

SCOTTISH WIDOWS
preparation is everything
official pensions and investment provider



A position of strength

Scottish Widows



Why do you need financial strength

- Once was a hygiene factor – now a reason to choose.
- Financial strength reflects the ability of a life company to meet its obligations to its policyholders.
- Demonstrates commitment to the market.
- Capital is important to fund new business expansion.
 - Writing new business is expensive, especially in the IFA market.
- This makes Scottish Widows an ideal business partner for IFAs.

Financial Strength

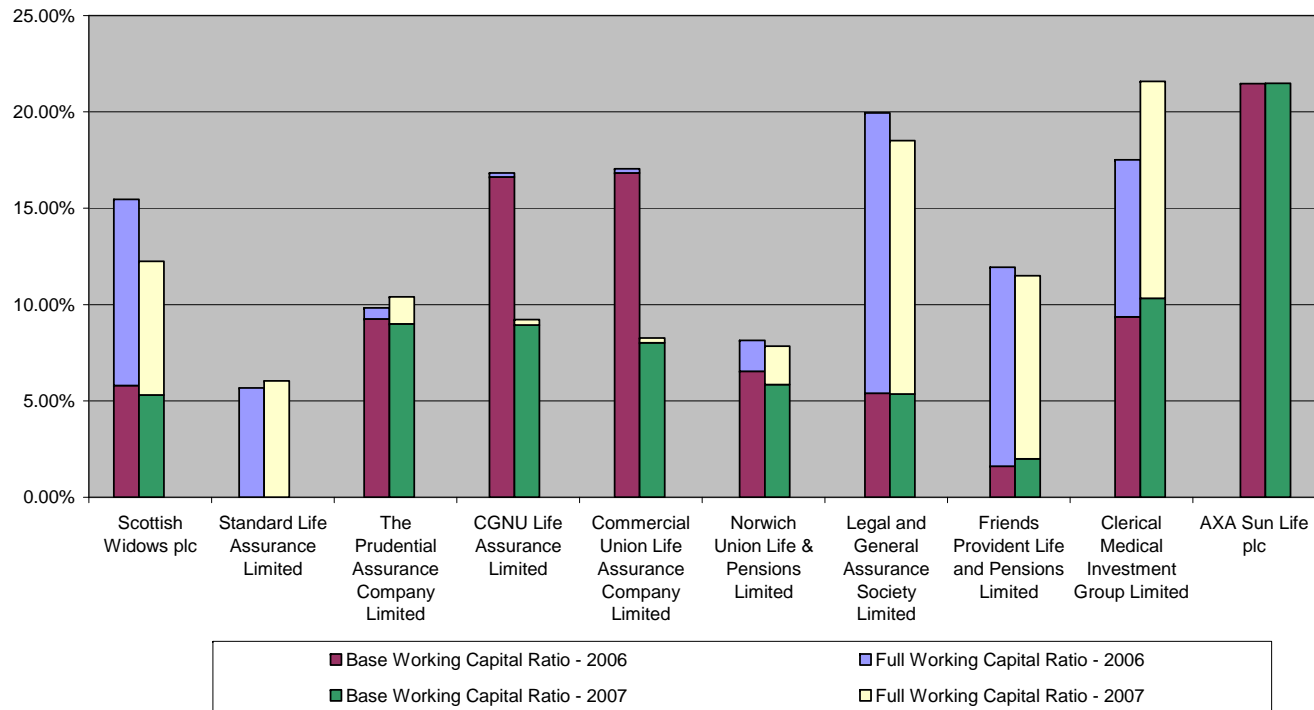
- Scottish Widows is well capitalised and one of the strongest companies in the life and pensions industry.
- Large with-profits offices, including Scottish Widows, published realistic balance sheets within their FSA returns for the first time in 2005. This is intended to reflect the assets and liabilities of life assurers in a more appropriate way than was the case in the past, where artificialities could have obscured the true financial position.
- Two ratios are available from the realistic balance sheet forms - the Working Capital Ratio and the Risk Capital Margin Cover. A further measure, the Free Capital Ratio - is also available from the returns.
- These ratios are now commonly used for financial strength comparisons between life providers by research companies and IFAs.



