ADIs). These receivables are brought to account at the gross value of the outstanding balance. Interest is brought to account in profit or loss when earned.

1.6 Residential Mortgage Securitisation Programs

The Rock conducts a loan securitisation programme, whereby housing mortgage loans are sold as securities to Trusts. The mortgage loans sold are removed from the Statement of Financial Position of The Rock, but included in the Statement of Financial Position of the consolidated entity.

The Rock receives fee income for services provided to the securitisation programme. Fee income is recognised on an accrual basis in relation to the reporting period in which the costs of providing the services are incurred.

The Rock also provides arm's-length interest rate swaps and liquidity facilities to the securitisation programme, in accordance with APRA guidelines. In addition, The Rock may receive any residual income of the securitisation programme once all associated costs have been met. The residual income is recognised as revenue when received.

The Trustee of the securitisation programme funds the purchase of housing mortgage loans through the issuance of securities. The securities issued by the Trusts do not represent deposits or liabilities of The Rock. The Rock does not guarantee the capital value or performance of the securities, or the assets of the Trusts. The Rock does not guarantee the payment of interest or the repayment of principal due on the securities. The Rock is not obliged to support any losses incurred by investors in the Trusts and does not intend to provide such support. The Rock has no right to repurchase any of the securitised loans.

1.7 Revenue Recognition

Revenue is recognised at fair value of the consideration received, net of the amount of Goods and Services Tax (GST) payable to the taxation authority.

Interest Income – Note 2

Loan interest income is calculated on the daily loan balance outstanding and is charged, in arrears, to the loan account on the last day of each month.

Loan interest income is recognised as interest accrues, using the effective interest rate method. The effective interest rate method uses the effective interest rate, which is the rate that exactly discounts the estimated future cash receipts over the expected life of the loan to the net carrying amount of the loan.

When a loan is classified as impaired, the consolidated entity ceases to recognise interest and other income earned but not yet received.

Loan interest income is not brought to account when the consolidated entity is informed that a borrower has deceased or, generally, if a loan has been transferred to a debt collection agency or a judgement has been obtained. No interest is charged on loans where repayments are in arrears and the prospects of a contribution from the borrower are minimal. However, accrued interest may be recovered as part of the recovery of the debt.

Fees and Commission Income – Note 3

Fees and commission income are recognised as income when the service is provided and a right to receive consideration has been attained.

Loan Origination and Loan Application Fees – Notes 2 and 3

Loan origination and loan application fees are amortised as a component of the calculation of the effective interest rate method in relation to originated loans, adjusting the interest recognised in relation to loans in the portfolio.

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

Loan origination fees are amortised on a straight-line basis over the 4 year average life of loans in the portfolio, as the results of this method are not materially different from the results generated from the use of the effective interest rate method.

Fees charged on loans after origination of the loan are recognised as income when the service is provided or costs are incurred.

Net gains and losses

Net gains or losses on loans to customers, to the extent that they will arise from the partial transfer of business or on securitisation, do not include impairment write-downs, or reversals of impairment write-downs.

1.8 Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset, or as part of the expense.

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 a current asset or liability in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the taxation authority, are classified as cash flows from operations.

1.9 Depreciation – Note 4 (a)

The consolidated entity adopts the straight line method of depreciating fixed assets to depreciate these assets over their estimated useful lives commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired term of the lease or the estimated useful life of the improvements.

Estimated useful lives are:

Freehold Buildings	40 years
Plant and Equipment and Motor Vehicles	5 years
Computer Equipment and Software	4 to 5 years
Leasehold Improvements	5 years

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at each reporting date.

Adequate provision has been made to write-down the value of non-current assets over their expected lives. Assets under $300 are not capitalised.

1.10 Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses on a straight line basis over the period of the lease term. Lease incentives under operating leases are recognised as a liability and are amortised on a straight-line basis over the term of the lease.

Lease income from operating leases is recognised in profit or loss on a straight-line basis over the term of the lease.

1.11 Income Tax – Note 5

The income tax expense for the period is the tax payable on the current period's taxable income based on the income tax rate enacted or substantially enacted at the reporting date, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for all temporary differences, between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases, at the tax rates expected to apply when the assets are recovered or liabilities settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. Exceptions are made for certain temporary differences arising on initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit.

Deferred tax assets are only recognised for deductible temporary differences and unused tax losses if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation and the anticipation that The Rock will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law. Current and deferred tax balances relating to amounts recognised directly in equity are also recognised directly in other comprehensive income on the Statement of Comprehensive Income.

Additional income taxes arising from the distribution of dividends are recognised at the same time as the liability to pay the related dividend. No additional income taxes are anticipated in 2010 (2009: nil).

1.12 Accounting Estimates And Judgements

The preparation of the financial statements requires the making of estimates that affect the recognised amounts of assets, liabilities, revenue and expenses and the disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are considered to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Management has made judgements when applying the consolidated entity's accounting policies with respect to treatment of loans assigned to special purpose vehicles used for securitisation purposes – refer to Note 1.6.

Management has made critical accounting estimates when applying the consolidated entity's accounting policies with respect to the impairment provisions for loans – refer to Note 11.

1.13 Financial Assets and Financial Liabilities

(i) Initial recognition

The Rock initially recognises loans and advances to customers, deposits, debt securities and subordinated liabilities on the date that they are originated. All other financial assets and financial liabilities, including financial assets and financial liabilities designated at fair value through profit and loss, are initially recognised on trade date when the related contractual rights or obligations exist.

(ii) De-recognition

The Rock de-recognises a financial asset when the contractual rights to the cashflows from the financial asset expire, or it transfers the rights to receive the contractual cashflows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by The Rock is recognised as a separate asset or liability.

The Rock de-recognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

In certain transactions, The Rock retains the right to service a transferred financial asset for a fee. The transferred financial asset is de-recognised in its entirety if it meets the de-recognition criteria. An asset or liability is recognised for the servicing rights, depending on whether the servicing fee is more than adequate to cover servicing expenses (recognised as an asset) or is less than adequate to cover the expenses of providing the service (recognised as a liability).

The Rock securitises retail lending financial assets, which generally result in the sale of these financial assets to special-purpose-entities which, in turn, issue securities to investors. Interests in the securitised financial assets may be retained in the form of senior or subordinated tranches, interest-only strips or other residual interests ("retained interests"). Retained interests are primarily recorded in Available for Sale investment securities and carried at fair value. Gains or losses on securitisation depend, in part, on the carrying amount of the transferred financial assets, allocated between the financial assets de-recognised and the retained interests, based on their relative fair values at the date of transfer.

For further details of The Rock's policy on securitisation - refer to Note 1.6.

(iii) Offsetting

Financial assets and financial liabilities are set off and the net amount presented in the Statement of Financial Position when, and only when, The Rock has a legal right to set off the amounts and intends either to settle on a net basis or to realise the financial asset and settle the financial liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

(iv) Amortised cost measurement

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus cumulative amortisation using the effective interest rate method, of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(v) Fair value measurement

Refer to Note 32(c) for details.

(vi) Identification and measurement of impairment

Refer to succeeding notes on financial assets and Note 1.19.

(vii) Designation at fair value through profit or loss

The Rock designates financial assets or financial liabilities at fair value through profit or loss when:

- The financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis; or
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- The financial assets or financial liabilities contain an embedded derivative that significantly modifies the cash flows generated or absorbed by the asset or liability.

Cash and cash equivalents – Note 7

Cash and cash equivalents include cash on hand; unrestricted balances held in banks; and highly liquid financial assets with original maturities of less than three months which are subject to insignificant risks of changes in their value and are used by The Rock in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

Loans and advances to customers – Note 10

Loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that The Rock does not intend to sell immediately or in the near term.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost, using the effective interest rate method.

Refer to Note 1.19 for details of impairment of loans and advances.

Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity, or available-for-sale.

(i) Held-to-Maturity Investments – Note 9

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that The Rock has a positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss, or available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest rate method.

Any sale or reclassification of a significant amount of held-to-maturity investments which are not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent The Rock from classifying investment securities as held-to-maturity for the current and the following two financial years.

Impairment losses are measured as the difference between the investment's carrying amount and the present value of the estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the investment's original effective interest rate. Impairment losses are recognised in profit or loss.

(ii) Available-for-Sale Investments – Note 12

Available-for-sale investments are non-derivative investments that are not designated as another category of financial asset.

After initial recognition, available-for-sale investments are measured at fair value. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. Unrealised gains or losses arising from changes in the fair value of available-for-sale investments are recognised directly in other comprehensive income in the available-for-sale investments revaluation reserve. On sale, the amount held in available-for-sale reserves associated with that asset is recognised in profit or loss as a reclassification adjustment. Realised gains and losses on available for sale financial assets are classified as gains and losses on disposal in profit or loss.

Where there is a significant or prolonged decline in the fair value of an available-for-sale financial asset (which constitutes objective evidence of impairment) the full amount including any amount previously charged to other comprehensive income is recognised in profit or loss. Reversals of impairment losses on equity instruments classified as available-for-sale cannot be reversed through profit or loss. Reversals of impairment losses on debt instruments classified as available-for-sale can be reversed through profit or loss where the reversal relates to an increase in the fair value of the debt instrument occurring after the impairment loss was recognised in profit or loss.

If there is objective evidence that an impairment has been incurred on an available-for-sale investment carried at cost because its fair value cannot be reliably measured, the amount of loss is measured as the difference between the carrying amount and the present value of the estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

Deposits

Refer to Note 1.20 for details.

Borrowings

Refer to Note 1.22 for details.

1.14 Derivative Instruments Held for Risk Management Purposes

The consolidated entity uses derivative financial instruments such as interest rate swaps to hedge the risks associated with interest rate fluctuations. Such derivative financial instruments are measured at fair value in the Statement of Financial Position. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments. For the purpose of hedge accounting, hedges are classified as 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 forecast transaction.

When a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of the change in the fair value of the derivative is recognised in other comprehensive income. The amount recognised in other comprehensive income is reclassified to profit and loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of comprehensive income as the hedged item. Any ineffective portion of the change in the fair value of a derivative is recognised immediately in profit or loss.

If a derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued and the amount recognised in other comprehensive income remains in other comprehensive income until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, it is reclassified to profit or loss as a reclassification adjustment.

For further details of interest rate swaps used by the consolidated entity - refer to Note 13.

When a derivative is not held for trading, and is not designated in a qualifying relationship, all changes in its fair value are recognised immediately in profit or loss, as a component of net income from other financial instruments carried at fair value.

At the inception of a hedging transaction, the relationship between the hedging instruments and the hedged items, as well as the risk management objective and strategy for undertaking the transaction, are documented. Assessments, both at hedge inception and on an ongoing basis, of whether the derivatives used in hedging transactions have been, and will continue to be, highly effective in offsetting changes in the cash flows of hedged items are also documented.

1.15 Contributed Equity – Note 21

Ordinary shares are classified as equity.

Costs directly attributable to the issue of new shares or options are shown as a deduction from the equity proceeds, net of any income tax benefit.

1.16 Property, Plant and Equipment – Note 14

Items of plant and equipment are stated at cost less accumulated depreciation and any impairment losses.

Freehold land and buildings are measured at their fair value, being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction, less accumulated depreciation. It is the policy of the consolidated entity to have an independent valuation of The Rock's land and buildings every three years.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated as the re-valued amount of the asset. A revaluation surplus is recognised in other comprehensive income and accumulated in reserves within equity unless it reverses a revaluation decrease on the same asset previously recognised in profit or loss. A revaluation decrease is recognised in profit or loss unless it directly offsets a previous revaluation surplus on the same asset in the asset revaluation reserve in which case the decrease is recognised in other comprehensive income. On disposal, any revaluation reserve relating to sold assets is transferred to retained earnings.

In determining the carrying amount of an item of property, plant and equipment, the consolidated entity recognises the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other subsequent costs are recognised in profit or loss as an expense as incurred.

The carrying amount of property, plant and equipment is reviewed annually by the Directors, to ensure it is not in excess of the recoverable amount of the assets.

The recoverable amount of the assets is the greater of their fair value less costs to sell, and their value in use. In assessing value in use, the estimated 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. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss unless the asset has previously been re-valued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation, with any excess recognised through profit or loss.

Gains and losses on disposal are determined by comparing disposal proceeds with the carrying amount of the asset. These gains and losses are included in profit or loss.

1.17 Impairment Testing Of Assets (Excluding Financial Assets)

At each reporting date, the consolidated entity reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed through profit or loss.

An asset is considered to be impaired when objective evidence indicates that one or more events have had an adverse effect on the estimated future cash flows generated by the asset.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

1.18 Intangible Assets – Note 16

Establishment Costs of Securitisation Programs

Costs associated with the establishment of the special purpose entities used for mortgage securitisation programmes are deferred and are amortised on a straight line basis over a period of five years.

Software Licences

Items of computer software which are not integral to the computer hardware owned by The Rock are classified as intangible assets. Non-core banking system computer software is amortised on a straight line basis over the expected useful life of the software. Estimated useful lives range from 4 years to 5 years. The core banking system is being amortised over a period of ten years.

Insurance Book

Costs relating to the purchase of an insurance book have been classified as an intangible asset and are amortised over the estimated useful life of the insurance book. Estimated useful life is 15 years after purchase date.

1.19 Impairment of Loans and Advances – Note 11

A provision for losses on impaired loans is recognised when there is objective evidence that impairment of a loan has occurred. All loans are subject to continuous management review, to assess whether there is any objective evidence that any loan, or group of loans, is impaired. Evidence of impairment may include indications that the borrower has defaulted, is experiencing significant financial difficulty, or where a debt has been restructured to reduce the burden to the borrower. Impairment loss is measured as the difference between the loan's carrying amount and the present 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 profit or loss and reflected in an allowance account against loans and advances. When a subsequent event causes the amount of the impairment loss to decrease, the impairment loss is reversed through profit or loss.

A specific provision is made for all identified impaired loans and is recognised when there is reasonable doubt over the collectibility of principal and interest in accordance with the loan agreement. Bad debts are written off when collection of the loan or advance is considered to be remote, as determined by management. All write-offs are determined on a case-by-case basis, taking into account the exposure at the date of the write-off. On secured loans, the write-off takes place on ultimate realisation of the collateral value or on the settlement of claims against lender's mortgage insurance.

A specific provision is also raised for overdrawn savings accounts. This provision is calculated in accordance with APRA's Prudential Standards.

In addition, a general reserve for credit losses is maintained to cover risks inherent in the loan portfolio.

