

ISSUED
November 2010

COMPANY PROFILE	&	FINANCIAL STRENGTH
R E P O R T S		

Scottish Widows

AKG

Accessible - Comparative - Independent

Analysis by AKG Actuaries & Consultants Ltd

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AKG's Company Profile & Financial Strength Reports are designed to meet the information needs of advisers and analysts in assessing the relative strengths of UK long term insurers. Two different styles of report are published by AKG - FULL reports and SHORT reports. A FULL report is produced for each of the leading provider companies in the market, which participate in the production of the reports. For each remaining provider company which is covered, a SHORT report is produced.

This is a FULL report.

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PLEASE NOTE: This report should be read in conjunction with AKG's User Guide to AKG's Company Profile & Financial Strength Reports, a copy of which is available on-line at www.akg.co.uk

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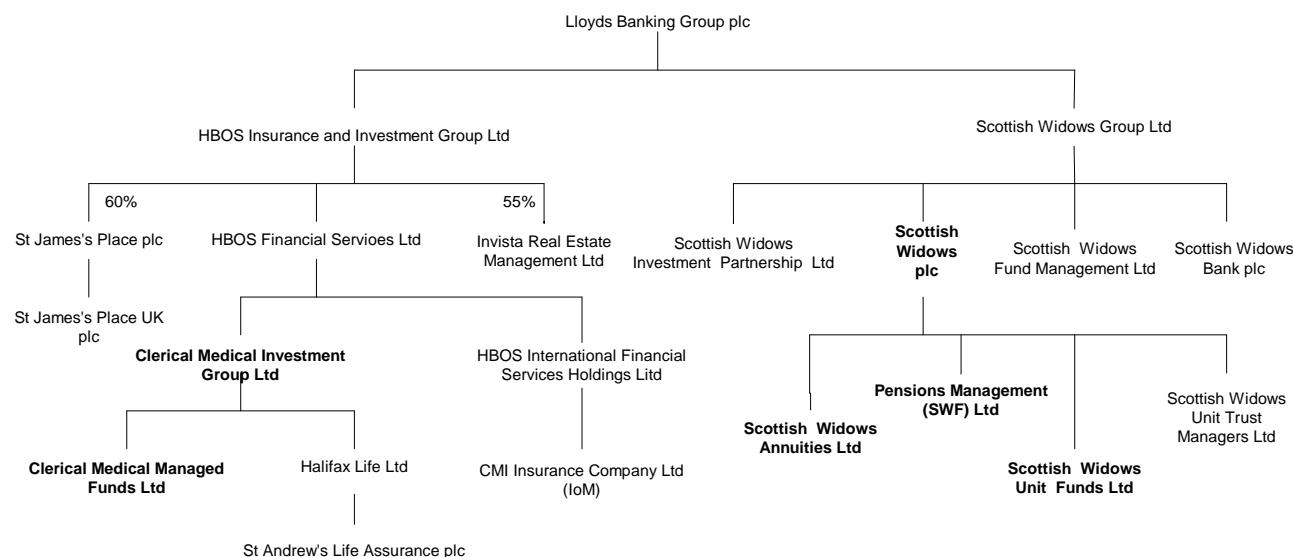
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Group Overview

Lloyds TSB Group plc was renamed Lloyds Banking Group plc (LBG) in January 2009 following the acquisition of HBOS plc, forming the largest retail bank in the UK, part owned 43% by HM Treasury. Within this the Insurance Division encompasses all the insurance companies that previously operated within the two banks. Scottish Widows, acquired by Lloyds TSB plc in March 2000, distributed through the Lloyds branch network, IFAs and directly via the telephone and the internet, with four UK life subsidiaries - the main company Scottish Widows plc, together with the specialist subsidiaries Scottish Widows Unit Funds Ltd (SWUF - linked pensions business), Scottish Widows Annuities Ltd (SWA - non-profit pension annuities), and Pensions Management (SWF) Ltd (PMSWF - managed pension fund business). HBOS operated on a multi-brand, multi-channel approach, with Clerical Medical Investment Group (CMIG), Halifax Life, St. James's Place and St Andrew's Life. CMIG was the primary intermediary product provider, together with Clerical Medical Managed Funds Ltd (CMMF), CMI Insurance Co (an Isle of Man based company) and HBOS Investment Fund Managers Ltd (OEICs). CMIG is also the main product provider to the Clerical Medical Europe (CME) business, which writes business, including with profits, in several mainland European countries. With effect from July 2009 the LBG Insurance Division distributes its intermediary life, pensions and investment business through a combined salesforce operating under the Scottish Widows brand for pensions business. All intermediary business including offshore business will from December 2010 be written under the Scottish Widows brand. In November 2009 LBG sold Insight to BNY Mellon for £235m. The management of Clerical Medical funds, previously managed by Insight, has switched to Scottish Widows Investment Partnership (SWIP). Further integration in terms of the bank distribution and rationalisation of component life companies to drive capital efficiencies is also anticipated. September 2010 saw LBG announce the intended retirement of its Chief Executive. Invista is expected to be wound up in due course.

Corporate Structure (simplified)



Ratings

Company	Financial Strength Ratings				Supporting Ratings		
	Overall	With Profits	Non Profit	Unit Linked	Service	Image & Strategy	Annual Review
Scottish Widows plc	B+	★★★★	★★★★★	★★★★	★★★★★	★★★★	★★★★
Scottish Widows Unit Funds Ltd	B+	■	■	★★★★	★★★★★	★★★★	★★★★
Scottish Widows Annuities Ltd	B+	■	★★★★★	■	★★★★★	★★★★	★★★★
Pensions Management (SWF) Ltd	B+	■	■	★★★★	★★★★★	★★★★	★★★★
Clerical Medical Investment Group Ltd	B+	★★★	★★★★★	★★★★	★★★★★	★★★★	★★★★
Clerical Medical Managed Funds Ltd	B+	■	★★★★	★★★★	★★★★★	★★★★	★★★★

Summary Financial Data

Key Financial Data (for y/e: 31/12/09)

LT Admissible Assets (by Company)	2007 £000's	2008 £000's	2009 £000's
Scottish Widows plc	24,795,524	19,546,181	23,288,913
Scottish Widows Unit Funds Ltd	24,948,075	21,609,774	21,211,222
Scottish Widows Annuities Ltd	6,003,253	6,072,977	6,566,742
Pensions Management (SWF) Ltd	2,670,608	2,025,478	2,185,652
Clerical Medical Investment Group Ltd	19,420,770	17,052,151	18,369,700
Clerical Medical Managed Funds Ltd	15,945,184	14,550,454	9,867,254
Total Assets	93,783,414	80,857,015	81,489,483

LT Admissible Assets (by asset type)	2007 £000's	2008 £000's	2009 £000's
Fixed Interest	17,674,192	17,484,945	19,420,342
Equities	15,280,893	9,367,999	8,733,279
Property	4,029,856	2,841,432	2,289,977
Linked	49,918,733	42,652,618	43,217,333
Other	6,879,740	8,510,021	7,828,552
Total Assets	93,783,414	80,857,015	81,489,483

LT Liabs & Margins (by type)	2007 £000's	2008 £000's	2009 £000's
Non Linked Non Profit	8,957,819	9,194,178	10,004,958
Non Linked With Profits	8,132,378	7,775,074	6,631,454
Accum'lg With Profits	16,224,043	15,109,891	14,364,508
Linked	50,042,921	42,724,160	43,497,700
Surplus c/f	746,327	619,001	405,499
Other liabilities	1,565,516	1,799,535	2,175,610
Investment Reserves	8,114,404	3,635,179	4,409,757
Total Liabilities/Margins	93,783,408	80,857,018	81,489,486

Net Inflow Data (for y/e: 31/12/09)

Net Inflow (by Company)	2007 £000's	2008 £000's	2009 £000's
Scottish Widows plc	-1,796,233	-1,592,383	-2,088,807
Scottish Widows Unit Funds Ltd	1,878,377	1,251,617	690,849
Scottish Widows Annuities Ltd	217,060	-105,545	-148,067
Pensions Management (SWF) Ltd	4,153	-333,580	-107,642
Clerical Medical Investment Group Ltd	-2,336,101	-1,521,635	899,179
Clerical Medical Managed Funds Ltd	-286,626	46,331	-6,285,547
Net Inflow(-Outflow)	-2,319,370	-2,255,195	-7,040,035

