SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2009

COMPANY NUMBER 64697

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED
REPORT BY THE DIRECTORS

Chairman
David V Paige, FCA

Directors
Patrick NC Gale, BSc
Adrian T Grace, MBA
Mark Laidlaw, BSc, FFA
Feilim Mackle
William J Robertson, BSc, FFA
Otto Thoresen, MA, FFA
Michael R Tuohy, FIA, MAAA

Registered Office
AEGON Lochside Crescent
Edinburgh Park
Edinburgh
EH12 9SE

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

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED
REPORT BY THE DIRECTORS

The Directors present their report and the audited financial statements for the year ended 31 December 2009.

Structure of these financial statements
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 2009 and applied in accordance with the Companies Act 2006.

Principal activity
During 2009, the Company undertook the transacting of reassurance of unit linked life assurance business from Scottish Equitable plc. The Company has not written direct business since 1 January 1994. On 16 December 2005 the internal reassurance agreements with Scottish Equitable plc in respect of pensions business were cancelled and the related assets and liabilities were transferred to Scottish Equitable plc. On 1 January 2010 the business of the Company was transferred to Scottish Equitable plc (the Company's parent) by way of a transfer under Case 4 of Section 105(3) of the Financial Services and Markets Act 2000. Further details of this post balance sheet event are set out in Note 21.

The Company is domiciled and incorporated in Scotland.

Financial results
The results for the year are on page 7. Interim dividends of £3m (2008: £50m) were paid to Scottish Equitable plc. The Directors do not propose a final dividend payment for the year ended 31 December 2009 (2008: £nil).

Review of business and future developments
As from 1 January 2010 the Company ceased transacting life reassurance business with Scottish Equitable plc. It is intended to de-regulate the Company and consider future trading activities in due course.

The main key performance indicators for the Company are solvency and dividend payments. Solvency is monitored by a committee of the Board of the Company on a regular basis. The Company's objective in managing its capital is to ensure compliance with the requirements of the Financial Services Authority ("FSA"), and to allocate capital efficiently to support growth and repatriate excess capital where appropriate. Due to the nature of the Company's business the most onerous regulatory capital requirement is currently the EU minimum capital requirement of Euro 3.5m. As noted above the Company paid dividends of £3m in 2009 (2008: £50m). The excess of available capital resources to cover long-term insurance business over the Capital Resources Requirement was £5m at 31 December 2009 compared to £5m at 31 December 2008.

Directors and their interests
The current Directors of the Company are shown on page 1.

Adrian Grace was appointed as Director on 29 September 2009. Patrick Gale and William Robertson were appointed on 15 February 2010. Steven Clode and Maurice Brunet resigned on 15 February 2010. All other Directors served throughout the year.

Ian Young resigned as Company Secretary on 13 August 2009 and was not replaced in light of the removal (with effect from 6 April 2008) of the requirement to appoint a Company Secretary in the Companies Act 2006.

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 Act 2006.

Corporate Governance
The AEGON UK Group, of which Scottish Equitable (Managed Funds) Limited is 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;
- A risk management function providing a second line of defence, independent of operations and with responsibility for monitoring and reporting of risk; 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.

Risk and capital management and financial instruments

General
Within the AEGON risk management structure described above, Scottish Equitable (Managed Funds) Limited's risk management framework is integrated with that of the Company's parent Scottish Equitable plc.

The Company is not exposed to significant risks arising from financial instruments. There is a small amount of interest rate risk, since movements in interest rates will impact on the value of shareholders' fixed interest securities. The Company also has some exposure to 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 invests almost exclusively in liquid assets and has normally positive cash flow, this is not generally a significant risk. In respect of the unit linked commercial property fund, the Company has the right to defer payment of certain withdrawals to allow for the orderly sale of properties so as to provide liquidity for the fund.

Exposure to financial risks is monitored by an appropriate sub-committee of the Board of the Company's immediate parent undertaking, Scottish Equitable plc, particularly as part of the Individual Capital Assessment process required by the FSA under its Prudential Sourcebook for Insurers.

Elective resolutions
An elective resolution was passed on 24 February 1999 to dispense with the requirement to lay the Report and financial statements before the Company in the general meeting. Resolutions were passed on 5 April 2002 to dispense with (a) the holding of an Annual General Meeting for 2002 and subsequent years and (b) the obligation to appoint Auditors annually.

