Company Number 985480

Guardian Pensions Management Limited

DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2006

Guardian Pensions Management Limited

CHAIRMAN

Graham W Dumble, FFA

DIRECTORS

Otto Thoresen, MA, FFA (Chief Executive)
Maurice C Brunet, MA, FIA
Peter G Dornan
Mark Laidlaw, BSc, FFA

SECRETARY

Ian G Young, MA, LLB

REGISTERED OFFICE

Ballam Road
Lytham St.Annes
Lancashire
FY8 4JZ

AUDITORS

Ernst & Young LLP
Ten George Street
Edinburgh
EH2 2DZ

Guardian Pensions Management Limited

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2006

The Directors have pleasure in submitting the annual report and audited financial statements of the Company for the year ended 31 December 2006

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

There was no change during the year in the principal activity of the Company, which consisted of the transaction of Pension Fund and Corporate Protection business and the provision of Management Services for pension funds The Company ceased writing new business in 2001, other than increments and options under existing policies The authorisations allowing new business to be written remain in force.

Both the return on investments, including property investments and the year end financial position were satisfactory and the Directors expect that this position will be sustained for the foreseeable future

The main key performance indicator for the Company is solvency which is monitored by a committee of the Board of the Company on a regular basis The excess of available capital resources to cover long-term insurance business over the Capital Resources Requirement was £18,173,000 at 31 December 2006 compared to £19,051,000 at 31 December 2005

RESULTS AND DIVIDEND

Interim dividends of £Nil were declared for the year to 31 December 2006 (2005. £10,500,000). The results for the year are shown in the Profit and Loss account on pages 8 and 9. The Directors do not propose a final dividend payment for the year to 31 December 2006 (2005 £Nil)

CHANGES IN ACCOUNTING POLICY

Financial Reporting Standard (FRS) 25 'Financial Instruments. Disclosure and Presentation' and FRS 26 'Financial Instruments· Measurement' were adopted and apply to accounting periods ending on or after 1 January 2006. The impact of the adoption of FRS 26 is shown in notes 4, 5 and 22. The impact in regards to the adoption of FRS 25 is to increase disclosures as presented in note 17

RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Company is not exposed to significant risks arising from financial instruments. There is a small amount of interest rate risk, since movements in interest rates will impact the value of shareholders fixed interest securities. Exposure to financial risks is monitored by an appropriate sub-committee of the Board.

The main non financial risks that the Company is exposed to relate to mortality/morbidity, lapses and operational risk. These risks are managed through the Internal Controls Programme and the capital required in respect of these risks is considered as part of an Internal Capital Assessment

EVENTS SINCE BALANCE SHEET DATE

On 18 January 2007 the Company entered into a £44m loan note issue agreement with Barclays Bank plc and AEGON UK plc The monies received under the Notes were allocated to the shareholder fund of the company Repayments both of interest and principal under the loan agreement are contingent on payments based on the annual relevant regulatory surplus amount Once all scheduled interest and principal has been repaid to Barclays Bank plc. the relevant regulatory surplus amount is retained by Guardian Pensions Management Limited. The agreement has a maturity date of 20 April 2021

DIRECTORS AND THEIR INTERESTS

The names of the Directors of the Company at the date of this report are shown on page 1 Maurice Brunet, Peter Dornan and Janet Wyles were all appointed to the Board of Directors on 22 February 2006 Roy Patrick resigned from the Board of Directors on 28 April 2006 and Janet Wyles also resigned from the Board of Directors on 12 June 2006 All other Directors held office throughout the year. Graham Dumble was appointed as Chairman of the Company on 22 February 2006

The Directors have declared that they had no interest in the share capital of the Company at the beginning or the end of the year.

Each of the Directors has been granted a qualifying third party indemnity by the Company, in terms of sections 309A and B of the Companies Act 1985 and these indemnities remain in force.

POLICY AND PRACTICE ON PAYMENT OF CREDITORS

In order to take advantage of economies of scale, all trade purchases were dealt with through AEGON UK Services Limited, a fellow subsidiary of AEGON UK Plc. This Company negotiates credit terms with individual suppliers, which vary according to the trading relationship with the supplier concerned and prevailing market conditions. Payment is then made in accordance with the agreed terms Its trade creditors at 31 December 2006 represented a credit period of 30 days.