Movements in the general reserve for credit losses are recognised as an appropriation of retained earnings.

1.20 Deposits – Note 17

All deposits are initially recognised at fair value plus transaction costs. Interest on deposits is brought to account on an accrual basis. Interest accrued at reporting date is shown as a part of Trade and Other Payables. After initial recognition, deposits are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognised through profit or loss when the liabilities are derecognised, as well as through the amortisation process.

1.21 Trade And Other Payables – Note 18

Liabilities are recognised for amounts to be paid in the future for goods or services already received. Trade accounts payable are normally settled within 30 days.

1.22 Borrowings – Note 20

Borrowings are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised through profit or loss over the period of the borrowings, using the effective interest rate method.

1.23 Provisions – Note 19

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

If the effect is material, a provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a pre-tax rate that reflects current market assessments of the time of value of money and the risks specific to the liability most closely matching the expected future payments.

1.24 Employee Benefits – Note 19

Provision is made for The Rock's liability for employee benefits arising from services rendered by employees to the reporting date. Employee benefits expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable after more than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Contributions are made by The Rock to employee superannuation funds and are charged as expenses when incurred.

1.25 Rounding of Amounts

The Rock has applied the relief available to it under ASIC Class Order 98/100 and, accordingly, amounts in the financial statements have been rounded to the nearest thousand dollars ($000), unless otherwise stated.

1.26 New or Emerging Standards

At the date of the financial statements, a number of new Accounting Standards and Interpretations have been issued but are not yet effective.

The consolidated entity expects to first apply these new Accounting Standards and Interpretations in the financial statements for the period beginning after the effective date of each new Accounting Standards or Interpretations.

The Directors' assessment of the impact of these new Accounting Standards and Interpretations is set out in the following table:

AASB REFERENCE	TITLE & AFFECTED STANDARD	NATURE OF CHANGE	APPLICATION DATE:	IMPACT ON INITIAL APPLICATION
AASB 9 (issued December 2009)	Financial Instruments	Amends the requirements for classification and measurement of financial assets.	Periods beginning on or after 1 January 2013.	Due to the recent release of these amendments, and the fact that adoption is only mandatory for the 30 June 2014 year end, The Rock has not yet made an assessment of the impact of these amendments.

	CONSOLIDATED 2010 $000	CONSOLIDATED 2009 $000	SOCIETY 2010 $000	SOCIETY 2009 $000
2 Interest Income and Interest Expense				
(a)(i) Interest income on assets carried at amortised cost				
Cash and cash equivalents	1,436	1,761	539	625
Financial assets held-to-maturity	9,976	5,597	9,976	4,942
Loans and advances	57,158	74,799	18,794	27,271
Total interest income on assets carried at amortised cost	**68,570**	**82,157**	**29,309**	**32,838**
(ii) Interest income on assets carried at fair value				
Financial assets carried at fair value	475	-	9,155	655
Total interest income on assets carried at fair value	**475**	**-**	**9,155**	**655**
Total Interest Income	**69,045**	**82,157**	**38,464**	**33,493**
(b)(i) Interest expense on liabilities carried at amortised cost				
Deposits	12,762	15,278	18,339	20,828
Borrowings	29,257	39,924	5,475	115
Total Interest expense on liabilities carried at amortised cost	**42,019**	**55,202**	**23,814**	**20,943**
(ii) Interest expense on liabilities carried at fair value				
Derivatives - Net of interest amount received	7,948	9,615	2,392	1,745
Total interest expense on liabilities carried at fair value	**7,948**	**9,615**	**2,392**	**1,745**
Total Interest Expense	**49,967**	**64,817**	**26,206**	**22,688**

The interest income on loans and interest expense on retail deposits is shown net of the interest off-set benefit arising from mortgage off-set deposit accounts. The average interest rates are similarly determined after deducting the interest off-set benefit of mortgage off-set deposit accounts from the yield on loans.

3 Income

	CONSOLIDATED 2010 $000	CONSOLIDATED 2009 $000	SOCIETY 2010 $000	SOCIETY 2009 $000
Interest income	**69,045**	**82,157**	**38,464**	**33,493**
Non-Interest Income:				
Mortgage servicing fee income	-	-	6,552	7,251
Excess profit / (Loss) distributed from SPVs to The Rock	-	-	-	(11,971)
Loan fee income	1,477	2,446	1,477	2,446
Transaction fee income	4,665	4,454	4,665	4,454
Commissions	1,892	1,815	1,892	1,815
Income from property	16	53	16	53
Impaired losses recovered	10	4	10	4
Gain/(Loss) on disposal of property, plant and equipment	1	(3)	1	(3)
Net fair value gain on derivatives	70	-	2,280	655
Other	19	54	45	28
Total Non-Interest Income	**8,150**	**8,823**	**16,938**	**4,732**
Total Income	**77,195**	**90,980**	**55,402**	**38,225**

	CONSOLIDATED		SOCIETY	
	2010 $000	2009 $000	2010 $000	2009 $000

4 Profit Before Income Tax

Profit before income tax has been determined after:

a) Expenses:

Interest expense	**49,967**	**64,817**	**26,206**	**22,688**
Non-Interest Expenses:				
Fees and commissions	4,873	4,609	4,361	4,157
Depreciation of property, plant and equipment:				
- Buildings	61	61	61	61
- Plant and equipment	881	702	881	702
Amortisation:				
- Leasehold improvements	98	124	98	124
- Establishment costs	392	414	392	414
- Computer software	641	260	641	260
- Insurance book	128	137	128	137
Impairment losses on loans and advances	101	39	101	39
Operating lease rental - minimum lease payments	778	765	778	765
Personnel costs *	7,366	7,875	7,366	7,875
Net fair value losses on derivatives	-	323	-	-
General administration	5,284	4,726	5,269	5,874
Total Non-Interest Expenses	**20,603**	**20,035**	**20,076**	**20,408**
Total Expenses	**70,570**	**84,852**	**46,282**	**43,096**

*Includes Superannuation contributions amounting to $633,000 (2009: $763,000)

b) Significant revenue and expenses
The following significant revenue and expense items are relevant in explaining the financial performance

Profit before tax from ordinary operations	6,555	6,451	6,839	6,445
Net fair value Gains / (Losses) on derivatives with SPVs	-	-	8,027	19,814
Net fair value Gains / (Losses) on derivatives with other parties	-	-	(5,746)	(19,159)
Ineffective portion of fair value hedges	70	(323)	-	-
Profit/(Loss) distributed from SPVs as a result of fair value movements in derivatives	-	-	-	(11,971)
Profit before Tax from Statement of Comprehensive Income	**6,625**	**6,128**	**9,120**	**(4,871)**

4 Profit Before Income Tax cont.

b) Significant revenue and expenses cont.

A proportion of The Rock's fixed-rate loans are funded by wholesale borrowings on which interest is paid at a variable rate. The Rock has entered into a number of interest rate swaps in order to manage the interest rate risk on the wholesale borrowings arising from the fact that income from the loans is at a fixed rate while the wholesale funds are variable rate. In addition, as the wholesale borrowings are held in The Rock's securitisation special purpose vehicles (SPVs) while the interest rate swaps are held directly in The Rock, the interest rate swaps are treated as non hedge transactions and their fair value recognised directly in the profit and loss account of The Rock as effectiveness is unable to be achieved. On consolidation these interest rate swaps are effective and treated as cashflow hedges and, as a result, any fair value movement is accounted for through the cash flow hedge reserve.

The valuations of the swaps between The Rock and its SPVs and between The Rock and external parties will reduce to zero as the swaps reach maturity, and accordingly the accounting loss recorded in The Rock's books as a result of the movement in swap valuations will reverse to increase the profit of The Rock in future periods. This is illustrated below:

	FUTURE PERIODS $000	ACTUAL 2010 $000	ACTUAL 2009 $000
Annual movement in Rock profit due to swap movements	1,207	2,281	(11,316)
Cumulative movement in Rock profit due to swap movements	-	(1,207)	(3,488)

5 Income Tax

	CONSOLIDATED 2010 $000	CONSOLIDATED 2009 $000	SOCIETY 2010 $000	SOCIETY 2009 $000
(a) The components of tax expense / (benefit) comprise:				
Current tax	1,554	2,469	1,626	2,384
Deferred tax	212	(652)	888	(3,859)
Adjustments for prior year	(216)	(14)	(216)	(14)
	1,550	**1,803**	**2,298**	**(1,489)**
(b) The prima facie tax payable on the profit/(loss) differs from the tax expense/(benefit) for the year as follows:				
Profit /(Loss) from ordinary activities before income tax	**6,625**	**6,128**	**9,120**	**(4,871)**
Income tax calculated @ 30% (2009 - 30%)	1,988	1,838	2,736	(1,461)
Add tax effect of:				
Non-deductible entertainment	3	9	3	9
Other non-deductible items	-	9	-	9
	3	**18**	**3**	**18**
Less tax effect of:				
Investment allowance	(53)	(32)	(53)	(32)
Research and development claim	(172)	-	(172)	-
Overprovision for income tax in prior year	(216)	(14)	(216)	(14)
Other	-	(7)	-	-
	(441)	**(53)**	**(441)**	**(46)**
Income tax expense / (benefit)	**1,550**	**1,803**	**2,298**	**(1,489)**

	CONSOLIDATED		SOCIETY	
	2010 $000	2009 $000	2010 $000	2009 $000
5 Income Tax cont.				
c) Provision for current income tax				
Balance at beginning of year	1,392	370	1,307	370
Income tax paid:				
Operating activities-prior year	(370)	(321)	(370)	(321)
Operating activities-current year	(1,395)	(1,112)	(1,395)	(1,112)
	(1,765)	**(1,433)**	**(1,765)**	**(1,433)**
Overprovision in prior year	(216)	(14)	(216)	(14)
Current year's income tax expense on profit	1,554	2,469	1,626	2,384
	965	**1,392**	**952**	**1,307**
d) Deferred Income tax liability The movement in deferred tax liability for each temporary difference during the year is as follows:				
(i) Revaluation adjustments				
Opening balance	226	244	226	244
Tax on accounting depreciation of revalued buildings	(226)	(18)	(226)	(18)
	-	**226**	-	**226**
(ii) Tax relating to fair value on derivatives				
Opening balance	-	2,344	2,436	5,852
Charged to profit and loss	-	(2,344)	(1,723)	(3,416)
	-	-	**713**	**2,436**
(iii) Other				
Opening balance	1,089	1,505	1,088	1,504
Charged to profit and loss	3	(416)	3	(416)
	1,092	**1,089**	**1,091**	**1,088**
	1,092	**1,315**	**1,804**	**3,750**

	CONSOLIDATED		SOCIETY	
	2010 $000	2009 $000	2010 $000	2009 $000
5 Income Tax cont.				
e) Deferred tax asset				
The movement in deferred tax asset for each temporary difference during the year is as follows:				
(i) Tax relating to provisions & accruals				
Opening balance	436	363	428	363
Charged to profit and loss	115	73	115	65
	551	**436**	**543**	**428**
(ii) Tax relating to property, plant and equipment				
Opening balance	340	292	340	292
Charged to profit and loss	(195)	48	(195)	48
	145	**340**	**145**	**340**
(iii) Tax relating to fair value on derivatives				
Opening balance	3,404	-	3,404	3,508
Charged to profit and loss	(2,408)	3,404	(2,408)	(104)
	996	**3,404**	**996**	**3,404**
	1,692	**4,180**	**1,684**	**4,172**
f) Current and deferred tax recognised directly in equity				
Opening balance	20	20	20	20
Transaction costs of issuing equity instruments	122	-	122	-
	142	**20**	**142**	**20**
g) Current and deferred tax recognised directly in other comprehensive income				
Opening balance	5,651	-	-	-
Net changes in fair value of cash flow hedge	(2,381)	5,651	-	-
Net change in fair value of land and buildings	224	-	224	-
	3,494	**5,651**	**224**	**-**

The potential future income tax benefit will only be obtained if:
(i) The consolidated entity derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised;
(ii) The consolidated entity continues to comply with the conditions of deductibility imposed by the law; and
(iii) No changes in tax legislation adversely affect the consolidated entity in realising the benefit.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

	CONSOLIDATED 2010 $000	CONSOLIDATED 2009 $000
6 Earnings per Share		
Basic and diluted earnings per share (cents per share)	21.4	22.3

Information relating to the calculation of the earnings per share is as follows:

(a) Earnings Reconciliation

(i) Reconciliation of earnings to profit and loss

	2010 $000	2009 $000
Net profit attributable to shareholders ($000)	5,075	4,325
Earnings used in calculating basic and diluted earnings per share ($000)	5,075	4,325
(ii) Weighted average number of shares used as the denominator in calculating basic earnings per share	23,775,453	19,410,141

(b) Classification of securities

Ordinary shares are the only category of equity in the basic earnings per share. There are no securities which would be classified as potential ordinary shares. As there were no other securities on issue during the year that could be converted to ordinary shares, diluted earnings per share is equal to basic earnings per share.

	CONSOLIDATED		SOCIETY	
	2010 $000	2009 $000	2010 $000	2009 $000
7 Cash and Cash Equivalents				
Cash at bank and cash on hand	45,138	37,047	18,613	8,255
Interest earning bank deposits at call	11,750	3,850	11,750	3,850
	56,888	**40,897**	**30,363**	**12,105**
8 Trade and Other Receivables				
Accrued interest receivable	3,396	543	3,396	543
Securitisation fees receivable	-	-	3,647	3,260
GST receivable	57	71	22	18
Other	650	2,694	650	2,668
	4,103	**3,308**	**7,715**	**6,489**

	CONSOLIDATED		SOCIETY	
	2010 $000	2009 $000	2010 $000	2009 $000
9 Financial Assets Held to Maturity				
Deposits with ADIs	179,693	182,091	179,693	182,091
Other debt securities	4,000	4,000	4,000	4,000
	183,693	**186,091**	**183,693**	**186,091**

The directors have considered the term to maturity, default history and credit rating of the counterparties and instruments in its investment portfolio and concluded that none of these investments suffer impairment.

