PRE-CLOSE TRADING STATEMENT 13 DECEMBER 2007

HBOS SET TO MEET EARNINGS EXPECTATIONS

In advance of HBOS's close period for the 12 months ending 31 December 2007, this announcement covers the information that will be discussed in today's conference call for analysts and investors.

Group Overview

- Underlying EPS set to meet market expectations of 106p
- Expected full year earnings outcome is after a negative fair value adjustment to traded investment securities of £180m
- Double digit deposits and loans growth
- Cost growth on target
- Robust credit trends

Andy Hornby, Group Chief Executive, commented:

"HBOS is set to deliver a good full year outcome despite the dislocation in global financial markets. We continue to build on the strengths of our UK franchise and are seeing real benefits from our investment in targeted International expansion."

Based on the first 11 months of the financial year, HBOS is delivering a good trading performance and expects to meet market expectations for full year underlying earnings per share of 106.0p. This expected outcome is after taking a negative fair value adjustment to traded investment securities of £180m as at 30 November 2007, representing 3.5p underlying earnings per share.

Asset growth has been stronger in the second half than in the first half. Higher levels of lending growth in Corporate and a lower share of mortgage principal repayments in Retail are set to lead to a stronger than forecast level of asset growth for the Group for the full year.

Customer deposit growth and wholesale funding supply to HBOS during the continuing market liquidity dislocation has also been strong. The incremental cost of funding since August will, however, hold back net interest income growth in the second half, resulting in a slightly lower Group margin for the full year than guided.

Non-interest income has been maintained at a similar level to the strong performance of the first half. It is thus expected to make a healthy contribution to full year revenues.

Cost growth, including planned investments, continues to run in line with guidance for the full year of around 7%.

Group-wide credit trends remain robust. We continue to expect that Retail unsecured impairment losses will be lower in the second half than in the first half. Retail secured impairment losses remain at historic low levels. Corporate and International impairment losses also continue to reflect the relatively benign credit environment.

Divisional Trading

In Retail, deposit growth in savings and banking products has been strong. As the UK's largest savings institution, the Group has seen significant inflows in recent months.

Gross mortgage lending has been stronger in the second half of the year with the share of principal repaid slowing from the first half. This is expected to lead to an estimated net lending market share in the second half of approximately 17-18%.

The increased cost of funding since August has constrained Retail's net interest income in the second half. With the exception of this additional cost, the underlying full year profit outcome in Retail is expected to be in line with the performance recorded in the first half of the year.

In Corporate, lending growth in the second half has been stronger than the first half as a consequence of good new business volumes and a slowdown in syndication activity since August.

Corporate's investment portfolio has again performed well. We now expect the contribution from the portfolio in the second half to be higher than the second half of 2006. Despite the realisations in the second half of this year, we also expect that the book value of the portfolio will have again increased.

With the growth in costs and impairments losses in the second half running behind the growth in income for the same period last year, Corporate is again expected to make a strong contribution to the Group's performance.

Our **Investment business** has had a strong year. Good progress continues to be made in the sale of investment products. Profitability trends favouring the bancassurance and wealth management channels have been maintained, again more than offsetting the more difficult environment in the intermediary channel.

In **General Insurance**, the pricing environment, particularly for household insurance, is showing signs of improvement. This reflects market pricing adjustments following the weather related events of June and July 2007. Together, these events are expected to reduce full year General Insurance profits by some £140m.

In International, good progress has again been made in the development of our businesses with significant investment being made in their future growth. Our Retail expansion programme in Ireland is almost complete and we have now commenced the branch expansion in Australia. Across the International division, we expect to report good growth in assets and in deposit funding, resulting once again in a strong profit performance.

Exposure to US Sub-Prime

The Group's total exposure to US sub-prime investments remains de minimis at less than 0.1% of the Group balance sheet. It has also reduced from £550m as at the end of August to £430m as at the end of November.

In our trading book, the £19m of US sub-prime are all pre-2006 RMBS and as at 30 November 2007 no fair value adjustment to reported full year profit is required.

In our banking book, accounted for on an Available For Sale basis and thus having no impact on either reported profit or regulatory capital, the £411m of US sub-prime investments are expected to require a negative fair value adjustment to post-tax equity of £30m as at 30 November.

There have been no credit impairments to any of the above US sub-prime exposures in either the trading or banking books. The table below sets out our exposures and expected fair value adjustments as at 30 November 2007.

	Trading Books		Banking Book	
	Investment £m	Pre-Tax Profit Adjustment £m	Investment £m	Post-tax Equity Adjustment £m
US Sub-prime Exposures				
- ABS CDO Super Senior				
- High Grade	-	-	201	(14)
- Mezzanine	-	-	124	(10)
- RMBS (1997-2005 vintages)	19	nil	86	(6)
Total US Sub-prime	**19**	**nil**	**411**	**(30)**

Fair Value Adjustments to Investments with no US Sub-Prime content

Reflecting the fall in values of investment securities generally, the full year profit outcome in 2007 is expected to be impacted by a £180m (as at 30 November) negative fair value adjustment to investments with no US sub-prime content within our trading book. These investments primarily relate to floating rate notes and asset backed securities, none of which are CDOs. This adjustment is expected to reverse out over time as no impairments have been incurred in respect of these investments.

We also expect to make a fair value adjustment of around £340m (net of tax as at 30 November) to the Group's Available For Sale reserves in respect of investments with no US sub-prime content within our banking book. This adjustment will have no impact on reported profits or regulatory capital strength. It is also expected to reverse out over time as, again, no impairments have been incurred. We have not revalued any of our own debt in issue.

All fair value adjustments noted above are estimated as at 30 November 2007 and will be updated for our full year results to reflect market conditions.

Capital and Funding

Our capital strength, the quality of our retail deposit franchise and the diversity of our earnings continue to underpin confidence and support for HBOS in the wholesale funding markets. Our move to lengthen the maturity profile and diversity of our funding in recent years, and our policy of not over-paying during this time of intense competition for funds and capital, is consequently being rewarded.

As a result of stronger risk weighted asset growth in the second half of the year, we expect our Basel I Tier 1 capital ratio to be around 7.5% at the year end. Guidance on our Basel II capital basis will be given at the Preliminary Results in February 2008.

The planned £500m share buyback programme for 2007 has now been completed. We do not anticipate initiating new share buyback programmes until such time as greater certainty is restored to market conditions.

Outlook

The Group expects to deliver a good full year outcome, in spite of the significantly changed environment in the second half arising from current market liquidity conditions.

In the short term, we expect the global market dislocation to continue and we will remain prudent in our approach to lending. As a strong, highly diversified business, HBOS is well positioned to further develop its franchise both within the UK and in its targeted overseas markets.

This document contains forward-looking statements, including such statements within the meaning of section 27A of the US Securities Act of 1933 and section 21E of the US Securities Exchange Act of 1934.

These statements concern or may affect future matters. These may include HBOS's future strategies, business plans, and results and are based on the current expectations of the directors of HBOS. They are subject to a number of risks and uncertainties that might cause actual results and outcomes to differ materially from expectations outlined in these forward-looking statements. These factors are not limited to regulatory developments but include stock markets, IT developments, and competitive and general operating conditions.

Contact details:

Investor Relations

Charles Wycks
Director of Investor Relations
07747 790456
charleswycks@hbosplc.com

John Hope
Director, Investor Relations
07836 701348
johnhope@hbosplc.com

Press Office

Shane O’Riordain
General Manager, Group Communications
07770 544585
shaneo’riordain@hbosplc.com

Mark Hemingway
Head of Media Relations
07831 390751
markhemingway@hbosplc.com