The Rock
BUILDING SOCIETY LIMITED

Head Office 102 Bolsover Street Rockhampton
PO Box 562 Rockhampton Queensland 4700
Telephone 07 4931 5500 BSB 655000
ABN 16 067 765 717 AFSL No 237095
Internet www.therock.com.au
Email rock@therock.com.au

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Announcement to the Australian Securities Exchange

Chairman's and Managing Director's addresses to Annual General Meeting (AGM)

Attached are the addresses to be given by the Chairman and the Managing Director of The Rock Building Society Limited to shareholders at the company's 2011 AGM.

The meeting will be held at 11:00am on Tuesday 25 October 2011, at The Rock Building Society Education Centre, 43 Upper Dawson Road, Rockhampton, QLD 4700.

By order of the Board

Duncan C Martin

Duncan C Martin
Company Secretary

The Rock Building Society Limited

Chairman's Address to the 2011 Annual General Meeting

Ladies and Gentlemen

Introduction

Welcome to The Rock's 2011 Annual General Meeting.

I note that we have a quorum present and that it is time to commence proceedings.

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.

Can I also advise you that this meeting is The Annual General Meeting and not the Scheme Meeting which will be held on 28 November 2011 to consider the proposal to merge with My State, as the Scheme Booklet was only issued in the past few days and all shareholders may not have had the opportunity to read it yet.

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.

As already noted, 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 the specially convened shareholder meeting on 28 November 2011, 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.

Nothing has occurred since this announcement that has in any way whatsoever changed the Directors' view that, in the absence of a higher or better offer being made, this proposal is a compelling opportunity for The Rock's shareholders.

The Australian banking scene continues to be dominated by the big four Australian banks, all of which have taken domestic market share off their smaller rivals at a time when Australians are showing a continuing and recently unprecedented appetite to save and pay down debt rather than take on debt.

The big four Australian banks are awash with retail deposits such that their funding base is now dominated by local funds in deference to an historical dependency on offshore wholesale finance.

The uncertainty in global markets has only increased since we made the MyState merger announcement on 31 August 2011, which, in turn, has seen the Australian banking outlook looking very subdued through into 2012, making any growth a significant challenge for the smaller end of the Australian banking industry.

Within this context, the opportunities that are on offer for both sets of shareholders through the MyState The Rock merger remain compelling and unachievable in the open market if The Rock continues has as a standalone enterprise contesting this diminished market place against very strong and much larger competition.

I am sure every shareholder will give this proposal proper consideration in due course and I urge you all to read the Scheme Booklet carefully.

2010/11 challenges

Let me now turn to the recently completed 2010/11 financial year.

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 broking 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 and now paid 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.

The Rock remains on track to deliver this dividend if the proposed merger with MyState is approved.

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 past financial year and to this current day, The Rock has and will remain 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.

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.

Managing Director

Let me now invite Stuart McDonald to speak to you about last year's performance in more detail.

As you may recall, Stuart McDonald actually joined us this time last year, and so managed to avoid talking to you at that time, but, since that time, he has taken up the challenges that The Rock faced with great energy and insight and I am sure you will be interested in what he has to say.

Stephen Lonie

Chairman

The Rock Building Society Limited

Managing Director's Address to the 2011 Annual General Meeting

Thankyou Chairman.

As Stephen highlighted, I joined The Rock exactly 12months ago to the day as Interim CEO and Managing Director. Upon arriving at The Rock, I discovered an organisation with a number of underlying strengths:

- The Rock's brand awareness within its home markets;
- Its strong community engagement;
- The dedication and loyalty of The Rock's people; and
- Its flexibility and willingness to improve as an organisation.

However, as the Chairman has also mentioned, there were a number of challenges that faced The Rock as an organisation. Some of these issues were specific to The Rock, such as leadership changes and regulatory inquiries, but other issues were more broadly environmental issues facing smaller financial services organisations, still struggling in the post-GFC environment. These issues included:

- Access to funding at an economically sustainable cost;
- The higher cost of regulatory oversight, including the increased cost of capital and liquidity requirements; and
- The challenge to achieve scale advantages in a highly competitive environment.

I am pleased to say that The Rock's management and staff have responded positively to these challenges during the last 12 months, and, in particular, the second half of the 2011/12 financial year.

In assessing The Rock when I arrived, it became clear that a review of The Rock's strategy was required, to ensure that The Rock retained and exploited its key competitive advantages. With the support and guidance of the Board, the leadership team and I undertook a deliberate process to establish The Rock's risk appetite and its renewed strategic focus. This process led to a restructure of the organisation and several key strategic decisions aimed at improving the longer term financial performance of the organisation, as well as refocussing the organisation on its core retail banking operations in its regional markets.

