THE ROCK

ANNUAL REPORT
2011

FOCUSED ON THE FUTURE.

The Rock
BUILDING SOCIETY LIMITED

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CREATED BY DESIGNATE

People focused.

The Rock is an agile, customer-focused business. The Rock's strong foundation and ability to deliver shareholder value is principally built on its close relationships with customers and the communities in which it operates, together with a simple, agile business model.

Company Profile

The Rock Building Society (The Rock) is a customer-focused financial institution based in Central Queensland. Founded in Rockhampton in 1967, The Rock is an Authorised Deposit-taking Institution (ADI) regulated 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.
What sets The Rock apart from its competitors is a focus on regional areas and on customers. The business 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. Until 30 June 2011, The Rock also provided comprehensive insurance broking products and services through RockSure Insurance Brokers.

In June, the Company announced the sale of its rural and commercial insurance broking assets and its intention to transition the domestic and personal insurance business to an agency agreement.
The restructuring is an outcome of The Rock's strategic review to reposition the Company to focus on its core capabilities as an ADI and insurance agency business.

The Rock aims to meet its shareholders' expectations by building a sustainable, progressive business. The business' strong foundation and ability to deliver shareholder value-add is principally built on its close relationships with customers and the communities in which it operates, together with a simple, agile business model. This has resulted in a relatively modest, regionally-focused, financial institution that is an alternative to the major banks.

The Rock's community links are fostered through an extensive Community Support Program, providing assistance to local charities, organisations and events, including the Cancer Council Queensland and Camp Quality. This past year, the program was extended to include Flood Recovery Grants to regional groups hard hit by the Queensland floods.

Renewed business strategy

2010/11 has been a landmark year for The Rock. A strategic review of the business in late 2010 resulted in a revitalised business strategy focused on getting back to the core business of being an ADI, with the goal of being the financial services alternative of choice across regional Australia.

The Rock is committed to delivering competitive products in its core retail markets across regional Queensland, while ensuring overall profitability and strengthened financial performance.

The Rock has renewed its focus on its Central Queensland heartland where the business competes on the basis of strong brand and service recognition and customer loyalty. However, the business continues to embrace opportunities to establish and solidify its footprint in regional locations with similarly strong appetite for a financial services alternative.

Beyond Central Queensland, The Rock has established its customer-friendly brand of convenient banking in communities from Townsville and Cairns in the state's north, west to Emerald, and south to Hervey Bay and the south-east corner. These points of presence comprise nine branches and 20 mini-branches. The mini-branch network has been formed by partnering with local businesses, which have a similarly strong community and customer service ethos, to offer The Rock's banking services in a cost-effective manner. Mini-branches are typically located in regional areas and suburbs where other financial institutions have little or no direct presence. The supporting ATM network is found in 32 locations, providing convenient 24-hour funds access in regional and suburban areas.

The Rock's insurance business, RockSure Insurance Broking Services, has offered insurance broking services since 1988. As a result of the business' strategic review, RockSure's commercial and rural insurance broking assets were sold in June 2011. The Rock is also in advanced discussions to transition the remaining personal and domestic insurance business to an agency arrangement. This restructure will enable the business to focus on providing personal products and services within the finance and insurance sectors.

1. Reconciliation Specialist, Rebecca Lacey

2. Custom's House, Rockhampton.

The Rock's ability to return to, and grow, its core franchise, while further improving the customer experience and shareholder outcomes, has also been significantly enhanced by the market-leading core banking system, BaNCS. Completed and launched in November 2009, this system has provided the business with a strong competitive advantage, establishing a robust and scalable platform for growth.

A commitment to core values

The Rock's success and commitment to its stakeholders has been built on its key corporate values of honesty, courage, respect, fairness, caring and trust.

The Rock's core values and mission were revised as part of the strategic business review and provide the foundation on which the business will focus on the future.

The Rock's values are central to the development and implementation of the business plan, and are encouraged in all staff. The business recognises that its people and their teamwork are integral to the success of its operations and seeks to foster career aspirations by creating a work environment where performance is recognised and job satisfaction is fostered. As at 30 June, 2011, the business directly employed 130 staff.

A vision for the future

The Rock is committed to delivering competitive products in its core retail markets, while ensuring overall profitability and strengthened financial performance. The business will further progress its renewed mission of making a positive difference to its customers, its people and its communities by providing a trusted financial services alternative.

The Rock's vision is to be

The Best Financial Services Alternative.

For our Shareholders

The best shareholder value-add amongst our Credit Union and Building Society peer group.

For our Customers

The highest level of customer satisfaction in our markets and products.

For our People

The highest level of employee engagement.

For our Communities

The strongest level of support.

2010/11 At a Glance

Overview

The Rock renewed its focus on its core retail banking operations across its regional markets and on improving the efficiency and robustness of its operations.

The success of this revised business strategy was evidenced by a strong turnaround in performance in the second half of 2010/11, resulting in lending assets increasing by 6.20% and deposit liabilities increasing by 29% for the financial year. Additionally, continued development of all aspects of risk management at The Rock has been a key priority for management throughout the year.

Stronger Margins maintained

1.7%

Increase in loans portfolio

6.2%

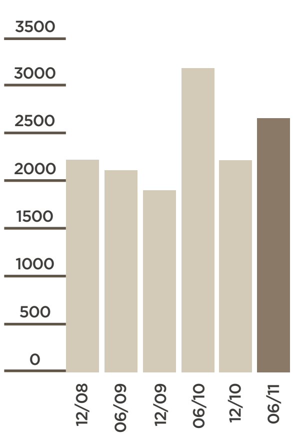
Annual change in NPAT

4%

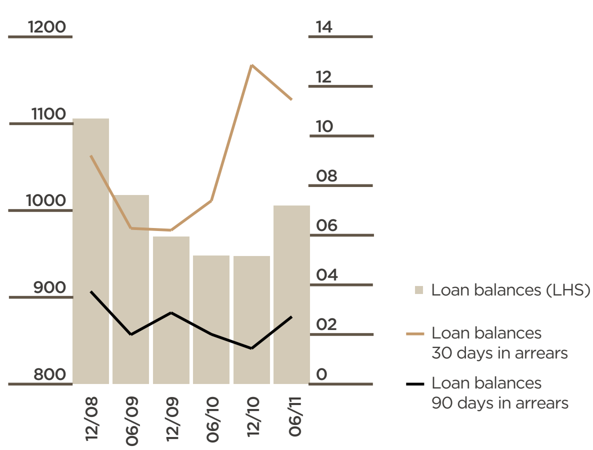
Year end capital adequacy

13.4%

Net Profit After Tax ($000)



Loan Balances and Arrears ($m)



Challenges

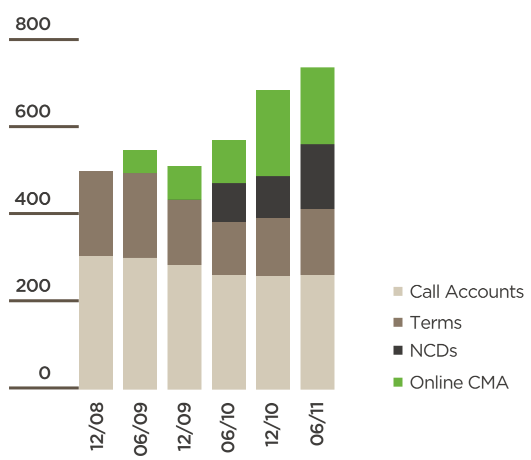
The 2010/11 financial year was one of significant challenge, change and opportunity for The Rock. The Rock had to face both external and internal issues, senior leadership changes and a regulatory inquiry, as it continued to focus on strengthening the balance sheet and improve growth.

The Rock responded well to these challenges and made some key strategic decisions that will stand the Company on a firm footing to embark on the next stage of its growth.

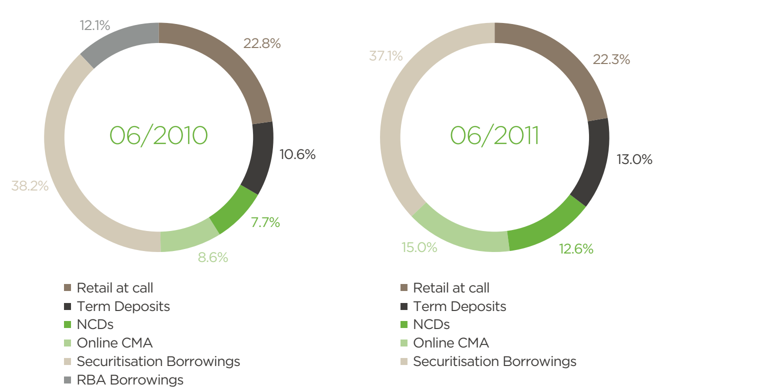
Additionally, a series of natural disasters, including major flood events in Central Queensland, saw an outstanding effort from Rock staff to ensure business continuity through very challenging times.

Growing a strengthened balance sheet.

Deposit Balances ($m)



Funding Mix



Results At a Glance

	2010/11	2009/10
Net profit after tax The reduction in net profit after tax was due to a number of abnormal costs incurred in relation to a regulatory inquiry, a restructuring and strategic review of the business, and a reorganisation of the balance sheet. The impact of these was partially offset by the profit on the sale of The Rock's RockSure rural and commercial insurance broking assets. The net interest margin increased by $1.9 million, and non-interest income, including the profit on the sale of the insurance broking book, increased by $0.5 million. Operational expenses, including the regulatory inquiry, strategic review and restructuring costs, increased by $2.1 million. (All figures are after tax).	$4.9 million	$5.1 million
Weighted average earnings per share The calculation of earnings per share for 2011 includes 204,721 shares issued on 4 April 2011, through The Rock's Dividend Reinvestment Plan.	19.4 cents	21.4 cents
Cost to income ratio The slight increase in cost to income ratio was driven solely by the abnormal costs associated with the regulatory investigation and other reviews.	77.3%	75.7%
Capital Adequacy Capital adequacy increased to 13.4% at 30 June 2011. The Rock released approximately $1.4 million of regulatory capital through the sale of its RockSure rural and commercial insurance broking assets, and raised approximately $0.5 million of Tier 1 capital through the Dividend Reinvestment Plan.	13.4%	13.1%
High Quality Liquid Assets (HQLA) HQLA liquidity decreased during the year, as The Rock repaid its borrowings from the RBA. The June 2011 ratio remains above the minimum required by APRA and The Rock's internal minimum HQLA liquidity limit. Approximately 98% of The Rock's non-cash investment portfolio is deposits held with Australian ADIs.	12.7%	17.0%
Loan portfolio The Rock's loan portfolio increased by $58 million (6.2%) during the year, reflecting a cautious increase in lending following a decline during the prior two years.	$996 million	$938 million
Balances of loans in arrears greater than 30 days The value of loans more than 30 days in arrears grew by $4 million, to $11.1 million at 30 June 2011, which was 1.1% of the loan book at that date, compared to $7.1 million at 30 June 2010. Loans in arrears greater than 90 days increased by $0.7 million to $2.4 million, representing 0.2% of the loan book. These figures remain amongst the lowest in the residential housing market. The majority of The Rock's mortgage loans (92%), including all loans with an LVR greater than 80%, continue to be 100% individually mortgage insured.	$11.1 million	$7.1 million
Deposits Deposits increased by $167 million (29%) over the year. The Rock's call accounts increased by more than 21%, and term deposits by 26% over the year. The Rock had $148 million of NCDs on issue at 30 June 2011, an increase of 67% over 30 June 2010.	$739 million	$572 million
Dividend payout ratio The Board of The Rock decided to pay out 72% of full year earnings for the year ended 30 June 2011, as being a prudent and appropriate payout level. The Board also reactivated the Dividend Reinvestment Plan for the interim, but not the final, dividend for the year ended 30 June 2011.	72%	75%

29% INCREASE

Deposits increased by $167 million during the year, as The Rock focused on ensuring its deposit base was stable and growing its core business.

Chairman's Report

Dear fellow shareholders,

The 2010/11 financial year has been another interesting period for The Rock Building Society Limited, which I will address in two streams:

- The strategic context of The Rock's position in the Australian financial services industry; and
- Some specific issues that challenged The Rock this year.

Strategic context

At the beginning of the 2010/11 financial year, The Rock's Board initiated a strategic assessment of The Rock's position in the Australian financial services market, which concluded that the Company should address its:

- Single focus on a residential, mortgage insured home loan product;
- Lack of economic scale, particularly given the Company's significant investment in its core banking platform; and
- Continuing challenge to attract retail deposit funds and sell mortgage loans in Australia, in a most competitive landscape.

On 31 August 2011, the Board announced a proposal to merge The Rock with the Tasmanian financial services institution, MyState Limited (MyState) by way of a Scheme of Arrangement.

The Board considers that MyState is an outstanding partner for The Rock. It shares an ambition and values that are strongly aligned to The Rock's underlying philosophy and which are manifest in the considerable benefits that will emerge through the successful execution of this proposal, which will require the approval of The Rock's shareholders, being:

- The application of MyState's compelling retail banking services model, which includes being able to distribute a broader range of banking products and services, as well as wealth management offerings from MyState's trustee business, through The Rock's current branch network and planned extensions throughout regional Queensland, under The Rock's retained brand;
- The opportunity afforded The Rock's employees to be part of a stronger financial institution with a stated ambition to grow both The Rock's breadth of products and services and its geographical footprint; and
- The scale efficiencies that will flow from the enhanced scale of the merged business, including the reduction of duplicated costs.

Full details of this proposed merger will be presented to shareholders in a Scheme Booklet, which will be presented to shareholders prior to their consideration of the proposal at a specially convened shareholder meeting, at which an approval of 75% of voting shareholders will be required to have the proposal approved.

In the absence of a higher or more compelling offer, your Directors consider that the MyState merger proposal presents every shareholder in The Rock with a compelling opportunity to share in the synergies that are available through this merger proposal and, in the longer term, be in a position to participate in any further financial services industry rationalisation opportunities that may arise subsequent to this transaction.

The Board's view of the underlying merit of this transaction has been formed by conducting a thorough evaluation of, and comparison with, continuing The Rock as a proud standalone Central Queensland-based business. It concluded that the overall potential benefits available from this transaction were more compelling than continuing as an individual business. The Scheme Booklet will endeavour to identify and explain these issues to shareholders in more detail in due course.

Shareholders may also note that MyState has a proven record in achieving successful outcomes from prior mergers and your Board is confident in achieving the outcomes on offer from this merger, thus reducing the risk that the potential benefits available through this merger proposal will not be achieved.

Your Directors unanimously recommend this opportunity to you for consideration.

2010/11 challenges

Over and above the conduct and subsequent execution of the findings of the strategic review, the outcome of which is The MyState merger proposal, the Board also set out with the objective that The Rock's core business operations deliver a better result than in the 2009/10 financial year.

In this regard, the financial results delivered this financial year are disappointing and were particularly impacted by the need to address a number of significant one-off issues. These included the need to address The Rock's past failures to satisfy the requirements of its key regulators, the Australian Securities and Investment Commission (ASIC) and the Australian Prudential Regulatory Authority (APRA).

The ASIC regulatory inquiry into the calculation of fees and interest on some customer accounts was initiated in July 2010 and effectively concluded in August 2011. This regulatory inquiry cost was a salient lesson regarding the consequences of failing to put customer needs first. However, The Rock did act decisively to deal with the issues raised, which, as a consequence, has resulted in significant improvements to The Rock's compliance systems, which should reassure both customers and shareholders that effective processes are now in place to manage issues of this nature.

APRA also expressed its concern with The Rock's approach to its compliance obligations, and, again, The Rock responded by both addressing APRA's concerns and taking some decisive action in regard to the risk profile of The Rock's business model and balance sheet, which are also manifest in some one off costs being incurred in this financial year.

The outcome of these issues is that The Rock has reduced the underlying systematic risk of its business model and balance sheet but at a cost to its net interest margin.

The Rock also redirected its focus back to its core business as a regional Authorised Deposit-Taking Institution (ADI) and was able to secure enhanced results in the second half of the financial year through this redirected effort.

These initiatives were managed by a new Managing Director, Stuart McDonald, who joined The Rock in late October 2010. Mr McDonald was given a clear mandate from the Board to address the concerns of ASIC and APRA, as well as refocus the business back to its core business model during a period of unsettled global and domestic financial markets and, in December 2010 and January 2011, for good measure, the impact of a major regional flood.

What the Board and senior management learned this year, above all else, is that The Rock's ADI licence is its most precious asset and that the Company must ensure that it honors its specific obligations under this licence if it is to enjoy its special position in the Australian economy. This finding is firmly etched in every step that The Rock now takes.

Financial results

Overall, The Rock delivered a net profit after tax for the 2010/11 financial year of $4.9 million, in line with the Board's revised guidance, made up of a first half net profit after tax of $2.2 million, followed by an improved $2.7 million net profit after tax in the second half of the year. The benefit of the sale of the insurance broking business is included in the second half's result.

Whilst this improved result for the second half of the year is pleasing, the overall result does not meet the Board's desired outcome, being 4% less than the previous financial year. It should be noted that the statutory profit for 2010/11 was impacted by a number of significant one off transactions, particularly the legal and consulting costs associated with the conduct of the ASIC regulatory inquiry, and the strategic business review and resultant restructuring of the business model and balance sheet, to position the Company for future growth and improved financial performance.

These abnormal one-off costs, together with the continued scale disadvantages common to small, listed ADIs, saw the cost to income ratio remain relatively high.

The Rock's financial performance in 2010/11 also reflects the fact that a small institution like The Rock simply cannot afford the level of abnormal costs which were incurred as a result of its failure to meet certain obligations to customers and regulators.

However, by refocusing on its core business, The Rock was able to grow its deposit base and loans portfolio in the second half of the 2010/11 financial year, resulting in loan portfolio growing by $58 million, or 6.20%, during 2010/11. Deposits also increased substantially in the second half, to grow by $167 million, or 29%, for the year. This result was driven by an ongoing relationship with a large financial planning group and increased retail term deposits through concerted marketing campaigns.

These stronger, second half results were key contributors to an average interest margin of 1.70% for 2010/11, compared to 1.44% in the previous financial year. The Rock's balance sheet was also restructured significantly during the year, due mainly to the staged repayment of borrowings from the Reserve Bank of Australia and the sale of the majority of The Rock's RMBS investments.

The Company also redeemed its Quartz CDO investment in full. This matured in December 2010, generating $4 million in cash flow.

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

The Rock's distribution network was also rationalised during the year, as the Company sought to concentrate on its core footprint of nine branches and a reduced portfolio of profitable mini-branches. Ten under-performing mini-branches, predominantly located in the south-east corner of the state, were closed.

As part of The Rock's rationalisation, The Rock's commercial and rural insurance business was sold for $3.25 million in June 2011. The Rock will continue to offer domestic and personal insurance through an agency agreement.

These decisions were in line with The Rock's focus on its core capabilities of providing domestic and personal financial services in regional areas, to generate an improved financial performance.

The Rock is, and will remain, focused on customer service, through its products and service offerings to its customers. Customers and shareholders will note a new, more user-friendly corporate website, an updated internet banking platform, which was designed utilising customer feedback, well-trained and focused branch personnel, and complementary mini-branch and ATM networks.

The Rock's customer value proposition will be further enhanced during 2011/12 through the refreshment of The Rock's brand, which will serve to reinvigorate an iconic Central Queensland brand and its promise to customers, together with the introduction of the MyState suite of additional products and services, if the proposed merger with MyState is approved later in the year.

During the year, there were also significant environmental and community challenges posed by the Queensland floods and Cyclone Yasi, to which The Rock responded effectively, minimising any significant adverse impact on staff, customers and The Rock's business operations.

In the aftermath of these natural disasters which impacted Queensland in early 2011, the existing Community Support Program was extended to include Flood Recovery Grants totaling $35,000, which were directed to community organisations, to assist their specific rebuilding programs.

More broadly, The Rock remains committed to the local communities in which it operates on an ongoing basis, both through donations to and sponsorships of local community activities.

Dividend

The Board has declared a final dividend of 8.0 cents per share, fully franked, taking the full 2010/11 dividend to 14.0 cents per share, fully franked. This reduced final dividend for 2010/11 is considered prudent in times of continuing uncertainty in financial markets and reflects the impact of the additional costs incurred in the year.

The arrangements of the proposed merger with MyState also includes a proposal that a fully franked interim dividend of up to 12.0 cents per share will be paid upon the approval of the proposed merger with MyState, as part of the proposed benefits inherent in the proposal that would not otherwise be available to the shareholders in a standalone The Rock.

Leadership

The Rock's former Chief Executive Officer and Managing Director, Derek Lightfoot, resigned on 22 October, 2010.

Stuart McDonald was appointed as Interim Chief Executive Officer and Managing Director on 25 October 2010. Mr McDonald is an experienced banking executive and his expertise has been critical in enabling The Rock to address its many challenges during 2010/11.

He has played an integral role in realigning The Rock's business strategy for the future, and overseeing its implementation, the immediate outcome of which is reflected in a stronger second half performance.

Mr McDonald has also been involved in pursuing The Rock's strategic initiative to seek out alternative opportunities to its standalone business plan and has assisted significantly in the negotiations with MyState.

Conclusion

Throughout this financial year, The Rock remained committed to improving the underlying performance of its core ADI business and, as noted, pursuing the alternative parallel strategy of seeking out opportunities to enhance this current business model.

Taking into account a challenging economic environment, your Board considers that, in recommending the proposed merger with MyState, it has secured an opportunity to enhance shareholder value for all of The Rock's shareholders and we look forward to presenting this opportunity in more detail to shareholders later in this calendar year.

1. Members of the Fitzroy Rowing Club (from left) Caitlin Schulz, Amelia Bartlem, Hannah Butler, Rebecca Butler and Reagan Romyn.

2. Camp Quality Central Queensland is one of The Rock's community partners.

On behalf of the Board, I would like to thank The Rock's shareholders for their continuing support. I would also like to acknowledge the commitment of The Rock's management and staff through this challenging year, thank them for their considerable efforts and look forward to their continued focus.

Stephen Lonie

Chairman

Assisting in Flood Recovery Efforts

As one of the community organisations most impacted by the Central Queensland floods crisis, the RJC was one of 15 recipients of The Rock's Community Support Program Flood Recovery Grants.

"When the January floods hit, one of the first phone calls we received was from The Rock," Rockhampton Jockey Club (RJC) Chief Executive Officer, Denis Cox (pictured above), said. "They wanted to know how they could help, which speaks volumes about how committed they are to the community here."

Mr Cox said The Rock's long-running support of the club continued in what was arguably the RJC's darkest hour. After being partly flooded in December; the January flood continued a horror run for the club, inundating the new, multi-million dollar track (pictured top left). The entire Callaghan Park complex went under more than 1.5 metres of muddy water, which also inundated the main bar, officials' rooms, stables, and other facilities. This resulted in an extensive damages bill, with racing suspended for three months.

