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SCOTTISH WIDOWS INVESTMENT PARTNERSHIP LIMITED

REPORT OF THE DIRECTORS

AND

FINANCIAL STATEMENTS

31 DECEMBER 2008



Member of Lloyds Banking Group plc

Scottish Widows Investment Partnership Limited
Report and Financial Statements for the Year Ended 31 December 2008

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Scottish Widows Investment Partnership Limited
Report and Financial Statements for the Year Ended 31 December 2008

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

Scottish Widows Investment Partnership Limited
Report and Financial Statements for the Year Ended 31 December 2008

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 2008.

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 Banking Group plc (the "Group") and certain subsidiary companies, and specialist investment funds.

Future outlook

2008 proved to be an extremely turbulent year for the UK Asset management industry, the effects of which can be evidenced in reductions in income on the income statement. Market conditions continue to be challenging in early 2009

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

Key performance indicators

The Directors are of the opinion that the Financial Services Authority ("FSA") return capital adequacy information in conjunction with the information provided in the financial statements, provide the management information necessary for the Directors to understand the development, performance and position of the business of the Company. Further discussion of the Company's capital adequacy is covered in note 21, Risk management policy and framework.

During 2008, the Company also formed part of the Insurance Division of the Lloyds Banking Group plc. The development performance and position of this Division are discussed on pages 22 to 28 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 2008 is a profit after tax of £18,189,000 (2007: profit of £14,387,000) and has been transferred to reserves. The Directors recommended and have paid a dividend of £15,000,000 in respect of 2008 (2007: £nil).

Principal risks and uncertainties

The key business risks and uncertainties affecting the Company are considered to relate to credit, liquidity, market, currency, price and interest rate risk. Further discussion of these risks and uncertainties are covered in note 21, 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 Banking 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.

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Directors' Report (continued)

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 2008, the number of days shown in this report, to comply with the provisions of the Companies Act 1985, is nil (2007: nil).

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:

D R Buckley (appointed 7 January 2008)

Particulars of the Directors' emoluments are given in note 18 to the financial statements.

Charitable and political contributions

During the year, the Company made contributions totalling £6 to charity (2007: £157). The Company made no political contributions (2007: £nil).

Disclosure of information to auditors

So far as the Directors 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 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



G J Wood
Director
21 April 2009

Scottish Widows Investment Partnership Limited
Report and Financial Statements for the Year Ended 31 December 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 2008 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 judgements 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.

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.

Scottish Widows Investment Partnership Limited
Report and Financial Statements for the Year Ended 31 December 2008

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

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, of the state of the Company's affairs as at 31 December 2008 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
24 April 2009

Scottish Widows Investment Partnership Limited
Report and Financial Statements for the Year Ended 31 December 2008

Income Statement

	Note	2008 £000	2007 £000
Revenue	4	100,886	116,862
Administrative expenses	5	(84,057)	(99,751)
Other operating income	6	5,034	28
Operating profit		<u>21,863</u>	<u>17,139</u>
Interest income	7	3,646	3,678
Finance cost	7	(61)	(229)
Profit before tax		<u>25,448</u>	<u>20,588</u>
Taxation	8	(7,259)	(6,201)
Profit for the year		<u><u>18,189</u></u>	<u><u>14,387</u></u>

The notes on pages 11 to 27 form part of these financial statements.

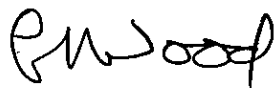
Scottish Widows Investment Partnership Limited
Report and Financial Statements for the Year Ended 31 December 2008

