

**GUARDIAN PENSIONS MANAGEMENT LIMITED**

**COMPANY NUMBER 985480**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2008**



**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**COMPANY INFORMATION**

**Chairman**

David V Paige, FCA

**Directors**

Maurice C Brunet, MA, FIA

Steven C Clode, BSc, MA, PhD

Mark Laidlaw, BSc, FFA

Feilim Mackle

Otto Thoresen, MA, FFA

Michael R Tuohy, FIA, MAAA

**Secretary**

Ian G Young, MA, LLB

**Registered Office**

Ballam Road

Lytham St Annes

Lancashire

FY8 4JZ

**Auditors**

Ernst & Young LLP

Registered Auditor

Ten George Street

Edinburgh

EH2 2DZ

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**REPORT BY THE DIRECTORS**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

The Directors present their report and the audited financial statements for the year ended 31 December 2008.

**Structure of these Financial Statements and adoption of International Financial Reporting Standards**

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union as they apply to the financial statements of the Company for the year ended 31 December 2008 and applied in accordance with the Companies Act 1985 and 2006.

These are the Company's first financial statements prepared in accordance with IFRSs, with the 2007 comparatives restated accordingly. Previously the financial statements were prepared based on the reporting requirements of UK generally accepted accounting practice (UK GAAP).

**Principal activity**

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. The Company is domiciled and incorporated in England & Wales.

**Financial Results**

The results for the year are shown in the Income Statement on page 10. Interim dividends of £1,700,000 were declared and paid for the year to 31 December 2008 (2007: £1,000,000). The Directors do not propose a final dividend payment for the year ended 31 December 2008 (2007: £nil).

The income before tax is £11,946,000 (2007: £13,770,000).

**Review of the business and future developments**

Given market conditions, both the net income and the year end financial position were satisfactory. The Company's net income after tax for the year is £8,686,000. The primary reasons for the fall in income from 2007 (£10,563,000) are the prevailing market conditions and the natural run off of the closed book. The Directors expect that this position will be sustained for the foreseeable future.

In 2007, the Company entered into a £44m loan note issue agreement with Barclays Bank plc and AEGON UK plc, a fellow subsidiary of AEGON N.V, the ultimate parent undertaking. 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.

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 £2,044,000 at 31 December 2008 compared to £4,460,000 at 31 December 2007.

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**REPORT BY THE DIRECTORS**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

**Directors and their interests**

The current Directors of the Company are shown on page 1. Steven Clode was appointed to the Board of Directors on 3 June 2008 and Michael Tuohy was appointed to the Board of Directors on 5 August 2008. All other Directors held office throughout the year. David Paige was appointed as Chairman of the Company on 1 May 2008.

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

Each of the current Directors has been granted a qualifying third party indemnity by the Company, in terms of the relevant sections of the Companies Acts 1985 and 2006.

**Policy and Practice on payment of creditors**

The objective is to treat our suppliers fairly and in accordance with good commercial practice. Suppliers' invoices are settled in accordance with agreed contractual terms or, if no terms are scheduled, generally within 30 days of the appropriate invoice date. The trade creditors outstanding at the end of the year represented a credit period of 30 days.

**Corporate Governance**

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

- a clearly stated corporate organisational structure, and written terms of reference for the AEGON UK Board and its committees, with appropriate delegated authorities;
- an Audit and Risk Committee of the AEGON UK Board, the members of which are non-executive Directors, which oversees AEGON UK internal control, risk and financial reporting matters; and
- an internal audit function which provides independent, objective assurance over the complete control framework reporting to the AEGON UK Chief Executive Officer and with direct access to the Chairman of the Audit and Risk Committee.

In early 2008 the AEGON UK risk management structure was further strengthened by the appointment of a Chief Risk Officer with overall responsibility for risk management across the AEGON UK group including Operational Risk, Compliance and Economic Capital and Balance Sheet Management.

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**REPORT BY THE DIRECTORS**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

**Risk and capital management and financial instruments**

General

Within the AEGON risk management structure described above, Guardian Pensions Management Limited has maintained an integrated risk management framework that incorporates risk and business planning. This also accords with the principles of the FSA's Individual Capital Adequacy Standards for identifying, assessing and managing the risks of the business.

The Company is exposed to the following financial risks:

- Interest rate risk
- Equity markets risk
- Credit risk
- Currency risk
- Liquidity risk

The main non-financial risks that the Company is exposed to relate to mortality/morbidity, lapses and operational risk.

Exposure to these risks is monitored by the Guardian Pensions Management Limited Board and appropriate sub-committees of the Board, particularly as part of the Individual Capital Assessment ("ICA") process required by the FSA under GENPRU 1.2. In 2008, the Guardian Pensions Management Limited Board was further strengthened by the appointment of a non-executive chairman.

We believe that the measurement of economic capital provides a clear and consistent way to monitor and compare the risks in our businesses. The Company's ICA estimates how much capital is needed to mitigate the risk of economic insolvency to a selected remote level, based on a number of stress tests applied to the capital position of the business. The ICA works to a 99.5% confidence level of solvency over one year, in line with UK Financial Services Authority (FSA) regulatory requirements. Additionally economic capital is measured and monitored as part of AEGON N.V.'s economic capital framework.

We also use financial condition reports (FCRs). FCRs cover the medium-term financial outlook of the business, including forecasts of published solvency position and key performance indicators under a variety of economic and operating scenarios, allowing for new business sales, to inform our capital and risk management decisions.

Fund structure

The Company writes all its long term business in the long term insurance fund. The long term insurance fund is 100% owned by the Shareholders.

Interest Rate Risk

The main exposure of the Company to interest rate risk arises in the unit-linked funds. If interest rates rise then the value of the fixed interest securities would decrease and there would be a corresponding reduction in the annual management charges collected from the unitised funds. The Shareholders' exposure is limited to the impact that interest rates have on annual management charges collected from the unitised funds.

In respect of the annuities written by the Company the interest rate exposure is mitigated substantially by adopting a close matching strategy (to related asset cash-flows).

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**REPORT BY THE DIRECTORS**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

**Risk and capital management and financial instruments (continued)**

Equity Markets Risk

The main exposure of the Company to interest rate risk arises in the unit linked funds which invest predominantly in equities. The investment risk is borne by the Company's unit linked policyholders. If equity values fall then there would be a corresponding reduction in the annual management charges collected from the unitised funds. The Shareholders' exposure is limited to the impact that the equity markets has on annual management charges collected from the unitised funds.

Credit Risk

Credit risk arises predominantly on exposure to corporate bond defaults on assets matching annuities in payment. The Company's general policy is to hold an appropriate spread of assets between counterparties in order to reduce risk. Additionally the Company invests least 95% of its fixed interest securities to have credit ratings of BBB or higher.

Currency Risk

The main exposure of the Company to currency risk arises in the unit linked funds and therefore the investment risk is borne by the Company's unit linked policyholders. The Shareholders' exposure is limited to the impact that currency market levels have on annual management charges collected from unitised funds.

Liquidity Risk

Liquidity risk is the risk that the Company may have insufficient liquid assets to meet claims as they become due. As the Company has no guaranteed surrender values and invests almost exclusively in liquid assets this is generally not a significant risk.

Mortality and Morbidity Risk

The main mortality risk that the Company is exposed to is longevity risk on its immediate annuity business. The nature of Company's contracts means that it is not significantly exposed to increasing rates of mortality and the amount of morbidity business written is not significant in terms of the size of the fund.

Lapse Risk

The main lapse risk the Company is exposed to is increasing lapse rates on its unit linked business and the detrimental impact that this would have on future annual management charges received. The Company has a number of processes in place which are designed to improve the retention of in-force business.

Operational Risk

Operational risk considers the impact of inadequate or failed operational processes, which may impact in terms of higher costs or possibly compensation / redress in connection with the way business written was marketed or sold. Key high-level controls over operational risk are described in the Corporate Governance section above.

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**REPORT BY THE DIRECTORS**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

**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.

**Disclosure of information to the Auditors**

The Directors who held office at the date of approval of this report confirm that, so far as they are each 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 a Director to make himself aware of any relevant audit information and to establish that the Auditors are aware of that information.

By order of the Board



Director

AEGON Lochside Crescent

Edinburgh Park

Edinburgh

25 March 2009

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**STATEMENT OF DIRECTORS' RESPONSIBILITIES**  
**IN RELATION TO FINANCIAL STATEMENTS**

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and have elected to prepare those statements in accordance with International Financial Reporting Standards as adopted by the European Union.

The Directors are required to prepare financial statements for each financial year which present fairly the financial position of the Company and the financial performance and cash flows of the Company for that year. In preparing those financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8: *Accounting policies, changes in Accounting Estimates and Errors* and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- state that the Company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and 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.