The Rock's Community Support Program Flood Recovery Grant has since been utilised to re-landscape Callaghan Park's main entrance, mounting yard, jockey's rooms and race day office, helping restore Central Queensland's home of racing to its former glory.

Managing Director's Report

The 2010/11 financial year has been a year of significant challenge, change and opportunity for The Rock, set against the backdrop of continued volatility in the financial markets, a highly competitive financial services landscape and a two-speed Australian economy, impacted by the resources boom and offset by weakness in the manufacturing and retail markets.

The Rock has had to face both external and internal issues, senior leadership changes and a regulatory inquiry, as well as continue to focus on strengthening the balance sheet and improving growth.

The Rock has responded well to these challenges, with strong growth in assets and liabilities in the second half of 2010/11, as well as making some key strategic decisions that will stand the Company on a firm footing to embark on the next stage in its growth.

Some of the major outcomes for this financial year included:

- Completion of a strategic assessment of The Rock;
- A 4% decline in statutory profit (Net Profit after Tax) to $4.9 million. However, profit before the impact of abnormal items, grew 10% to $5.13 million;
- A return to above-market asset and liability growth;
- Successful management of staff and customers through impacts arising from major flooding in The Rock's home markets;
- Maintenance of high credit quality and low arrears within the portfolio;
- An organisational restructure to improve accountability and reduce operating expenses;
- A restructure of the balance sheet, to better support business operations;
- A successful response to a major regulatory inquiry;
- The sale of the RockSure rural and commercial insurance broking assets; and
- The retention of investment grade ratings.

The environment for small Authorised Deposit-taking Institutions (ADIs) changed irrevocably following the Global Financial Crisis (GFC) in 2008. The ramifications of these changes continue to impact all financial services organisations in a variety of ways, including higher sustained funding costs, increased regulatory oversight, and higher liquidity and capital charges.

The dominance in the Australian marketplace of the major and regional banks, which operate with greater scale, efficiency and diversity, has meant that smaller organisations, like The Rock, have had to thoroughly review their business model, strategy and day-to-day operations on an ongoing basis, to ensure that they maintain and improve their competitive advantage.

For The Rock, this environment has meant a renewed focus through 2010/11 on its core retail banking operations across its regional markets, and on improving the efficiency and robustness of its operations. Additionally, continued development of all aspects of risk management at The Rock has been a key priority for management throughout the year.

Strategically, The Rock reviewed its mini-branch operations which resulted in the closure of ten unprofitable mini-branches, almost entirely in south-east Queensland, in February 2011. As at 30 June 2011, the distribution network comprised 20 mini-branches and nine full-service branches. The balance of the mini-branch network was also reviewed and a range of practices to improve operations have been employed.

Additionally, The Rock's insurance operation, RockSure Insurance Brokerage Services, was reviewed during February 2011. A decision was made to sell the rural and commercial insurance brokerage assets and move to an agency arrangement for the personal insurance broking business. This decision was commensurate with The Rock's strategy to focus on core retail banking business. In June 2011, the sale of the rural and commercial insurance brokerage assets was agreed for $3.25 million, a sound outcome that represented a significant premium to book value.

1. Twilight view from Mt Archer across Rockhampton.

Operationally, the business orchestrated a strong turnaround in performance in the financial year's second half, with lending assets increasing 6.2% and deposit liabilities increasing 29% for the financial year. This improvement was achieved through improved pricing strategies, product enhancements and a focus on marketing-supported sales initiatives. This outcome was all the more pleasing considering the coincident adverse impact of Queensland's major flood event.

The Net Interest Margin decreased from 1.8% to 1.7% during the period, due substantially to a change in the mix of assets and liabilities, the repayment of borrowings secured through Reserve Bank of Australia (RBA) repurchase agreements, and the run-down in liquidity.

The Rock's cost to income ratio rose to an unsustainable level of 77.3% due to the impact of the significant one-off cost associated with the regulatory inquiry, together with the one-off cost of the strategic review. Going forward, it is expected that the underlying cost to income ratio will reduce due to the impact of further operational efficiencies. This will include those efficiencies realised as the sale of the commercial insurance broking assets, and the move to an agency arrangement for the broking of personal and domestic insurances, are carried through, for the financial year ahead.

While Australia has generally performed well through the GFC, the global economy remains fragile. Because of this, The Rock took action to improve its funding diversity, repaid the short term RBA debt lines, and reduced or repatriated assets less suited to The Rock's size and complexity. These measures have contributed to a much improved balance sheet structure.

A significant portion of management time and effort was consumed in addressing the regulatory inquiry that began in July 2010. Clearly, this requirement has had a major impact on both the financial and operational focus of the business during the course of 2010/11. Many lessons have been learned from this, and management has put in place an improved risk and compliance regime to ensure that further regulatory and compliance issues are avoided.

2010/11 has been a year of change for The Rock's people. A restructure of the entire organisation occurred with a view to improving accountability, clarity of objectives and establishing a reward mechanism that differentiated based on individual and organisational performance. This is being supported through a reinvigorated staff training and skills development programme.

Additionally, a series of natural disasters, including major flood events in Rockhampton and Emerald during December 2010 and January 2011, saw an outstanding effort from Rock staff, a number of whom were personally impacted, to ensure business continuity through very challenging times. These efforts cannot be commended highly enough. The Rock is deeply embedded within the communities in which it operates, and this was underscored during these times of crisis, with many staff volunteering to assist during the immediate aftermath of the floods. The Rock is contributing financially to the rebuilding, assisting a number of community groups that are vital to the regions in which The Rock operates.

Outlook

Looking ahead, continued market volatility and economic uncertainty means The Rock's strategies must be flexible and prudent. The Rock's strategic focus has been narrowed to enable it to concentrate on its core retail banking franchise.

The Rock will seek to invest in broadening its geographical footprint to regional locations where The Rock's brand awareness is high, and The Rock's value proposition of a local, trusted brand with traditional service appeals to its target market segments.

The Rock's iconic brand will be given a fresh, new look, with work already well underway to launch a new logo and brand promise, to coincide with a number of required premises refurbishments in late 2011, which will continue through 2012. This is aimed at reinvigorating the brand in the eyes of both staff and customers.

In a commoditised marketplace and where The Rock has a scale disadvantage, knowing customers well is key to The Rock's success.

Investment in an improved customer information system, to augment the investment in the BaNCS core banking platform, will substantially assist in this regard. Leveraging The Rock's existing, large Central Queensland customer base with a broader retail product suite is also a specific management focus, with new product development currently underway. The favourable economic prospects in Central Queensland ensure that The Rock has good growth opportunities available moving forward.

However, clearly the broader global and Australian economic picture will have a significant bearing on future performance. The successful execution of The Rock's strategy is paramount and significant effort has been invested in ensuring the implementation of the business strategy is robust and effective.

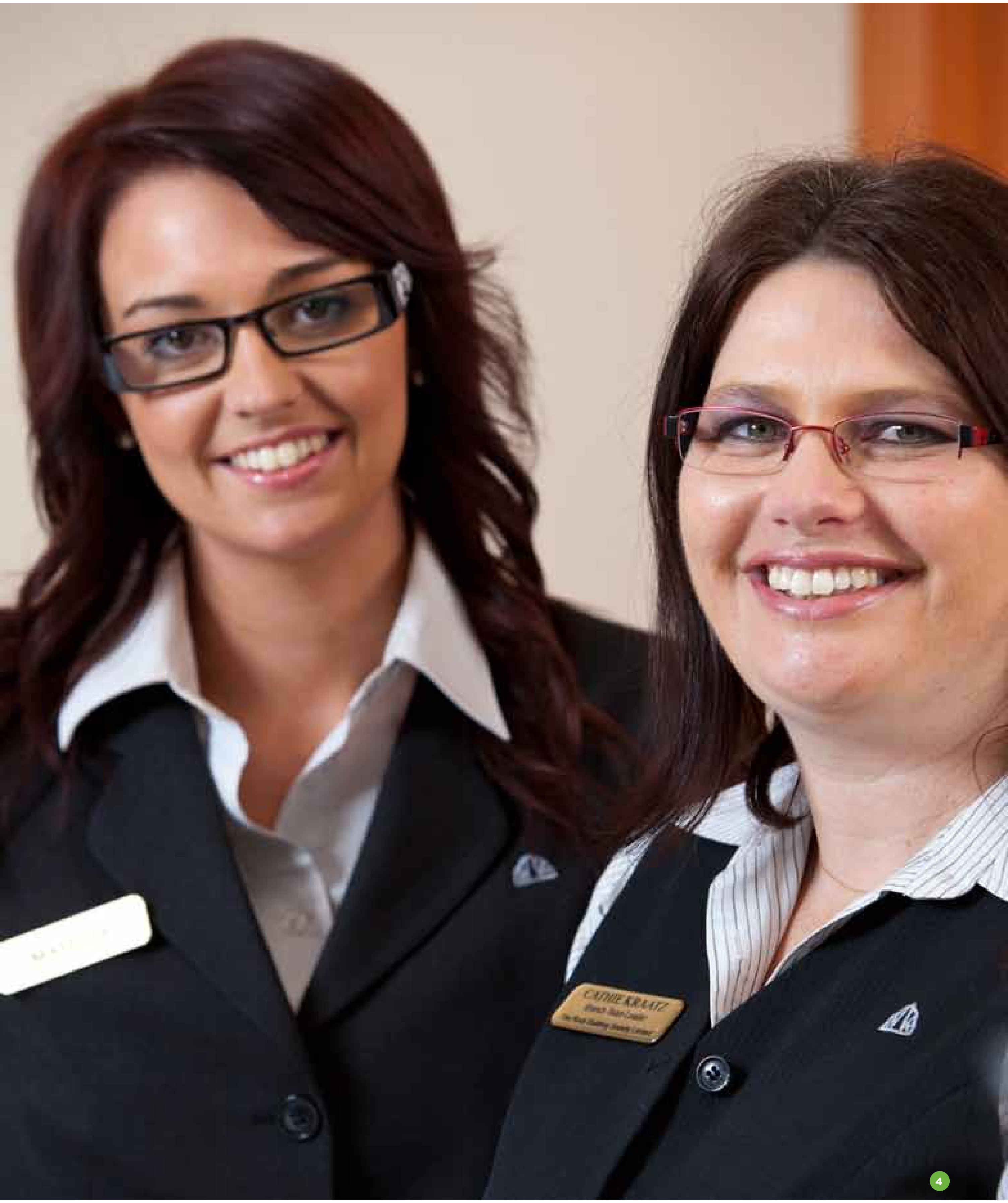
With continued advantages flowing to scale operators in the Australian marketplace in terms of funding expense and diversity, lower expense ratios and broader revenue streams, The Rock is also seeking to expand its scale and reach. This outcome may be achieved through partnering with another ADI to better access these scale benefits. The prospective merger with MyState Limited, announced on 31 August 2011, has the potential, if approved by shareholders, to address many of the strategic challenges faced by The Rock as a standalone entity. The Board has indicated that this opportunity also has the potential to deliver increased shareholder and customer value, and to create a stronger diversified, financial services group.

With a clear business strategy and vision for The Rock, I am confident of The Rock continuing its growth momentum and moving closer to its mission of being the best financial services alternative to the major financial institutions.

I would also like to extend my sincere thanks to The Rock's staff. Their hard work and professionalism will continue to be a cornerstone of the Company's future success.

Stuart McDonald
Managing Director

1. Assitant Accountant David Darling
2. Client Services Officer Trinette Hohn and Team Leader Samantha Witt
3. Client Services Officer Melony Choules.
4. Client Services Officer Matilda Marshall and Team Leader Cathie Kraatz.


CATHIE KRAATZ
4

Chief Financial Officer's Report

The statutory profit (Net Profit after Tax) for 2010/11 was impacted by a number of significant abnormal transactions for The Rock Building Society. The result includes abnormal expenditure of $1.8 million, before tax, for legal and consulting costs associated with the regulatory inquiry, and a comprehensive strategic review and restructuring of the business.

Financial Results

On the positive side, the statutory result was bolstered by the profit from the sale of The Rock's commercial insurance broking business, RockSure, which contributed a profit on sale of $1.0 million after tax.

Net profit after tax (NPAT) for the first half of the year was $2.2 million and, for the second half of the year, $2.7 million. The benefit of the sale of the insurance broking business is included in the second half result.

Net interest income increased by $1.9 million over 2009/10, and other income increased by $0.5 million after tax, including the profit on sale from the insurance business of $1.0 million. Adjusting for the profit on sale of the insurance business, other income decreased by $0.5 million, predominantly due to reduced break costs, loan establishment fees, EFTPOS and ATM fees, monthly account-keeping fees and electronic dishonor fees, ($0.7 million after tax), whilst Insurance broking commissions increased by $0.2 million.

The net interest margin contracted over the year from 1.8% for the month of June 2010, to 1.67% for the month of June 2011. However, the average interest margin for the 2010/11 year was 1.70% compared to 1.44% for the 2009/10 financial year. The interest margin improved during 2010/11 as interest rates rose and fixed rate loans and the swaps hedging these matured, reducing swap interest expense.

The decrease in interest margin over the course of the 2010/11 financial year was partly due to the staged repayment of borrowings from the RBA, and also to a de-risking of The Rock's balance sheet, including the sale of the majority of The Rock's RMBS investments. The interest margin was also compressed by an increased proportion of NCD and Cash Management account funding reflecting the increased competition for funds in the domestic market.

Lending

The Rock's loan portfolio grew by $58 million, or 6.2%, during 2010/11. This growth occurred in the latter part of the year, the loan book increasing month on month from November 2010 through to June 2011.

Balances of loans in arrears greater than 30 days increased to $11.1 million, which represents 1.1% of the loan book at 30 June 2011. Loans in arrears greater than 90 days also increased over the course of the year, to $2.4 million, or 0.2% of the year-end loan book. This better than industry loan arrears position reflects The Rock's prudent lending practices.

Funding

The Rock's cash management account continued to increase in popularity, and the value of Negotiable Certificates of Deposit (NCDs) issued through The Rock's program, launched in February 2010, increased by $58 million over the year, to more than $147 million by 30 June 2011.

Capital Management

The Rock raised $0.5 million in ordinary share capital in early 2011, through the Dividend Reinvestment Plan (DRP) which applied to the interim dividend for the half year to 31 December 2010. The Board has determined that the DRP will not apply to the final dividend for the year ended 30 June 2011.

The Board established a maximum dividend payout ratio of 75% after tax earnings for the 2009/10 financial year. The dividend payout ratio for 2010/11 will be 72%. This level of dividend is considered prudent in times of continuing uncertainty in financial markets.

Liquidity and Investment

The Rock's liquidity decreased during the course of the year as borrowings from the RBA were systematically repaid, the final tranche of borrowings being repaid on 28 June 2011. The Rock's collateralised debt obligation was repatriated in full on maturity in late December 2010, justifying the Board's consistent stance that this instrument had suffered no impairment.

The Rock also modified its investment practices, and reduced some of the risk in its balance sheet by reducing its holdings of Australian Residential Mortgage Backed Securities (RMBS), particularly subordinate notes.

1. Former Australia Post Building, East Street, Rockhampton.

Cost Management

Cost management remained a key focus for The Rock's Board and management throughout 2010/11, however costs associated with the regulatory investigation, strategic review and restructuring of the business had a significant impact. In addition, there continue to be scale disadvantages for small, listed ADIs, and these, together with the additional one-off costs incurred this year, increased The Rock's Cost to Income ratio from 75.7% to 77.3%.

Duncan C Martin

Duncan Martin
Chief Financial Officer

4.9 $M NET PROFIT AFTER TAX

Our Business

The Rock undertook an organisational restructure in 2010/11 to better align the Company with its business strategy. The new-look organisational structure comprises four key departments, being Customer Development, Finance and Risk, Sales and Service, and Corporate Services.

Customer development

During 2010/11, Customer Development focused on enhancing The Rock's customer value proposition in terms of both products and service. This was achieved by better utilising data to understand existing customers and prospective markets and differentiating to meet these consumers' requirements.

Operations

During the year, The Rock's operational focus was on improving efficiencies and realigning all operational areas with the revised business strategy, particularly in the area of customer development and service. The organisational restructure included a reallocation of resources to further support customers through the branch network and the call centre.

Personalised customer service continued to help differentiate The Rock from its competitors. This was clearly demonstrated during the January floods which devastated large areas of Queensland, including the business' Central Queensland heartland.

The Rock demonstrated its focus and aptitude for knowing its customers on an individual basis. Staff readily identified those customers who were directly affected and called to offer assistance, such as deferred mortgage repayments. Many of those contacted voiced their appreciation of this speedy and personalised response.

To further enhance the customer experience through its Rockhampton-based customer call centre, The Rock introduced a software solution to improve efficiencies, while still ensuring callers speak to a real person. The software provides staff with new capabilities for contacting customers, tracking the nature of customer inquiries, and user training.

The Rock's call centre ensures that The Rock's customers have a central, easily accessible point of contact using an 1800 telephone number. Mortgage brokers are provided with their own 1300 hotline and centralised help desk service.

Understanding customers

To better understand existing customers and identify potential customers and markets, The Rock embarked on a customer segmentation project, which will continue into 2011/12. Through investing in improved data analysis tools, providing dedicated resources and leveraging the resulting insights, the business will be better positioned to offer the best customer value propositions to its existing and target markets. This approach complements The Rock's already strong customer-centric focus and will be a key to future growth.

Customer understanding will also be driven by the Net Promoter Score (NPS) initiative launched during 2010/11. NPS is a simple way to measure true customer satisfaction and is utilised both internationally and by major Australian financial institutions.

The Rock began formally measuring NPS in April 2011 with customer care staff surveying incoming callers. As at 30 June 2011, The Rock's cumulative NPS score exceeded industry benchmarks.

Product suite

A stronger customer understanding underpinned a review of The Rock's product offerings in the second half of 2010/11. The review was undertaken to ensure existing customer requirements were being met; that the product suite was generating an attractive value proposition for prospective customers; and to reflect The Rock's refocus on its core business of providing personal and domestic products and services. As a result, a number of deposit and loans products were updated; withdrawn or customised for market and consumer conditions to help drive growth.

Customer groups were also directly engaged. For example, in restructuring the Cash Management Account, existing account holders were surveyed to identify the strongest and weakest product attributes. Resulting customer responses were integral to the account's new look.

1. View from the Range, eastward across Rockhampton.

No new lending products were introduced during the year, however, several special market offers were launched. A number of products were also adjusted to reflect consumer and market requirements. This included the RockStar Special Loan, which was made available as a fixed rate package, while the Self-Managed Super Fund (SMSF) Housing Loan Loan Value Ratio (LVR) was increased to 70%. A year after launch, the SMSF portfolio totalled $20 million at 30 June, 2011, demonstrating The Rock's ability to carve out a niche market with innovative, targeted products.

The Rock's loan products earned industry recognition during the year, with several products awarded a five-star rating for outstanding value as part of the Canstar Cannex Star Ratings Report. These products were recognised as being in the top five per cent of all mortgages surveyed. The Rock's two, three and five-year fixed rate residential loans and the three and five-year standard fixed investment loan products were all recognised with five-star ratings.

Knowing our customers

The Rock's strong knowledge of its customers, and its commitment to genuine service, was apparent during the January 2011 floods crisis.

While many larger financial institutions had to place advertisements in order to establish initial communications with impacted customers, The Rock's ability to know its customers, its local knowledge and on-the-ground contacts, enabled the Company to readily identify those who were most likely to have been impacted and offer assistance on a one-to-one basis.

Priority was given to contacting loans customers who may have been under financial hardship due to the floods. As a result, Customer Care staff, including Jennell Morgan (pictured), directly contacted more than 160 identified customers. While only a small number required assistance, many customers said they were greatly appreciative of The Rock's efforts to contact them directly and its offer of assistance.

Sales and Service

During 2010/11, Sales and Service focused on stabilising and growing The Rock's core business. This was achieved by realigning distribution networks, products and services; while lifting awareness of the Company's points of difference and embarking on targeted marketing campaigns.

Deposits portfolio

These targetted campaigns have enabled the business to address a declining trend in retail deposits and produce strong growth, particularly during the second half of the fiscal year. As a result, deposits increased by 29% to $739 million.

This growth was underpinned by increased term deposits and at call account balances. As at 30 June 2011, term deposit balances increased by 26% to $153 million as the market responded to the attractive interest rates, while at call balances grew by 21% to $438 million.

The growth in at call balances was partly realised through a refreshed product suite as features of several offerings were updated in response to customer feedback and market analysis before being reintroduced to the market. Products redeveloped in direct response to customer and market needs included the Online Saver Account, the Cash Management Account and the Fee Cruncher Account. The latter was developed specifically to fill the low-fee transactional account gap apparent within the product suite.

The Rock's Negotiable Certificates of Deposit (NCDs) continued to attract strong wholesale market support following the 2009/10 launch. The portfolio grew by 66% during the year to $147 million at 30 June, 2011.

Loan portfolio

The stabilisation of the balance sheet and resulting adjustments in product pricing, together with attractive product features, resulted in a turnaround in mortgage loan applications and subsequent loan book growth in 2010/11.

The recovery in the loan portfolio, which began in the second half of 2009/10, continued. This arrested what had been a declining trend, with lending volumes steadying in the six months to 30 December 2010 to total $934 million. During the year, the loan portfolio grew by 6.2% to $996 million, ahead of corresponding industry growth rates.

The quality of The Rock's loan portfolio remains extremely strong, with no mortgagee in possession loans and loan arrears over 30 days of 1.1% of total loans as at 30 June 2011. This was well below the Standard & Poors Mortgage Performance Index (SPIN) of 1.81%.

Having identified new opportunities to achieve loan portfolio growth, The Rock amended its credit policy to reflect government initiatives such as the National Rent Affordability Scheme (NRAS), and in response to the changing market and consumer requirements.

The Rock's credit policy was also amended to not require mortgage insurance on loans with a loan value ratio (LVR) of less than 80%. At 30 June 2011, 92% of The Rock's loan portfolio was mortgage insured. The average LVR across the portfolio was 68.3% as at 30 June 2011.

The Rock's loan portfolio continued to be geographically diverse. The distribution of loans settled during 2010/11 was 42% in Queensland, 30% in New South Wales, and 14% in Victoria, with the remaining 14% being shared between South Australia, Western Australia and the Northern Territory.

Distribution channels

Branch and mini-branch network

The Rock's retail distribution network continued to have a strong regional presence, from Townsville and Cairns in the state's north, west to the Central Queensland coalfields, and south to Hervey Bay and the south-east corner of Queensland.

Following the strategic business review in late 2010, The Rock made the decision to focus on its direct distribution network in the core Central Queensland market where it could compete well on the basis of strong brand recognition and customer loyalty.

