DOLMEN STOCKBROKERS
Dolmen Daily
Wednesday 23rd July 2008

DAILY COMPANY NOTE — HBOS See page 2 for full details

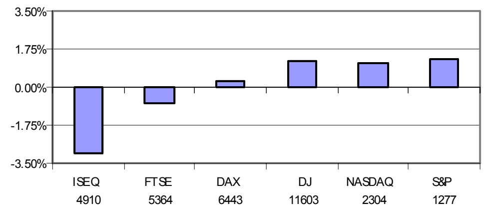
Daily Market Comment

Yesterday's Summary : Irish shares lost some momentum yesterday, as a series of US heavyweights, including American Express, reported worse than expected earnings. The ISEQ closed down 2.97% at 4,910.05. The financials finished lower as Wachovia's disappointing second quarter earnings dampened investor sentiment. AIB lost 8.1% to €8.05, Bank of Ireland shed 4.5% to €5.67, while Anglo Irish Bank fell 1.6% to €5.86. With oil trading as low as $126 per barrel, Ryanair and Aer Lingus gained 1.3% to €3.15 and 7.1% to €1.50 respectively.

Overnight News: Japan's Nikkei 225 Stock Average finished up 1% at 13,312.93, after U.S. equities rebounded overnight while a weaker yen bolstered interest in exporters. In China, the benchmark Shanghai Composite Index closed down 0.29% at 2,837.85, in a further consolidation after recent gains. The Australian S&P/ASX 200 index closed 99.7 points higher at 5,105.3.

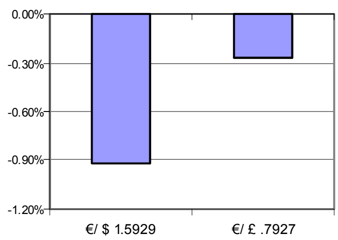
Breaking News : Vodafone have announced a surprise £1bn share buyback programme stating that the share price fall yesterday left the stock undervalued. Vodafone shares fell nearly 14% on Tuesday after the group said its full year revenue would be at the bottom end of their previously issued guidance. Daily Mail & General trust has said that despite an accelerated decline in advertising, its overall third quarter performance has been good with revenue growth of 5%. Fitch ratings has affirmed Bank of Ireland's ratings at long term Issuer Default 'AA' with stable outlook. The rating agency said that despite uncertainty over the intensity and likely duration of the economic slowdown in BOI's key markets, of the UK and Ireland, Fitch believes the overall balance of BOI's portfolio leaves it relatively well placed to cope with stress in the markets.

Equity Indices change on day

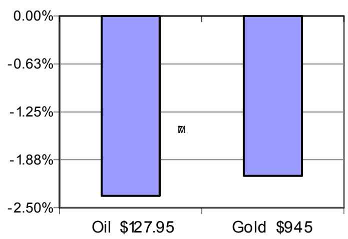


-2.97% -0.74% 0.28% 1.18% 1.07% 1.29%

Currency daily % change



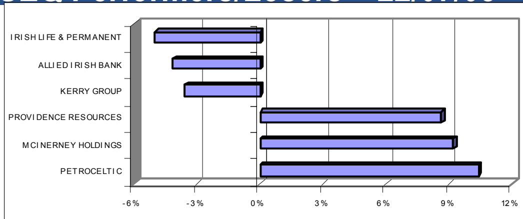
Oil/Gold daily % change



News

"**Elan** reports 22% rise in patients taking Tysabri"-(The Irish Times)
"**Vodafone's** average revenue slips back"-(The Irish Times)
"**Apple** issues current quarter profit alert"-(The Irish Times)
"**Caterpilar** races to 34% profit"-(Irish independent)
"**Wachovia** chief shows Steely determination t cut costs"-(Irish Independent)

ISEQ Performers/Losers 22/07/08



Market Themes and Movers

Strong open this morning: The US market rallied in the latter part of yesterday's session, after European markets had closed. This has led to a strong opening from European equities with the ISEQ currently up 4.3%. Wachovia released results before the US market open on Tuesday which were significantly worse than expected. The market initially reacted negatively but took comfort from managements assurances that they would not need to raise additional capital. Looking ahead, GlaxoSmithKline is due to report its second quarter earnings at midday today, the market will be looking for a strategy update from new CEO Andrew Witty. AT&T, McDonalds and Amazon all report today. AT&T report before the market opens and will be closely watched following disappointment from Vodafone yesterday. Expectations are high from McDonalds as price sensitive US consumers are expected to increase its sales.

