

## HBOS Australia delivers 15% profit growth

- **Strong result in year of significant investment.**
- **Big lift in deposits, lending and revenue.**
- **Encouraging response from customers to new east coast stores.**
- **National expansion to be accelerated in 2008.**

HBOS Australia has announced a 15% increase in underlying profit before tax to \$757 million for the organisation's financial year to 31 December 2007.

HBOS Australia Chief Executive David Willis said the result was achieved while the organisation continued its significant investment in growth initiatives, including the national retail expansion launched last October.

HBOS plc Chief Executive Andy Hornby said he was delighted with the continued performance of HBOSA as further confirmation of the Group's aspirations in Australia.

"I am particularly encouraged by the early results of our expansion of physical presence on the east coast," Mr Hornby said.

Mr Willis said that the organisation had recorded four consecutive years of profit growth since the Australian businesses had been combined in 2003, representing a 90% profit increase over the period.

"In 2007, all of our businesses performed strongly, increasing market share and building a solid platform for future growth," he said.

"We have been encouraged by the response from customers to the opening of the first eight new retail stores in NSW last year and we will be accelerating the expansion in line with our plan during 2008. More stores are planned for NSW and the first stores in Victoria and Queensland.

"The launch of the retail program and progress with the business expansion, together with the continued growth of our corporate, asset finance and insurance and investment businesses, has seen HBOS Australia emerge as a true alternative to the big four.

"The strength of our five businesses is reflected in the organisation's solid growth in revenue and profit. Underpinning the 15% lift in profit, revenue increased 24% to \$1.9 billion in part attributable to a 24% growth in lending. Deposits were up by 30%.

"HBOS Australia's commitment to increase competition in the financial services sector through market leading products and service, has resulted in customer numbers increasing by 57% since 2003.

"With the expansion of our physical presence on the east coast we will now reach more customers with our award winning products, which have already proved very successful, largely through our online distribution and broker network. Our retail bank continued to achieve solid growth in lending and deposits, while our business bank outgrew the market in 2007 and remains Australia's fastest growing business bank."

Mr Willis said that continued investment in physical distribution for retail and business, brand recognition, customer facing staff, new products and back office infrastructure had contributed to a 30% increase in operating expenses.

This investment would continue in 2008 and was budgeted to impact on profits during this financial year. However, a dynamic and flexible approach to the growth strategy,



appropriate site selection, rigorous recruitment to get the best people and ongoing training and development would ensure the organisation was well placed to continue its expansion.

A pleasing aspect of the result was the 36% increase in underlying non-interest income reflecting contributions from the growing retail and business operations, together with the increased contribution from insurance and investment through its purchase of Whittaker Macnaught early in the year.

Net interest income increased by 21% to \$1,479m (2006 \$1,225m). The increased asset and deposit growth was partially offset by a decline in interest margin to 2.15% (2006 2.33%), largely as a result of changes in the retail lending product mix and the introduction of some high interest deposit products.

BOS International, our corporate business had another strong year, increasing assets by 16%, while maintaining our position as a leading leverage and project financier in Australia and New Zealand. The opening of an office in Hong Kong has expanded our relationship with select Australian clients.

Capital Finance, our asset finance business had a strong year of new business growth, strengthening its position in the motor trade industry, developing sound relationships with property and construction clients, and streamlining processes for broker introduced business.

While much of the attention during the year was focussed on the launch of the east coast expansion strategy, renewed effort has been placed on revitalising and refreshing the branch network on the west coast. A number of new locations will open during 2008 and existing branches given a more customer friendly look.

Work also started on the new purpose-built head office for BankWest recognising the importance of Australia's fastest growing State to the organisation's long-term plans.

#### **Financial highlights for the 12 months to 31 December:**

- Net operating income up 24% to \$1,925m;
- Net interest income up 21% to \$1,479m;
- Fee and commission income up 36% to \$377m;
- Customer deposits up 30% to \$37.1b;
- Advances up 24% to \$75.8b;

Credit quality remained sound with impaired loans as a percentage of closing advances stable at 1.01% (2006 1.00%) primarily as a result of a continued small number of impaired Corporate transactions. Provisions as a percentage of impaired loans was 44% (2006 46%). Impairment losses as a percentage of average advances was similarly stable at 0.28% (2006 0.27%).

#### **Media inquiries**

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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.