



FRIDAY 23rd NOVEMBER 2007

DAILY COMPANY NOTE - HBOS See page 2 for full details

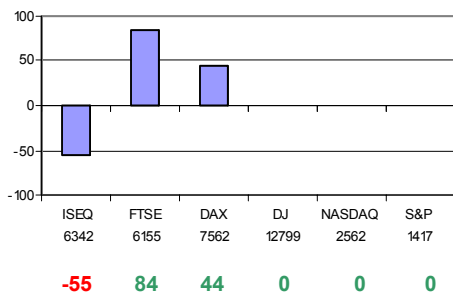
Daily Market Comment

Yesterday's Summary : Despite American markets been closed for thanksgiving and most other European markets closing in positive territory the ISEQ was once again down. Although some stocks had a bit of a rebound from Wednesday's lows the banks once again weighed on the index which closed down 54 points.

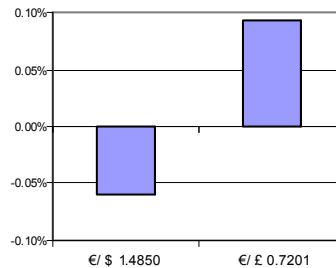
Overnight News : The Australian market closed in negative territory for the fourth consecutive day, with trading subdued due to the Thanksgiving holiday in the US and local investors sitting tight as they await tomorrow's federal election. While stock markets across Asia were mixed on Friday with Hong Kong gaining as investors sought bargains after recent declines, while Korea pulled back as foreign investors reduced their holdings on continued uncertainty about the US market and economy.

Breaking News : Airtricity announced it expects to sell its business by early-to-mid 2008, but a spokesman refused to give details of any possible suitors. The company last month sold its US operations, which had 4,000 megawatts in development, for \$1.4bn to German energy company E.ON. Some analysts say the value of the company could now reach up to €2bn-plus.

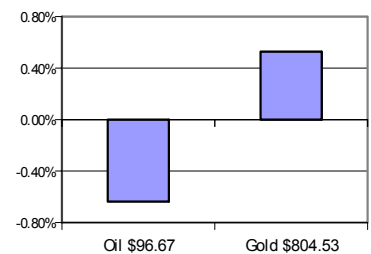
Equity Index's change on day



Currency daily % change



Oil/Gold daily % change



Paper Headlines

- "McDonagh ups ThirdForce stake" - **ThirdForce** - (Irish Independent)
- "More bad news for ISTC as creditors call in collateral"- **ISTC** - (Irish Independent)
- "Safety in AIB's numbers" - **AIB** - (Irish Times)
- "Legal & General Dublin unit to create 40 jobs" - **Legal & General** - (Irish Times)

Market Themes and Movers

UK third quarter GDP slows : UK economic growth unexpectedly slowed in the third quarter as service industries slowed and factory production stalled. GDP showed a 0.7% increase in the three month period through September lower than a previous forecast of a 0.8% gain. Bank of England Deputy Governor Rachel Lomax commented yesterday that the UK economy 'does now appear to be slowing' which is posing a dilemma for policy makers as record commodity prices stoke inflation. The Bank of England is due to meet for the last time this year on December 6th to decide on interest rates and expectations are growing in the market that they may lower their benchmark interest rate by 25 basis points to 5.50%.

Duration of market turmoil difficult to assess : European Central Bank member and Governor of the Bank of Spain, Miguel Angel Fernandez Ordonez, has said that the duration and consequences of the recent turmoil in financial markets still cannot be assessed precisely. He commented that it is highly probable that the financial turbulence will end up leading to a greater than expected slowdown in the growth rate in the Euro-Zone although within an outlook which is still favourable overall.

Euro hits new highs against the dollar : The Euro hit a new all time high versus the dollar overnight at \$1.4928 and is closing in on the psychological \$1.50 mark on continuing fears over the US economy on the fallout from the subprime mortgage market. On Tuesday, the US Federal Reserve lowered its 2008 growth forecast for the US economy to 1.8-2.5% from a prior forecast to 2.5%-2.75%.

Dolmen Squawk Box

- This day five years ago the ISEQ was pressured by the Financials in particular AIB, which closed the day down 41c at €13.83. Its incredible to think that AIB's earnings have grown by c. 65% since this and yet AIB's share price is currently trading at €13.23. Seems like a good buying opportunity to us!!!!!!



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HBOS

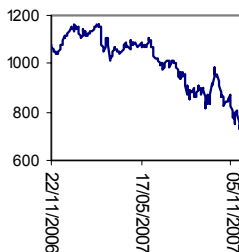
Stuart Draper
BUY
Target (23/11/07) **£10.00**
Previous (11/10/06) **£11.50**
Current **£7.25**
FTSE
Financial
Company Profile

HBOS is a diversified financial services company providing retail services, corporate banking and business banking to UK and International markets. The group offers mortgages, personal loans, business loans and financing, long-term savings, consumer credit, insurance, liquidity and risk management and the sale of treasury products.

Wholesale funding : The UK retail operations of HBOS slowed in H1 2007 as a result of lower mortgage lending growth, with the group's market share of overall UK net mortgage lending representing only c.8%. This is likely to have recovered in H2 2007 toward the group's targeted 15% to 20% range, helped by the exit of Northern Rock, which accounted for 19% of total UK mortgage lending in H1 2007. However, the funding pressure increase of recent months is likely to have squeezed the UK retail division's net interest margin by c.0.07% on an annualized basis, given that HBOS has a 43% wholesale funding exposure.

Capital markets : During H1 2007, HBOS' corporate division was the star performer, generating profit growth of 54% over H1 2006. However, slower fixed income capital markets will have reduced H2 2007 transaction volumes, even though asset write-downs in relation to the group's £150m US sub-prime and £400m CDO exposures are likely to be only c.£30m.

Earnings forecasts : The combined impact of these two factors will be to slow group earnings growth to c.5% in 2007 and 2008, generating 2007 and 2008 group eps to £1.06 and £1.11 respectively. There would also appear to be no threat to the consensus 2007 and 2008 dividends per share of 48p and 52p respectively. With the current share price rating the shares at 6.8x current year earnings, the impact of the above two factors would appear to have been overly discounted by the current share price.

Statistics
Price Performance

PBT Breakdown

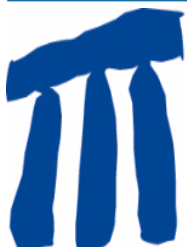

- T&AM 6%
- International 13%
- Retail 33%
- I&I 10%
- Corporate UK 38%

Major upside : Our current share price target of £10 values the shares at 9x 2008 earnings, a rating which we think is achievable over the next 12 months. This provides 38% upside potential from current levels, with the shares also paying a current year dividend yield of 6.6% for waiting for this upside to be achieved. Our view is that HBOS' year end pre-close period trading statement next month, 13th December, and a cut in UK interest rates on 5th December, could both act as positive catalysts in helping to start this share price recovery.

Major Shareholders	%	Peer Group Multiples			
		Company name	P/E 07	P/E 08	EPS Growth 07-08
Axa	6.08%	HBOS	6.8	6.5	4.72%
Legal & General	5.07%	RBS	5.8	5.6	2.15%
Barclays	4.00%	Barclays	7.2	6.7	7.31%
		Lloyds	8.7	7.9	9.56%

Shares Outstanding 3731.1m

Share Data		Financial Data	2006a	2007e	2008e
Current Price (p)	725	Revenue (£m)	14,211	12,973	13,530
Mkt Cap (£m)	27,050	PBT (£m)	5,537	5,811	6,060
Reuters	HBOS.L	EPS (p)	100.50	106.00	111.00
Bloomberg	HBOS LN	P/E(x)	7.2	6.8	6.5
Sector	Financial	DPS(£)	41.40	48.00	52.00
CEO	Andy Hornby	Yield	5.71%	6.62%	7.17%
CFO	Dennis Stevenon				
Website	www.hbosplc.com				





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