CORPORATE GOVERNANCE

The AEGON UK Group, of which Guardian Pensions Management Ltd forms part, has established a governance framework for monitoring and overseeing the strategy, conduct of business standards and operations of the business across the group that consists of -

- a clearly stated corporate organisational structure, and written terms of reference for the Board and its committees, with appropriate delegated authorities,
- a risk and internal controls programme, which incorporates the sound management and reporting of risks in the business to key oversight committees such as the AEGON UK Risk & Capital Committee; and
- an independent assurance structure that includes the Audit Committee which reviews the systems of internal control and compliance with policies and standards, and the effectiveness of the internal audit function

Guardian Pensions Management Limited

REPORT OF THE DIRECTORS - CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2006

DISCLOSURE OF INFORMATION TO AUDITORS

The Directors who held office at the date of approval of this report confirm that, so far as they are aware, there is no relevant audit information of which the auditors are unaware, and each director has taken all steps that he ought to have taken as Director to make himself aware of any relevant audit information and to establish that the auditors are aware of that information

AUDITORS

Under Section 379A of the Companies Act 1985, the Company has elected to dispense with the following obligations

- to lay accounts and reports before general meeting,
- to hold annual general meetings, and
- to appoint auditors annually

By order of the board

Ian G Young
Secretary
Ballam Road
Lytham St Annes
Lancashire
FY8 4JZ

22nd March 2007

Guardian Pensions Management Limited

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 those 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 applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records which 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 provisions of 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.

INDEPENDENT AUDITORS REPORT TO THE SHAREHOLDERS OF GUARDIAN PENSIONS MANAGEMENT LIMITED

We have audited the company's financial statements for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, Reconciliation of Movements in Equity Shareholders Funds, Statement of Total Recognised Gains and Losses and the related notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GUARDIAN PENSIONS MANAGEMENT LIMITED - CONTINUED

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit 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

Ernst & Young LLP
Registered Auditor
Edinburgh

22nd March 2007

Guardian Pensions Management Limited

PROFIT & LOSS ACCOUNT
for the year ended 31 December 2006

Technical Account - Long Term Business

	Note	2006		2005	
		£'000	£'000	£'000	£'000
Earned premiums, net of reinsurance					
Gross premiums written	1	10,093		32,792	
Outward reinsurance premiums		(1,359)		(17,664)	
			8,734		15,128
Investment income	2		4,991		5,472
Unrealised gains on investments	2		-		2,857
Other technical income, net of reinsurance	4		11,708		-
Claims incurred, net of reinsurance					
Claims paid					
- gross amount		(5,090)		(50,462)	
- reinsurers' share		134		56,328	
		(4,956)		5,866	
Changes in the provision for claims					
- gross amount		(340)		57	
- reinsurers' share		(148)		78	
		(488)		135	
			(5,444)		6,001
Change in other technical provisions, net of reinsurance					
Long Term business provision, net of reinsurance					
- gross amount		9,383		(6,468)	
- reinsurers' share		(4,568)		4,241	
		4,815		(2,227)	
Investment contracts with discretionary participation features		35		-	
Other technical provisions, net of reinsurance					
- Technical provisions for linked liabilities	5	(87)		(6,029)	
			4,763		(8,256)
Net operating expenses	6		(4,041)		(6,563)
Investment expenses and charges	2		985		820
Unrealised losses on investments			(3,939)		-
Other technical charges, net of reinsurance	19		(4,143)		(880)
Tax attributable to long term business	7		(5,056)		(4,542)
Balance on the long term business technical account			8,558		10,037

All of the amounts above are in respect of continuing operations

Guardian Pensions Management Limited

PROFIT & LOSS ACCOUNT - CONTINUED
for the year ended 31 December 2006

Non - Technical Account

	Note	2006		2005	
		£'000	£'000	£'000	£'000
Balance on the long term business technical account		8,558		10,037	
Taxation credit attributable to balance on long term business technical account		5,056		4,542	
Shareholders' pre-tax profit from long term business			13,614		14,579
Investment income	3	1,526		1,045	
Unrealised gains on investments	3	-		4	
Investment expenses and charges	3	(2)		(3)	
			1,524		1,046
Profit on ordinary activities before tax			15,138		15,625
Tax on profit on ordinary activities	8		(5,513)		(4,856)
Profit for the financial year	13		9,625		10,769

All of the amounts above are in respect of continuing operations.

Guardian Pensions Management Limited

BALANCE SHEET
as at 31 December 2006

	Note	2006		2005	
		£'000	£'000	£'000	£'000
ASSETS					
Investments					
Other financial investments	16		96,999		98,205
Present value of acquired in force business	19		56,877		61,020
Reinsurers' share of technical provisions					
Long term business provision	5	40,802		45,370	
Technical provisions for linked liabilities	5	-		269,195	
Claims outstanding		671		819	
			41,473		315,384
Reinsurers' share of investment contracts	5		271,937		-
Debtors					
Debtors arising out of direct insurance operations - policyholders		344		463	
Debtors arising out of reinsurance operations		6,921		7,219	
Other debtors	18	40,418		24,845	
			47,683		32,527
Other assets					
Cash at bank and in hand			559		884
Prepayments and accrued income					
Accrued interest and rent			1,435		1,456
Total assets			516,963		509,476

