

ISSUED
December 2009

OFFSHORE PROFILE	&	FINANCIAL STRENGTH
R E P O R T S		

Clerical Medical

AKG

Accessible - Comparative - Independent

Analysis by AKG Actuaries & Consultants Ltd

Background

AKG's Offshore Profile & Financial Strength Reports are designed to meet the information needs of advisers and analysts in assessing the relative strengths of Offshore long term insurers. Two different styles of report are published by AKG - FULL reports and SHORT reports. A FULL report is produced for each of the leading provider companies in the market, which participate in the production of the reports, once sufficient information is received. For each remaining provider company which is covered, a SHORT report is produced.

This is a FULL report.

Each report collates relevant information from a range of sources such as a company's regulatory returns, its report & accounts and material provided by the companies themselves, and incorporates expert independent assessment. For FULL report companies the

PLEASE NOTE: This report should be read in conjunction with AKG's User Guide to AKG's Offshore Profile & Financial Strength Reports, a copy of which is available on-line at www.akg.co.uk

About AKG

AKG is an actuarially based consultancy specialising in the provision of ratings, information and market assistance to the financial services industry.

Assistance to Provider Companies

AKG assists providers in:

- Financial strength analysis, ratings and presentation
- Data and information provision
- Actuarial consultancy
- Distribution consultancy

Assistance to Financial Intermediaries

AKG assists intermediaries in:

- Financial strength analysis
- Best advice panel services
- Data and information provision
- Actuarial and technical support

Information Products

AKG also provides other regularly updated information products to assist providers and intermediaries, including:

AKG's Company Profile & Financial Strength Reports

Designed to meet the information needs of advisers and analysts in assessing the relative strengths of UK long term insurers.

AKG's UK Life Office With Profits Report

Designed to provide further depth in the assessment of with profits funds.

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This report is issued as at a certain date, and it remains AKG's current assessment with current ratings until it is superseded by a subsequently issued report and subsequently issued ratings (at which point the newly issued report should be used), or until AKG ceases to make such a report or ratings unavailable.

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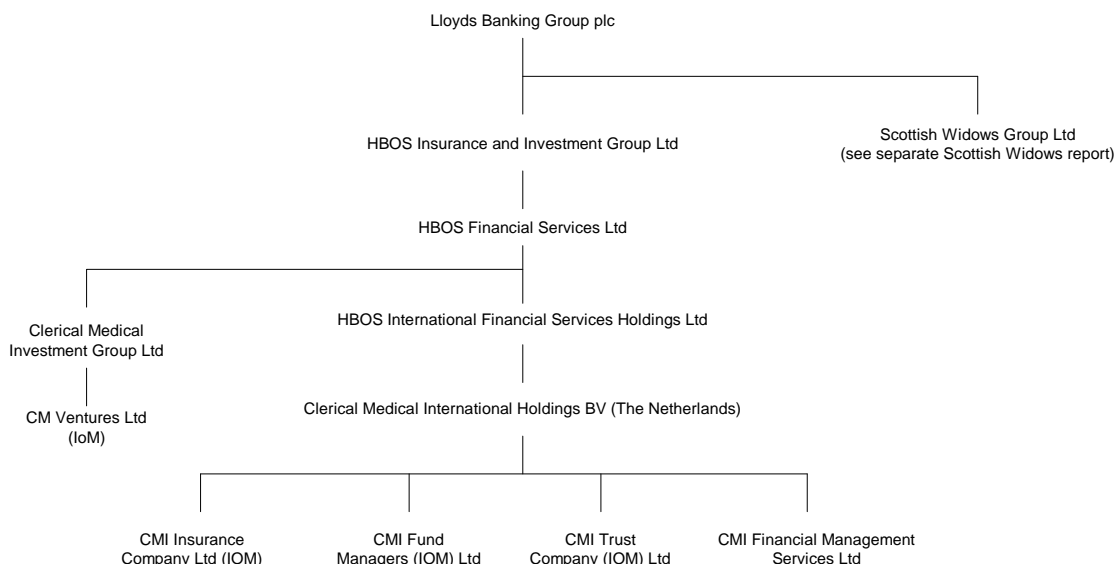
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Overview

