

For immediate release
Wednesday, 1 March 2006

HBOS Australia delivers strong profit growth

HBOS Australia has today announced an 18 per cent increase in underlying profit before tax to \$552 million for the Group's financial year to 31 December 2005.

In announcing the results, HBOS Australia Chief Executive David Willis said: "The performance has exceeded expectations and reflects the underlying strength in the Group's five business streams."

Mr Willis said it was particularly pleasing that this performance had been achieved notwithstanding the considerable investment signalled last year and made to support future growth.

"Investment in brand recognition, growth in customer facing staff, improvements to internal processes, IT infrastructure, new product delivery and regulatory compliance, resulted in underlying operating expenses increasing 25 per cent in line with our 2005 plans but this was offset by the stronger than anticipated income growth from market share gains," he said.

"During the year the organisation attracted thousands of new customers, grew total staff by more than 1200, and opened 12 new business centres and three branches in Brisbane, Sydney and Melbourne.

"The performance is an endorsement of the Group's strategy to build market share and grow nationally by acquiring new customers through a combination of service and market leading products emphasising a better deal for customers.

"Current growth rates give us confidence that we can achieve the organisation's aggressive growth and financial targets."

HBOS plc Chief Executive James Crosby said: "Economic prospects in our major international markets are particularly encouraging. In both Ireland and Australia, this year will see significant progress in establishing diversified financial services businesses that successfully challenge the current incumbents in those markets."

Mr Crosby said that the success of the Australian businesses was increasingly important for HBOS and he was delighted with the results and progress that had already been made.

"It is particularly pleasing that in a period of significant change the Australian operations have been able to deliver strong results during 2005," he said.

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Financial highlights compared to the 12 months to 31 December 2004:

- Total operating income up 28 per cent
- Net interest income up 17 per cent
- Fee income up 19 per cent
- Underlying operating expenses up 25 per cent
- Customer deposits up 42 per cent
- Advances up 28 per cent

Credit quality remained strong with impaired assets as a percentage of closing advances falling to 0.66% (2004 0.76%). Against a backdrop of a 28% increase in advances, impaired loans increased 11%. Total provisions were relatively steady at 62% (2004 64%) of impaired loans. Impairment losses as a percentage of average advances rose to 0.19% (2004 0.14%), partly as a consequence in 2004 of an extremely good environment and credit write-backs.

Non-interest income increased by 72 per cent reflecting \$22 million from the sale of the merchant acquiring business and increased insurance and investment income from the purchase of RACV Financial Services in April 2005.

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

- Total operating income up 13 per cent to £11.0 billion;
- Net interest income up 9 per cent to £6.8 billion;
- Non-interest income up 20 per cent to £4.2 billion;
- Operating expenses up 6 per cent to £4.6 billion;
- Profits before tax up 17 per cent to £4.8 billion;
- Loans and advances up 9 per cent to £343.8 billion;
- Deposits up 7 per cent to £200.9 billion;
- Earnings per share up 10 per cent to 82.2p.

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

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Media inquiries

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