Guardian Pensions Management Limited

BALANCE SHEET - CONTINUED
as at 31 December 2006

	Note	2006		2005	
		£'000	£'000	£'000	£'000
LIABILITIES					
Capital and Reserves					
Called up share capital	12		22,714		22,714
Share premium account	13		68,386		68,386
Profit and loss account	13		32,577		20,678
Total equity shareholders' funds			123,677		111,778
Technical provisions					
Long term business provision	5	106,616		124,059	
Investment contracts with discretionary participation features	5	793		-	
Claims outstanding		456		116	
			107,865		124,175
Technical provisions for linked liabilities					
Non participating investment contracts	5		272,229		267,948
Provisions for other risks	20		2,738		1,463
Creditors					
Creditors arising out of direct insurance operations		225		334	
Creditors arising out of reinsurance operations		617		1,768	
Other creditors including taxation and social security	21	6,245		2,010	
			7,087		4,112
Accruals and deferred income			3,367		-
Total liabilities			516,963		509,476

The financial statements on pages 8 to 31 were approved by the Directors on 22nd March 2007

Graham W Dumble, FFA
Chairman

Guardian Pensions Management Limited

RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

for the year ended 31 December 2006

	2006	2005
	£'000	£'000
Profit for the financial year	9,625	10,769
Dividends	-	(10,500)
Retained profit for the year	9,625	269
Equity Shareholders' funds at beginning of year (as reported)	111,778	111,509
Adjustments to opening Equity Shareholders' funds at 1 January 2006 due to adoption of FRS 26	2,274	-
Opening Equity Shareholders' funds (as restated)	114,052	111,509
Equity Shareholders' funds at end of year	123,677	111,778

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2006	2005
	£'000	£'000
Total recognised gains and losses relating to the year	9,625	10,769
Effect of adopting FRS 26 on 1 January 2006	2,274	
Total recognised gains and losses recognised since last annual report	11,899	

Guardian Pensions Management Limited

ACCOUNTING POLICIES

I Companies Act 1985

The financial statements have been prepared in compliance with the special provisions relating to insurance companies of section 255 of, and Schedule 9A to, the Companies Act 1985

II Basis of accounting

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards to the extent that they are appropriate to Insurance Companies, and with the Association of British Insurers' Statement of Recommended Practice on Accounting for Insurance Business ("ABI SORP") dated December 2005 Compliance with SSAP 19 - Accounting For Investment Properties, requires departure from the requirements of the Companies Act 1985 An explanation of the departure is given in the accounting policy note for investments below

III Accounting developments

During the year there have been several accounting developments which have potential impacts on reporting of financial performance. These have been considered and the most significant developments and their impact are noted below -

FRS 23 'The Effects of Changes in Foreign Exchange Rates' - No material impact on the financial statements
FRS 24 'Financial Reporting in Hyperinflationary Economies' - No material impact on the financial statements
FRS 25 'Financial Instruments: Disclosure and Presentation' - Further details are disclosed in the notes to these accounts
FRS 26 'Financial Instruments: Measurement' - FRS 26 has introduced the definition of an insurance contract and, as a result, contracts that do not contain significant insurance risk and do not have discretionary participating features are now classified as investment contracts with no discretionary participation features A product classification exercise has been performed in line with FRS 26 and certain contracts have been classified as investment contracts with no discretionary participating features Costs deferred on these contracts are lower than for insurance contracts.

Premiums and claims in the year no longer reflect the movements previously reported for investment contracts without discretionary participating features These are now shown as movements within the balance sheet

Investment contracts without discretionary participating features are now reserved at the funded value of units Furthermore a deferred revenue liability has been established representing front end fees charged on investment contracts The deferred revenue liability is deferred and recognised as revenue when the related services are rendered

In line with the FRS 26 transition rules, the opening balances within the balance sheet and the 2005 profit and loss account have not been restated to reflect the adoption of FRS 26 The impact of the adoption of FRS 26 on the Company balance sheet is detailed in Note 22

ACCOUNTING POLICIES – CONTINUED

IV Long Term business

(a) Premiums
Renewable premiums are accounted for in the period in which the premiums are due. Initial premiums under renewable contracts, single premiums and considerations for annuities are accounted for in the same accounting period as the related policy liabilities are included in the actuary's valuation. Linked non-participating premiums are not recognised in the technical account and are accounted for as deposits on non-participating investment contracts within the balance sheet.

(b) Claims and surrenders
Claims and surrenders are accounted for in the accounting period in which: (i) for death claims the notification of death is received; (ii) for maturity claims the maturity date of the policy occurs; and (iii) for surrenders the surrender value of the policy is paid Annuities are charged in the technical account of the accounting period in which the annuity becomes due for payment.
Linked non-participating claims are not recognised in the technical account and are accounted for as a reduction in deposits on non-participating investment contracts within the balance sheet

(c) Long term business provision and profit recognition
The balance on the long-term business technical account is calculated by the use of the "Modified Statutory" method set out in the ABI SORP dated December 2005. Profits in excess of the statutory result are not distributable to shareholders.

(d) Investment return
The total investment return, which includes both realised and unrealised investment gains, is taken to the long-term business technical account

(e) Deferred Revenue Liability
Initial fees and front-end loadings paid by policyholders, for future investment management services related to investment contracts without discretionary participation features are deferred and recognised as revenue when the related services are rendered.

(f) Investment income
Investment income represents interest, rents and dividends receivable for the year including, where appropriate, related imputed tax credits. Policyholder fund investment income and expenses are dealt with through the long-term business technical account, whilst other investment income and expenses are dealt with through the non-technical account.

(g) Realised and unrealised gains and losses
Realised gains and losses on investments are calculated as the difference between net sales proceeds and the original purchase cost For presentational purposes, as required by legislation, net realised gains are included in investment income and net realised losses in investment expenses and charges.
Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price, or if they have been previously valued, their valuation at the last balance sheet date. The movement in unrealised gains and losses in investments includes the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current year

Guardian Pensions Management Limited

ACCOUNTING POLICIES – CONTINUED

V Investments

(a) Classification
The Company designates financial assets as fair value through profit or loss when by doing so it matches the underlying liability treatment Derivatives are required by FRS 26 to be classified as fair value through profit or loss unless they meet cash flow hedging requirements

Financial assets with fixed or determinable payments that are not quoted on an active market and that the Company does not intend to sell in the near future are accounted for as loans.

(b) Measurement
Financial assets are initially recognised at fair value plus, in the case of a financial asset not at fair value through profit or loss, any directly attributable incremental transaction costs Loans are subsequently carried at amortised cost using the effective interest rate method Financial assets at fair value through profit or loss are measured at fair value with all changes in fair value recognised in the profit and loss account as incurred

(c) Amortised Cost
The amortised cost of a debt instrument is the amount at which it is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation of any difference between the initial amount and the maturity amounts and minus any impairment. The effective interest rate method is a method of calculating the amortised cost and of allocating the interest income or expense over the relevant period.

(d) Fair value
The fair value of an asset is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arms length transaction. For quoted financial assets for which there is an active market, the fair value is the bid price at the balance sheet date. In the absence of an active market fair value is estimated by using present value or other valuation techniques.

(e) Derecognition
A financial asset is derecognised when the contractual rights to the asset's cash flows expire, when the Group has transferred the asset and substantially all the risks and rewards of ownership, or when the Group has transferred the asset without transfer or retaining of substantially all the risks and rewards of ownership, provided the other party can sell or pledge the asset On derecognition the difference between the disposal proceeds and the carrying amount is recognised in the Profit and Loss account Any cumulative gain or loss previously recognised in equity is also recognised in the Profit and Loss account

(f) Land and Buildings
Under the Companies Act 1985 land and buildings are required are required to be depreciated over their expected useful economic life
In respect of investment properties this requirement conflicts with the generally accepted accounting principle set out in SSAP 19, that no depreciation should be provided in respect of such investments The Directors consider that to depreciate the investment properties would not give a true and fair view and accordingly the provisions of SSAP 19 have been adopted. Depreciation is only one of the factors reflected in the annual valuation of the properties and the amounts which might otherwise have been shown cannot reasonably be separately identified or quantified

Guardian Pensions Management Limited

ACCOUNTING POLICIES – CONTINUED

V Investments - continued

(g) Purchased Value of acquired in force business (PVIF)
PVIF represents the net present value of the shareholders' interests in the expected after tax future cash flows from an acquisition of a portfolio of long term insurance business It is amortised over the lifetime of the in force policies acquired The unwinding of the discount used in calculating this net present value is taken to the profit and loss account

(h) Future Servicing Rights
On the acquisition of a portfolio of investment contracts without discretionary participating features under which the Company will render investment management services, the present value of future servicing rights is recognised as an intangible asset. The present value of the future servicing rights is amortised over the servicing period as the fees from services emerge and is subject to impairment testing It is derecognised when the related contracts are settled or disposed of.

VI Foreign exchange

Transactions denominated in foreign currencies are recorded at the rates ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at year-end exchange rates Exchange gains and losses arising from life business are taken to the long-term business technical account Other gains and losses are treated as part of the investment return in the non-technical account.

VII Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, except where such differences give rise to a deferred tax asset Deferred tax assets are recognised only to the extent that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

VIII Cash flow statement

No cash flow statement has been prepared under FRS1 (revised 1996) since the results of the Company are consolidated in the financial statements of AEGON NV, the ultimate parent undertaking, which are publicly available

XI Technical Provisions – Linked Business

Technical provisions for linked business are in respect of investment contracts with no discretionary participating features. The Company has no technical provisions for linked business in respect of insurance contracts Their value reflects the market value of the related assets.

