

## **TOP HBOS FACTS**

In terms of market position and reputation, HBOS is a formidable market force. These top HBOS facts provide a compelling case for customers to place their deposits with us:

**1. HBOS' balance sheet strength.** Bank of Scotland is the principal banking entity of HBOS Group, issuing the majority of debt and holding most of the deposits of the Group. Bank of Scotland credit ratings are strong, both in terms of long term ratings AA- / Aa1 / AA and short term ratings A-1+ / P-1 / F1+.

**2. HBOS is a diverse financial institution.** In H1 2008, 37% of Group profits (excl. NFVA) came from our Retail division; 28% from Corporate, 15% from Insurance & Investment, 8% from Treasury & Asset Management and 12% from our International businesses

**3. HBOS is the largest retail savings bank in the UK with a 15.4% market share.** We are able to target different parts of the savings market through our four brands: Halifax, Bank of Scotland, Birmingham Midshires and Intelligent Finance. Retail savings continued to grow in H1 2008 as customers are attracted to the products we offer and the strength of our institution. Over half of our overall funding base comes from customer deposits

**4. The quality of HBOS' mortgage portfolio.** As at end of June 2008, the average LTV of our portfolio was 48%.

**5. The International division contributed 12% of Underlying Profits Before Tax (excl. NFVA).** Our international businesses include BankWest in Australia, BOS Ireland, Banco Halifax Hispania, BOS Netherlands, HBOS Canada and Heidelberger Leben

**6. HBOS maintains a diversified wholesale funding base,** with diversification by currency (Sterling, Euros, US Dollars, Australian Dollars, Canadian Dollars), products (secured, unsecured, structured, vanilla), maturities (short, medium and long term) and investors (global investor base)

**7. HBOS has been a leader in developing liquidity risk management tools** and as a result we have a conservative internal prudential liquidity policy that requires a level of liquidity management which exceeds that required by the regulators.

**8. The quality of our Treasury portfolio.** HBOS has very little exposure to US sub-prime: £90m (as at 30/6/08). Our Alt-A portfolio is largely AAA rated and benefits from an average 30% subordination (credit enhancement). Negative Fair Value Adjustments of £1,095m relating to certain traded debt securities in Treasury are taken to the income statement. The negative fair value adjustments of £1,916m in the Banking Book however have no impact on reported profits or regulatory capital strength.

**9. Group's Capital ratios have been rebased to a higher level.** Following the Rights Issue the capital ratios on a pro-forma basis for 30 June 2008 are 6.5% for Core Tier 1<sup>1</sup>, 8.6% for Tier 1 and 12.2% for Total Capital. These ratios are comfortably within the new target ranges of 8%-9% for Tier 1 and 6%-7% for Core Tier 1. Strong capital ratios provide us with more resilience in a more uncertain macro economic environment and we intend to take all appropriate actions to keep ratios at the strong end of the spectrum.

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<sup>1</sup> Core Tier 1 capital includes ordinary share capital and eligible reserves but excludes preference shares and innovative Tier 1 securities