	CONSOLIDATED 2010 $000	CONSOLIDATED 2009 $000	SOCIETY 2010 $000	SOCIETY 2009 $000
10 Loans and Advances				
Secured by mortgage over residential property	935,987	1,005,661	347,352	259,547
Employee share plan loans	1	4	1	4
	935,988	**1,005,665**	**347,353**	**259,551**
Deferred loan origination costs	2,492	2,605	2,492	2,605
Provision for impairment	-	(58)	-	(58)
	938,480	**1,008,212**	**349,845**	**262,098**
(a) Loans by security				
Secured by mortgage	938,479	1,008,208	349,844	262,094
Secured - other	1	4	1	4
	938,480	**1,008,212**	**349,845**	**262,098**

All housing loans are secured by registered mortgage over residential real estate, and are fully individually insured against loss with recognised mortgage insurers, with the exception of loans to borrowers to purchase properties through their superannuation funds which comprise 0.3% of the loan book (2009: 0%). Loans in respect of the Employee Share Plan are secured by lien over relevant shares and dividends. The majority of loans are written over a maximum term of 25 to 30 years as principal and interest loans, requiring regular principal and interest repayments.

(b) Securitisation

The Rock manages and services loans comprising the securitised mortgage portfolio.
These loans are removed from the statement of financial position of The Rock but are included in the consolidated statement of financial position. The portfolio totalled $588,634,000 at 30 June 2010 (2009: $746,114,000).

	CONSOLIDATED 2010 $000	CONSOLIDATED 2009 $000	SOCIETY 2010 $000	SOCIETY 2009 $000
11 Impairment of Loans				
(a) Provision for impairment				
(i) Specific Provision				
Balance at beginning of year	58	50	58	50
Add: Expensed during the period	34	8	34	8
Less: Amounts written off against specific provision	(92)	-	(92)	-
	-	58	-	58
(ii) Overdrawn savings accounts with specific provision-refer to note 17				
Balance at beginning of year	22	26	22	26
Add: Expensed during the period	25	-	25	-
Less: Amounts written off against specific provision	-	(4)	-	(4)
	47	22	47	22
	47	**80**	**47**	**80**

(b) Provision for Impairment Calculation

Basis for specific provision

A specific provision is made for a loan when the funds receivable from the claim that has been submitted to mortgage insurers are expected to be insufficient to cover the outstanding loan balance. The provision is made for the total potential shortfall.

Calculation of overdrawn savings accounts with specific provision - refer to note 17

PERIOD OF IMPAIRMENT	2010 OVERDRAWN BALANCE $000	2010 IMPAIRMENT %	2010 IMPAIRMENT AMOUNT $000	2009 OVERDRAWN BALANCE $000	2009 IMPAIRMENT %	2009 IMPAIRMENT AMOUNT $000
0 to 13 days	45	-	-	50	-	-
14 to 89 days	30	40	12	12	40	5
90 to 181 days	14	75	11	1	75	1
182 to 272 days	-	100	-	-	100	-
273 to 364 days	-	100	-	-	100	-
over 364 days	24	100	24	16	100	16
	113		**47**	**79**		**22**

	CONSOLIDATED		SOCIETY	
	2010 $000	2009 $000	2010 $000	2009 $000
11 Impairment of Loans cont.				
(c) Charge to profit and loss for impairment comprises:				
Specific provision movement	34	8	34	8
Overdrawn savings accounts specific provision movement	25	(4)	25	(4)
Bad debts recognised directly in profit	42	35	42	35
Total impairment expense for loans and advances	**101**	**39**	**101**	**39**
(d) Loans and advances by impairment class				
Impaired loans	-	322	-	322
Specific provision	-	(58)	-	(58)
Net impaired loans - refer 11 (e)	**-**	**264**	**-**	**264**
Past due but not impaired - refer 11 (f)	44,932	29,532	20,391	11,837
Neither past due nor impaired - refer 11 (g)	891,056	975,811	326,962	247,392
Net loans and advances	**935,988**	**1,005,607**	**347,353**	**259,493**
(e) Individually impaired loans and advances at reporting date				
Analysis				
Owner occupied	-	322	-	322
Investment	-	-	-	-
Provision for impairment	-	(58)	-	(58)
Carrying Amount	**-**	**264**	**-**	**264**
(f) Past due but not impaired loans at reporting date These loans are not considered impaired because they are fully mortgage insured. Any funds remaining after the sale of the related security over the loan will be met by the mortgage insurer.				
Ageing Analysis				
Past due 0-90 days in arrears	43,265	27,880	19,975	10,834
Past due 91-180 days in arrears	1,439	569	416	768
Past due 181-270 days in arrears	228	304	-	-
Past due 271-365 days in arrears	-	-	-	235
Past due >365 days in arrears	-	779	-	-
Carrying Amount	**44,932**	**29,532**	**20,391**	**11,837**
Analysis				
Owner occupied	35,897	21,437	14,689	7,414
Investment	9,035	8,095	5,702	4,423
Carrying Amount	**44,932**	**29,532**	**20,391**	**11,837**

	CONSOLIDATED		SOCIETY	
	2010 $000	2009 $000	2010 $000	2009 $000

11 Impairment Of Loans - cont.

(g) Neither past due nor impaired loans and advances at reporting date

	2010 $000	2009 $000	2010 $000	2009 $000
Analysis				
Owner occupied	690,953	731,917	257,241	174,084
Investment	200,103	243,894	69,721	73,308
Carrying Amount	**891,056**	**975,811**	**326,962**	**247,392**

All loans and advances that are neither past due or impaired are with longstanding clients who have a good payment history. The above values include the balances of renegotiated loans and advances.

(h) Loans and advances by impairment and security class

	2010 $000	2009 $000	2010 $000	2009 $000
(i) Against individually impaired				
Secured by mortgage over real estate	-	322	-	322
Provision for impairment	-	(58)	-	(58)
(ii) Against past due but not impaired				
Secured by mortgage over real estate	44,932	29,532	20,391	11,837
(iii) Against neither past due or impaired				
Secured by mortgage over real estate	891,056	975,811	326,962	247,392
	935,988	**1,005,607**	**347,353**	**259,493**

It is not practical to value all collateral as at the reporting date due to the size of the portfolio. A breakdown of the quality of the residential mortgage security is as follows:

	2010 $000	2009 $000	2010 $000	2009 $000
Security held as mortgage against real estate is on the basis of:				
- Loan to valuation ratio up to 80%	667,081	782,922	224,427	205,821
- Loan to valuation ratio up to 80% but mortgage insured	268,907	222,743	122,926	53,729
- Loan to valuation ratio of more than 80% and not mortgage insured	-	-	-	-
	935,988	**1,005,665**	**347,353**	**259,550**

(i) Renegotiated loans

Some loans that were previously past due have been renegotiated by the consolidated entity. Details of these loans are:

	2010 $000	2009 $000	2010 $000	2009 $000
Book value of renegotiated loans which are well secured	1,051	2,617	409	653

	CONSOLIDATED		SOCIETY	
	2010 $000	2009 $000	2010 $000	2009 $000
12 Financial Assets Available For Sale				
At cost				
Australian listed shares	1	1	1	1
Shares in Australian Settlements Limited	233	233	233	233
	234	**234**	**234**	**234**
At fair value				
Investment in RBS Trust 2009R	-	-	169,129	172,683
Investments in RMBS	25,105	-	25,105	-
	25,105	**-**	**194,234**	**172,683**
Total Financial Assets Available for Sale	**25,339**	**234**	**194,468**	**172,917**

The Rock does not intend to dispose of the financial assets available for sale in the near future.

The investment in RBS Trust 2009R pertains to notes issued by the trust for loans transferred by the Rock amounting to $169,129,000 (2009: $175,198,000). A portion of these notes, amounting to $156,766,000 (2009: $55,000,000), was used as security for borrowings from the Reserve Bank of Australia. Refer to Note 20.

The shareholding in Australian Settlements Limited is measured at cost, as its fair value can not be measured reliably. This company was created supply services to the member financial institutions and does not have an independent business focus. These shares are held to enable The Rock to receive essential banking services. The shares are not publicly tradable and are not redeemable.

The financial reports of Australian Settlements Limited record net tangible assets backing these shares exceeding their cost value. Based on the net assets of Australian Settlements Limited, any fair value determination on these shares is likely to be greater than their cost value but, due to the absence of a ready market and restrictions on the ability to transfer the shares, a market value is not able to be determined readily. The Rock is not intending, nor able to dispose of these shares without a majority of shareholder approval.

	CONSOLIDATED		SOCIETY	
13 Derivatives				
a) Current Asset				
Interest rate swap contracts - cash flow hedges	-	-	2,373	8,119
	-	**-**	**2,373**	**8,119**
b) Current Liability				
Interest rate swap contracts - cash flow hedges	3,320	11,346	3,320	11,346
	3,320	**11,346**	**3,320**	**11,346**

The consolidated entity enters into derivative transactions in the normal course of business, to hedge exposure to fluctuating interest rates in accordance with the consolidated entity's financial risk management policies.

Interest rate swaps are in place to hedge against interest rate risk associated with movements in interest rates which impact on the borrowings of the Society and the consolidated entity. Transactions for hedging purposes are undertaken without the use of collateral as the counterparties used are reputable institutions with sound financial positions and credit ratings. Derivative financial instruments are not held for speculative purposes.

	CONSOLIDATED		SOCIETY	
	2010 $000	2009 $000	2010 $000	2009 $000
14 Property, Plant And Equipment				
(a) Land				
At independent valuation - 2010	1,135	1,466	1,135	1,466
	1,135	1,466	1,135	1,466
(b) Buildings				
At independent valuation - 2010	1,835	2,434	1,835	2,434
Provision for depreciation	-	(122)	-	(122)
	1,835	2,312	1,835	2,312
	2,970	**3,778**	**2,970**	**3,778**
(c) Plant and Equipment and Motor Vehicles				
At cost	4,643	7,250	4,643	7,250
Capital works in progress	133	3,601	133	3,601
Provision for depreciation	(2,021)	(4,781)	(2,021)	(4,781)
	2,755	**6,070**	**2,755**	**6,070**
(d) Leasehold Improvements				
At cost	589	1,010	589	1,010
Provision for depreciation	(360)	(729)	(360)	(729)
	229	**281**	**229**	**281**
	5,954	**10,129**	**5,954**	**10,129**

(e) Valuations:

Land and buildings were valued at a market value of $2,970,000 as at 30 June 2010, based upon independent valuations performed by Herron Todd White. The market values were calculated on the basis of vacant possession. In determining the valuations the valuers made the following significant assumptions:

(i) That the property complies with all relevant statutory requirements;
(ii) That there are no significant defects or issues that would be revealed by relevant surveys;
(iii) There are no orders of compulsory requisition; and
(iv) All structured improvements have been erected within the title boundaries.

If the assets were stated on a historical cost basis, the amounts would be as follows:

Cost	1,704	1,704	1,704	1,704
Accumulated depreciation	(449)	(422)	(449)	(422)
Net carrying amount	**1,255**	**1,282**	**1,255**	**1,282**

14 Property, Plant And Equipment - cont.

(f) Movements in carrying values

	FREEHOLD LAND $000	BUILDINGS $000	PLANT, EQUIPMENT AND MOTOR VEHICLES $000	LEASEHOLD IMPROVEMENTS $000	TOTAL $000
(i) Consolidated entity					
Balance 30 June 2008	1,466	2,373	3,898	352	8,089
Revaluation increments/(decrements)	-	-	-	-	-
Additions	-	-	2,891	63	2,954
Disposals	-	-	(17)	(10)	(27)
Depreciation expense	-	(61)	(702)	(124)	(887)
Balance 30 June 2009	**1,466**	**2,312**	**6,070**	**281**	**10,129**
Revaluation increments/(decrements)	(331)	(416)	-	-	(747)
Additions	-	-	2,545	46	2,591
Transfers to Software from Capital Works in Progress	-	-	(4,970)	-	(4,970)
Disposals	-	-	(9)	-	(9)
Depreciation expense	-	(61)	(881)	(98)	(1,040)
Balance 30 June 2010	**1,135**	**1,835**	**2,755**	**229**	**5,954**
(ii) Society					
Balance 30 June 2008	1,466	2,373	3,898	352	8,089
Revaluation increments/(decrements)	-	-	-	-	-
Additions	-	-	2,891	63	2,954
Disposals	-	-	(17)	(10)	(27)
Depreciation expense	-	(61)	(702)	(124)	(887)
Balance 30 June 2009	**1,466**	**2,312**	**6,070**	**281**	**10,129**
Revaluation increments/(decrements)	(331)	(416)	-	-	(747)
Additions	-	-	2,545	46	2,591
Transfers to Software from Capital Works in Progress	-	-	(4,970)	-	(4,970)
Disposals	-	-	(9)	-	(9)
Depreciation expense	-	(61)	(881)	(98)	(1,040)
Balance 30 June 2010	**1,135**	**1,835**	**2,755**	**229**	**5,954**

	CONSOLIDATED 2010 $000	CONSOLIDATED 2009 $000	SOCIETY 2010 $000	SOCIETY 2009 $000
15 Other Assets				
Prepayments	419	290	419	290
	419	**290**	**419**	**290**

	CONSOLIDATED 2010 $000	CONSOLIDATED 2009 $000	SOCIETY 2010 $000	SOCIETY 2009 $000
16 Intangible Assets				
(a) Establishment costs of securitisation programmes				
At cost	6,556	6,370	6,556	6,370
Accumulated amortisation	(5,787)	(5,395)	(5,787)	(5,395)
	769	**975**	**769**	**975**
(b) Software				
At cost	7,343	1,987	7,343	1,987
Accumulated amortisation	(988)	(1,332)	(988)	(1,332)
	6,355	**655**	**6,355**	**655**
(c) Insurance book				
At cost	1,970	1,938	1,970	1,938
Accumulated amortisation	(412)	(284)	(412)	(284)
	1,558	**1,654**	**1,558**	**1,654**
	8,682	**3,284**	**8,682**	**3,284**

	ESTABLISHMENT COSTS $000	SOFTWARE $000	INSURANCE BOOK $000	TOTAL $000
(d) Movements in carrying values				
(i) Consolidated entity				
Balance 30 June 2008	879	360	2,076	3,315
Adjustment to final purchase price	-	-	(285)	(285)
Additions	510	555	-	1,065
Amortisation expense	(414)	(260)	(137)	(811)
Balance 30 June 2009	**975**	**655**	**1,654**	**3,284**
Adjustment to final purchase price	-	-	32	32
Additions	186	1,374	-	1,560
Transfers to Software from Capital Works in Progress	-	4,970	-	4,970
Disposals	-	(3)	-	(3)
Amortisation expense	(392)	(641)	(128)	(1,161)
Balance 30 June 2010	**769**	**6,355**	**1,558**	**8,682**

	ESTABLISHMENT COSTS $000	SOFTWARE $000	INSURANCE BOOK $000	TOTAL $000
16 Intangible Assets - cont.				
(d) Movements in carrying values - cont.				
(ii) Society				
Balance 30 June 2008	879	360	2,076	3,315
Adjustment to final purchase price	-	-	(285)	(285)
Additions	510	555	-	1,065
Amortisation expense	(414)	(260)	(137)	(811)
Balance 30 June 2009	**975**	**655**	**1,654**	**3,284**
Adjustment to final purchase price	-	-	32	32
Additions	186	1,374	-	1,560
Transfers to Software from Capital Works in Progress	-	4,970	-	4,970
Disposals	-	(3)	-	(3)
Amortisation expense	(392)	(641)	(128)	(1,161)
Balance 30 June 2010	**769**	**6,355**	**1,558**	**8,682**

	CONSOLIDATED		SOCIETY	
	2010 $000	2009 $000	2010 $000	2009 $000
17 Deposits				
Call deposits	361,720	354,547	361,720	354,547
Term deposits	121,647	194,226	121,647	194,226
NCDs Issued	88,775	-	88,775	-
	572,142	**548,773**	**572,142**	**548,773**
Provision for overdrawn savings accounts - Refer to Note 11(a)	(47)	(21)	(47)	(21)
	572,095	**548,752**	**572,095**	**548,752**

The Rock's deposit portfolio does not include any deposit which represents 10% or more of total liabilities.