Balance Sheet

	Note	2008 £000	2007 £000
ASSETS			
Non-current assets			
Investments at fair value through income	9	2	186
Investments in subsidiary undertakings	9	97	97
Deferred tax assets	15	376	345
		<u>475</u>	<u>628</u>
Current assets			
Trade and other receivables	10	14,124	20,048
Cash and cash equivalents	11	64,448	60,589
		<u>78,572</u>	<u>80,637</u>
TOTAL ASSETS		<u>79,047</u>	<u>81,265</u>
EQUITY AND LIABILITIES			
Capital and Reserves attributable to company's equity holders			
Share capital	12	20,000	20,000
Other reserves		2,000	2,000
Retained earnings		31,553	28,364
TOTAL EQUITY		<u>53,553</u>	<u>50,364</u>
LIABILITIES			
Non-current liabilities			
Deferred income	13	180	210
Other non-current liabilities	14	682	1,232
		<u>862</u>	<u>1,442</u>
Current liabilities			
Deferred income	13	30	30
Current taxation liabilities	15	4,486	6,016
Trade and other payables	16	20,116	23,413
		<u>24,632</u>	<u>29,459</u>
TOTAL LIABILITIES		<u>25,494</u>	<u>30,901</u>
TOTAL EQUITY AND LIABILITIES		<u>79,047</u>	<u>81,265</u>

The notes on pages 11 to 27 form part of these financial statements.

Approved on behalf of the Board on 21 April 2009.



G J Wood
Director

Scottish Widows Investment Partnership Limited
Report and Financial Statements for the Year Ended 31 December 2008

Cash Flow Statement

	Note	2008 £000	2007 £000
Cash flows from operating activities			
Profit before tax		25,448	20,588
Adjustments for:			
Revaluation of investments in subsidiary undertakings		1	(55)
(Profit)/ loss on sale of investments		87	-
Interest income		(3,646)	(3,678)
Finance cost		61	229
Net decrease / (increase) in operating assets and liabilities	17	1,927	(7,561)
Taxation (paid) / received		(8,820)	(5,420)
Net cash flows from operating activities		15,058	4,103
Cash flow from investing activities			
Repayment of subordinated loan		-	(14,000)
Investments		(2)	-
Proceeds from sale of investments		98	-
Interest received		3,766	3,566
Net cash flows from investing activities		3,862	(10,434)
Cash flows from financing activities			
Finance costs		(61)	(229)
Dividends paid to company shareholders		(15,000)	-
Net cash flows from financing activities		(15,061)	(229)
Net increase / (decrease) in cash and cash equivalents		3,859	(6,560)
Cash and cash equivalents at the beginning of the year		60,589	67,149
Cash and cash equivalents at the end of the year	11	64,448	60,589

The notes on pages 11 to 27 form part of these financial statements.

Scottish Widows Investment Partnership Limited
Report and Financial Statements for the Year Ended 31 December 2008

Statement of Changes in Equity

	Share Capital £000	Retained Earnings £000	Other Reserves £000	Total £000
Balance at 1 January 2007	20,000	13,977	2,000	35,977
Net profit for the year	<u>-</u>	<u>14,387</u>	<u>-</u>	<u>14,387</u>
Balance at 31 December 2007	20,000	28,364	2,000	50,364
Net profit for the year	-	18,189	-	18,189
Dividend paid to shareholders	<u>-</u>	<u>(15,000)</u>	<u>-</u>	<u>(15,000)</u>
Balance at 31 December 2008	<u>20,000</u>	<u>31,553</u>	<u>2,000</u>	<u>53,553</u>

The notes on pages 11 to 27 form part of these financial statements.

Notes to the financial statements

1. Basis of preparation

The financial statements of the Company have been prepared on a going concern basis:

- i) in accordance with the International Accounting Standards ("IAS") and International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board and the Standards and Interpretations ("SIC") and International Financial Reporting Interpretations ("IFRIC") issued by its International Financial Reporting Interpretations Committee, as endorsed by the European Union;
- ii) in accordance with those parts of the Companies Act 1985 and Companies Act 2006 in force at 31 December 2008 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.

In accordance with IAS 1 "Presentation of Financial Statements", the balance sheet is presented in accordance with management's estimated order of liquidity.

Standards and interpretations effective in 2008

There are no new standards, amendments to or interpretations of published standards which are mandatory for accounting periods beginning on or after 1 January 2008 relevant to the Company's operations.