Working Capital Ratio

The Working Capital Ratio shows what proportion of realistic assets are held over and above realistic liabilities. The Scottish Widows WCR figure has decreased due to repatriation of capital within the group.

Working Capital Ratio

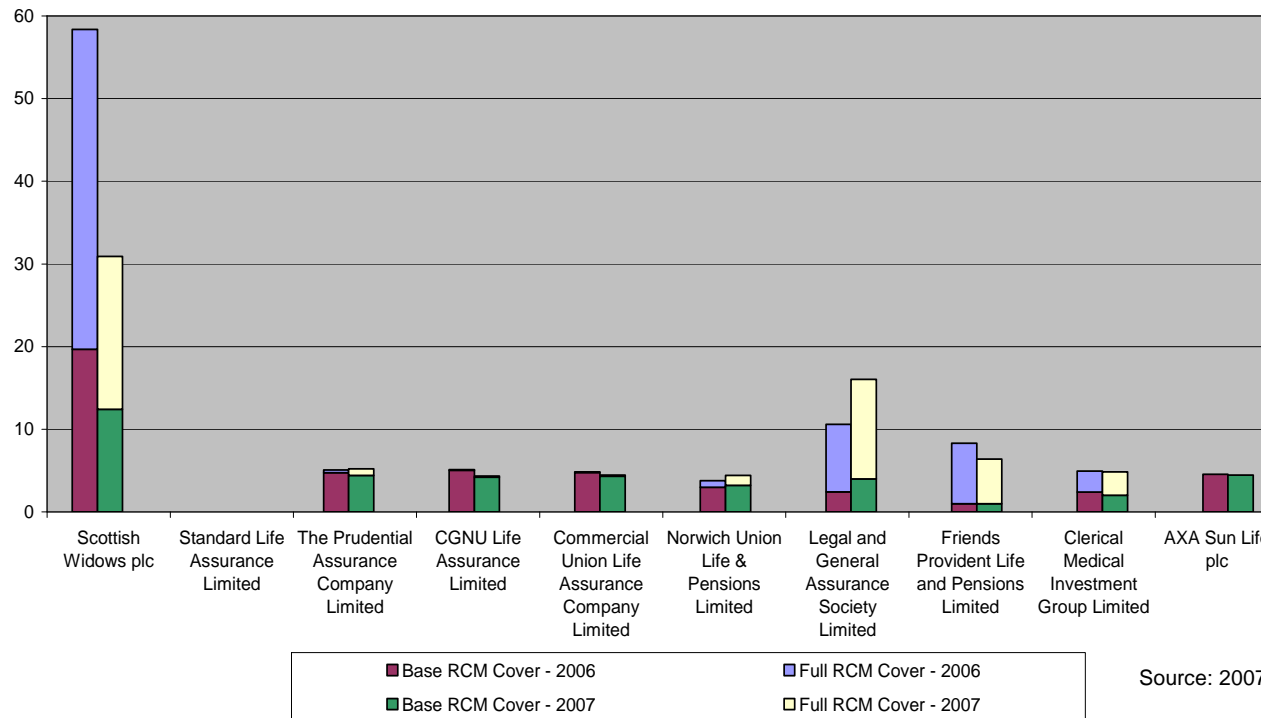


Source: 2007 FSA returns

Risk Capital Margin Cover

- Companies are required to carry out “stress tests”, which help determine the “risk capital margin”, i.e. the capital needed to cover specified adverse scenarios. The Risk Capital Margin Cover shows how many times the Risk Capital Margin ‘stress’ buffer is covered by excess assets. This ratio is a guide to the firm’s resilience to adverse conditions. Scottish Widows’ comparatively high RCM is due in part to the company’s unique financial structure (see notes on slide 11).