	CONSOLIDATED 2010 $000	CONSOLIDATED 2009 $000	SOCIETY 2010 $000	SOCIETY 2009 $000

17 Deposits - cont.

Concentration of Deposits

The following groups represent concentrations of deposits in excess of 10% of total liabilities:

	CONSOLIDATED 2010 $000	CONSOLIDATED 2009 $000	SOCIETY 2010 $000	SOCIETY 2009 $000
Central Queensland	273,825	338,798	273,825	338,798
Rest of Queensland	47,755	70,131	47,755	70,131
New South Wales	124,671	68,332	124,671	68,332
Rest of Australia	125,891	71,511	125,891	71,511
	572,142	**548,772**	**572,142**	**548,772**

18 Trade And Other Payables

	CONSOLIDATED 2010 $000	CONSOLIDATED 2009 $000	SOCIETY 2010 $000	SOCIETY 2009 $000
Annual leave	462	458	462	458
Trade creditors and accruals	1,726	2,436	1,670	2,345
Interest accrued	8,252	3,400	5,438	2,557
	10,440	**6,294**	**7,570**	**5,360**

19 Provisions

(a) Provision for Director/employee entitlements

	CONSOLIDATED 2010 $000	CONSOLIDATED 2009 $000	SOCIETY 2010 $000	SOCIETY 2009 $000
Carrying amount at beginning of the year	158	113	158	113
Provisions made during the year	53	50	53	50
Payments made during the year	(3)	(5)	(3)	(5)
	208	**158**	**208**	**158**

The provision for Director/employee entitlements is the amount provided for long service leave entitlements of the consolidated entity.

(b) Make good provision

	CONSOLIDATED 2010 $000	CONSOLIDATED 2009 $000	SOCIETY 2010 $000	SOCIETY 2009 $000
Carrying amount at beginning of the year	95	105	95	105
Provisions made during the year	-	-	-	-
Payments made during the year	-	(10)	-	(10)
	95	**95**	**95**	**95**

The make good provision is to cover the cost of returning leased premises to the state that they were in when the lease commenced.

	CONSOLIDATED 2010 $000	CONSOLIDATED 2009 $000	SOCIETY 2010 $000	SOCIETY 2009 $000
	303	**253**	**303**	**253**

	CONSOLIDATED		SOCIETY	
	2010 $000	2009 $000	2010 $000	2009 $000
20 Borrowings				
Class A Notes, Class B Notes and Super Senior Notes	439,550	597,824	-	-
RBA Borrowings	138,736	50,000	138,736	50,000
	578,286	**647,824**	**138,736**	**50,000**

Class A and B Notes and Super Senior Notes are issued by the securitisation vehicles. Notes are eligible for repayment once trust balances fall below 10% of the initial invested amount which is usually a period of around 5 years after the notes are issued. Interest paid to noteholders is repriced on a monthly basis. RBA Borrowings represent money borrowed from the Reserve Bank of Australia for a fixed period under repurchase agreements. The security for these borrowings are RMBS notes issued by the RBS Trust 2009R amounting to $156,766,000 (2009: $55,000,000). Refer to Note 12.

21 Issued Capital

Balance at beginning of year	22,017	21,134	22,017	21,134
Issue of ordinary shares under share purchase plan	5,580	-	5,580	-
Issue of ordinary shares under private placement	6,305	-	6,305	-
Issue of ordinary shares under dividend reinvestment plan	746	883	746	883
Costs in relation to issues	(285)	-	(285)	-
	34,363	**22,017**	**34,363**	**22,017**

	CONSOLIDATED		SOCIETY	
	2010 NO. 000	2009 NO. 000	2010 NO. 000	2009 NO. 000
Number of Ordinary Shares on Issue:				
At beginning of year	19,613	19,253	19,613	19,253
Issued October 2008	-	142	-	142
Issued April 2009	-	218	-	218
Issued September 2009	5,036	-	5,036	-
Issued October 2009	155	-	155	-
Issued March 2010	153	-	153	-
	24,957	**19,613**	**24,957**	**19,613**

Ordinary shares participate in dividends as declared from time to time and are entitled to one vote per share at shareholders meetings. In the event of winding up of the Rock, ordinary shareholders rank after all other shareholders, if any, and creditors, and are fully entitled to any proceeds of liquidation in proportion to the number of shares held.

In October 2008, The Rock raised $434,000 through the issue of 142,493 fully paid ordinary shares under a dividend reinvestment plan. Shares were issued at $3.05, which was a 5% discount to the weighted average market price for the five consecutive trading days prior to the issue date. The purpose of this issue was to offer shareholders a way to increase their holdings without using any additional cash.

In April 2009, The Rock raised $448,000 through the issue of 218,140 fully paid ordinary shares under a dividend reinvestment plan. Shares were issued at $2.05, which was a 5% discount to the weighted average market price for the five consecutive trading days prior to the issue date. The purpose of this issue was to offer shareholders a way to increase their holdings without using any additional cash.

In September 2009, The Rock raised $5,580,000 through the issue of 2,364,029 fully paid ordinary shares under a share purchase plan. Shares were issued at $2.36, which was a 5% discount to the weighted average market price for the five consecutive trading days prior to the issue date. The purpose of this issue was to increase the capital reserves of the society.

21 Issued Capital cont.

In September 2009, The Rock raised $6,305,000 through the issue of 2,671,678 fully paid ordinary shares under a share private placement. Shares were issued at $2.36, which was a 5% discount to the weighted average market price for the five consecutive trading days prior to the issue date. The purpose of this issue was to increase the capital reserves of the Rock.

In October 2009, the Society raised $356,000 through the issue of 154,717 fully paid ordinary shares under a dividend reinvestment plan. Shares were issued at $2.30, which was a 5% discount to the weighted average market price for the five consecutive trading days prior to the issue date. The purpose of this issue was to offer shareholders a way to increase their holdings without using any additional cash.

In March 2010, The Rock raised $391,000 through the issue of 153,059 fully paid ordinary shares under a dividend reinvestment plan. Shares were issued at $2.55, which was a 5% discount to the weighted average market price for the five consecutive trading days prior to the issue date. The purpose of this issue was to offer shareholders a way to increase their holdings without using any additional cash.

22 Reserves

Asset Revaluation Reserve

Nature and purpose of reserve:
The asset revaluation reserve includes net revaluation increments arising from the revaluation of non-current assets.

Hedging Reserve

Nature and purpose of reserve:
The hedging reserve records the changes in fair value of the derivatives to the extent that the hedge relationship is effective.

General Reserve for Credit Losses

Nature and purpose of reserve:
The general reserve for credit losses is maintained to cover credit risk inherent in the loan portfolio.

23 Controlled Entities

	COUNTRY OF INCORPORATION	% OWNED 2010	% OWNED 2009
Chief Entity			
The Rock Building Society Limited	Australia		
Controlled Entities			
The Rockhampton Custodian & Management Company Pty Limited	Australia	100%	100%
		% TRUST BENEFICIARY	
RBS Warehouse Trust No.1	Australia	-	100%
RBS Trust 2002-1	Australia	-	100%
RBS Trust 2003-1	Australia	-	100%
RBS Trust 2004-1	Australia	100%	100%
RBS Trust 2005-1	Australia	100%	100%
RBS Trust 2007-1	Australia	100%	100%
RBS Warehouse Trust No.2	Australia	100%	100%
RBS Trust 2009R	Australia	100%	100%

24 Commitments and Contingent Liabilities

(a) Capital expenditure commitments

There were no capital expenditure commitments for plant and equipment purchases payable not later than 12 months from reporting date.

(b) Non-cancellable operating lease expense commitments

Lease expenditure commitments arising from non-cancellable operating leases for premises but not provided for in the financial statements are:

	CONSOLIDATED		SOCIETY	
	2010 $000	2009 $000	2010 $000	2009 $000
Not later than 1 year	824	601	824	601
Later than 1 year but not later than 5 years	1,896	1,202	1,896	1,202
Later than 5 years	379	436	379	436
	3,099	2,239	3,099	2,239

All operating leases are for premises with terms ranging from 0.5 years to 5 years, with the exception of one premises, which is held under a ten year lease. Rent is generally payable in advance and increases annually by CPI.

(c) Credit related commitments

Approved but undrawn loans	13,644	13,309	13,644	13,309
Undrawn overdraft limits	-	279	-	279

Some of the credit related commitments will expire without being drawn upon and, therefore, the total commitments do not necessarily represent future cash requirements. Loan approvals, once advanced, will be secured by residential mortgage and will be 100% mortgage insured, apart from loans to borrowers to purchase investment properties through their self-managed superannuation funds.

(d) Superannuation commitments

Superannuation plans have been established for the provision of benefits to employees on retirement, death or disability. Benefits provided under the plans are based on contributions for each employee. Staff and employer contributions are made at various percentages of staff gross salaries and wages.

The superannuation plans are subject to regulatory control by the Australian Prudential Regulation Authority (APRA) and funds are available to satisfy vested benefits under the plans.

The Superannuation Guarantee Administration Act (SGAA), effective from 1 July 1992, requires that the Society must provide a prescribed level of each employee's earnings for contributions to superannuation. The Society is under no legal obligation to make superannuation contributions except for the minimum contributions required by the SGAA.

The following amounts were paid to superannuation funds in respect of:

Directors	26	126	26	126
Staff members	607	637	607	637

(e) Employee share plan

There are no shares eligible for issuance under an employee share plan as at 30 June 2010 (2009: nil).

(f) Employee interest free loans

No interest free loans were provided during the year (2009: nil).

	CONSOLIDATED		SOCIETY	
	2010 $000	2009 $000	2010 $000	2009 $000
25 Employee Benefits				
Employee benefits provision	208	158	208	158
Annual leave accrual	462	458	462	458
Total employee benefits	**670**	**616**	**670**	**616**

26 Key Management Personnel

(a) The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period.

KEY MANAGEMENT PERSON	POSITION
Non-Executive Directors	
Mr S E Lonie	Director - effective 24 April 2010. Chairman - effective 27 April 2010.
Mr J T Maxwell	Chairman - deceased 15 April 2010.
Mr B V R Beasley	Director.
Mr R Davies	Director - effective 1 March 2010.
Mr J W Wedderburn	Director - resigned 1 March 2010.
Mr R A Illingworth	Director (Acting Chairman 16 April 2010 to 27 April 2010).
Executive Director	
Mr D G Lightfoot	Managing Director.
Executives	
Mr D C Martin	Chief Financial Officer and Company Secretary.
Mr L M Sanders	Information Technology Executive.
Mr D F Grounds	Operations Executive.
Mr W S Darnill	Lending Executive.
Mr J P Hanby	Corporate Development Executive.

	CONSOLIDATED		SOCIETY	
	2010 $000	2009 $000	2010 $000	2009 $000
KEY MANAGEMENT PERSONNEL REMUNERATION				
Short term benefits	1,391	1,186	1,391	1,186
Post employment benefits	132	207	132	207
Total key management personnel remuneration	**1,523**	**1,393**	**1,523**	**1,393**

26 Key Management Personnel - cont.

(b) Loans to key management personnel and their related parties

Details regarding loans outstanding at the reporting date to key management personnel and their personally related entities, where the individual's aggregate loan balance exceeded $100,000 at any time in the reporting period, are as follows:

	BALANCE 30 JUNE 2010 $000	BALANCE 30 JUNE 2009 $000	INTEREST PAID & PAYABLE IN REPORTING PERIOD $000	HIGHEST BALANCE IN PERIOD $000
Executive Director				
Mr D G Lightfoot	525	546	30	547
Executives				
Mr L M Sanders	1,172	1,168	63	1,173
Mr D F Grounds	790	663	43	800
Mr W S Darnill	378	393	19	393
	2,865	**2,770**	**155**	**2,913**

One loan totalling $135,000 (2009: Seven loans totalling $123,496) was made to key management personnel during the year. During the year, key management personnel repaid $100,873 (2009: $997,513) of the balance outstanding on loans. Details regarding the aggregate of loans made, guaranteed, or secured by the consolidated entity to key management personnel and their personally related entities, and the number of loans, are as follows;

	CLOSING BALANCE $000	OPENING BALANCE $000	INTEREST PAID & PAYABLE IN REPORTING PERIOD $000	NUMBER OF LOANS
Key management personnel				
2010	2,865	2,770	155	9
2009	2,770	3,624	182	10

Loans are provided to key management personnel and their related entities on the same terms and conditions as customers. There are no benefits or concessional terms and conditions applicable. For all loans to key management personnel and their personally related entities, interest is payable at prevailing market rates. In the event that key management personnel and their personally related entities have mortgage off-set deposits, then interest is calculated based on the net of the loan account and the mortgage off-set deposits, as per other market offerings. Interest is payable monthly. All loans are secured by registered mortgage over residential real estate and are 100% insured against loss with recognised mortgage insurers. Interest received on the loans totalled $135,103 (2009: $238,242). No amounts have been written down or recorded as allowances, as the balances are considered fully collectible.