**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF  
GUARDIAN PENSIONS MANAGEMENT LIMITED  
FOR THE YEAR ENDED 31 DECEMBER 2008**

We have audited the financial statements of Guardian Pensions Management 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 1 to 25. 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' responsibilities for preparing the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are 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 whether 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 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  
FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)**

**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 net income 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.*

Ernst & Young LLP  
Registered Auditor  
Ten George Street  
Edinburgh  
EH2 2DZ

25 March 2009

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**INCOME STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

	Note	2008 £'000	2007 £'000
<b>Income</b>			
Premium income		8,309	7,299
Investment income	3	10,565	10,245
Fee and commission income		8,977	11,616
<b>Total revenues</b>		<b>27,851</b>	<b>29,160</b>
Income from reinsurance ceded		(480)	(451)
Results from financial transactions	4	(137)	(179)
<b>Total income</b>		<b>27,234</b>	<b>28,530</b>
<b>Charges</b>			
Premium to reinsurers		1,192	3,504
Policyholders claims and benefits	5	5,363	2,001
Commissions and expenses	6	7,001	6,687
Interest charges and related fees	7	1,732	2,568
<b>Total charges</b>		<b>15,288</b>	<b>14,760</b>
<b>Income before tax</b>		<b>11,946</b>	<b>13,770</b>
Income tax	8	(3,260)	(3,207)
<b>Net income attributable to equity holders of Guardian Pensions Management Limited</b>		<b>8,686</b>	<b>10,563</b>

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

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**BALANCE SHEET**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

	Note	2008 £'000	2007 £'000
<b>ASSETS</b>			
Intangible Assets	9	31,313	34,252
Investments	10	154,974	158,748
Reinsurance assets	11	169,654	240,501
Other assets and receivables	12	4,360	5,081
Cash and cash equivalents	13	7,562	17,273
<b>Total assets</b>		<b>367,863</b>	<b>455,855</b>
<b>EQUITY AND LIABILITIES</b>			
Shareholders' Equity	14	95,630	97,023
Insurance contracts	15	84,780	87,835
Investment contracts for account of policyholders	16	151,495	219,968
Borrowings	17	23,114	32,422
Deferred revenue liabilities	18	2,311	2,797
Deferred tax liabilities	19	6,766	10,588
Other liabilities	20	3,767	5,222
<b>Total liabilities</b>		<b>272,233</b>	<b>358,832</b>
<b>Total equity and liabilities</b>		<b>367,863</b>	<b>455,855</b>

The financial statements were approved by and on behalf of the Board of Directors and are signed on its behalf by



Otto Thoresen

25 March 2009

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

	Note	2008 £'000	2007 £'000
<b>Income before tax</b>		<b>11,946</b>	13,770
Results from financial transactions	4	137	179
Amortisation and depreciation		<u>2,818</u>	<u>3,076</u>
<b>Adjustments of non-cash items</b>		<b>2,955</b>	3,255
 Insurance and investment liabilities		<b>(689)</b>	(2,610)
Insurance an investment liabilities for account of policyholders	7	7	(215)
Accrued income and prepayments		<b>(4,758)</b>	(468)
Accrued expenses and other liabilities		<u>(2,267)</u>	<u>1,142</u>
<b>Changes in accruals</b>		<b>(7,707)</b>	(2,151)
 Purchase of investments (other than money market investments)		<b>(7,701)</b>	(9,457)
Disposal of investments (other than money market investments)		<u>5,301</u>	<u>11,065</u>
<b>Cash flow movements on operating items not reflected in income</b>		<b>(2,400)</b>	1,608
Tax paid		<u>(3,497)</u>	<u>(7,946)</u>
<b>Net cash flows from operating activities</b>		<u><b>1,297</b></u>	<u>8,536</u>
 Issuance of loans		-	(44,000)
<b>Net cash flows from investing activities</b>		<u>-</u>	<u>(44,000)</u>
 Dividends paid		<b>(1,700)</b>	(1,000)
Issuance of Borrowings		-	44,000
Repayment of Borrowings	17	<u>(9,308)</u>	<u>(11,578)</u>
<b>Net cash flows from financing activities</b>		<u><b>(11,008)</b></u>	<u>31,422</u>
 Net increase in cash and cash equivalents		<b>(9,711)</b>	(4,042)
Net cash and cash equivalents at 1 January	13	<u>17,273</u>	<u>21,315</u>
<b>Net cash and cash equivalents at 31 December</b>	13	<u><b>7,562</b></u>	<u>17,273</u>

The cash flow statement is prepared according to the indirect method.

<sup>1</sup> Included in net increases/ (decreases) in cash and cash equivalents are interest received (£1,701,000) (2007: £4,692,000), and interest paid £2,159,000 (2007: £736,000).

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

	Note	Share Capital £'000	Capital Reserves £'000	Revaluation Reserves £'000	Retained Earnings £'000	Shareholders' Equity £'000
At 1 January 2008		22,714	68,386	(2,732)	8,655	97,023
Revaluations	14b	-	-	(11,774)	-	(11,774)
(Gains)/losses transferred to income statement on disposal and impairment	14b	-	-	137	-	137
Aggregate tax effect of items recognised directly in equity	14b	-	-	3,258	-	3,258
Net income recognised directly in equity		-	-	(8,379)	-	(8,379)
Net income recognised in the income statement		-	-	-	8,686	8,686
Total recognised net income for 2008		-	-	(8,379)	8,686	307
Dividends paid		-	-	-	(1,700)	(1,700)
At 31 December 2008	14	22,714	68,386	(11,111)	15,641	95,630

**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

	Note	Share Capital £'000	Capital Reserves £'000	Revaluation Reserves £'000	Retained Earnings £'000	Shareholders' Equity £'000
At 1 January 2007		22,714	68,386	531	(908)	90,723
Revaluations	14b	-	-	(4,732)	-	(4,732)
(Gains)/losses transferred to income statement on disposal and impairment	14b	-	-	179	-	179
Aggregate tax effect of items recognised directly in equity	14b	-	-	1,290	-	1,290
Net income recognised directly in equity		-	-	(3,263)	-	(3,263)
Net income recognised in the income statement		-	-	-	10,563	10,563
Total recognised net income for 2007		-	-	(3,263)	10,563	7,300
Dividends paid		-	-	-	(1,000)	(1,000)
At 31 December 2007	14	22,714	68,386	(2,732)	8,655	97,023

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

**1 Summary of Significant Accounting Policies**

**1.1 Basis of presentation**

**1.1.1 *Introduction***

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union as they apply to the financial statements of the Company for the year ended 31 December 2008 and applied in accordance with the Companies Act 1985 and 2006.

These are the Company's first financial statements prepared in accordance with IFRSs, with the 2007 comparatives restated accordingly. Previously the financial statements were prepared in accordance with the reporting requirement of UK generally accepted accounting practice (UK GAAP).

**1.1.2 *Adoption of new IFRS accounting standards***

New standards become effective on the date specified by IFRS, but may allow companies to opt for an earlier adoption date. In 2008, the following new standards issued by the IASB and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) became mandatory:

- IFRIC 12 Service concession arrangements;\*
- IFRIC 14 IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction;
- Amendments to IAS 39 and IFRS 7 Reclassification of financial instruments.

\* not yet endorsed by the European Union

IFRIC 12 Service concession arrangements is mandatory for accounting periods beginning on or after 1 January 2008, but is not relevant to the Company's operations.

Similarly, IFRIC 14 IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction does not have an impact on the Company's financial statements.

The amendments to IAS 39 and IFRS 7 Reclassification of financial instruments permit entities to reclassify non-derivative financial assets out of the fair value through profit or loss category in particular circumstances. The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category where certain requirements are met. The effect of the reclassification would be to value the asset following the reclassification at amortised cost instead of at fair value. The amendments to IFRS 7 required detailed disclosures of any reclassifications made and the potential impact on the financial statements. The Company has not applied these amendments in 2008.

**1.1.3 *Future adoption of new IFRS accounting standards***

The following standards, amendments to existing standards and interpretations, published prior to January 1, 2009, were not early adopted by the Company and will be applied in future years:

- IAS 1 Presentation of financial statements;
- Amendments to IAS 23 Borrowing costs;
- Amendments to IFRS 2 Share-based payments - vesting conditions and cancellations;

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and separate financial statements (Revised); \*
- IFRS 8 Operating segments;
- IFRIC 16 Hedges of a net investment in a foreign operation; \*
- Amendments to IAS 39 Eligible hedged items \*
- Improvements to IFRS (2008) \*

\* not yet endorsed by the European Union

None of the above are expected to have a significant impact on the Company.

**1.2 Transition to IFRS**

In preparing these financial statements, the Company has started from an opening balance sheet as at 1 January 2007, the Company's date of transition to IFRSs, and made those changes in accounting policies and other restatements required by IFRS 1 for the first time adoption of IFRSs.

The Company has elected to take advantage of the transition provision within IFRS 1 'First-time adoption of International Financial Reporting Standards' which allows the subsidiary to measure assets and liabilities at the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRSs if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. The ultimate parent, AEGON N.V., adopted IFRSs in its published consolidated statements for the year ended 31 December 2005, and had a transition date of 1 January 2004.

The effect of the transition to IFRS as of 1 January 2007 on the financial position and financial performance can be found in Note 25.

**1.3 Offsetting of Assets and Liabilities**

Financial assets and liabilities are offset in the balance sheet when the Company has a legally enforceable right to offset and has the intention to settle the asset and liability on a net basis or simultaneously.

**1.4 Premium income**

Gross premiums, including recurring and single premiums, from insurance contracts and from investment contracts with discretionary participation features are recognised as revenue when they become receivable.

**1.5 Investment income**

For interest-bearing assets, interest is recognised as it accrues and is calculated using the effective interest rate method. Fees and commissions that are an integral part of the effective yield of the financial assets or liabilities are recognised as an adjustment to the effective interest rate of the instrument.

Investment income also includes dividends accrued and rental income due, as well as fees received for security lending.



**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

**1.6 Fee and commission income**

Fees and commissions from investment management services are recognised as revenue over the period in which the services are performed.

**1.7 Policyholder claims and benefits**

Policyholder claims and benefits consist of claims and benefits paid to policyholders, including benefit claims in excess of account value for products for which deposit accounting is applied, and the change in the valuation of liabilities for insurance and investment contracts. It includes internal and external claims handling costs that are directly related to the processing and settlement of claims.

Claims payable on maturity are accounted for when due for payment, and claims payable on death are accounted for on notification. Surrenders are accounted for at the earlier of the payment date or when the policy ceases to be included within the relevant liability.

**1.8 Results from financial transactions**

Results from financial transactions include:

*Realised gains and losses on financial investments*

Gains and losses on financial investments include realised gains and losses on general account financial assets, other than those classified as at fair value through the income statement.

**1.9 Intangible Assets**

*Value of Business Acquired*

When a portfolio of insurance contracts is acquired, whether directly from another insurance company or as part of a business combination, the difference between the fair value and the carrying amount of the insurance liabilities is recognised as value of business acquired (VOBA). The Company also recognises VOBA when it acquires a portfolio of investment contracts with discretionary participation features.

VOBA is amortised over the useful life of the acquired contracts, based on the expected gross premium margins. VOBA is assessed for recoverability at least annually and the portion determined not to be recoverable is charged to the income statement. VOBA is considered in the liability adequacy test for each reporting period.

VOBA is derecognised when the related contracts are settled or disposed of.

*Future Servicing Rights*

On acquisition of a portfolio of investment contracts without discretionary participating features, under which Guardian Pensions Management Limited will render investment management services, the present value of future servicing rights is recognised as an intangible asset. Future servicing rights can also be recognised on the sale of a loan portfolio or the acquisition of insurance agency activities.

The present value of the future servicing rights is amortised over the servicing periods as the fees from services emerge and is subject to impairment testing. It is derecognised when the related contracts are settled or disposed of.

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

**1.10 Investments**

Investments for general account comprise financial assets, excluding derivatives.

Financial assets are recognised on the trade date when the Company becomes a party to the contractual provisions of the instrument and are classified for accounting purposes depending on the characteristics of the instruments and the purpose for which they were purchased.

*Classification*

The Company designates financial assets as fair value through the income statement when by doing so it significantly reduces the accounting mismatch that would arise from measuring assets on a different basis to the underlying insurance liabilities.

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

All remaining non-derivative financial assets are classified as available-for-sale.

*Measurement*

Financial assets are initially recognised at fair value excluding interest accrued to date plus, in the case of a financial asset not at fair value through the income statement, 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 the income statement are measured at fair value with all changes in fair value recognised in the income statement as incurred. Available-for-sale assets are recorded at fair value with unrealised changes in fair value recognised directly in Shareholders' Equity. Financial assets that are designated as hedged items are measured in accordance with the requirements for hedge accounting.

*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 amount, and minus any reduction for 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. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the debt instrument or, when appropriate, a shorter period to the net carrying amount of the instrument. When calculating the effective interest rate, all contractual terms are considered. Possible future credit losses are not taken into account. Charges and interest paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts are included in the calculation.

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

*Fair Value*

The fair value of an asset is the amount for which it could be exchanged between knowledgeable, willing parties in an arm's 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. Where discounting techniques are applied the discount rate is based on current market rates applicable to financial instruments with similar characteristics. Interest accrued to date is not included in the fair value of the financial asset.

*Derecognition*

A financial asset is derecognised when the contractual rights to the asset's cash flows expire, when the Company has transferred the asset and substantially all the risks and rewards of ownership, or when the Company has transferred the asset without transfer of substantially all the risks and rewards of ownership, provided the other party can sell or pledge the asset. Financial assets, in respect of which the Company has neither transferred nor retained all the risks and rewards, are recognised to the extent of the Company's continuing involvement. If significantly all risks are retained, the assets are not derecognised. On derecognition, the difference between the disposal proceeds and the carrying amount is recognised in the income statement as a realised gain or loss. Any cumulative unrealised gain or loss previously recognised in the revaluation reserve in Shareholders' Equity is also recognised in the income statement.

*Collateral*

With the exception of cash collateral, assets received as collateral are not separately recognised as an asset until the financial asset they secure is foreclosed. When cash collateral is recognised, a liability is recorded for the same amount.

**1.11 Reinsurance Assets**

Reinsurance contracts are contracts entered into by the Company in order to receive compensation for losses on contracts written by the Company (outgoing reinsurance). For contracts transferring sufficient insurance risk, a reinsurance asset is recognised for the expected future benefits, less expected future reinsurance premiums. Reinsurance contracts with insufficient insurance risk transfer are accounted for as investment or service contracts, depending on the nature of the agreement.

Reinsurance assets are measured consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract. They are subject to impairment testing and are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

**1.12 Other assets and receivables**

Other assets include trade and other receivables, prepaid expenses and fixed assets other than property. Trade and other receivables are initially recognised at fair value and are subsequently measured at amortised cost. Fixed assets are initially carried at cost, depreciated on a straight line basis over their useful life to their residual value and are subject to impairment testing.

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
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**1.13 Cash and cash equivalents**

Cash comprises cash at banks and in-hand. Cash equivalents are short-term, highly liquid investments that are readily convertible to known cash amounts, are subject to insignificant risks of changes in value and are held for the purpose of meeting short-term cash requirements. Money market investments that are held for investment purposes (backing insurance liabilities, investment liabilities or equity based on asset liability management considerations) are not included in cash and cash equivalents but are presented as investment or investment for account of policyholders.

**1.14 Impairment of assets**

An asset is impaired if the carrying amount exceeds the amount that would be recovered through its use or sale. For tangible and intangible assets, financial assets and reinsurance assets, if not held at fair value through income statement, the recoverable amount of the asset is estimated when there are indications that the asset may be impaired.

*Impairment of non-financial assets*

Assets are tested individually for impairment when there are indications that the asset may be impaired. The impairment loss is calculated as the difference between the carrying and the recoverable amount of the asset, which is the higher of an asset's value in use and its net selling price. The value in use represents the discounted future net cash flows from the continuing use and ultimate disposal of the asset and reflects its known inherent risks and uncertainties.

*Impairment of debt instruments*

Debt instruments are impaired when it is considered probable that not all amounts due will be collected as scheduled. Individually significant loans and other receivables are first assessed separately. All non-impaired assets measured at amortised cost are then grouped by credit risk characteristics and collectively tested for impairment.

For debt instruments carried at amortised cost, the carrying amount of impaired financial assets is reduced through an allowance account. The impairment loss is calculated as the difference between the carrying and recoverable amount of the investment. The recoverable amount is determined by discounting the estimated probable future cash flows at the original effective interest rate of the asset. For variable interest debt instruments, the current effective interest rate under the contract is applied. For debt instruments classified as available-for-sale, the asset is impaired to its fair value. Any unrealised gain or loss previously recognised in Shareholders' Equity is taken to the income statement in the impairment loss. After impairment the interest accretion on debt instruments that are classified as available-for-sale is based on the rate of return that would be required by the market for similar rated instruments at the date of impairment.