DOLMEN SECURITIES LTD

Dolmen Securities
75 St. Stephen's Green, Dublin 2, Ireland.
45 South Mall, Cork, Ireland
Theatre Court, Mallow St, Limerick, Ireland.

Website : www.dolmenstockbrokers.ie
Tel : +353 1 633 3800/1890 400 300 E-mail: info@dsl.ie
Tel : +353 21 422 2122 E-mail: cork@dsl.ie
Tel : +353 61 436 500 E-mail: Limerick@dsl.ie

DOLMEN STOCKBROKERS

DAILY COMPANY NOTE 23/07/08

HBOS

Oliver Gilvarry	BUY
Target	400p
Current	291p

FTSE

Bank

Company Profile

The Group's principal activity is providing banking and other financial services in the United Kingdom and overseas. The Group has five divisions, Retail, Corporate, Insurance & Investment, International and Treasury & Asset Management. Retail includes customer bank accounts, consumer credit and advances.

Fundamental view : The saga that was HBOS rights issue has ended. The sequel will focus on the "Stick" or stock the underwriter has to buy , which is 62.18% of the rights issue. This will translate into an overhang of at least 17.8% of the post rights shares. For HBOS, they have raised their £4bn in funding and achieved their aim of rebuilding the balance sheet, using that metric the rights issue has been a success and the £90m paid to the underwriters was money well spent. The bank is now one of the best capitalised banks in Europe with a core tier 1 ratio of between 6 & 7%. It also has the ability to raise more capital through disposals of part of the international division, specifically Australia or Ireland. The possibility of the sale of the Irish operation is remote due to lack of buyers, but Bankwest in Australia would generate interest from a number of players.

Looking forward, loan growth in HBOS will be significantly lower than in previous years as management have stated they want to de-lever the balance and any loan growth will be through deposit growth, implying loan growth of low single digit in 2009. EPS will be lower than in previous years due to the pressures from increased funding costs and the increased level of impairments the bank will face due to the slowing UK economy.

Next catalyst: The next up-date from HBOS will be on the 31st of July with the release of the half year results. As with many banks, HBOS guidance on earnings has been limited so far and most valuations of banks I based on tangible NBV (tNBV). Currently HBOS is trading at 0.7x tNBV, which is pricing in a large amount of bad news into the share price. HBOS has 20% of the UK mortgage market, which is seen as a negative due to the slowdown in the UK economy and it is true the bank will see increased bad debts due to the housing market and from defaults in consumer credit, but the bank has a strong position within the UK market and has shored up it's balance sheet placing it in a strong position once the overhang of stock is solved. How long the overhang will remain will be dependant on what loss the underwriters wish to take on the their share of the stock. Some commentators in the market believe this overhang will be released into the market over the next number of weeks as the underwriters will be using capital against their holding and in this market that is a limited commodity for any bank. Therefore, I am valuing the company using 1x 2008 estimated tNBV due to the risk from increased impairments from the UK loan book and any further write downs on monoline exposures.

As stated in our previous note on the 13th of June, risks do exist with HBOS going forward, the overhang will depress the price and any investment should be undertaken once the overhang is released into the market over the next few weeks. Once that is complete, the focus should move to the strong balance sheet and the ability of company to raise more capital if required through disposal of foreign assets.

Statistics

Price Performance

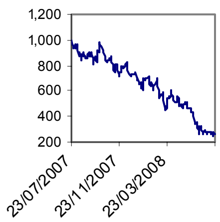
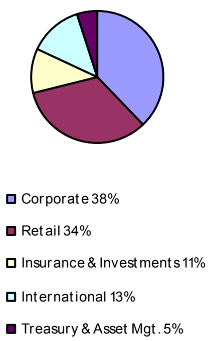


Chart view: HBOS
Key Support: 221
Primary Resistance: 364
Secondary Resistance: 527

Stock still dominated by long term downtrend. However, recent high volume levels indicate a trend reversal is possible. A break of 300 would suggest significant upside potential.

Revenue by Division



Major Shareholders	%
AllianceBertstein LP	8.62%
Legal & General Invt. Mgt.	3.61%
M&G Invt. Mgt.	1.99%
Barclays Global Investors	1.54%
Standard Life Investments	1.53%

Peer Group Multiples.			
Company name	P/E 08	P/E 09	EPS Growth 08-09
HBOS	5.4	5.4	0.00%
Barclays	6.5	5.8	12.00%
RBS	5.1	4.9	5.00%
Lloyds	6.5	5.9	8.82%

Shares Outstanding 5428.95m

Share Data	
Current Price (£)	291.00
Mkt Cap (£m)	10,572
Reuters	HBOS .L
Bloomberg	HBOS LN
Sector	Bank
CEO	Andy Hornby
CFO	Mike Ellis
Website	www.hbosplc.com

Financial Data	2007	2008e	2009e
PBT (£m)	5,474	4,082	4,276
EPS (p)	106	56	56
P/E(x)	2.74	5.20	5.20
DPS (p)	49	21	22
Div Yield	6.73%	7.15%	7.56%

DOLMEN SECURITIES LTD

Disclosures
This report has been prepared by Dolmen Stockbrokers ('Dolmen') for information purposes only to assist investors to make their own investment decisions and is not intended to and does not constitute personal recommendations nor provide the sole basis for any evaluation of the securities discussed. Specifically the information contained in this report should not be taken as an offer or solicitation of investment advice or, encourage the purchase or sale of any particular security, option, future or other derivative investment. Not all recommendations are necessarily suitable for all investors and Dolmen recommend that specific advice should always be sought prior to investment, based on the particular circumstances of the investor.

Although the information in this report has been obtained from sources, which Dolmen believes to be reliable and all reasonable efforts are made to present accurate information Dolmen give no warranty or guarantee as to, and do not accept responsibility for, the correctness, completeness, timeliness or accuracy of the information provided or its transmission. Nor shall Dolmen, or any of its employees, directors or agents, be liable to for any losses, damages, costs, claims, demands or expenses of any kind whatsoever, whether direct or indirect, suffered or incurred in consequence of any use of, or reliance upon, the information. Any person acting on the information contained in this report does so entirely at his or her own risk.

All estimates, views and opinions included in this report constitute Dolmen's judgment as of the date of the report but may be subject to change without notice. Changes to assumptions may have a material impact on any recommendations made herein.

Unless specifically indicated to the contrary this report has not been disclosed to the covered issuers(s) in advance of publication.

Past performance is not necessarily a guide to future returns. The value of investments and the income from them can fall as well as rise. Investments denominated in foreign currencies are subject to fluctuations in exchange rates, which may have an adverse affect on the value of the investments, sale proceeds, and on dividend or interest income. Investors may not necessarily recoup the full value of their original investment. Investors should be aware that forwarding looking statements and forecasts may not be realised.

This report may not be reproduced (in whole or in part) altered, transmitted or made available to any other person without the prior written permission of Dolmen.

Dolmen Securities Limited is regulated by the Financial Regulator. Dolmen Securities Limited is a member firm of the London Stock Exchange.
Dolmen Stockbrokers is regulated by the Financial Regulator. Dolmen Stockbrokers Limited is a member firm of the Irish Stock Exchange and the London Stock Exchange.

Conflicts of Interest & Share Ownership Policy

Dolmen, its employees, directors or related companies, may have a shareholding in the securities (or related investments/ derivatives) of certain companies covered in this report, or may provide/ solicit investment banking or other services to/ from them.

It is noted that research analysts' compensation is impacted upon by overall firm profitability and accordingly may be affected to some extent by revenues arising other Dolmen business units including Corporate Finance, Fund Management and Stockbroking. Revenues in these business units may derive in part from the recommendations or views in this report. Notwithstanding, Dolmen is satisfied that the objectivity of views and recommendations contained in this report has not been compromised.

Dolmen permits research analysts to own shares and/ or derivative positions in issuers they publish research, views and recommendations on and accordingly analysts involved in the production of this report may own stocks in a company covered in it. Any own account staff trading is undertaken in strict compliance with Dolmen's own account internal rules and therefore Dolmen is satisfied that the impartiality of research, views and recommendations remains assured.

Analyst Certification

Each research analyst responsible for the content of this report, in whole or in part, certifies that: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report. Stuart Draper, David Dunk and Stephen Taylor are responsible for the production of this report. Stuart Draper is Head of Research and David Dunk & Stephen Taylor are equity analysts.

For US Persons Only

This report is only provided in the US to major institutional investors as defined by s. 15 a-6 of the Securities Exchange Act, 1934 as amended. A US recipient of this report shall not distribute or provide this report or any part thereof to any other person.

DOLMEN SECURITIES LTD