

For immediate release  
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## **HBOS Australia delivers 20 per cent profit growth**

HBOS Australia has today announced a 20 per cent increase in underlying profit before tax to \$661 million for the organisation's financial year to 31 December 2006.

HBOS Australia Chief Executive David Willis said it was encouraging that the strong result had been achieved while the organisation had invested heavily in current and future growth initiatives.

"Since the Australian operations were first combined in 2003 the organisation has made consistent progress," Mr Willis said. "Along with strong growth in revenue and profit, which is up more than 60 per cent in the three years we have been operating as group, we have also increased market share, and built a solid platform from which to accelerate growth in the future.

"The results reflect the underlying strength of our five businesses and give us confidence to move into the next phase of our growth strategy."

"The success of some of our product initiatives, such as Lite MasterCard, the TeleNet direct deposit, Kid's Bonus Saver and Business Bonus is particularly encouraging and contributed to exceptional business growth.

"Figures released by the Australian Prudential Regulation Authority (APRA) show BankWest was Australia's fastest growing retail bank in 2006 in household deposits, mortgages and credit cards. In addition, based on APRA and Reserve bank data BankWest is also Australia's fastest growing business bank.

"To meet customer needs our transactional services on the East Coast increased with the rollout of more than 350 BankWest-branded ATMs through a partnership with 7-Eleven, and we opened nine Business Banking Centres.

"Our financial planning business continued to benefit from the 2005 acquisition of RACV Financial Services and additional recruitment during 2006. In January 2007, St Andrew's Insurance acquired Queensland based financial planners Whittaker Macnaught boosting funds under advice by \$1.5bn."

"BOS International, our corporate finance business, reinforced its market leading position as an arranger of transactions across the Leveraged and Acquisition Finance, Property, Project and Infrastructure markets, and Capital Finance, our asset finance business, strengthened its position in the motor trade, increasing market share and launching a number of new products."

Mr Willis said intense focus on investment for the future had increased operating expenses by 13 per cent (25 per cent in 2005), which was primarily a result of investment in distribution, people, improved internal processes, IT infrastructure, new product delivery and regulatory compliance, especially in the second half of the year.

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“Accelerated investment in 2007 is planned for growth and will impact on costs and profit growth in 2007,” he said.

“During the past three years this investment has provided strong revenue growth, with net operating income up 20 per cent in the 12 months, largely as a result of market share gains and a subsequent 32 per cent increase in lending. In addition deposits grew by 35 per cent.”

Mr Willis said that the organisation’s commitment to increasing competition in the financial services sector, by offering customers a better deal through market leading products and service, had continued to attract thousands of new customers.

This increased competition had tightened pricing on many products and services, but the organisation had been able to hold its margins at 2.33 per cent (2.39 per cent in 2005.)

Although a large part of the organisation’s national expansion was focused on the east coast, the importance of the West Australian market remained a key part of the HBOSA strategy.

“The announcement during the year of a new purpose-built head office for BankWest recognises the importance of Australia’s fastest growing State to the organisation’s long-term plans,” Mr Willis said.

HBOS plc Chief Executive Andy Hornby said: “The continued success of our Australian operations, particularly in attracting new customers, gives us confidence to continue investing in our aggressive strategy.

“It is particularly pleasing that our Australian operations have been able to deliver a strong result while continuing to invest heavily in future growth.

“HBOS remains committed and optimistic about the opportunity to become a significant Australian financial services provider.”

#### **Financial highlights compared to the 12 months to 31 December 2005:**

- Net operating income up 20% to \$1,612m;
- Net interest income up 25% to \$1,225m;
- Fee and commission income up 18% to \$277m;
- Customer deposits up 35% to \$28.6b;
- Advances up 32% to \$60.9b;
- Cost: income ratio improved to 48.3% from 51.5% in 2005.

Credit quality remained generally robust given the increase in impaired loans as a percentage of closing advances to 1.00% (2005: 0.66%) resulting from a small number of impaired corporate transactions. Ultimate recovery on these transactions is expected to be high with provisions as a percentage of impaired loans falling to 46% (2005 62%).