Net Inflow (by payment type)	2007 £000's	2008 £000's	2009 £000's
Premiums	11,079,152	9,523,029	6,016,604
Death/disability pmts	409,730	441,357	447,558
Surrenders	10,584,514	8,326,950	9,779,932
Annuity Payments	701,455	738,593	770,784
Maturities	1,702,824	2,271,324	2,058,366
Net Inflow(-Outflow)	-2,319,370	-2,255,195	-7,040,035

Net Inflow (by business type)	2007 £000's	2008 £000's	2009 £000's
UK Life	-2,624,150	-2,414,157	-2,408,252
UK Pension	358,265	100,211	-4,510,982
Overseas	-53,485	58,751	-120,801
Net Inflow(-Outflow)	-2,319,370	-2,255,195	-7,040,035

New Business Data (for y/e: 31/12/09)

New Single Premiums (by Company)	2007 £000's	2008 £000's	2009 £000's
Scottish Widows plc	5,402,924	4,231,836	2,475,198
Scottish Widows Unit Funds Ltd	0	0	0
Scottish Widows Annuities Ltd	0	0	0
Pensions Management (SWF) Ltd	151,877	79	1,292
Clerical Medical Investment Group Ltd	2,044,764	1,665,016	834,545
Clerical Medical Managed Funds Ltd	163,280	83,238	21,613
Total (Direct + External Reins)	7,762,845	5,980,169	3,332,648

New Single Premiums (by business type)	2007 £000's	2008 £000's	2009 £000's
UK Life	1,943,880	1,171,383	319,005
UK Pensions	5,658,187	4,720,995	2,982,252
Overseas	160,778	87,791	31,391
Total (Direct + External Reins)	7,762,845	5,980,169	3,332,648

New Regular Premiums (by Company)	2007 £000's	2008 £000's	2009 £000's
Scottish Widows plc	420,988	549,745	509,514
Scottish Widows Unit Funds Ltd	0	0	0
Scottish Widows Annuities Ltd	1	2	1
Pensions Management (SWF) Ltd	11,330	8,453	1,628
Clerical Medical Investment Group Ltd	220,107	206,270	217,203
Clerical Medical Managed Funds Ltd	0	0	0
Total (Direct + External Reins)	652,426	764,470	728,346

New Regular Premiums (by business type)	2007 £000's	2008 £000's	2009 £000's
UK Life	56,139	65,070	236,716
UK Pensions	554,760	660,732	475,230
Overseas	41,528	38,669	16,400
Total (Direct + External Reins)	652,426	764,470	728,346

The above tables reveal, in both asset and new business terms, Scottish Widows to be the dominant brand. There is also a clear bias towards pensions.

Total assets across all six companies remained relatively static in 2009, with improved investment performance being offset to a large degree by a much increased net outflow as premium income reduced and surrenders increased. Across the enlarged group, new single premiums decreased by 44%. New regular premiums held up much better, decreasing by 5%.

Combined assets within the various UK life companies within the Insurance Division of LBG were in excess of £122bn as at December 2009.

Corporate Data

Ownership	Lloyds Banking Group plc
Open to New Business?	Yes
Year Established	2000
Head Office	69, Morrison Street Edinburgh EH3 8YF
Tel:	0131 655 6000
Fax:	0131 662 4053
Administration Office	As above
Website - Consumer	www.scottishwidows.co.uk
Website - IFA	www.scottishwidows.co.uk/ifa

Key Personnel

Chairman	Lord A P Leitch
Managing Director	P D Loney
Finance Director	K Luscombe
Marketing Director	R Jones
Client Services Director	D Stoddard
IT Director	P Penney
Intermediaries Director	S Massey
Actuarial Function Holder (Scottish Widows)	C Murison
Actuarial Function Holder (Clerical Medical)	R McIntyre

Company Background

In 1815, the Scottish Widows Fund and Life Assurance Society opened as Scotland's first mutual life office, for the widows, sisters and other female relatives of deceased members. It set up a managed pension fund subsidiary in 1968, a unit-linked subsidiary in 1981, and Scottish Widows Bank was launched in 1995. In March 2000, when Lloyds TSB plc completed an agreed takeover of Scottish Widows, Scottish Widows plc was established to acquire the assets and liabilities of the Society, with the exception of an element of conventional non profit pensions business, which was transferred to the newly formed subsidiary SWA.

There has been a series of reshuffles within the group. In 2004, the majority (£7.4bn) of the business of Lloyds TSB Life Assurance Company Ltd was transferred into the company. In 2005 the company became the owner of Abbey Life Assurance Company Ltd (subsequently sold to Deutsche Bank in 2007) and in 2006 it became the owner of Scottish Widows Unit Trust Managers Ltd.

Overall Financial Strength

B+

The company is both strong and well managed in itself and can be considered as such even on a standalone basis, and whilst coverage for its Capital Resources Requirement reduced in 2009, it remained satisfactory.

A key component of the company's financial strength is also derived from its parent, Lloyds Banking Group. The bank's strength diminished following the HBOS acquisition and this, together with government intervention, has seen its public image suffer. The acquisition itself brought with it a number of positive aspects, not least the large additional distribution it affords and the scale it can add to the Scottish Widows brand.

Reinsurance

Approach

The company paid reinsurance premiums totalling £3.6bn in 2009 [2008: £4.5bn]. Whilst there are a number of reinsurance treaties in force, providing conventional risk protection, with a variety of external reinsurers, the major part of the company's reinsurance arrangements are with other companies in the group. These include arrangements to reinsure certain liabilities to its specialist subsidiaries SWA (pension annuity business) and SWUF. Linked life business that had previously been reinsured with SWUF was recaptured on 1 January 2009. In January 2009, the company began reinsuring protection business to CMIG, with a percentage of that business being reinsured externally. Reinsurance premiums paid to other companies in the group through these arrangements totalled £2.9bn in 2009 [2008: £4.1bn].

Analysis of Reserves	2007	2008	2009
	£000's	£000's	£000's
Gross reserves	47,625,043	42,724,590	46,378,949
Reinsurance ceded - external	632,682	939,150	1,671,214
Reinsurance ceded - internal	28,536,875	25,330,240	25,434,462
Net mathematical reserves	18,455,486	16,455,201	19,273,273

Non Profit Business

General

Most non profit pension annuity business is reinsured to SWAL. This arrangement also includes a small amount of pension term assurance business. All reinsurances are on an original terms basis, adjusted to reflect administration expenses borne by the parent. Much of the old mutual company's pensions annuity business was transferred directly into the subsidiary, but some went to Scottish Widows plc and was then reinsured to the subsidiary. Gross non profit reserves increased to £6bn at the end of 2009, of which £4.4bn was reinsured out.

Non Profit Reserves	2007	2008	2009
	£000's	£000's	£000's
UK Life	432,000	577,262	553,637
UK Pensions	568,501	854,651	1,057,091
Overseas	2,341	2,287	1,999
Total net NP reserves	1,002,842	1,434,201	1,612,728

Non Profit Financial Strength

★★★★★

Retained non profit business forms a relatively small part of the company's business with a majority of liabilities reinsured to a subsidiary. In addition to the support from free assets, comfort is derived by the volume of with profits business in force, and from the parentage.

A similar level of financial strength is deemed to apply to non profit business, reserves of around £8.4bn, held elsewhere in the Scottish Widows/Clerical Medical life companies.

Unit Linked Business

Approach

Scottish Widows offers a wide range of funds from ready-made investment portfolios to specialist funds, the aim being to meet differing investment needs. The funds are grouped into four categories: Scottish Widows core life and pensions funds (managed by SWIP) including a fund of fund offer; Scottish Widows Manager of Manager funds; Scottish Widows With Profits Funds and Scottish Widows Externally Managed Funds. Whilst an open architecture option is available through the Retirement Account, giving access to over 1,000 external funds through FundsNetwork, a guided fund range is generally available for other products. This fund range was reviewed in 2007 and the outcome of this review was a core selection of funds managed by SWIP and links to 12 external fund managers (down from 17). Scottish Widows is committed to ongoing monitoring and governance of these funds and their managers, with the intention of providing access to quality funds, maintaining credibility and providing a source of differentiation.