Guardian Pensions Management Limited

NOTES TO THE FINANCIAL STATEMENTS

1. Particulars of business - Long Term

a. Premium Analysis

	Regular Premiums		Single Premiums	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Non participating contracts				
Pension	5,599	5,693	-	1,109
Life	(24)	-	-	-
Linked contracts				
Pension	-	5,640	-	6,734
Life	-	(89)	-	1
Direct Premiums	5,575	11,244	-	7,844
Comprising:				
Individual Business	-	1,226	-	3,487
Group Business	5,575	10,018	-	4,357
Total Direct Premiums	5,575	11,244	-	7,844
Reinsurance Business	4,518	13,704	-	-
Gross Premiums Written	10,093	24,948	-	7,844

2005 gross premiums have, as permitted by FRS 26, not been restated to eliminate premiums in respect of investment contracts.

b. Gross New Business Premiums

	Regular Premiums		Single Premiums	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Pensions Business				
Non participating contracts	153	455	-	-
Linked contracts	-	96	-	7,235
Gross Premiums Written	153	551	-	7,235
Comprising:				
Individual Business	5	1	-	2,991
Group Business	148	550	-	4,244
Total Premium Written	153	551	-	7,235

Guardian Pensions Management Limited

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

2. Investment Income - Long Term Business

	2006 £'000	2005 £'000
Investment income		
Realised investment gains	-	385
Income from listed investments	-	4,045
Income from listed fair value investments	4,248	-
Income from other investments	-	1,042
Income from loans and receivables	743	-
	4,991	5,472
Unrealised gains on investments	-	2,857
Investment management expenses including interest		
Investment management expenses including interest	1,127	820
Realised losses on fair value investments	(142)	-
	985	820
Total investment return	5,976	9,149

3. Investment Income - Non Technical Account

	2006 £'000	2005 £'000
Investment Income		
Income from listed investments	-	44
Income from other investments	-	997
Income from loans and receivables	1,526	-
Realised investment gains	-	4
	1,526	1,045
Unrealised gains on investments	-	4
Investment management expenses including interest	(2)	(3)
Total investment return	1,524	1,046

Guardian Pensions Management Limited

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

4. Other technical income, net of reinsurance

	2006 £'000
Fee and commission income on investment contracts	11,093
Amortisation of deferred revenue liability	615
	11,708

5. Technical provisions

	Technical provisions Long term business provision £'000	Technical provisions Investment contracts with discretionary participation features £'000	Technical provisions for linked liabilities £'000	Technical provisions for linked liabilities Investment Contracts £'000
Balance as reported in December 2005 Financial Statements	78,689	-	(1,247)	-
Opening restatement as per FRS 26	(8,060)	828	1,247	(1,247)
Balance as at 1 January 2006	70,629	828	-	(1,247)
Net cashflows from policyholders	-	-	-	1,452
Change in technical provision as shown in the technical account	(4,815)	(35)	-	87
Balance as at 31 December	65,814	793	-	292

The technical provisions are stated net of reinsurance

6. Long Term Business - Net Operating Expenses

	2006 £'000	2005 £'000
Acquisition costs	(614)	(652)
Movement in deferred acquisition costs	-	(2,170)
Administrative expenses	(3,776)	(3,723)
Reinsurance commission	349	(18)
	(4,041)	(6,563)

Total commissions payable by the Company during the period amounted to £0 6m (2005:£0.6m)

7. Taxation: Long Term business

The taxation charge in the profit and loss account is detailed below The charge is based on the results appearing in the profit and loss accounts as follows·

	2006	2005
	£'000	£'000
Corporation Tax at a rate of 30% (2005 · 30%)	(4,983)	(4,141)
Adjustment in respect of previous years	227	411
	(4,756)	(3,730)
Deferred tax on inadmissible assets	-	(1,463)
Difference in timing of profit recognition	(300)	-
Movement in deferred tax on deferred acquisition costs	-	651
	(5,056)	(4,542)

8 (a)Taxation: Shareholders' Interest

The taxation charge in the profit and loss account is detailed below. The charge is based on the results appearing in the profit and loss account as follows

	2006	2005
	£'000	£'000
Current taxation		
United Kingdom taxation:		
Corporation tax at rate of 30%	(457)	(314)
	(457)	(314)
Taxation attributable to balance on technical account	(5,056)	(4,542)
	(5,513)	(4,856)

8 (b)Taxation: Shareholders' Interest – Continued

Factors affecting the tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK (30%) The differences are explained on the following page·

8 (b)Taxation: Shareholders' Interest – Continued

Non-technical account	2006 £'000	2005 £'000
Profit on ordinary activities before tax	15,138	15,625
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005 . 30%)	(4,541)	(4,688)
Adjustment relating to prior years' corporation tax	227	411
Difference between effective and standard tax rate on balance of long-term business technical account	(1,199)	(579)
Deferred tax movement	300	812
Current tax charge for the period	(5,213)	(4,044)

9 Directors' Remuneration

The current Directors are employees of the AEGON UK plc Group and are also the Directors of Scottish Equitable plc. The Directors do not believe that it is practicable to apportion their emoluments between their services as Directors to the Company and their services to other AEGON UK group companies Details relating to the emoluments of the Directors are disclosed in the accounts of the Scottish Equitable plc Group

10. Employee Costs

There are no employees in the Company (2005· Nil) Staff costs and other operating expenses are borne by AEGON UK Services Limited, and a management fee is recharged within net operating expenses

11. Auditors' Remuneration

	2006 £'000	2005 £'000
Audit of the financial statements	16	16
Other fees to auditors		
- audit of regulatory return	16	16
- audit services in respect of ultimate parent undertaking	47	47
	79	79

Guardian Pensions Management Limited

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

12. Share Capital

	2006 £'000	2005 £'000
Authorised 23,000,000 ordinary shares of £1	23,000	23,000
Issued 22,713,930 ordinary shares of £1	22,714	22,714

13. Reserves

	Profit and Loss Account £'000	Share Premium Account £'000	Total £'000
Balance at 31 December 2005	20,678	68,386	89,064
FRS 26 adjustment to opening balance	2,274	-	2,274
Profit for the financial year	9,625	-	9,625
Distributions in the year	-	-	-
Balance at 31 December 2006	32,577	68,386	100,963

Under section 263 of the Companies Act 1985 unrealised gains and losses reported in the non-technical account are not considered to be distributable. The cumulative amount of unrealised gains included in the profit and loss account balance at 31 December 2006 was £506,000 (2005: £4,206,000)

14. Long Term Business Provision

The long term business provision has been determined with due regard to the actuarial principles laid down in Chapter 7 of the Integrated Prudential Sourcebook. The liabilities are predominantly unit linked and the relevant provision is based upon the market value of the related assets together with a further provision to cover future net cash outflows using the following principal assumptions (2005 rates in brackets):

Interest Rate	3 75%	(3 50%)
Renewal Expenses (Universal Pension)	£33 p a.	(£30 p a)
Renewal Expenses (non Universal Pension)	£45 p a.	(£40 p.a.)

The provision for the non-linked annuity business is determined using a gross premium method using the following principal assumptions, with future mortality improvements based on the CMI's "Medium Impact Scenario" with a 1% p.a. underpin (2005 rates in brackets)·

Interest Rate	5.00%	(4.50%)
Mortality	95%/100% PMA/PFA00	(90%/80% PMA/PFA92)
Mortality Improvements	Medium Cohort with 1% p.a. underpin	(Males – Medium Cohort, Females – Standard)

14. Long Term Business Provision - continued

The provision for the non-linked Income Protection claims in payment is determined using a gross premium method using the following principal assumptions (2005 rates in brackets)

Interest Rate	5 00%	(4 50%)
Recoveries	% CMIR12 according to duration of claim	

The provision for the non-linked group risk business is set as a proportion of the annual premium.

There were variations within the different classes of business, the above gives the assumptions for the principal contracts

Other provisions were set using appropriate methods

The factors giving rise to the greatest level of uncertainty within the calculation of the technical provisions are -

- Assumed rates of future mortality improvement in the calculation of provisions for immediate annuities
- Assumed future level of inceptions on Income Protection policies and the assumed future level of recoveries for the Income Protection claims that are already in payment.
- Assumed level of future expenses levels
- Assumed level of future investment returns

Options & Guarantees

The only significant option or guarantee within the company is the guaranteed annuity option for one Group Managed Fund scheme. However the cost of this guarantee is fully reassured to Guardian Assurance plc

Deferred Tax

Future anticipated tax cash flows are included in the actuarial calculation and are discounted at the interest rate applicable to the appropriate class of business.

Guardian Pensions Management Limited

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

15. Capital Position Statement

a) The capital available as at 31 December 2006 to meet regulatory capital requirements can be derived from the accounts as shown below All capital within the firm falls within FSA's core tier one definition.

	LTF £'000	S/F £'000	2006 £'000	2005 £'000
Permanent Share Capital	-	22,714	22,714	22,714
Share Premium Account ·	-	68,386	68,386	68,386
Profit & Loss Account :	6,713	25,864	32,577	20,678
Capital as per accounts	6,713	116,964	123,677	111,778
Adjustments -				
Intangible assets .	-	(56,877)	(56,877)	(61,020)
Inadmissible assets .	-	1,463	1,463	1,461
Assets in excess of counterparty limits (see note) .	-	(39,044)	(39,044)	(23,248)
Liability valuation differences ·	(2,304)	-	(2,304)	-
Capital to meet regulatory requirements :	**4,409**	**22,506**	**26,915**	28,971
Capital Resource Requirement (CRR) ·	(4,409)	(4,333)	(8,742)	(9,920)
Available Capital after CRR :	**-**	**18,173**	**18,173**	19,051

Note. There is a loan of £37.0m to AEGON UK (2005 . £23.0m)

b) Change in Available Capital after CRR.

	Long Term Fund £'000	Shareholder Fund £'000	Total £'000
At beginning of year	-	19,051	19,051
Effect of changes in assumptions	600	-	600
Changes in management policy	-	-	-
Changes in regulatory requirements	900	-	900
New business	1,000	-	1,000
Change in capital requirements	5,700	(4,522)	1,178
Emerging Surplus in Long Term Fund	9,800	-	9,800
Transfer from Life Fund	(18,000)	18,000	-
Dividend and Inter-co Loan	-	(14,000)	(14,000)
Other Factors	-	(356)	(356)
At end of year	-	**18,173**	**18,173**

15. Capital Position Statement - continued

c) Net policyholder liabilities (FSA Basis)

		2006 £'000	2005 £'000
Long Term Fund	Unit Linked	7,745	6,814
	Other	65,814	70,629

d) The firm aims to manage the available capital in the Long Term Fund, after deduction of the CRR, to a long-term position of zero

e) Liabilities within the Long Term Fund are either perfectly matched (unit-linked business) or very closely matched (non-profit business).

16. Investments

	2006 £'000	2005 £'000
Other financial investments		
Fair value through profit or loss		
British Government Securities - listed	8,195	7,933
Debentures and debenture stocks - listed	68,048	71,771
	76,243	79,704
Loans and receivables		
Deposits with credit institutions	20,756	18,501
	96,999	98,205

The cost price of investments held at 31 December 2006 was £96,732,276 (2005· £93,998,717)

17. Risk Management

The Company is exposed to financial risks on its financial instruments. These risks and the controls that mitigate them are noted in the Directors Report.

Interest Rate

The following table indicates the contractual re-pricing dates for the Company's significant financial assets and liabilities that are exposed to interest rate risk Assets and liabilities held within unit-linked funds where all financial risks are borne by the policyholder are excluded from the table.

	2006 1-5 years **£'000**	**2006** 6-10 years **£'000**	**2006** 11-15 years **£'000**	**2006** 16-20 years **£'000**	**2006** >20 years **£'000**
Debt securities & other fixed income securities	10,493	9,633	14,515	5,726	35,876
Yield to maturity	5.51	5.73	5.40	5.78	5.30

	2006 <1 year **£'000**	Yield %
Loans and receivables	20,756	5.20

No comparatives have been provided as permitted under the transition rules of FRS 25.

Equity market and other investment risk

Market risks (such as equity, real interest and interest rate) are also present in unit linked products whereby policyholder funds are invested at the discretion of the policyholder, here most of the risk remains with the policyholders. The Company typically pays a fee on the asset balance in these products and therefore has a risk related to the investment performance

Credit risk

An indication of the Company's exposure to credit risk is the quality of the investments and counterparties with which it transacts The company is most exposed to credit risk on debt and other fixed income securities and deposits with credit institutions. Debt and other fixed securities comprise government and corporate bonds There is also a credit risk to the Company in respect of linked pension business that is reassured to Scottish Equitable plc, a fellow subsidiary of AEGON UK Plc.

17. Risk Management - continued

Credit risk - continued

The following table gives an indication of the level of creditworthiness of those categories of assets which are most exposed to credit risk using principally ratings prescribed by Fitch Assets held within unit-linked funds have been excluded from the table below as the credit risk on these assets is borne by the policyholders rather than the shareholders

	2006 AAA £'000	2006 AA £'000	2006 A £'000	2006 BBB £'000
Debt securities & other fixed income securities	10,333	24,144	38,196	3,570
Loans and receivables	-	8,382	12,374	-

18. Other Debtors

	2006 £'000	2005 £'000
Amounts due from group undertakings	40,402	24,734
Other debtors	16	111
	40,418	24,845

A deferred tax asset of £389,550 (2005: £389,550) relating to capital losses within the shareholder fund has not been recognised. It is unlikely that any tax credit will be realised in the foreseeable future.

19. Present Value of Acquired In Force Business

	Total £'000
At 1 January 2006	61,020
Amortised in year	(4,143)
At 31 December 2006	56,877

At 31 December 2006 £41,942,000 (2005 £45,020,000) is in respect of Future Servicing Rights

20. Provision for other risks

	Total £'000
As reported at 31 December 2005	1,463
FRS 26 opening adjustment	975
At 1 January 2006	2,438
Charge for the year	300
At 31 December 2006	2,738

The provision relates to deferred tax on differences in the emergence of profit for tax and accounts purposes.

21. Other Creditors

	2006 £'000	2005 £'000
Amounts due to group undertakings	457	138
Other creditors	645	342
Taxation payable	5,143	1,530
	6,245	2,010

22. Change in Accounting Policy

The disclosure requirements of FRS 25 'Financial instruments disclosure and presentation' and the full requirements of FRS 26 'Financial instruments measurement' apply to these Financial statements for the year ended 31 December 2006.

FRS 26 has introduced the definition of an insurance contract which states that contracts that do not contain significant insurance risk should now be classified as investment contracts with no discretionary participating features. Costs deferred on these contracts are lower than for insurance contracts. The company has performed a product classification exercise in line with FRS 26 and as a result, contracts that have been classified as investment contracts with no discretionary participating features are now shown as movements in the balance sheet. Further details are disclosed in note 5.

