SCOTTISH WIDOWS INVESTMENT PARTNERSHIP LIMITED

REPORT OF THE DIRECTORS

AND

FINANCIAL STATEMENTS

31 DECEMBER 2007

Member of Lloyds TSB Group

Contents

Company Information

Board of Directors

A G Kane - Chairman
D R Buckley
A J November
G J Wood

Secretary

J M Brett

Auditors

PricewaterhouseCoopers LLP
Erskine House
68-73 Queen Street
Edinburgh
EH2 4NH

Registered Office

10 Fleet Place
London
EC4M 7RH

Company Number

794936

Directors' Report

The directors present their report and the audited financial statements of Scottish Widows Investment Partnership Limited (the "Company"), a company incorporated and domiciled in the United Kingdom, for the year ended 31 December 2007

Principal activities and review of the business

During the year the Company carried on the business of investment management This includes management of investments of Lloyds TSB Group plc (the "Group") and certain subsidiary companies, and specialist investment funds

The directors consider that the Company's activities will continue unchanged for the foreseeable future

The directors of Lloyds TSB Group plc, which includes the Company, manage the Group's operations on a divisional basis For this reason the Company's directors believe that analysis using key performance indicators for the company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company The development, performance and position of the Insurance and Investments division of Lloyds TSB Group plc, which includes the Company, is discussed on pages 18 to 20 of the group's annual report which does not form part of this report

Results and dividend

The result of the Company for the year ended 31 December 2007 is a profit after tax of £14,387,000 (2006 profit of £10,968,000) and has been transferred to reserves No dividend is proposed for 2007 (2006 £1,000,000)

Principal risks and uncertainties

The key business risks and uncertainties affecting the company are considered to relate to credit, liquidity, market, currency and interest rate risk Further discussion of these risks and uncertainties are covered in note 19, Risk Management policy and framework

Policy and practice on payment of creditors

The processing of invoices from suppliers and settlement of trade creditors is undertaken by a separate company within the Lloyds TSB Group

The Group follows "The Better Payment Practice Code" published by the Department of Trade and Industry, regarding the making of payments to suppliers A copy of the code and information about it may be obtained from the Department of Trade and Industry, No 1 Victoria Street, London, SW1H 0ET

The Group's policy is to agree terms of payment with suppliers and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated It is the policy of the Group to abide by agreed terms of payment, provided the supplier performs according to the terms of the contract As the Group owed no amounts to trade creditors at 31 December 2007, the number of days shown in this report, to comply with the provisions of the Companies Act 1985, is nil (2006 nil)

Directors' Report (continued)

Directors

The names of the current directors are listed on page 2 Changes in directorships during the year and subsequent to the year end are as follows

C M Phillips	(resigned 31 March 2007)
A C Frepp	(resigned 31 May 2007)
D R Buckley	(appointed 7 January 2008)

Particulars of the directors' emoluments are given in note 17 to the financial statements

Charitable and political contributions

During the year, the Company made contributions totalling £157 to charity (2006 £480) The company made no political contributions (2006 £nil)

Disclosure of information to auditors

The directors confirm that, as far as they are aware, there is no relevant audit information of which the Company's auditors are unaware Relevant information is defined as "information needed by the Company's auditors in connection with preparing their report"

Each director has taken all the steps that he ought to have taken in his duty as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

On behalf of the Board of Directors

J M Brett
Company Secretary
25 April 2008

Independent Auditors' Report to the Members of Scottish Widows Investment Partnership Limited

We have audited the financial statements of Scottish Widows Investment Partnership Limited for the year ended 31 December 2007 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Equity and the related notes These financial statements have been prepared under the accounting policies set out therein

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out below

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have prepared the Company financial statements in accordance with IFRSs as adopted by the European Union The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing these financial statements the directors are required to

- Select suitable accounting policies and then apply them consistently,
- Make judgments and estimates that are reasonable and prudent,
- State whether the financial statements comply with IFRSs as adopted by the European Union, and
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business

The directors confirm that they have complied with the above requirements in preparing the financial statements

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the Company's member as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

Independent Auditors' Report to the Members of Scottish Widows Investment Partnership Limited (continued)

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements The other information comprises only the Directors' Report We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any other information

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Company's affairs as at 31 December 2007 and of its profit and cash flows for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Edinburgh
25 April 2008

Income Statement

	Note	2007 £000	2006 £000
Revenue	4	116,862	102,177
Administrative expenses	5	(99,751)	(90,949)
Other operating income		28	1,954
Operating profit		17,139	13,182
Interest income		3,678	2,538
Finance cost	6	(229)	(51)
Profit before tax		20,588	15,669
Taxation	7	(6,201)	(4,701)
Profit for the year		14,387	10,968

The notes on pages 11 to 31 form part of these financial statements

Balance Sheet

	Note	2007 £000	2006 £000
ASSETS			
Non-current assets			
Investments at fair value through income	8	186	-
Investments in subsidiary undertakings	8	97	229
Deferred tax assets	14	345	259
		628	488
Current assets			
Trade and other receivables	9	20,048	14,821
Cash and cash equivalents	10	60,589	67,149
		80,637	81,970
TOTAL ASSETS		81,265	82,458
EQUITY AND LIABILITIES			
Capital and Reserves attributable to company's equity holders			
Share capital	11	20,000	20,000
Other reserves		2,000	2,000
Retained earnings		28,364	13,977
TOTAL EQUITY		50,364	35,977
LIABILITIES			
Non-current liabilities			
Deferred income	12	210	164
Other non-current liabilities	13	1,232	865
		1,442	1,029
Current liabilities			
Trade and other payables	15	23,413	40,283
Deferred income	12	30	20
Current taxation liabilities	14	6,016	5,149
		29,459	45,452
TOTAL LIABILITIES		30,901	46,481
TOTAL EQUITY AND LIABILITIES		81,265	82,458

The notes on pages 11 to 31 form part of these financial statements

Approved on behalf of the Board on 25 April 2008

D R Buckley

D R Buckley
Director

Cash Flow Statement

	Note	2007 £000	2006 £000
Cash flows from operating activities			
Profit before tax		20,588	15,669
Adjustments for			
Revaluation of investments in subsidiary undertakings		(55)	-
Interest income		(3,678)	(2,538)
Finance cost		229	51
Net decrease / (increase) in operating assets and liabilities	16	(7,561)	3,838
Taxation (paid) / received		(5,420)	(2,362)
Net cash flows from operating activities		4,103	14,658
Cash flow from investing activities			
Repayment of subordinated loan		(14,000)	-
Investment in subsidiary undertakings		-	(133)
Interest received		3,566	2,530
Net cash flows from investing activities		(10,434)	2,397
Cash flows from financing activities			
Finance costs		(229)	(51)
Dividends paid to company shareholders		-	(1,000)
Net cash flows from financing activities		(229)	(1,051)
Net increase / (decrease) in cash and cash equivalents		(6,560)	16 004
Cash and cash equivalents at the beginning of the year		67,149	51,145
Cash and cash equivalents at the end of the year	10	60,589	67,149

The notes on pages 11 to 31 form part of these financial statements

Statement of Changes in Equity

	Share Capital £000	Retained Earnings £000	Other Reserves £000	Total £000
Balance at 1 January 2006	20,000	4,009	2,000	26,009
Net profit for the year	-	10,968	-	10,968
Dividend paid to shareholders	-	(1,000)	-	(1,000)
Balance at 31 December 2006	20,000	13,977	2,000	35,977
Net profit for the year	-	14,387	-	14,387
Balance at 31 December 2007	20,000	28,364	2,000	50,364

The notes on pages 11 to 31 form part of these financial statements

Notes to the financial statements

1. Basis of preparation

The financial statements of the Company have been prepared

i) in accordance with the International Accounting Standards ("IAS") and International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board and the International Financial Reporting Interpretation ("IFRIC") issued by its International Financial Reporting Interpretations Committee, as endorsed by the European Union, and

ii) in accordance with those parts of the Companies Act 1985 applicable to companies reporting under IFRS, and

iii) under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities, as set out below

As the Company is a wholly owned subsidiary undertaking of Lloyds TSB Group plc, registered in the United Kingdom, the Company has taken advantage of the provisions of the Companies Act 1985 and has not produced consolidated financial statements

Standards, amendments and interpretations effective in 2007

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 and relevant to the Company's operations

- IFRS 7 "Financial Instrument Disclosures" The standard introduces new disclosures relating to financial instruments but does not have any impact on the classification or valuation of the Company's financial instruments The majority of the changes are disclosed in Note 19 to the financial statements Where required, comparative data has been restated to present this on a consistent basis with the current year presentation

- Amendment to IAS 1 "Presentation of Financial Statements – Capital Disclosures" The standard requires the disclosure of information that enables users of the Company's financial statements to evaluate the Company's objectives, policies and processes for managing capital The required disclosures are given in Note 19 to the financial statements Adoption of this standard has no impact on the financial position or performance of the Company

- IFRIC 8 "Scope of IFRS 2" This interpretation requires consideration of transactions involving the issue of equity instruments, where identifiable consideration received is less than the fair value of the equity instruments issued, to establish whether they fall within the scope of IFRS 2 The Company does not participate in any share-based payment schemes

- IFRIC 9 "Reassessment of Embedded Derivatives" This interpretation confirms that an entity should assess whether an embedded derivative is required to be separated from the host contracts and accounted for as a derivative when the entity first becomes a party to the contract Subsequent reassessment is prohibited unless there is

Notes to the financial statements (continued)

a change in terms of the contract that significantly modifies the cashflows that would otherwise be required under the contract Adoption of this interpretation has had no impact on the results of the Company

- IFRIC 10 "Interim Financial Reporting and Impairment" This interpretation prohibits any impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost from being reversed at a subsequent balance sheet date Adoption of this interpretation has had no impact on the results of the Company

Standards, amendments and interpretations in issue but not adopted early

The following standards, amendments and interpretations have been issued and will be relevant to the Company's operations but have not been early adopted

- IFRS 8 "Operating Segments" (effective for accounting periods beginning on or after 1 January 2009, now endorsed by the EU) Replaces IAS 14 "Segment Reporting" and requires reporting of financial and descriptive information about operating segments which are based on how financial information is evaluated and reported internally Adoption of this standard will have no impact on the financial results of the Company

- Amendment to IAS 23 "Borrowing Costs" (effective for accounting periods beginning on or after 1 January 2009, subject to EU endorsement) This standard requires that borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should form part of the cost of that asset Other borrowing costs should be recognised as an expense The amendment removes the previously allowable alternative treatment of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to ready for use or sale Adoption of this amendment will have no impact on the financial results of the Company

- IFRIC 11 "IFRS 2 – Group and Treasury Shares" (effective for accounting periods beginning on or after 1 March 2007) This interpretation clarifies the application of IFRS 2 "Share based payments" to certain share based payment arrangements involving own equity instruments and arrangements involving equity instruments of a parent entity Adoption of this interpretation will have no impact on the financial results of the Company

- Amendment to IAS 1 "Presentation of Financial Statements" (effective for accounting periods beginning on or after 1 January 2009, subject to EU endorsement) This standard sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content All changes in equity in respect of transactions with shareholders in their capacity as shareholders are required to be presented separately from changes in equity arising from transactions with other parties ("non-owner"), in a statement of changes in equity All non-owner changes in equity (comprehensive income) are required to be presented in one statement of comprehensive income or in two statements (an income statement and a statement of comprehensive income) The changes required on adoption of this standard will relate only to presentation and disclosure and will have no impact on the financial results of the Company

Notes to the financial statements (continued)

2. Summary of significant accounting policies

The Company has identified the accounting policies that are the most significant to its business operations and the understanding of its results The significant accounting policies adopted in the preparation of the financial statements are set out below These policies have been consistently applied to all the years presented unless otherwise stated

The preparation of the financial statements necessitates the use of estimates and assumptions in calculating accruals These estimates and assumptions affect the reported amounts of assets and liabilities, contingent or otherwise, at the balance sheet date as well as affecting the reported income and expenses for the year Although the estimates are based on management's best knowledge of current facts as at the balance sheet date, the actual outcome may differ from those estimates

a) Revenue and other operating income

Revenue, which wholly arose in the United Kingdom, represents fees in respect of investment management services provided

Revenue comprises the following

i) Investment management fees

Fee income is derived from investment management contracts with clients of the Company Income is accrued on a monthly basis based on the underlying terms of each client's individual contract at the fair value of the amount receivable

ii) Performance fees

Performance fees are calculated with reference to performance against a benchmark index They are recognised only at the end of the period to which the performance relates, as set out in the underlying contracts These fees are recognised as revenue in the period in which these are accrued unless these relate to services to be provided in future periods If the fees are for services to be provided in future periods, these are deferred and recognised in the income statement as revenue as the service is provided

iii) Other operating income

Other operating income relates to stock lending income, sales commission expense and other miscellaneous items which are recorded at the fair value of consideration earned or due to be received

b) Interest income and finance cost

Interest income and finance cost are recognised in the Income Statement as they accrue

Notes to the financial statements (continued)

c) Investments

i) Investment in subsidiary undertakings

The Company owns a variety of subsidiaries Certain subsidiaries trade with a view to making a profit or loss, and the risk and rewards of owning those subsidiaries primarily rests with the equity holders of the Company Those subsidiaries are held at cost subject to impairment

ii) Investments at fair value through income

All financial assets are designated at fair value through income

The Company holds an investment in an SEC registered Emerging Markets Investment Fund for investment purposes This fund holds assets in a regulated collective investment scheme which are held for trading and changes in the fair value of the investments are recognised through the income statement in accordance with International Accounting Standard ("IAS") 39 "Financial Instruments – Recognition and Measurement"

d) Trade and other receivables and payables

Trade and other receivables and payables are recorded initially at fair value and subsequently at amortised cost, with the exception of accrued interest which is accounted for at fair value, reflecting the amounts receivable and payable at the year end

e) Cash and cash equivalents

Cash and cash equivalents includes

i) cash at bank and short-term highly liquid investments with original maturities of three months or less
ii) short-term investments in a cash fund

f) Impairment

The carrying value of all assets is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable The identification of impairment and the determination of recoverable amounts is an inherently uncertain process involving various assumptions and factors, including the financial condition of the counterparty, expected future cash flows, observable market prices and expected net selling prices

Notes to the financial statements (continued)

g) Taxation

Taxation on the profit or loss for the year is recognised in the income statement and comprises current and deferred tax

Current taxation

Current taxation is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date together with adjustments to tax payable in respect of prior years

Deferred income tax

Deferred income tax is provided in full on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the balance sheet date However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using the tax rates enacted or substantially enacted at the balance sheet date

Deferred income tax assets are only recognised to the extent that it is probable that the future taxable profits will be available against which the temporary differences, carry-forward of unused tax assets and unused tax losses can be utilised

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred income tax asset to be utilised

h) Deferred income

The Company receives investment management fees in respect of services rendered in conjunction with the issue and management of investment contracts where the Company actively manages the consideration received from its customers to fund a return that is based on the investment profile that the customer selected on origination of the contract These services comprise an undetermined number of acts over the lives of the individual contracts and, therefore, the Company recognises these fees on a straight-line basis over the estimated lives of the contracts

Notes to the financial statements (continued)

i) Foreign currency translation

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency") The financial statements are presented in thousands of pounds sterling, which is the Company's presentational and functional currency

Assets and liabilities in foreign currencies are translated into pounds sterling at the exchange rates ruling at the balance sheet date Revenue transactions have been translated at rates of exchange ruling at the time of the respective transactions Any exchange differences are dealt with in that part of the income statement in which the underlying transaction is reported

j) Operating leases

The Company is not party to any operating leases

k) Other reserves

The amount of other reserves represents irrevocable gifts to the company as contributions to capital These amounts are distributable at the discretion of the directors

3. Segmental analysis

In accordance with International Accounting Standard (IAS) 14 "Segmental Reporting", a business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments

In the opinion of the directors the Company operates in a single business segment, that being the management of investment funds, and therefore there are no specific disclosure requirements under IAS 14

4. Revenue

	2007 £000	2006 £000
Revenue represents the following		
Investment management fees	108,636	102,177
Performance fees	8,226	-
	116,862	102,177

Notes to the financial statements (continued)

5. Administrative expenses

Administrative expenses relate to the costs incurred in the administration and investment management of investments

a) The company had nil direct employees during the year (2006 nil) The employee costs, including pension costs, are included within Administrative expenses as a recharge from Scottish Widows Investment Partnership Group Limited Details of numbers of employees and costs, including costs of the pension scheme, can be found in the financial statements of Scottish Widows Investment Partnership Group Limited

b) Audit fees for the year were £38,500 (2006 £58,000) Fees paid to the auditors for non-audit services were £176,000 (2006 £88,000), broken down as follows

	2007 £000	2006 £000
AAF/FRAG 21 internal controls report attestation	75	62
Services supplied pursuant to legislation	20	21
All other assurance related work	72	-
Services relating to taxation	2	5
All other services	7	-
	176	88

6. Finance cost

Finance cost relates to interest payable on bank overdraft borrowings

Notes to the financial statements (continued)

7. Taxation

a) Current year tax charge

	2007 £000	2006 £000
Current tax:		
UK corporation tax	6,286	4,960
Deferred tax:		
Temporary differences	(110)	(259)
Reduction in corporation tax rate on deferred balances	25	-
Total deferred tax	(85)	(259)
Total taxation	6,201	4,701

b) Reconciliation of tax charge

	2007 £000	2006 £000
Profit/ (loss) before tax	20,588	15,669
Tax at 30% (2006: 30%)	6,176	4,701
Effects of		
Reduction in corporation tax rate on deferred balances	25	-
Total tax charge for the year	6,201	4,701

The Finance Act 2007 reduced the rate of deferred tax from 30% to 28% with effect from 6 April 2007 The impact of this reduction in tax rate is disclosed in the above table

Notes to the financial statements (continued)

8. Investments

During the year, the Company's investment in the Emerging Markets Investment Fund of the Scottish Widows Investment Partnership Trust, fell below the level where it can be regarded as a subsidiary undertaking

The following are particulars of the Company's subsidiary undertakings

Name	Class of Share	Percentage held	Country of Registration or Incorporation	Nature of Business
Scottish Widows Property Partners (SPF) Limited	Ordinary	100	Scotland	Property
Airport Industrial GP Limited	Ordinary	100	England/ Wales	Property
Bedfont Lakes Business Park (GP1) Limited	Ordinary	100	England/ Wales	Property
Bedfont Lakes Business Park (GP2) Limited	Ordinary	100	England/ Wales	Property
SWIP (Luxembourg) S a rl	Ordinary	100	Luxembourg	Management Company to the European Balanced Property Fund
Unitair General Partner Limited	Ordinary	50	England/ Wales	Property

9. Trade and other receivables

	2007 £000	2006 £000
Trade receivables	1,750	256
Amounts due from subsidiary undertakings	4,698	5,142
Prepayments and accrued income	13,600	8,304
Other receivables	-	1,119
	20,048	14,821

There has been no change to trade and other receivables as a result of credit risk

Notes to the financial statements (continued)

10. Cash and cash equivalents

Cash and cash equivalents include the following

	2007 £000	2006 £000
Cash at bank	58,564	66,124
Short-term investments in a cash fund	2,025	1,025
Total cash and cash equivalents	60,589	67,149

11. Called up share capital

	2007 £000	2006 £000
Authorised 21,000,000 ordinary shares of £1 each	21,000	21,000
Allotted, issued and fully paid 20,000,100 ordinary shares of £1 each	20,000	20,000

There are no restrictions on share capital

12. Deferred income

	2007 £000	2006 £000
At 1 January	184	-
Amounts incurred during the period	79	204
Amortisation during the period	(23)	(20)
At 31 December	240	184
Non-current	210	164
Current	30	20
Total	240	184

13. Other non-current liabilities

During 2006 the Company implemented an additional annual incentive scheme solely in relation to current year performance, the benefits of which are paid over a 3 year period During 2007 a similar incentive scheme has been implemented

	2007 £000	2006 £000
Other non-current liabilities	1,232	865

Notes to the financial statements (continued)

14. Tax assets and liabilities

	2007 £000	2006 £000
Deferred tax assets	345	259
Total tax assets	345	259
Current income tax liabilities	6,016	5,149
Total tax liabilities	6,016	5,149

Deferred tax asset relates to expenses deductible in future periods

15. Trade and other payables

	2007 £000	2006 £000
Amounts due to group undertakings	19,890	37,680
Other payables	2,792	2,333
Other taxes	731	270
	23,413	40,283

Included within amounts due to group undertakings are subordinated loans of £11,000,000 (2006 £11,000,000) from Scottish Widows Investment Partnership Group Limited During the year the company repaid the £14,000,000 loan held with Scottish Widows Group Limited The loans still held are non-interest bearing and have no fixed repayment date The lender reserves the right to demand repayment of the loans and the loans have been classified as debt in accordance with IAS32 'Financial Instruments Disclosure and Presentation' FSA approval is required before repayment of these loans can be made and was obtained prior to the repayment of the loan with Scottish Widows Group Limited

Notes to the financial statements (continued)

16. (Increase) / decrease in operating assets and liabilities

	2007 £000	2006 £000
(Increase)/ decrease in operating assets		
Trade and other receivables	(5,114)	(1,437)
Increase/ (decrease) in operating liabilities		
Trade and other payables	(2,447)	5,275
Net (increase)/ decrease in operating assets and liabilities	(7,561)	3,838

17. Key management personnel emoluments

The Chairman and Directors consider that they receive no remuneration for their services to the Company (2006 £nil) The Chairman and Directors are also Directors of certain key operating companies within the Lloyds TSB Group, of which the Company is a member

A G Kane is also a Director of the Company's ultimate parent undertaking, Lloyds TSB Group plc and his emoluments can be found in the financial statements of that company

A J November and G J Wood are also Directors of the Company's immediate parent undertaking, Scottish Widows Investment Partnership Group Limited and their emoluments can be found in the financial statements of that company

None of the Directors who held office during the period ending 31 December 2007 had any interest in the shares of the Company (2006 none)

A P Owens, A K Sarwal, J M Brett and L M Dalgarno are considered key management personnel of the Company and their emoluments are disclosed in the financial statements of the Company's immediate parent company, Scottish Widows Investment Partnership Group Limited

Notes to the financial statements (continued)

18. Related party transactions

The company entered into the following transactions with other related parties, all members of the Lloyds TSB Group, and holds the following balances at the year end

Counterparty	Transaction type	2007 £000	2006 £000
Lloyds TSB Scotland	Bank account balances	13,940	10,124
	Interest earned	538	247
SWIP Global Liquidity Fund plc	Balance	2,025	1,025
	Interest earned	79	61
Scottish Widows plc	Annual management charges received	13,601	18,961
	Annual management charges receivable	1,113	1,579
Scottish Widows Annuities Ltd	Annual management charges received	1,527	1,465
	Annual management charges receivable	134	126
Scottish Widows Unit Trust Managers Ltd	Annual management charges received	14,645	14,089
	Annual management charges receivable	1,168	1,214
	Custody fees received	216	216
	Custody fees receivable	54	54
	3rd Party management fees received	1,580	1,711
	3rd Party management fees receivable	127	139
Scottish Widows Unit Funds Ltd	Annual management charges received	25,335	15,389
	Annual management charges receivable	2,136	1,292
Pensions Management (S W F) Ltd	Annual management charges received	6,424	6,345
	Annual management charges receivable	506	567
Abbey Life Assurance Co Ltd	Annual management charges received	2,610	3,077
	Annual management charges receivable	-	401
LTSB Offshore Fund Managers Ltd	Annual management charges received	949	1,028
	Annual management charges receivable	81	188
SWIP Fund Management Ltd	Annual management charges received	11,490	10,498
	Recharged expenses receivable	99	8
LTSB Investments Ltd	Annual management charges received	2,488	-
Lloyds TSB Bank Plc	Annual management charges received	718	717
	Annual management charges receivable	56	61
SWIP Multi-Manager Funds Ltd	Recharged expenses payable	56	-
Scottish Widows Investment Partnership Group Ltd	Staff costs and management fees paid	51,351	50,256
	Staff costs and management fees payable	291	1,455
	Subordinated loan	11,000	11,000
Scottish Widows Group Limited	Subordinated loan	-	14,000
Scottish Widows Services Ltd	Recharged expenses paid	99,750	90,949
	Recharged expenses payable	8,975	11,225

Notes to the financial statements (continued)

The company had amounts due to group undertakings at 31 December 2007 in the form of subordinated loans as detailed in Note 15

Key management compensation details are included in Note 17

There were no other material transactions by the Company with related parties for the year ended 31 December 2007

19. Risk management policy and framework

The SWIP Group of companies has established a risk management function with clear terms of reference and with the responsibility for implementing the Lloyds TSB Group risk management framework and monitoring policies on financial risks The main objectives of the risk management process are to ensure that risks are properly identified, risk measurement is independent and the capital base is adequate in relation to risks The Board of each company has responsibility for management of all risks and takes reliance from a SWIP Group Control Committee who evaluate and review risk related items on a monthly basis

a) Capital management

The Company's objectives when managing capital are

- To comply with the requirements of the Financial Services Authority, (the Company as an investment management firm is subject to BIPRU rules) The Company aims to maintain capital in excess of its regulatory requirement to ensure a safety margin is held The minimum required capital, which must be maintained at all times throughout the year, is monitored formally on a monthly basis as part of the monthly SWIP Corporate report to the Executive team
- To maintain financial strength to support new business growth,
- To retain financial flexibility by maintaining strong liquidity and allocating capital efficiently to support growth,
- To manage exposures to movement in exchange rates,
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders

The SWIP Group of companies monitors return on capital on a consolidated basis by reference to risk adjusted return on capital (RAROC) which is reported quarterly to the SWIP Executive, a committee that consists of board members and senior management of SWIP Group Limited

Notes to the financial statements (continued)

The table below summarises the minimum capital required within the Company

	2007 £000	2006 £000
Regulatory capital held	35,697	35,673
Minimum regulatory capital	21,666	19,947

Regulatory framework

Regulators are interested in protecting the rights of the investors and ensuring that the Company is satisfactorily managing affairs on their behalf Regulators are also keen to ensure that the Company maintains appropriate solvency levels to meet unforeseen liabilities As such the Company is subject to regulatory requirements which prescribe approval and monitoring of activities and also impose certain restrictive provisions Specifically, the Financial Services Authority (FSA) requires the company to hold assets at a level which satisfy three tests, surplus over own funds, surplus over liquid capital and excess over expenditure based requirement

Financial Risks

The Company is exposed to a range of financial risks through its financial assets and financial liabilities

The following table analyses the carrying amount of assets and liabilities according to their IAS 39 classification

	2007 £000	2006 £000
Financial assets		
Cash and cash equivalents	60,589	67,149
At fair value through income		
Investments at fair value through income	186	-
At amortised cost		
Trade and other receivables	20,048	14,821
	80,023	81,970
Other assets		
Investments in subsidiary undertakings	97	229
Deferred tax assets	345	259
	442	488
Total assets	**81,265**	**82,458**

Notes to the financial statements (continued)

	2007 £000	2006 £000
Financial liabilities		
At amortised cost		
Trade and other payables	23,413	40,283
Other liabilities		
Current tax	6,016	5,149
Accruals and deferred income	240	184
Other non-current liabilities	1,232	865
Total liabilities	30,901	46,481

b) Key risks descriptions

i) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss

Key areas where the Company is exposed to credit risk are

- Investment management fees due from clients
- Balances held on short term deposit
- Balances held in the SWIP Global Liquidity Fund

The table below shows an analysis of total assets bearing credit risk

	2007 £000	2006 £000
Investments held in equities at fair value through profit or loss	186	-
Trade and other receivables	20,048	14,821
Cash and cash equivalents	60,589	67,149
Total assets bearing credit risk	80,023	81,970

Credit risk to the Company arises primarily from exposure to trade debtors Exposure is assessed on a case by case basis and is monitored based on payment history The Company has no history of material debtor default and exposure is primarily with other group companies Therefore credit risk is not considered significant

The Company does not distinguish between different classes of debtor

Notes to the financial statements (continued)

The exposure of the Company to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Group The Company assesses concentration risk in line with regulatory interpretation and guidance on large exposures, as reported to the FSA on a quarterly basis A report on concentration risk is presented to the SWIP Executive on a monthly basis The company has a concentration risk in relation to LTSB Group company debtors The credit risk is substantially unchanged compared to the prior year and is £3,768,808 (2006 £4,063,626)

The Company structures the levels of credit risk it accepts with respect to cash balances invested, by placing limits on its exposures to a single counterparty Such risks are subject to an internal annual review Limits on credit risk for cash balances are approved by the SW Operational Banking Committee and the SWIP Executive Committee

Investments held at fair value through income represents the Company's holding in an SEC-registered Emerging Markets Fund called the Scottish Widows Investment Partnership Trust

Sensitivity analysis – Credit risk

The Company has no history of material debtor default and does not consider it has a significant credit risk in this respect The Company operates an allowance account to provide for any unforeseen credit losses and reports trade and other receivables at amortised cost, however the Company believes the full value of trade and other receivables to be equivalent to the fair value

	Assets neither past due or impaired 2007 £000	Assets past due but not impaired 2007 £000	Assets determined to be impaired 2007 £000
Investment in subsidiary undertakings	97	-	-
Investments held in equities at fair value through profit or loss	186	-	-
Trade and other receivables	16,694	3,354	-
Cash and cash equivalents	60,589	-	-

	2006 £000	2006 £000	2006 £000
Investment in subsidiary undertakings	97	-	-
Investments held in equities at fair value through profit or loss	132	-	-
Trade and other receivables	11,234	3,587	-
Cash and cash equivalents	67,149	-	-

Notes to the financial statements (continued)

The Company has a policy that it does not renegotiate payment terms with its clients

ii) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet its cash commitments as they fall due Liquidity risk may result from either the inability to sell financial assets quickly at their fair values, or from a counterparty defaulting on repayment of a contractual obligation, or from the inability to generate cash inflows as anticipated

Liquidity risk is managed in line with the Lloyds TSB Group Liquidity Risk Policy

Sensitivity analysis – Liquidity risk

The following table analyses the Company's ability to meet its cash commitments as they fall due

