

# Business Property

## Local book delivered impairment hit of £586m

# Australian assets hurt Lloyds

Nick Lenaghan

Lloyds Banking Group is winding down its multi-billion dollar Australian property loan book, which contributed to a massive first-half loss for the British giant.

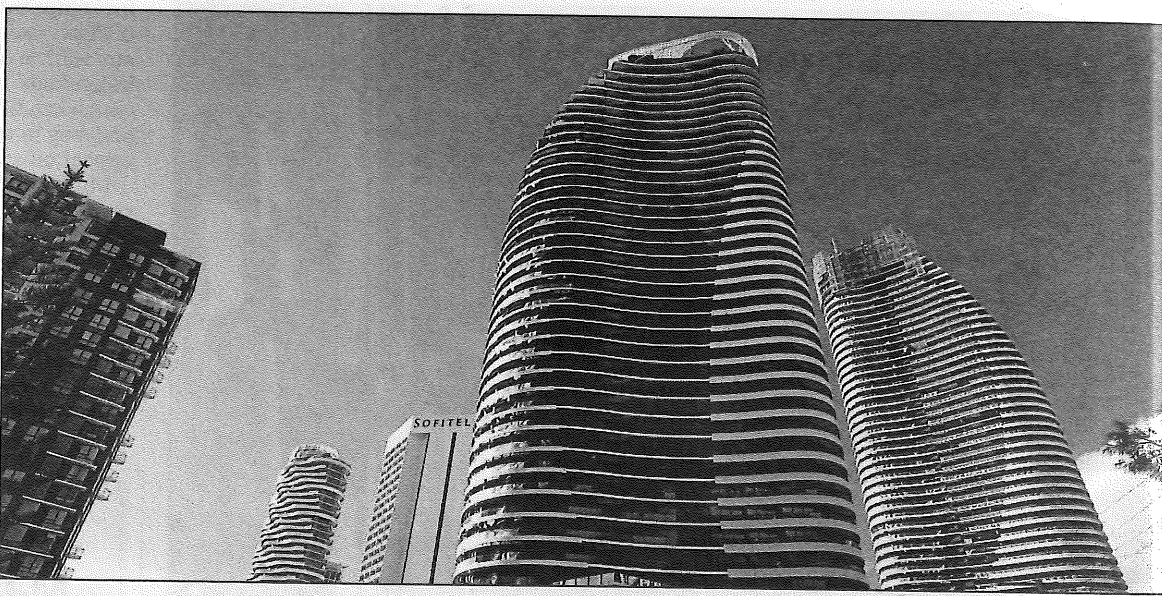
Lloyds now controls lenders including BOS International (BOSI) and Capital Finance, which were aggressive lenders to Australian developers and fund managers during the boom with a loan book estimated at around \$8 billion.

The group announced a first-half loss of £2.3 billion (\$3.5 billion) on Thursday, driven by bad loans in the Australian and Irish commercial property markets along with issues in its insurance arm.

While the Irish market was worse, Lloyds's Australian property book delivered an impairment charge of £586 million, compared with £454 million in the 2010 interim half. Lloyds now has £4.5 billion of impaired loans in Australia.

"Australia, while benefiting from a commodities export boom, continues to be affected by deteriorating property markets in the geographic areas and property classes where the group is exposed," the bank said.

A steady stream of high-profile BOSI-backed properties and developments is making its way into the hands of receivers.



The Gold Coast's luxury Oracle apartment tower is among properties that failed to deliver.

Photo Glenn Hunt

Among them are the failed Oracle residential tower on the Gold Coast and the \$500 million Raine Square development in Perth.

Lloyds said its corporate and asset finance lending businesses – including car loans – were “of scale and profitable” and “operating in a strong and developed economy that has good growth prospects”.

“These ongoing businesses will continue to be managed for

maximum value whilst maintaining a tight focus on running off the legacy commercial property exposures,” the bank said.

The “running off” of its property loan book involves closing loans at maturity if possible, selling the debt to another party or recovering the loan through a receivership.

The Lloyds results commentary will add to increasing speculation in the market, reported last month in

Street Talk, that BOSI's property loan book is for sale. It recently sold a chunk of its New Zealand-based loans, worth less than \$500 million. Hong Kong-based Pacific Alliance Group is believed to be the buyer.

Commercial property exposure has proven a headache for both local and offshore banks since the financial crisis. But the pain has been etched more deeply on the balance sheets of foreign lenders.