The company's unit linked pension business is reinsured to SWUFL, the specialist unit linked subsidiary. Linked liabilities reinsured out amounted to £21.2bn at the end of 2009 [2008: £21.5bn]. The reinsurance arrangements now only apply to unit linked pensions business due to the recapture of life unit linked business in January 2009. From April 2001, it has also covered substantially all of the expense risks associated with the range of Pensions Solutions products and stakeholder pension policies and from 2007 the Retirement Account. The subsidiary is entitled to substantially all of the charges from these policies in exchange for a reinsurance commission which is paid back to the company as the new business is written. All managed pension fund business is written directly by the specialist subsidiary, PMSWF.

Some consolidation of unit linked funds appears inevitable as the integration with Clerical Medical proceeds. Specifically, the life unit linked funds are effectively closed to new business post July 2009 with the dropping of Scottish Widows life unit linked range in favour of Clerical Medical's.

Linked Reserves	2007 £000's	2008 £000's	2009 £000's
UK Life	4,453,619	2,891,983	6,534,855
UK Pensions	103,231	122,986	137,338
Overseas	34,028	25,548	29,660
Total net linked reserves	4,590,877	3,040,518	6,701,852

Unit Linked Financial Strength

★★★★

Although the company's linked business is primarily reinsured to a subsidiary, its fortunes are bound up with this company. In addition to the support available from the free assets, a high degree of comfort is derived by the volume of with profits business in force, and from the presence of the wider parental group.

Unit linked business held elsewhere in the Scottish Widows/Clerical Medical life companies, totalling around £37bn, is deemed to enjoy similar financial strength.

With Profits Business

Approach

The With-Profits Fund contains conventional with profits, the with profits investment element of unitised with profits (including offshore) and certain non profit policies allocated to the fund. The Flexible Options Bond introduced With-Profits Growth and Income Funds (both within the With-Profits Fund).

With Profit Reserves	2007 £000's	2008 £000's	2009 £000's
UK Life	3,845,548	3,228,252	2,896,287
UK Pensions	8,937,949	8,689,302	8,013,356
Overseas	78,270	62,929	49,050
Total net WP reserves	12,861,767	11,980,482	10,958,694

Profit Sharing Philosophy

The aim is to safeguard solvency without assuming recourse to extra capital, whilst managing the business in line with PRE. Factors (other than contractual entitlements) taken into account include past practice of the Society and industry and representations made to policyholders. At demutualisation, a memorandum account was set up, available to cover the cost of meeting GAO liabilities, but the company also makes deductions from payouts for the cost of guarantees. Small enhancements are being made to payouts on pre-demutualisation business.

Asset Allocation

Most with profits business had an asset share EBR of 56% at the end of 2009 [2008: 53%]. The main fund returned 11% during 2009 [2008: -18%]. Various types of derivatives are used to protect the fund.

Distribution of Surplus	2007 £000's	2008 £000's	2009 £000's
To Policyholders	548,439	580,516	187,435
Other Transfers	38,000	23,000	6,000

Realistic Balance Sheet	2007 £000's	2008 £000's	2009 £000's
Working capital	944,977	258,975	259,771
Risk capital margin	76,106	241,000	61,391
Realistic excess available	868,871	17,975	198,380
Working capital ratio	5.3%	1.9%	2.0%
RCM as % of assets	0.4%	1.8%	0.5%
Realistic xs available ratio	4.9%	0.1%	1.5%

In 2009, the fund's working capital increased only slightly to £260m [2008: £259m]. Future enhancements planned from the Additional Account increased substantially to £505m [2008: £186m], and the RCM reverted to nearer its 2007 level, after the cost of financial options caused a big increase in 2008. Under the Scheme of Transfer the With-Profits Fund has access to support assets external to the fund and at the year end these amounted to £350m [2008: £371m]. The WPICC increased to £990m [2008: £206m].

With Profits Financial Strength

★★★★

The majority of the retained business in this company remains with profits in nature, but the proportion is reducing. Whilst working capital is well down on 2007 levels, the position of the fund remains satisfactory.

Key Financial Data (for y/e: 31/12/09)

Capital Resources	2007	2008	2009
	£000's	£000's	£000's
Core tier one capital	8,143,887	5,484,047	6,509,320
Tier one waivers	0	0	0
Other tier one capital	0	0	0
Tier one deductions	-953,664	-1,088,182	-1,144,494
Total tier one capital	7,190,223	4,395,865	5,364,826
Tier two capital	540,863	603,823	589,921
Adjustments and deductions	-979,506	-1,326,957	-1,319,229
Total Capital Resources	6,751,580	3,672,731	4,635,518
CR outside the fund	1,180,488	1,150,738	1,162,848

Overall capital resources increased in 2009 on the back of improved investment markets. The company reported an after tax profit of £143m [2008: £157m]. The company continued its policy of repatriating capital to the parent, some £4bn since 2005, including £378m relating to 2009 - £210m of which was paid in 2010. The group is reviewing its capital structure following the HBOS acquisition.

Long Term Business Admissible Assets	2007	2008	2009
	£000's	£000's	£000's
Fixed Interest	6,039,398	5,546,789	6,112,021
Equities	8,633,352	5,363,385	4,963,962
Property	1,963,877	1,425,668	1,395,725
Linked	4,610,510	3,067,132	6,650,662
Other	3,548,387	4,143,207	4,166,543
Total Assets	24,795,524	19,546,181	23,288,913

Equity holdings increased in 2009 as markets recovered. Linked assets more than doubled, primarily due to the reinsurance recapture.

Free Assets	2007	2008	2009
	£000's	£000's	£000's
Free Assets (Exc Fin Eng)	2,728,469	2,292,981	2,485,889
Financial Engineering	0	0	0
Free Assets (Published)	2,728,469	2,292,981	2,485,889

Free Asset Ratios	2007	2008	2009
	%	%	%
FAR (Exc Fin Eng)	11.0	11.7	10.7
FAR (Published)	11.0	11.7	10.7

CRR Coverage Ratios	2007	2008	2009
	%	%	%
CRRCR (Exc Fin Eng)	167.8	266.2	215.6
CRRCR (Published)	167.8	266.2	215.6

Whilst free assets increased in absolute terms, the FAR and CRR coverage reduced but remained at acceptable levels, in particular the FAR.

Long Term Business Liabilities & Margins	2007	2008	2009
	£000's	£000's	£000's
Non Linked Non Profit	1,002,842	1,434,201	1,612,728
Non Linked With Profits	5,996,180	5,705,354	4,754,112
Accum'lg With Profits	6,921,801	6,300,067	6,218,799
Linked	4,590,877	3,040,518	6,701,852
Surplus c/f	46,973	0	0
Other liabilities	768,903	596,826	589,579
Investment Reserves	5,467,945	2,469,216	3,411,844
Total Liabilities/Margins	24,795,521	19,546,182	23,288,913

Retained business remains predominantly with profits, although the level of unit linked business has changed following the 2009 recapture of reserves of £4.1bn. There is also a significant proportion of linked business relating mainly to the ex-Lloyds TSB Life portfolio. During 2009, volumes of with profits business in force continued to shrink. The company has substantial exposure to GAOs, although its reserve in this respect reduced to £0.7bn at the end of 2009 [2008: £1.3bn]. There is a provision of £65.6m in relation to pensions mis-selling.

Key Revenue Items	2007	2008	2009
	£000's	£000's	£000's
INCOME			
Premiums	1,312,618	1,592,699	750,669
Investment Income	998,676	969,070	981,785
Investment Increase	84,880	-853,866	99,293
EXPENDITURE			
Commissions	682,077	646,026	42,418
Policy claims	3,108,851	3,185,082	2,839,476
Expenses	277,419	258,144	236,709
BUSINESS TRANSFERS	0	0	4,073,296
TRANSFER to P&L	300,000	110,000	147,000
INCREASE in fund	-1,735,005	-2,078,533	2,807,350

The revenue account clearly shows the policy of transferring monies from the long term fund to the shareholders fund to support dividend payments over recent years: £147m in 2009 following £1.2bn in the three previous years. 2009 is dominated by the business transfer, which relates to the reinsurance recapture. Other items in the revenue account (shown on a net basis) are distorted by intra-group reinsurance. Gross premiums fell by almost 30% on lower single premium business. Gross surrenders also fell, by over 20% but the effect of reinsurance led to a net decrease of 8%. Both expenses and commissions reduced, but commissions were impacted by the reinsurance recapture. Overall the group again experienced a net outflow in 2009.

Expense Ratios	2007	2008	2009
New business (% APE)	84.2	69.6	13.1
Renewal (% reg premiums)	8.3	12.0	8.9
Renewal (% p.a. of mean fund)	0.59	1.03	0.84

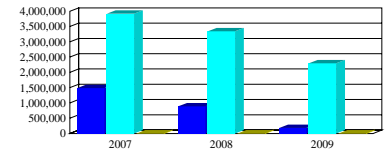
Expense ratios reduced, although the impact of the reinsurance recapture was a major factor here. Maintenance expenses increased by 24%.

New Business Data (for y/e: 31/12/09)

	Single £000's	Regular £000's
Investment		
Bonds With Profits	0	0
Unitised WP	1,580	0
Unit Linked	135,550	0
Endowment With Profits	0	0
Unitised WP	0	8
Unit Linked	0	233
Guaranteed Bonds	0	0
ISA / tax exempt	0	0
Annuities	223	0
Miscellaneous	0	0
Protection		
Whole Life With Profits	0	0
Unitised WP	0	2
Unit Linked	0	8
Term Ordinary	0	15,333
Pension	0	35
IP Individual	0	2,020
Critical Illness	0	22,045
Long Term Care	0	12
Miscellaneous	0	16,527
Pensions		
Individual With Profits	0	414
Unitised WP	89,002	2,072
Unit Linked	1,167,717	80,638
CPA	478,209	0
Bulk Transfer Annuities	0	0
Miscellaneous	0	0
Group Business		
Pension	557,054	303,072
Life	41,472	62,626
IP	0	61
Critical Illness	0	4,408
Miscellaneous	0	0
TOTAL DIRECT BUSINESS	2,470,807	509,514
Overseas Direct (inc above)	0	0
External Reins (exc above)	4,391	0
Intra-Group Reins (exc above)	0	0
Industrial Branch (inc above)	0	0

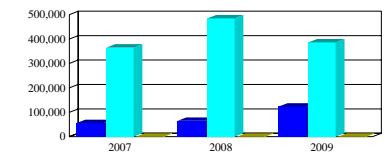
New Single Premiums	2007 £000's	2008 £000's	2009 £000's
UK Life	1,483,974	887,877	178,825
UK Pensions	3,918,950	3,343,959	2,296,373
Overseas	0	0	0
Total (Direct + External Reins)	5,402,924	4,231,836	2,475,198

Growth Rate	17.1%	-21.7%	-41.5%
Reins Accepted (Intra-Group)	0	0	0



New Regular Premiums	2007 £000's	2008 £000's	2009 £000's
UK Life	56,074	65,019	123,284
UK Pensions	364,915	484,727	386,230
Overseas	0	0	0
Total (Direct + External Reins)	420,988	549,745	509,514

Growth Rate	-2.0%	30.6%	-7.3%
Reins Accepted (Intra-Group)	0	0	0



Scottish Widows plc remains the dominant contributor in new business terms with APE of £757m in 2009, the other significant contributor being CMIG with a corresponding APE of £301m: a situation that will continue as long as pensions business is written into Scottish Widows plc and investment business into CMIG. A further £1.8m and £2.2m of APE was written into PMSWF and CMMF respectively, with negligible amounts into SWA and none into SWUF in 2009. In new business terms pensions business (APE of £773m) continued to dominate during the year, particularly given the continued significant fall off in unit linked investment business, down around 70%.

In overall group terms, life single premiums reduced by 73%, pensions single premiums by 37% and pension regular premiums by 28%. Life regular premiums increased by 264%.

The group stated that sales through the intermediary channel, down 35%, were significantly impacted as the UK intermediary sales forces were integrated and a number of HBOS products were withdrawn. Sales through the bancassurance channel, excluding payment protection, fared better with only an 11% reduction. Sales of OEICs increased by 12% in 2009.

Corporate Data

Ownership	Lloyds Banking Group plc
Open to New Business?	Yes
Year Established	1981
Key Personnel	See Scottish Widows plc

Company Background

The company, a wholly owned subsidiary of Scottish Widows plc since March 2000, operates as the Scottish Widows specialist linked pensions subsidiary. It does not write any business directly: all of its business is reinsured in from Scottish Widows plc. In 2004, this was extended to the reinsurance of an element of the business transferred from Lloyds TSB Life, involving a one-off reinsurance premium of £4bn. The company has a wide range of linked funds, mirroring the parent's marketing approach. Fuller details are contained in the section of the report relating to Scottish Widows plc. In January 2009 the company ceased reinsuring linked life business, which from that date was retained within Scottish Widows plc. £4.1bn of assets and liabilities were transferred to the parent with a minimal affect on solvency and profits. The company continues to reinsure linked pensions business. Previously, the reinsurance arrangement involved the unit-linked liabilities under virtually all Scottish Widows plc's (including ex-Lloyds TSB Life) unit linked life and pension policies, as well as part of the life and critical illness risks for some linked life policies. From April 2001 it has also covered substantially all of the expense risks associated with the range of Pensions Solutions products and stakeholder pension policies and from 2007 the Retirement Account. The company is entitled to substantially all of the charges from these policies, less any reinsurance commission paid back to the parent as the new business is written. The company reinsures £32.8m of linked business to UBS Global Asset Management Life Ltd. From 2001-2005, the company experienced valuation deficits each year due to the high volumes of business reinsured from the parent. During this period the company received capital subscriptions from its parent totalling £152m, followed by further injections of £106m in 2008 and £6m in 2009. Also in 2008 the company received further funding in the form of an additional contingent loan of £62m. Total outstanding contingent loans amounted to £622.8m including £123m of outstanding interest as at 31 December 2009.

Overall Financial Strength

B+

The company declared a profit of £7.2m for 2009 [2008: £2.8m]. Whilst the company has had increasingly negative basic free assets in its own right in recent years, despite having received regular capital subscriptions and contingent loans it continues to demonstrate a small, albeit reduced, but positive, level of published free assets. Notwithstanding the decision, in Q1 2009, to repatriate reinsured linked life business to the parent, and any potential post acquisition restructuring, the company remains an integral part of the Insurance Division of Lloyds Banking Group and AKG believes that it would receive any necessary financial support from its parent, just as it has done in recent years.

Key Financial Data (for y/e: 31/12/09)

Long Term Business Admissible Assets	2007 £000's	2008 £000's	2009 £000's
Fixed Interest	78,695	121,920	79,426
Equities	0	0	0
Property	0	0	0
Linked	24,771,726	21,413,028	21,067,530
Other	97,654	74,826	64,266
Total Assets	24,948,075	21,609,774	21,211,222

Free Assets	2007 £000's	2008 £000's	2009 £000's
Free Assets (Exc Fin Eng)	-500,636	-546,911	-586,714
Financial Engineering	526,432	614,722	622,829
Free Assets (Published)	25,796	67,811	36,115

Free Asset Ratios	2007 %	2008 %	2009 %
FAR (Exc Fin Eng)	-2.0	-2.5	-2.8
FAR (Published)	0.1	0.3	0.2

CRR Coverage Ratios	2007 %	2008 %	2009 %
CRRCR (Exc Fin Eng)	-868.1	-988.4	-917.0
CRRCR (Published)	149.9	234.9	162.6

Long Term Business Liabilities & Margins	2007 £000's	2008 £000's	2009 £000's
Non Linked Non Profit	0	0	0
Non Linked With Profits	0	0	0
Accum'lg With Profits	0	0	0
Linked	24,908,975	21,559,739	21,187,101
Surplus c/f	12,652	38,883	22,271
Other liabilities	26,448	11,153	1,850
Investment Reserves	0	0	0
Total Liabilities/Margins	24,948,075	21,609,775	21,211,222

New Business Data (for y/e: 31/12/09)

New Single Premiums	2007 £000's	2008 £000's	2009 £000's
UK Life	0	0	0
UK Pensions	0	0	0
Overseas	0	0	0
Total (Direct + External Reins)	0	0	0

Growth Rate	0.0%	0.0%	0.0%
Reins Accepted (Intra-Group)	4,344,763	3,458,349	1,603,720

New Regular Premiums	2007 £000's	2008 £000's	2009 £000's
UK Life	0	0	0
UK Pensions	0	0	0
Overseas	0	0	0
Total (Direct + External Reins)	0	0	0

Growth Rate	0.0%	0.0%	0.0%
Reins Accepted (Intra-Group)	286,293	369,180	237,825

Corporate Data

Ownership	Lloyds Banking Group plc
Open to New Business?	Yes
Year Established	2000
Key Personnel	
	See Scottish Widows plc

Company Background

The company is a wholly owned subsidiary of Scottish Widows plc, set up at the time of Scottish Widows' demutualisation in March 2000 to act as the group's specialist pensions annuity subsidiary. In March 2000, some of the old mutual company's pensions annuity business was transferred directly into this company, but some of it was transferred to Scottish Widows plc and then reinsured to this company. It writes (mainly via reinsurances accepted from other group companies) UK non-profit pension annuity business - immediate annuities, deferred annuities, reversionary annuities, and lump sum death benefits in connection with such annuity business. Since demutualisation, virtually all new business has arisen from reinsurances accepted from Scottish Widows plc and Pensions Management (SWF) Ltd. All reinsurances are on an original terms basis, adjusted to reflect administration expenses borne by the parent. There is also a small amount of pension term assurance business. All business is non-linked, apart from a small amount of index-linked annuities. The bulk of the business is written on a single premium basis. On 31 December 2004, an element of the long term business of Lloyds TSB Life Assurance Company Ltd was transferred to the company, consisting of UK pensions annuities in payment and pensions term assurance business. The acquisition involved the transfer of £613.6m of assets. From January 2008 the company ceased to accept reinsurance of annuities arising from GAOs from the parent company.

Valuation deficits arising in 2001 and 2002 within the company led to a capital injection of £65m in 2002, followed by £200m of subordinated loan capital from Scottish Widows plc during 2004. In 2008 the company issued some £216m of additional share capital, at which time the subordinated loan of £200m was cancelled. £50m of share capital was issued in 2009.

Overall Financial Strength**B+**

The company recorded a profit of £9m in 2009 [2008: loss of £140m], again citing increases in credit spreads, which largely offset operating profits. A capital restructure during 2008 saw the company swap tier two subordinated debt for tier one share capital, followed by a small injection later in the year. A further injection in 2009 led to increased free assets and CRR coverage, which remained adequate. Lower new business levels since 2007, reflect the decision not to reinsure vesting with profit annuities from January 2008. The company remains relatively small, but, as an integral part of the Insurance Division of Lloyds Banking Group, AKG believes that it would receive any further future necessary financial support from its parent.

Key Financial Data**(for y/e: 31/12/09)**

Long Term Business Admissible Assets	2007 £000's	2008 £000's	2009 £000's
Fixed Interest	5,516,651	5,295,161	6,069,550
Equities	0	0	0
Property	0	0	0
Linked	290,561	284,287	319,507
Other	196,041	493,529	177,685
Total Assets	6,003,253	6,072,977	6,566,742

Free Assets	2007 £000's	2008 £000's	2009 £000's
Free Assets (Exc Fin Eng)	234,362	125,916	175,626
Financial Engineering	0	0	0
Free Assets (Published)	234,362	125,916	175,626

Free Asset Ratios	2007 %	2008 %	2009 %
FAR (Exc Fin Eng)	3.9	2.1	2.7
FAR (Published)	3.9	2.1	2.7

CRR Coverage Ratios	2007 %	2008 %	2009 %
CRRCR (Exc Fin Eng)	185.6	150.0	167.3
CRRCR (Published)	185.6	150.0	167.3

Long Term Business Liabilities & Margins	2007 £000's	2008 £000's	2009 £000's
Non Linked Non Profit	5,600,112	5,568,739	6,025,703
Non Linked With Profits	0	0	0
Accum'lg With Profits	0	0	0
Linked	294,360	287,844	323,893
Surplus c/f	61,472	70,305	123,958
Other liabilities	47,306	146,089	93,187
Investment Reserves	0	0	0
Total Liabilities/Margins	6,003,250	6,072,977	6,566,742

New Business Data**(for y/e: 31/12/09)**

New Single Premiums	2007 £000's	2008 £000's	2009 £000's
UK Life	0	0	0
UK Pensions	0	0	0
Overseas	0	0	0
Total (Direct + External Reins)	0	0	0

Growth Rate	-100.0%	0.0%	0.0%
Reins Accepted (Intra-Group)	601,899	307,312	279,915

New Regular Premiums	2007 £000's	2008 £000's	2009 £000's
UK Life	0	0	0
UK Pensions	1	2	1
Overseas	0	0	0
Total (Direct + External Reins)	1	2	1

Growth Rate	-50.0%	100.0%	-50.0%
Reins Accepted (Intra-Group)	62	53	33

Corporate Data

Ownership	Lloyds Banking Group plc
Open to New Business?	Yes
Year Established	1968
Key Personnel	
See Scottish Widows plc	

Company Background

Since inception, the company has operated as the specialist managed pension fund subsidiary within the Scottish Widows group.

When the old mutual company demutualised in March 2000, ownership of this company passed to Scottish Widows plc. The company is limited by guarantee and it does not have any ordinary share capital. Scottish Widows plc holds £50k of 7.5% debenture stock.

All business is written directly in the UK by the company on a unit linked basis (apart from £8.5m of non-linked vesting annuities, which are fully reinsured to the sister company SWA and a small amount of retained miscellaneous non profit business, £44k). No reinsurance premiums have been paid to SWA since 2004.

Volumes of new business have tended to fluctuate from year to year, but have generally been fairly modest. Single premium new business in 2005 and 2007 was significantly higher than normal.

Overall Financial Strength

B+

The company broke even in 2009, declaring a small profit of £1k [2008: £174k]. No dividend was paid. It has negligible free assets in its own right but adequately covers its CRR. The parent provides a guarantee to the company that it will support a guarantee provided to the company by another subsidiary of the parent. Additionally, in 2003 and 2004, the company increased its minimum guarantee fund to comply with a new solvency requirement via gifts of £0.65m and £1.85m respectively from Scottish Widows plc. Repayment of this amount is not expected while the solvency requirement remains. The available capital resources of £4.7m are almost all held outside the long term business fund and consist entirely of core tier one capital.

As an integral part of the Insurance Division of Lloyds Banking Group, albeit a relatively small part, AKG believes that it would receive any further necessary financial support from its parent.

Key Financial Data (for y/e: 31/12/09)

Long Term Business Admissible Assets	2007	2008	2009
	£000's	£000's	£000's
Fixed Interest	0	0	0
Equities	0	0	0
Property	0	0	0
Linked	2,670,608	2,025,478	2,185,541
Other	0	0	111
Total Assets	2,670,608	2,025,478	2,185,652

Free Assets	2007	2008	2009
	£000's	£000's	£000's
Free Assets (Exc Fin Eng)	2,254	2,141	1,532
Financial Engineering	0	0	0
Free Assets (Published)	2,254	2,141	1,532

Free Asset Ratios	2007	2008	2009
	%	%	%
FAR (Exc Fin Eng)	0.1	0.1	0.1
FAR (Published)	0.1	0.1	0.1

CRR Coverage Ratios	2007	2008	2009
	%	%	%
CRRCR (Exc Fin Eng)	201.0	185.0	149.0
CRRCR (Published)	201.0	185.0	149.0

Long Term Business Liabilities & Margins	2007	2008	2009
	£000's	£000's	£000's
Non Linked Non Profit	0	0	44
Non Linked With Profits	0	0	0
Accum'lg With Profits	0	0	0
Linked	2,670,558	2,025,428	2,185,491
Surplus c/f	0	0	68
Other liabilities	50	50	50
Investment Reserves	0	0	0
Total Liabilities/Margins	2,670,608	2,025,478	2,185,652

New Business Data (for y/e: 31/12/09)

New Single Premiums	2007	2008	2009
	£000's	£000's	£000's
UK Life	0	0	0
UK Pensions	151,877	79	1,292
Overseas	0	0	0
Total (Direct + External Reins)	151,877	79	1,292

Growth Rate	20,994.0%	-99.9%	1,535.4%
Reins Accepted (Intra-Group)	0	0	0

New Regular Premiums	2007	2008	2009
	£000's	£000's	£000's
UK Life	0	0	0
UK Pensions	11,330	8,453	1,628
Overseas	0	0	0
Total (Direct + External Reins)	11,330	8,453	1,628
Growth Rate	-78.3%	-25.4%	-80.7%
Reins Accepted (Intra-Group)	0	0	0

Corporate Data

Ownership	Lloyds Banking Group plc
Open to New Business?	Yes
Year Established	1996
Key Personnel	
	See Scottish Widows plc

Company Background

The Clerical, Medical & General Life Assurance Society was established in 1824 to cater for the insurance needs of the professionals of the day - the clergy and medics, subsequently broadening its target market to all types of professions and beyond this to a wider target market. At the end of 1996, the Society converted to limited company status and joined the Halifax, with the Society's business being transferred to the newly formed CMIG. In May 2006, much of Halifax Life's with profits business (previously reinsured with the company) transferred to CMIG. Historically a with profits company, most new business is now written on a unit linked basis. Unit linked pensions business (reserves of £8.9bn as at 31 December 2009) is reinsured to its subsidiary CMMF. On 31 December 2009, the company recaptured the annuity business previously reinsured to CMMF. This involved assets of £2bn and a loss of £112.2m. In January 2009, the company began accepting reinsured protection business from Scottish Widows plc, accounting for increased premiums of £81.5m. In July 2009, the company ceased writing new pensions business.

Overall Financial Strength

B+

Whilst free assets again fell during 2009, the company retains adequate solvency as evidenced by the increased CRR coverage. The company reported an after tax loss of £287.5m in 2009 [2008: profit of £261.9m]. No dividend was paid [2008: £610m following a capital reduction]. The company's GAO reserve amounted to £340m. In 2009, long term assets actually increased although the one off reinsurance recapture and a reduced level of claims (from £2.5bn to £1.8bn) were factors here. The current environment will also bring with it reputational challenges, susceptibilities to political unpredictabilities given its substantial government ownership and the demands of a significant integration exercise.

Key Financial Data

(for y/e: 31/12/09)

Long Term Business Admissible Assets	2007 £000's	2008 £000's	2009 £000's
Fixed Interest	4,133,645	4,611,353	6,899,810
Equities	6,647,541	4,004,614	3,769,317
Property	2,065,979	1,415,764	894,252
Linked	3,830,656	3,374,066	3,588,826
Other	2,742,949	3,646,354	3,217,495
Total Assets	19,420,770	17,052,151	18,369,700

Free Assets	2007 £000's	2008 £000's	2009 £000's
Free Assets (Exc Fin Eng)	2,881,312	1,955,569	1,618,197
Financial Engineering	0	0	0
Free Assets (Published)	2,881,312	1,955,569	1,618,197

Free Asset Ratios	2007 %	2008 %	2009 %
FAR (Exc Fin Eng)	14.8	11.5	8.8
FAR (Published)	14.8	11.5	8.8

CRR Coverage Ratios	2007 %	2008 %	2009 %
CRRCR (Exc Fin Eng)	221.2	222.0	260.9
CRRCR (Published)	221.2	222.0	260.9

Long Term Business Liabilities & Margins	2007 £000's	2008 £000's	2009 £000's
Non Linked Non Profit	222,956	225,256	2,074,099
Non Linked With Profits	2,136,198	2,069,720	1,877,342
Accum'lg With Profits	9,302,242	8,809,824	8,145,709
Linked	3,851,331	3,372,191	3,660,892
Surplus c/f	576,815	438,633	229,054
Other liabilities	684,768	970,564	1,384,690
Investment Reserves	2,646,459	1,165,963	997,913
Total Liabilities/Margins	19,420,769	17,052,151	18,369,700

New Business Data

(for y/e: 31/12/09)

New Single Premiums	2007 £000's	2008 £000's	2009 £000's
UK Life	459,906	283,506	140,180
UK Pensions	1,424,080	1,293,719	662,974
Overseas	160,778	87,791	31,391
Total (Direct + External Reins)	2,044,764	1,665,016	834,545

Growth Rate	-3.0%	-18.6%	-49.9%
Reins Accepted (Intra-Group)	42	46	110

New Regular Premiums	2007 £000's	2008 £000's	2009 £000's
UK Life	65	51	113,432
UK Pensions	178,514	167,550	87,371
Overseas	41,528	38,669	16,400
Total (Direct + External Reins)	220,107	206,270	217,203

Growth Rate	-8.7%	-6.3%	5.3%
Reins Accepted (Intra-Group)	0	0	0

Corporate Data

Ownership Lloyds Banking Group plc

Open to New Business? Yes

Year Established 1981

Key Personnel

See Scottish Widows plc

Company Background

The company was established in 1981 as Clerical Medical's specialist unit linked pensions subsidiary.

Originally, all business was written directly into the company, but the approach was changed in 1996, since when most business has been written in the immediate parent, CMIG, and reinsured to the company. The company's strategy of targeting small to medium pension schemes has expanded to encompass larger bespoke arrangements with the addition of a range of LDI pooled funds.

There is one major reinsurance treaty with Suffolk Life Annuities Ltd under which premiums of £22.8m were paid and reserves of £71.3m were ceded in 2009.

The company also has some onwads reinsurance from Halifax Life in respect of business reinsured to that company from Equitable Life, accepting reserves of £342m under this treaty as at 31 December 2009.

On 31 December 2009, CMIG recaptured its portfolio of annuity business. This reduced the assets and liabilities in the company by £2bn. The recapture was treated as negative premium and increased profits by £112.2m.

On 20 October 2009, funds under management of £3.3bn were transferred to Insight prior to Insight being sold by LBG.

Overall Financial Strength

B+

Whilst solvency again improved during 2009, the company reported a loss after tax of £25.6m [2008: £10.9m loss]. No dividend was paid. Both the free asset ratio and CRR coverage increased to a relatively high level for a non profit/unit linked operation. The company has a subordinated loan from CMIG of £100m dating from 2005. Net premium income for the year before the impact of the reinsurance capture by CMIG reduced to £1.3bn [2008: £1.9bn]. The reinsurance recapture and a significant increase in claims (from £1.9bn to £5.6bn) led to a net outflow of £6.3bn as opposed to a small net inflow the previous year. Consequently total long term assets also reduced from £14.6bn to £9.9bn.

Whilst the company was an integral part of Clerical Medical's overall proposition, it remains to be seen what impact the acquisition of HBOS by Lloyds will have as integration, and any potential restructuring, takes place.

Key Financial Data

(for y/e: 31/12/09)

Long Term Business Admissible Assets	2007 £000's	2008 £000's	2009 £000's
Fixed Interest	1,905,803	1,909,722	259,535
Equities	0	0	0
Property	0	0	0
Linked	13,744,672	12,488,627	9,405,267
Other	294,709	152,105	202,452
Total Assets	15,945,184	14,550,454	9,867,254

Free Assets	2007 £000's	2008 £000's	2009 £000's
Free Assets (Exc Fin Eng)	154,666	191,732	243,816
Financial Engineering	0	0	0
Free Assets (Published)	154,666	191,732	243,816

Free Asset Ratios	2007 %	2008 %	2009 %
FAR (Exc Fin Eng)	1.0	1.3	2.5
FAR (Published)	1.0	1.3	2.5

CRR Coverage Ratios	2007 %	2008 %	2009 %
CRRCR (Exc Fin Eng)	209.3	237.5	549.2
CRRCR (Published)	209.3	237.5	549.2

Long Term Business Liabilities & Margins	2007 £000's	2008 £000's	2009 £000's
Non Linked Non Profit	2,131,909	1,965,982	292,384
Non Linked With Profits	0	0	0
Accum'lg With Profits	0	0	0
Linked	13,726,820	12,438,440	9,438,471
Surplus c/f	48,415	71,180	30,148
Other liabilities	38,041	74,853	106,254
Investment Reserves	0	0	0
Total Liabilities/Margins	15,945,185	14,550,455	9,867,257

New Business Data

(for y/e: 31/12/09)

New Single Premiums	2007 £000's	2008 £000's	2009 £000's
UK Life	0	0	0
UK Pensions	163,280	83,238	21,613
Overseas	0	0	0
Total (Direct + External Reins)	163,280	83,238	21,613

Growth Rate	7.0%	-49.0%	-74.0%
Reins Accepted (Intra-Group)	1,389,208	1,266,117	673,660

New Regular Premiums	2007 £000's	2008 £000's	2009 £000's
UK Life	0	0	0
UK Pensions	0	0	0
Overseas	0	0	0
Total (Direct + External Reins)	0	0	0

Growth Rate			
Reins Accepted (Intra-Group)	176,905	159,289	94,905

Distribution

Method

Prior to the acquisition of HBOS by Lloyds Banking Group, Scottish Widows operated on a multi-channel basis, with its products available through IFAs (although protection products were no longer sold through IFAs), the Lloyds Bank branch network and directly from Scottish Widows via a call centre and the internet. The takeover of HBOS by Lloyds Banking Group has resulted in the need for a revised strategy which incorporates the combination of the capability afforded under the Scottish Widows operation and that of the HBOS life, pensions and investment operations. In May 2009, the group announced a clear strategy to utilise the Scottish Widows brand for intermediary distribution, including a combined sales force from 1 July 2009, incorporating within this the existing product strengths of the Scottish Widows and Clerical Medical companies within a streamlined product range. Clearly Scottish Widows intermediary distribution now has the opportunity to cement a more significant footprint in terms of intermediary market share, afforded it by the integration of Clerical Medical. However, perhaps the biggest opportunity for the combined business is the final shape of delivery through the combined bancassurance channel. To date only positioning work has been completed in this respect, with the key element being the decision to use contextual bank branding for sales, supported by use of the Scottish Widows brand. From 28 June 2010, Scottish Widows branded products are being sold through the networks of each of the main bank brands: Lloyds TSB, Bank of Scotland and Halifax. The lead brand is the bank brand supported by the Scottish Widows brand.

Distribution Split	Regular Premium	Single Premium
	%	%
IFAs	48.0	47.0
Direct Sales	3.0	6.0
Banks	49.0	47.0

Image and Strategy



Whilst there remains some shadow in terms of the parent bank's position, and banking's in general, in the wake of the recent economic turbulence, Scottish Widows continues to be well placed to deliver on its key distribution and capital management objectives, not least because of its strong brand position, which enjoys a high level of recognition and is very highly regarded, relative to its life and investment company peers. The integration of HBOS life companies brought with it major challenges in terms of brand usage and a requirement to maintain image in a potentially difficult and turbulent period. This integration, however, also affords Scottish Widows significant opportunities for growth and other strategic developments, broadening, as it does, the product set and bancassurance distribution. And whilst success in terms of these opportunities, necessarily long term in nature, remains to be seen, the organisation can point to tangible success in the process of its integration and in the maintenance of its brand position, since the acquisition. 2010 also sees the return to consumer advertising for the Scottish Widows brand.

Products

Overall Product Philosophy

The focus is on profitable and capital efficient products. A wide range of products is offered, with the emphasis being on unit linked. The corporate pensions offer was enhanced in 2010 with the launch of MyMoneyWorks, Scottish Widows' new corporate wrap proposition which allows employers to offer new added value services in the workplace. Other product lines are: a suite of individual pensions products (the flagship the Retirement Account is an insured SIPP which also competes in the mainstream Personal Pension market. Intended to be RDR friendly, the product allow both pre and post retirement planning and has wide investment flexibility); an investment bond (a Clerical Medical heritage product); OEICS and ISAs (again Clerical Medical heritage) managed by HBOS Investment Fund Managers Limited; and offshore bonds written through CMI Insurance Co Ltd.

Products Currently Marketed

Investment Products

Written in Scottish Widows plc

Annuities
Investment Bonds (Capital Protected)
Regular Savings Plan

Written in Clerical Medical Investment Group Ltd

Unit Linked Bonds

Protection Products

Written in Scottish Widows plc

Term & Critical Illness (rider & stand-alone)
Income Protection
Creditor insurance

Pension Products

Written in Scottish Widows plc

DSS Rebates
S32
Trustee Investment Bond
Conventional and UWP Annuities
Personal Pensions
SIPPs and SSASs
Income Drawdown & Phased Retirement
Stakeholder Pensions
Executive Pensions

Group Products

Written in Scottish Widows plc

Group Occupational Pensions
Group Stakeholder Pensions
Group Personal Pensions
S32A
CIMPs
Institutional Investment Bond
Written in Pensions Management (SWF) Ltd
Unit Linked Managed Pension Funds

Service



Approach

Scottish Widows aims to deliver excellent service and deliver on its vision of being 'the best life, pensions and investment company in the UK'. The specific service vision is stated as 'to meet customer requirements, right first time, all the time, efficiently and with minimum variation'. Within this the company has been focused on a conscious shift from being product-centric to a more customer-centric ethos. Processes used for improvement include LEAN and Six Sigma.

The takeover of HBOS by Lloyds Banking Group, the resulting corporate development and the subsequent need for managing or integrating different businesses within a short and relatively unforeseen timescale has been a significant threat within the Scottish Widows service component of its brand identity as well as to operational performance. That said, the Scottish Widows business has approached the significant workload and potential pitfalls of integration from a position of generally continued operational improvement over recent years and a set of key metrics which continue to be at the upper end of industry experience. The integration activity to date would appear to have been relatively successful, with no significant adverse affects on delivery within the market. Further work in terms of Process Efficiency, Site Rationalisation and Single Intermediary Experience is ongoing. Success here will be vital to the operational health of what will become a business of increased size and complexity in the short to medium term.

e-Business

The company has a strong e-business focus and has won a number of accolades for e-business components in a number of product areas, most notably in retirement planning. From 1 July 2009, online service from both Scottish Widows and Clerical Medical has been available through one combined extranet homepage.

Scottish Widows continues to invest in technology as part of major product developments, with the 2010 introduction of the 'My Money Works' corporate wrap a key example of this.

Service Standards & Awards

Following a number years post-demutualisation when its service reputation suffered significantly, Scottish Widows has since achieved some of the highest ratings in industry service awards.

Outsourcing

The Lloyds TSB Group had a programme of outsourcing and offshoring a number of its processing and back office operations, primarily overseas, using the third party provider Xansa, which is already part of the Lloyds TSB infrastructure in India. 2007 saw a further phase in the continuation of the business administrative realignment. This included the opening of a second Indian site, and with the closure of its Chatham site, the movement of activity within the UK. Numbers of employees now offshore (all non customer facing) are now approaching 500. Decisions as to further outsourcing must await the outcomes of the integration.

Investment

Overall Approach

Internal funds under the Scottish Widows brand are managed by Scottish Widows Investment Partnership (SWIP). SWIP was created in 2000 following the merger of Scottish Widows Investment Management and Hill Samuel Asset Management. The SWIP focus is principally B2B, based on building investment solutions for institutional and wholesale clients and partners. It has an external as well as an internal focus.

SWIP's approach focuses on detailed, fundamental, proprietary research which it believes is key to making investment decisions. Companies are analysed over a full five year business cycle, giving SWIP a long term outlook. Whilst the greatest emphasis is on company research, bottom-up findings are validated with an analysis of wider macro-economic issues. SWIP does not follow market trends - stocks are selected on their individual merit, aimed at delivering alpha within a controlled risk framework.