Impairment losses recognised for debt instruments can be reversed if in subsequent periods the amount of the impairment loss decreases and that decrease can be related objectively to a credit related event occurring after the impairment was recognised. For debt instruments carried at amortised cost, the carrying amount after reversal cannot exceed its amortised cost at the reversal date.

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
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*Impairment of Equity Instruments*

For equity instruments, a significant or prolonged decline in fair value below initial cost is considered objective evidence of impairment and always results in a loss being recognised in the income statement. Equity investments are impaired to the asset's fair value and any unrealised gain or loss previously recognised in Shareholders' Equity is taken to the income statement in the impairment loss. The amount exceeding the balance of previously recognised unrealised gains or loss is recognised in the income statement.

Impairment losses on equity instruments cannot be reversed.

*Impairment of Reinsurance Assets*

Reinsurance assets are impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that not all amounts due under the terms of the contract will be received and the impact of the event on the amount to be received from the reinsurer can be reliably measured. Impairment losses are recognised in the income statement.

**1.15 Equity**

Financial instruments that are issued by the Company are classified as equity if they represent a residual interest in the assets of the Company after deducting all of its liabilities.

Dividends and other distributions to holders of equity instruments are recognised directly in equity, net of tax.

**1.16 Insurance Contracts**

Insurance contracts are contracts under which the Company accepts a significant risk – other than a financial risk – from a policyholder by agreeing to compensate the beneficiary on the occurrence of an uncertain future event by which he or she will be adversely affected. Contracts that do not meet this definition are accounted for as investment contracts. The Company reviews homogeneous books of contracts to assess whether the underlying contracts transfer significant insurance risk on an individual basis. This is considered the case when at least one scenario with commercial substance can be identified in which the Company has to pay significant additional benefits to the policyholder. Contracts that have been classified as insurance are not reclassified subsequently.

Insurance liabilities are recognised when the contract is entered into and the premiums are charged. The liability is derecognised when the contract expires, is discharged or is cancelled.

Insurance contracts are accounted for consistent with the policies adopted by the Company for reporting to the Company's ultimate parent undertaking, AEGON N.V.

Insurance contracts in the non-linked fund with terms that are fixed and guaranteed and which are of a long duration (generally over 3 years), such as term life insurance and pension annuities, are measured using the net premium method. The liability is determined as the sum of the discounted value of the expected benefits and future administrative expenses directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is based on assumptions which are, for each cohort, determined at inception of the business and which include a margin for risk and adverse deviation.

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

The liability for insurance contracts with a short duration of generally less than 3 years comprises reserves for unearned premiums as well as for claims outstanding, which includes an estimate of the incurred claims that have not yet been reported.

*Liability adequacy testing*

At each reporting date, the adequacy of insurance contract liabilities, net of VOBA and future servicing rights, are assessed using a liability adequacy test. Insurance contract liabilities are tested to ensure that the resulting liabilities are not lower than would be required under a sufficiently prudent prospective calculation and results in assumptions being revised to prospective assumptions when the test is not met. VOBA and future servicing rights are tested for recoverability based on current estimates of future cash flows, with any resulting deficiency recognised in the income statement.

**1.17 Investment contracts**

Contracts issued by the Company that do not transfer significant insurance risk, but do transfer financial risk from the policyholder to the Company are accounted for as investment contracts. Depending on whether the Company or the policyholder runs the risks associated with the investments allocated to the contract, the liabilities are classified as investment contracts or as investment contracts for account of policyholders. Investment contract liabilities are recognised when the contract is entered into and are derecognised when the contract expires, is discharged or is cancelled.

*Investment contracts for account of policyholder without discretionary participation features*

Investment contracts for account of policyholders without discretionary participating features are designated as at fair value through the income statement. Contracts with unit-denominated payments are measured at current unit values, which reflect the fair values of the assets of the fund.

For unit-linked contracts without discretionary participation features and subject to actuarial funding, the Company recognizes a liability at the funded amount of the units. The difference between the gross value of the units and the funded value is treated as an initial fee paid by the policyholder for future asset management services and is deferred. It is subsequently amortised over the life of the contract or a shorter period, if appropriate.

**1.18 Interest bearing loans and borrowing**

Obligations for loans and borrowings are recognised when the Company becomes party to the related contracts and are measured initially at the fair value of consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Borrowing costs are recognised as an expense when incurred. Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance revenue and finance cost.

The liability is derecognised when the Company's obligation under the contract expires, is discharged or is cancelled.

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

**1.19 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.

**1.20 Tax assets and liabilities**

*Current Income Tax*

Current income tax assets and liabilities for the current period and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, or paid to or recovered from other group companies in respect of group relief surrendered or received. The tax rates and laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

*Deferred Income Tax*

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax and liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor the taxable net income.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable net income will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognised directly in equity is recognised directly in equity and not in the income statement.

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

Deferred income tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred income tax relate to the same taxable entity and the same taxation authority.

*Policyholder tax*

The income tax charge comprises tax in respect of policyholders' returns and the balance, which represents the tax on equity holders returns. The income tax charge in respect of policyholders' returns reflects the movement in current and deferred income tax recognised in respect of those items of income, gains and expenses, which inure to the benefit of policyholders.

**1.21 Contingent assets and liabilities**

Contingent assets are disclosed in the notes if the inflow of economic benefits is probable, but not virtually certain. When the inflow of economic benefits becomes virtually certain, the asset is no longer contingent and its recognition is appropriate.

A provision is recognised for present legal or constructive obligations arising from past events, when it is probable that it will result in an outflow of economic benefits and the amount can be reliably estimated. If the outflow of economic benefits is not probable, a contingent liability is disclosed, unless the possibility of an outflow of economic benefits is remote.

**2 Critical accounting estimates and judgement in applying accounting policies**

Application of the accounting policies in the preparation of the financial statements requires management to apply judgement involving assumptions and estimates concerning future results or other developments, including the likelihood, timing or amount of future transactions or events. There can be no assurance that actual results will not differ materially from those estimates. Accounting policies that are critical to the financial statement presentation and that require complex estimates or significant judgement are described in the following sections.

**2.1 Valuation of assets and liabilities arising from insurance contracts**

The liability for long duration insurance contracts in the non-linked fund with guaranteed or fixed account terms is based on the assumptions established at inception of the contract, reflecting the best estimates at the time increased with a margin for adverse deviation. All contracts are subject to liability adequacy testing which reflects management's current estimates of future cash flows. If a change in assumption results in the failure of the liability adequacy test, the entire deficiency is recognised in the income statement.

In addition, certain acquisition costs related to the purchase of policies already in force are recorded as VOBA assets and are amortised to the income statement over time. If the assumptions relating to the future profitability of these policies are not realised, the liability adequacy test could require write offs due to unrecoverability.



**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

**2.2 Actuarial assumptions – insurance contracts**

**Annuity Claims**

Provisions are calculated as the present value of future annuity payments plus an allowance for future expenses, in accordance with the following mortality tables and valuation rates, which are established at inception for each cohort as noted above:

- Annuities written from 1 January 1999 to 31 December 2001 : 4.11% & PMA/PFA92 -1 (C=2015)
- Annuities written from 1 January 2002 to 31 December 2004 : 3.82% & 90% PMA92 + medium cohort improvement factors / 80% PFA92 + standard improvement factors
- Annuities written from 1 January 2005 to 31 December 2005 : 3.80% & 100% PMA92 + medium cohort improvement factors / 100% PFA92 + standard improvement factors
- Annuities written from 1 January 2006 to 31 December 2006 : 4.10% & 95% PCMA00 / 100% PCFA00 projected in line with CMI medium cohort improvement factors subject to a minimum level of annual improvement of 1%
- 2008 to 31 December 2008 : 4.75% & 99% IML00 / 105% RFV00 projected in line with CMI long cohort improvement factors subject to a minimum level of annual improvement of 1% (using a select factor of 0.72 in the first three years)

Note that the valuation interest rates for each cohort were derived at the respective year-ends to ensure that no profit or loss emerged at the time the business was written.

**Income Protection Claims**

Provisions are calculated as the present value of future claim payments plus an allowance for future expenses, in accordance with the following principal assumptions:

	<b>Claims reported before 31.12.2005</b>	<b>Claims reported after 31.12.2005</b>
<b>Interest Rate</b>	5.00%	5.00%
<b>Recovery Basis (% CMIR12)</b>		
Duration up to 6 months	5%	5%
Duration 6-12 months	20%	25%
Duration 12-18 months	50%	75%
Duration 18-24 months	40%	80%
Duration 2-5 years	45%	85%
Duration 5 years +	60%	70%
<b>Mortality Basis</b>		
Base	AM/AF92	AM/AF92
Duration < 2 years	+0.030 p.a.	+0.035 p.a.
Duration > 2 years	+0.005 p.a.	+0.010 p.a.