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

- Profits before tax up 19 per cent to £5.7 billion;
- Total operating income up 9 per cent to £12.0 billion;
- Net interest income up 8 per cent to £7.4 billion;
- Non-interest income up 10 per cent to £4.6 billion;
- Operating expenses up 6 per cent to £4.9 billion;
- Loans and advances up 10 per cent to £376.8 billion;
- Deposits up 5 per cent to £211.9 billion;
- Earnings per share up 22 per cent to 100.6p.

## **Divisional summary**

### **Retail**

Our Retail business, operating under the BankWest brand, continued its push to build national market share with its "Betterdeal" strategy and "hero" product offerings. Lending increased by 25% to \$21.3bn (2005 \$17.0bn) and deposits increased by 28% to \$12.3bn (2005 \$9.6bn). Our share of the mortgage broker new loan market increased to 16% (2005 13%).

In 2006, BankWest achieved the biggest credit card market share percentage gain of all banks nationally. Growth was driven by the two market-leading products, the updated Lite MasterCard and the Zero MasterCard.

BankWest continues to be a market leader in deposits growth. The TeleNet direct deposit product grew strongly, passing \$3bn in balances, and during the year a Kid's Bonus Saver, offering interest rates up to 10%, was launched with encouraging results. Transactional services available to East Coast customers were increased significantly by the rollout of more than 350 BankWest-branded ATMs in the first half of 2006 as the BankWest 7-Eleven partnership was implemented.

Retail's success was recognised in Money magazine's Best of the Best for 2007 awards, with seven products judged as the Best of the Best and a further six products in the top three of their respective categories.

### **Commercial**

Our Business Bank, operating under the BankWest brand, continued to outgrow the market in 2006, and in the process became Australia's fastest growing participant. Lending increased by 45% to \$17.3bn (2005 \$11.9bn) and deposits increased by 41% to \$16.5bn (2005 \$11.7bn).

Deposits grew significantly, again outperforming the market, driven primarily by the contribution of Specialist Deposit Services, and the launch of Business Bonus and Business TeleNet products. Transactional banking facilities were upgraded as a result of improvements to our internet and trading platforms. Our physical distribution has also continued to expand, particularly on the East Coast, with 9 Business Banking Centres opened in 2006.

During the year BankWest Business claimed two major awards in the 2006 BRW Magazine Business Banking Awards. The BankWest Business TeleNet Saver won the Online Business Saving Account award and the BankWest

Business Bonus Account won the Business Transaction Account category as voted by the independent consumer information provider InfoChoice. BankWest Business products also achieved top three positions in two other BRW award categories.

### **Corporate**

Our Corporate business, operating under the BOS International brand, continued to grow with lending increasing by 35% to \$12.7bn (2005 \$9.4bn). We hold a market leading position as an arranger of transactions across the leveraged and acquisition finance, property, project and infrastructure markets. BOS International is well placed to continue to take advantage of opportunities in the active mergers acquisitions and resource sectors.

### **Asset Finance**

Capital Finance, our Asset Finance business, performed well with lending increasing by 19% to \$9.6bn (2005 \$8.1bn). The business continues to grow market share organically and future growth will be underpinned by a strong pipeline of quality lending approvals and the launch of new products. A motor finance and insurance placement service was launched during 2006 and has received outstanding dealer support demonstrating our commitment to the motor trade.

### **Insurance & Investment**

Sales of insurance products as measured by Gross Written Premiums ('GWP') increased by 36% to \$54.3m (2005 \$39.9m), driven by the strong lending growth in Retail and an extension of relationships with corporate distribution partners. This growth includes a solid contribution from the life insurance products launched in 2005.

Our financial planning business benefited from the full year contribution of RACV Financial Services acquired in 2005 and additional recruitment during 2006 with commission income nearly doubling compared to the previous year. Funds under management increased by 5% to \$238m (2005 \$227m) while funds under advice increased 33% to \$240m (2005 \$180m). In January 2007 St Andrews acquired the Queensland based financial planners, Whittaker Macnaught, which will boost funds under management and advice by \$1.5bn.

### **Media inquiries**

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