Undiscounted contractual cash flows – 2007 £000

	< 3 months	3-12 months	> 1 year	Total carrying value	Total fair value
Trade and other payables	12,301	11,112	-	23,413	23,413
Total	12,301	11,112	-	23,413	23,413

Undiscounted contractual cash flows – 2006 £000

	< 3 months	3-12 months	> 1 year	Total carrying value	Total fair value
Trade and other payables	26,472	13,811	-	40,283	40,283
Total	26,472	13,811	-	40,283	40,283

Included within trade and other payables are subordinated loans of £11,000,000 (2006 £11,000,000) from Scottish Widows Investment Partnership Group Limited During the year the Company repaid the £14,000,000 loan held with Scottish Widows Group Limited These loans are non-interest bearing and have no fixed repayment date If the loans were subject to a compound interest at a rate of 5%, the pre-tax profit for the year would have been £1,600,000 lower (£2006 1,500,000) and Trade and other payables would be £8,100,000 higher (2006 £6,600,000)

Notes to the financial statements (continued)

iii) Market risk

Market risk is the risk of fair value changes in the value of assets and liabilities from fluctuations in market prices (price risk), market interest rates (interest rate risk) and foreign exchange rates (currency risk), whether such changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market The Company's exposure to price, currency and interest rate risk is addressed below

Sensitivity analysis – Market risk

The Company's primary exposure to market risk (being interest rate, equity price and currency risks) is the risk of volatility in asset management fees earned on behalf of client assets managed

A decrease of 10% in the value of the assets from market movements would reduce revenue by £11 9m per annum (2006 £11 7m)

A 10% increase would increase revenue by an equivalent amount

iv) Price risk

The company's price risk exposure relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices other than from interest and foreign exchange fluctuations This is due to factors specific to individual instruments, their issuers or factors affecting all instruments traded in the market Accordingly, the company maintains exposure limits both to any one counterparty and any one market

v) Currency risk

Currency risk is the risk of transactions denominated in foreign currencies being affected by fluctuations in exchange rates

While the Company's principal transactions are carried out in pounds sterling, the Company invests in US Dollar and Euro denominated short term investment funds There is a foreign exchange risk to the extent that any assets and their respective liabilities are not held in the same currency

Notes to the financial statements (continued)

Sensitivity analysis – Currency risk

The Company's exposure to foreign currency risk is limited to cash balances held in foreign currencies

At 31 December 2007, the Group's total currency exposure by currency was as follows

	EUR 2007 £000	USD 2007 £000
Cash and cash equivalents	3,249	(49)
Trade and other receivables	32	140

	EUR 2006 £000	USD 2006 £000
Cash and cash equivalents	1,332	72
Trade and other receivables	100	5

A 1% change in GBP to the respective currency would have the following impact on the Company's profit and net assets

As at 31 December 2007

	1% increase in EUR/GBP rate £000	1% decrease in EUR/GBP rate £000	1% increase in USD/GBP rate £000	1% decrease in USD/GBP rate £000
Impact on profit before tax	(32)	33	(1)	1
Impact on equity	(32)	33	(1)	1

As at 31 December 2006

	1% increase in EUR/GBP rate £000	1% decrease in EUR/GBP rate £000	1% increase in USD/GBP rate £000	1% decrease in USD/GBP rate £000
Impact on profit before tax	(14)	14	(1)	1
Impact on equity	(14)	14	(1)	1

Notes to the financial statements (continued)

vi) Interest rate risk

The Company's interest rate risk exposure is limited to fluctuations in interest due from balances held in short term deposit and cash

Sensitivity analysis – Interest rate risk

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date

A change of 100 basis points change in interest yields would have the following impact on the Company's profit before tax

As at 31 December 2007

Impact on profit before tax	Interest rates +1% £000	Interest rates -1% £000
Cash and cash equivalents	606	605
Total	606	605

As at 31 December 2006

Impact on profit before tax	Interest rates +1% £000	Interest rates -1% £000
Cash and cash equivalents	671	671
Total	671	671

20. Parent undertaking

The Company's immediate parent undertaking is Scottish Widows Investment Partnership Group Limited, a Company registered in the United Kingdom

Lloyds TSB Group plc is regarded by the Directors as the ultimate parent company and ultimate controlling party of Scottish Widows Investment Partnership Limited Copies of the Lloyds TSB Group plc financial statements in which the company is consolidated can be obtained from the Group Secretary's Department, Lloyds TSB Group plc, 25 Gresham Street, London, EC2V 7HN