

13 February 2006

SCOTTISH WIDOWS WITH-PROFITS BONUS RATES

Scottish Widows announces changes to bonus rates for its with-profits policies as of 1 January 2006:

- Regular bonus rates have been increased for 750,000 with-profits customers.
- Most final bonus rates have been increased.
- Market Value Reductions have been reduced for the 5th time in just over a year.
- The largest Market Value Reduction currently applying is just 5% (was 20% just over a year ago) and many policies now have no reduction applying.
- A With Profits Fund pre-tax investment return of 16% over the last 12 months. The underlying value of policies has increased to reflect this.
- A 25-year £50 a month mortgage endowment will pay £39,829, which is £7,816 above the target.*
- A 20-year £200 a month personal pension will pay £94,762.

Adrian Eastwood, Actuarial Director of Scottish Widows, said:

“2005 was good news for our with-profits customers. It saw the With Profits Fund earn 16% – its best return since 1997. Scottish Widows remains one of the most financially strong life companies, being rated as Aa1 (excellent) by the ratings specialist Moody’s. The great return is in part thanks to that strength, as it gave us the freedom to invest over half of our fund in shares and property.

“The values of our customers’ policies have therefore also increased. This comes through increased bonuses and reduced Market Value Reductions.”

** Policy value is based on a male, non-smoker, aged 29 at outset of the policy, maturing on 1 January 2006 .*

Included in this news release:

1. Maturities
2. Regular bonus rates
3. Final bonus rates
4. Market Value Reduction
5. Financial strength
6. Asset mix
7. Investment return and fund size

1. MATURITIES**1.1. WORKED EXAMPLES**

The tables below show examples of how the values of typical policies changed over 2005.

Conventional With-Profits Policies**a) Personal Pension Policy**

Policy Term	Policy Value on 1/1/05	Maturity Value on 1/1/06	Including a final bonus at 1/1/06 of	Premiums paid over period	Increase in value over the period
20 years	£82,900	£94,762	£7,824	£2,400	£11,862

The above example is based on a male, investing £200 a month, for 20 years, ending one month before retirement at age 65. The increase in value shown includes the premiums paid over the period.

b) Life – Mortgage Endowment

Policy Term	Policy Value on 1/2/05	Maturity Value on 1/2/06	Including a final bonus at 1/2/06 of	Premiums paid over period	Increase in value over the period	Excess over target
25 years	£34,127	£39,829	£10,106	£600	£5,702	£7,816

The above example is based on a male non-smoker investing £50 a month for 25 years from age 29. The increase in value shown includes the premiums paid over the period.

Unitised With-Profits Policies (UWP)**a) Personal Pension Policy**

Policy Term	Policy Value on 1/1/05	Maturity Value on 1/1/06	Including a final bonus at 1/1/06 of	Premiums paid over period	Increase in value over the period
10 years	£23,823	£28,661	£1,111	£2,400	£4,838

The above example is based on a male investing £200 a month for 10 years, ending one month before retirement at age 65. The increase in value shown includes the premiums paid over the period.

b) With-Profits Bond

Policy Term	Policy Value on 1/1/05	Policy Value on 1/1/06	Increase in value over period
10 years	£13,286	£14,841	£1,555

The above example is based on a £10,000 single contribution on 1 January 1996, made by a male aged under 75 at the outset.

1. 2. MATURITY PAYOUTS

The tables below show example levels of maturity payouts for a wider range of policies. The explanation following the tables should be read if year-on-year comparisons are being made between different policies.

a) With-profits endowment policy

Male, non-smoker, aged 29 at outset, paying a gross monthly premium of £50				
Payout date	Policy Term			
	10 years	15 years	20 years	25 years
1 February 2005	£6,453	£11,732	£21,720	£44,086
1 August 2005	£6,405	£11,519	£21,516	£42,871
1 February 2006	£6,378	£11,684	£21,471	£42,146
Yield per annum	1.1%	3.4%	5.5%	7.5%

b) With-profits mortgage endowment policy

Male, non-smoker, aged 29 at outset, paying a gross monthly premium of £50				
Payout date	Policy Term			
	10 years	15 years	20 years	25 years
1 February 2005	£6,435	£11,678	£21,276	£41,980
1 August 2005	£6,389	£11,453	£21,076	£40,823
1 February 2006	£6,357	£11,616	£21,066	£39,829
Yield per annum	1.1%	3.3%	5.3%	7.1%

c) With-profits personal pension policy - regular premium

The cash funds at retirement shown are for males who pay a gross monthly premium of £200 for the number of years shown ending one month before retirement at age 65				
Maturity date	Policy Term			
	5 years	10 years	15 years	20 years
1 January 2005	£12,509	£28,818	£53,528	£96,038
1 July 2005	£12,765	£28,733	£53,062	£94,558
1 January 2006	£13,230	£28,661	£52,890	£94,762
Yield per annum	3.9%	3.5%	4.9%	6.4%

In tables a) and b) the results for term 10 years relate to a unitised with-profits contract; the rest are for conventional with-profits contracts. In table c) the results for terms 5, 10 and 15 years relate to unitised contracts, while those for term 20 years relate to a conventional with-profits contract. All cases represent the majority of the business sold at that time.

Payouts on contracts maturing now are generally lower than those that matured last year. This is due to the two sets of contracts being invested over different periods and receiving different earnings on the investments held in these periods. For example, a 25-year policy maturing in 2006 would have started in 1981. Each premium will have been paid a year later than the same premium for a policy maturing in 2005 (which started in 1980). Investment returns were very high in the 1980s and 1990s, and so for the later policy each premium had one year less in which to gain from those very high returns. This is reflected in the lower maturity values for many of the more recent policies.

The 1980s were particularly good – the average return on our With Profits Fund was more than 20% a year in that decade. The earlier a policy started, the more it will have gained from those returns. And the earlier a policy started, the more premiums will have been paid by the time of the 1990s – a decade in which returns were still strong, with four years seeing returns of more than 15% and only two falling below 10%. So although 2005 was a much better year than the recent past, it was still not as good as a number of years in the 1980s and 1990s.

The values of policies maturing now still reflect fair shares of the fund, and the stronger return in 2005 has been passed on.

2. REGULAR BONUS RATES

The rates declared are shown in tables a), b), c) and d) with those rates applying at the previous declaration appearing in brackets. In all cases the rates have either increased or been maintained.

a) Conventional With-Profits Policies

We have increased the rates of regular bonus added to these types of policies at the end of 2005 for all life assurance policies and for pensions benefits effected on or after 15 February 1999:

Product Category	Bonus Rates per annum	
	Sum Assured	Attaching Bonus
Life Contracts	1.00% (0.50%)	2.00% (0.50%)
Pre-15 February 1999 Pensions	0.00% (0.00%)	0.00% (0.00%)
Post-15 February 1999 Pensions	1.50% (0.50%)	1.50% (0.50%)

b) Unitised With-Profits Policies (other than Flexible Options Bond)

With effect from 1 January 2006, the regular bonus for unitised with-profits Pension business has increased:

Product Category	Bonus Rates per annum
Pension-fund policies	1.75% (1.50%)
Flexible Investment Bond	1.00% (1.00%)
International Investment Bond (Sterling)	2.00% (2.00%)
International Investment Bond (Euro)	1.75% (1.75%)
International Investment Bond (Dollar)	3.00% (3.00%)
Jersey Bond	0.00% (0.00%)
Other life-fund policies	0.00% (0.00%)

c) Flexible Options Bond - Growth Fund

Investments made in Growth Fund	Bonus Rates per annum
before 23 March 2005	5.00% (5.00%)
on or after 23 March 2005	5.00% (4.00%)

d) Flexible Options Bond - Income Fund

Units Purchased	Bonus Rates per annum
2002 (July - Dec)	4.50% (4.25%)
2003 (Jan - June)	4.50% (4.25%)
2003 (July - Dec)	4.25% (4.00%)
2004 (Jan - June)	4.25% (4.00%)
2004 (Jul - Dec)	4.00% (3.75%)
2005 (Jan - 22 Mar)	3.50% (3.25%)
2005 (23 Mar - June)	3.25% (3.00%)
2005 (July - Dec)	3.00% (2.75%)
2006 (Jan -)	2.75% (n/a)

3. FINAL BONUS RATES

Final (or 'terminal') bonus rates are set taking account of the actual investment experience over the period of investment with the further aim of smoothing out the extremes of fluctuations in stockmarkets. Rates vary depending on policy types and terms and are typically higher from 1 January 2006 than those applying at 1 July 2005.

The following tables show examples of how the rates have changed (rates applying at 1 July 2005 appear in brackets).

a) Conventional With-Profits Policies

Year of entry	Final bonus		
	Life assurance	Regular premium pension	Single premium pension
1956 or earlier	174% (171%)	164% (157%)	164% (157%)
1966	108% (98%)	149% (139%)	149% (139%)
1976	71% (60%)	49% (45%)	105% (93%)
1986	16% (12%)	9% (5%)	24% (20%)
1996	3% (1%)	8% (5%)	2% (2%)

The final bonus is expressed as a percentage of guaranteed cash benefit, including regular bonus added.

b) Unitised With-Profits Pension Policies

Year of entry	Final bonus
1990	9% (4%)
1995	8% (3%)
2000	1% (1%)

The final bonus is expressed as a percentage of the bid price of units, which includes regular bonus added.

c) Flexible Options Bond - Growth Fund

Units Purchased	Overall Yield (per annum)
2002 (July - Dec)	9.75% (9.00%)
2003 (Jan - June)	11.50% (11.00%)
2003 (July - Dec)	9.75% (8.75%)
2004 (Jan - June)	9.75% (8.25%)
2004 (July - Dec)	10.75% (9.00%)
2005 (Jan - 22 Mar)	8.00% (5.25%)
2005 (23 Mar - June)	8.75% (6.00%)
2005 (July - Dec)	6.50% (5.00%)
2006 (Jan -)	4.75% (n/a)

The overall yield is used to determine the final bonus which applies to a policy. The final bonus is calculated so that the combination of the regular bonus and the final bonus provides the declared overall yield.

d) Flexible Options Bond - Income Fund

Units Purchased	Final Bonus
2002 (July – Dec)	14% (11%)
2003 (Jan - June)	12% (10%)
2003 (July - Dec)	12% (9%)
2004 (Jan – June)	11% (8%)
2004 (July – Dec)	9% (6%)
2005 (Jan – 22 Mar)	5% (2%)
2005 (23 Mar – June)	5% (1%)
2005 (July – Dec)	2% (0%)
2006 (Jan -)	0% (n/a)

The final bonus is expressed as a percentage of the bid price of units.

4. MARKET VALUE REDUCTION (MVR)

The strong growth in 2005 has enabled us to reduce all MVRs. However, MVRs are still applied in some cases because otherwise we would be paying out more than the investments supporting cashed-in policies are worth. This would reduce the amount available in the With Profits Fund to pay future bonuses for other policies. The MVR protects the interests of those policyholders who do *not* cash in their units whilst giving fair value to those that do.

The highest MVR is now 5% (this compares with a maximum reduction of 20% just over a year ago).

MVRs do not apply to policies held to maturity, or on death.

5. FINANCIAL STRENGTH

A number of independent consultants and ratings agencies have analysed Scottish Widows' financial strength and we have been allocated the following ratings:

- The rating agency Moody's has rated Scottish Widows as Aa1 (excellent) *(source: Moody's, April 2005 and still valid)*
- The rating agency Standard & Poor's has rated Scottish Widows as AA- (very strong) *(source: Standard & Poor's, September 2005 and still valid)*
- AKG Actuaries and Consultants have rated Scottish Widows as B+ (very strong) *(source: AKG, October 2005 and still valid)*

6. ASSET MIX

a) With Profits Fund

The majority of with-profits policies are currently backed by the same mix of assets as follows:

	31 December 2004	30 June 2005	31 December 2005
Fixed interest	35%	31%	34%
Property	12%	11%	11%
Equity shares			
• UK shares	37%	38%	41%
• Non-UK shares	10%	9%	10%
Other investments	6%	11%	4%

The main exception is the mix of assets backing the two with-profits investment options available to holders of Flexible Options Bonds: the With-Profits Growth Fund and the With-Profits Income Fund. These asset mixes are as follows:

b) Flexible Options Bond - Growth Fund

	31 December 2004	30 June 2005	31 December 2005
Fixed interest	11%	12%	13%
Property	15%	15%	15%
Equity shares			
• UK shares	56%	58%	58%
• Non-UK shares	15%	12%	13%
Other investments	3%	3%	1%

c) Flexible Options Bond - Income Fund

	31 December 2004	30 June 2005	31 December 2005
Fixed interest	71%	75%	75%
Property	28%	25%	25%
Other investments	1%	0%	0%

The guarantees for the two Flexible Options Bond funds are covered using Guarantee Accounts. The above percentages exclude these Guarantee Accounts.

7. INVESTMENT RETURN AND FUND SIZE

The return for Scottish Widows' With Profits Fund over the last twelve months to 31 December 2005 was 16%, gross of tax, compared to 10.5% over the previous twelve months (to 31 December 2004).

The size of the With Profits Fund as at 31 December 2005 was £19bn.

ENDS

NOTES TO EDITORS

For further information policyholders and Financial Advisers should call **0845 845 0845**. We'll record and monitor calls to help us to improve our service.

Past performance isn't a guide to future performance.

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