In March 2011, the business announced plans to rationalise its network to focus on the profitable growth of its principal footprint of nine branches and a reduced portfolio of mini-branches with the closure of ten locations. Twenty were retained, with eight being located in The Rock's Central Queensland heartland and the balance being in those areas where the brand has strong potential for future expansion. Profitability and the ability to continue to offer customers convenient service were key considerations. Therefore, the closed mini-branches were predominantly in south-east Queensland and up to 500 kilometres from the nearest Rock branch. In the prior six-month period, expansion had been slowed to one new mini-branch at Bundaberg, which was retained given its strong growth potential and promising early performance.

1. Magpies Touch Football Club, Rockhampton.
2. Denham Street, Rockhampton.
3. Transaction Processing Specialist, Natasha Kuhl.

These mini-branches are 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.

As The Rock's parent city, Rockhampton continued to host the largest number of locations. Five branches, including head office, and one mini-branch, are positioned across the city. Branches are also located at Yeppoon, Gladstone, Emerald and Biloela.

The geographic spread of The Rock's ATM network, which provides customers with the convenience of 24-hour access to funds, remained the same as the previous year with 32 machines in place. This followed a strategic review of locations, also based on profitability and future growth prospects.

ATM facilities are strategically located from Cairns to suburban Brisbane in the south, and west to the Central Highlands and the Wide Bay/Burnett regions. Despite the reduction in the mini-branch network, those locations which have limited services from other financial institutions typically retained a Rock ATM. This was the case at Biggenden, Bowen and Nanango.

Mortgage brokers

Mortgage brokers continue to be key introducers to The Rock's loans business. More than 85% of loans were sourced through mortgage brokers, while the balance were originated through The Rock's direct branch and mini-branch channels. The Rock's ability to manufacture products and meet emerging markets, coupled with prompt processing and response rates, ensured strong support for this distribution channel, and resulting growth.

Partnerships

As part of its business strategy, The Rock also continued to foster strategic relationships with groups which share a similar business ethos. These medium to long-term partnerships helped safeguard against market volatility, while leveraging the business' ability to deliver customised, mutually-beneficial, financial services products. This strategy delivered 22% of all loan settlements for the year.

• The Mortgage Gallery

In October 2010, The Rock partnered with West Australian-based, franchised mortgage aggregator, The Mortgage Gallery, to launch a white label loan product. Known as The Base Loan, it enables The Mortgage Gallery to provide an alternative to the major banks under their own brand.

• National Mortgage Brokers

The Rock continued to partner with National Mortgage Brokers (nMB) to offer home buyers and their mortgage brokers a competitive alternative to the major banks. The Rock offers a limited number of home loan products, branded for nMB, for the exclusive use of nMB's brokers and clients. This partnership has continued to grow, with the portfolio worth $32 million as at 30 June 2011.

• Financial planners/investor groups

The Rock attracted significant retail deposits beyond Central Queensland through its online cash management account. Offered in partnership with select, metropolitan-based financial planning and investment groups, this product attracted $70 million in new retail deposits in the 12 months to 30 June 2011.

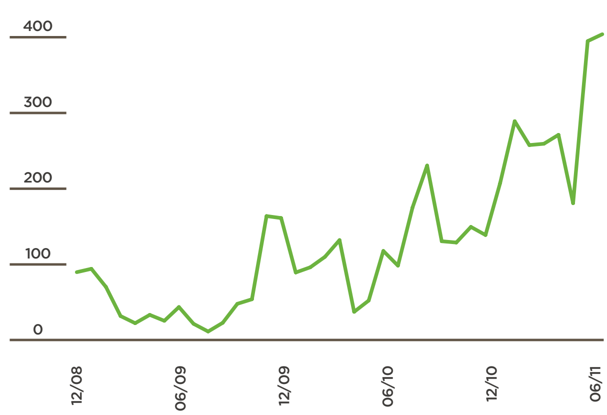
RockSure Insurance Brokers

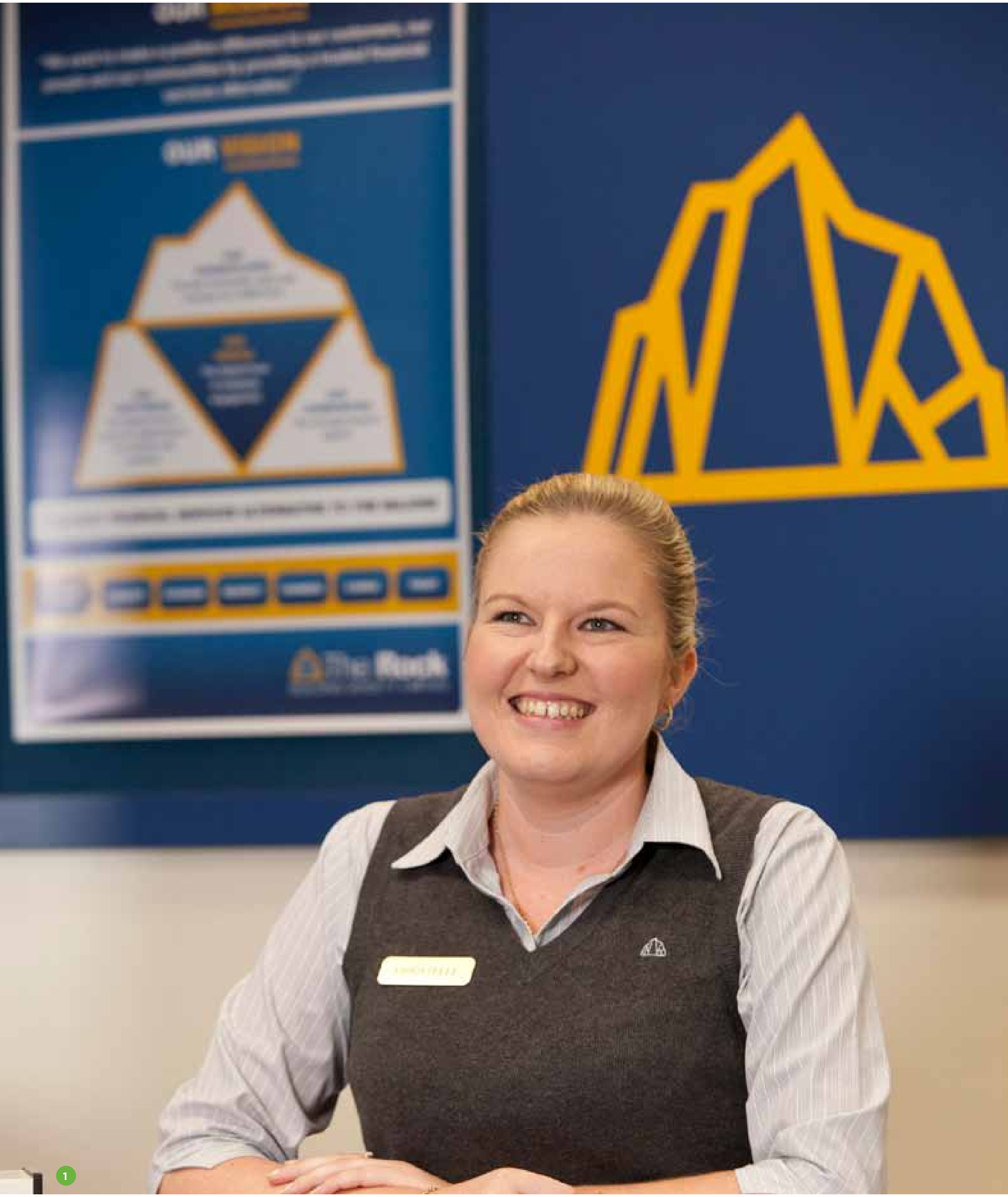
As part of The Rock's strategic review to reposition the company to focus on its core capabilities, RockSure Insurance Broking Service's commercial assets were sold in June 2011 to Regional Insurance Brokers Pty Ltd for $3.25 million.

The Rock was also in advanced discussions to transition domestic and personal insurance business to an agency arrangement. Under this agency arrangement, domestic and personal insurance products will be offered and The Rock will no longer operate an active insurance broking service.

This restructure will enable the business to focus on providing personal products and services within the finance and insurance sectors.

Total Loan Settlements ($000)





1. Client Services Officer Christelle Moisson

Corporate Services

During 2010/11, Corporate Services leveraged the strengths of The Rock's people, processes and technologies to best support the business in meeting its strategic goals. This was achieved through building a data-driven business; investing heavily in staff training; establishing new business performance measures and improved project management procedures, administered by a newly-formed Program Management Office, and further leveraging technology.

Core banking platform

The Rock completed implementation of the BaNCS core banking solution in 2010/11, after successfully deploying this new technology across its head office, branch, mini-branch and ATM networks in late 2009.

During the important post-implementation phase, The Rock consolidated and refined business processes and leveraged the system's capability to further improve productivity and to quickly deliver a range of new products and features to market. This will continue to be a focus during 2011/12.

Leveraging this technology into the future will be carried out under the auspices of the three-year Information Communication Technology (ICT) strategy and road map, and the ICT governance framework developed during 2010/11.

The Rock also enhanced its underlying IT infrastructure by improving network security and reliability, expanding disaster recovery capabilities, and increasing systems' capacity and performance.

Online upgrade

The Rock has significantly improved its online presence by upgrading its external and internal websites and installing a Content Management System (CMS).

Featuring more intuitive, user-friendly navigation and a fresh, new look, the dual-branded Rock and RockSure corporate website was launched in April 2011. With the help of customers and staff, the new website was designed to increase the capacity of this important business channel to deliver future growth opportunities by offering a vastly improved user experience. The revised structure ensures that essential information regarding the business, its products and services, can be readily and easily accessed. By combining The Rock and RockSure business streams onto a single website, both banking and insurance needs are accessible through the one, online "head office". The new website also features dedicated Community and Shareholder areas.

The application of the supporting CMS software has facilitated a central point of truth for the growing volume and complexity of information which must be presented both internally and externally. The system also utilises the Sitecore solution, the world's largest focused provider of software for Web Content Management (WCM), which enables The Rock to manage significant and frequently changing information across multiple locations on multiple websites. Managing these significant tracts of information using Sitecore has streamlined online information management and mitigated associated business risks, while facilitating targeted, online customer engagement.

The Sitecore CMS software also supports The Rock's new internal Intranet. Designed with input from staff, the new site was launched in November 2010 and has become The Rock's principal internal communications and documentation repository.

Internet banking upgrade

Based on customer feedback, The Rock utilised customer views to deliver further improvements and enhancements to the internet banking site from May 2011.

Aimed at better meeting customers' online banking needs, the site was made more user-friendly with improved readability and simplified navigation. Further investment was made in online banking security to ensure the technologies being used met industry standards while facilitating a user-friendly customer interface.

To assist customers in understanding the updated site, a series of online instructional videos were made available prior to, and following, launch. These accessible, step-by-step instructions helped ensure a smooth implementation with minimal customer inquiries.

Our People

The everyday operational success of The Rock, in particular the delivery of a strong customer service proposition, is fundamentally dependent upon a strong organisational culture delivered by a professional, motivated and engaged workforce.

Therefore, the business aims to be an employer of choice, providing a workplace where employees can enjoy job satisfaction, feel valued and meet their career aspirations.

Training and development

To achieve this objective, The Rock has a strong training and development focus. It is committed to ensuring all staff have access to appropriate opportunities to further their development.

In 2010/11, the staff development program was aligned with the revised business plan. This program supports ongoing, structured compliance and skills training, to foster an engaged, confident and productive workforce. Given the organisation's relatively small size, cross-training and succession planning continue to be priorities.

Communications

The Rock's new internal Intranet was launched in November 2010. Staff had direct input into the structure and design of this valuable business information resource. It has since become The Rock's principal internal communications and documentation repository, which has facilitated the sharing of business information and intelligence and provided a vehicle to gather staff input. The new Content Management System (CMS) software and Intranet site have also been leveraged as a timely and cost-effective tool to deliver online training and assessment.

Most staff communications, including regular staff bulletins, are issued via the Intranet. These online communications are supported by regular team and divisional meetings and the Managing Director's updates and blogs.

Organisational restructure

In January 2011, The Rock announced an organisational restructure. The new-look business structure, which comprises four key departments, was adopted to clarify executive accountabilities and better align the company with its business strategy.

These departments are: Customer Development; Finance and Risk; Sales and Service; and Corporate Services. Four of The Rock's existing Executive Management team were selected to oversee the operations of these divisions.

The restructure resulted in a reduction in the number of Executives and a small reduction in the overall number of Full-Time Equivalent (FTE) staff. Total FTE was 130 employees, as at 30 June 2011.

RockSure staff not transferring with the sale of the commercial insurance broking assets announced in June 2011, were offered redeployment opportunities within the banking area. The Rock also provided as much support and assistance as possible to these staff.

Performance Management System

A new performance management system was developed in early 2011 and took effect from 1 July, 2011. The system is designed to facilitate and promote improved staff and organisational performance, enhance employee job satisfaction, and advance and support career development.

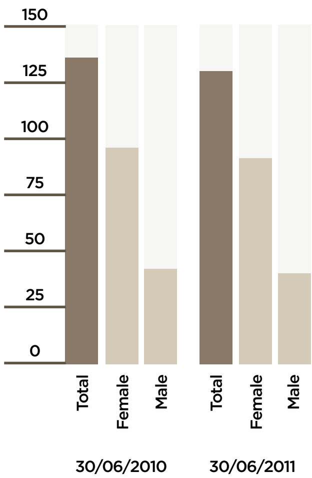
The new system development was accompanied by a business-wide review of position descriptions and Key Performance Indicators (KPIs), which were aligned to support the business plan.

Staff who achieve performance targets in accordance with The Rock's values will be eligible to receive an annual bonus in 2011/12, if organisational performance targets are also met.

Staff engagement

Staff turnover increased significantly in 2010/11. The increase is largely attributed to the strengthening of the post-GFC job market, particularly within the Central Queensland resources sector, which has presented employees with attractive new career opportunities and challenges for employers regarding employee retention. Additionally, the organisational restructure, and sale of the commercial insurance broking assets, contributed to increased turnover.

Staff numbers



Staff sentiment remains positive. Strong levels of engagement were reflected in the Staff Sentiment Survey, with staff indicating their pride in working for the Company and their satisfaction with The Rock as an employer.

Staff community involvement

Both within and outside 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 through the Community Support Program. During 2010/11, staff volunteered for events, including the annual Camp Quality Central Queensland Kids Camp and Horse Riding for the Disabled, with the business supporting this volunteer work during work hours.

The Rock's employees also participated in regular fundraising initiatives, including Dress Differently Day for Autism Queensland; Australia's Biggest Morning Tea, Daffodil Day and Pink Ribbon Day for Cancer Council Queensland; Red Nose Day for SIDS and Kids Queensland; Primary Colour Day for the Downs Syndrome Association of Queensland; and Camp Quality through The Rock's own fundraising ideas. Employees also have the option of directly contributing to charities through a payroll deduction scheme.

Engaging quality staff

While The Rock has a strong record of retaining staff, it also entices quality staff to return.

Customer Experience Manager, Ta English (pictured), is one such staff member, who has carved out a successful and varied career with The Rock.

Ta first joined The Rock in January 2005, undertaking data entry for the Company's financial planning business and, later, being promoted to Office Manager.

Following the sale of the financial planning division a year later, Ta was employed as Assistant to the Managing Director. In 2008, Ta accepted a short-term contract with another employer, but returned to The Rock in 2009, assisting with treasury functions and managing business partner relationships. Ta was then promoted to Assistant Manager of Customer Service and Broker Liaison and, subsequently, Customer Experience Manager, overseeing The Rock's operations area.

"I had always enjoyed working for The Rock. They've always been very supportive of my professional growth and offer staff great flexibility," Ta said. "So when the opportunity to return arose, I was happy to come back."

"I am very proud to be part of an organisation that inwardly promotes when the opportunity arises, is focusing more and more on staff development, recognition and reward, while also providing a great working environment," she said.

Our Community

Building and maintaining strong links with the communities in which the business operates is one of The Rock's major priorities. The Rock strives to achieve this by supporting a significant number of community events, organisations and charities through its award-winning Community Support Program.

This program aims to improve the lives and wellbeing of a wide cross-section of these communities by providing sponsorship and donation financial assistance, supporting joint fundraising initiatives, providing in-kind support, and forming 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.

During 2010/11, The Rock spent more than $87,000 on strategic sponsorships. These included the inaugural John Maxwell Memorial Scholarship, Rockhampton Girls Grammar School Scholarship, the Rockhampton Jockey Club winter racing carnival, Rockhampton Horse Riding for the Disabled, Multicap, Lions District Q0124, North Rockhampton Ladies Bowling Club, Yeppoon Veteran's Golf, Rockhampton Carols by Candlelight, agricultural shows and various sporting club support and school academic awards.

This support extended to sponsoring key regional events such as The Rock Building Society's Central Queensland Southern Great Barrier Reef Tourism Business Awards. Hosted in Gladstone in July 2010, the awards highlight excellence among tourism business operations in the Gladstone, Bundaberg, Capricorn and surrounding regions, making a significant contribution to economic prosperity.

A further $38,000 was directed to community partnerships, including Camp Quality and Cancer Council Queensland's new Cancer Support Centre, where The Rock is the major sponsor of the multi-purpose Education Centre. These partnerships represent long-term, action-orientated associations between The Rock and a small number of not-for-profit organisations. In these cases, the business' involvement extends beyond donating funds to assisting on an ongoing basis - from supporting fundraising appeals to providing public relations assistance.

Flood Recovery Grants

In response to the natural disasters which impacted Queensland so heavily in early 2011, the Community Support Program funding was extended to include Flood Recovery Grants to assist organisations directly impacted by the floods. This enabled The Rock to contribute directly to affected community organisations on a one-to-one basis.

As part of the assessment process, The Rock spoke with a significant number of organisations, from schools to sporting clubs and disaster management groups, to assess how best to assist. As a result, The Rock announced $35,000 in additional funding to 15 organisations throughout the Wide Bay and Central Queensland areas.

Organisations which received funding through The Rock's Flood Recovery Grants were:

- Rockhampton Water Ski Club.
- RSPCA CQ.
- Rockhampton Fitzroy Rowing Club.
- Theodore State School.
- Port Curtis State School.
- CQ Rugby Union.
- Roosters Junior Rugby League Theodore.
- PCYC Rockhampton.
- Denison State School, Emerald.
- Bundaberg Netball Association.
- Baralaba Golf Club.
- Bundaberg Cricket Association.
- Rockhampton Cricket Association.
- North Rockhampton Bowls Club.
- Rockhampton Jockey Club.

1. The Rock Building Society Cancer Education Centre, Rockhampton.

Awards

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

The Rock received top honours at the prestigious Capricorn Tourism & Economic Development and Ergon Energy Business Excellence Awards 2010. The Rock was awarded both the Stanwell Major Business of the Year Award, as well as the major award, the Kennas Outstanding Business of the Year Award.

The awards were open to all Central Queensland businesses, with submissions appraised across key criteria including business strategy, competitive advantage, innovation, customer service, staff development and social and environmental responsibility.

The judges commented that: "The Rock demonstrated a compelling case that the business is well managed, well respected and successful."

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.

An ongoing committment

North Rockhampton Bowls Club Manager, Suzanne Lund, can vividly recall receiving a Flood Recovery Grant cheque from The Rock Building Society, following the 2011 Queensland floods.

"That cheque couldn't have come at a better time," Suzanne said.

"We had to replace all of the club's flooring due to the flood waters and sewage that flowed through the building. Thankfully, the very same day we got the bill for the new flooring, we also received the cheque from The Rock which covered it."

The Flood Recovery Grant provided a welcome boost for the club and was welcomed by members including Gary Assay, Graham Harris, Bill Carrige and Keith Smalley (pictured).

The club was one of 15 community organisations across Central Queensland and Wide Bay which qualified for The Rock's financial support packages, designed in the wake of one of Queensland's worst natural disasters.

August 2010

Launch of John Maxwell Memorial Scholarship

Benjamin Jones is the inaugural winner.

September 2010

Camp Quality Central Queensland Kids Camp

September 2010

The Rock Building Society Central Queensland Southern Great Barrier Reef Tourism Business Awards

April 2011

The Rock/Morning Bulletin Best in Business Awards

June 2011

Rockhampton Jockey Club Winter Racing Carnival

June 2011

Yeppoon and District Show

Image: Courtesy of The Morning Bulletin

Our Environment

The Rock recognises that identifying and quantifying environmental risks and impacts should be part of everyday planning and management, particularly in the areas of energy efficiency, recycling and waste reduction. As part of its day-to-day operations, the business and staff seek opportunities to improve waste management and energy efficiency.

Staff utilise recycling bins for paper, plastics and general waste, while the business has commenced an initiative to use predominately recycled paper for its stationery, business cards and publications.

Where possible, The Rock contracts to suppliers which use environmentally friendly practices. For example, the contractor employed to manage The Rock's secure paper destruction, recycles the resulting paper pulp.

Using electronic communications where possible enables The Rock to reduce its printed materials such as customer communications and statements. The Annual Report print run has been reduced by two-thirds in recent years by producing a readily accessible, user-friendly online version.

Supporting local youth

A commitment to supporting youth and health and fitness initiatives has prompted The Rock to support sporting clubs, events and individuals in those communities in which it operates.

One club which has benefitted from The Rock's Community Support Program has been Magpies Touch Football Club.

The club comprises 150 boys and girls, including young sportsmen, Dane Careless, Angus Houston, Brady Lynch, Lachlan Finter and Tyela Perry (pictured). Teams, ranging in age from five to 16 years, meet weekly during the four-month season to compete in the local fixture.

In 2010/11, The Rock provided valuable support by funding uniforms for the Magpies Under 8s team and sponsored two marquees to provide much-needed shade at club events.

Magpies Club President, Paul Finter said The Rock's sponsorship gave the club the support they needed to participate in the local touch competition.

"Sponsorship from businesses like The Rock helps pay for the basics we need such as team uniforms. The kids take great pride in running out onto the field in their Rock shirts!" Mr Finter said.

Management Team

1 Stuart J McDonald

Managing Director
& Chief Executive Officer

Mr McDonald joined the Board on 25 October 2010 as The Rock's Interim Chief Executive Officer and Managing Director. Mr McDonald commenced his career at National Australia Bank in 1985, and has spent the majority of his career with Suncorp Metway Limited, in a range of senior executive roles. He has a demonstrated track record in running a large financial services business unit, as well as leading and managing group wide strategy, acquisition, integration, and operations programmes. Mr McDonald has also previously held the position of Chairman of L.J. Hooker Pty. Ltd., Director of RACQ Insurance Ltd., and Visiting Fellow at Macquarie University's Centre for Money Banking and Finance. Mr McDonald recently completed Harvard Business School's Advanced Management Programme.

2 Warren Darnill

Sales and Services Executive

Mr Darnill has 31 years experience in the banking and finance industry. He has worked for several financial institutions and has held roles of Personal Banking Manager, Business Development Manager, Finance Manager and State Manager. Mr Darnill has 18 years experience working with the broker market, including his roles with major aggregator groups.