Lloyds TSB Group plc was renamed Lloyds Banking Group plc (LBG) in January 2009 following the acquisition of HBOS plc, to form the UK's largest retail bank, part owned by HM Treasury. Within this the Insurance Division encompasses all the insurance companies that had operated within the two banks. Scottish Widows, acquired by Lloyds TSB plc in 2000, distributed through the Lloyds branch network, IFAs and directly via the telephone and internet. There are four UK life subsidiaries which operated under the Scottish Widows brand - the main company Scottish Widows plc, together with specialist subsidiaries Scottish Widows Unit Funds Ltd (SWUFL - linked life and pensions business), Scottish Widows Annuities Ltd (SWAL - non-profit pension annuities), and Pensions Management (SWF) Ltd (PMSWFL - managed pension fund business). HBOS operated on a multi-brand, multi-channel approach, with Clerical Medical Investment Group (CMIG), Halifax Life, St. James's Place and St Andrew's Life. CMIG was the primary intermediary product provider in the UK, together with Clerical Medical Managed Funds Ltd (CMMF), CMI Insurance Company Ltd (CMI - an Isle of Man based company) and Clerical Medical Investment Fund Managers Ltd. CMIG is also the main product provider to the Clerical Medical Europe (CME) business, which writes business, including with profits, in several mainland European countries. The integration of two significant financial services organisations represents both a challenge and a risk and it is likely to be some time before the final shape of the combined organisation is determined. With effect from July 2009 the LBG Insurance Division distributes its intermediary business through a combined salesforce operating under the Scottish Widows brand for pensions business. The Clerical Medical brand will be retained for some investment business (including offshore) but the intention is to phase this brand out. In November 2009 LBG sold Insight to BNY Mellon for £235m. The management of Clerical Medical funds managed by Insight will now switch to Scottish Widows Investment Partnership (SWIP) by the end of March 2010. Further integration in terms of bank distribution and rationalisation of component life companies to drive capital efficiencies is also anticipated in the medium term. CMI provides the offshore capability for the enlarged group and its products are now distributed to intermediaries under the Scottish Widows brand.

Corporate Structure (simplified)



Ratings

Company	Financial Strength Ratings				Supporting Ratings		
	Overall	With Profits	Non Profit	Unit Linked	Service	Image & Strategy	Annual Review
CMI Insurance Company Ltd	B+	★★★	★★★★	★★★★	★★★★	★★★★	★★★★

Location

Isle of Man, Hong Kong.

Corporate Data

Ownership	Lloyds Banking Group plc
Open to New Business?	Yes
Year Established	1987
Head Office	Clerical Medical House Victoria Road Douglas, Isle of Man IM99 1LT
Tel:	+44 (0) 1624 638888
Fax:	+44 (0) 1624 625900

Administration Office As above

Website - Consumer www.clericalmedical.co.uk

Website - IFA www.scottishwidows.co.uk/ifa

Key Personnel

Chairman	J van der Wielen
Managing Director	D P Waddingham
Director	D L Moore
Director	J H Webster
Director	T A Leonard
Director	D M Schuster
Director	A J Corlett
Company Secretary	J R N Myers
Appointed Actuary	R J McIntyre

Company Background

The company, based on the Isle of Man, was established in 1987 by Clerical Medical & General Life Assurance Society to operate in the offshore market.

Historically, the company operated primarily as a with profits company, reinsuring the business to CMIG and retaining little in the way of liabilities. This changed in 2002 (a move reflecting what was happening in CMIG), when a change in marketing emphasis followed the withdrawal of its pooled bond, replacing it with an open architecture portfolio bond. Nowadays most new business is now written on a unit linked basis.

The company now looks set to be the offshore specialist in the wider Lloyds Banking Group Insurance Division.

Overall Financial Strength

B+

The company was one of the first international operations to be established by a UK life company. Whilst it is relatively thinly capitalised, this is not unusual for such an operation. This means that it is dependent on a strong and committed parent if it is to prosper in an increasingly competitive market. HBOS had its own widely documented issues which led to its acquisition by Lloyds TSB and the raising of additional capital, which is set to continue within LBG. Whilst this acquisition has not been without its own issues, primarily around increased losses and exposures within the acquired HBOS operation, the company is now owned by a much larger and stronger parent. Whilst the decision has been made to ultimately go with the Scottish Widows brand, within the intermediary space at the very least, and whilst there will undoubtedly be some consolidation/disposal of companies within LBG, CMI can take comfort both from the fact that it is well established and respected in its field of operation and that it has no duplication within LBG.

Reinsurance

Approach

The company had six treaties, with two reinsurers, as at 31 December 2008, for which premiums of £4m were paid in 2008 (offset by £2.2m of reinsurance premiums receivable). In terms of premiums paid the most significant treaty is the reinsurance of with profits business to CMIG (£3.1m). There is a risk premium treaty for the Passport Range (premiums of £0.7m) with Swiss Re Life and Health.

The reinsurance of with profits business is shown as internal reinsurance in the table below.

Analysis of Reserves	2006	2007	2008
	£000's	£000's	£000's
Gross reserves	5,114,343	5,167,628	5,434,009
Reinsurance ceded - external	0	0	0
Reinsurance ceded - internal	2,044,418	1,319,112	1,170,632
Net mathematical reserves	3,069,925	3,848,516	4,263,377

Non Profit Business

General

Non profit business consists of a block of annuities, most of which is reinsured to CMIG. There are retained liabilities of around £15k [2007: £15k].

Non Profit Financial Strength

★★★★

Non profit business represents a small proportion of total liabilities and, whilst not a major product line, enjoys the security of the company and LBG.

Unit Linked Business

Approach

The company adopts an open architecture approach to unit linked business. The aim is to offer a much broader choice of funds so enabling a diverse portfolio of investments to be built. There are 31 internal funds on CMI Global Investor, replicating the new Investment Proposition that was established in Nov 2008 on Clerical Medical onshore products and which Scottish Widows is now adding to its pension products. A core range of 6 internal funds is offered for CMI Corporate Investor, currently managed by Insight Investment Management Ltd, although these will now transfer to SWIP. CMI Global Investor also offers around 250 onshore fixed interest funds where gross returns are obtained from OEIC providers, providing an extra 20%. Both products also provide access to around 9,500 funds from over 180 worldwide investment houses to which published investment criteria apply. The company has negotiated discounts on initial and ongoing charges from a number of these fund managers, which are passed on through the Global Investor product. There is the option to appoint an authorised investment adviser or discretionary manager.

The internal funds for CMI Corporate Investor are selected to be lower risk offering good returns when compared to deposit accounts, but with the potential for capital growth. There are also two funds for investors with a slightly higher risk appetite.

The company is committed to monitoring the market constantly in order to provide access to new fund managers and investment themes.

Unit Linked Financial Strength

★★★★

Unit linked business is now clearly the focus of the company in new business terms, accounting for the vast majority of new investments, and the company is highly regarded in this sphere. Liabilities of around £4.2bn enjoy the support of the company and the group as a whole. Overall, the linked business appears to have reasonable protection assuming that an appropriate level of potential support is available from its ultimate parent.

With Profits Business

Approach

With profits business has historically represented the majority of business written by the company. Whilst this position has changed in recent years it remains significant, accounting for liabilities of over £1.1bn. These are 100% reinsured into the with profits fund of Clerical Medical Investment Group Ltd (CMIG). In line with a number of its competitors, and CMIG itself in the UK, the current product offering does not include the option to invest in with profits, although additional investment to existing products continues to be allowed. With profits is written in CMI in three currencies, namely Sterling, US Dollar and Euro.