Going concern
In assessing whether the Company is a going concern the Directors have taken into account the guidance issued by the Financial Reporting Council in October 2009.

After making enquiries, which include considering the liquidity of the Company's assets and the regulatory capital position, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

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, being information needed by the auditors in connection with preparing its report, 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

Otto Thoresen
Director
AEGON Lochside Crescent
Edinburgh Park
Edinburgh

23 March 2010

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Directors Report and the Company financial statements ("the financial statements") in accordance with applicable United Kingdom law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under the law, the directors have elected to prepare those statements in accordance with International Financial Reporting Standards as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they present fairly the state of the affairs of the Company and the net income of the Company for that period. In preparing these 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;
- make judgements and accounting estimates that are reasonable and prudent;
- 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;
- state that the Company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006. 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 SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED

We have audited the financial statements of Scottish Equitable (Managed Funds) Limited for the year ended 31 December 2009 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Equity and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the Statement of Directors' Responsibilities as set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its net income for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company's financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP.

George M Reid (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Edinburgh
23 March 2010

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED
INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 £'000	2008 £'000
Income			
Investment income	3	62,206	45,486
Total revenue		62,206	45,486
Results from financial transactions	4	143,975	(280,045)
Other income	5	3,369	3,764
Total income		209,550	(230,795)
Charges			
Policyholders claims and benefits	6	178,414	(253,383)
Commission and expenses	7	16,731	18,605
Interest charges and related fees	8	163	362
Total charges		195,308	(234,416)
Income before tax		14,242	3,621
Tax (charge)/credit	9	(10,844)	1,631
Net income attributable to equity holders of Scottish Equitable (Managed Funds) Limited		3,398	5,252

All the amounts above are in respect of continuing operations.

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 £'000	2008 £'000
Net Income		3,398	5,252
Other comprehensive income:			
Net gains/(losses) on available for sale investments	15.2	28	(386)
Tax relating to components of other comprehensive income	15.2	(8)	108
Other comprehensive income for the year		20	(278)
Total comprehensive income attributable to equity holders of Scottish Equitable (Managed Funds) Limited		3,418	4,974

All the amounts above are in respect of continuing operations.

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED
BALANCE SHEET
AS AT 31 DECEMBER 2009

	Note	2009 £'000	2008 £'000
Assets			
Investments	10	2,953	3,895
Investments for account of policyholders	11	1,684,075	1,565,033
Derivatives	12	1,569	3,399
Other assets and receivables	13	16,754	19,020
Cash and cash equivalents	14	5,269	4,527
Total assets		1,710,620	1,595,874
Equity and liabilities			
Shareholders' equity	15	8,352	7,934
Investment contracts for account of policyholders	16	1,694,184	1,573,597
Derivatives	12	253	1,176
Deferred tax liabilities	17	-	-
Other liabilities	18	7,831	13,167
Total liabilities		1,702,268	1,587,940
Total equity and liabilities		1,710,620	1,595,874

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

Otto Thoresen
23 March 2010

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED
CASH FLOW STATEMENT
AS AT FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 £'000	2008 £'000
Income before tax		14,242	3,621
Results from financial transactions	4	(143,975)	280,045
Adjustments of non-cash items		(143,975)	280,045
Investment liabilities for account of policyholders		120,587	(67,016)
Accrued income and prepayments		2,234	(7,431)
Accrued expenses and other liabilities		(4,567)	(4,155)
Changes in accruals		118,254	(78,602)
Purchase of investments (other than money market investments)		(1,987)	(3,889)
Purchase of derivatives		(5,361)	(5,199)
Disposal of investments (other than money market investments)		2,955	39,017
Disposal of derivatives		7,204	1,392
Net purchases of investments for account of policyholders		23,999	(182,347)
Cash flow movements on operating items not reflected in income		26,810	(151,026)
Tax paid		(11,589)	(8,884)
Net cash flows from operating activities		3,742	45,154
Dividend paid		(3,000)	(50,000)
Net cash flows from financing activities		(3,000)	(50,000)
Net increase in cash and cash equivalents [1]		742	(4,846)
Net cash and cash equivalents at 1 January		4,527	9,373
Net cash and cash equivalents at 31 December	14	5,269	4,527

[1] Included in net increase/(decrease) in cash equivalents are interest received £41,449k (2008: £17,326k), dividends received £13,070k (2008: £10,137k) and interest paid £26k (2008: £110k).

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

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	Share Capital £'000	Revaluation Reserves £'000	Retained Earnings £'000	Total Shareholders' Equity £'000
At 1 January 2009		225	(34)	7,743	7,934
Other comprehensive income:					
Revaluations	15.2	-	25	-	25
Gains transferred to income statement on disposal		-	3	-	3
Aggregate tax effect of items recognised directly in equity	15.2	-	(8)	-	(8)
Net income recognised in other comprehensive income		-	20	-	20
Net income recognised in the income statement		-	-	3,398	3,398
Total comprehensive income for 2009		-	20	3,398	3,418
Dividends paid		-	-	(3,000)	(3,000)
At 31 December 2009	15	225	(14)	8,141	8,352

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	Share Capital £'000	Revaluation Reserves £'000	Retained Earnings £'000	Total Shareholders' Equity £'000
At 1 January 2008	15.2	22,500	244	30,216	52,960
Other comprehensive income:					
Revaluations		-	(339)	-	(339)
Gains transferred to income statement on disposal		-	(47)	-	(47)
Aggregate tax effect of items recognised directly in equity	15.2	-	108	-	108
Net income recognised in other comprehensive income		-	(278)	-	(278)
Net income recognised in the income statement		-	-	5,252	5,252
Total comprehensive income for 2008		-	(278)	5,252	4,974
Share capital reduction	15.1	(22,275)	-	22,275	-
Dividends paid		-	-	(50,000)	(50,000)
At 31 December 2008	15	225	(34)	7,743	7,934

1. Summary of significant accounting policies

1.1.1. Basis of presentation

The Company's financial statements have been prepared on a going concern basis and 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 2009 and applied in accordance with section 408 of the Companies Act 2006.

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 2009, the following new standards issued by the IASB and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) became mandatory:

- IFRS 8 *Operating Segments*
- IAS 1 (revised) *Presentation of financial statements*
- IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
- Amendment to IFRS 7 *Financial Instruments: Disclosures*
- IAS 23 (revised) Borrowing Costs
- Improvements to IFRS (2008)

IAS 1 (revised) '*Presentation of financial statements*'. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line.

In addition, the standard introduces the statement of comprehensive income. It presents all items of recognised income and expenses, either in one single statement, or in two linked statements. The Company has elected to present two statements. The adoption of this standard did not have any impact on equity or net income. In accordance with the transitional requirements of the standard the Company has provided full comparative information.

Amendment to IFRS 7 '*Financial Instruments: Disclosures*'. The amendment increases the disclosure requirements about fair value measurement and amends the disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosures about financial instruments and requires some specific quantitative disclosures for those instruments classified in the lowest level in the hierarchy. These disclosures will help to improve comparability between entities about the effects of fair value measurements. In addition, the amendment clarifies and enhances the existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities. It also requires a maturity analysis for financial assets where the information is needed to understand the nature and context of liquidity risk. The Company has made these additional relevant disclosures in Note 2.1 and Note 19.

IAS 23 '*Borrowing Costs (revised)*'. The standard has been revised to require capitalization of borrowing costs on qualifying assets. This amendment is not relevant to the Company as the Company does not have borrowing costs on qualifying assets.

Improvements to IFRS (2008). The IASB issued, in May 2008, a number of minor amendments to IFRS which resulted from the IASB's 2008 annual improvements project. These amendments, which were effective from January 1, 2009, deal with minor changes to the wordings used in the individual standards and seek to remove editorial and other inconsistencies in the literature. The removal of such inconsistencies could result in changes to the manner in which companies were interpreting and applying existing accounting standards and interpretations. The Company adopted all the relevant changes from the improvements project to its accounting policies, none of which resulted in any material change to the classification, measurement or presentation of any items in its financial statements.

In addition, the following new standards, amendments to existing standards and interpretations are mandatory for the first time for the financial year beginning January 1, 2009 but are not currently relevant for the Company:

- IFRIC 16 *Hedges of a net investment in a foreign operation*
- Amendments to IAS 32 and IAS 1 *Puttable financial instruments and obligations arising on liquidation*
- Amendments to IFRS 1 and IAS 27 *Cost of an investment in a subsidiary*
- Embedded Derivatives (amendments to IFRIC 9 and IAS 39)
- IFRIC 13 *Customer loyalty programmes*
- IFRIC 15 *Agreements for the construction of real estate*
- IFRS 1 (revised) *First time adoption of IFRS*

1.1.3. Future adoption of new IFRS accounting standards

The following standards, amendments to existing standards and interpretations, published prior to January 1, 2010, were not early adopted by the Company and will be applied in future years:

- IFRS 3 *Business Combinations (*Revised*)* and IAS 27 *Consolidated and separate financial statements (*Revised*)*
- Amendments to IAS 39 *Financial Instruments – Classification and Measurement* IFRS 9 – *Classification & Measurement*
- IFRS 9 – *Classification & Measurement* *
- Amendments to IAS 39 *Financial Instruments – Eligible hedged items*
- IFRIC 15 *Agreements for the construction of real estate*
- IFRIC 17 *Distributions of non-cash assets to owners*
- IFRIC 18 *Transfers of assets from customers*
- IFRS 1 (revised) *First time adoption of IFRS*
- Improvements to IFRS (2009)*
- Amendment to IFRS 2 *Share Based Payments* (Group cash settled and share based payment transactions)*

* not yet endorsed by the European Union

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

1.2. 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.

1.3. 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 includes the interest income and dividend on financial assets carried at fair value through profit or loss.

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

1.4. 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.

For claims payable the related internal and external claims handling costs are borne by the immediate UK parent undertaking, Scottish Equitable plc.

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.

1.5. 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 profit and loss.

Net fair value change on derivatives
All changes in fair value are recognised in the income statement.

Net fair value change on for account of policyholder financial assets at fair value through profit or loss
Net fair value change on for account of policyholder financial assets at fair value through profit or loss include fair value movements of investments held for account of policyholders. The net fair value change does not include interest or dividend income.

Other
In addition results from financial transactions include gains/losses on real estate (general account and account of policyholder).

1.6. 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 profit or loss 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 profit or loss, any directly attributable incremental transaction costs.

Loans are subsequently carried at amortised cost using the effective interest rate method. Financial assets at fair value through profit or loss are measured at fair value with all changes in fair value recognised in the income statement as incurred. Available-for-sale assets are recorded at fair value with unrealised changes in fair value recognised directly in other comprehensive income. 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.

Fair value

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

1.7. Investments for account of policyholders

Investments held for account of policyholders consist of investments in financial assets, excluding derivatives, as well investments in real estate. Investment return on these assets is passed on to the policyholder. Also included are the assets held by consolidated investment funds that are backing liabilities towards third parties. All financial asset investments for account of policyholders have been designated as at fair value through profit or loss. The accounting principles for financial assets are the same as those applicable to the general account investments, as described in note 1.6.

Real Estate

Investments in real estate is property held to earn rentals or for capital appreciation, or both.

All property is initially recognised at cost. Subsequently, investments in real estate are measured at fair value with changes in fair value recognised in the income statement. Real estate held for own use is carried at its revalued amount, which is the fair value at the date of revaluation less subsequent accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis over the useful life of a building. Land is not depreciated. On revaluation, the accumulated depreciation is eliminated against the gross carrying amount. Increases in the net carrying amount are recognised in the related revaluation reserve in shareholders' equity and are released to retained earnings over the remaining useful life of the property. On disposal of an asset, the difference between the net proceeds received and the carrying amount is recognised in the income statement.

Valuations of investments in real estate are conducted with sufficient regularity to ensure the value correctly reflects the fair value at the balance sheet date. Valuations are mostly based on active market prices, adjusted for any difference in the nature, location or condition of the specific property. If such information is not available, other valuation methods are applied, considering the current cost of reproducing or replacing the property, the value that the property's net earning power will support and the value indicated by recent sales of comparable properties.

1.8. Derivatives

Definition

Derivatives are financial instruments whose value changes in response to an underlying variable, that require little or no net initial investment and are settled at a future date.

Derivatives with positive values are reported as assets and derivatives with negative values are reported as liabilities.

Measurement
All derivatives are recognised on the balance sheet at fair value. All changes in fair value are recognised in the income statement.

1.9. