

RESEARCH

Research Update:

U.K. Insurer Scottish Widows PLC Outlook Revised To Positive; Ratings Affirmed At 'AA-'

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Rationale

On Dec. 5, 2007, Standard & Poor's Ratings Services revised its outlook on U.K.-based life insurer Scottish Widows PLC (Scottish Widows) to positive from stable. At the same time, Standard & Poor's affirmed its 'AA-' long-term counterparty credit and insurer financial strength ratings on the company.

The outlook revision reflects Standard & Poor's view that Scottish Widows is becoming more integral to its parent Lloyds TSB Bank PLC (Lloyds TSB; AA/Stable/A-1+), with the possibility of a revision of its group status to core from strategically important, in the next one to two years. This view reflects Scottish Widows' improved sales volumes, particularly in the branch channel, and stronger new business margins.

The ratings on Scottish Widows reflect the company's very strong competitive position and robust capitalization. Offsetting these are the uncertainties arising from changes in the U.K. market.

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. That said, increased competitiveness of multi-ties, either through significant switching of independent financial advisors or by other high street banks offering more attractive products through their multi-ties, may threaten Scottish Widows' competitive position.

Scottish Widows has robust capitalization, despite the repatriation of significant amounts of capital to Lloyds TSB since 2005.

Outlook

The positive outlook reflects our expectation that Scottish Widows will continue to strengthen its position within the Lloyds TSB group, increasing sales through bank channels and, thereby, improving profitability on its business. Standard & Poor's also expects it to maintain a very strong competitive position, due to its successful distribution model, brand, and financial strength, and new business margins (defined as value of new business divided by present value of future premiums) in excess of 2%.

Ratings List

	To	From
Issuer credit rating	AA-/Positive/--	AA-/Stable/--

Financial strength rating
AA-/Positive AA-/Stable

NB: This list does not include all ratings affected.

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