Profit Sharing Philosophy

The profit sharing philosophy is that which applies to the with profits fund of CMIG, namely to return to each generation of policyholders their smoothed asset share, to provide equitable treatment between maturing and surrendered policies and to manage the proportions of bonus paid as terminal bonus at adequate levels to deal with fluctuations in investment market values.

Asset Allocation

The equity backing ratio differs by currency. As at 31 December 2008, the EBRs for Sterling, US Dollar and Euro denominated business were 53%, 37% and 50% respectively, reductions on the previous year. The actual denominations of the assets are also weighted towards the relevant currency.

With Profits Financial Strength

★★★

Falling markets during 2008 saw the level of realistic capital fall sharply, notwithstanding a significant fall in the RCM, which continues to include a provision (£54m) for uncertainties in the data. The fund is effectively closed for UK new business and overseas new business is declining. Whilst the fund is secure it remains unclear as to the future of the fund given the ongoing merger within LBG and the possibility that parts of the enlarged group may be disposed of.

Key Financial Data (for y/e: 31/12/08)

Capital	2006	2007	2008
	£000's	£000's	£000's
Paid up Shares etc	3,811	3,811	3,811
Unpaid Capital etc	0	0	0
Sub. Loan Capital	0	0	0
Balance of Net Assets	7	7	7
Total	3,818	3,818	3,818

The capital position has remained very stable in recent years, with no capital injections and transfers from the shareholders fund in order to make dividend payments (£15m in 2008).

Long Term Business Admissible Assets	2006	2007	2008
	£000's	£000's	£000's
Fixed Interest	0	0	0
Equities	0	0	0
Property	0	0	0
Linked	3,059,669	3,831,721	4,240,108
Other	44,556	53,620	55,675
Total Assets	3,104,225	3,885,341	4,295,783
Free Assets	30,443	31,022	25,565
FAR	1.0%	0.8%	0.6%

Long term assets increased by 11% in 2008, against the market trend, with premium income more than offsetting outflows and market falls. Both free assets and the free asset ratio fell in 2008 but remain reasonable for a company not retaining any with profits liabilities.

Long Term Business Liabilities & Margins	2006	2007	2008
	£000's	£000's	£000's
Gross	5,160,254	5,167,628	5,434,009
Net	3,104,225	3,848,516	4,263,377
Required Min Margin	7,675	9,621	10,659
RMM Coverage	4.96	4.22	3.40

The RMM coverage fell again in 2008 but remains adequate.

Key Revenue Items	2006	2007	2008
	£000's	£000's	£000's
INCOME			
Premiums	862,341	793,460	1,228,495
Investment Income	52,838	75,430	135,706
Investment Increase	124,671	138,192	-545,881
EXPENDITURE			
Commissions	16,906	14,502	17,252
Policy claims	60,905	183,210	372,556
Expenses	34,050	37,267	41,512
TRANSFER to P&L	42,000	10,000	15,000
INCREASE in fund	965,602	781,116	410,442

The fund increased by £410m in 2008. Premium income increased by 55% to £1.2bn on increased new business volumes. Net benefits payable increased by 203% to £373m, but the company again reported a net inflow, which increased to £856m [2007: £610m]. Commissions and expenses both increased; not unexpected given the growth over the year. There was a £15m transfer out to the shareholder account, which funded the dividend payment.

