

Wednesday, 1 August 2007

HBOS Australia maintains investment and profit growth

- **Ahead of strategic and financial targets**
- **Heavy investment in future growth initiatives**
- **Strong gains in advances and deposits**
- **Continued market share gain**

HBOS Australia has today announced a 16 per cent increase in underlying profit before tax to \$368 million for the half year to 30 June 2007.

HBOS Australia Chief Executive David Willis said the strong result, which reflected the underlying strength of the organisation's five businesses, had been achieved while investing heavily in future growth initiatives, including the recently announced east coast expansion program.

"At this stage in our overall development, we are ahead of strategic and financial targets," Mr Willis said.

"Our investment program has already resulted in strong growth in market share and revenue with net operating income up 25% in the six months, compared to the same period in 2006. During the past two years revenue has increased 54% and profit before tax 44%, while the organisation has achieved strong growth in market share."

Advances grew by an annualised 28% to \$69.5bn (end 2006, \$60.9bn) with continued growth in residential and commercial lending. Customer deposits grew by an annualised 22% to \$31.8bn (end 2006, \$28.6bn) as a result of the continued success of the retail and commercial deposit initiatives.

Net interest income increased by 23% to \$705m (H1 2006 \$572m) reflecting the strong growth in assets and deposits.

"The continued success with the strategic growth of our retail and commercial businesses and the move towards a lower risk/return profile within our specialist businesses has led to the decline in the net interest margin that was broadly inline with expectations," Mr Willis said.

"Our success during this first phase in the organisation's growth has provided a solid foundation and the confidence to accelerate to the next stage of our growth strategy, with the roll-out our new retail and business branches.

"This growth has been driven by a sharp focus on innovative, value for money products, including Lite MasterCard, TeleNet direct deposit, Kids' Bonus Saver and Business Bonus. Most recently the BankWest More MasterCard and Regular Saver products have been launched."

Over the last two years BankWest has been Australia's fastest growing retail bank (source: APRA), overtaking Suncorp in 2006 as the country's 6th biggest retail bank, and also Australia's fastest growing business bank (APRA and Reserve Bank data).

Mr Willis said that the opening of more than 160 new retail and business branches on the east coast over the next three to four years would bring new products and services to thousands of potential and existing customers who already had access to transactional services on the east coast through more than 350 BankWest-branded ATMs in 7-Eleven stores.

Media Release



Business customers on the east coast had also benefited as BankWest had already opened seven business banking centres this year bringing the total to 28 and expected to open another four during the remainder of the year.

“While the major expansion program is focused on the east coast, Western Australia remains a key market, and a branch refurbishment and expansion program in that State will increase the number of branches and neighbourhood banks to more than 130,” Mr Willis said.

“During the half year the financial planning business benefited from the 2007 acquisition of Queensland based financial planners Whittaker Macnaught and the continued contribution from the 2005 acquisition of RACV Financial Services.

“Strong lending growth in our corporate business BOS International (22% annualised) and asset finance business Capital Finance (17% annualised) continued to highlight the importance of these core businesses to HBOS Australia.

Mr Willis said that operating expenses had increased by 30 per cent in the first half, compared to the same period in 2006, largely as a result of the investment in customer facing staff, improvements to internal processes, IT infrastructure, new product delivery and regulatory compliance.

“As we accelerate our expansion program during the next few years, associated investment will impact further on cost and profit growth in the near term.”

HBOS plc Chief Executive Andy Hornby said: “I am very encouraged by the continued success of our Australian business. The strong profits growth over the past four years has given us the confidence to move into the next phase of our expansion strategy.

“HBOS has already shown it can win customers from the Big Four banks by providing more competition and better value. Our investment in a network of BankWest branches on the east coast demonstrates how seriously we view the opportunity in Australia.”

Financial highlights at 30 June 2007:

- Net operating income up 25% to \$912m;
- Net interest income up 23% to \$705m;
- Fee and commission income up 37% to \$188m;
- Customer deposits up 22% annualised to \$31.8b;
- Advances up 28% annualised to \$69.5b.

Impaired loans as a percentage of closing advances remained similar to previous periods at 0.99%.

HBOS Australia’s parent company HBOS plc also announced its full year results today. The highlights included:

- Profits before tax up 13% to £2,997 million;
- Basic earnings per share up 22% to 55.1p
- Group post tax RoE increased to 21%
- Loans and advances up 10% annualised to £395.2 billion;
- Deposits up 14% annualised to £227.1 billion;
- Cost:income ratio improved to 39.9% (H1 2006 41.3%).

Attached to this Media Release is a summary of HBOS Australia’s results.

Media inquiries

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