

31 July 2008

HBOS Australia Expansion Continues

- **Underlying profit before tax of £135 million (A\$325 million)**
- **\$1 billion investment in BankWest national expansion on track and underpins future growth**
- **Store rollout ahead of schedule**

HBOS Australia today announced profit before tax for the six months to 30 June 2008 of £135 million (A\$325 million), a decline of 6% for the same period last year (12% in local currency).

The result was underpinned by strong revenue growth of 29% (15% in local currency), and reflects the impact of a 40% per cent increase in expenses from the Group's expansion program (24% in local currency) together with a sharp increase in impairment losses.

HBOS Australia Chief Executive David Willis said "the continued growth of HBOSA has been very pleasing in the context of our long term strategy".

"Our staff numbers continue to expand and now approach 6500 people. They continue to do a terrific job in achieving our objectives."

Mr Willis noted the impact of HBOS Australia's more than £480 million (A\$1 billion) investment in an enhanced east coast physical presence through new Bank stores and Business Banking Centres.

"The roll-out is on track and performing ahead of plan. We are delighted with progress to date.

"The impact of this expansion on profit had been flagged in previous results announcements and a normalisation of expense growth would have shown continued profit growth notwithstanding increased impairment charges."

In a market that has deteriorated Mr Willis said the core books remained sound and increases had been principally attributed to a small number of higher value exposures. Increased stress is expected to occur over the next six months of the financial year consistent with the market outlook.

HBOSplc Chief Executive Andy Hornby said he was pleased with the very good progress HBOS Australia was making across all its key businesses.

"Our national expansion programme is going very well with more branches and business banking centres to be opened before the end of the year. The early indications are that customers like our new proposition," Mr Hornby said.

Underlying net operating income increased by 29% to £474m (up 15% in local currency), reflecting strong growth in net interest income, which increased 33% to £385m (17% in local currency).

Media Release

Total lending increased from 31 December 2007 by an annualised 39% to £39.6bn (up 17% in local currency), well ahead of market growth with deposits increasing by an annualised 19% to £17.7bn (largely flat in local currency).

Net interest margin remained largely steady at 2.09% (from 2.10 at half year ended 31 December 2007), despite higher funding costs.

Impairment losses as a percentage of average advances rose to 0.41% from 0.28% at half year ended 31 December 2007.

While much of the expansion was focused on the east coast, renewed effort has been placed on revitalising and refreshing the network on the west coast. A number of new locations will open during the second half of 2008 and existing stores given a more customer friendly look.

Work is continuing on the new purpose-built head office for BankWest in Perth, recognising the importance of Australia's fastest growing state to the organisation's long-term plans.

Financial highlights for the six months to 30 June 2008:

- Net operating income increased by 29% to £474m (up 15% in local currency)
- Net interest income increased 33% to £385m (up 17% in local currency)
- Annualised loans and advances rose by 39% to £39.6bn (up 17% in local currency)

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About HBOS Australia

HBOS Australia Pty Ltd (HBOS Australia), part of HBOS plc, comprises four diverse financial services companies: Bank of Western Australia Ltd (BankWest); Capital Finance Australia Limited (Capital Finance); St Andrew's Australia Pty Ltd (St Andrew's); and BOS International (Australia) Ltd (BOS International). In addition, Bank of Scotland Treasury Australia is part of HBOS plc's treasury, providing services to support the growth of HBOS Australia's business and delivering treasury products and services to our customers. HBOS Australia has adopted a multi-brand strategy, which focuses the strengths and flexibility of five operating businesses on the diverse needs of our broad customer base, providing a complete suite of financial products and services. Our customer-facing businesses are supported by shared centres of cost effective excellence. The increasing national strength of our Australian brands supported by the global experience of HBOS plc sets us apart in this industry.