New Business Data (for y/e: 31/12/08)

New Single Premiums	2006	2007	2008
	£000's	£000's	£000's
UK Investment	858,763	796,233	1,226,021
UK Protection	0	0	0
UK Pensions	0	0	0
UK Other	0	0	0
Other Investment	646	274	0
Other Protection	0	0	0
Other Pensions	0	0	0
Other Other	0	0	0
Total	859,409	796,507	1,226,021
Growth Rate	98.4%	-7.2%	54.9%

New Regular Premiums	2006	2007	2008
	£000's	£000's	£000's
UK Investment	6,523	5,060	4,282
UK Protection	0	0	0
UK Pensions	0	0	0
UK Other	0	0	0
Other Investment	0	0	0
Other Protection	0	0	0
Other Pensions	0	0	0
Other Other	0	0	0
Total	6,523	5,060	4,282
Growth Rate	-23.4%	-22.4%	-15.4%

A very good year in new business terms. New business volumes, which fell in 2007 by 7% against the background of the uncertainty surrounding the Pre-Budget Report in that year, more than recovered in 2008, with an increase in excess of 50%.

The small amount of regular premium new business relates to increments on existing business.

Distribution

Method

With its focus on distribution now firmly on marketing offshore products back into the UK, the company sees opportunities for its products through a number of channels, including e-commerce, UK intermediaries and, not least of all, the wider Lloyds Banking Group. Products are sold through Independent Financial Advisers in the UK via the Scottish Widows IFA sales channel. This is further supported by offshore specialists. Distribution is also via intermediaries in the Channel Islands and Bank of Scotland Investment Service, a sister company and direct sales operation. In addition, the company is strengthening relationships further with private banks with the strategy of offering various bespoke products tailored for their clientele, essentially a Discretionary Managed service, and in general is beginning to explore opportunities afforded to it by the enlarged group to engage in distribution synergies that might be created.

The company no longer actively markets business in Hong Kong, the Middle East and into Europe.

Distribution Split	Regular Premium	Single Premium
	%	%
UK	0.0	100.0
Europe	0.0	0.0
Far East	0.0	0.0
Middle East	0.0	0.0
South America	0.0	0.0
Other	0.0	0.0

Image and Strategy



The bancassurance nature of the group increased in recent years and Clerical Medical was brought closer to the parent in management and strategic terms. Within this, CMI, as the offshore arm, had made good progress and increased its profile within the group.

To a significant extent, however, this was overtaken by adverse conditions experienced by the HBOS parent in its core banking operations. These well documented difficulties led to government intervention and the takeover by Lloyds TSB to form Lloyds Banking Group. This led to the requirement for integration of the insurance and investment business of the two banking groups. Whilst this is ongoing, 1 July 2009 saw a single intermediary sales force launched under the Scottish Widows brand. Within this, and in terms of later integration in other channels, CMI, as the sole offshore provider, is relatively well positioned, albeit with the likelihood that its brand might well be replaced by that of Scottish Widows.

Products

Overall Product Philosophy

The company has reduced its product range in recent years and, prior to the launch of CMI Corporate Investor in 2007, concentrated solely on marketing its single premium portfolio bond, under the CMI Global Investor brand, offering the investor choice, control and flexibility. This "wrapper" product solution has received some recognition in the offshore market, winning 'Best International Life Product' at the International Investment Offshore Fund and Product Awards 2005. 2007 saw the company launch its Corporate Portfolio Bond, a variant of CMI Corporate Investor, marketed solely through Bank of Scotland Investment Service. Despite the 2007 Pre-Budget Report, this has been well received and has since been enhanced. The relationship with Bank of Scotland Investment Service has widened towards the end of 2008 to include the Global Portfolio Bond.

CMI's product offering and philosophy remains broadly unchanged within the LBG Insurance Division, albeit the operation has recognised the need to adjust and expand, where appropriate, its offering to fit the wider LBG/Scottish Widows product offering, and indeed has started to make changes, not least in terms of fit with the Scottish Widows pension proposition. The aim is to offer 'tailored, professional and flexible solutions' for high net worth individuals, trustees and corporate clients. The company's products are targeted primarily through IFAs and aim to 'benefit from Clerical Medical's pedigree in the offshore market, the use of external fund managers, a focus on the professional market and the financial strength of the group as a whole'. The target markets are Pensions, High Net Worth individuals, Ultra High Net Worth individuals and Trust business - a range of eight trusts is available on CMI Global Investor.

CMI is keen to further develop its product offering having made improvements to its CMI Global Investor in 2007 and introducing factory gate pricing in 2009. Plans included further improving its existing products as well as considering new markets/products.

In order to comply with the philosophy of only selling authorised business, there are specific business acceptance criteria to which the company strictly adheres. Full details can be requested but are also incorporated in the illustration software as a filtering process.

Products Currently Marketed

Investment Products

Single Premium Portfolio Bonds

Service



Approach

The company sees its customers as both policyholders and intermediaries with in particular a philosophy of "putting intermediaries at the heart of the business". The commitment is to provide high quality service and support whereby established and robust systems and procedures are undertaken by specifically assigned Account Executives and Administrators who are considered highly capable and experienced. The company reports that it meets or exceeds its Global Investor service standards 95% of the time (these standards are published on the adviser-zone area of the website). Where mistakes are made, efforts are made to put them right very quickly, with compensation if appropriate.

2007 saw the company adopt Lean Service methodologies across a number of operational areas. This involves, amongst other things, the elimination of wasteful processes allied to improving customer-defined value, resulting in improved processing times and reduced error rates. Retention is a key consideration with a commitment to ensuring that clients get "full and clear communications".

Clearly the overall ongoing service integration with Scottish Widows will be the primary driver for change in this area. However, as the sole offshore life company in the group, and in many ways a standalone centre of expertise, the immediate effect of this may be somewhat limited.

e-Business

The company sets great store by improving its ability to offer e-commerce facilities to IFAs who prefer to deal with it that way and has implemented a three year plan of major enhancements. Early 2007 saw the company relaunch a completely new website, placing the focus on ease of navigation and the provision of information, as well as providing the foundation on which the company plans to develop an extensive range of e-commerce facilities. CMI links to an extensive range of back office systems providers to offer online valuation of offshore bond valuations through First Software, extended to include PLUM.

In 2008, offshore valuations were launched, utilising the existing tried and tested infrastructure of Clerical Medical's onshore e-commerce platform. A new illustration service for offshore business was launched in January 2009 to improve transparency and assist IFAs with their TCF obligations. An online investment planning tool which includes offshore funds was launched in 2009 and further offshore e-commerce developments, such as on-line applications and dealing, are planned into 2010.

Service Standards & Awards

The company saw itself as a centre of excellence within HBOS. It sets great store by its service ethic and has carried out a series of surveys amongst supporting intermediaries. However, its relatively small footprint in the IFA community, where it focuses on HNW clients, means that it does not normally feature in service awards. Awards that it does receive tend more to reflect product innovation rather than service.

Outsourcing

All servicing is carried out by CMI Insurance Company Ltd.

Investment

Overall Approach

Internal funds are currently managed by Insight Investment Management Ltd, whilst property investments are managed by Invista Real Estate Management (a company spun out of Insight in September 2006). Invista manages both commercial and residential property across the UK and continental Europe, and had a total of £5.5bn of assets under management as at the end of May 2009, a figure that has reduced in recent years reflecting the state of the property market. Insight's investment philosophy is to use original research combined with market intelligence to identify and exploit mis-priced risk. They are active managers, with the aim of outperforming a given benchmark by taking views on certain stocks and by backing their convictions. They state that the overall emphasis is on teamwork combined with individual accountability, with decision-making delegated to the most appropriate level.

Whilst a small core of internal funds is offered, the main focus is towards external funds and an open architecture approach. Externally managed funds are managed in line with the approach of the respective fund manager.

In November 2009, LBG sold Insight to BNY Mellon for £235m. The management of Clerical Medical funds managed by Insight will now switch to Scottish Widows Investment Partnership (SWIP) by the end of March 2010.

Funds Under Management

Overall gross funds under management for all Clerical Medical's offshore businesses exceeded £5bn as at 31 December 2008, although £1.2bn of this was reinsured to CMIG. At the end of 2008, CMIG had £17bn of long term assets [2007: £19bn], the majority of which related to with profits business. There was a further £15bn in Clerical Medical Managed Funds. SWIP has funds under management of around £92bn, which will increase to approximately £134bn once the transfer from Insight has been completed.

Annual Review



On balance, at an operating level, 2008 was a good year for CMI. Whilst solvency levels fell against the background of the ongoing economic climate, the company grew in size and recorded an excellent increase in new business volumes.

However, the year was very much overshadowed by the difficulties experienced by HBOS and its subsequent acquisition by Lloyds TSB. Given the extensive range of insurance companies and brands within the enlarged group, this naturally led to some uncertainty as to how the group might emerge post any consolidation. Early 2009 saw the group confirm that it would retain the Scottish Widows brand within the intermediary space in preference to, and effectively dropping over time, the Clerical Medical brand. The group operates from 1 July 2009 with a combined, single brand, sales force. It is as yet not clear how the various corporate entities will fare in the consolidation, an exercise that may take some years to finally complete. However, the combination of its experience and pedigree together with the lack of duplication of an offshore entity in a group with enlarged distribution capability should bode well for CMI. In November 2009, LBG announced its intention to raise around £21bn of capital and the disposal of some of its retail banking businesses.

Financial Strength Ratings - Introduction

The aim of AKG's financial strength ratings is to assist IFAs and others to assess the relative strengths of individual provider companies. AKG's concept of 'financial strength' starts with the fundamental issue of a company's ability to meet all of its guaranteed payments to policyholders, but extends beyond this by aiming to factor in the degree to which a policyholder's expectations are likely to be met - or even exceeded - in the long-term. For performance-related products, where the eventual return generally depends largely upon a company's success in consistently delivering superior investment performance, and in containing expense charges, a company's ability to meet expectations is likely to be heavily dependent upon whether or not it is able to sustain its operations in the relevant market, and whether or not it can maintain, or improve, its competitive position.

As a result, AKG believes that, ideally, the evaluation of 'financial strength' should depend upon the type of product under consideration. A particular company may be judged as very strong in the context of one particular product line, but it may be weaker in another context. An illustration of this concept is a company that currently only markets unit linked business, but which has a very small closed block of with profits business, written many years ago. Such a company may be judged as 'good' for unit linked business, whilst considered 'poor' in respect of with profits business.

Since the inception of AKG's Company Profiles and Financial Strength Reports, AKG has consistently promoted and developed the concept of providing financial strength ratings separately for each of the three major product categories - With Profits, Non Profit and Unit Linked.

All AKG's financial strength ratings should be used with care, since even the more detailed approach described above represents something of a simplification. To illustrate this point, for example, the 'Non Profit' category covers a multiplicity of different products. It is clear that slightly different criteria should be used for, say, short-term policies with fully guaranteed terms (e.g. Guaranteed Bonds), than for longer-term policies with terms that can be varied at the company's discretion (e.g. Renewable or Reviewable Term).

AKG assesses financial strength using consistent methodology and objective measures wherever possible, and based on the detailed analysis of the company's particular strengths and weaknesses. The objectives and criteria for each of the financial strength ratings are summarised below:

With Profits Financial Strength Rating

The objective is to assess the overall strength of the company's with profits funds. The initial concern is the company's ability to meet its ongoing guaranteed, or promised, commitments, i.e. existing sum assured and bonuses. However, the company's ability to continue to compete successfully in the with profits market is also particularly relevant, given that closed funds are generally very bad news for policyholders. In such situations, overall expenses tend to increase as a proportion of the fund and investment performance may well deteriorate. These, together with other factors, may make it difficult for companies in such situations to maintain competitive bonus rates at future declarations, although existing declared bonuses are not affected (other than possibly by MVRs).

★ ★ ★ ★ ★	Excellent
★ ★ ★ ★	Very good
★ ★ ★	Good
★ ★	Adequate
★	Poor
☐	Not rated

The main criteria taken into account are: capital base and free asset position, with profits realistic balance sheet position, the amount of with profits business in-force, parental strength (and likely attitude towards supporting the company), and image and strategy. Where the company's with profits business is largely reinsured to another company, its strength and the nature of the relationship between the companies are also taken into account.