Details of standards and interpretations in issue but which have not been adopted early are set out below.

Standards, amendments and interpretations in issue but not adopted early

The following standard has been issued and will be relevant to the Company's operations but has not been early adopted. Adoption of this standard will have a minor impact on some of the disclosures given in the financial statements:

- i) Improvements to International Financial Reporting Standards 2008 (effective for accounting periods beginning on or after 1 January 2009) – this is the first standard published under the IASBs annual improvements process, which is intended to deal with non-urgent, minor amendments to standards. The standard includes 35 amendments and is split into two parts (i) amendments that result in accounting changes for presentation, recognition or measurement purposes; and (ii) amendments that are terminology or editorial changes only.

The following standards, amendments to and interpretations of published standards have been issued and will be relevant to the Company's operations but have not been adopted early by the Company. Adoption of these standards will have no impact on the financial results or position of the Company:

- i) IFRS 8 "Operating Segments" (effective for accounting periods beginning on or after 1 January 2009).
- ii) Amendment to IAS 23 "Borrowing Costs" (effective for accounting periods beginning on or after 1 January 2009).

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Report and Financial Statements for the Year Ended 31 December 2008

Notes to the financial statements (continued)

- iii) Amendment to IAS 1 "Presentation of Financial Statements" (effective for accounting periods beginning on or after 1 January 2009).
- iv) Amendments to IAS 1 "Presentation of Financial Statements" and IAS 32 "Financial Instruments: Presentation" (effective for accounting periods beginning on or after 1 January 2009).
- v) Amendments to IAS 39 "Financial instruments: recognition and measurement" and IFRS 7 "Financial instruments: disclosures" (effective from 1 July 2008, with any reclassification of a financial asset made on or after 1 November 2008 being effective only from the date on which the reclassification is made).

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. There are no critical accounting estimates which are material to the financial statements.

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.

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. These fees are recognised on an accruals basis.

Notes to the financial statements (continued)

b) Interest income and finance cost

Interest income and finance cost are recognised in the income statement as they accrue.

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 investments in an 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 cash at bank and short-term highly liquid investments with original maturities of three months or less (excluding such investments as otherwise meet this definition but which are held for investment purposes rather than for the purposes of meeting short-term cash commitments) and bank overdrafts.

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.

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Report and Financial Statements for the Year Ended 31 December 2008

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.

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.

Scottish Widows Investment Partnership Limited
Report and Financial Statements for the Year Ended 31 December 2008

Notes to the financial statements (continued)

j) 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.

Scottish Widows Investment Partnership Limited
Report and Financial Statements for the Year Ended 31 December 2008

Notes to the financial statements (continued)

4. Revenue

	2008	2007
	£000	£000
Revenue represents the following:		
Investment management fees	95,997	108,636
Performance fees	4,889	8,226
	<u>100,886</u>	<u>116,862</u>

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 (2007: 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 £44,000 (2007: £38,500). Fees paid to the auditors for non-audit services were £97,000 (2007: £176,000), broken down as follows:

	2008	2007
	£000	£000
AAF internal controls report attestation	77	75
Services supplied pursuant to legislation	-	20
All other assurance related work	-	72
Services relating to taxation	3	2
All other services	17	7
	<u>97</u>	<u>176</u>

6. Other operating income

	2008	2007
	£000	£000
Stock lending commission	2,023	1,534
Sales commission	(1,027)	(2,500)
Revenue share	(500)	(1,000)
Foreign exchange gain	318	175
Other income	4,220	1,819
	<u>5,034</u>	<u>28</u>

Scottish Widows Investment Partnership Limited
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Notes to the financial statements (continued)

7. Interest income and finance cost

	2008	2007
	£000	£000
Interest income on cash and cash equivalents	3,400	3,599
Interest income on short-term investments in a cash fund	246	79
	<u>3,646</u>	<u>3,678</u>
Finance costs on bank overdrafts and borrowings	<u>(61)</u>	<u>(229)</u>