26 Key Management Personnel - cont.

(c) Other financial transactions with key management personnel and personally related entities

Financial instrument transactions with key management personnel and personally related entities during the financial year arise out of the provision of financial services, the acceptance of funds on deposit, the granting of loans, and other associated financial activities. These transactions were conducted on an arm's length basis in the normal course of business and on commercial terms and conditions. Details regarding transactions other than loans made, guaranteed or secured by an entity in the consolidated entity to key management personnel and their personally related entities are as follows:

	CLOSING BALANCE $000	OPENING BALANCE $000	TOTAL DEPOSIT INTEREST $000
Deposits - Key management personnel			
2010	709	576	15
2009	576	751	27

(d) Options and rights over equity instruments granted as compensation

There were no options over ordinary shares in The Rock held, directly, indirectly or beneficially, by key management personnel and their personally related entities during the year ended 30 June 2010 (2009: nil).

(e) Shareholdings

The movement during the financial year in the number of ordinary shares of The Rock held by key management personnel and their personally related entities are as follows:

	BALANCE AS AT 30 JUNE 2009	PURCHASES	EMPLOYEE BONUS SHARE PLAN ISSUES	SALES	BALANCE AS AT 30 JUNE 2010
Non-executive directors					
Mr S E Lonie [1]	-	-	-	-	-
Mr J T Maxwell [2]	18,087	7,613	-	-	-
Mr B V R Beasley	42,373	20,379	-	-	62,752
Mr R Davies [3]	-	10,000	-	-	10,000
Mr J W Wedderburn [4]	12,270	6,808	-	-	19,078
Mr R A Illingworth [5]	274,455	10,130	-	-	284,585
Executive director					
Mr D G Lightfoot	22,069	7,857	-	-	29,926
Executives					
Mr D C Martin	339	6,526	-	-	6,865
Mr L M Sanders	312	-	-	-	312
Mr D F Grounds	339	21	-	-	360
Mr W S Darnill	339	21	-	-	360
Mr J P Hanby	15,500	4,237	-	-	19,737
	386,083	**73,592**	**-**	**-**	**433,975**

1 Effective 24 April 2010.
2 Deceased 15 April 2010. Number of shares held at date of death was 25,700.
3 Effective 1 March 2010.
4 Resigned 1 March 2010. Number of shares held at date of resignation was 19,078.
5 Acting Chair 16 April 2010 to 27 April 2010.
No shares were granted to key management personnel during the reporting period as compensation (2009: Nil).

26 Key Management Personnel - cont.

	BALANCE AS AT 30 JUNE 2008	PURCHASES	EMPLOYEE BONUS SHARE PLAN ISSUES	SALES	BALANCE AS AT 30 JUNE 2009
Non-executive directors					
Mr J T Maxwell	35,111	2,976	-	20,000	18,087
Mr B V R Beasley	41,079	1,294	-	-	42,373
Mr J W Wedderburn	11,311	959	-	-	12,270
Mr I J Johnston [1]	5,000	-	-	-	-
Mr R A Illingworth [2]	261,719	12,736	-	-	274,455
Executive director					
Mr D G Lightfoot	20,344	1,725	-	-	22,069
Executives					
Mr D C Martin	312	27	-	-	339
Mr L M Sanders	312	-	-	-	312
Mr D F Grounds	312	27	-	-	339
Mr W S Darnill	312	27	-	-	339
Mr J P Hanby [3]	-	15,500	-	-	15,500
	375,812	**35,271**	**-**	**20,000**	**386,083**

1 Resigned 15 January 2009, number of shares held at date of resignation was 5,000.
2 Appointed 15 January 2009, number of shares held at date of appointment was 261,719.
3 Appointed 1 January 2009, number of shares held at date of appointment was nil.

27 Related Party Transactions

(a) Controlled Entities

Transactions between the Society and the controlled entities consisted of advances made and repaid, fees received and paid for administrative, property and portfolio management services and interest received and paid. All these transactions were on normal commercial terms and conditions, except that some advances may be interest free. The profit or loss balances from transactions with the controlled entities follows:

	2010 $000	2009 $000
Mortgage servicing fee income	6,552	7,251
Excess loss distributed from SPVs*	-	(11,971)
Net fairvalue gain on derivatives with SPVs*	8,025	19,814
Management Fees **	132	140

* Refer to note 4(b) for further information on these balances.
** Management fees received from The Rockhampton Custodian and Management Company Pty Limited.

The statement of financial position balances from transactions with the controlled entities follows:

Securitisation fees receivable	3,647	3,260
Investment in RBS Trust 2009R ***	169,129	172,683

*** Refer to note 12 for further information on this balance.

(b) Other related parties

A number of key management personnel hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. A number of these entities transacted with The Rock or its controlled owned entities in the reporting period. The terms and conditions of the transactions with key management personnel and their personally related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions with entities not related to key management personnel on an arm's length basis. The aggregate amounts recognised during the year relating to other related parties were as follows:

		CONSOLIDATED		SOCIETY	
		2010 $000	2009 $000	2010 $000	2009 $000
Related Entity	**Transaction**				
South and Geldard Solicitors	Legal fees	177	151	177	151
South and Geldard Solicitors	Mortgage preparation fees	312	137	312	137

Mr B V R Beasley is a partner in the firm of South and Geldard, Solicitors, which receives normal professional fees for services to The Rock including the preparation of securities and loan agreements for loans made to the customers and the provision of legal advice.
Amounts payable to key management personnel at reporting date arising from these transactions were as follows:

Assets and liabilities arising from the above transactions				
Current payables				
Trade and other payables	7	-	7	-

	CONSOLIDATED 2010 $000	CONSOLIDATED 2009 $000	SOCIETY 2010 $000	SOCIETY 2009 $000
28 Remuneration of Auditors				
Amounts received or due and receivable by the auditors for:				
Auditing or reviewing the financial statements	96	107	96	107
Regulatory or prudential audits	22	20	22	20
Indirect advisory and other services	63	59	63	59
29 Dividends				
(a) Dividends paid by the Society to members since the end of the previous financial year were:				
(i) Ordinary shares				
Final dividend for year ended 30 June 2009 of 8.5 cents (2008: 10.5 cents) per fully paid share was declared and paid on 02 October 2009 (30 September 2008)				
Fully Franked @ 30%	1,667	2,021	1,667	2,021
Interim dividend for year ended 30 June 2010 of 6 cents (2009: 10 cents) per fully paid share was declared and paid on 31 March 2010 (6 April 2009)				
Fully Franked @ 30%	1,488	1,940	1,488	1,940
	3,155	**3,961**	**3,155**	**3,961**

(b) Subsequent events

Refer to Note 35 - for details of the declaration of the final dividend for the year ended 30 June 2010 which occurred subsequent to the reporting date.

(c) Dividend franking account	SOCIETY 2010 $000	SOCIETY 2009 $000
30% franking credits available to members of The Rock for subsequent financial years.	**4,502**	**4,111**

These available amounts are based on the balance of the dividend franking account at year-end, adjusted for:
(i) Franking credits that will arise from the payment of the current tax liability; and
(ii) Franking debits that will arise from the payment of dividends subsequent to year-end.
The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

30 Reporting By Segments

The Rock comprises one business segment, being the provision of banking services and products. This determination is based on the risks involved with the provision of these services and products, and The Rock's management reporting system.

The Rock operates in Australia, with the majority of customers being in Queensland and New South Wales.
The Directors are satisfied that there is no undue concentration of risk by way of geographical area, customer group, or industry group.

31 Notes to The Statement of Cash Flows

(a) Reconciliation of cash

For the purposes of the statement of cash flows, cash includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	CONSOLIDATED		SOCIETY	
	2010 $000	2009 $000	2010 $000	2009 $000
Cash at bank and cash on hand	45,138	37,047	18,613	8,255
Interest earning bank deposits at call	11,750	3,850	11,750	3,850
	56,888	**40,897**	**30,363**	**12,105**

(b) Reconciliation of net cash provided by operating activities to profit / (loss) after income tax

	CONSOLIDATED 2010 $000	CONSOLIDATED 2009 $000	SOCIETY 2010 $000	SOCIETY 2009 $000
Net cash provided by operating activities	11,092	9,145	13,359	5,104
Movement in interest payable	(4,821)	1,119	(2,850)	(242)
Movement in interest receivable	3,235	185	3,235	185
Movement in new loans advanced	155,479	108,293	225,156	162,531
Principal collected from loans	(225,156)	(266,029)	(59,431)	(140,315)
Movement in investments	22,330	103,390	18,775	103,390
Movement in deposits	(23,319)	(50,040)	(23,319)	(50,040)
Proceeds from mortgages securitised	-	-	(77,922)	(23,612)
Movement in notes issued over securitised loans	158,274	150,750	-	-
Proceeds from borrowings	(88,736)	(50,000)	(88,736)	(50,000)
Movement in provision for impaired assets	33	(4)	33	(4)
Depreciation and amortisation	(2,199)	(1,698)	(2,199)	(1,698)
Net (profit)/loss on sale of assets	1	(3)	1	(3)
Movement in income tax payable	427	(1,022)	355	(937)
Movement in deferred loan originations costs	(113)	(1,525)	(113)	(1,525)
Movement in deferred tax assets	(2,834)	3,525	(2,834)	9
Movement in provision for deferred income tax	223	2,777	1,946	3,850
Movement in fees and commissions receivable	(296)	62	387	(12,579)
Movement in creditors and accrued expenses	680	(3)	640	447
Movement in other receivables	(1,755)	1,502	(2,024)	1,538
Movement in provision for employee entitlements	(53)	(104)	(50)	(101)
Movement in GST receivable	(15)	7	4	(5)
Movement in other assets	129	(29)	129	(29)
Movement in derivatives	2,469	(5,973)	2,280	654
Profit / (Loss) after income tax	**5,075**	**4,325**	**6,822**	**(3,382)**

31 Notes to The Statement of Cash Flows cont.

(c) Non-cash activities

In 2009 The Rock transferred loans to the RBS Trust 2009R amounting to $175,198,000. The RBS Trust 2009R, in return, issued Notes amounting to $175,200,000. At reporting date, the value of Notes held by The Rock was $169,129,000 (2009: $172,683,000). Refer to Notes 12 and 20.

32 Financial Assets and Financial Liabilities

(a) Classes of Financial Assets and Financial Liabilities

A summary of financial assets and financial liabilities by class is set out in the following table:

	CONSOLIDATED 2010 $000	CONSOLIDATED 2009 $000	SOCIETY 2010 $000	SOCIETY 2009 $000
(i) Financial assets - measured at amortised cost				
Cash and cash equivalents	56,888	40,897	30,363	12,105
Trade and other receivables	4,103	3,308	7,715	6,489
Loans and advances	938,480	1,008,212	349,845	262,098
Financial assets held to maturity	183,693	186,091	183,693	186,091
Total	**1,183,164**	**1,238,508**	**571,616**	**466,783**
(ii) Financial assets - measured at cost				
Financial assets available for sale	234	234	234	234
(iii) Financial assets at fair value through profit and loss				
Derivatives	-	-	2,373	8,119
(iv) Financial assets - measured at fair value				
Financial assets available for sale	25,105	-	194,234	172,917
(v) Financial liabilities - measured at amortised cost				
Deposits	572,095	548,752	572,095	548,752
Trade and other payables	10,440	6,294	7,570	5,360
Borrowings	578,286	647,824	138,736	50,000
Total	**1,160,821**	**1,202,870**	**718,401**	**604,112**
(vi) Financial liabilities at fair value through profit and loss				
Derivatives	-	-	3,320	11,346
(vii) Financial liabilities at fair value - held for risk management				
Derivatives	3,320	11,346	-	-

32 Financial Assets and Financial Liabilities - cont.

(b) Interest rate risk

Interest rate risk is measured by the sensitivity of net interest income to changes in the level of interest rates and arises from interest rate repricing mismatch between The Rock's interest bearing financial assets and interest rate sensitive financial liabilities.

The Rock actively manages interest rate risk by measuring net interest income volatility in terms of possible interest rate scenarios, and by actively managing the balance sheet repricing gap, ensuring physical repricing mismatches are contained within acceptable limits.

The consolidated entity's interest bearing financial assets and interest rate sensitive financial liabilities are shown in the following interest rate repricing gap analysis, along with weighted average effective interest rate for each time band.

FINANCIAL INSTRUMENTS	FLOATING INTEREST RATE		FIXED INTEREST RATE MATURING Within 1 Year		1 to 5 Years		Over 5 Years		NON-INTEREST SENSITIVE		CARRYING AMOUNT		WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	
	2010 $000	2009 $000	2010 $000	2009 $000	2010 $000	2009 $000	2010 $000	2009 $000	2010 $000	2009 $000	2010 $000	2009 $000	2010 %	2009 %
Financial Assets														
Cash and cash equivalents	51,581	37,940	-	-	-	-	-	-	5,307	2,957	56,888	40,897	4.06%	2.70%
Financial Assets held to maturity	-	-	183,693	186,091	-	-	-	-	-	-	183,693	186,091	5.75%	4.10%
Financial Assets available for sale	-	-	25,105	-	-	-	-	-	234	234	25,339	234	6.78%	n/a
Trade and other receivables	-	-	-	-	-	-	-	-	4,103	3,308	4,103	3,308	n/a	n/a
Loans and advances	579,697	530,264	192,605	245,276	163,686	230,124	-	-	2,492	2,547	938,480	1,008,212	7.23%	6.51%
Total Financial Assets	**631,278**	**568,204**	**401,403**	**431,367**	**163,686**	**230,124**	**-**	**-**	**12,136**	**9,046**	**1,208,503**	**1,238,742**		
Financial Liabilities														
Deposits	361,672	354,526	209,484	193,700	939	526	-	-	-	-	572,095	548,752	4.35%	3.52%
Trade and other payables	-	-	-	-	-	-	-	-	10,440	6,294	10,440	6,294	n/a	n/a
Borrowings	-	-	578,286	647,824	-	-	-	-	-	-	578,286	647,824	5.69%	5.98%
Total Financial Liabilities - except for Derivatives	**361,672**	**354,526**	**787,770**	**841,524**	**939**	**526**	**-**	**-**	**10,440**	**6,294**	**1,160,821**	**1,202,870**		
Off Balance Sheet Items														
Derivatives	110,000	375,000	(50,000)	(285,000)	(60,000)	(90,000)	-	-	-	-	-	-	-2.16%	-3.46%
Undrawn commitments - Note 24 (c)	-	-	-	-	-	-	-	-	13,644	13,588	13,644	13,588	n/a	n/a
Total Off Balance Sheet Items	**110,000**	**375,000**	**(50,000)**	**(285,000)**	**(60,000)**	**(90,000)**	**-**	**-**	**13,644**	**13,588**	**13,644**	**13,588**		

32 Financial Assets and Financial Liabilities - cont.

(b) Interest rate risk

The Rock's interest bearing assets and interest rate sensitive liabilities are shown in the following interest rate repricing gap analysis, along with weighted average effective interest rate for each time band.