Non Profit Financial Strength Rating

The objective is to assess the company's ability to meet all guaranteed payments arising from such contracts as term plans, annuities etc.

The main criteria taken into account are: free assets, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), and image and strategy.

★ ★ ★ ★ ★	Excellent
★ ★ ★ ★	Very good
★ ★ ★	Good
★ ★	Adequate
★	Poor
☐	Not rated

Unit Linked Financial Strength Rating

Whilst this is essentially a non profit line, and the primary objective is to assess the company's ability to meet all guaranteed payments arising, AKG also seeks to take into account the extent to which the company is likely to be able to sustain its unit linked operations, and whether or not it is likely to be able to maintain, or improve, its competitive position. Thus strategic issues are also relevant, because of their bearing on the quality of investment management offered, and because of companies' rights to increase charges etc.

The main criteria taken into account are: free assets, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), typical fund performance achievements, and image and strategy.

★★★★★	Excellent
★★★★	Very good
★★★	Good
★★	Adequate
★	Poor
☐	Not rated

Overall Financial Strength Rating

The objective is to provide a simple broad-brush indication of the general financial strength of a company. In addition to an assessment of the company's ability to meet all of its guaranteed payments to policyholders, AKG also aims to factor in the degree to which policyholders' expectations are likely to be met - or even exceeded - in the long-term. This involves an assessment of a company's ability to survive in its current form for the long term. The overall rating inherently reflects the mix of business in-force within the company, since different types of policyholder have different expectations, and the company's particular strengths and weaknesses in respect of its key product areas.

The rating takes into account all the relevant criteria detailed in the evaluation of financial strength separately for with profits business, non profit business and unit linked business, (as detailed above), weighted according to the relative volumes of such business in-force.

A	Superior
B+	Very strong
B	Strong
B-	Satisfactory
C	Weak
D	Very Weak

Supporting Ratings - Introduction

Supporting ratings are provided only in full reports, and are assessed at the brand level. AKG assesses three key supporting areas, using consistent methodology and objective measures wherever possible. The aim is to assist IFAs and others to consider the relative merits of the brands that they deal with. AKG's objectives and criteria for each of these ratings are summarised below:

Service Rating

The objective is to assess the quality of the organisation's service to the intermediary market in respect of the brand concerned.

Criteria taken into account include: performance in surveys, awards and benchmarking exercises (external and internal), the organisation's philosophy, service charters, the extent of investments designed to improve service, and feedback from intermediaries.

★★★★★	Excellent
★★★★	Very good
★★★	Good
★★	Adequate
★	Poor
☐	Not rated

Image and Strategy Rating

The objective is to assess the effectiveness of the means by which the organisation currently positions itself to distribute its products for the brand concerned and the plans it has to maintain and/or develop its position.

Criteria taken into account include: overall trends in the company's market share position, brand visibility and reputation, feedback from intermediaries and industry commentators, and AKG's view of the company's general strategy.

★★★★★	Excellent
★★★★	Very good
★★★	Good
★★	Adequate
★	Poor
☐	Not rated

Annual Review Rating

This is an end of year view for the last year for which Report and Accounts, returns to the FSA, etc., are available, together with comment on any significant post-balance sheet events. It is an assessment of how the brand has fared against its peers, and how it is perceived externally.

Criteria taken into account include: increase/decrease in market shares, expense containment, publicity - good or bad, press or market commentary, regulatory fines, and competitive position.

★★★★★	Excellent
★★★★	Very good
★★★	Good
★★	Adequate
★	Poor
☐	Not rated

The logo for AKG, consisting of the letters 'AKG' in a bold, black, sans-serif font.

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AKG is an actuarially based consultancy specialising in the provision of ratings, information and market assistance to the financial services industry

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