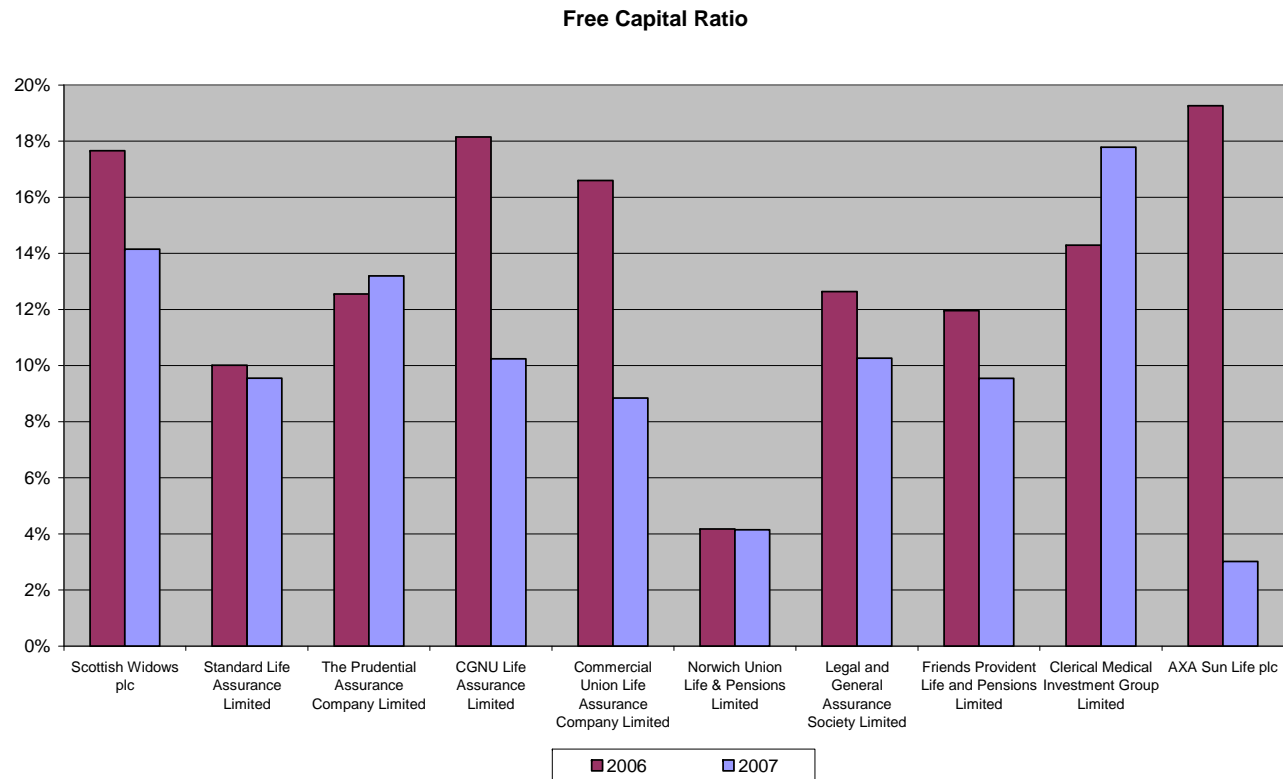
Risk Capital Margin Cover



Source: 2007 FSA returns

Free Capital Ratio

- Our Free Capital Ratio is 14.2%, one of the highest in the industry. The ratio shows excess (or 'free') capital resources as a proportion of liabilities.



Source: 2007 FSA returns

Realistic ratios

- The Working Capital Ratio shows what proportion of realistic assets are held over and above realistic liabilities.
- The Risk Capital Margin Cover shows how many times the Risk Capital Margin 'stress' buffer is covered by excess assets. **This ratio is a guide to the firm's resilience to adverse conditions.**
- These two measures can be helpful in assessing financial strength.
- In addition, there is a third ratio which can be calculated from the FSA returns - the free capital ratio. Our Free Capital Ratio is 14.2%. The ratio, which is similar to the old free asset ratio, shows excess (or 'free') capital resources as a proportion of liabilities.

Realistic balance Sheet' - as at 31/12/2007		
	Full ratio and cover	Base ratio and cover
Working Capital Ratio	12.2%	5.3%
Risk Capital Margin Cover	30.9 times	12.4 times

Title goes here

- What the rating companies say:
- AKG B+ (Very Strong)
- Moody's Aa1 (Excellent)
- Standard & Poor's AA- (Very Strong)

Moody ratings as at 22 May 2008, Standard & Poor's rating as at 15 May 2008, AKG rating as at 1 September 2007

How do we compare?

Company	Moody's	Standard & Poor's	AKG rating
Scottish Widows	Aa1	AA-	B+
Clerical Medical	Aa2	AA	B+
Friends Provident	A2	BBB+	B+
Legal & General	Aa1	AA-	A
Norwich Union/AVIVA	Aa3	A+	A
Prudential	Aa1	A+	A
Aegon Scottish Equitable	Not rated	AA	A
Royal London Scottish Life	A2	A-	B+
Standard Life	A1	BBB+	B+

Sources: Moody's ratings as at 22 May 2008, Standard & Pooers ratings as at 15 May 2008, AKG ratings as at 1 September 2007.

Recent developments

- **S&P improve outlook on Scottish Widows**
 - In December 2007, Standard & Poor's revised their outlook on Scottish Widows from Stable to Positive stating:
'Scottish Widows has a very strong competitive position in the U.K. life and pensions market, with a 7.9% market share of new business in 2006. Competitive advantage arises from the company's distribution network, brand presence, consistently high service standards, and very strong financial strength.'
- An outlook is not a rating, but as an indication of how the company is expected to perform in the future, possibly leading to a change of rating.

Important notes

Scottish Widows' comparatively high RCM is, to an extent, due to our structure following demutualisation. This includes the 'additional account' which can be switched from meeting one liability (paying extra bonuses) to another (meeting guarantees). Switching between these as market conditions change does not change the total liability, resulting in a relatively small risk capital margin (and high RCM cover ratio). Standard Life's structure also leads to an odd position; its RCM is zero for similar reasons. It has no Risk Capital Margin so this ratio cannot be calculated.

The ratios have been calculated from end-2007 FSA Returns. The 'base' ratios relate to with-profits funds in isolation (including any assets explicitly authorised by FSA) while 'full' ratios include other assets in the firm that are potentially available to while 'full' ratios include other assets in the firm that are potentially available to support with-profits policies.

	"Base" ratio	"Full" ratio
Working Capital Ratio	Form 19 Line 68 / Form 19 Line 29	(Form 19 Line 29 + available assets outside with-profits fund – Form 19 Line 59) / (Form 19 Line 29 + available assets outside with-profits fund)
Risk Capital Margin Cover	Form 19 Line 68 / Form 19 Line 65 + Form 19 Line 63	(Form 19 Line 29 + available assets outside with-profits fund – Form 19 Line 59) / Form 19 Line 65 + Form 19 Line 63

Where available assets outside with-profits fund is:

- Form 14 Line 13 + Form 14 Line 51, for parts of the long term fund other than the with-profits fund
- Plus Form 13 Line 89 – Form 15 Line 59, for other than the long term fund
- Less Form 60 Line 51 – Form 18 Line 31 – Form 18 Line 14
- Less Form 1 Line 41
- Less Form 19 Line 27

Free Capital Ratio	Form 2 Line 42 / (Form 14 Line 11 + Form 14 Line 12 + Form 14 Line 49)
--------------------	--

Important Notes

- This material is for use by UK financial advisers only. It is not intended for onward transmission to private customers and should not be relied upon by any other person.
- Scottish Widows plc. Registered in Scotland No. 199549. Registered Office in the United Kingdom at 69 Morrison Street, Edinburgh EH3 8YF. Telephone: 0131 655 6000.
- Scottish Widows plc is authorised and regulated by the Financial Services Authority. Our FSA Register number is 191517.