8. Taxation

a) Current year tax charge

	2008	2007
	£000	£000
Current tax:		
UK corporation tax	<u>7,284</u>	<u>6,286</u>
Deferred tax:		
Temporary differences	(31)	(110)
Reduction in corporation tax rate on deferred balances	6	25
Total deferred tax	<u>(25)</u>	<u>(85)</u>
Total taxation	<u>7,259</u>	<u>6,201</u>

b) Reconciliation of tax charge

	2008	2007
	£000	£000
Profit before tax	25,448	20,588
Tax at 28.5% (2007: 30%)	7,253	6,176
Effects of:		
Reduction in corporation tax rate on deferred balances	6	25
Total tax charge for the year	<u>7,259</u>	<u>6,201</u>

The Finance Act 2007 reduced the rate of corporation tax from 30% to 28% with effect from 1 April 2008. The impact of this reduction in tax rate is disclosed in the above table. The 2007 figures include the impact of this change in tax rate on the deferred tax position at 31 December 2007 as the change in rate was substantively enacted at that date.

Scottish Widows Investment Partnership Limited
Report and Financial Statements for the Year Ended 31 December 2008

Notes to the financial statements (continued)

9. Investments

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.r.l	Ordinary	100	Luxembourg	Management Company to the European Balanced Property Fund
Unitair General Partner Limited	Ordinary	50	England/ Wales	Property

During 2008, the Company launched two Emerging Markets Funds to provide US investors with an attractive vehicle for accessing SWIP's Emerging Markets capabilities. These institutional Funds are called the SWIP Global Emerging Markets Fund Series and SWIP Global Emerging Markets Smaller Companies Fund Series. The Company's investments in the funds are below the level where they can be regarded as subsidiary undertakings. The total value of the investments is £2,133 as at 31 December 2008.

10. Trade and other receivables

	2008	2007
	£000	£000
Trade receivables	2,868	1,750
Amounts due from subsidiary undertakings	4,622	4,698
Prepayments and accrued income	6,634	13,600
	<u>14,124</u>	<u>20,048</u>

None of the above balances are interest-bearing (2007: nil).

The fair value of the above balances are not materially different to the carrying value at 31 December 2008 and 31 December 2007 due to the short-term nature of these balances.

There is no significant concentration of credit risk with respect to trade and other receivables. Further information in respect of credit risk is given in note 21.

Scottish Widows Investment Partnership Limited
Report and Financial Statements for the Year Ended 31 December 2008

Notes to the financial statements (continued)

11. Cash and cash equivalents

Cash and cash equivalents include the following:

	2008	2007
	£000	£000
Cash at bank	60,423	58,564
Short-term investments in a cash fund	4,025	2,025
Total cash and cash equivalents	<u>64,448</u>	<u>60,589</u>

12. Called up share capital

	2008	2007
	£000	£000
Authorised 21,000,000 ordinary shares of £1 each	<u>21,000</u>	<u>21,000</u>
Allotted, issued and fully paid 20,000,100 ordinary shares of £1 each	<u>20,000</u>	<u>20,000</u>

There are no restrictions on share capital.

13. Deferred income

	2008	2007
	£000	£000
At 1 January	240	184
Amounts incurred during the period	-	79
Amortisation during the period	<u>(30)</u>	<u>(23)</u>
At 31 December	210	240
Non-current	180	210
Current	<u>30</u>	<u>30</u>
Total	<u>210</u>	<u>240</u>

14. 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 subsequent years a similar incentive scheme has been implemented.

	2008	2007
	£000	£000
Other non-current liabilities	<u>682</u>	<u>1,232</u>

Scottish Widows Investment Partnership Limited
Report and Financial Statements for the Year Ended 31 December 2008

Notes to the financial statements (continued)

15. Tax assets and liabilities

	2008	2007
	£000	£000
Deferred tax assets	376	345
Total tax assets	<u>376</u>	<u>345</u>
Current income tax liabilities	4,486	6,016
Total tax liabilities	<u>4,486</u>	<u>6,016</u>

Deferred tax assets relate solely to the staff revenue share scheme.

