The Rock
BUILDING SOCIETY LIMITED

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27 June 2011

ASX Announcement

Sale of Commercial Insurance operations

The Rock Building Society (ASX:ROK) has today announced the sale of its Commercial Insurance business, which includes the commercial and rural insurance books to Regional Insurance Brokers Pty Ltd for $3.25 million.

The Rock is 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.

The restructuring is an outcome of The Rock's strategic review to reposition the Company to focus on its core capabilities as an Authorised Deposit-taking Institution and insurance agency business. This allows the Company to focus on providing personal products and services within the finance and insurance sectors and its goal of being the financial services alternative of choice across regional Australia. It is also expected that this focus and subsequent growth will assist in improving the cost to income ratio to approximately 70%.

The sale contributes to the restructuring of the Company's balance sheet through the release of capital and by reducing earnings volatility.

The Rock's Managing Director and Chief Executive Officer, Mr Stuart McDonald said, "The restructuring of The Rock's insurance operations reaffirms our commitment to delivering competitive products in our core retail markets, while ensuring overall profitability and strengthened financial performance."

Mr McDonald said commercial and rural insurance customers transitioning to Regional Insurance Brokers could take confidence from the knowledge that their insurance coverage remains secure and they will be serviced by one of the largest Queensland owned and operated insurance broking houses. There will be no changes to policy terms and conditions for insurance customers transitioning to Regional Insurance Brokers.

Profit Guidance

The Rock has benefited from improving its funding structures that have allowed it to offer more competitively priced products to its customers. This has resulted in a turnaround in mortgage loan applications and retail deposits in the second half of this fiscal year, resulting in strong growth across both portfolios. The loan portfolio is expected to grow by approximately 5.5% to more than $985m in the second half. Credit quality remains sound with a reduction in arrears during this period. Retail deposits have grown approximately 7% to over $410m in the second half. The growth in both loans and deposits in the second half are ahead of current industry growth rates.

The sale price for the Commercial Insurance division represents a significant premium to the book value of the business, contributing a pre-tax profit of $1.4 million exclusive of GST. The sale will have a materially positive impact on the Company's statutory profit for the current financial year, offsetting a number of significant one-off expenses, including costs associated with the regulatory enquiry, the costs associated with the strategic review and the organisational restructure implemented after the appointment of a new Chief Executive Officer in October 2010. The sale will also allow $1.4m of regulatory capital to be released, further strengthening The Rock's regulatory capital position.

The Board advises The Rock's statutory net profit after tax for the financial year ended 30 June 2011 is expected to be in the vicinity of $4.9 million inclusive of one-off items and following a significant reduction in balance sheet risks that has taken place. This would represent a 4% decrease on the prior year of $5.1 million although that year had the assistance of $0.4 million of 'one-off' tax research & development benefits.

On a normalised basis (excluding one-offs) the underlying profit for the financial year ending 30 June 2011 is expected to increase from $4.7 million last year to approximately $5.2 million.

One off items for FY11 (after tax) amount to a net cost of $0.3 million and include:

- Profit on sale of commercial insurance division net of GST — $1.0 million
- Consultancy and Advisory Fees — ($1.0 million)
- Restructuring costs — ($0.2 million)
- Loss on sale of RMBS securities — ($0.1 million).

Consultancy and Advisory Fees relate to the recently concluded regulatory enquiry as flagged in the first half results, and costs associated with a comprehensive strategic review of the business now completed.

Restructuring costs relate to payments associated with the resignation of the previous Chief Executive Officer in October 2010 and other senior management personnel in recent months.

Looking beyond the current year, the Board expects the improvement in underlying operating performance to continue into 2011/12. More definitive commentary on the outlook for the financial year ahead will be provided when the company reports detailed FY11 results in August.

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