3 Dale Grounds

Customer Development Executive

Dale Grounds has been employed in the Banking and Finance Industry for 27 years. He has extensive experience leading and managing a range of business units within these financial institutions. Dale joined The Rock in October 2006 after five years as Operations Manager within the internal financial 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 bank. Mr Grounds has completed a B.A. (Econ), an MBA and two post Graduate Diplomas in Business.

4 Duncan C Martin

Chief Financial Officer

Mr 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.

Mr Martin also spent three years with the Brisbane City Council.

Mr Martin holds a Bachelor of Science, a Master of Business Administration and is a Chartered Accountant, Certified Internal Auditor and Certified Information Systems Auditor.

5 Len Sanders

Corporate Services Executive

Mr Sanders has worked in I.T. for over 30 years with all but three years in banking and finance. He has held senior positions with two regional banks for periods of 12.5 years at each organisation; Electronic Data Systems for 1.5 years and Brisbane City Council for 3 years.

Mr Sanders has experience in all areas of I.T. including operations, infrastructure, systems development, program management, strategic sourcing and vendor management. He holds a Management Development Certificate from the Mt Eliza Business School.

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 25,161,601 ordinary, fully paid, shares on issue.

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of The Rock 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 in the "Shareholder Centre" section of The Rock's website (www.therock.com.au).

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 in the "Shareholder Centre" section of The Rock's website.

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 executives, as recommended by the Managing Director, including the monitoring of 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 in the "Board of Directors" section of the "Shareholder Centre" on The Rock's website.

On 22 October 2010, Mr Derek Lightfoot resigned from the Board.

On 25 October 2010, Mr Stuart McDonald was appointed to the Board as Managing Director.

Corporate Governance **continued**

Board Structure **continued**

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 Chairman 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 Remuneration and Nomination Committee; and

(c) A Credit Committee.

Each Committee has a charter which can be found on The Rock's website, in the "Corporate Governance" section of the "Shareholder Centre".

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 2011 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 Audit, Risk and Compliance Committee is also responsible for assessing the performance and objectivity of the internal audit function.

All non-executive members of the Board are members of The Audit, Risk and Compliance Committee. All members of the Committee can read and understand financial statements and are financially literate. Mr Ross Illingworth is Chairman of the Audit, Risk and Compliance Committee.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee assists the Board to ensure that the Board is comprised of individuals who are able to discharge the responsibilities of Directors, and to ensure 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, and all non-executive members of the Board are members, of the Remuneration and Nomination 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 Partner of South and Geldard Solicitors, and has acted as solicitor to The Rock for more than 20 years. 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 to The Rock. 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.

One Director sought, and was granted permission from the Chairman of the Board, to seek legal advice in relation to certain matters and circumstances particular to the activities of The Rock and those of the Director. The cost involved was insignificant and immaterial.

Corporate Governance **continued**

DIRECTOR & EXECUTIVE INDUCTION AND PERFORMANCE REVIEW

The Remuneration and Nomination Committee is responsible for monitoring the skills and experience of existing Directors, and assessing the balance between existing 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 Business 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 Position Description outlining the specific key performance indicators, responsibilities, and duties of the inductee's role.

The Chairman of the Board, Mr Stephen Lonie, completed a review of Director performance, fitness, and propriety, prior to the completion of these financial statements.

This review was completed against key performance indicators relating to the skills, experience and knowledge exercised by each Director, as well as their contribution to the Board towards achieving the goals outlined in The Rock's Strategic plan.

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

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.

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 of the executive's position;

(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 the executive team, including both monetary and non-monetary components, are provided in the Remuneration Report in the Directors' Report.

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 Rock'sShare and Other Financial Instruments Trading Policy regulates all dealings in shares, options, and other securities issued by The Rock by Directors, executives and employees of The Rock. This policy prescribes 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, in the "Corporate Governance" section of the "Shareholder Centre".

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 of The Rock is committed to providing financial statements that present a balanced and clear assessment of The Rock's financial position and prospects.

Each year, 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 Australian Securities Exchange's (ASX's) Company Announcements platform, The Rock's website, mailing information 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 periodically to all shareholders. The Shareholder Bulletin is also published on The Rock's website in the "Shareholder Communications" section of the "Shareholder Centre".

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.

The Rock has established a Shareholder Communication Policy, designed to ensure compliance with ASX Listing Rule disclosure requirements. Upon confirmation of the release of information submitted to the ASX on the ASX's Company Announcements platform, 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, in the "Corporate Governance" section of the "Shareholder Centre".

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 the Charter and Policy are on The Rock's website, in the "Corporate Governance" section of the "Shareholder Centre".

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 Board of Directors of 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 to guide and manage this function. 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 29 August 2010, Mr Stuart McDonald (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.

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 2011.

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 since 24 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 Central Queensland mining group, Jellinbah Resources Pty Ltd, and a non-executive Director of Corporate Travel Management Ltd. Mr Lonie is Chairman of The Rock's Remuneration and Nomination Committee, and a member of its Audit, Risk and Compliance Committee. Mr Lonie was a Director of Oaks Hotels and Resorts Group Ltd from 28 February 2011 to 26 May 2011, and of Australian Agricultural Company Ltd from 28 April 2009 to 13 April 2010.

Bradford V R Beasley, LL.B (Hons) MAICD

Non-Executive Director since 17 August 1999.

Mr Beasley is a partner of the Rockhampton firm of Solicitors, South and Geldard and 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. Mr Beasley is Chairman of The Rock's Credit Committee, and a member of its Audit, Risk and Compliance Committee, and Remuneration and Nomination Committee.

Ross A Illingworth, GAICD CFP BBus HR Deakin (Victoria College)

Independent, Non-Executive Director since 15 January 2009.

Mr Illingworth is Chief Investment Officer of Carnbrea & Co Limited. Mr Illingworth is a non-executive Director of The Sir Robert Menzies Memorial Foundation Ltd and a member of its Investment Committee. Mr Illingworth is also a non-executive Director of Arthritis Victoria and a member of its Audit and Investment Committee. Mr Illingworth 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 since 1 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, Mr Davies was a Director of Suncorp Financial Planning Pty Ltd, Metway Star Limited, Graham & Company Limited, and LJ Hooker Corporate Limited. Mr Davies is a member of The Rock's Audit, Risk and Compliance Committee, and its Remuneration and Nomination Committee.

Stuart J McDonald, B Com MAppFin (Macq.) MAICD

Managing Director – appointed 25 October 2010

Mr McDonald joined the Board on 25 October 2010 as The Rock's Interim Chief Executive Officer and Managing Director. Mr McDonald commenced his career at National Australia Bank in 1985, and has spent the majority of his career with Suncorp Metway Limited, in a range of senior executive roles. Mr McDonald has a demonstrated track record in running a large financial services business unit, as well as leading and managing group wide strategy, acquisition, integration, and operations programmes. Mr McDonald has also previously held the position of Chairman of L.J. Hooker Pty. Ltd., Director of RACQ Insurance Ltd., and Visiting Fellow at Macquarie University's Centre for Money, Banking and Finance. Mr McDonald recently completed Harvard Business School's Advanced Management Programme.

Derek G Lightfoot, BCom FCA FFin GAICD

Managing Director since 26 November 2007 – resigned 22 October 2010

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. Prior to joining The Rock, Mr Lightfoot spent ten years with KPMG in Brisbane and London, specialising in the banking and finance industry. Mr Lightfoot also spent eight years in senior management positions at another Queensland based regional bank.

COMPANY SECRETARY

Duncan C Martin, BSc (Dunelm) 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.

All Directors have held their office from 1 July 2010 to the date of this report unless otherwise stated.

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	BVR BEASLEY	RA ILLINGWORTH	RA DAVIES	SE LONIE	SJ MCDONALD	DG LIGHTFOOT
Directors' Meetings Eligible to Attend	14	14	14	14	10	4
Directors' Meetings Attended	13	14	13	14	10	4
Audit, Risk and Compliance Committee Meetings Eligible to Attend	16	16	16	16	9	7
Audit, Risk and Compliance Committee Meetings Attended	15	16	15	13	9	5
Remuneration and Nomination Committee Meetings Eligible to Attend	2	2	2	2	-	-
Remuneration and Nomination Committee Meetings Attended	2	2	2	2	-	-
Credit Committee Meetings Eligible to Attend	7	-	-	-	4	3
Credit Committee Meetings Attended	7	-	-	-	2	3

All Non-executive Directors are members of The Rock's Audit, Risk and Compliance Committee, and Remuneration and Nomination Committee.

The Audit, Risk and Compliance Committee oversees the preparation of financial statements to members, the activities of both internal and external audit, and ensures compliance with the Australian Prudential Regulation Authority (APRA) Prudential Standards.

The Remuneration and Nomination Committee assists the board of Directors to ensure that The Rock's remuneration policies and practices attract and retain Directors, executives, and personnel with the correct mix of skills and experience required to lead, manage, and serve The Rock.

Mr R A Illingworth is Chairman of the Audit, Risk and Compliance Committee.

Mr S E Lonie is Chairman of the Remuneration and Nomination Committee.

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	32,175
B V R Beasley	62,752
R A Illingworth	284,585
R A Davies	10,000
S J McDonald	Nil

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

INSURANCE AND INDEMNIFICATION OF OFFICERS OR AUDITOR

Insurance premiums have been paid to insure each of the Directors and officers of The Rock and its controlled entities, against any costs and expenses incurred by them in defending any legal proceeding arising out of their conduct while acting in their capacity as an officer of The Rock and its controlled entities. In accordance with normal commercial practice, disclosure of the premium amount and the nature of the insured liabilities is prohibited by a confidentiality clause in the insurance contract.

No insurance cover or indemnity has been provided for the benefit of the auditor.

Directors' Report **continued**

PRINCIPAL ACTIVITIES

The principal activities during the financial year were the conduct of banking services, including the raising of retail deposit funds and the provision of housing loans. All housing loans are secured by registered mortgage over residential property. Loans are funded by a combination of retail deposits and wholesale funding.

The Rock also provided domestic and commercial insurance broking services, however, The Rock's rural and commercial insurance broking assets were sold on 27 June 2011.

There was no significant change in principal activities during the year.

REVIEW OF OPERATIONS

Profitability

The consolidated net profit after income tax for the year ended 30 June 2011 was $4.9 million, compared to $5.1 million for the year ended 30 June 2010, representing a decrease of 4%.

The Rock earned a net profit after tax of $2.2 million in the first half to 31 December 2010, followed by a net profit after tax of $2.7 million in the second six months to 30 June 2011, due, in part, to the impact of the sale of the rural and commercial insurance broking assets.

Cash profit after tax for the year ended 30 June 2011, excluding non-cash depreciation and amortisation items was $6.6 million, compared with $6.6 million for the year ended 30 June 2010.

Cash profit after tax has been derived from accounting net profit after tax as follows:

	2011 $000	**2010 $000**
Net profit after tax	**4,856**	**5,075**
After-tax non-cash expenses:		
Depreciation of property, plant and equipment (after tax)		
– Buildings	34	43
– Plant and equipment	652	617
Amortisation (after tax)		
– Leasehold improvements	41	69
– Other intangibles	212	274
– Computer software	687	449
– Insurance book	91	90
Cash profit after tax	**6,573**	**6,617**

Income

Net interest income for the year ended 30 June 2011 was $21.8 million, compared to $19.1 million for the year ended 30 June 2010, representing an increase of 14%.

Other income for the year ended 30 June 2011 was $8.8 million, compared to $8.1 million for the year ended 30 June 2010, representing an increase of 9%.

Expenses

The Rock's expenses for the year ended 30 June 2011 were $23.6 million, compared to $20.6 million for the year ended 30 June 2010, representing an increase of 15%. The major increases in expenses were legal fees in relation to the regulatory investigation, and costs associated with a strategic review and restructuring of the business.

Directors' Report **continued**

Review of Operations **continued**

Normalised profit

Normalised profit, before and after tax, has been derived from statutory profit, before and after tax, as follows:

	2011 $000	2010 $000
Statutory profit before tax	**6,950**	**6,625**
Abnormal Items:		
Gain on sale of rural and commercial insurance broking assets	(1,444)	–
Consultants and advisory fees	1,266	–
Restructuring costs	283	–
Loss on sale of RMBS investments	153	–
APRA IT governence review remediation	129	–
Normalised profit before tax	**7,337**	**6,625**
Tax:		
Statutory income tax expense	(2,094)	(1,550)
Tax on abnormal items	(116)	–
R&D tax benefit	–	(388)
Investment allowance benefit	–	(53)
Normalised income tax expense	**(2,210)**	**(1,991)**
Normalised profit after tax	**5,127**	**4,634**

Efficiency

The Rock's cost to income ratio for the year ended 30 June 2011 was 77.3%, compared to 75.7% for the year to 30 June 2010.

After adjustment for non-cash depreciation and amortisation items, The Rock's cash cost to income ratio for the year ended 30 June 2011 was 69.3%, compared to 67.6% for the year to 30 June 2010.

Asset quality

Mortgage insurance

The majority of the loans on the Economic Entity's Statement of Financial Position (92.2%) are individually, fully, lender's mortgage insured, including all loans with a loan-to-value ratio greater than 80%, compared to 99.7% of the portfolio at the previous year end.

The reduction 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, and the Board's decision, taken in November 2010, not to require mortgage insurance for loans with a loan-to-value ratio less than 80%. The maximum loan to valuation ratio permitted by The Rock for loans to self-managed superannuation funds throughout 2010/11 was 70%, however, this limit was increased to 80% shortly after the 2010/11 financial year-end.

Arrears

Arrears continue to be well managed. Loans in arrears greater than 30 days amounted to $11.1 million as at 30 June 2011, representing 1.11% of the total loan book, an increase from $7.1 million at 30 June 2010, which represented 0.74% of the loan book.

The value of loans in arrears greater than 90 days at 30 June 2011 was $2.4 million, compared to $1.7 million at 30 June 2010, representing 0.24% and 0.18% of the total loan book as at those dates respectively.

Lending approvals and asset movements

New loans advanced during the year ended 30 June 2011 totalled $244 million, compared to $155 million during the year ended 30 June 2010.

The Rock's loan book increased by $58 million during the year, from $938 million at 30 June 2010, to $996 million at 30 June 2011, an increase of 6.2%.

In the same period, The Rock's investment portfolio decreased by $35 million to $231 million at 30 June 2011, from $266 million at 30 June 2010. In order to better manage the risk in its balance sheet, The Rock took the decision to divest itself of the majority of its holdings of Residential Mortgage Backed Securities (RMBS). The Rock held $25 million of these investments at 30 June 2010, however, holdings of these investments were reduced during the year, to less than $4 million as at 30 June 2011.

Total assets, as at 30 June 2011, stood at $1,247 million, compared to $1,225 million at 30 June 2010, an increase of 1.8%.

Directors' Report **continued**

Review of Operations **continued**

Deposit growth and funding

Total deposits, as at 30 June 2011, were $739 million, compared to $572 million at 30 June 2010, representing an increase of 29.2% over the year.

The Rock continued to diversify its funding sources during the year by growing its Negotiable Certificate of Deposit (NCD) programme. 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 as collateral for repurchase transactions by the Reserve Bank of Australia (RBA). The programme grew by $59 million (67%), to $148 million at 30 June 2011, from $89 million in at 30 June 2010.

The Rock began the year with $139 million in borrowings from the RBA, obtained through repurchase agreements. These borrowings were completely repaid to the RBA, as they matured, through the year. The Rock had no borrowings from the RBA at 30 June 2011.

Capital management

The Rock's Capital Adequacy ratio at 30 June 2011 was 13.4%, compared to a ratio of 13.1% at 30 June 2010.

The Rock raised $455,000 in ordinary share capital during the year, after capital raising costs, by the issue of 205,000 shares through The Rock's Dividend Reinvestment Plan at $2.2735 per share. There were 25,161,601 shares on issue at 30 June 2011, compared to 24,956,880 shares on issue at 30 June 2010.

Liquidity management

The Rock's High Quality Liquid Assets (HQLA) ratio at 30 June 2011 was 12.7%, compared to a 30 June 2010 HQLA ratio of 17.0%.

Mini-branch rationalisation and ATM network

The Rock opened a new mini-branch in Bundaberg, and closed ten other, under-performing, mini-branches during the year, which represents a 34% decrease in the mini branch network, from 29 mini-branches at 30 June 2010, to 20 at 30 June 2011. The Rock maintained its network of 9 full service branches.

The Rock's fleet of 32 Automated Teller Machines (ATMs) remained unchanged in size during the year. Two machines were decommissioned, in Parkinson and St Lucia, and two new machines installed, in Bundaberg and Bayview Gardens.

Shareholder returns

Earnings per share for the year ended 30 June 2011 was 19.4 cents per share, compared to 21.4 cents per share in the year to 30 June 2010, representing a decrease of 9.3%. The weighted average number of shares on issue over the year was 25.0 million, compared to 23.8 million during the year to 30 June 2010, an increase of 5.0%.

Cash earnings per share for the year to 30 June 2011, was 26.3 cents per share, which was a reduction of 5.4%, from 27.8 cents per share for the year to 30 June 2010.

The Board of Directors has declared a fully franked final dividend for the year ended 30 June 2011 of 8 cents per share, a reduction of 1 cent (11%) compared to the final dividend of 9 cents per share for the year ended 30 June 2010. This final dividend takes the full year dividend for the year ended 30 June 2011 to 14 cents per share, compared to a full year dividend of 15 cents per share for the year ended 30 June 2010. The Board has determined that this payout ratio of 72% is prudent and appropriate in the current economic climate, which remains uncertain.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There have been no significant changes in the state of affairs of The Rock, other than the sale of its rural and commercial insurance broking assets on 27 June 2011.

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:

ORDINARY SHARES	2011 $000	2010 $000
A final dividend for year ended 30 June 2010 of 9.0 cents (2009: 8.5 cents) per share, fully franked, was paid on 30 September 2010 (2 October 2009).	2,246	1,667
An interim dividend for year ended 30 June 2011 of 6.0 cents (2010: 6.0 cents) per share, fully franked, was paid on 4 April 2011 (31 March 2010).	1,498	1,488
A final dividend for year ended 30 June 2011 of 8.0 cents (2010: 9.0 cents) per share, fully franked, has been declared and will be paid on 30 September 2011 (30 September 2010).	2,013	2,246

PEOPLE

Mr Derek Lightfoot resigned as Managing Director from the Board and as Chief Executive Officer of the Company on 22 October 2010.

Mr Stuart McDonald was appointed Interim Chief Executive Officer and Managing Director on 25 October 2010.

REMUNERATION REPORT

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 commenced on 25 October 2010. A period of 12 months notice is required for termination of the Managing Director's employment.

The Rock has entered into service contracts for other executives on a continuing basis, with three months' notice required for termination. 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, together with 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.

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

No performance-based payments were made to executive officers during the year ended 30 June 2011 (2010: $20,000). The Board uses short-term incentives on an ad-hoc basis to provide incentives for executives on achievement of key strategic initiatives.

Directors' Report **continued**

Remuneration Report **continued**

In the 2010 Annual Report, the Chairman referred to a number of strategic initiatives being undertaken, and to short-term incentives in the form of cash bonuses being available in relation to these initiatives, at the Board's discretion, and based on the uplift in shareholder value created by those initiatives. The Board is considering whether it is appropriate for the company to move to a more formal performance based short-term incentive plan on an ongoing basis.

The Managing Director may earn a strategic incentive bonus relating to a corporate transaction involving the Company of $200,000 fixed on completion of a transaction, plus a further variable portion if the amount of the per share transaction value exceeds a benchmark established by the Board in relation to the transaction by more than 15%, and is subject to a maximum total incentive equal to one years total fixed remuneration.

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

ITEM	2007	2008	2009	2010	2011
After-tax earnings ($000)	3,681	4,484	4,325	5,075	4,856
Earnings per share	20.1c	23.4c	22.4c	21.4c	19.4c
Dividends paid ($000)	4,059	3,629	3,961	3,155	3,744
Share price	$5.26	$3.32	$2.36	$2.52	$2.17

The following table details the key management personnel of the Economic 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	Chairman.
Mr B V R Beasley	Director.
Mr R Davies	Director.
Mr R A Illingworth	Director.
Executive Director	
Mr S J McDonald[1]	Managing Director.
Mr D G Lightfoot[2]	Managing Director.
Senior Executives	
Mr D C Martin	Finance and Risk Executive.
Mr L M Sanders	Corporate Services Executive.
Mr D F Grounds	Customer Development Executive.
Mr WS Darnill	Sales and Service Executive.
Mr J P Hanby[3]	Corporate Development Executive.

1 Appointed 25 October 2010.
2 Resigned 22 October 2010.
3 Resigned 17 December 2010.

Directors' Report **continued**

Remuneration Report **continued**

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 Rock executives are set out in the following tables.

Remuneration 2011 Financial Year

	Short-term Employee Benefits				Post Employment	
	Salary Fees & Commissions	Cash Bonus	Other Benefits	Non-Cash Benefits	Superannuation Contributions	Total
	$000	$000	$000	$000	$000	$000
Non-Executive Directors						
Mr S E Lonie	139	-	-	-	13	152
Mr B V R Beasley	76	-	-	-	7	83
Mr R Davies	63	-	-	-	6	69
Mr R A Illingworth	76	-	-	-	7	83
Total Non-Executive Directors	**354**	**-**	**-**	**-**	**33**	**387**
Executive Director						
Mr S J McDonald[1]	308	-	-	-	26	334
Mr D G Lightfoot[2]	115	-	-	14	25	154
Executives						
Mr D C Martin	178	-	-	-	15	193
Mr LM Sanders	133	-	-	15	12	160
Mr D F Grounds	127	-	-	19	12	158
Mr WS Darnill	144	-	-	-	13	157
Mr J P Hanby[3]	85	-	-	-	8	93
Total Executives	**1,090**	**-**	**-**	**48**	**111**	**1,249**
Total	**1,444**	**-**	**-**	**48**	**144**	**1,636**

1 Appointed 25 October 2010.
2 Resigned 22 October 2010.
3 Resigned 17 December 2010.

Directors' Report **continued**

Remuneration Report **continued**

Remuneration 2010 Financial Year

	Short-term Employee Benefits				Post Employment	
	Salary Fees & Commissions	Cash Bonus	Other Benefits	Non-Cash Benefits	Superannuation Contributions	Total
	$000	$000	$000	$000	$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 LM Sanders	113	20	-	27	12	172
Mr D F Grounds	111	-	-	19	10	140
Mr WS 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 Mr LM Sanders, 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.

End of Remuneration Report

Directors' Report **continued**

EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Subsequent to the reporting date, The Board declared a final dividend of 8 cents per fully paid ordinary share ($2,013,000) for the year ended 30 June 2011, payable on 30 September 2011. 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 2011 and will be recognised in the subsequent financial year.

On 30 August 2011, The Rock announced its intention to merge with MyState Limited by way of a Scheme of Arrangement, in accordance with the Corporations Act. The merger is subject to various conditions precedent, including approval by the company's shareholders, the Court, the Federal Treasurer (under Financial Sector (Shareholdings) Act) and relevant regulatory authorities.