16. Trade and other payables

	2008	2007
	£000	£000
Amounts due to group undertakings	16,084	19,890
Other payables	2,757	2,792
Other taxes	1,275	731
	<u>20,116</u>	<u>23,413</u>

Included within amounts due to group undertakings are subordinated loans of £11,000,000 (2007: £11,000,000) from Scottish Widows Investment Partnership Group Limited. The loans held are non-interest bearing and have no fixed repayment date. The lender reserves the right to demand repayment of the loans and therefore 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.

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Notes to the financial statements (continued)

17. Decrease / (increase) in operating assets and liabilities

	2008	2007
	£000	£000
<u>Decrease / (increase) in operating assets</u>		
Trade and other receivables	5,804	(5,114)
<u>(Decrease) / increase in operating liabilities</u>		
Trade and other payables	(3,877)	(2,447)
Net decrease / (increase) in operating assets and liabilities	<u>1,927</u>	<u>(7,561)</u>

18. Key management personnel emoluments

The Chairman and Directors consider that they receive no remuneration for their services to the Company (2007: £nil). The Chairman and Directors are also Directors of certain key operating companies within the Lloyds Banking Group, of which the Company is a member.

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

D R Buckley, 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 2008 had any interest in the shares of the Company (2007: none).

A P Owens, J M Brett, L M Dalgarno and S P Wombwell 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.

19. Dividends paid to shareholders

Dividends payable on ordinary shares are recognised in equity in the period in which they are approved. During the year, a dividend of £0.75 per share was paid to shareholders. (2007: nil) This dividend totalled £15m. (2007: £nil)

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Notes to the financial statements (continued)

20. Related party transactions

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

Counterparty	Transaction type	2008 £000	2007 £000
Lloyds TSB Scotland	Bank account balances	15,027	13,940
	Interest earned	475	538
SWIP Global Liquidity Fund plc	Balance	4,025	2,025
	Interest earned	246	79
Scottish Widows plc	Annual management charges received	11,757	13,601
	Annual management charges receivable	1,105	1,113
Scottish Widows Annuities Ltd	Annual management charges received	1,574	1,527
	Annual management charges receivable	131	134
Scottish Widows Unit Trust Managers Ltd	Annual management charges received	12,263	14,645
	Annual management charges receivable	881	1,168
	Custody fees received	216	216
	Custody fees receivable	54	54
	3 rd Party management fees received	1,381	1,580
Scottish Widows Unit Funds Ltd	3 rd Party management fees receivable	98	127
	Annual management charges received	25,245	25,335
	Annual management charges receivable	1,474	2,136
	Annual management charges received	5,325	6,424
	Annual management charges receivable	419	506
Abbey Life Assurance Co Ltd	Annual management charges received	-	2,610
LTSB Offshore Fund Managers Ltd	Annual management charges received	835	949
	Annual management charges receivable	74	81
SWIP Fund Management Ltd	Annual management charges received	10,172	11,490
	Recharged expenses receivable	242	99
LTSB Investments Ltd	Annual management charges received	2,780	2,488
Lloyds TSB Bank Plc	Annual management charges received	1,010	718
	Annual management charges receivable	77	56
SWIP Multi-Manager Funds Ltd	Annual management charges received	56	-
	Recharged expenses payable	66	56
Scottish Widows Investment Partnership Group Ltd	Staff costs and management fees paid	49,688	52,100
	Staff costs and management fees payable	372	291
	Subordinated loan	11,000	11,000
Scottish Widows Services Ltd	Recharged expenses paid	86,591	99,750
	Recharged expenses payable	4,646	8,975
SWIP Saudi Asset Management Ltd	Recharged expenses receivable	121	-

Notes to the financial statements (continued)

The Company had amounts due to group undertakings at 31 December 2008 in the form of subordinated loans as detailed in Note 16.

Key management compensation details are included in Note 18.