Investment contracts without discretionary participating features are now reserved at the funded value of units Furthermore a deferred revenue liability has been established representing front end fees charged on investment contracts. The deferred revenue liability is deferred and recognised as revenue when the related services are rendered

In line with the FRS 26 transition rules the comparatives within the balance sheet and the 2005 profit and loss account have not been restated to reflect the adoption of FRS 26.

22. Change in Accounting Policy - continued

The impact of the adoption of FRS 26 on the Company balance sheet at 1 January 2006 is as follows:

	As previously reported	FRS 26 adjustment	Restated
	£'000	£'000	£'000
Assets			
Reinsurer's share of technical provisions			
Technical provisions for linked liabilities	269,195	(269,195)	-
Reinsurers' share of investment contracts	-	269,195	269,195
Total assets	509,476	-	509,476
Liabilities			
Capital and reserves			
Profit and loss account	(20,678)	(2,274)	(22,952)
Technical provisions			
Long term business provision	(124,059)	8,060	(115,999)
Investment contracts with discretionary participation features	-	(828)	(828)
Technical provisions for linked liabilities			
Technical provisions for linked liabilities	(267,948)	267,948	-
Non participating investment contracts	-	(267,948)	(267,948)
Provision for other risks	(1,463)	(975)	(2,438)
Accruals and deferred income	-	(3,983)	(3,983)
Total liabilities	(509,476)	-	(509,476)

23. Reinsurance Agreements with Group Undertakings

The Company has entered into reinsurance agreements with Guardian Assurance plc ("Guardian") and Scottish Equitable plc ("SE"), the principal terms of which depend on the category of insurance contract and are as follows.

a. Guaranteed Annuity Options on schemes written by the Company prior to 1 January 1999
   1. Guardian may either
      i Indemnify the Company against any loss arising from the exercise of guaranteed annuity options, or
      ii Write the guaranteed annuity itself

b. Corporate Money Purchase Plan contracts issued by the Company
   1 Unit holdings are fully reinsured to Guardian.

c. Universal Pensions contracts issued by Guardian
   1. Subject to an agreed acceptance limit of the Company, an agreed percentage of the mortality and other insured risks is borne by the Company
   2. An agreed percentage of the commission and other expenses is borne by the Company.

d. Corporate Protection contracts issued by Guardian since 25 June 1997
   1 Subject to an agreed acceptance limit of the Company, an agreed percentage of these contracts is reassured to the Company
   2. An agreed percentage of the commission and other expenses is borne by the Company.

e. Corporate Money Purchase Plan and contracts issued by Guardian
   1. Subject to an agreed acceptance limit of the Company, an agreed percentage of the mortality and other insured risks is borne by the Company
   2. An agreed percentage of the commission and other expenses is borne by the Company.

f. Trustee Investment Plan contracts issued by Guardian
   1 An agreed percentage of the commission and other expenses is borne by the Company.

g Individual Deferred Annuity and Group Managed Fund Contracts issued by the Company
   1 Unit holdings are fully reinsured to SE

Guardian receives a reinsurance premium from the Company in respect of the risks carried.

The Company receives a reinsurance premium from Guardian in respect of the risks carried together with a proportion of policyholders' subscriptions in respect of Corporate Protection contracts

24. Post Balance Sheet Event

On 18 January 2007 the Company entered into a £44m loan note issue agreement with Barclays Bank plc and AEGON UK plc. The monies received under the Notes were allocated to the shareholder fund of the company Repayments both of interest and principal under the loan agreement are contingent on payments based on the annual relevant regulatory surplus amount. Once all scheduled interest and principal has been repaid to Barclays Bank plc. the relevant regulatory surplus amount is retained by Guardian Pensions Management Limited. The agreement has a maturity date of 20 April 2021 No adjustment has been made in these financial statements in respect of this transaction.

25. Contingent Liabilities and Charges

Note 14 gives details of the assumptions used in determining the long term business provision which are designed to allow for prudence. To the extent that experience is worse that the assumptions underlying the long term business provision, there is a contingent liability in respect of this risk.

The Company granted a Bond and Floating Charge to Guardian Assurance plc, a fellow AEGON UK plc subsidiary undertaking, on 29 December 2005 in respect of reinsurance contracts (relating to unit linked business and other classes of insurance business) between the Company and Guardian Assurance plc

26. Related Party Disclosures

As the Company is a wholly owned subsidiary it has taken advantage of the exemption granted under Financial Reporting Standard 8 (Related Party Disclosures) where subsidiary undertakings do not have to disclose transactions with Group companies qualifying as related parties provided that consolidated financial statements are publicly available.

27. Ultimate Parent Company and Parent Undertaking of Smallest and Largest Group of Which the Company is a Member

The results of the Company are consolidated in the accounts of AEGON NV, the ultimate parent undertaking, which is incorporated in the Netherlands. AEGON NV is the smallest and largest group into which the Company's accounts are consolidated. Copies of the consolidated accounts of AEGON NV are available to the public and may be obtained from the Company Secretary, AEGON UK plc, AEGON Lochside Crescent, Edinburgh Park, Edinburgh, EH12 9SE.