In November 2009, LBG sold Insight to BNY Mellon for £235m, following which the management of Clerical Medical funds, previously managed by Insight, switched to Scottish Widows Investment Partnership (SWIP). In October 2010, property specialist Invista Real Estate Management Holdings plc (55% owned by LBG), announced its intention to wind itself up following LBG's decision to move a number of its mandates to SWIP.

Funds Under Management

At the end of 2009, the Scottish Widows group had funds under management of £122bn, whilst Scottish Widows Investment Partnership's total funds under management amounted to around £136.4bn at 30 June 2010.

Annual Review



2009 was, perhaps, a disappointing year in new business terms although the group can point to both the prevailing uncertain economic backdrop and the distractions and implications of the ongoing integration of Scottish Widows and Clerical Medical. Nevertheless, the group was able to continue its practice of repatriating capital up to its parent. Scottish Widows paid dividends totalling £378 in relation to 2009, whilst Clerical Medical paid dividends of £260m,

However, the year was dominated by Lloyds TSB's acquisition of HBOS. Given the extensive range of insurance companies and brands within the enlarged group, this naturally led to some uncertainty as to how the group might emerge post any consolidation. Early 2009 saw the group confirm that it would retain the Scottish Widows brand within the intermediary space in preference to, and effectively dropping, the Clerical Medical brand. The group operated from 1 July 2009 with a combined single branded intermediary sales force. It is as yet not clear how the various corporate entities will fare in the consolidation, an exercise that may takes some years to finally complete. There is real scope for economies of scale and the merger has the potential to create a massive bancassurance player, notwithstanding its intermediary presence.

Financial Strength Ratings - Introduction

The aim of AKG's financial strength ratings is to assist IFAs and others to assess the relative strengths of individual provider companies. AKG's concept of 'financial strength' starts with the fundamental issue of a company's ability to meet all of its guaranteed payments to policyholders, but extends beyond this by aiming to factor in the degree to which a policyholder's expectations are likely to be met - or even exceeded - in the long-term. For performance-related products, where the eventual return generally depends largely upon a company's success in consistently delivering superior investment performance, and in containing expense charges, a company's ability to meet expectations is likely to be heavily dependent upon whether or not it is able to sustain its operations in the relevant market, and whether or not it can maintain, or improve, its competitive position.

As a result, AKG believes that, ideally, the evaluation of 'financial strength' should depend upon the type of product under consideration. A particular company may be judged as very strong in the context of one particular product line, but it may be weaker in another context. An illustration of this concept is a company that currently only markets unit linked business, but which has a very small closed block of with profits business, written many years ago. Such a company may be judged as 'good' for unit linked business, whilst considered 'poor' in respect of with profits business.

Since the inception of AKG's Company Profiles and Financial Strength Reports, AKG has consistently promoted and developed the concept of providing financial strength ratings separately for each of the three major product categories - With Profits, Non Profit and Unit Linked.

All AKG's financial strength ratings should be used with care, since even the more detailed approach described above represents something of a simplification. To illustrate this point, for example, the 'Non Profit' category covers a multiplicity of different products. It is clear that slightly different criteria should be used for, say, short-term policies with fully guaranteed terms (e.g. Guaranteed Bonds), than for longer-term policies with terms that can be varied at the company's discretion (e.g. Renewable or Reviewable Term).

AKG assesses financial strength using consistent methodology and objective measures wherever possible, and based on the detailed analysis of the company's particular strengths and weaknesses. The objectives and criteria for each of the financial strength ratings are summarised below:

With Profits Financial Strength Rating

The objective is to assess the overall strength of the company's with profits funds. The initial concern is the company's ability to meet its ongoing guaranteed, or promised, commitments, i.e. existing sum assured and bonuses. However, the company's ability to continue to compete successfully in the with profits market is also particularly relevant, given that closed funds are sometimes bad news for policyholders. In such situations, overall expenses tend to increase as a proportion of the fund and investment performance may well deteriorate. These, together with other factors, may make it difficult for companies in such situations to maintain competitive bonus rates at future declarations, although existing declared bonuses are not affected (other than possibly by MVRs).

The main criteria taken into account are: capital base and free asset position, with profits realistic balance sheet position, the amount of with profits business in-force, parental strength (and likely attitude towards supporting the company), and image and strategy.

NOTE: More detailed analysis of with profits companies is included in AKG's UK Life Office With Profits Report.

★★★★★	Excellent
★★★★	Very good
★★★	Good
★★	Adequate
★	Poor
☐	Not rated

Non Profit Financial Strength Rating

The objective is to assess the company's ability to meet all guaranteed payments arising from such contracts as term plans, annuities etc.

The main criteria taken into account are: free assets, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), and image and strategy.

★★★★★	Excellent
★★★★	Very good
★★★	Good
★★	Adequate
★	Poor
☐	Not rated

Unit Linked Financial Strength Rating

Whilst this is essentially a non profit line, and the primary objective is to assess the company's ability to meet all guaranteed payments arising, AKG also seeks to take into account the extent to which the company is likely to be able to sustain its unit linked operations, and whether or not it is likely to be able to maintain, or improve, its competitive position. Thus strategic issues are also relevant, because of their bearing on the quality of investment management offered, and because of companies' rights to increase charges etc.

The main criteria taken into account are: free assets, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), typical fund performance achievements, and image and strategy.

★★★★★	Excellent
★★★★	Very good
★★★	Good
★★	Adequate
★	Poor
☐	Not rated

Overall Financial Strength Rating

The objective is to provide a simple broad-brush indication of the general financial strength of a company. In addition to an assessment of the company's ability to meet all of its guaranteed payments to policyholders, AKG also aims to factor in the degree to which policyholders' expectations are likely to be met - or even exceeded - in the long-term. This involves an assessment of a company's ability to survive in its current form for the long term. The overall rating inherently reflects the mix of business in-force within the company, since different types of policyholder have different expectations, and the company's particular strengths and weaknesses in respect of its key product areas.

The rating takes into account those of the following criteria which are relevant (depending upon the company's mix of business in-force): capital base and free asset position, with profits realistic balance sheet position, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), typical fund performance achievements, and image and strategy.

A	Superior
B+	Very strong
B	Strong
B-	Satisfactory
C	Weak
D	Very Weak

Supporting Ratings - Introduction

Supporting ratings are provided only in full reports, and are assessed at the brand level. AKG assesses three key supporting areas, using consistent methodology and objective measures wherever possible. The aim is to assist IFAs and others to consider the relative merits of the brands that they deal with. AKG's objectives and criteria for each of these ratings are summarised below:

Service Rating

The objective is to assess the quality of the organisation's service to the intermediary market in respect of the brand concerned.

Criteria taken into account include: performance in surveys, awards and benchmarking exercises (external and internal), the organisation's philosophy, service charters, the extent of investments designed to improve service, and feedback from intermediaries.

★★★★★	Excellent
★★★★	Very good
★★★	Good
★★	Adequate
★	Poor
☐	Not rated

Image and Strategy Rating

The objective is to assess the effectiveness of the means by which the organisation currently positions itself to distribute its products for the brand concerned and the plans it has to maintain and/or develop its position.

Criteria taken into account include: overall trends in the company's market share position, brand visibility and reputation, feedback from intermediaries and industry commentators, and AKG's view of the company's general strategy.

★★★★★	Excellent
★★★★	Very good
★★★	Good
★★	Adequate
★	Poor
☐	Not rated

Annual Review Rating

This is an end of year view for the last year for which Report and Accounts, returns to the FSA, etc., are available, together with comment on any significant post-balance sheet events. It is an assessment of how the brand has fared against its peers, and how it is perceived externally.

Criteria taken into account include: increase/decrease in market shares, expense containment, publicity - good or bad, press or market commentary, regulatory fines, and competitive position.

★★★★★	Excellent
★★★★	Very good
★★★	Good
★★	Adequate
★	Poor
☐	Not rated



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AKG is an actuarially based consultancy specialising in the provision of ratings, information and market assistance to the financial services industry

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