Under the terms of this proposal, The Rock Shareholders will receive shares in MyState Limited in exchange for their shares in The Rock.

The full financial effect cannot be determined at this time, however, the Board believes that the merged organisation will benefit from improved financial performance through efficiency gains, enhanced distribution capabilities, geographic and balance sheet diversification, and growth opportunities. Further information will be available to shareholders in accordance with the Timetable in the Scheme Implementation Deed.

The Directors are not aware of any other matter or circumstance which has arisen since 30 June 2011 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 and lending products, such as personal loans, to its customers, through its network of branches and mini-branches, 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 continues to be well positioned, and will be a willing participant, in any potential consolidation of the industry, as The Rock:

- Is in a sound financial position;
- Has an established regional market franchise; and
- 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 Rock 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 ROCK

No person has applied for leave of court to bring proceedings on behalf of The Rock, or to intervene in any proceedings to which The Rock is a party, for the purpose of taking responsibility on behalf of The Rock for all or any part of those proceedings. The Rock 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, BDO Audit (Qld) Pty Ltd, during the year ended 30 June 2011:

Regulatory or prudential audits	$31,000
Taxation Services	$60,000
Regulatory Investigation-related activities	$65,000
Other activities	$4,000

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration, as required under section 307C of the Corporations Act 2001, is set out on page 45 and forms part of the Directors' Report for the financial year ended 30 June 2011.

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.

This report is made in accordance with a resolution of the Board of Directors.

Stephen E Lonie
Chairman

30 August 2011
Brisbane

Declaration of Independence

BDO

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DECLARATION OF INDEPENDENCE BY P A GALLAGHER TO THE DIRECTORS OF THE ROCK BUILDING SOCIETY LIMITED

As lead auditor of The Rock Building Society Limited for the year ended 30 June 2011, 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.

Paul Gallagher

Director

BDO Audit (QLD) Pty Ltd

Brisbane, 30 August 2011

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2011

	NOTES	ECONOMIC ENTITY		THE ROCK	
		2011 $000	2010 $000	2011 $000	2010 $000
Interest income	2	78,776	69,045	50,767	38,464
Interest expense	2	(57,002)	(49,967)	(35,814)	(26,206)
Net interest income		21,774	19,078	14,953	12,258
Other revenue and income	3	8,807	8,150	15,219	16,938
Impairment losses on loans and advances	11(c)	(38)	(101)	(38)	(101)
Employee benefits expense	4	(8,385)	(7,366)	(8,385)	(7,366)
Occupancy expense	4	(754)	(778)	(754)	(778)
Depreciation and amortisation expense	4	(2,453)	(2,201)	(2,453)	(2,201)
Other expenses	4	(12,001)	(10,157)	(11,921)	(9,630)
Profit before income tax		6,950	6,625	6,621	9,120
Income tax expense	5	(2,094)	(1,550)	(1,538)	(2,298)
Profit for the year		**4,856**	**5,075**	**5,083**	**6,822**
Other comprehensive income, net of income tax					
Net changes on revaluation of Land and Buildings		-	(747)	-	(747)
Net changes in cash flow hedges		340	7,939	-	-
Income tax (expense) / benefit on items of other comprehensive income	5(d)	(102)	(2,157)	-	224
Total Other Comprehensive Income for the year, net of income tax		**238**	**5,035**	**-**	**(523)**
Total Comprehensive Income for the year		**5,094**	**10,110**	**5,083**	**6,299**
Profit attributable to:					
Non-controlling interest		-	-	-	-
Controlling Interest		4,856	5,075	5,083	6,822
Profit for the year		**4,856**	**5,075**	**5,083**	**6,822**
Total Comprehensive income attributable to:					
Non-controlling interest		-	-	-	-
Controlling Interest		5,094	10,110	5,083	6,299
Total Comprehensive Income for the year		**5,094**	**10,110**	**5,083**	**6,299**
Overall operations					
Basic earnings per share (cents per share)	6	19.4	21.4		
Diluted earnings per share (cents per share)	6	19.4	21.4		

The accompanying notes should be read in conjunction with these financial statements.

Statement of Financial Position

AS AT 30 JUNE 2011

	NOTES	ECONOMIC ENTITY		THE ROCK	
		2011 $000	2010 $000	2011 $000	2010 $000
Assets					
Cash and cash equivalents	7	39,680	56,888	21,213	30,363
Trade and other receivables	8	5,319	4,103	9,437	7,715
Financial assets available for sale	12	3,546	25,339	150,280	194,468
Financial assets held-to-maturity	9	187,767	183,693	187,767	183,693
Loans and advances	10	995,974	938,480	427,548	349,845
Derivatives	13	-	-	1,704	2,373
Property, plant and equipment	14	5,324	5,954	5,324	5,954
Other assets	15	388	419	388	419
Deferred tax assets	5(g)	1,475	1,692	1,467	1,684
Intangible assets	16	7,255	8,682	7,255	8,682
Total assets		**1,246,728**	**1,225,250**	**812,383**	**785,196**
Liabilities					
Deposits	17	738,560	572,095	738,560	572,095
Trade and other payables	18	6,661	10,439	5,860	7,570
Derivatives	13	2,978	3,320	2,978	3,320
Borrowings	20	435,240	578,286	-	138,736
Income tax payable	5(e)	839	965	369	952
Deferred tax liability	5(f)	1,565	1,092	2,076	1,804
Provisions	19	327	303	327	303
Total liabilities		**1,186,170**	**1,166,500**	**750,170**	**724,780**
Net assets		**60,558**	**58,750**	**62,213**	**60,416**
Equity					
Issued capital	21	34,821	34,363	34,821	34,363
Retained earnings		25,499	24,387	25,069	23,730
Reserves	22	238	-	2,323	2,323
Controlling interest		60,558	58,750	62,213	60,416
Non-controlling interests		-	-	-	-
Total equity		**60,558**	**58,750**	**62,213**	**60,416**

The accompanying notes should be read in conjunction with these financial statements.

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2011

	NOTES	ECONOMIC ENTITY		THE ROCK	
		2011 $000	2010 $000	2011 $000	2010 $000
Cash flows from operating activities					
Interest received - loans and advances		60,468	57,266	23,568	18,788
New loans advanced		(244,090)	(155,479)	(273,215)	(225,156)
Principal collected from loans and advances		187,367	225,156	66,603	59,431
Interest & bill discounts received - investments		18,351	710	28,745	14,048
Net movement in investments		17,718	(22,330)	40,113	(18,775)
Fees and commissions received		7,161	8,330	12,384	16,334
Fees and commissions paid		(5,212)	(4,874)	(4,845)	(4,247)
Interest paid		(59,067)	(37,198)	(37,354)	(20,964)
Net movement in deposits		166,439	23,319	166,439	23,319
Proceeds from mortgages securitised		-	-	129,680	77,922
Net movement in notes issued over securitised loans		(4,310)	(158,274)	-	-
Payment of SPV establishment costs	16(d)	(30)	(186)	(30)	(186)
Cash paid to suppliers & employees		(18,167)	(12,551)	(17,403)	(14,383)
Income tax paid	5(e)	(1,628)	(1,765)	(1,626)	(1,765)
Other income		1,592	46	1,592	71
Net cash provided by / (used in) operating activities	31(a)	**126,592**	**(77,830)**	**134,651**	**(75,563)**
Cash flows from investing activities					
Purchase of software	16(d)	(1,386)	(1,374)	(1,386)	(1,374)
Purchase of property, plant and equipment	14(f)	(438)	(2,591)	(438)	(2,591)
Adjustment to final purchase price of insurance book		-	(32)	-	(32)
Proceeds from sale of property, plant, equipment		48	13	48	13
Net cash used in investing activities		**(1,776)**	**(3,984)**	**(1,776)**	**(3,984)**
Cash flows from financing activities					
Proceeds from borrowings		(138,736)	88,736	(138,736)	88,736
Dividends paid		(3,746)	(3,155)	(3,744)	(3,155)
Proceeds from shares issued		458	12,224	455	12,224
Net cash provided by financing activities		**(142,024)**	**97,805**	**(142,025)**	**97,805**
Net movement in cash and cash equivalents		(17,208)	15,991	(9,150)	18,258
Cash and cash equivalents at beginning of year		56,888	40,897	30,363	12,105
Cash and cash equivalents at end of year	7	39,680	56,888	21,213	30,363

The accompanying notes should be read in conjunction with these financial statements.

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2011

	ISSUED CAPITAL	RETAINED EARNINGS	ASSET REVALUATION RESERVE	HEDGING RESERVE	GENERAL RESERVE FOR CREDIT LOSSES	TOTAL
	$000	$000	$000	$000	$000	$000
CONSOLIDATED						
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**
Total comprehensive income for the year						
Profit for the year	-	4,856	-	-	-	4,856
Other comprehensive income						
– Net changes in cash flow hedges, net of tax	-	-	-	238	-	238
Total comprehensive income for the year	**-**	**4,856**	**-**	**238**	**-**	**5,094**
Transactions with owners in their capacity as owners						
Shares issued	465	-	-	-	-	465
Capital raising costs	(7)	-	-	-	-	(7)
Dividends paid	-	(3,744)	-	-	-	(3,744)
Total transactions with owners in their capacity as owners	**458**	**(3,744)**	**-**	**-**	**-**	**(3,286)**
Balance at 30 June 2011	**34,821**	**25,499**	**1,986**	**(2,085)**	**337**	**60,558**

The accompanying notes should be read in conjunction with these financial statements.

Statement of Changes in Equity **continued**

	ISSUED CAPITAL	RETAINED EARNINGS	ASSET REVALUATION RESERVE	HEDGING RESERVE	GENERAL RESERVE FOR CREDIT LOSSES	TOTAL
	$000	$000	$000	$000	$000	$000
SOCIETY						
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)
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**
Total comprehensive income for the year						
Profit for the year	-	5,083	-	-	-	5,083
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the year	**-**	**5,083**	**-**	**-**	**-**	**5,083**
Transactions with owners in their capacity as owners						
Shares issued	465	-	-	-	-	465
Capital raising costs	(7)	-	-	-	-	(7)
Dividends paid	-	(3,744)	-	-	-	(3,744)
Total transactions with owners in their capacity as owners	**458**	**(3,744)**	**-**	**-**	**-**	**(3,286)**
Balance at 30 June 2011	**34,821**	**25,069**	**1,986**	**-**	**337**	**62,213**

The accompanying notes should be read in conjunction with these financial statements.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2011

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 Basis of Preparation

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards including Australian Accounting Interpretations, the Corporations Act 2001, and the Prudential Standards set down by the Australian Prudential Regulation Authority (APRA).

The financial statements cover The Rock Building Society Limited (The Rock) as an individual entity and The Rock Building Society Limited and its controlled entities as an Economic Entity (the Economic Entity). The Rock Building Society Limited is a public company limited by shares, and is incorporated and domiciled in Australia.

The financial statements of The Rock Building Society Limited as an individual entity, and the consolidated financial statements of the Economic Entity comply with all International Financial Reporting Standards (IFRS) in their entirety.

The financial statements have been prepared on an accruals basis and are based on historical costs except for land and buildings, derivatives, and financial assets available for sale, which have been measured at fair value.

The presentation currency of the financial statements is Australian Dollars.

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

The following sections provide a summary of the material accounting policies adopted in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

1.2 Comparatives

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

1.3 Consolidated Financial Statements

Basis of Consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of The Rock as at 30 June 2011, and the results of all subsidiaries for the year then ended. The Rock and its subsidiaries together are referred to in these financial statements as the Economic Entity.

The names of the subsidiaries are contained in Note 23. All subsidiaries have a 30 June financial year-end, and are accounted for by The Rock at cost.

Subsidiaries are all entities, including special purpose entities, over which the Economic Entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights.

Subsidiaries are fully consolidated from the date on which control is transferred to the Economic Entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated, unless the transaction provides evidence of the impairment of the asset transferred.

Special purpose entities

Special purpose entities are entities that are created to accomplish a narrow and well-defined objective, such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. A special purpose entity is consolidated if, based on an evaluation of the substance of its relationship with the Economic Entity and the special purpose entity's risks and rewards, the Economic Entity concludes that it controls the special purpose entity.

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 acquisition 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 acquirer'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.

1.4 Residential Mortgage Securitisation Programmes

The Economic Entity enters into transactions whereby it transfers assets recognised on its Statement of Financial Position, but retains substantially all of the risks and rewards of ownership of the transferred assets. If substantially all of the risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of substantially all risks and rewards include, for example, certain loan securitisation and repurchase transactions.

In transactions in which the Economic Entity neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Economic Entity continues to recognise the asset to the extent of its continuing involvement.

In transactions in which the Economic Entity either transfers substantially all the risks and rewards of ownership of the transferred assets, or neither transfers nor retains substantially all the risk and rewards and does not retain control of the transferred assets, the Economic Entity derecognises the transferred assets. The Economic Entity also recognises separately, as assets or liabilities, any rights and obligations created or retained in the transfer.

Notes to the Financial Statements **continued**

1 Summary of Significant Accounting Policies **continued**

1.5 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 Economic Entity ceases to recognise interest and other income earned but not yet received.

Loan interest income is not charged when the Economic 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 – Note 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 four (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.

1.6 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 in the Statement of Financial Position are stated with the amount of GST included.

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 Australian Taxation Authority, are classified as cash flows from operations.

1.7 Depreciation – Notes 4(a), 14(f) and 16(d)

The Economic Entity adopts the straight line method of depreciating property, plant and equipment, and intangible 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:

Property, plant and equipment

- Freehold Buildings 40 years
- Plant and Equipment and Motor Vehicles 5 years
- Leasehold Improvements 5 years

Intangible assets

- Core Banking System 10 years
- Computer Equipment and Software 4 to 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 property, plant and equipment, and intangible assets, over their expected lives. Assets under $300 are not capitalised.

1.8 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, where the Economic Entity is a lessor, is recognised in profit or loss on a straight-line basis over the term of the lease.

1.9 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 applicable income tax rate, 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.

The current income tax charge is calculated on the basis of the tax laws enacted, or substantively enacted, at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised in full, using the liability method, on temporary differences between carrying amounts of assets and liabilities in the financial statements, and their respective tax bases. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period, and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

Notes to the Financial Statements **continued**

1 Summary of Significant Accounting Policies **continued**

1.9 Income Tax – Note 5 **continued**

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 Economic Entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities, and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset, and intends either to settle on a net basis, or to realise the asset and settle the liability, simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

1.10 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 Economic Entity's accounting policies with respect to treatment of loans assigned to special purpose vehicles used for securitisation purposes – refer to Note 10(b).

Management has made critical accounting estimates when applying the Economic Entity's accounting policies with respect to the impairment provisions for loans – refer to Notes 1.17 and 11.

1.11 Financial Assets and Financial Liabilities

Introduction

Initial recognition

The Economic Entity 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 arise.

De-recognition

The Economic Entity de-recognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows 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 Economic Entity is recognised as a separate asset or liability.

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

In certain transactions, the Economic Entity 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.

For further details of The Rock's policy on securitisation - refer to Note 1.4.

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 Economic Entity 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 accounting standards, or for gains and losses arising from a group of similar transactions.

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.

Fair value measurement

Refer to Note 32(c) for details.

Identification and measurement of impairment

Refer to the succeeding notes on financial assets and Note 1.17.

Designation at fair value through profit or loss

The Economic Entity 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.

Application

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.

Notes to the Financial Statements **continued**

1 Summary of Significant Accounting Policies **continued**

1.11 Financial Assets & Financial Liabilities continued

Loans and advances – Note 10

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Economic Entity 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 1.17 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.

Held-to-maturity – Note 9

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Economic Entity has a positive intent and ability to hold to maturity, and which are not designated as available for sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Economic Entity 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.

Available-for-sale – 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, and accumulated in the available-for-sale investments revaluation reserve. On sale, the amount held in the available-for-sale reserve associated with the asset is recognised in profit or loss as a reclassification adjustment.

Where there is a significant or prolonged decline in the fair value of an available-for-sale financial asset below its cost (which constitutes objective evidence of impairment), the cumulative loss recognised in other comprehensive income is reclassified from the available-for-sale investments revaluation reserve to profit or loss as a reclassification adjustment. 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.

Interest income from available-for-sale investments is recognised in profit or loss using the effective interest method.

Deposits

Refer to Note 1.18 for details.

Borrowings

Refer to Note 1.20 for details.

1.12 Derivative Instruments Held for Risk Management Purposes

The Economic 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 Economic 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.

1.13 Contributed Equity – Note 21

Ordinary shares are classified as equity.

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

Notes to the Financial Statements **continued**

1 Summary of Significant Accounting Policies **continued**

1.14 Property, Plant and Equipment – Note 14

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Property
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.

A revaluation increase is credited to other comprehensive income 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 increase on the same asset in the asset revaluation reserve. On disposal, any revaluation surplus relating to sold assets is transferred to retained earnings.

It is the policy of the Economic Entity to have an independent valuation every three years, with annual appraisals being made by the Directors. The Rock's freehold land and buildings were independently valued as at 30 June 2010, by Herron Todd White.

Plant and equipment
Plant and equipment are measured on the cost basis less accumulated depreciation and impairment losses, if any.

1.15 Impairment of Assets (Excluding Financial Assets)

At each reporting date, the Economic 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.

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 Economic Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

1.16 Intangible Assets – Note 16

Software Licences
Items of computer software which are not integral to the computer hardware owned by the Economic Entity 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.

Insurance Book
Costs relating to the purchase of an insurance book were classified as an intangible asset and amortised on a straight line basis over the estimated useful life of the insurance book. The estimated useful life of this asset was 15 years following the purchase date. This asset was sold on 27 June 2011.

1.17 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 the debt has been restructured to reduce the burden to the borrower.

Impairment losses on loans and advances are measured as the difference between the carrying amount of loans and advances and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the loans' and advances' original effective interest rates. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of the impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The amount provided for impairment of loans is determined by the Board and management. The Prudential Standards issued by the Australian Prudential Regulation Authority (APRA) enable the minimum provision to be based on specific percentages of the loan balance, contingent upon the length of time the repayments are in arrears, and the security held. This approach is adopted by The Rock. The Board and management make a provision for loans in arrears where the collectability of the debt is considered doubtful, by estimation of expected losses in relation to loan portfolios where specific identification is impracticable. The critical assumptions used in the calculation are set out in Note 11. Note 34B(i) details the credit risk management approach to loan impairment.

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.

Bad debts are written off, as determined by the Board and management, when it is reasonable to expect that the recovery of the loan is unlikely. All write-offs are 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 following ultimate realisation of collateral value.

Bad debts are written off against the provision for impairment where impairment has previously been recognised in relation to a loan. If no provision for impairment has previously been recognised, write-offs for bad debts are recognised as expenses in profit or loss.

Renegotiated loans are loans and other similar facilities where the original contractual terms have been modified to provide for concessions of interest, principal or repayment, for reasons related to financial difficulties of the borrower or group of borrowers.

1.18 Deposits – Note 17

Deposits are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method. Interest on deposits is recognised on an accrual basis. Interest accrued at the end of the reporting date is shown as a part of deposits.

1.19 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.

Notes to the Financial Statements **continued**

1 Summary of Significant Accounting Policies **continued**

1.20 Borrowings – Note 20

Borrowings are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method, (except where the Economic Entity chooses to carry the liabilities at fair value through the profit or loss). Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the loans and borrowings, using the effective interest method.

The Economic Entity classifies financial instruments as financial liabilities or equity instruments, in accordance with the substance of the contractual terms of the instrument.

1.21 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.

1.22 Employee Benefits – Note 25

Provision is made for the liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are 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 later than one year have been measured at the present value of the estimated future cash outflows to be made.

Contributions are made by the Economic Entity to employee superannuation funds and are charged as expenses when incurred.

1.23 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.

1.24 New and Amended Standards and Interpretations

The following new and amended standards and interpretations are mandatory for the first time for the financial year beginning 1 July 2010:

- AASB 2009-5 - Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project;
- AASB 2009-8 - Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions;
- AASB 2009-10 - Amendments to Australian Accounting Standards – Classification of Rights Issues;
- AASB Interpretation 19 - Extinguishing Financial Liabilities with Equity Instruments and related amendments; and
- AASB 2010-3 - Amendments to Australian Accounting Standards arising from the Annual Improvements Project.

The adoption of these standards and interpretations did not have any material impact on the current or any prior period, and is not likely to materially affect future periods.

1.25 New and Amended Standards and Interpretations not yet Adopted

A number of new standards, amendments and interpretations are effective for annual periods beginning after 1 July 2010. None of these have been applied in preparing these financial statements, and none is expected to have a significant effect on the financial statements, except for:

- **AASB 9 Financial Instruments (effective from 1 January 2013)**

  AASB 9 Financial Instruments addresses the classification, measurement and de-recognition of financial assets and financial liabilities. It simplifies the approach for classification and measurement of financial assets compared with the requirements of AASB 139. Financial assets are to be classified based on:

  - The objective of the entity's business model for managing the financial assets; and
  - The characteristics of the contractual cash flows.

This replaces the numerous categories of financial assets in AASB 139.

The Economic Entity does not plan to adopt this standard early and the extent of the impact has not been determined.

- **AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets (effective from 1 July 2011)**

  The amendments made to AASB 7 Financial Instruments introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. The Economic Entity has not yet determined the extent of the impact on its disclosures.

- **AASB 2010-8 Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets (effective from 1 January 2012)**

  The amendments made to AASB 112 Income Taxes, provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. Under AASB 112, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using or selling it. However, it is often difficult and subjective to determine the expected manner of recovery when the investment property is measured using the fair value model. To provide a practical approach in such cases, the amendments introduce a rebuttable presumption that an investment property is recovered entirely through sale. The Economic Entity does not plan to adopt this amendment early. The Economic Entity does not have any investment property as at 30 June 2011.

In addition, new and amended international standards dealing with Consolidated Financial Statements, Separate Financial Statements, Joint Arrangements, Disclosure of Interests in Other Entities, and Fair Value Measurement have recently been released. These standards will become effective from 1 January 2013. The Economic Entity does not plan to adopt these standards early, nor has the extent of their impact been determined.

Notes to the Financial Statements **continued**

2 INTEREST INCOME AND INTEREST EXPENSE

	NOTE	ECONOMIC ENTITY		THE ROCK	
		2011 $000	2010 $000	2011 $000	2010 $000
(a) Interest income					
Assets at amortised cost					
Cash and cash equivalents		4,920	1,436	3,834	539
Financial assets held-to-maturity		11,830	9,976	11,829	9,976
Loans and advances		61,241	57,158	24,341	18,794
		77,991	**68,570**	**40,004**	**29,309**
Assets at fair value					
Financial assets available for sale		785	475	10,763	9,155
Total Interest Income		**78,776**	**69,045**	**50,767**	**38,464**
(b) Interest expense					
Liabilities at amortised cost					
Deposits		24,087	12,762	29,469	18,339
Borrowings		31,001	29,257	5,932	5,475
		55,088	**42,019**	**35,401**	**23,814**
Liabilities at fair value					
Interest rate swaps - net of interest amount received		1,914	7,948	413	2,392
Total Interest Expense		**57,002**	**49,967**	**35,814**	**26,206**

3 OTHER REVENUE AND INCOME

Mortgage servicing fee income		-	-	6,412	6,552
Loan fee income		1,042	1,477	1,042	1,477
Transaction fee income		4,226	4,665	4,226	4,665
Commissions		1,920	1,892	1,920	1,892
Income from property		16	16	16	16
Impaired losses recovered		2	10	2	10
Net gain on disposal of property, plant and equipment		28	1	28	1
Net fair value gain on derivatives		-	70	-	2,280
Profit on sale of insurance broking book		1,526	-	1,526	-
Other		47	19	47	45
Total other revenue and income		**8,807**	**8,150**	**15,219**	**16,938**

Notes to the Financial Statements **continued**

	NOTE	ECONOMIC ENTITY 2011 $000	ECONOMIC ENTITY 2010 $000	THE ROCK 2011 $000	THE ROCK 2010 $000

4 PROFIT BEFORE INCOME TAX

Profit before income tax has been determined after the following items:

(a) Expenses:

	NOTE	ECONOMIC ENTITY 2011 $000	ECONOMIC ENTITY 2010 $000	THE ROCK 2011 $000	THE ROCK 2010 $000
Fees and commissions		5,212	4,873	4,845	4,361
Depreciation of property, plant and equipment					
- Buildings	14 (f)	47	61	47	61
- Plant and equipment	14 (f)	933	881	933	881
Amortisation					
- Leasehold improvements	14 (f)	58	98	58	98
- Other intangibles	16 (d)	303	392	303	392
- Computer software	16 (d)	982	641	982	641
- Insurance book	16 (d)	130	128	130	128
Impairment losses on loans and advances	11 (c)	38	101	38	101
Operating lease rental - minimum lease payments		754	778	754	778
Employee benefits expense*		8,385	7,366	8,385	7,366
Net fair value losses on derivatives		-	-	327	-
General administration		6,789	5,284	6,749	5,269
Total Expenses		**23,631**	**20,603**	**23,551**	**20,076**

* Includes defined contribution superannuation expense amounting to $669,000 (2010: $633,000).

(b) Significant revenue and expenses

The following significant revenue and expense items are relevant in explaining the financial performance:

	NOTE	ECONOMIC ENTITY 2011 $000	ECONOMIC ENTITY 2010 $000	THE ROCK 2011 $000	THE ROCK 2010 $000
Profit before tax from ordinary operations		6,950	6,555	6,948	6,840
Net fair value Gains / (Losses) on derivatives with other parties		-	-	342	8,027
Net fair value Gains / (Losses) on derivatives with SPVs		-	-	(669)	(5,747)
Ineffective portion of fair value hedges		-	70	-	-
Profit before Tax from Statement of Comprehensive Income		**6,950**	**6,625**	**6,621**	**9,120**

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 at variable rates. 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 in the Economic Entity.

Notes to the Financial Statements **continued**

4 Profit Before Income **continued**

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, which is illustrated as follows:

	FUTURE PERIODS	ACTUAL 2011	ACTUAL 2010
	$000	$000	$000
Annual movement in The Rock profit due to swap movements	1,274	(327)	2,281
Cumulative movement in The Rock profit due to swap movements	-	(1,274)	(947)

	NOTE	ECONOMIC ENTITY		THE ROCK	
		2011 $000	2010 $000	2011 $000	2010 $000

5 INCOME TAX

(a) Major components of tax expense

Current tax	2,481	1,554	2,439	1,626
Deferred tax relating to the origination and reversal of timing differences	(392)	212	(493)	888
Under(over)-provision for income tax in prior year	5	(216)	(408)	(216)
Income tax expense	**2,094**	**1,550**	**1,538**	**2,298**

(b) Numerical reconciliation of income tax expense to prima facie tax payable:

Profit from ordinary activities before income tax	6,950	6,625	6,621	9,120
Tax at the Australian tax rate of 30% (2010 - 30%)	2,085	1,988	1,986	2,736
Add tax effect of:				
Non-deductible expenses	4	3	4	3
Underprovision for income tax in prior year	5	-	-	-
	9	**3**	**4**	**3**
Less tax effect of:				
Investment allowance	-	(53)	-	(53)
Research and development claim	-	(172)	-	(172)
Overprovision for income tax in prior year	-	(216)	(408)	(216)
Securitisation trust distributions	-	-	(44)	-
	-	**(441)**	**(452)**	**(441)**
Income tax expense	**2,094**	**1,550**	**1,538**	**2,298**

(c) Amounts recognised directly in equity

Aggregate currrent and deferred tax arising during the reporting period and not recognised in profit and loss or other comprehensive income but directly debited or credited to equity:				
Transaction costs of issuing equity instruments	3	122	3	122
	3	**122**	**3**	**122**

Notes to the Financial Statements **continued**

5 Income Tax **continued**

	NOTE	ECONOMIC ENTITY 2011 $000	ECONOMIC ENTITY 2010 $000	THE ROCK 2011 $000	THE ROCK 2010 $000
(d) Tax expense/(income) relating to items of other comprehensive income					
Net gain on revaluation of land and buildings		-	224	-	224
Cash flow hedges		(102)	(2,381)	-	-
		(102)	**(2,157)**	**-**	**224**
(e) Provision for current income tax					
Balance at beginning of year		965	1,392	952	1,307
Income tax paid:					
Operating activities - prior year		(496)	(370)	(496)	(370)
Operating activities - current year		(1,130)	(1,395)	(1,132)	(1,395)
		(1,626)	**(1,765)**	**(1,628)**	**(1,765)**
Overprovision in prior year		(981)	(216)	(1,394)	(216)
Current year's income tax expense on profit		2,481	1,554	2,439	1,626
		839	**965**	**369**	**952**
(f) Deferred tax liabilities					
Deferred tax liabilities comprise temporary differences attributable to:					
Derivatives - Cash flow hedges		-	-	512	713
Other		1,565	1,092	1,564	1,091
Net deferred tax liabilities		**1,565**	**1,092**	**2,076**	**1,804**
The movement in deferred tax liability for each temporary difference during the year is as follows:					
Land and buildings					
Opening balance		-	224	-	224
Change recognised in other comprehensive income		-	(224)	-	(224)
Closing Balance		-	-	-	-
Derivatives – Cash flow hedges					
Opening balance		-	-	713	2,436
Change recognised in profit or loss		-	-	(201)	(1,723)
Closing Balance		-	-	512	713
Other					
Opening balance		1,092	1,089	1,091	1,088
Change recognised in profit or loss		(513)	3	(513)	3
Adjustments for prior year		986	-	986	-
Closing Balance		1,565	1,092	1,564	1,091
		1,565	**1,092**	**2,076**	**1,804**

Notes to the Financial Statements **continued**

5 Income Tax **continued**

	NOTE	ECONOMIC ENTITY		THE ROCK	
		2011 $000	2010 $000	2011 $000	2010 $000
(g) Deferred tax assets					
Deferred tax liabilities comprise temporary differences attributable to:					
Provisions and accruals		337	447	329	439
Transaction costs of issuing equity instruments		78	104	78	104
Depreciation		166	145	166	145
Derivatives – Cash flow hedges		894	996	894	996
Net deferred tax assets		**1,475**	**1,692**	**1,467**	**1,684**
The movement in deferred tax assets for each temporary difference during the year is as follows:					
Provisions & accruals					
Opening balance		447	426	439	418
Change recognised in profit or loss		(110)	21	(110)	21
Closing Balance		337	447	329	439
Transaction costs of issuing equity instruments					
Opening balance		104	10	104	10
Change recognised in profit or loss		(26)	94	(26)	94
Closing Balance		78	104	78	104
Property plant and equipment					
Opening balance		145	340	145	340
Change recognised in profit or loss		21	(195)	21	(195)
Closing Balance		166	145	166	145
Derivatives – Cash flow hedges					
Opening balance		996	3,404	996	3,404
Change recognised in profit or loss		-	(27)	(102)	(2,408)
Change recognised in other comprehensive income		(102)	(2,381)	-	-
Closing Balance		894	996	894	996
		1,475	**1,692**	**1,467**	**1,684**

(h) Franking account

	THE ROCK	
	2011 $000	2010 $000
Balance of franking account at year-end, adjusted for franking credits of debits arising from payment of the provision for income tax at the end of the reporting date, based on a tax rate of 30%. (2010: 30%)	3,943	4,502

The final dividend for the 2010-2011 financial year, which was declared after the reporting date and not recognised, will reduce the balance of the franking account by $1,078,000 (2010: $714,000).

Notes to the Financial Statements **continued**

	ECONOMIC ENTITY	
	2011	2010
6 EARNINGS PER SHARE		
Basic and diluted earnings per share (cents per share)	19.4	21.4
Information relating to the calculation of earnings per share is as follows:		
(a) Earnings Reconciliation		
(i) Reconciliation of earnings to profit and loss		
Net profit attributable to shareholders ($000)	4,856	5,075
Earnings used in calculating basic and diluted earnings per share ($000)	4,856	5,075
(ii) Weighted average number of shares used as the denominator in calculating basic and diluted earnings per share	25,004,555	23,775,453

(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.

	NOTE	ECONOMIC ENTITY		THE ROCK	
		2011 $000	2010 $000	2011 $000	2010 $000
7 CASH AND CASH EQUIVALENTS					
Cash at bank and cash on hand		29,687	45,138	11,220	18,613
Interest earning bank deposits at call		9,993	11,750	9,993	11,750
		39,680	**56,888**	**21,213**	**30,363**
8 TRADE AND OTHER RECEIVABLES					
Accrued interest receivable		666	3,396	666	3,396
Securitisation fees receivable		-	-	4,118	3,647
GST receivable		-	57	-	22
Other		4,653	650	4,653	650
		5,319	**4,103**	**9,437**	**7,715**
9 FINANCIAL ASSETS HELD TO MATURITY					
Deposits with ADIs		187,767	179,693	187,767	179,693
Other debt securities		-	4,000	-	4,000
		187,767	**183,693**	**187,767**	**183,693**

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

Notes to the Financial Statements **continued**

	NOTE	ECONOMIC ENTITY		THE ROCK	
		2011 $000	2010 $000	2011 $000	2010 $000
10 LOANS AND ADVANCES					
Secured by mortgage over residential property		992,711	935,987	424,285	347,352
Employee share plan loans		-	1	-	1
		992,711	935,988	424,285	347,353
Deferred loan origination costs		3,263	2,492	3,263	2,492
Provision for impairment		-	-	-	-
		995,974	**938,480**	**427,548**	**349,845**
Principal amount of loans and advances expected to be recovered more than 12 months after the reporting date:		**951,035**	**894,733**	**406,300**	**331,885**
(a) Loans by security					
Secured by mortgage		995,974	938,479	427,548	349,844
Secured - other		-	1	-	1
		995,974	**938,480**	**427,548**	**349,845**

All housing loans are secured by registered mortgage over residential real estate. The majority of the loans on The Economic Entity's Statement of Financial Position (92.2%) are individually fully lender's mortgage insured, including all loans with a loan-to-value ratio greater than 80%, compared to 99.7% of the portfolio at the previous year end.

Loans in respect of the Employee Share Plan were 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 a securitised mortgage portfolio. These loans are removed from the Statement of Financial Position of The Rock but are included in the Statement of Financial Position of the Economoc Entity. The portfolio totalled $568,426,000 at 30 June 2011 (2010: $588,634,000).

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 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 Economic Entity.

The Rock also provides arm's-length interest rate swaps and liquidity facilities to the securitisation programme, in accordance with Australian Prudential Regulation Authority 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.

Notes to the Financial Statements **continued**

	ECONOMIC ENTITY 2011 $000	ECONOMIC ENTITY 2010 $000	THE ROCK 2011 $000	THE ROCK 2010 $000

11 IMPAIRMENT OF LOANS

(a) Provision for impairment

	ECONOMIC ENTITY 2011 $000	ECONOMIC ENTITY 2010 $000	THE ROCK 2011 $000	THE ROCK 2010 $000
(i) Specific Provision				
Balance at beginning of year	-	58	-	58
Add: Expensed during the period	-	34	-	34
Less: Amounts written off against specific provision	-	(92)	-	(92)
	-	**-**	**-**	**-**
(ii) Overdrawn savings accounts with specific provision - refer to note 17				
Balance at beginning of year	47	22	47	22
Add: Expensed during the period	23	25	23	25
	70	**47**	**70**	**47**
	70	**47**	**70**	**47**

(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.

	2011			2010		
Period of impairment	Overdrawn Balance	Impairment %	Impairment amount	Overdrawn Balance	Impairment %	Impairment amount
	$000		$000	$000		$000
0 to 13 days	5	-	-	45	-	-
14 to 89 days	15	40	6	30	40	12
90 days to 181 days	15	75	11	14	75	11
182 days to 272 days	-	100	-	-	100	-
273 days to 364 days	-	100	-	-	100	-
over 364 days	53	100	53	24	100	24
	88		**70**	**113**		**47**

(c) Charge to profit or loss for impairment comprises:

	NOTE	ECONOMIC ENTITY 2011 $000	ECONOMIC ENTITY 2010 $000	THE ROCK 2011 $000	THE ROCK 2010 $000
Specific provision movement		-	34	-	34
Overdrawn savings accounts specific provision movement		23	25	23	25
Bad debts recognised directly in profit		15	42	15	42
Total impairment expense for loans and advances	4(a)	**38**	**101**	**38**	**101**

Notes to the Financial Statements **continued**

11 Impairment of Loans **continued**

	NOTE	ECONOMIC ENTITY		THE ROCK	
		2011 $000	2010 $000	2011 $000	2010 $000
(d) Loans and advances by impairment class					
Impaired loans		-	-	-	-
Specific provision		-	-	-	-
Net impaired loans - refer 11 (e)		-	-	-	-
Past due but not impaired - refer 11 (f)		46,098	44,932	17,700	20,391
Neither past due nor impaired - refer 11 (g)		946,613	891,056	406,585	326,962
		992,711	**935,988**	**424,285**	**347,353**
Unamortised loan costs		3,263	2,492	3,263	2,492
Net loans and advances		**995,974**	**938,480**	**427,548**	**349,845**
(e) Individually impaired loans and advances at reporting date					
Analysis					
Owner occupied		-	-	-	-
Investment		-	-	-	-
Provision for impairment		-	-	-	-
Carrying Amount		**-**	**-**	**-**	**-**
(f) Past due but not impaired loans and advances at reporting date					
These loans are not considered impaired because they are fully mortage insured or, if not mortgage insured, are less than 30 days in arrears. Any debt 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		43,718	43,265	17,167	19,975
Past due 91-180 days in arrears		1,605	1,439	473	416
Past due 181-270 days in arrears		348	228	-	-
Past due 271-365 days in arrears		367	-	-	-
Past due >365 days in arrears		60	-	60	-
Carrying Amount		**46,098**	**44,932**	**17,700**	**20,391**
Analysis					
Owner occupied		36,026	35,897	12,592	14,689
Investment		10,072	9,035	5,108	5,702
Carrying Amount		**46,098**	**44,932**	**17,700**	**20,391**
(g) Neither past due nor impaired loans and advances at reporting date					
Analysis					
Owner occupied		709,629	690,953	291,747	257,241
Investment		236,984	200,103	114,838	69,721
Carrying Amount		**946,613**	**891,056**	**406,585**	**326,962**

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

Notes to the Financial Statements **continued**

11 Impairment of Loans **continued**

	NOTE	ECONOMIC ENTITY		THE ROCK	
		2011 $000	2010 $000	2011 $000	2010 $000
(h) Loans and advances by impairment and security class					
(i) Against individually impaired					
Secured by mortgage over real estate		-	-	-	-
Provision for impairment		-	-	-	-
(ii) Against past due but not impaired					
Secured by mortgage over real estate		46,098	44,932	17,700	20,391
(iii) Against neither past due or impaired					
Secured by mortgage over real estate		946,613	891,056	406,585	326,962
		992,711	**935,988**	**424,285**	**347,353**
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 residential mortgage security is as follows:					
Security held as mortgage against real estate is on the basis of:					
– Loan to valuation ratio up to 80%		711,090	667,081	346,791	
– Loan to valuation ratio of more than 80%					
but mortgage insured		279,244	268,907	75,117	122,926
– Loan to valuation ratio of more than 80%					
and not mortgage insured		2,377	-	2,377	-
		992,711	**935,988**	**424,285**	**347,353**
(i) Renegotiated loans					
Some loans that were previously past due have been renegotiated by the consolidated entity. Details of these loans are:					
Book value of renegotiated loans which are well secured		536	1,051	362	409

Notes to the Financial Statements **continued**

	NOTE	ECONOMIC ENTITY 2011 $000	ECONOMIC ENTITY 2010 $000	THE ROCK 2011 $000	THE ROCK 2010 $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		-	-	146,311	169,129
Investments in RMBS		3,312	25,105	3,735	25,105
		3,312	**25,105**	**150,046**	**194,234**
Total Financial Assets Available for Sale		**3,546**	**25,339**	**150,280**	**194,468**

The investment in RBS Trust 2009R pertains to notes issued by the trust for loans transferred by the Rock amounting to $146,311,000 (2010: $169,129,000). At 30 June 2010, $156,766,000 of these notes were used as security for borrowings from the Reserve Bank of Australia. These borrowings were fully repaid in the year to 30 June 2011. 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 to 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 tradeable 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 the approval of a majority of shareholders.

	NOTE	ECONOMIC ENTITY 2011 $000	ECONOMIC ENTITY 2010 $000	THE ROCK 2011 $000	THE ROCK 2010 $000
13 DERIVATIVES					
(a) Current Asset					
Interest rate swap contracts - cash flow hedges		-	-	-	-
Interest rate swap contracts - at fair value through profit and loss		-	-	1,704	2,373
		-	**-**	**1,704**	**2,373**
(b) Current Liability					
Interest rate swap contracts - cash flow hedges		2,978	3,320	-	-
Interest rate swap contracts - at fair value through profit and loss		-	-	2,978	3,320
		2,978	**3,320**	**2,978**	**3,320**

The Economic Entity enters into derivative transactions in the normal course of business, to hedge exposure to fluctuating interest rates in accordance with the Economic 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 Rock and The Economic 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 trading purposes.

Notes to the Financial Statements **continued**

	NOTE	ECONOMIC ENTITY 2011 $000	ECONOMIC ENTITY 2010 $000	THE ROCK 2011 $000	THE ROCK 2010 $000
14 PROPERTY, PLANT AND EQUIPMENT					
(a) Land					
At independent valuation - 2010		1,135	1,135	1,135	1,135
		1,135	**1,135**	**1,135**	**1,135**
(b) Buildings					
At independent valuation - 2010		1,835	1,835	1,835	1,835
Additions at cost		136	-	136	-
Provision for depreciation		(47)	-	(47)	-
		1,924	**1,835**	**1,924**	**1,835**
		3,059	**2,970**	**3,059**	**2,970**
(c) Plant and Equipment and Motor Vehicles					
At cost		4,844	4,643	4,844	4,643
Capital works in progress		118	133	118	133
Provision for depreciation		(2,860)	(2,021)	(2,860)	(2,021)
		2,102	**2,755**	**2,102**	**2,755**
(d) Leasehold Improvements					
At cost		580	589	580	589
Provision for depreciation		(417)	(360)	(417)	(360)
		163	**229**	**163**	**229**
		5,324	**5,954**	**5,324**	**5,954**

(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 structural improvements have been erected within the title boundaries.

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

Land at cost	425	425	425	425
Buildings at cost	1,213	1,077	1,213	1,077
Buildings accumulated depreciation	(486)	(449)	(486)	(449)
Net carrying amount	**1,152**	**1,053**	**1,152**	**1,053**

Notes to the Financial Statements **continued**

14 Property, Plant And Equipment **continued**

	FREEHOLD LAND	BUILDINGS	PLANT AND EQUIPMENT AND MOTOR VEHICLES	LEASEHOLD IMPROVEMENTS	TOTAL
	$000	$000	$000	$000	$000
(f) Movements in carrying values					
(i) Economic Entity					
Balance 30 June 2009	1,466	2,312	6,070	281	10,129
Revaluation 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**
Additions	-	136	314	2	452
Transfers to Software from Capital Works in Progress	-	-	(15)	-	(15)
Disposals	-	-	(18)	(10)	(28)
Depreciation expense	-	(47)	(933)	(58)	(1,038)
Balance 30 June 2011	**1,135**	**1,924**	**2,102**	**163**	**5,324**
(ii) The Rock					
Balance 30 June 2009	1,466	2,312	6,070	281	10,129
Revaluation 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**
Additions	-	136	314	2	452
Transfers to Software from Capital Works in Progress	-	-	(15)	-	(15)
Disposals	-	-	(18)	(10)	(28)
Depreciation expense	-	(47)	(933)	(58)	(1,038)
Balance 30 June 2011	**1,135**	**1,924**	**2,102**	**163**	**5,324**

	ECONOMIC ENTITY		THE ROCK	
	2011 $000	2010 $000	2011 $000	2010 $000

15 OTHER ASSETS

Prepayments	388	419	388	419
	388	**419**	**388**	**419**

Notes to the Financial Statements **continued**

	ECONOMIC ENTITY		THE ROCK	
	2011 $000	2010 $000	2011 $000	2010 $000
16 INTANGIBLE ASSETS				
(a) Software				
At cost	8,729	7,343	8,729	7,343
Accumulated amortisation	(1,970)	(988)	(1,970)	(988)
	6,759	6,355	6,759	6,355
(b) Insurance book				
At cost	-	1,970	-	1,970
Accumulated amortisation	-	(412)	-	(412)
	-	1,558	-	1,558
(c) Other				
At cost	6,586	6,556	6,586	6,556
Accumulated amortisation	(6,090)	(5,787)	(6,090)	(5,787)
	496	769	496	769
	7,255	**8,682**	**7,255**	**8,682**

	SOFTWARE $000	INSURANCE BOOK $000	OTHER $000	TOTAL $000
(d) Movements in carrying values				
(i) Economic Entity				
Balance 30 June 2009	655	1,654	975	3,284
Adjustment to final purchase price	-	32	-	32
Additions	1,374	-	186	1,560
Transfers to Software from Capital Works in Progress	4,970	-	-	4,970
Disposals	(3)	-	-	(3)
Amortisation expense	(641)	(128)	(392)	(1,161)
Balance 30 June 2010	**6,355**	**1,558**	**769**	**8,682**
Additions	1,386	-	30	1,416
Disposals	-	(1,428)	-	(1,428)
Amortisation expense	(982)	(130)	(303)	(1,415)
Balance 30 June 2011	**6,759**	**-**	**496**	**7,255**
(ii) The Rock				
Balance 30 June 2009	655	1,654	975	3,284
Adjustment to final purchase price	-	32	-	32
Additions	1,374	-	186	1,560
Transfers to Software from Capital Works in Progress	4,970	-	-	4,970
Disposals	(3)	-	-	(3)
Amortisation expense	(641)	(128)	(392)	(1,161)
Balance 30 June 2010	**6,355**	**1,558**	**769**	**8,682**
Additions	1,386	-	30	1,416
Disposals	-	(1,428)	-	(1,428)
Amortisation expense	(982)	(130)	(303)	(1,415)
Balance 30 June 2011	**6,759**	**-**	**496**	**7,255**

Notes to the Financial Statements **continued**

	ECONOMIC ENTITY		THE ROCK	
	2011 $000	2010 $000	2011 $000	2010 $000

17 DEPOSITS

	ECONOMIC ENTITY 2011 $000	ECONOMIC ENTITY 2010 $000	THE ROCK 2011 $000	THE ROCK 2010 $000
Call deposits	437,871	361,720	437,871	361,720
Term deposits	153,259	121,647	153,259	121,647
NCDs Issued	147,500	88,775	147,500	88,775
	738,630	**572,142**	**738,630**	**572,142**
Provision for overdrawn savings accounts - Refer to Note 11(a)	(70)	(47)	(70)	(47)
	738,560	**572,095**	**738,560**	**572,095**
Amount of deposits expected to be settled more than 12 months after the reporting date:	**3,804**	**939**	**3,804**	**939**
The Rock's deposit portfolio does not include any deposit which represents 10% or more of total liabilities.				
Concentration of Deposits				
The following groups represent concentrations of deposits in excess of 10% of total liabilities:				
Central Queensland	270,891	273,825	270,891	273,825
Rest of Queensland	79,650	47,755	79,650	47,755
New South Wales	249,294	124,671	249,294	124,671
Rest of Australia	138,795	125,891	138,795	125,891
	738,630	**572,142**	**738,630**	**572,142**

18 TRADE AND OTHER PAYABLES

	ECONOMIC ENTITY 2011 $000	ECONOMIC ENTITY 2010 $000	THE ROCK 2011 $000	THE ROCK 2010 $000
Annual leave	417	462	417	462
Trade creditors and accruals	1,765	1,725	1,719	1,670
GST Payable	220	-	252	-
Interest accrued	4,259	8,252	3,472	5,438
	6,661	**10,439**	**5,860**	**7,570**

19 PROVISIONS

	ECONOMIC ENTITY 2011 $000	ECONOMIC ENTITY 2010 $000	THE ROCK 2011 $000	THE ROCK 2010 $000
Long Service Leave	242	208	242	208
Make good provision	85	95	85	95
	327	**303**	**327**	**303**

(a) Make good provision

The Economic Entity is required, under the terms of a lease, to restore the leased premises at the end of a lease to its original condition. A provision has been recognised for the present value of the estimated expenditure required to demolish any leasehold improvements at the end of the lease. These costs have been capitalised as part of the cost of the leasehold improvements and are amortised over the shorter of the term of the lease, or the useful life of the assets.

(b) Make good provision

	MAKE GOOD $000
Carrying amount at 1 July 2010	95
Charged/(credited) to profit or loss	(10)
Carrying amount at 30 June 2011	**85**

Notes to the Financial Statements **continued**

	ECONOMIC ENTITY		THE ROCK	
	2011 $000	2010 $000	2011 $000	2010 $000

20 BORROWINGS

	ECONOMIC ENTITY 2011 $000	ECONOMIC ENTITY 2010 $000	THE ROCK 2011 $000	THE ROCK 2010 $000
Class A Notes, Class B Notes and Super Senior Notes	435,240	439,550	-	-
RBA Borrowings	-	138,736	-	138,736
	435,240	**578,286**	**-**	**138,736**
Amount of borrowings expected to be settled more than 12 months after the reporting date:				
Class A Notes, Class B Notes and Super Senior Notes	334,435	328,086	- -	-
RBA Borrowings	-	138,736	-	138,736
	334,435	**466,822**	**-**	**138,736**

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.

The investment in RBS Trust 2009R pertains to notes issued by the trust for loans transferred by the Rock amounting to $146,311,000 (2010: $169,129,000). At 30 June 2010, $156,766,000 of these notes were used as security for borrowings from the Reserve Bank of Australia. These borrowings were fully repaid in the year to 30 June 2011. Refer to Note 12.

21 ISSUED CAPITAL

	ECONOMIC ENTITY 2011 $000	ECONOMIC ENTITY 2010 $000	THE ROCK 2011 $000	THE ROCK 2010 $000
Balance at beginning of year	34,363	22,017	34,363	22,017
Issue of ordinary shares under share purchase plan	-	5,580	-	5,580
Issue of ordinary shares under private placement	-	6,305	-	-
Issue of ordinary shares under dividend reinvestment plan	465	746	465	746
Costs in relation to issues, net of tax	(7)	(285)	(7)	(285)
	34,821	**34,363**	**34,821**	**34,363**

	ECONOMIC ENTITY 2011 No. 000	ECONOMIC ENTITY 2010 No. 000	THE ROCK 2011 No. 000	THE ROCK 2010 No. 000
Number of Ordinary Shares on Issue:				
At beginning of year	24,957	19,613	24,957	19,613
Issued September 2009	-	5,036	-	5,036
Issued October 2009	-	155	-	155
Issued March 2010	-	153	-	153
Issued March 2011	205	-	205	-
	25,162	**24,957**	**25,162**	**24,957**

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.

The ordinary shares have no par value and The Rock does not have a limited amount of authorised capital.

Notes to the Financial Statements **continued**

21 Issued Capital **continued**

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 Rock.

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 Rock 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.

In April 2011, the Rock raised $465,000 through the issue of 204,721 fully paid ordinary shares under a dividend reinvestment plan. Shares were issued at $2.27, 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 derivatives designated as cash flow hedges, 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

		% OWNED	
	Country of Incorporation	2011	2010
Chief Entity			
The Rock Building Society Limited	Australia		
Controlled Entities			
The Rockhampton Custodian & Management Company Pty Limited	Australia	100%	100%
		% Trust Beneficiary	
RBS Trust 2004-1	Australia	-	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%

Notes to the Financial Statements **continued**

24 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital expenditure commitments

There were no capital expenditure commitments for property, plant and equipment purchases payable more than 12 months from the reporting date.

(b) Non-cancellable operating lease expense commitments

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

	NOTE	ECONOMIC ENTITY		THE ROCK	
		2011 $000	2010 $000	2011 $000	2010 $000
Not later than 1 year		683	824	683	824
Later than 1 year, but not later than 5 years		2,022	1,896	2,022	1,896
Later than 5 years		240	379	240	379
		2,945	**3,099**	**2,945**	**3,099**

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		36,510	13,644	36,510	13,644

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. All loans with a loan to value ratio in excess of 80% will be 100% individually mortgage insured.

25 EMPLOYEE BENEFITS

Long service leave provision	19	242	208	242	208
Annual leave accrual	18	417	462	417	462
Total employee benefits		**659**	**670**	**659**	**670**

26 KEY MANAGEMENT PERSONNEL

(a) Key Management Personnel Remuneration

Short term benefits		1,492	1,391	1,492	1,391
Post employment benefits		123	132	123	132
Total key management personnel remuneration		**1,615**	**1,523**	**1,615**	**1,523**

Notes to the Financial Statements **continued**

26 Key Management Personnel **continued**

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

Details regarding loans 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 11	BALANCE 30 JUNE 10	IN YEAR TO 30 JUNE 2011	IN YEAR TO 30 JUNE 2011
	$000	$000	$000	$000
Executive Director				
Mr D G Lightfoot[1]	-	525	7	564
Executives				
Mr L M Sanders	1,165	1,172	69	1,171
Mr D F Grounds	779	790	47	790
Mr W S Darnill	366	378	23	378
	2,310	**2,865**	**146**	**2,903**

1 Resigned 22 October 2010. Balance of loans at date of resignation was $564,000.

	BALANCE 30 JUNE 10	BALANCE 30 JUNE 09	IN YEAR TO 30 JUNE 2010	IN YEAR TO 30 JUNE 2010
	$000	$000	$000	$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**

No new loans were made to key management personnel during the year (2010: one loan $135,000).

During the year, key management personnel repaid $101,000 (2010: $101,000) of the balance outstanding on loans.

Details regarding the aggregate of loans made, guaranteed, or secured by the Economic Entity to key management personnel and their personally related entities, and the number of loans, are as follows:

	CLOSING BALANCE	OPENING BALANCE	INTEREST PAID AND PAYABLE IN REPORTING PERIOD	NUMBER OF LOANS
	$000	$000	$000	
Key management personnel				
2011	2,310	2,865	146	9
2010	2,865	2,770	155	11

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 deposit, 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 $146,000 (2010: $135,000). No amounts have been written down or recorded as allowances, as the balances are considered fully collectible.

(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

Notes to the Financial Statements **continued**

26 Key Management Personnel **continued**

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 Economic Entity to key management personnel, and their personally related entities, are as follows:

	CLOSING BALANCE	OPENING BALANCE	TOTAL DEPOSIT INTEREST
	$000	$000	$000
Deposits - Key management personnel			
2011	1,118	709	46
2010	709	576	15

(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 2011 (2010: 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 2010	PURCHASES	EMPLOYEE BONUS SHARE PLAN ISSUES	OTHER	BALANCE AS AT 30 JUNE 2011
Non-executive Directors					
Mr S E Lonie	32,175	-	-	-	32,175
Mr B V R Beasley	62,752	-	-	-	62,752
Mr R Davies	10,000	-	-	-	10,000
Mr R A Illingworth	284,585	-	-	-	284,585
Executive Director					
Mr D G Lightfoot[1]	29,926	-	-	(29,926)	-
Mr S McDonald[2]	-	-	-	-	-
Executives					
Mr D C Martin	6,865	181	-	-	7,046
Mr L M Sanders	312	-	-	-	312
Mr D F Grounds	360	10	-	-	370
Mr W S Darnill	360	10	-	-	370
Mr J P Hanby[3]	19,737	-	-	(19,737)	-
	414,897	**32,376**	**-**	**(49,663)**	**397,610**

1 Resigned 22 October 2010. Number of shares held at date of resignation was 29,926.
2 Appointed 25 October 2010.
3 Resigned 17 December 2010. Number of shares held at date of resignation was 19,737.

No shares were granted to key management personnel during the reporting period as compensation, nor were any received in exercise of options (2010: Nil).

Notes to the Financial Statements **continued**

26 Key Management Personnel **continued**

	BALANCE AS AT 30 JUNE 2009	PURCHASES	EMPLOYEE BONUS SHARE PLAN ISSUES	OTHER	BALANCE AS AT 30 JUNE 2010
Non-executive Directors					
Mr S E Lonie[1]	-	-	-	-	-
Mr J T Maxwell [2]	18,087	7,613	-	(25,700)	-
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**	**-**	**(44,778)**	**414,897**

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.

27 RELATED PARTY TRANSACTIONS

(a) Controlled Entities

Transactions between The Rock 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 items from transactions with the controlled entities were as follows:

	2011 $000	2010 $000
Interest received from investment in RBS 2009R	9,953	8,680
Payments received from interest rate swaps	1,501	5,556
Mortgage servicing fee income	6,413	6,552
Net fair value loss on derivatives with SPVs*	(669)	(5,747)
Management Fees **	105	132

* Refer to note 4(b) for further information on these items.

** Management fees received from The Rockhampton Custodian and Management Company Pty Limited.

The Statement of Financial Position Balances from transactions with the controlled entities areas follows:

	2011 $000	2010 $000
Securitisation fees receivable	4,118	3,647
Derivatives	1,704	2,373
Investment in RBS Trust 2009R ***	146,311	169,129

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

Related Party Transactions **continued**

27 Related Party Transactions **continued**

(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:

		ECONOMIC ENTITY		THE ROCK	
		2011 $000	2010 $000	2011 $000	2010 $000
Related Entity	**Transaction**				
South and Geldard Solicitors	Legal fees	185	177	185	177
South and Geldard Solicitors	Mortgage preparation fees	476	312	476	312

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 at reporting date arising from these transactions were as follows:

	ECONOMIC ENTITY		THE ROCK	
	2011 $000	2010 $000	2011 $000	2010 $000
Assets and liabilities arising from the above transactions				
Current payables				
Trade and other payables	9	7	9	7

Notes to the Financial Statements **continued**

	ECONOMIC ENTITY 2011 $000	ECONOMIC ENTITY 2010 $000	THE ROCK 2011 $000	THE ROCK 2010 $000
28 REMUNERATION OF AUDITORS				
Amounts received or due and receivable by the auditors for:				
Auditing or reviewing the financial statements of any entity of the group	91	87	91	87
Other services in relation to any entity of the group				
– Regulatory or prudential audits	31	20	31	20
– Taxation services for the lodgement of tax returns	39	-	31	-
– Regulatory investigations	65	-	65	-
– Indirect advisory and other services	25	63	25	63
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 2010 of 9.0 cents (2009: 8.5 cents) per fully paid share was declared and paid on 30 September 2010 (02 October 2009)				
Fully Franked @ 30%	2,246	1,667	2,246	1,667
Interim dividend for year ended 30 June 2011 of 6.0 cents (2010: 6.0 cents) per fully paid share was declared and paid on 04 April 2011 (31 March 2010)				
Fully Franked @ 30%	1,498	1,488	1,498	1,488
	3,744	3,155	3,744	3,155

(b) Subsequent dividends declaration

Refer to Note 35 for details of the declaration of the final dividend for the year ended 30 June 2011, which occurred subsequent to the reporting date.

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 net cash provided by operating activities to profit after income tax

	ECONOMIC ENTITY		THE ROCK	
	2011 $000	2010 $000	2011 $000	2010 $000
Net cash provided by operating activities	126,592	(77,830)	134,651	(75,563)
Movement in interest payable	3,979	(4,821)	1,952	(2,850)
Movement in interest receivable	(2,729)	3,235	(2,729)	3,235
Movement in new loans advanced	244,090	155,479	273,215	225,156
Principal collected from loans	(187,367)	(225,156)	(66,603)	(59,431)
Movement in investments	(17,718)	22,330	(40,113)	18,775
Movement in deposits	(166,439)	(23,319)	(166,439)	(23,319)
Proceeds from mortgages securitised	-	-	(129,680)	(77,922)
Movement in notes issued over securitised loans	4,310	158,274	-	-
Payment of SPV establishment costs	30	186	30	186
Movement in provision for impaired assets	(24)	33	(24)	33
Depreciation and amortisation	(2,453)	(2,199)	(2,453)	(2,199)
Net gain on sale of assets	28	1	28	1
Movement in income tax payable	125	427	583	355
Movement in deferred loan originations costs	771	(113)	771	(113)
Movement in deferred tax assets	(221)	(2,834)	(221)	(2,834)
Movement in deferred tax liability	(473)	223	(272)	1,946
Movement in fees and commissions receivable	27	(296)	475	387
Movement in creditors and accrued expenses	(25)	680	13	640
Movement in other receivables	2,544	(1,755)	2,573	(2,024)
Movement in employee benefits	14	(53)	(32)	(50)
Movement in GST receivable	(276)	(15)	(276)	4
Movement in other assets	(31)	129	(31)	129
Movement in derivatives	102	2,469	(328)	2,280
Profit after income tax	**4,856**	**5,075**	**5,090**	**6,822**

(b) 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 $146,311,000 (2010: $169,129,000). Refer to Notes 12 and 20.

Prior to the reporting date The Rock sold its commercial insurance book for $3,250,000 which included $295,000 in GST payable. This sale allowed The Rock to release $1,970,000 in goodwill which resulted from a previously purchased commercial insurance brokerage. $541,000 of this goodwill had been amortised at the time of the sale. The payment for the commercial insurance book was received by The Rock on 1 August 2011.

Notes to the Financial Statements **continued**

32 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(a) Classes of Financial Assets and Financial Liabilities

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

	ECONOMIC ENTITY		THE ROCK	
	2011 $000	2010 $000	2011 $000	2010 $000
Financial assets				
(i) Measured at amortised cost				
Cash and cash equivalents	39,680	56,888	21,213	30,363
Trade and other receivables	5,319	4,103	9,437	7,715
Loans and advances	995,974	938,480	427,548	349,845
Financial assets held to maturity	187,767	183,693	187,767	183,693
Total	**1,228,740**	**1,183,164**	**645,965**	**571,616**
(ii) Measured at cost				
Financial assets available for sale	234	234	234	234
(iii) Measured at fair value				
Interest rate swaps	-	-	1,704	2,373
Financial assets available for sale	3,312	25,105	150,046	194,234
Total	**3,312**	**25,105**	**151,750**	**196,607**
Financial liabilities				
(i) Measured at amortised cost				
Deposits	738,560	572,095	738,560	572,095
Trade and other payables	6,661	10,440	5,860	7,570
Borrowings	435,240	578,286	-	138,736
Total	**1,180,461**	**1,160,821**	**744,420**	**718,401**
(ii) Measured at fair value				
Interest rate swaps	2,978	3,320	2,978	3,320
Total	**2,978**	**3,320**	**2,978**	**3,320**

Notes to the Financial Statements **continued**

32 Financial Assets and Financial Liabilities **continued**

(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 Economic 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 rates for each time period.

FINANCIAL INSTRUMENTS	FLOATING INTEREST RATE		FIXED INTEREST RATE MATURING WITHIN 1 YEAR		FIXED INTEREST RATE MATURING 1 TO 5 YEARS		FIXED INTEREST RATE MATURING OVER 5 YEARS		NON-INTEREST SENSITIVE		CARRYING AMOUNT		WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	
	2011 $000	2010 $000	2011 $000	2010 $000	2011 $000	2010 $000	2011 $000	2010 $000	2011 $000	2010 $000	2011 $000	2010 $000	2011 %	2010 %
Financial Assets														
Cash and cash equivalents	35,329	51,581	-	-	-	-	-	-	4,351	5,307	39,680	56,888	4.36%	4.06%
Financial Assets held to maturity	-	-	187,767	183,693	-	-	-	-	-	-	187,767	183,693	5.58%	5.75%
Financial Assets available for sale	-	-	3,312	25,105	-	-	-	-	234	234	3,546	25,339	5.17%	6.78%
Trade and other receivables	-	-	-	-	-	-	-	-	5,319	4,103	5,319	4,103	n/a	n/a
Loans and advances	602,261	579,697	103,326	192,605	287,124	163,686	-	-	3,263	2,492	995,974	,480	7.36%	7.23%
Total Financial Assets	**637,590**	**631,278**	**294,405**	**401,403**	**287,124**	**163,686**	**-**	**-**	**13,167**	**12,136**	**1,232,286**	**1,208,503**		
Financial Liabilities														
Deposits	437,800	361,672	296,956	209,484	3,804	939	-	-	-	-	738,560	572,095	5.01%	4.35%
Trade and other payables	-	-	-	-	-	-	-	-	6,661	10,440	6,661	10,440	n/a	n/a
Borrowings	-	-	435,240	578,286	-	-	-	-	-	-	435,240	578,286	5.89%	5.69%
Total Financial Liabilities- except for Derivatives	**437,800**	**361,672**	**732,196**	**787,770**	**3,804**	**939**	**-**	**-**	**6,661**	**10,440**	**1,180,461**	**1,160,821**		
Off Balance Sheet Items														
Derivatives	245,000	110,000	-	(50,000)	(245,000)	(60,000)	-	-	-	-	-	-	-0.74%	-2.16%
Undrawn commitments - Note 24(c)	-	-	-	-	-	-	-	-	36,510	13,644	36,510	13,644	n/a	n/a
Total Off Balance Sheet Items	**245,000**	**110,000**	**-**	**(50,000)**	**(245,000)**	**(60,000)**	**-**	**-**	**36,510**	**13,644**	**36,510**	**13,644**		

Notes to the Financial Statements **continued**

32 Financial Assets and Financial Liabilities **continued**

(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 period.

	FLOATING INTEREST RATE		FIXED INTEREST RATE MATURING						NON-INTEREST SENSITIVE		CARRYING AMOUNT		WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	
			WITHIN 1 YEAR		1 TO 5 YEARS		OVER 5 YEARS							
FINANCIAL INSTRUMENTS	2011 $000	2010 $000	2011 $000	2010 $000	2011 $000	2010 $000	2011 $000	2010 $000	2011 $000	2010 $000	2011 $000	2010 $000	2011 %	2010 %
Financial Assets														
Cash and cash equivalents	16,862	25,056	-	-	-	-	-	-	4,351	5,307	21,213	30,363	4.29%	3.72%
Financial Assets held to maturity	-	-	187,767	183,693	-	-	-	-	-	-	187,767	183,693	5.58%	5.75%
Financial Assets available for sale	-	-	150,046	194,234	-	-	-	-	234	234	150,280	194,468	6.20%	5.83%
Trade and other receivables	-	-	-	-	-	-	-	-	9,437	7,715	9,437	7,715	n/a	n/a
Loans and advances	224,104	197,580	36,917	56,415	163,264	93,358	-	-	3,263	2,492	427,548	349,845	7.23%	6.98%
Total Financial Assets	**240,966**	**222,636**	**374,730**	**434,342**	**163,264**	**93,358**	**-**	**-**	**17,285**	**15,748**	**796,245**	**766,084**		
Financial Liabilities														
Deposits	437,800	361,672	296,956	209,484	3,804	939	-	-	-	-	738,560	572,095	5.01%	4.35%
Trade and other payables	-	-	-	-	-	-	-	-	5,860	7,570	5,860	7,570	n/a	n/a
Borrowings	-	-	-	138,736	-	-	-	-	-	-	-	138,736	0.00%	4.78%
Total Financial Liabilities- except for Derivatives	**437,800**	**361,672**	**296,956**	**348,220**	**3,804**	**939**	**-**	**-**	**5,860**	**7,570**	**744,420**	**718,401**		
Off Balance Sheet Items														
Derivatives	59,973	(86,595)	61,167	76,268	(121,140)	10,327	-	-	-	-	-	-	0.17%	-1.18%
Undrawn commitments - Note 24(c)	-	-	-	-	-	-	-	-	36,510	13,644	36,510	13,644	n/a	n/a
Total Off Balance Sheet Items	**59,973**	**(86,595)**	**61,167**	**76,268**	**(121,140)**	**10,327**	**-**	**-**	**36,510**	**13,644**	**36,510**	**13,644**		

Notes to the Financial Statements **continued**

32 Financial Assets and Financial Liabilities **continued**

(c) Fair Values of Financial Instruments

(i) Fair Values

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

	CARRYING AMOUNT		FAIR VALUE	
	2011 $000	2010 $000	2011 $000	2010 $000
Economic Entity				
(i) Financial assets				
Cash and cash equivalents	39,680	56,888	39,680	56,888
Trade and other receivables	5,319	4,103	5,319	4,103
Financial assets held to maturity	187,767	183,693	187,767	183,693
Financial assets available for sale	3,546	25,339	3,546	25,339
Loans and advances	995,974	938,480	996,798	939,334
	1,232,286	**1,208,503**	**1,233,110**	**1,209,357**
(ii) Financial liabilities				
Deposits	738,560	572,095	738,613	572,090
Trade and other payables	6,661	10,440	6,661	10,440
Derivatives	2,978	3,320	2,978	3,320
Borrowings	435,240	578,286	435,240	578,286
	1,183,439	**1,164,141**	**1,183,492**	**1,164,136**
The Rock				
(i) Financial assets				
Cash and cash equivalents	21,213	30,363	21,213	30,363
Trade and other receivables	9,437	7,715	9,437	7,715
Financial assets held to maturity	187,767	183,693	187,767	183,693
Financial assets available for sale	150,280	194,468	150,280	194,468
Loans and advances	427,548	349,845	427,835	349,660
Derivatives	1,704	2,373	1,704	2,373
	797,949	**768,457**	**798,236**	**768,272**
(ii) Financial liabilities				
Deposits	738,560	572,095	738,613	572,090
Trade and other payables	5,860	7,570	5,860	7,570
Derivatives	2,978	3,320	2,978	3,320
Borrowings	-	138,736	-	138,736
	747,398	**721,721**	**747,451**	**721,716**

Notes to the Financial Statements **continued**

32 Financial Assets and Financial Liabilities **continued**

(iii) Methods and assumptions

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

Cash and cash equivalents, and trade and other receivables:	The carrying values of cash and cash equivalents, and trade and other receivables approximate their fair value, as they are short term in nature, or are receivable on demand.
Derivatives:	The fair value of 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 cashflows and lack of suitable method of arriving at a reliable fair value. The 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 fair value due to the 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 fair value. The fair value of fixed rate loans is 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 and trade and other payables:	The carrying value of trade and other payables approximate their fair value as they are short term in nature. The fair value of non-interest bearing, call and variable rate deposits, and fixed rate deposits repriced within twelve months, approximates the carrying value as at 30 June. Discounted cash flow models based upon deposit types and related maturities were used to calculate the fair value of other term deposits.
Borrowings:	The carrying amount approximates fair value, as borrowings are repriced monthly.