FINANCIAL INSTRUMENTS	FLOATING INTEREST RATE		FIXED INTEREST RATE MATURING Within 1 Year		1 to 5 Years		Over 5 Years		NON-INTEREST SENSITIVE		CARRYING AMOUNT		WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	
	2010 $000	2009 $000	2010 $000	2009 $000	2010 $000	2009 $000	2010 $000	2009 $000	2010 $000	2009 $000	2010 $000	2009 $000	2010 %	2009 %
Financial Assets														
Cash and cash equivalents	25,056	9,148	-	-	-	-	-	-	5,307	2,957	30,363	12,105	3.72%	2.42%
Financial Assets held to maturity	-	-	183,693	186,091	-	-	-	-	-	-	183,693	186,091	5.75%	4.10%
Financial Assets available for sale	-	-	194,234	172,683	-	-	-	-	234	234	194,468	172,917	5.83%	5.98%
Trade and other receivables	-	-	-	-	-	-	-	-	7,715	6,489	7,715	6,489	n/a	n/a
Loans and advances	197,580	159,394	56,415	48,952	93,358	51,205	-	-	2,492	2,547	349,845	262,098	6.98%	6.28%
Total Financial Assets	**222,636**	**168,542**	**434,342**	**407,726**	**93,358**	**51,205**	-	-	**15,748**	**12,227**	**766,084**	**639,700**		
Financial Liabilities														
Deposits	361,672	354,526	209,484	193,700	939	526	-	-	-	-	572,095	548,752	4.35%	3.52%
Trade and other payables	-	-	-	-	-	-	-	-	7,570	5,360	7,570	5,360	n/a	n/a
Borrowings	-	-	138,736	50,000	-	-	-	-	-	-	138,736	50,000	4.78%	3.20%
Total Financial Liabilities-except for Derivatives	**361,672**	**354,526**	**348,220**	**243,700**	**939**	**526**	-	-	**7,570**	**5,360**	**718,401**	**604,112**		
Off Balance Sheet Items														
Derivatives	(86,595)	15,470	76,268	(104,390)	10,327	88,920	-	-	-	-	-	-	-1.18%	-0.84%
Undrawn commitments - Note 24 (c)	-	-	-	-	-	-	-	-	13,644	13,588	13,644	13,588	n/a	n/a
Total Off Balance Sheet Items	**(86,595)**	**15,470**	**76,268**	**(104,390)**	**10,327**	**88,920**	-	-	**13,644**	**13,588**	**13,644**	**13,588**		

32 Financial Assets and Financial Liabilities - cont.

(c) Fair Value of Financial Instruments

(i) Net fair values

The aggregate net fair values of financial assets and financial liabilities, both recognised and unrecognised, at the reporting date are as follows:

	CARRYING AMOUNT		NET FAIR VALUE	
	2010 $000	2009 $000	2010 $000	2009 $000
Consolidated Entity				
(i) Financial assets				
Cash and cash equivalents	56,888	40,897	56,888	40,897
Trade and other receivables	4,103	3,308	4,103	3,308
Financial assets held to maturity	183,693	186,091	183,693	186,091
Financial assets available for sale	25,339	234	25,339	234
Loans and advances	938,480	1,008,212	939,334	1,018,173
Derivatives	-	-	-	-
	1,208,503	**1,238,742**	**1,209,357**	**1,248,703**
(ii) Financial liabilities				
Deposits	572,095	548,752	572,090	548,746
Trade and other payables	10,440	6,294	10,440	6,294
Derivatives	3,320	11,346	3,320	11,346
Borrowings	578,286	647,824	578,286	647,824
	1,164,141	**1,214,216**	**1,164,136**	**1,214,210**
Society				
(i) Financial assets				
Cash and cash equivalents	30,363	12,105	30,363	12,105
Trade and other receivables	7,715	6,489	7,715	6,489
Financial assets held to maturity	183,693	186,091	183,693	186,091
Financial assets available for sale	194,468	172,917	194,468	172,917
Loans and advances	349,845	262,098	349,660	262,249
Derivatives	2,373	8,119	2,373	8,119
	768,457	**647,819**	**768,272**	**647,970**
(ii) Financial liabilities				
Deposits	572,095	548,752	572,090	548,746
Trade and other payables	7,570	5,360	7,570	5,360
Derivatives	3,320	11,346	3,320	11,346
Borrowings	138,736	50,000	138,736	50,000
	721,721	**615,458**	**721,716**	**615,452**

32 Financial Assets and Financial Liabilities - cont.

(ii) Methods and assumptions

The following methods and assumptions were used to determine the net fair values of financial assets and financial liabilities:

Cash and cash equivalents, other receivables and receivables due from other financial institutions	The carrying values of cash and cash equivalents, other receivables and receivables due from other financial institutions approximate their net fair value as they are short term in nature or are receivable on demand.
Derivatives	The fair value of the derivatives is estimated using discounted cash flow analysis based on the future net interest cash flows.
Investments	The Rock has financial assets available for sale carried at cost and financial assets available for sale at fair value. The fair value of financial assets carried at cost is not reasonably determinable due to the unpredictable nature of cashflow and lack of suitable method of arriving at a reliable fair value. The net fair values of financial assets available for sale carried at fair value are determined based on quoted market prices in active markets for similar instruments. The carrying values of financial assets held to maturity approximate their net fair value due to short-term maturities of these securities.
Loans and advances	The carrying value of loans and advances is net of provisions for impairment. For variable rate loans, excluding impaired loans, the carrying amount is a reasonable estimate of net fair value. The net fair value of fixed rate loans was calculated by utilising discounted cash flow models based on the maturity of the loans. The discount rates applied were based on the current benchmark rate offered for the average remaining term of the portfolio as at 30 June.
Deposits, other payables and payables due to other financial institutions	The carrying values of deposits, other payables, and payables due to other financial institutions approximate their fair value as they are short term in nature. The net fair value of non-interest bearing, call and variable rate deposits, and fixed rate deposits repriced within twelve months is the carrying value as at 30 June. Discounted cash flow models based upon deposit types and related maturities were used to calculate the net fair value of other term deposits.
Borrowings	The carrying amount approximates fair value as borrowings are repriced monthly.

(iii) Fair Value Hierarchy

The Rock measures fair values of financial instruments using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument;
- Level 2: Valuation techniques based on observable inputs, either directly (ie as prices) or indirectly (ie derived from prices). This category includes instruments valued using:

- quoted market prices in active markets for similar instruments;
- quoted prices for identical or similar instruments in markets that are considered less than active; or
- other valuation techniques where all significant inputs are directly or indirectly observable from market data.

- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments, where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values for financial instruments traded in active markets are based on quoted market prices at the end of the reporting date. The quoted market price for financial assets is the current bid price. The fair value of financial instruments that are not traded in an active market are determined using valuation techniques. Assumptions used are based on observable market prices and rates at the end of the reporting date. The fair value of long-term debt instruments was determined using quoted market prices for similar instruments. Estimated discounted cash flows are used to determine fair value of the remaining financial instruments. The fair value of interest rate swaps was calculated as the present value of estimated future cash flows.

32 Financial Assets and Financial Liabilities - cont.

The following table categorises financial instruments measured at fair value at the end of the reporting date by the level of the fair value hierarchy into which the fair value measurement is categorised.

	LEVEL 1 $000	LEVEL 2 $000	TOTAL $000
Consolidated Entity - 30 June 2010			
Available for sale financial assets			
Residential Mortgage Backed Securities	-	25,105	25,105
Derivative assets held for risk management	-	-	-
	-	**25,105**	**25,105**
Derivative liabilities held for risk management	**-**	**3,320**	**3,320**
Society - 30 June 2010			
Available for sale financial assets			
Residential Mortgage Backed Securities	-	194,234	194,234
Derivative assets held for risk management	-	2,373	2,373
	-	**196,607**	**196,607**
Derivative liabilities held for risk management	**-**	**3,320**	**3,320**

There have been no significant transfers into or out of each Level during the year ended 30 June 2010.

(d) Credit risk

(i) Loans and advances

The maximum credit risk exposure, without taking into account the value of any collateral or other security, in the event other parties fail to perform their obligations under financial instruments in relation to each class of recognised financial asset, is the carrying amount of those assets in the statement of financial position, except loans where the maximum credit risk exposure is $363,489,000 (2009: $276,736,000).

In relation to loans, the maximum credit exposure is the value on the statement of financial position plus the undrawn facilities (loans approved not advanced and overdraft facilities). Details of undrawn facilities are shown in note 24 (c). Details of collateral held as security are disclosed in Note 11(h).

Loans secured by registered mortgage over residential real estate accounted for 44% (2009 - 39%) of The Rock's total statement of financial position assets as at 30 June 2010. The vast majority of the loans on The Rock's statement of financial position (99.7%) are individually fully lender's mortgage insured (compared to 100% at the previous year end) with recognised Mortgage Insurers with claims payment ratings of AA- or better.

Rigorous credit assessment procedures are applied to all loan applications, including through the use of Veda Advantage's credit information database, and the preparation of full independent valuation reports for all secured properties.

(ii) Concentration of risk

Housing loans are geographically distributed as follows:

	2010	2009
Queensland	46%	52%
New South Wales	22%	24%
Victoria	23%	14%
Other	9%	10%
	100%	**100%**

No individual post code area accounted for more than 5% of The Rock's loan balances.
There were no loans to individual borrowers (including associates) in excess of 5% of The Rock's capital.

32 Financial Assets and Financial Liabilities - cont.

(e) Maturity profile of Financial Liabilities

The table below shows the undiscounted cash flows from The Rock's financial liabilities, including unrecognised loan commitments, on the basis of the earliest possible contractual maturity. These values will not agree to the Statement of Financial Position.

The Rock's expected cash flows from financial liabilities vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance and unrecognised loan commitments are not all expected to be drawn down immediately.

To manage the liquidity risk arising from financial liabilities, The Rock holds liquid assets comprising cash and cash equivalents and investment grade investment securities for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements. Hence, The Rock believes that it is not necessary to disclose a maturity analysis in respect of these assets to enable the users to evaluate the nature and extent of liquidity risk.

Borrowings repayable within one month include Floating Rate Notes issued by Securitisation Trusts. These are shown in this category as they have no fixed maturity, or contractual repayment date. There is no expectation, or requirement, that these borrowings will be repaid within one month. Such borrowings are normally repaid when the outstanding balance of notes reaches 10% of their initial issued value, which is typically in the region of five years after the notes are issued.

Please refer to Note 34 (c) for liquidity risk management.

The maturity profile of the consolidated entity's financial liabilities is shown in the following table.

FINANCIAL INSTRUMENTS	WITHIN 1 MONTH		1-3 MONTHS		3-12 MONTHS		1-5 YEARS		OVER 5 YEARS		GROSS NOMINAL OUTFLOWS	
	2010 $000	2009 $000	2010 $000	2009 $000	2010 $000	2009 $000	2010 $000	2009 $000	2010 $000	2009 $000	2010 $000	2009 $000
Financial Liabilities												
Deposits	446,255	434,115	72,676	63,049	55,309	53,146	1,002	553	-	-	575,242	550,863
Trade and other payables	10,440	6,294	-	-	-	-	-	-	-	-	10,440	6,294
Borrowings	439,550	597,824	41,705	-	103,117	50,893	-	-	-	-	584,372	648,717
Total Financial Liabilities	**896,245**	**1,038,233**	**114,381**	**63,049**	**158,426**	**104,039**	**1,002**	**553**	**-**	**-**	**1,170,054**	**1,205,874**
Off Balance Sheet Items												
Derivatives	(198)	(1,081)	(397)	(2,162)	(1,256)	(6,000)	(2,511)	(5,720)	-	-	(4,362)	(14,963)
Undrawn commitments-Note 24 (c)	13,644	13,588	-	-	-	-	-	-	-	-	13,644	13,588
Total Off Balance Sheet Items	**13,446**	**12,507**	**(397)**	**(2,162)**	**(1,256)**	**(6,000)**	**(2,511)**	**(5,720)**	**-**	**-**	**9,282**	**(1,375)**

32 Financial Assets and Financial Liabilities - cont.

The maturity profile of The Rock's financial liabilities is shown in the following table.

FINANCIAL INSTRUMENTS	WITHIN 1 MONTH		1-3 MONTHS		3-12 MONTHS		1-5 YEARS		OVER 5 YEARS		GROSS NOMINAL OUTFLOWS	
	2010 $000	2009 $000	2010 $000	2009 $000	2010 $000	2009 $000	2010 $000	2009 $000	2010 $000	2009 $000	2010 $000	2009 $000
Financial Liabilities												
Deposits	446,255	434,115	72,676	63,049	55,309	51,907	1,002	526	-	-	575,242	549,597
Trade and other payables	7,570	5,360	-	-	-	-	-	-	-	-	7,570	5,360
Borrowings	-	-	41,705	-	103,117	50,893	-	-	-	-	144,822	50,893
Total Financial Liabilities	**453,825**	**439,475**	**114,381**	**63,049**	**158,426**	**102,800**	**1,002**	**526**	**-**	**-**	**727,634**	**605,850**
Off Balance Sheet Items												
Derivatives	40	(430)	12	(992)	(321)	(2,001)	(1,223)	(2,582)	-	-	(1,492)	(6,005)
Undrawn commitments-Note 24 (c)	13,644	13,588	-	-	-	-	-	-	-	-	13,644	13,588
Total Off Balance Sheet Items	**13,684**	**13,158**	**12**	**(992)**	**(321)**	**(2,001)**	**(1,223)**	**(2,582)**	**-**	**-**	**12,152**	**7,583**

33 Employee Share Schemes

(a) Employee Share Purchase Plan

This plan allowed employees of The Rock to take out a loan from The Rock in order to purchase shares in The Rock.

(b) Employee Bonus Share Plan

This plan provides for the provision of up to $1,000 worth of shares in The Rock, based on the continuity and tenure of employment of the employee.

34 Risk Management Policy and Objectives

The Board has endorsed a policy of compliance and risk management to suit the risk profile of The Rock.