These key decisions included:

- In January 2011, restructuring the leadership of the organisation, resulting in a reduced Executive team with clearer accountabilities;
- Strongly enhancing the focus on Risk and Compliance across the organisation, to help The Rock avoid further occurrences of errors affecting its customers and its financial performance;

- Establishing a clear performance management framework for The Rock's people, ensuring that all employees have clarity on what is expected and how they will be rewarded;
- The closure of 10 under-performing mini-branches in non-core markets in February 2011, and a programme of ongoing performance management for the remaining mini-branches;
- The sale of the RockSure Commercial and Rural Insurance Broking book in June 2011, resulting in a significant premium to book value, as well as ongoing operating improvements to the remaining business through a move to an agency arrangement; and
- Reconfiguring The Rock's balance sheet to reduce risk and improve sustainability, bringing it in line with similar sized building societies and credit unions. This process involved repaying the last of the Reserve Bank of Australia's (RBA's) funding lines in June 2011, established in the aftermath of the GFC in 2008, as well as reducing, or eliminating, assets less suited to The Rock's revised risk profile.

Operationally, The Rock exhibited a strong turnaround in the second half of the financial year. The Rock's asset base had been reducing since 2009, together with its core, retail liabilities. The Rock's Customer Development and its Sales and Service teams co-ordinated a successful response to the situation, resulting in pleasing growth in the second half. After a decline in assets in the first half of 2%, assets grew strongly in the second half by 8%, well above system levels of growth, to give overall growth for the year of 6.2%, or some $58m. This performance saw 7 consecutive months through to 30th June, 2011, of mortgage loan growth for The Rock. Similarly, deposit growth, on the back of successful marketing campaigns, and key introducer relationships, grew 29% over the financial year.

The source of our sales for mortgages still remains strongly biased towards intermediary introduced mortgage origination, with 85% of new mortgages being sourced through this channel. This channel will remain a critical focus for The Rock, however, the challenge for The Rock is to seek to continue to improve the performance of its direct sales channel, through its branch network and personal banking managers. Additionally, whilst The Rock maintains high levels of local market penetration for transaction and savings accounts, driven by The Rock's superior local points of presence with branches, mini-branches and ATMs, the opportunity for The Rock is to aim to increase its local market penetration with direct mortgage distribution.

Against the backdrop of uncertain economic conditions and financial market volatility, it is pleasing to note that The Rock's level of arrears remained well below that of industry peers, which reflects The Rock's prudent lending practices. Total arrears greater than 30 days rose to $11.1m or 1.1% of the portfolio at 30 June 2011.

The necessary reconstruction of The Rock's balance sheet through the elimination of some elements of unsustainable risk contributed to a decline in the net interest margin from 1.80% in June 2010 to 1.67% in June 2011, although average margins over the year increased from 1.44% in 2009/10 to 1.70% in 2010/11.

The volatility in interest margin reflects the efforts to reconstruct the balance sheet's profile, including the repayment of the RBA borrowings. Further diversification in The Rock's funding was achieved through growth in Negotiable Certificate of Deposit (NCD) funding, rising from $58m to $147m across the year, increased partner support and growth in underlying, core, retail deposits.

The Chairman has mentioned previously the increase in costs during the year, predominantly associated with the response to the regulatory enquiry, as well as the cost of the strategic review. These relatively large, one-off costs pushed the cost to income ratio, a key measure of operational efficiency, to an unsustainable level of 77.3%.

The underlying cost ratio, however, after allowing for one off costs, still remains high when compared to competitors of larger scale and reach, with one major competitor targeting 35% as its medium term cost ratio target. Overall, this performance saw The Rock's statutory profit in 2010/11 of $4.9m, a decline of 4% from the 2009/10 result of $5.1m. However, capital adequacy, which is increasingly important in uncertain times, increased over the course of 2010/11 from 13.1% to 13.4%, which puts The Rock in a sound position moving forward.

As the Chairman has mentioned, the financial cost and the management effort in dealing with the regulatory inquiry is clearly an outcome that The Rock will seek to avoid in future. During the course of 2010/11, The Rock has made significant progress in lifting the standards of its regulatory compliance. The profile of risk management and compliance within The Rock has been raised substantially with a major investment in training, a restructuring of the compliance function to ensure skill levels are appropriate. In addition, management undertook a major effort to build improved working relationships with our key regulatory stakeholders, which remains an ongoing programme of work and focus for The Rock's management and staff.

All service organisations rely heavily on the commitment and dedication of their people. The Rock is a small organisation with limited resources, and therefore, relies more than most on the efforts of its people, from its tellers in the branches, to the employees in The Rock's Head Office.

The 2010/11 year has also been another year of intense change for The Rock's people. They have undergone a change of leadership, an organisational restructure, the divestment of RockSure Commercial and Rural Insurance Broking and a large increase in The Rock's commitment to training. In late December 2010 and early January 2011, the major flood event that struck central Queensland not only significantly impacted The Rock as a business, but also many of The Rock's own people directly. Despite this impact, their efforts in ensuring business continuity at The Rock, whilst at the same time assisting more broadly throughout the community, cannot be praised highly enough.

Throughout all of these changes, The Rock's people have remained resolute in serving The Rock's customers to the best of their ability, resulting directly in the improved level of underlying operational performance. Their ability to deal effectively with this change has been a hallmark during the last twelve months, and I would like to personally thank them all for their continuing efforts.

In a competitive and commoditised marketplace such as financial services, knowing your customers is a critical requirement for success. The Rock maintains strong brand awareness within its home market and has banking or insurance relationships with a wide cross section of its target customer set. To continue to augment The Rock's investment in the Bancs core banking platform, significant work has been undertaken to improve the management of customer information, to enable The Rock to better segment and differentiate its product offerings to its valuable customers.

As I mentioned earlier, The Rock has refocussed its strategy on the retail financial services in its core markets of Central Queensland. The improving economic prospects for this region, together with The Rock's revitalised strategy, should ensure that The Rock continues to improve its performance. To help leverage this natural, geographic advantage and refocus on its core markets, The Rock has spent considerable effort during 2010/11 in preparing a number of initiatives to roll out through the current 2011/12 financial year, which include:

- Preparation for a corporate brand refresh which will begin to roll out through November 2011;
- Development of new products to augment The Rock's existing product set, which began with the launch of a personal loan product to market in early October 2011; and
- Reconfiguring The Rock's distribution footprint to establish branch locations in high growth areas such as Gracemere, as well as refurbishing existing locations such as Stockland and Allenstown with a fresh, new layout.

The Rock values its customer base and appreciates that its customers have a number of choices for financial service products. During the year, The Rock introduced a system to measure customer engagement called Net Promoter Score (NPS), which is an internationally used methodology that seeks to measure the propensity of customers to recommend an organisation to their friends and relatives. The Rock consistently scores well above the majority of its financial services peers in its interactions with customers, with an average NPS score for the year of over +30%. A 2010 NPS survey of the Australian marketplace scored Australian Financial Institutions in the range of -39% to +33%[1]. This result is testament to The Rock's continued focus on ensuring The Rock meets its customer's needs.

When I arrived at The Rock, I was immediately impressed at the level at which The Rock is embedded in the local communities in which The Rock operates. Many larger organisations try to lay claim to this attribute, however, I can attest to the manner in which The Rock actually achieves this outcome. The breadth of support that The Rock provides to the community, and has built up over many years, is a testament to the type of organisation The Rock aspires to be. Again, this character was underscored during the flood crisis, when The

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[1] Satemtrix 2010 NPS Benchmarks

Rock immediately acted by providing financial and non-financial support to a wide range of local community groups in need.

The environment for financial institutions changed irrevocably during the GFC in 2008. The repercussions from that crisis continue to echo across financial markets and economies and Australia is not immune. The ongoing trend towards scale advantage in Australian financial services is unlikely to reverse given the statutory requirements for additional levels of capital, liquidity and compliance with regulatory oversight. Additionally, the lower cost of funds available to larger entities, together with greater access to funding sources, is an advantage that is increasingly difficult to overcome. The trend to fewer, but more sustainable, financial services organisations is inevitable. It is against this background that the strategy for The Rock needed to be assessed. Whilst remaining standalone and continuing to improve the underlying business remained an option, partnering with a like-minded ADI provided a more immediate, lower risk path to achieve and sustain shareholder value through access to the benefits of greater efficiency, lower funding costs, more sustainable revenue sources and greater access to investment capability.

The proposed merger with MyState Limited, if supported by shareholders, has the potential to deliver these and further benefits to all of The Rock's stakeholders - its Customers, its shareholders, its people and the communities in which we operate.

With a clear business strategy, combined with a potential partner such as MyState, and the continuation of The Rock's brand throughout Australia, The Rock will be in a position to continue to take advantage of its opportunities and extend its business footprint in Central Queensland.

Stuart McDonald

Managing Director