(ii) Fair Value Hierarchy

The Rock measures the 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 (i.e. as prices) or indirectly (i.e. 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 an 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 period. The quoted market price for financial assets is the current bid price. The fair values 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.

Notes to the Financial Statements **continued**

32 Financial Assets and Financial Liabilities **continued**

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

	LEVEL 1	**LEVEL 2**	**TOTAL**
	$000	$000	$000
Economic Entity - 30 June 2011			
Available for sale financial assets			
- Residential Mortgage Backed Securities	-	3,312	3,312
Derivative liabilities	-	-	-
The Rock - 30 June 2011			
Available for sale financial assets			
- Residential Mortgage Backed Securities	-	150,046	150,046
Derivative assets	-	1,704	1,704
	-	151,750	151,750
Derivative liabilities	-	2,978	2,978
There have been no significant transfers into, or out of, each Level during the year ended 30 June 2011.			
Economic Entity - 30 June 2010			
Available for sale financial assets			
- Residential Mortgage Backed Securities	-	25,105	25,105
Derivative liabilities	-	3,320	3,320
The Rock - 30 June 2010			
Available for sale financial assets			
- Residential Mortgage Backed Securities	-	194,234	194,234
Derivative assets	-	2,373	2,373
	-	196,607	196,607
Derivative liabilities	-	3,320	3,320

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

Notes to the Financial Statements **continued**

32 Financial Assets and Financial Liabilities **continued**

(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 of The Rock, except for loans where the maximum credit risk exposure is $464,058,000 (2010: $363,489,00). For the Economic Entity the maximum credit exposure is $1,032,484,000 (2010: $952,124,000)

In relation to loans, the maximum credit exposure is the value in 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 52% (2010: 44%) of the Rock's Statement of Financial Position assets as at 30 June 2011. The vast majority of the loans on The Rock's Statement of Financial Position (81.7%) are individually fully lender's mortgage insured (compared to 99.1% at the previous year end) with recognised Mortgage Insurers with claims payment ratings of AA- or better.

Loans secured by registered mortgage over residential real estate accounted for 80% (2010: 76%) of the Economic Entity's Statement of Financial Position assets as at 30 June 2011. The vast majority of the loans on the Economic Entity's Statement of Financial Position (92.2%) are individually fully lender's mortgage insured (compared to 99.7% 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 security properties.

(ii) Concentration of risk

Housing loans are geographically distributed as follows:

	ECONOMIC ENTITY		THE ROCK	
	2011	2010	2011	2010
Queensland	47%	48%	45%	50%
New South Wales	24%	25%	23%	24%
Victoria	17%	16%	17%	17%
Other	12%	11%	15%	9%
	100%	100%	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.

(e) Maturity profile of Financial Liabilities

The table following shows the undiscounted cash flows from the Economic Entity'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 Economic Entity 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 Economic Entity considers 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.

Notes to the Financial Statements **continued**

32 Financial Assets and Financial Liabilities **continued**

Borrowings repayable within one month include Floating Rate Notes issued by Securitisation Trusts, which 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.

Refer to Note 34(c) for details of liquidity risk management.

The maturity profile of the Economic 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	
	2011 $000	2010 $000	2011 $000	2010 $000	2011 $000	2010 $000	2011 $000	2010 $000	2011 $000	2010 $000	2011	2010
Financial Liabilities												
Deposits	532,247	446,255	113,166	72,676	93,748	55,309	3,966	1,002	-	-	743,127	575,242
Trade and other payables	6,661	10,440	-	-	-	-	-	-	-	-	6,661	10,440
Borrowings	437,242	442,660	-	41,705	-	103,117	-	-	-	-	437,242	587,482
Total Financial Liabilities	**976,150**	**899,355**	**113,166**	**114,381**	**93,748**	**158,426**	**3,966**	**1,002**	**-**	**-**	**1,187,030**	**1,173,164**
Off Balance Sheet Items												
Interest rate swaps	152	198	303	397	1,366	1,256	2,160	2,511	-	-	3,981	4,362
Unrecognised loan committments	36,510	13,644	-	-	334,435	-	-	-	-	-	370,945	13,644
Total Off Balance Sheet Items	**36,662**	**13,842**	**303**	**397**	**335,801**	**1,256**	**2,160**	**2,511**	**-**	**-**	**374,926**	**18,006**

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	
	2011 $000	2010 $000	2011 $000	2010 $000	2011 $000	2010 $000	2011 $000	2010 $000	2011 $000	2010 $000	2011	2010
Financial Liabilities												
Deposits	532,247	446,255	113,166	72,676	93,748	55,309	3,966	1,002	-	-	743,127	575,242
Trade and other payables	5,860	7,570	-	-	-	-	-	-	-	-	5,860	7,570
Borrowings	-	-	-	41,705	-	103,117	-	-	-	-	-	144,822
Total Financial Liabilities	**538,107**	**453,825**	**113,166**	**114,381**	**93,748**	**158,426**	**3,966**	**1,002**	**-**	**-**	**748,987**	**727,634**
Off Balance Sheet Items												
Interest rate swaps	33	(40)	13	(12)	368	321	1,032	1,223	-	-	1,446	1,492
Unrecognised loan committments	36,510	13,644	-	-	-	-	-	-	-	-	36,510	13,644
Total Off Balance Sheet Items	**36,543**	**13,604**	**13**	**(12)**	**368**	**321**	**1,032**	**1,223**	**-**	**-**	**37,956**	**15,136**

Notes to the Financial Statements **continued**

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.

(b) Employee Bonus Share Plan

This plan provided for the provision of up to $1,000 worth of shares in The Rock, based on the continuity of employment of the employee. Shares issued under this plan were converted to ordinary fully paid shares on 30 June 2011.

34 RISK MANAGEMENT POLICY AND OBJECTIVES

Introduction

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 & Compliance Committee and the Credit Committee, which are integral to the management of risk within The Rock.

The main elements of risk governance are set out in the following paragraphs:

Board of Directors

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 & 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 & 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 & Compliance Committee through its monthly review of internal audit reports.

The Audit, Risk & 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 & 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-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 to the Audit, Risk & Compliance Committee. 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.

Executive Risk Committee (ERCO)
The Rock's Executive Team, including the Managing Director, and the Operational Risk and Compliance Manager, are members of ERCO.

ERCO is convened by the Chairman of ERCO, and can be convened at any time, however, ERCO meets no less frequently than once per month. ERCO minutes are submitted to the Audit, Risk & Compliance Committee for review.

The objective of ERCO is to provide oversight of Operational and Compliance Risks within the organisation, and to ensure that effective and appropriate controls have been developed, and are functioning, to mitigate operational and compliance risks within The Rock.

Notes to the Financial Statements **continued**

34 Risk Management Policy and Objectives **continued**

Market, balance sheet, and liquidity risks are managed and monitored by the Asset and Liability Committee. Credit risk is managed and monitored by the Credit Committee.

Operational risk is the risk of loss resulting from the absence, inappropriateness, or failure of policies, procedures, controls, people and systems. The responsibilities of ERCO include monitoring the performance of The Rock's operational risk management framework and controls through the review of The Rock's Risk Management framework, the development, implementation and ongoing monitoring of the appropriateness of The Rock's policies, procedures and controls relating to mitigating The Rock's operational risks, and reviewing and recommending changes to The Rock's insurance framework to the Board of Directors. This review includes ensuring that The Rock has an appropriate suite of insurance policies, and includes an annual review of the performance of The Rock's insurance broker.

Compliance Risk is the risk of loss of corporate reputation, community reputation, and/or loss of earnings resulting from non-compliance with legislation, regulations, rules, and/or industry standards. The responsibilities of ERCO in this regard include monitoring the performance of The Rock's Compliance Risk Management framework and controls through the review of The Rock's compliance management framework, internal and external audit reports related to compliance matters, changes required to controls including, but not limited to, policies, procedures and checklists, required as a result of changes to legislation, regulation, rules, and standards, the appropriateness of implementation plans relating to legislative and regulatory change, and the effectiveness of the implementation of responses to legislative and regulatory change.

ERCO receives reports from the Compliance Working Group (CWG), and may commission reviews, by internal resources or external parties, as it deems necessary.

Compliance Working Group (CWG)
All members of The Rock's Executive Committee, with the exception of the Chief Executive Officer, are members of the CWG. The Operational Risk and Compliance Manager has a standing invitation to attend CWG meetings.

Any member of the CWG can call a meeting, at any time, however, the CWG meets no less frequently than once per month. CWG minutes are submitted to the Audit Risk & Compliance Committee for review.

The CWG reviews issues that impact The Rock's customers or that might contravene The Rock's legislative or regulatory requirements, determine the root cause of any issues, recommend changes to company policies and/or processes to prevent recurrence, and make recommendations to the Board through the Executive Risk Committee when a breach has been identified that needs to be reported to a legislator or regulator.

To perform this function, the CWG reviews all non-compliances with policies and procedures, and all customer, staff and Executive complaints, determines the root cause of the complaints, and whether and what, if any, action is required to prevent recurrence. This action may include changes to Company policies or procedures, staff training, and customer communications.

The CWG is also responsible for maintaining The Rock's breaches register and informing regulators or legislators of reportable breaches.

Product and Pricing Committee (PPC)
The Customer Development Executive is the Chairman of the PPC. Committee membership includes the Sales and Services Executive, Marketing Manager, Customer Experience Manager, Partner and Broker Manager, and Branch and Mini-branch Area Managers.

The Chairman of the PPC can call a meeting, at any time, however, this committee meets no less frequently than once per month. PPC minutes are submitted to the Audit, Risk & Compliance Committee for review.

The PPC has been formed to regularly review the products offered by The Rock to its customers and the pricing arrangements associated with those products. This review is completed so as to:

- Ensure that the products, pricing and fees of The Rock align with the value proposition at the core of its marketing strategies;
- Acknowledge The Rock's legislative and/or regulatory requirements;
- Align with the core values of The Rock; and
- Optimise Net Shareholder Value.

The PPC undertakes product and pricing deliberations in the context of the agreed upon strategic direction of The Rock and The Rock's Business Plan, in the light of general economic conditions, The Rock's interest rate curve, present and potential market interest rate settings, and competitor positioning and market opportunities, taking into account regulatory implications, the risks associated with any proposed activity, and any inherent limitations, and the capabilities of The Rock.

Specifically, the PPC reviews the product range offered by The Rock, including current and potential products, in terms of the success of those products against benchmarks and targets set by the Customer Development Executive, to ensure the pricing of those products approved for distribution is appropriate.

Asset and Liability Committee (ALCO)
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.

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

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 Finance Manager and the Managing Director are members of ALCO.

Meetings of 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.

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 the Australian Prudential Regulation Authority (APRA) Prudential Standards and other relevant legislative and regulatory requirements.

Notes to the Financial Statements **continued**

34 Risk Management Policy and Objectives **continued**

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 & 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 security and 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 to interest rate risk within its Treasury operations, and due to the fact that it funds fixed rate mortgage loans with variable rate borrowings.

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 sensitivity to changes in interest rates through a complementary set of measures including sensitivity through the calculation of Value at Risk (VaR), the Present Value of a Basis Point (PVBP) move in interest rates, and Net Interest Income (NII) at risk from a 200 basis point shift in interest rates.

The policy of the Economic 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 limit for PVBP is $15,000 for each basis point move downward, with a trigger level for action, of $12,000. For NII at risk, the limit is 15% of annual net interest income for a 200 basis point shift in interest rates in one month's time, with a trigger level for action of 12%.

The policy of the Economic Entity is 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 2011, the net profit and equity impact of a 1% (2010: 1%) movement in interest rates for the year to 30 June 2011 would be $1,232,000 (year to 30 June 2010: $714,000).

The method used in determining the sensitivity is to evaluate the impact on profit of the interest repricing on the banking book of the Economic Entity for the 12 months to 30 June 2011. 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. The Rock has adopted a number of new measures of interest rate risk during the year, however, there has been no significant change in the manner in which The Rock manages 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 a loan 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 insured 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
- Reviews 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 periodic basis.

Notes to the Financial Statements **continued**

34 Risk Management Policy and Objectives **continued**

(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 Customer Development 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 the Australian Prudential Regulation Authority (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 Australian Prudential Regulation Authority (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 Australian Prudential Regulation Authority (APRA) Prudential Standards and Guidance Notes adequately address the expected loss outcomes for impaired loans where specific identification is impractical.

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 Lender's Mortgage Insurance (LMI) cover required by The Rock. The Board Policy is to have all loans secured against residential property to creditworthy counterparties, and to cover all loans, with an LVR greater than 80%, which excludes 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 limited these loans to a maximum Loan to Value Ratio (LVR) of 70% throughout 2010/11.

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 Australian Prudential Regulation Authority (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 per cent). No additional capital is required to be held against these exposures, but the Australian Prudential Regulation Authority (APRA) must be informed. The Australian Prudential Regulation Authority (APRA) may impose additional capital requirements on The Rock if it considers the aggregate exposure to all loans over the 10 per cent 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.

Notes to the Financial Statements **continued**

34 Risk Management Policy and Objectives **continued**

(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 the Australian Prudential Regulation Authority (APRA) 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 Economic Entity's and The Rock's institutional investments, in each credit quality range, at 30 June, are as follows:

	2011	2010
Credit quality range	Carrying value $000	Carrying value $000
ADIs – rated AA and above	47,093	97,942
ADIs – rated below AA	98,035	51,000
ADIs - unrated	82,319	83,319
Non – ADI institutions	-	8,320
Total	227,447	240,581

Equity Investments

The Rock currently has one equity association, The Rockhampton Custodian & 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.

C. Liquidity Risk

Liquidity risk is the risk that The Rock may encounter difficulties raising funds to meet commitments associated with financial instruments, such as 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 anticipated 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 Australian Prudential Regulation Authority (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 ratios of liquid funds to total adjusted liabilities of The Rock over the past two years are set out in the following table:

	2011	2010
Liquid funds to total adjusted liabilities (HQLA):		
- As at 30 June	12.72%	17.02%
- Average for the year	16.58%	15.30%
- Minimum during the year	12.70%	12.33%
Liquid funds to total customer deposits:		
- As at 30 June	14.02%	22.71%

Notes to the Financial Statements **continued**

34 Risk Management Policy and Objectives **continued**

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;
- The Rock's Employee Submission of Concern (Whistleblower) Policy, and comprehensive training in the application of the policy; 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" (people who attempt to transfer stolen money between different countries or jurisdictions), to transfer money 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 short-term problems, and has disaster recovery and business continuity arrangements to deal with power, hardware, or system failures.

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 Australian Prudential Regulation Authority (APRA). Under the Australian Prudential Regulation Authority (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 The Rock 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 Australian Prudential Regulation Authority (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 the Australian Prudential Regulation Authority (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 its value, net of any capital gains tax and estimated costs of sale.

Notes to the Financial Statements **continued**

34 Risk Management Policy and Objectives **continued**

Capital in The Rock at 30 June is made up as follows:

	2011 $000	2010 $000
Tier 1 Capital		
Share Capital	35,248	34,240
Retained Earnings	21,358	19,476
Tier 1 Capital	56,606	53,716
Less prescribed deductions	(11,640)	(12,304)
Net Tier 1 Capital	**44,966**	**41,412**
Tier 2 Capital		
Reserve for credit losses	337	337
Asset revaluation reserve (discounted to 45%)	894	793
Tier 2 Capital	1,231	1,130
Less prescribed deductions	(117)	(117)
Net Tier 2 Capital	**1,114**	**1,013**
Total Capital	**46,080**	**42,425**

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

The capital ratios as at the end of the reporting period for the past 5 years are as follows:

2011	2010	2009	2008	2007
13.4%	13.1%	11.2%	12.2%	13.2%

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 the Australian Prudential Regulation Authority (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 at 30 June 2011 is$ 54,434,000 (2010: $48,471,000)

The Rock considers that the Standardised Approach accurately reflects the capital required to meet its operational risk.

35 EVENTS SUBSEQUENT TO THE REPORTING DATE

Dividends

Subsequent to the reporting date, the Board declared a final dividend of 8 cents per fully paid ordinary share ($2,013,000) for the year ended 30 June 2011, payable on 30 September 2011. The final dividend will be fully franked at 30%. The financial effect of these dividends has not been brought to account in the financial statements for the year ended 30 June 2011 and will be recognised in the subsequent financial year.

Strategic Transaction

On 30 August 2011, The Rock announced its intention to merge with MyState Limited by way of a Scheme of Arrangement, in accordance with the Corporations Act. The merger is subject to various conditions precedent, including approval by the company's shareholders, the Court, the Federal Treasurer (under the Financial Sector (Shareholdings) Act) and relevant regulatory authorities.

Under the terms of this proposal, The Rock Shareholders will receive shares in MyState Limited in exchange for their shares in The Rock.

The full financial effect cannot be determined at this time, however, the Board believes that the merged organisation will benefit from improved financial performance through efficiency gains, enhanced distribution capabilities, geographic and balance sheet diversification, and growth opportunities. Further information will be available to shareholders in accordance with the Timetable in the Scheme Implementation Deed.

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 Economic 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 Economic Entity as at 30 June 2011 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 Economic Entity has included in the notes to the financial statements, an explicit and unreserved statement of compliance with International Financial Reporting Standards; and
    (c) There are reasonable grounds to believe that The Rock Building Society Limited and the Economic 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 2011.

This declaration is made in accordance with a resolution of the Board of Directors.

Stephen E Lonie
Chairman

30 August 2011

Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

To the members of The Rock Building Society Limited

Report on the Financial Report

We have audited the accompanying financial report of The Rock Building Society Limited, which comprises the statements of financial position as at 30 June 2011, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and 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 Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view 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 report.

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

Independent Auditor's Report **continued**

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*, which has been given to the directors of The Rock Building Society Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

(a) In our opinion the financial report of The Rock Building Society Limited is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of company's and consolidated entity's financial positions as at 30 June 2011 and of their performance for the year ended on that date;

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 41 to 44 of the Annual Report for the year ended 30 June 2011. 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.

Opinion

In our opinion, the Remuneration Report of The Rock Building Society Limited for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (QLD) Pty Ltd

BDO

PA Gallagher

Director

Brisbane, 30 August 2011

Additional Australian Securities 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 2011, there were no Employee Shares held by employees, and no outstanding share loan balances (2010: 10,000 shares held by two employees, with outstanding share loan balances of $932).

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 2011:

ORDINARY SHARES	NO. OF SHAREHOLDERS
1 – 1,000	627
1,001 – 5,000	1,490
5,001 – 10,000	757
10,001 – 100,000	492
100,001 and over	13
	3,379

There are 162 holders with less than a marketable parcel of 228 securities (with a closing price of $2.20 per share on 30 June 2011), holding 16,792 securities in total.

TWENTY LARGEST SHAREHOLDERS

The twenty largest ordinary shareholders as at 30 June 2011 were:

SHAREHOLDER	NO. OF SHARES	%
1. FirstMac Limited	1,536,178	6.11
2. Trio C Pty Ltd	565,054	2.25
3. UBS Wealth Management	543,437	2.16
4. Mr Kim David Cannon & Mrs Aspasia Elizabeth Cannon	483,297	1.92
5. RBC Dexia Investor Services	330,308	1.31
6. Garmaral Pty Ltd	300,659	1.19
7. Lymal Pty Ltd	291,145	1.16
8. Colonial Nominees Pty Ltd	284,585	1.13
9. Mirrabooka Investments Limited	250,000	0.99
10. Donetta Pty Limited	175,000	0.70
11. National Nominees Limited	128,762	0.51
12. Mr Andrew Benardos	122,308	0.49
13. Rentier Investments Pty Ltd	101,332	0.40
14. BCITF (QLD)	100,000	0.40
15. Mr Graeme Lance Robertson	100,000	0.40
16. Seaspin Pty Ltd	100,000	0.40
17. Pacific Salt Superannuation Pty Limited	88,243	0.35
18. Mrs Daryl Albert Dixon & Mrs Katherine Dixon	83,879	0.33
19. Tabeen Pty Limited	77,718	0.31
20. Citicorp Nominees Pty Limited	74,784	0.30

Additional Australian Securities Exchange Requirements **continued**

SUBSTANTIAL SHAREHOLDERS

The Rock had details of one substantial shareholder in its substantial holdings register, FirstMac Limited (FirstMac). The holdings of FirstMac and its relevant interests, as notified to the Australian Securities Exchange by FirstMac on 28 January 2011, were as follows:

REGISTERED HOLDER	NO. OF ORDINARY SHARES
Firstmac Limited	1,349,763
Trio C Pty Ltd	550,525
Nationale Super	470,870
	2,371,158

COMPANY SECRETARY

The Company Secretary is Mr Duncan C. Martin BSc ACA CIA CISA MBA

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.

The Rock
BUILDING SOCIETY LIMITED

www.therock.com.au