The Rock's risk management focuses on the major areas of market risk, credit risk, liquidity risk and operational risk. Authority flows from the Board of Directors to the Audit, Risk and Compliance Committee and the Credit Committee, which are integral to the management of risk within The Rock.

The main elements of risk governance are as follows:

Board

The Board of Directors is the primary governing body. It approves the level of risk to which The Rock is to be exposed and the framework for reporting and mitigating those risks.

Audit, Risk and Compliance Committee

This Committee is a key body in the control of risk. It is comprised of all members of the Board with the exception of the Managing Director. The Audit, Risk and Compliance Committee reviews risks and controls that are used to mitigate those risks, which includes the identification, assessment and reporting of risks. Regular monitoring is carried out by the Audit, Risk and Compliance Committee through its monthly review of internal audit reports.

The Audit, Risk and Compliance Committee also ensures that contingency plans are in place to achieve business continuity in the event of serious disruptions to business operations.

The Audit, Risk and Compliance Committee considers and confirms the significant risks and controls that are to be assessed through the internal audit plan, and receives internal audit reports of assessments of compliance with procedures and controls.

The Audit, Risk and Compliance Committee also manages the Board's relationship with The Rock's external auditor and oversees the preparation and presentation of financial statements.

Credit Committee

The primary purpose of the Credit Committee is to assist the Board in discharging its responsibility to exercise due care, diligence and skill to oversee, direct and review the management of credit risk within the loan portfolio of The Rock.

The objective of the Credit Committee is to oversee, direct and review the management of credit risk within the loan portfolio of The Rock.

The Credit Committee comprises a Non-Executive Director, nominated by The Rock's Board, the Managing Director and a number of Executives of The Rock.

The Credit Committee meets as required, but, in any event, at least quarterly.

The Credit Committee may initiate reviews, as needed, to fulfil its responsibilities under its charter.

The Board may delegate other responsibilities to the Credit Committee from time to time.

Credit Policy Committee

The purpose of the Credit Policy Committee is to guide the Credit Committee in setting the scope of The Rock's lending philosophy and develop the associated policies, procedures and action plans to give substance to the philosophy.

At least three members of The Rock's Executive Committee are members of the Credit Policy Committee. Members of the Credit Policy Committee are recommended by the Chairman of the Committee, submitted for approval by the Managing Director and nominated to one-year terms.

The Credit Policy Committee is convened at the discretion of the Chairman of the committee, but, in any event, not less than four times a year, to analyse the credit policy and the risk parameters that impact on The Rock's lending philosophy.

The Credit Policy Committee has responsibility for developing the credit policies and associated procedures to reflect the character of lending activities as dictated by the Board and The Rock's lending philosophy. The Credit Policy committee also has the responsibility of guiding the Board, through the Credit Committee, in relation to lending direction, based on market trends. It is responsible for developing credit objectives and associated goals to facilitate required outcomes for the loans department, acting as the custodian of lending policy, processes and procedures, and ensuring that all representations and warranties made to third parties are aligned with The Rock's credit policy.

The Credit Policy Committee has responsibility for implementing policies to ensure that all large credit exposures are properly pre-approved, measured and controlled. Details relating to prospective borrowers are subject to a criteria-based decision-making process. Criteria used for this assessment include credit references, the loan-

34 Risk Management Policy and Objectives - cont.

to-value ratio of the proposed security, and the borrower's capacity to repay. These criteria vary according to the value of the loan or facility being sought.

The Committee records all breaches of the loan policy and actions and remedies, which are presented at the annual review of the Committee's activities to the Board. The Committee also reviews internal audit reports relating to the loans department, as well as taking responsibility for monitoring the implementation of recommendations.

The Credit Policy Committee also ensures that arrears are strictly controlled. A dedicated credit control team, which reports to the Credit Policy Committee, implements The Rock's credit risk policy.

Asset and Liability Committee (ALCO)

The ALCO monitors and reviews pricing structures across all divisions and subsidiaries of The Rock and provides the Managing Director with recommendations intended to maximise shareholder value.

The ALCO also oversees the management of The Rock's liquidity and interest rate risks, and proposes policies for the management of these risks to the Managing Director, for review and ratification.

A further role of the ALCO is to ensure the effective management of the net interest margin through effective interest rate risk management. It also has responsibility for the establishment and operation of a management framework that allocates responsibility for managing the various components of interest rate risk.

The ALCO is responsible for integrating the impact of liquidity risk and capital risk into the interest rate risk management framework of The Rock, as a component of The Rock's Market Risk Management Strategy.

The majority of The Rock's Executive Committee, the Senior Accountant and the Managing Director are members of the ALCO.

Meetings of the ALCO are held at the discretion of the Chairman of the Committee as matters arise, however, the ALCO is convened, in any event, at least fortnightly.

The ALCO also oversees the capital financial affairs of The Rock and recommends to the Managing Director such financial actions and policies as will best accommodate the operating and growth objectives of The Rock, whilst adhering to APRA Prudential Standards and other relevant legislative and regulatory requirements.

Internal Audit

Internal Audit has responsibility for the testing and assessment of controls in accordance with an annual internal audit plan approved by the Audit, Risk and Compliance Committee.

The key risk management policies encompassed in the overall risk management framework are:

- Capital Risk Management;
- Liquidity Risk Management;
- Credit Risk Management:
- Market Risk Management - including interest rate risk; and
- Operational Risk Management - including business continuity and information management.

Risks Arising from Financial Instruments

The Rock has undertaken the following strategies to minimise the risks arising from financial instruments.

(a) Market Risk and Hedging Policy

The objective of The Rock's market risk management strategy is to manage and control market risk exposures, in order to optimise risk and return.

Market risk is the risk that changes in interest rates, foreign exchange rates or other prices and other volatilities will have an adverse effect on The Rock's financial condition or results. The Rock is not exposed to currency risk and does not participate in "trading book" activities.

The Rock is exposed to interest rate risk arising from changes in market interest rates.

The policy of The Rock is to manage market risk by maintaining adequate interest rate margins regardless of changes in interest rates, and by managing the product mix and exposure to geographical areas within its loan and deposit portfolios.

Specific actions to manage market risk are taken through changes to the pricing, terms or structures of loans, deposits and investment portfolios, and through the use of derivatives, to hedge against changes in interest rates. The management of market risk is the responsibility of the Asset and Liability Committee.

Interest rate risk

Interest rate risk is the risk of variability of the fair value or future cash flows arising from financial instruments due to changes in interest rates.

The Rock is exposed mostly to interest rate risk within its Treasury operations.

The Rock's exposure to interest rate risk is measured and monitored using the external firms Oakvale Capital Ltd and Protecht Advisory Ltd, to measure its interest rate sensitivity through the calculation of VaR (Value at Risk).

The policy of the consolidated entity is to ensure that VaR, after taking into account interest rate hedges and prepayments, does not exceed 3% of capital, with 2.5% being the trigger level for management to take action to reduce interest rate risk. The policy of the consolidated entity is

34 Risk Management Policy and Objectives - cont.

to enter into interest rate swaps to manage interest rate risks. The Rock's exposure to interest rate risk is set out in Note 32(b), which details the repricing profiles of The Rock's financial assets and financial liabilities.

The Rock performs a sensitivity analysis to measure interest rate risk exposures. Based on calculations as at 30 June 2010, the net profit and equity impact of a 1% (2009: 1%) movement in interest rates for the year to 30 June 2010 would be $714,000 (year to 30 June 2009: $885,000).

The method used in determining the sensitivity is to evaluate the impact on profit of the interest repricing on the banking book of the consolidated entity for the 12 months to 30 June 2010. The calculation was performed based on the following assumptions:

- The interest rate change applied equally to variable rate loan products, term deposits, wholesale funds and interest rate swaps;
- The interest rate change occurred at the beginning of the 12 month period prior to the reporting date, and there were no other rate changes during the period;
- Fixed rate loans and savings accounts that are not linked to the cash rate did not reprice; and
- Actual monthly average values and compositions of assets and liabilities were used.

There has been no change in the nature of The Rock's exposure to market risk, nor in the way The Rock manages and measures interest rate risk in the reporting period.

(b) Credit Risk

Credit risk is the risk that customers, financial institutions and other counterparties will be unable to meet their obligations to The Rock and which may result in financial losses. Credit risk arises principally from The Rock's loan book, investment assets and derivative contracts.

Loans

The maximum credit risk exposure in relation to loans is discussed in Note 32(d). All loans and facilities are within Australia. The geographic concentration of loans is addressed in Note 32(d).

The method of managing credit risk is by way of strict adherence to the credit assessment policies before the loans is approved, and close monitoring of defaults in the repayment of loans on a daily basis thereafter. The Rock's credit policy has been endorsed by the Board to ensure that loans are only made to customers that are creditworthy, and are capable of meeting loan repayments.

The Rock has established policies over the:

- Credit assessment and approval of loans and facilities covering acceptable risk assessment, and security requirements;
- Limits of acceptable loan value exposure to individual borrowers, non-mortgage secured loans, commercial lending, and concentrations of geographic and industry groups considered to present a high risk of default;
- Reassessment and review of credit exposures on loans and facilities;
- Establishment of appropriate provisions to recognise the impairment of loans and facilities;
- Procedures for the recovery of debt; and
- Review of compliance with these policies.

Regular reviews of compliance with policy and procedures are conducted by internal audit, and by an experienced independent assessor, on a bi-annual basis.

(i) Past due and impaired loans

A loan is past due when the counterparty has failed to make a payment when contractually due. As an example, a borrower enters into a lending agreement with The Rock that requires interest and a portion of the principal to be paid each month. On the first day of the next month, if the agreed repayment amount has not been paid, the loan is past due. Past due does not mean that a counterparty will never pay, but it can trigger various actions such as renegotiation, enforcement of covenants, or legal proceedings.

The Arrears Department manages impaired assets, which are loans in arrears from 1 to 60 days. Legal proceedings are instigated for impaired assets in arrears by more than 60 days and for which no mutually agreed repayment arrangements are in place, or for which mutually agreed repayment arrangements are in place, but are not being met.

All mutually agreed repayment arrangements must be approved by The Rock's Operations Executive or equivalent.

A general reserve for credit losses, to cover risks inherent in The Rock's loan portfolio, is calculated using the methodology prescribed by APRA Prudential Standards and Guidance Notes.

A specific provision for impaired loans is raised where there is reasonable doubt as to the collectibility of the principal and interest of a loan.

The provision for impaired loans is determined using the methodologies adopted under the Australian equivalents to International Financial Reporting Standards and the APRA Prudential Standards and Guidance Notes, as follows:

- Where impaired loans can be specifically identified and the impairment losses for those loans determined, then a provision for the full extent of those impairment losses will made; and
- Where specific identification is impractical, an estimate is made of expected losses in relation to the loan portfolio, based on the historical impairment loss experience of that portfolio.

The Rock considers that the prescribed provisioning methods approved by the APRA Prudential Standards and Guidance Notes adequately address the expected loss outcomes for impaired loans where specific identification is impractical.

34 Risk Management Policy and Objectives - cont.

Historical impairment loss experience for The Rock's investment portfolio supports the decision that no specific provision needs to be made for estimated losses where specific identification is impractical.

Revenue accrual is stopped on all facilities against which a specific provision is raised.

(ii) Collateral securing loans

The entire loan book is secured on residential property in Australia. Therefore, The Rock is exposed to risks in the reduction of the Loan to Value Ratio (LVR) cover, should the Australian property market be subject to a decline.

The risk of losses from loans written is primarily reduced by the nature and quality of the security taken against loans, and the level of LMI cover required by The Rock. The Board Policy is to have all loans secured against residential property to creditworthy counterparties, and to individually cover all loans, with the exception to loans made to self managed superannuation funds (SMSF loans), by lenders mortgage insurance provided by third party insurance providers. SMSF loans are loans made to a trust established by a superannuation fund to hold assets, including property, as investments on behalf of the superannuation fund. The Rock limits these loans to a maximum LVR (loan to value ratio) of 65%.

Note 11(h) outlines the nature and extent of the security held against The Rock's loans as at reporting date.

(iii) Concentration risk – individuals

Concentration risk is a measure of The Rock's exposure to individual counterparties (or groups of related counterparties).

The Rock minimises concentrations of credit risk in relation to loans by entering into transactions with a large number of borrowers. Concentration risk is also managed in accordance with the APRA Prudential Standards. A large exposure is considered to exist if a prudential limit is exceeded, measured as a proportion of The Rock's regulatory capital (10%). No additional capital is required to be held against these exposures, but APRA must be informed. APRA may impose additional capital requirements on The Rock if it considers the aggregate exposure to all loans over the 10% capital benchmark to be higher than acceptable.

The Rock holds no significant concentrations of exposures to individual borrowers. Concentration exposures to counterparties are closely monitored, with monthly reporting of all exposures over 2% of The Rock's eligible capital base to the Board.

(iv) Concentration risk – industry

There is no concentration of credit risk by industry with respect to loans and advances, as The Rock has a large number of customers in diverse areas of employment.

Liquid Investments

Credit risk in relation to liquid investments is the risk that the other party to a financial instrument will fail to discharge their obligation, resulting in The Rock incurring a financial loss. This financial loss usually occurs when debtors fail to settle their obligations owing to The Rock.

(i) Concentration of credit risk

There is no concentration of credit risk with respect to investments placed with any institution or group of related institutions.

The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investment counterparty and limits to concentration of investments with any one entity or group of related entities.

Concentration limits are maintained in terms of percentages of the total portfolio and eligible capital that can be held with individual counterparties or groups of related counterparties.

(ii) External credit assessment for institutional investments

The Rock uses the ratings of reputable ratings agencies to assess the credit quality of investment exposures, where applicable, using the credit quality assessment scale in Prudential Practice Guide APG 112 – Standardised Approach to Credit Risk. The Rock has complied with the credit quality assessment scale prescribed by this guide.

The exposure values of The Rock's institutional investments, in each credit quality range at 30 June 2010 are as follows:

CREDIT QUALITY RANGE	2010 CARRYING VALUE $000	2009 CARRYING VALUE $000
ADIs – rated AA and above	97,942	61,252
ADIs – rated below AA	51,000	94,914
ADIs - unrated	83,319	62,502
Non – ADI institutions	8,320	8,320
Total	**240,581**	**226,988**

Equity Investments

The Rock currently has one equity association, The Rockhampton Custodian and Management Company Pty Limited, which is a fully owned subsidiary, and acts as the custodian for The Rock's securitisation special purpose vehicles.

The Rock's Equity Investment Policy requires the Board's approval of all equity investments and arrangements.

34 Risk Management Policy and Objectives - cont.

(c) Liquidity Risk

Liquidity risk is the risk that The Rock may encounter difficulties raising funds to meet commitments associated with financial instruments e.g. repayment of borrowings or customer withdrawal demands. It is the policy of the Board that The Rock maintains adequate cash reserves and committed credit facilities, to meet customer withdrawal demands when required.

The Rock manages liquidity risk by:

- Continuously monitoring actual and daily cash flows and longer term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and financial liabilities;
- Maintaining adequate reserves and borrowing facilities; and
- Monitoring liquidity on a daily basis.

The Rock is required to maintain at least 12% of its total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours, under the APRA Prudential Standards. The Rock's policy is to maintain a minimum internal liquidity holding ratio of 13%, to ensure adequate funds for meeting customer withdrawal requests. Should the liquidity ratio fall below this level, immediate action is taken to address the matter, by ensuring that liquid funds are obtained from new deposits and borrowing facilities.

The maturity profiles of financial assets and financial liabilities based on the contractual repayment terms is set out in Note 32(e).

The ratio of liquid funds to total adjusted liabilities over the past year is set out in the following table:

	2010	2009
Liquid funds to total adjusted liabilities (HQLA):		
As at 30 June	17.02%	15.31%
Average for the year	15.30%	16.25%
Minimum during the year	12.33%	10.56%
Liquid funds to total customer deposits:		
As at 30 June	22.71%	17.56%

(d) Operational Risk

Operational risk is the risk of loss to The Rock resulting from deficiencies in processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks. Operational risks in The Rock relate mainly to risks arising from sources including legal compliance, business continuity, information processing technology, data and communications infrastructure, outsourced services, fraud, and employee errors.

The Rock's objective is to manage operational risk, to balance the avoidance of financial losses through the implementation of systems of internal control, whilst avoiding procedures which inhibit innovation and creativity. These risks are managed through the implementation of policies and systems to monitor the likelihood of risk events occurring and to minimise the likelihood and impact of such events.

Systems of internal control are enhanced through:

- The segregation of duties between employee duties and functions, including approval and processing duties;
- Documentation of policies and procedures, employee job descriptions and responsibilities, to reduce the incidence of errors and inappropriate behaviour;
- Implementation of a whistleblower policy, to promote a compliance culture, and heighten the awareness of staff of their duty to report exceptions;
- Education of customers, to review their account statements and report exceptions to The Rock promptly;
- Effective internal dispute resolution procedures, to respond to customer complaints;
- An on-line system of monitored and moderated communications forums for employees to raise questions and issues, and to record customer feedback for consideration in the development and delivery of The Rock's products and services;
- Effective insurance arrangements to reduce the impact of losses; and
- Contingency plans for dealing with loss of functionality or availability of systems, premises or personnel.

(i) Fraud

Fraud can arise from customer card PIN numbers and internet and telephone banking passwords being compromised, where these are not protected adequately by customers. It can also arise from system failures. The Rock has systems in place which are considered to be sufficiently robust to detect and/or prevent any material fraud. However, in common with all retail financial institutions, fraud is a real potential cost to The Rock. Fraud has been attempted through the use of mules for transferring fees from compromised accounts to overseas destinations, however, to date, none of these attempts has been successful.

(ii) Information and Communications Technology (ICT) Systems

The worst case scenario would be the failure of The Rock's core banking system and ICT network infrastructure, leading to the inability to meet customer obligations and service requirements. The Rock manages its ICT systems in-house and ensures it has personnel with the experience to manage any short-term problems, and has disaster recovery and business continuity arrangements to deal with power, hardware, or system failures.

34 Risk Management Policy and Objectives - cont.

A full disaster recovery plan is in place to cover medium to long-term problems, which is considered to mitigate the risk to an extent such that there is no need for additional capital to be allocated to the management of the risk of loss of, or disruption to, ICT systems.

(e) Capital Management

Minimum capital levels are prescribed by APRA. Under the APRA Prudential Standards, capital requirements are determined by consideration of three risk areas:

- Credit risk;
- Market risk (trading book); and
- Operational risk.

The market risk component does not apply to The Rock, as it does not engage in the trading of financial instruments.

The Rock manages risk by maintaining its level of capital above a prescribed minimum, compared to its risk weighted assets.

Capital resources

The APRA Prudential Standards classify components of capital according to qualities, including the capability of the capital instrument to absorb losses. The classifications of capital are set out in the following sections.

(i) Tier 1 Capital

Tier 1 capital consists of capital instruments that fully satisfy the following characteristics:

Provide a permanent and unrestricted commitment of funds, are freely available to absorb losses, do not impose any unavoidable servicing charge against earnings, and rank behind claims of depositors and other creditors in the event of a winding-up.

The Rock's Tier 1 capital comprises:

- Ordinary share capital;
- General reserves;
- Current year earnings; and
- Retained earnings.

(ii) Tier 2 Capital

Tier 2 capital consists of capital instruments that combine the features of debt and equity in that they are structured as debt instruments, but exhibit some of the loss absorption and funding flexibility features of equity. There are a number of criteria that capital instruments must meet for inclusion in Tier 2 capital resources as set down by APRA.

The Rock's Tier 2 capital largely comprises:

- A general reserve for Credit Losses; and
- An asset revaluation reserve for land and buildings, discounted to 45% of their value, net of any capital gains tax and estimated costs of sale.

Capital in The Rock is made up as follows:	2010 $000	2009 $000
Tier 1 Capital		
Share Capital	34,240	22,017
Retained Earnings	19,476	20,063
Tier 1 Capital	**53,716**	**42,080**
Less prescribed deductions	(12,304)	(9,996)
Net Tier 1 Capital	**41,412**	**32,084**
Tier 2 Capital		
Reserve for credit losses	337	337
Asset revaluation reserve (discounted to 45%)	793	1,129
Tier 2 Capital	**1,130**	**1,466**
Less prescribed deductions	(117)	(120)
Net Tier 2 Capital	**1,013**	**1,346**
Total Capital	**42,425**	**33,430**

34 Risk Management Policy and Objectives - cont.

The Board of The Rock has established an internal minimum capital adequacy ratio of 12%.

The on balance sheet credit risk weighting attached to each asset is based on the weights prescribed by APRA in Attachment A to APRA Prudential Standard APS 112. Risk weights are applied according to the perceived riskiness of the underlying security.

The carrying and risk weighted values of The Rock's assets at 30 June 2010, calculated in accordance with APRA prudential guidance, are detailed in the following table.

CATEGORY	RISK WEIGHTING %	CARRYING VALUE 2010 $000	RISK WEIGHTING VALUE 2009 $000	CARRYING VALUE 2010 $000	RISK WEIGHTING VALUE 2009 $000
Cash and cash items in the process of collection	0 - 20	5,398	18	2,957	-
Deposits in highly rated ADIs	20	120,945	24,189	113,546	22,709
Deposits in unrated ADIs	0 - 50	83,320	17,414	59,319	11,864
Deposits in less highly rated ADIs	50	21,199	10,600	14,000	7,000
Standard loans secured against eligible residential mortgages up to 90% LVR	35	411,829	144,140	348,666	122,033
Standard loans secured against eligible residential mortgages over 90% LVR	50 - 75	81,650	41,060	70,143	33,170
Non-standard loans secured against eligible residential mortgages up to 90% LVR	35 - 75	18,218	8,806	16,724	7,721
Non-standard loans secured against eligible residential mortgages over 90% LVR	75 - 100	-	-	729	547
Other assets	0 - 100	16,967	15,866	16,939	15,613
Total		**759,526**	**262,093**	**643,023**	**220,657**

The Rock's off-balance sheet credit risk weighted assets as at 30 June 2010 amount to $12,788,000 (2009:$20,458,000).
The capital ratios as at the end of the reporting date for the past 5 years are as follows:

2010	2009	2008	2007	2006
13.1%	11.2%	12.2%	13.2%	14.7%

34 Risk Management Policy and Objectives - cont.

The capital ratio is affected by the change in assets relative to the change in reserves, changes in the mix of assets, and changes in the valuations of interest rate swaps.

To manage The Rock's capital, The Rock capital ratio is monitored regularly and reported to the Board on a monthly basis. Policies have been implemented which require reporting to the board and to APRA if the capital ratio falls below 12%. A 5 year projection of capital levels is maintained, to address how strategic decisions or trends may affect future capital levels.

Pillar 2 Capital requirement relating to Operational Risk

The Rock adopts the Standardised Approach to Credit Risk, which is considered to be suitable for its business, given the small number of distinct transaction streams in the business. The Rock's Operational Risk Capital Requirement is calculated by mapping The Rock's three year average net interest income and non-interest income to its business lines.

Based on this approach, The Rock's operational risk capital requirement is as follows:

Operational Risk Capital Requirement at 30 June 2010: $ 48,470,880 (2009: $47,075,498)

The Rock considers that the Standardised Approach accurately reflects the capital required to meet its operational risk.

35 Events Subsequent to the Reporting Date

Subsequent to the reporting date, The Board of Directors declared a final dividend of 9 cents per fully paid ordinary share ($2,246,000) for the year ended 30 June 2010, payable on 30 September 2010. The final dividend is fully franked at 30%. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2010 and will be recognised in the subsequent financial year.

On 24 July 2010, a regulator made enquiries of The Rock regarding certain customer complaints. The regulator has subsequently requested further information and documentation. To date, investigations have indicated that there are no significant issues of note, however, although well advanced, these investigations are not yet complete. The Rock has incurred approximately $190,000 in costs in relation to its investigation, and is likely to incur further costs in the 2010/11 financial year, the final amount of which it is not possible to determine at this date.

DECLARATION BY DIRECTORS

The Directors of The Rock Building Society Limited declare that:

1. In the opinion of the Directors:

(a) The financial statements, comprising the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and accompanying notes of The Rock Building Society Limited and the consolidated entity are in accordance with the Corporations Act 2001, including:

(i) Giving a true and fair view of the financial position of The Rock Building Society Limited and the consolidated entity as at 30 June 2010 and of the performance for the year ended on that date, and

(ii) Complying with Australian Accounting Standards (including the Australian Accounting Interpretation) and the Corporations Regulations 2001, and

(iii) Complying with International Financial Reporting Standards as disclosed in note 1.

(b) There are reasonable grounds to believe that The Rock Building Society Limited and the consolidated entity will be able to pay its debts as and when they become due and payable.

2. The Directors have been given declarations required by Section 295A of the Corporations Act 2001 from the Managing Director and Chief Financial Officer for the financial year ended 30 June 2010.

This declaration is made in accordance with a resolution of the Board of Directors.

Stephen Lonie

Chairman
Board of Directors

24 August 2010
Brisbane

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BDO Kendalls

INDEPENDENT AUDITOR'S REPORT
To the members of The Rock Building Society Limited

Report on the Financial Statements

We have audited the accompanying financial statements The Rock Building Society Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

The directors of the company are responsible for the preparation and fair presentation of the financial statements in accordance with 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 statements 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, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial statements, comprising the consolidated and parent financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements 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 statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 control. 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 statements.

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

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Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001 would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

AUDITORS OPINION

In our opinion:

(a) the financial statements of The Rock Building Society Limited is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2010 and of their 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; and

(b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 45 to 48 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of the Rock Building Society Limited for the year ended 30 June 2010 complies with section 300A of the Corporations Act 2001.

BDO Audit (QLD) Pty Ltd

Tim Kendall

T J Kendall
Director

Brisbane, 24 August 2010

ADDITIONAL STOCK EXCHANGE REQUIREMENTS

Employee Share Purchase Scheme

The Employee Share Plan, approved by shareholders in October 1992, was designed to promote a long term commitment from employees and to align their objectives with those of shareholders. Employees were offered loans for up to 90% of the issue price of shares at an interest rate of up to 3% below the lowest rate offered to customers. The loans are to be repaid over a maximum period of eight years. Employee Shares were issued at a 10% discount to the weighted average market price at the issue date. At 30 June 2010, there were 10,000 Employee Shares held by 2 employees, and an outstanding share loan balance of $932 (2009: 10,000 shares held by two employees, with an outstanding share loan balance of $3,530).

Voting Rights of Shareholders

Voting rights of shareholders are governed by The Rock's constitution. In summary, each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

Shareholders wishing to appoint proxies may do so in accordance with the Corporations Act 2001 and The Rock's constitution.

Distribution of Shareholdings as at 30 June 2010:

ORDINARY SHARES	NO. OF SHAREHOLDERS
1 - 1,000	590
1,001 - 5,000	1,623
5,001 - 10,000	822
10,001 - 100,000	519
100,001 and over	15
	3,569

There are 129 holders with less than a marketable parcel of 199 securities, holding 9,130 securities in total.

Twenty Largest Shareholders

The twenty largest ordinary shareholders as at 30 June 2010 were:

SHAREHOLDER	NO. OF 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
JP Morgan Nominees Australia Limited	165,126	0.66
Citicorp Nominees Pty Limited	164,925	0.66
Donetta Pty Limited	150,000	0.60
David Stohenam Geldard & Noelene Ellen May Geldard	126,206	0.51
Mr Andrew Benardos	122,308	0.49
Pacific Salt Superannuation Pty Limited	88,243	0.35
FF Champion Pty Ltd	84,716	0.34
Mrs Eunice McLeod	81,722	0.33
Nivesa Pty Ltd	80,000	0.32
Tabeen Pty Limited	77,718	0.31

Substantial Shareholders

The Rock's register of substantial shareholders recorded no substantial shareholdings.

Company Secretary

The Company Secretary is Mr Duncan C. Martin.

Registered Office

The registered office of The Rock is 102 Bolsover Street, Rockhampton, Queensland 4700.

Share Register

The register of holders of ordinary shares of The Rock is kept at the offices of Link Market Services Limited, Level 15, 324 Queen Street, Brisbane, Queensland 4000.

Directors

STEPHEN E LONIE (CHAIRMAN)
BCom MBA CA FFin FAICD FIMCA

DEREK G LIGHTFOOT
BCom FCA FFin GAICD

BRADFORD V R BEASLEY
LL.B.(Hons)

ROD DAVIES
FFin MAICD

ROSS A ILLINGWORTH
GAICD CFP BBus (HR Deakin)

Company Secretary

DUNCAN C MARTIN
BSc ACA CIA CISA MBA

Auditor

BDO Audit (QLD) Pty Ltd

Principal Banker

Westpac Banking Corporation

Principal Lawyer

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The Rock
BUILDING SOCIETY LIMITED

my rock. your rock.