**Fair value measurement**

In respect of general account assets, the fair values are determined based on active market prices.

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

**2.4 Impairment of financial assets**

There are a number of significant risks and uncertainties inherent in the process of monitoring investments and determining if impairment exists. These risks and uncertainties include the risk that the Company's assessment of an issuer's ability to meet all of its contractual obligations will change based on changes in the credit characteristics of that issuer and the risk that the economic outlook will be worse than expected or have more of an impact on the issuer than anticipated. Also, there is a risk that new information obtained by the Company or changes in other facts and circumstances will lead the Company to change its investment decision. Any of these situations could result in a charge against the income statement in a future period to the extent of the impairment charge recorded.

The Company regularly monitors industry sectors and individual debt securities for evidence of impairment. This evidence may include one or more of the following: 1) deteriorating market to book ratio, 2) increasing industry risk factors, 3) deteriorating financial condition of the issuer, 4) covenant violations, 5) high probability of bankruptcy of the issuer or 6) nationally recognised credit rating agency downgrades.

A security is impaired if there is objective evidence that a loss event has occurred after the initial recognition of the asset that has a negative impact on the estimated future cash flows. A specific security is considered to be impaired when it is determined that it is probable that not all amounts due (both principal and interest) will be collected as scheduled.

**3 Investment income**

	2008 £'000	2007 £'000
Interest Income	<u>10,565</u>	<u>10,245</u>
Investment income related to general account	<u>10,565</u>	<u>10,245</u>
Investment income from financial assets held for general account:		
Available for sale	4,412	4,328
Loans	5,479	4,882
Other	<u>674</u>	<u>1,035</u>
	<u>10,565</u>	<u>10,245</u>
Investment income from:		
Bond and money market instruments	4,412	4,328
Loans	5,479	4,882
Other	<u>674</u>	<u>1,035</u>
	<u>10,565</u>	<u>10,245</u>

Investment income from general account loans, relates to loans to parent undertakings. For terms and conditions relating to related party transactions, refer to Note 24.

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

**4 Results from financial transactions**

	2008 £'000	2007 £'000
Realised gains and (losses) on financial investments	<u>(137)</u>	<u>(179)</u>
Realised gains and (losses) on financial investments comprise:		
Bonds and money market investments	<u>(137)</u>	<u>(179)</u>
Realised gains and (losses) on financial investments comprise:		
Available for sale investments	<u>(137)</u>	<u>(179)</u>

**5 Policyholder claims and benefits**

	2008 £'000	2007 £'000
Claims and benefits paid to policyholders	8,936	8,559
Change in valuations of liabilities for insurance and investment contracts	<u>(3,573)</u>	<u>(6,558)</u>
	<u>5,363</u>	<u>2,001</u>

**6 Commissions and expenses**

	2008 £'000	2007 £'000
Commissions	683	464
Investment management expenses	(857)	(1,087)
Administration expenses	4,236	4,117
Amortisation of intangible assets	<u>2,939</u>	<u>3,193</u>
	<u>7,001</u>	<u>6,687</u>

AEGON UK Services Limited, which is a fellow subsidiary of AEGON UK Plc, provides services to the AEGON UK Group and in particular employs those personnel who provide services to the Company. Therefore, the Company has no employees under contracts of service. All administrative expenses above are recharged, by this service Company to the Company. In respect of share-based payments, the recharges from the service companies are based on the expense calculated in accordance with IFRS2.

All investment management expenses above are recharged by AEGON Investment Management plc.

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

**6 Commissions and expenses (continued)**

*Amount paid to auditors and their associates*

	2008 £'000	2007 £'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	48	47
	<u>80</u>	<u>79</u>

*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 AEGON UK Group companies. Details relating to the emoluments of the Directors are disclosed in the accounts of the Scottish Equitable plc Group.

**7 Interest charges and related fees**

	2008 £'000	2007 £'000
Bank charges	5	2
Interest charges	4	8
Borrowings	1,723	2,241
Other	-	317
	<u>1,732</u>	<u>2,568</u>

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

**8 Income Taxation**

	2008 £'000	2007 £'000
<b>Current Tax</b>		
Current year	3,875	4,427
Adjustment in respect of prior years	(52)	(63)
	<u>3,823</u>	<u>4,364</u>
<b>Deferred Tax</b>		
(Reversals) / Origination of temporary differences	(563)	(896)
Changes in tax rates/bases	-	(261)
Income tax	<u>3,260</u>	<u>3,207</u>
<i>Reconciliation between standard and effective income tax</i>		
Income before tax	<u>11,946</u>	<u>13,770</u>
Income tax calculated using weighted average applicable statutory rates	<u>3,405</u>	<u>4,131</u>
Difference due to effects of:		
Changes in tax rate/base	-	(261)
Other taxes	(93)	(600)
Adjustment in respect of prior years	(52)	(63)
Income tax	<u><u>3,260</u></u>	<u><u>3,207</u></u>

The weighted average applicable tax rate is 28.5% (2007: 30%). The weighted standard rate of tax of 28.5% for 2008 is lower than 2007 as a result of the reduction in UK corporation tax from 30% to 28% with effect from 1 April 2008.

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

**9 Intangibles**

<b>Value of Business Acquired</b>	<b>VOBA £'000</b>	<b>Future servicing rights £'000</b>	<b>Total £'000</b>
<b>Cost</b>			
At 1 January 2007	<u>16,340</u>	<u>54,740</u>	<u>71,080</u>
At 31 December 2007	<u>16,340</u>	<u>54,740</u>	<u>71,080</u>
At 31 December 2008	<u>16,340</u>	<u>54,740</u>	<u>71,080</u>
<b>Accumulated amortisation and impairment losses</b>			
At 1 January 2007	(2,739)	(30,896)	(33,635)
Amortisation through income statement	(424)	(2,769)	(3,193)
At 31 December 2007	(3,163)	(33,665)	(36,828)
Amortisation through income statement	<u>(468)</u>	<u>(2,471)</u>	<u>(2,939)</u>
At 31 December 2008	<u><u>(3,631)</u></u>	<u><u>(36,136)</u></u>	<u><u>(39,767)</u></u>
<b>Net Book Value</b>			
At 1 January 2007	<u>13,601</u>	<u>23,844</u>	<u>37,445</u>
At 31 December 2007	<u>13,177</u>	<u>21,075</u>	<u>34,252</u>
At 31 December 2008	<u><b>12,709</b></u>	<u><b>18,604</b></u>	<u><b>31,313</b></u>

Amortisation through the income statement is included in 'Commission and expenses'.

Both VOBA and future servicing rights are amortised over a period of 30 years and have a remaining amortisation period of 21 years (2007: 22 years).

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

**10 Investments**

Investments for the general account comprise financial assets, excluding derivatives.

	2008 £'000	2007 £'000
Available for sale:		
Bonds and money market investments	60,769	70,022
Loans:		
Loans to immediate parent undertakings	94,205	88,726
	<u>154,974</u>	<u>158,748</u>

Of the bonds and money market instruments, £Nil is current (2007: £1,001,394).

Loans to related parties are repayable from 2014 to 2017. Interest on these loans is charged at LIBOR. As permitted under the loan agreements, interest is currently being rolled up into the loan balance rather than being paid.

**11 Reinsurance assets**

Assets arising from reinsurance contracts are related to:	2008 £'000	2007 £'000
Life insurance general account	18,243	20,610
Investment contracts	151,411	219,891
Total reinsurance assets	<u>169,654</u>	<u>240,501</u>

£17,350,000 of the reinsurance assets are current (2007: £25,193,000).

The Company's reinsurance of investment contracts is to Scottish Equitable plc and Guardian Assurance plc, which are both fellow AEGON N.V. subsidiary undertakings, on arms length terms. Within the reinsurance of insurance contracts for general account £7,700,000 (2007: £8,700,000) is to Guardian Assurance plc the Company's fellow AEGON N.V. subsidiary undertaking, on arms length terms.

Movements during the year in reinsurance assets relating to life insurance general account:	2008 £'000	2007 £'000
At 1 January	20,610	23,886
Gross premium and deposits - existing and new business	1,192	3,504
Unwind of discount / interest credited	888	1,001
Technical provisions released	(4,447)	(7,781)
At 31 December	<u>18,243</u>	<u>20,610</u>

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

**12 Other assets and receivables**

	2008 £'000	2007 £'000
Receivables	2,632	3,517
Accrued income	<u>1,728</u>	<u>1,564</u>
	<u><u>4,360</u></u>	<u><u>5,081</u></u>

All accrued income is current.

*12.a Receivables*

	2008 £'000	2007 £'000
Receivables from policyholders	167	-
Receivables from reinsurers	645	1,521
Receivables from fellow AEGON N.V. Subsidiary undertakings	1,721	1,719
debtors	<u>99</u>	<u>277</u>
	<u><u>2,632</u></u>	<u><u>3,517</u></u>

All receivables are current.

**13 Cash and cash equivalents**

	2008 £'000	2007 £'000
Cash at bank and in hand	763	183
Short term deposits	<u>6,799</u>	<u>17,090</u>
Net cash and cash equivalents	<u><u>7,562</u></u>	<u><u>17,273</u></u>

The weighted effective interest rate on short term deposits was 2.93% (2007: 5.65 %) and these deposits have an average maturity of 8 days (2007: 1 day). Cash and cash equivalents are not subject to any restrictions.

The carrying amounts disclosed reasonably approximate the fair values as at the year end.



**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

**14 Shareholders' equity**

	2008 £'000	2007 £'000
Share capital	22,714	22,714
Retained earnings	15,641	8,655
Revaluation reserves	(11,111)	(2,732)
Share premium	68,386	68,386
	<u>95,630</u>	<u>97,023</u>

*14.a Share capital*

	2008 £'000	2007 £'000
Authorised, allotted, called up and fully paid		
Ordinary shares of £1 each	22,714	22,714
	<u>22,714</u>	<u>22,714</u>

*14.b Revaluation reserves*

	2008 £'000	2007 £'000
Fair value reserves movements:		
At 1 January	(2,732)	531
Gross revaluation	(11,774)	(4,732)
Net losses transferred to income statement	137	179
Tax effect	3,258	1,290
At 31 December	<u>(11,111)</u>	<u>(2,732)</u>

The revaluation accounts for available-for-sale investments include unrealised gains and losses on these investments, net of tax. Upon sale, the amounts realised are recognised in the income statement or transferred to retained earnings. Upon impairment, unrealised losses are recognised in the income statement.

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

**15 Insurance contracts**

	2008 £'000	2007 £'000
At 1 January	87,835	93,721
Gross premiums and deposits - existing and new business	8,309	7,299
Unwind of discount/interest credited	3,728	3,903
Technical provision released	<u>(15,092)</u>	<u>(17,088)</u>
At 31 December	<u><u>84,780</u></u>	<u><u>87,835</u></u>

The insurance contract liability includes £763,000 (2007: £900,000) relating to reinsurance accepted from Guardian Assurance plc, a fellow AEGON N.V. subsidiary undertaking on arm lengths terms.

**16 Investment contracts for account of policyholders**

	2008 £'000	2007 £'000
Without discretionary participating features	<u><u>151,495</u></u>	<u><u>219,968</u></u>

**17 Borrowings**

Borrowings are in respect of a loan note agreement with Barclays Bank plc. The amount outstanding on the loan as at 31 December 2008 was £23,114,000 (2007: £32,422,000).

On 18 January 2007 the Company entered into a £44,000,000 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 will be retained by Guardian Pensions Management Limited. The agreement has a maturity date of 20 April 2021. Under the agreement Barclays Bank plc may require AEGON UK plc ( the immediate parent undertaking of the Company ) to take on the obligations of the Company in certain specified default circumstances.

A repayment of capital of £9,308,000 (2007: £11,578,000) and an interest payment of £2,159,000 (2007: £737,000) in respect of this loan note agreement has been made during the year.

The fair value of borrowings at 31 December 2008 was £24,331,000 (2007: £33,214,000).

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

**18 Deferred revenue liability**

	2008 £'000	2007 £'000
At 1 January	2,797	3,367
Income deferred	-	-
Release to income statement	(486)	(570)
At 31 December	<u>2,311</u>	<u>2,797</u>

**19 Deferred tax liabilities**

	Financial Assets £'000	Insurance Contracts £'000	VOBA & other Intangible assets £'000	Other £'000	Total £'000
At 1 January 2008	-	(1,433)	9,591	2,430	10,588
Charged to income statement	3,258	(3,059)	(823)	60	(564)
Charged to equity	(3,258)	-	-	-	(3,258)
At 31 December 2008	<u>-</u>	<u>(4,492)</u>	<u>8,768</u>	<u>2,490</u>	<u>6,766</u>

	Financial Assets £'000	Insurance Contracts £'000	VOBA & other Intangible assets £'000	Other £'000	Total £'000
At 1 January 2007	-	(938)	11,234	2,739	13,035
Charged to income statement	1,290	(495)	(1,643)	(309)	(1,157)
Charged to equity	(1,290)	-	-	-	(1,290)
At 31 December 2007	<u>-</u>	<u>(1,433)</u>	<u>9,591</u>	<u>2,430</u>	<u>10,588</u>

All deferred taxes are non-current by nature.

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

**20 Other liabilities**

	2008 £'000	2007 £'000
Payables due to policyholders	304	309
Payables out of reinsurance	158	151
Income tax payable	1,887	1,561
Payables to fellow AEGON UK plc subsidiary undertakings	286	421
Other creditors and accruals	1,132	2,780
	<u>3,767</u>	<u>5,222</u>

All other liabilities are current.

**21 Capital and solvency**

a) The capital available as at 31 December 2008 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.

	Long term Fund £'000	Shareholder Fund £'000	2008 £'000	2007 £'000
Permanent Share Capital	-	22,714	22,714	22,714
Share Premium	-	68,386	68,386	68,386
Revaluation Reserves	(11,111)	-	(11,111)	(2,732)
Retained Earnings	13,154	2,487	15,641	8,655
<b>Capital as per accounts</b>	<u>2,043</u>	<u>93,587</u>	<u>95,630</u>	<u>97,023</u>
Adjustments-				
Intangible assets	-	(31,313)	(31,313)	(34,252)
Deferred tax on intangible assets	-	8,768	8,768	9,591
Inadmissible assets	1,365	-	1,365	1,365
Assets in excess of counterparty limits	(6,029)	(87,291)	(93,320) *	(87,637)
Liability valuation differences	8,662	-	8,662	1,769
Outstanding contingent loans	-	17,828	17,828	22,459
<b>Capital to meet regulatory requirements</b>	6,041	1,579	7,620	10,318
Capital Resources Requirements (CRR)	(5,576)	-	(5,576)	(5,858)
<b>Available Capital after CRR</b>	<u>465</u>	<u>1,579</u>	<u>2,044</u>	<u>4,460</u>

\*Note: Includes loans outstanding to AEGON UK amounting to £80,550,000 (2007: £80,550,000).

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

**21 Capital and solvency (continued)**

b) Change in Available Capital after CRR:

	Long term Fund £'000	Shareholder Fund £'000	Total £'000
At 1 January 2008	-	4,460	4,460
Effect of changes in assumptions	1,200	-	1,200
Changes in regulatory requirements	604	(322)	282
Emerging Surplus in Long Term Fund	5,161	-	5,161
Transfer from Life Fund	(6,500)	6,500	-
Dividend and inter-co loan	-	(1,700)	(1,700)
Barclays Contingent Loan	-	(6,361)	(6,361)
Other Factors	-	(998)	(998)
<b>At 31 December 2008</b>	<b>465</b>	<b>1,579</b>	<b>2,044</b>

	Long Term Fund £'000	Shareholder Fund £'000	Total £'000
At 1 January 2007	-	18,173	18,173
Effect of changes in assumptions	(400)	-	(400)
Change in capital requirements	533	2,351	2,884
Emerging Surplus in Long Term Fund	8867	-	8,867
Transfer from Life Fund	(9,000)	9,000	-
Dividend and Inter-co Loan	-	(44,550)	(44,550)
Barclays Contingent Loan	-	20,218	20,218
Other Factors	-	(732)	(732)
<b>At 1 December 2007</b>	<b>-</b>	<b>4,460</b>	<b>4,460</b>

c) Net policyholder liabilities (FSA Basis)

	2008 £'000	2007 £'000
Long term fund		
Unit Linked	84	77
Other	56,729	67,705

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

**21 Capital and solvency (continued)**

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).

f) The Company's risk profile is monitored by reference to its economic capital positions. The Company's economic solvency position should be maintained to a level such that it would not default economically on its obligations to policyholders should any "plausible" scenarios from the past recur.

g) The Company should not be vulnerable to "plausible" events and so should be well diversified in the risks it takes. Risk concentrations at country unit and global level will be monitored quarterly using metrics that may change from time to time. These will be considered by AEGON N.V.'s "Group Risk and Capital Committee".

h) The Company has met its regulatory capital requirements during 2008 and 2007.

**22 Contingent Liabilities and Charges**

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.

**23 Risk management**

**General**

The Company is exposed to financial and insurance risks. The main risks are credit risk, liquidity risk and market risk, with the principal elements of market risk being interest rate risk and equity price risk. The Company is not exposed to significant currency risk. The Risk and Capital Management and Financial Instruments section of the Report of the Directors describes the Company's general approach to risk management and the Company's approach to management of financial and insurance risks.

In the quantitative analyses of credit and liquidity risk that follow assets held within unit-linked funds have been excluded as the risks are principally borne by the policyholder rather than the Shareholder.

**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 bonds and money market investments, cash and cash equivalents, inter-group loans and reinsurance arrangements. Debt and other fixed securities comprise government and corporate bonds. There is also a credit risk to the Company in respect of certain Non-Linked business that is reassured to Guardian Assurance plc, a fellow subsidiary of AEGON N.V.

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

**23 Risk management (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 ratings prescribed by major rating agencies.

31 December 2008	AAA £'000	AA £'000	A £'000	BBB £'000	Total £'000
Bonds & money market instruments	8,670	6,066	41,083	4,950	60,769
Cash and cash equivalents	763	6,799	-	-	7,562
Reinsurance assets	-	18,243	-	-	18,243
	<u>9,433</u>	<u>31,108</u>	<u>41,083</u>	<u>4,950</u>	<u>86,574</u>
31 December 2007	AAA £'000	AA £'000	A £'000	BBB £'000	Total £'000
Bonds & money market instruments	11,308	18,071	36,646	3,997	70,022
Cash and cash equivalents	183	10,898	6,192	-	17,273
Reinsurance assets	-	20,610	-	-	20,610
	<u>11,491</u>	<u>49,579</u>	<u>42,838</u>	<u>3,997</u>	<u>107,905</u>

The loans to immediate parent undertakings are to an unrated entity.

Credit risk concentrations by sector for general account bond and money market investment are as follows:

	2008 £'000	2007 £'000
Assets backed securities (ABS)		
- Household	-	973
- Other	5,893	4,306
Other collateralised mortgage backed securities	5,318	2,484
Financial	21,269	29,645
Industrial	17,114	21,174
Utility	5,835	2,053
Sovereign Exposure	5,340	9,387
	<u>60,769</u>	<u>70,022</u>

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

**23 Risk management (continued)**

**Past due assets**

There were no general account past due or impaired assets as at 31 December 2008 or 31 December 2007.

**Liquidity risk**

The tables below set out a maturity analysis for the Company's general account financial liabilities based on remaining contractual maturities:

**2008 - Maturity analysis - gross undiscounted cash flows**

	On Demand £'000	< 1 yr £'000	1 < 5 yrs £'000	5 < 10 yrs £'000	> 10 yrs £'000
Borrowings	-	6,354	17,828	-	-
Other financial liabilities	-	2,699	-	-	-
	<u>-</u>	<u>9,053</u>	<u>17,828</u>	<u>-</u>	<u>-</u>

**2007 - Maturity analysis - gross undiscounted cash flows**

	On Demand £'000	< 1 yr £'000	1 < 5 yrs £'000	5 < 10 yrs £'000	> 10 yrs £'000
Borrowings	-	8,486	28,951	-	-
Other financial liabilities	-	3,718	-	-	-
	<u>-</u>	<u>12,204</u>	<u>28,951</u>	<u>-</u>	<u>-</u>

Borrowings are in respect of a loan note agreement with Barclays Bank plc. The maturity analysis is based on the anticipated regulatory surplus's emerging. Further details in respect of this loan note agreement are disclosed in Note 17.

The Company's liquidity management is based on expected claims and benefit payments rather than on the contractual maturities. The projected cash benefit payments below are based on management's best estimates of the expected gross benefits and expenses, partially offset by the expected gross premiums, fees and charges relating to the existing business in force. Estimated cash benefit payments are based on mortality, morbidity and lapse assumptions comparable with the Group's historical experience, modified for recently observed trends. Actual payment obligations may differ if experience varies from these assumptions. The cash benefit payments are presented on an undiscounted basis and are before deduction of tax and before reinsurance



**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

**23 Risk management (continued)**

**Financial liabilities relating to insurance and investment contracts**

	< 1 yr Amount 2008 £'000	1 < 5 yrs Amount 2008 £'000	5 < 10 yrs Amount 2008 £'000	> 10 yrs Amount 2008 £'000
Insurance contracts	3,887	25,198	27,092	72,573
Investment contracts for account of policyholders	17,461	67,866	27,011	15,536
	<u>21,348</u>	<u>93,064</u>	<u>54,103</u>	<u>88,109</u>
	< 1 yr Amount 2007 £'000	1 < 5 yrs Amount 2007 £'000	5 < 10 yrs Amount 2007 £'000	> 10 yrs Amount 2007 £'000
Insurance contracts	3,350	21,205	23,246	70,072
Investment contracts for account of policyholders	27,266	110,747	47,456	55,877
	<u>30,616</u>	<u>131,952</u>	<u>70,702</u>	<u>125,949</u>

The liability amount in the Company's financial statements reflects the discounting for interests as well as adjustments for the timing of other factors as described above. As a result, the sum of the cash benefit payments shown for all years in the table exceeds the corresponding liability amounts included in Notes 15 and 16.

**Market risk**

Results of the Company's sensitivity analyses are presented throughout this section to show the estimated sensitivity of Net Income for the Financial year and Equity Shareholders' Funds to various scenarios. For interest rate risk and equity markets risk, the analysis shows how these measures would have been affected by changes in the relevant risk variable that were reasonably possible at the reporting date. In performing the analyses and determining the potential impact for the financial year, the assumption is made that the financial instrument exposures at the balance sheet date were in existence for a full year. For each sensitivity test the impact of a reasonably possible change in a single factor is shown.

The sensitivities do not reflect what the results for the period would have been if risk variables had been different, because, for financial instruments, the analysis is based on the exposures in existence at the reporting date rather than on those that actually occurred during the year. Nor are the sensitivities intended to be an accurate prediction of the Company's future equity or earnings. The analysis does not consider all instruments available to management to respond to changes in financial environment, such as changing investment portfolio allocations or adjusting premiums and crediting rates. Furthermore, the results of the analyses cannot be extrapolated for wider variations since effects are not always linear. No risk management process can clearly predict future results.

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

**23 Risk management (continued)**

The sensitivities do not reflect what the results for the period would have been if risk variables had been different, because, for financial instruments, the analysis is based on the exposures in existence at the reporting date rather than on those that actually occurred during the year. Nor are the sensitivities intended to be an accurate prediction of the Company's future equity or earnings. The analysis does not consider all instruments available to management to respond to changes in financial environment, such as changing investment portfolio allocations or adjusting premiums and crediting rates. Furthermore, the results of the analyses cannot be extrapolated for wider variations since effects are not always linear. No risk management process can clearly predict future results

**Interest rate risk**

The sensitivity analysis in the table below shows an estimate of the effect of a parallel shift in the yield curve on Net Income and Equity. Increases in interest rates have a positive effect on loan income, a negative effect on bond income because it results in unrealised losses on investments that are carried at fair value and a negative effect on annual management charges collected because the value of fixed interest securities would decrease. The offsetting economic gain on the insurance and investment contracts is not fully reflected however in the sensitivities, because many of these liabilities are not measured at fair value. The net effect of these movements is shown in the table below.

	2008		2007	
	Impact on net income £'000	Impact on equity £'000	Impact on net income £'000	Impact on equity £'000
Shift up 100 basis points	563	(2,828)	605	(3,690)
Shift down 100 basis points	(563)	3,499	(605)	4,416

**Equity price risk**

The sensitivity analysis of Net income for the Financial year and Equity Shareholders' funds to changes in equity prices is presented in the table below. The sensitivity of Net income for the Financial year and Equity Shareholders' funds primarily reflects the impact of equity price changes on fund related charges.

	2008		2007	
	Impact on net income £'000	Impact on equity £'000	Impact on net income £'000	Impact on equity £'000
Immediate change				
Equity increase 10%	476	476	566	566
Equity decrease 10%	(476)	(476)	(566)	(566)

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

**23 Risk management (continued)**

**Underwriting risk**

The Company's earnings are impacted by the extent to which actual claims experience is consistent with the assumptions used in setting prices for products and establishing technical liabilities and liabilities for claims. To the extent that actual claims experience is less favourable than the underlying assumptions used in establishing such liabilities, income would be reduced. Furthermore, if these higher claims were part of a permanent trend, the Company may be required to increase liabilities, which could also reduce income. In addition, certain acquisition costs related to the sale of new policies and the purchase of policies already in force have been recorded as assets on the balance sheet and are being amortised into income over time. If the assumptions relating to the future profitability of these policies (such as future claims, investment income and expenses) are not realised, the amortisation of these costs could be accelerated and may even require write offs due to unrecoverability. This could have a materially adverse effect on the Company's business, results of operations and financial condition.

Sources of underwriting risk include policy lapses and policy claims such as mortality, morbidity and expenses. In general, the Company is at risk if policy lapses increase as there will be a reduction in future annual management charges. The impact over a single year is small but would increase over time. For mortality and morbidity risk, the Company sells certain types of policies that are at risk if mortality or morbidity increases, such as group income protection, and sells certain types of policies that are at risk if mortality decreases (longevity risk) such as annuity products. The Company is also at risk if expenses are higher than assumed by management.

The Company monitors and manages its underwriting risk by underwriting risk type. Attribution analysis is performed on earnings in order to understand the source of any material variation in actual results from what was expected. The Company also performs experience studies for underwriting risk assumptions, comparing the Company's experience to industry experience as well as combining the Company's experience and industry experience based on the depth of the history of each source to the Company's underwriting assumptions. Where products have flexible policy charges the Company uses these analyses as the basis for modifying these charges, with a view to maintain a balance between policyholder and Shareholder interests. The Company also has the ability to reduce expense levels over time, thus mitigating unfavourable expense variation.

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

**23 Risk management (continued)**

Sensitivity analysis of Net Income and Shareholders' Equity to various underwriting risks as shown below has been assessed. The sensitivities considered represent an increase or decrease of mortality and morbidity rates or lapse rates during the relevant year.

	2008		2007	
	Impact on net income £'000	Impact on equity £'000	Impact on net income £'000	Impact on equity £'000
Immediate change				
Lapses/PUPs +20%	(74)	(74)	(72)	(72)
Lapses/PUPs -20%	74	74	72	72
10% increase mortality rates	5	5	105	105
10% decrease mortality rates	(5)	(5)	(105)	(105)
10% increase morbidity	(124)	(124)	(103)	(103)
10% decrease morbidity	124	124	103	103

**24 Related party transactions**

**(a) Immediate parent undertaking**

The entire issued share capital of the Company at the year end is held by AEGON UK plc, which is registered in Scotland.

**(b) Ultimate parent undertaking**

The results of the Company are consolidated in the accounts of AEGON N.V., the Ultimate Parent Undertaking, which is incorporated in the Netherlands. Copies of the consolidated accounts of AEGON N.V. are available to the public and may be obtained from The Company Secretary, AEGON UK plc, Edinburgh Park, Edinburgh, EH12 9SE.

**(c) Year-end balances and transactions with related parties**

Administrative expenses are recharged to the Company at cost by AEGON UK Services Limited which is a fellow AEGON N.V. subsidiary (see Note 6 for total amount of such transactions). The terms of loans to related parties are described in Note 10, and the terms of reinsurance arrangements are described in Notes 11 and 15.

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

**24 Related party transactions (continued)**

Asset management services are provided to the Company by AEGON Investment Management plc, a fellow AEGON N.V. subsidiary undertaking. AEGON Investment Management plc provides investment services to the Company at prices which are agreed from time to time between the Company and AEGON Investment Management taking into account the size and nature of the service (see Note 6 for total amount of such transactions).

Premiums include £3,641,000 (2007: £3,985,000) in respect of reinsurance accepted from fellow subsidiary undertakings. Claims include £35,964,000 (2007: £74,560,000) in respect of reinsurance accepted from fellow subsidiary undertakings. Income from reinsurance ceded include £801,000 (2007: £825,000) in respect of reinsurance ceded to fellow subsidiary undertakings.

Outstanding payables are unsecured, interest free and cash settlement is generally expected within 30 to 90 days of invoice. Outstanding receivables relate to unsecured, interest free intercompany accounts with no specified credit period. The Company has not provided or benefited from any guarantees for any related party receivables. Details of related party transactions related to external borrowings are described in Note 17. During the year ended 31 December 2008 the Company has not made any provision for doubtful debt relating to amounts owed by related parties (2007: nil).

Year end balances related to related party transactions are detailed in Notes 10, 12a and 20.

**(d) Compensation of key management personnel (including Directors)**

No key management personnel (including Directors) received any compensation in respect of services provided to the Company (2007: nil).

**25 First time adoption of IFRS**

**(a) Reconciliation of Shareholders' equity from UK GAAP to IFRS**

	<i>Note</i>	31 December 2007 £'000	1 January 2007 £'000
<b>UK GAAP Shareholders' Equity</b>		<b>129,840</b>	<b>123,677</b>
Technical Provisions	<i>i</i>	(5,446)	(3,227)
Present Value of acquired In Force business	<i>ii</i>	(40,005)	(43,808)
Tax adjustments	<i>iv</i>	12,634	14,081
Total adjustments		(32,817)	(32,954)
<b>IFRS Shareholders' Equity</b>		<b>97,023</b>	<b>90,723</b>

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

**25 First time adoption of IFRS (continued)**

**(b) Reconciliation of net income from UK GAAP to IFRS**

	<i>Note</i>	2007 £'000
<b>Net Income UK GAAP</b>		<b>7,163</b>
Technical provision	<i>i</i>	(2,219)
Bond amortisation	<i>iii</i>	4,553
Present Value of acquired In Force business	<i>ii</i>	3,803
Tax adjustments	<i>iv</i>	(2,737)
Total adjustments		<u>3,400</u>
<b>Net Income IFRS</b>		<u><b>10,563</b></u>

i) Under UK GAAP the technical provisions were calculated by the use of the 'Modified Statutory' method set out in the ABI SORP dated December 2005 (as amended in December 2006). Under IFRS the accounting policies for insurance contracts are as set out in Note 1.16. The principal difference is the use of locked in assumptions with a margin for adverse deviation for long duration non-linked contracts for IFRS compared with current assumptions under the 'Modified Statutory' method. At the date of conversion the locked in valuation interest rates underlying the IFRS provisions were lower than the equivalent UK GAAP interest rate resulting in higher technical provisions.

ii) As described in Note 1.2 the Company measures assets and liabilities, for first time adoption of IFRS, at the carrying amounts that would be included in the ultimate parent's consolidated accounts. For the purposes of the Group accounts, a restriction on the carrying value of the Value of Business Acquired (VOBA) recognised as a result of the Group's 1997 acquisition of the Company, was applied. This restriction arose as a result of applying the Group's IFRS accounting policy in respect of VOBA. Therefore at the date of conversion the IFRS VOBA was £37.4m compared to £81.3m (after grossing up for tax) under UK GAAP, giving a reduction in equity at conversion. Consequently the annual amortisation is lower under IFRS than UK GAAP.

iii) The adoption of IFRS has resulted in the general account financial assets being designated as available-for-sale in order to more closely match the accounting for related liabilities under IFRS. Previously under UK GAAP these financial assets were designated as fair value through the income statement. This has resulted in the creation of a fair value reserve with unrealised changes in fair value recognised directly in Shareholders' Equity. For all other financial assets the adoption of IFRS maintains the same designations as reported under UK GAAP.

iv) The total tax impact resulting from the adjustments above is that the tax adjustment within IFRS net income differs to the movement in the tax adjustment in IFRS Shareholders' Equity as the bond amortisation adjustment in the income statement does not impact Shareholder Equity.

**GUARDIAN PENSIONS MANAGEMENT LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

**25 First time adoption of IFRS (continued)**

**(c) Presentation of financial statements**

Under UK GAAP requirements the format for reporting was specifically set out with certain transactions and business reported in prescribed formats. Under IFRS these principles of reporting are not specifically set out.

The presentation of these IFRS statements are in line with the Ultimate Parent Undertaking, AEGON N.V. The principal differences between UK GAAP and the IFRS presentation are in the treatment of cash and cash equivalents as explained below.

**Cash and Cash equivalents**

Short term general account cash deposits which for the Company totalled £17,100,000 at 31 December 2007 are classified in the balance sheet as 'cash and cash equivalents' under IFRS. Under UK GAAP these deposits were presented as part of 'other financial investments'.

**Cash flow statement**

In the financial statements prepared under UK GAAP, the Company availed itself of the exemption outlined in paragraph 5(a) of FRS 1 Cash Flow Statements and consequently no cash flow statement was presented. As a result no explanation of material adjustments to the Cash Flow Statement has been presented.