There were no other material transactions by the Company with related parties for the year ended 31 December 2008.

21. 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 Banking 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.

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.

The Company complied with the FSA's capital adequacy requirements throughout 2007 and 2008. The company held total tier one capital after deductions (including share capital and audited reserves) of £35m (2007: £36m). The Company's capital requirement at 31 December 2008 was £14m (31 December 2007: 22m).

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Notes to the financial statements (continued)

Financial risks

The Company is exposed to a range of financial risks through its financial assets and financial liabilities including exposure to credit, liquidity, market, price, currency and interest rate risk in the normal course of the Company's business.

b) Key risks descriptions

ii) 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 (AAA/MR1+ rated fund)

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

	2008 £000	2007 £000
Investments held in equities at fair value through profit or loss:	2	186
Trade and other receivables	14,124	20,048
Cash and cash equivalents	64,448	60,589
Total assets bearing credit risk	<u>78,574</u>	<u>80,023</u>

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. LTSB Group is a AA rated credit institution. Therefore credit risk is not considered significant.

The Company does not distinguish between different classes of debtor.

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 £3,002,212 (2007: £3,768,808).

Balances held on short term deposit are placed with institutions that have been approved by the Counterparty Risk Committee.

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Notes to the financial statements (continued)

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 represent the Company's holdings in Emerging Markets Funds. These institutional Funds are called the SWIP Global Emerging Markets Fund Series and SWIP Global Emerging Markets Smaller Companies Fund Series.

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 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 2008 £000	Assets past due but not impaired 2008 £000	Assets determined to be impaired 2008 £000
Investments held in equities at fair value through profit or loss:	2	-	-
Trade and other receivables	13,525	599	-
Cash and cash equivalents	64,448	-	-
	2007 £000	2007 £000	2007 £000
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	-	-

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 Banking Group Liquidity Risk Policy.

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Notes to the financial statements (continued)

Sensitivity analysis – Liquidity risk

The following table indicates the estimated amount and timing of cash flows arising from the Company's liabilities as required by IFRS 7 "Financial Instruments: Disclosures".

Undiscounted contractual cash flows

	2008 £000	2007 £000
Less than three months	16,860	12,301
Between three and twelve months	7,742	17,128
Over 1 year	682	1,232
Total carrying value	<u>25,284</u>	<u>30,661</u>
Total fair value	<u>25,284</u>	<u>30,661</u>

None of the above balances are interest-bearing (2007: Nil). The fair value of the above balances are not materially different to the carrying value at 31 December 2008 and 31 December 2007 due to the short-term nature of these balances.

Included within trade and other payables are subordinated loans of £11,000,000 (2007: £11,000,000) from Scottish Widows Investment Partnership 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 £747,000 lower (£2007: £1,537,000) and trade and other payables would be £4,341,000 higher (2007: £3,594,000).

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 in relation to client assets managed.

A decrease of 10% in the value of the assets from market movements would reduce revenue by £8.8m per annum (2007: £11.9m).

A 10% increase would increase revenue by an equivalent amount.

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Notes to the financial statements (continued)

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

The Company's primary exposure to currency risk is the risk of transactions denominated in foreign currencies being affected by fluctuations in exchange rates.

The Company's principal transactions are carried out in pounds sterling and a significant majority of the Company's clients are invoiced in sterling. The company maintains a small float of cash in foreign currencies and also has minor holdings in US Dollar and Euro denominated investment funds.

Therefore the Company's currency risk is minimal and accordingly no sensitivity analysis has been presented.

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 decrease of 100 basis points in interest yields would reduce revenue by £644,000 per annum (2007: £606,000).

An increase of 100 basis points in interest yields would increase revenue by an equivalent amount.

22. 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 acquired HBOS plc on 19 January 2009. This combination formed a new legal entity, Lloyds Banking Group plc.

Lloyds Banking 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 Banking Group plc financial statements in which the Company is consolidated can be obtained from the Group Secretary's Department, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN.