



Friday 29th FEBRUARY 2008

DAILY COMPANY NOTE — HBOS See page 2 for full details

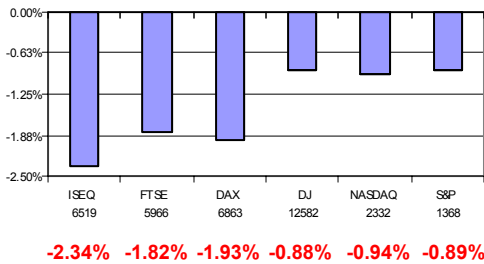
Daily Market Comment

Yesterday's Summary : The ISEQ started and finished the day in negative territory with the US Fed chief Ben Bernanke's warning that some of the smaller US banks might yet fail worsening negative investor sentiment. The ISEQ closed down 2.34% at 6519.12 and the financials were hit hard. AIB shed 1% to finish at €13.77 while Bank of Ireland and Anglo Irish Bank lost more than 2% and 3% respectively. Conversely, considering the market weakness, Irish Life & Permanent had very strong day. Benefiting from various international finance houses upgrades, IL&P ended the day up 21c at €11.12. CRH and Elan both had poor trading sessions with CRH losing nearly 4% and Elan, suffering from the bad reports about its Tysabri drug, shedding 7.54c to close €25.65.

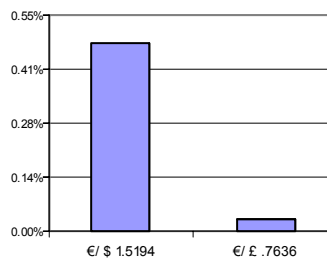
Overnight News : With more concerns in the job market and a no revisions up in the GDP figure, US markets struggled overnight. The Dow Jones closed down 0.88% and the S&P lost 0.89% closing at 1367.68. Asian markets declined for the first session this week as investors fears surrounding the US economy resurfaced. In China, the Shanghai Composite index finished 0.8% lower at 4,299.51. In Japan, the Nikkei closed down 0.8% at 13,925.51. Australia's S&P/ASX index fell 2% to 5,651.20.

Breaking News: C&C have said it forecasts full year revenue falling 9% due to the loss of market share by its Magners cider in the UK, and poor weather conditions. The group are predicting a 10% decline in revenue from its Bulmers division in Ireland. AIG has reported a fourth quarter net loss of \$5.29bn compared a profit of \$3.44bn a year earlier. The world's second largest advertising and marketing company WPP, has posted fourth quarter revenue growth of 5% and given strong 2008 guidance.

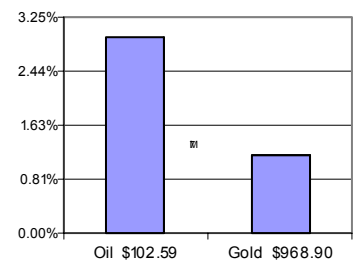
Equity Index's change on day



Currency daily % change



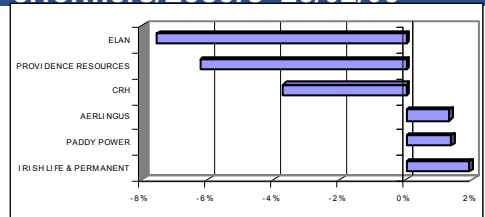
Oil/Gold daily % change



Paper Headlines

- "Ladbroke's Irish profits up to €26m"-**Ladbroke's**-(The Irish Times)
- "Central Bank chief says Ireland able to absorb financial market turmoil"-(I.T)
- "Ulster Bank profits rise to €750m"-**Ulster Bank**-(Irish Examiner)
- "Huge profits rise at Hibernian Group"-**Hibernian Group**-(Irish Examiner)
- "Private equity defying Turmoil"-(Financial Times)

ISEQ Performers/Losers 28/02/08



Market Themes and Movers

European Economic Confidence: European economic confidence fell more than analysts expectations in February amid fears that soaring food and energy costs will keep inflation at record levels. The European Commission reported that an index of executive and consumer sentiment in the euro area fell from 101.7 to 100.1, the lowest it has been since November 2005. In addition another report has indicated that energy and food price inflation accelerated last month. The ECB has suggested that there is "unusually high risks to growth" but they have also maintained that they are in no rush to cut interest rates while inflation concerns persist.

Dollar falls to another record low: The dollar fell to its lowest level against the euro for a fourth consecutive day on fears surrounding the state of the U.S economy. With further interest rate cuts suggested to be on the horizon for the US, there is no sign of the dollar stopping here. Ben Bernanke has suggested that the weakening US currency is helping reduce the US trade deficit.



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HBOS

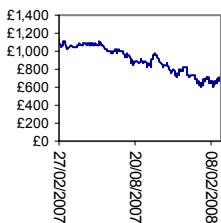
Target	£8.50
Previous (23/11/07)	£10.00
Current	£6.35

FTSE
Banks
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 : Earlier this week, **HBOS** announced its results for the year ended 31/12/07. While the eps of 106.31p was in line with consensus forecasts and a year on year increase of 8%, the write-downs in relation to the group's risk assets were significantly worse than consensus expectations. A further £47m was charged to the profit and loss account, and a further £139m post tax was charged against reserves, purely on the basis of asset writedowns during December 2007. These writedowns had not previously been disclosed in the December pre-close period trading statement. This resulted in NAV per share showing a slight year on year decrease to 476.6p, from 478.1p as at 31/12/06. However, despite the potential for further writedowns in the group's asset-backed securities (ABS) portfolio further damaging NAV, our view is that further solid group profitability should ensure that NAV growth resumes in 2008.

Next catalyst : As a result, we forecast that group NAV per share as at 31/12/08 will show 20% year on year growth to £5.72. Given that the bank should generate a 2008 return on equity of 19%, a price to book multiple of 1.5x would appear achievable, providing the basis for our new 12 month share price target of £8.50 (34% upside), which is based on 1.5x year end 2008 NAV per share of £5.72. At a share price of £6.35, HBOS is currently trading at 6.5x 2008 eps of 98p, a 19% discount to the current sector average of 8x. The 8% decline expected in 2008 eps is largely as a result of funding pressure because of the bank's c.43% wholesale funding exposure, as well as bad debts in the group's corporate banking division. The shares will also continue to pay a dividend yield of 7.7% for waiting for this upside to be achieved, with HBOS' 2007 final dividend per share of 32.3p, on its own representing a dividend yield of 5.1% on the current share price, going ex on Wednesday week, 12th March. Another cut in UK interest rates in April could also act as a positive catalyst for the share price from current levels.

Statistics
Price Performance

Chart view: HBOS

Support Primary: 613
 Support Secondary: 587
 Resistance Primary: 657
 Resistance Secondary: 698

Medium-term chart outlook is negative with pattern of bearish breakdowns. Momentum is poor and a breach of 613 warrants caution. However, the stock has been trading sideways in the 610 to 710 range for 2 months and this range should continue to provide trading opportunities.

Profit breakdown


- Retail 33%
- Corporate 38%
- Insurance & Investment 11%
- International 13%
- Treasury & Asset Mgt. 5%

Major Shareholders	%	Peer Group Multiples.			
		Company name	P/E 08	P/E 09	EPS Growth 08-09
Legal & General Invnt. Mgt.	5.06%	HBOS	6.1	5.7	6.97%
AllianceBernstein	4.24%	Barclays	7.6	6.8	10.46%
Barclays Global Invnt.	2.97%	Lloyds	9.0	8.2	7.19%
Standard Life Invnt.	2.48%	Royal Bank of Scotland	5.5	5.3	4.17%
Blackrock Invnt. Mgt.	2.11%				
Shares Outstanding	3,735				

Share Data	Financial Data	2007	2008e	2009e
Current Price (p)	PBT (£m)	635	5708	5600
Mkt Cap (£m)	EPS (p)	24,540	106	105
Reuters	P/E (x)	HBOS.L	5.98	6.05
Bloomberg	DPS (p)	HBOS LN	49	50
Sector	Dividend Yield	Banks	7.70%	7.89%
CEO		Andy Homby		8.51%
Group Finance Director		Mike Ellis		
Website		www.hbosplc.com		





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