The Rock
BUILDING SOCIETY LIMITED

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Announcement to the Australian Securities Exchange

Market Update and Earnings Guidance

Following his recent appointment, The Rock's new CEO, Stuart McDonald, initiated a strategic review of the Company's business. To date, this review has highlighted that:

- The Rock's core franchise remains strong and is well positioned for future growth;

- The overall quality of The Rock's loan assets is sound and no significant impairments are anticipated in the short to medium term;

- Some restructuring of the Company's balance sheet will be required over the coming months, to ensure a better matching of the maturity profile of assets and liabilities, in order to reduce earnings volatility arising from movements in interest rates;

- Over the medium to longer term, the focus will be on growing The Rock's loan and deposit books and reducing its overweight position in other assets, including short term wholesale investments; and,

- It is The Rock's intention to repay all Reserve Bank of Australia's funding lines by 30 June, 2011.

The Rock's net profit after tax for the six month period to 31 December 2010 will be impacted by two significant one off expense items totalling approximately $430,000 after tax, being the cost of responding to the recent regulatory inquiry, together with costs associated with the resignation of the former CEO.

The Board remains confident that The Rock will recover the $4m Quartz CDO in full, based on current default levels and valuations, but recognises that the ultimate value of the CDO investment cannot be determined until 20 December 2010. The Company will advise the market of the final outcome of this issue at that date.

The Board advises that, subject to the successful recovery of the Quartz CDO, The Rock's statutory net profit after tax for the six month period ended 31 December 2010 will be in the vicinity of $2.2 million, inclusive of the one-off expenses. This represents approximately a 16% improvement in statutory net profit from the prior corresponding period, but a reduction of 30% compared to the second half of the preceding financial year.

Given the uncertainties currently effecting financial markets, the Board does not consider that it is appropriate to provide guidance for the full year results for the current financial year.

As outlined by the Chairman at the October AGM, the Board continues to explore all opportunities to add scale to the Company's operations where such activity would clearly enhance shareholder value and returns.

A further trading update will be provided in conjunction with announcement of The Rock's interim results in late February 2011.

Enquiries

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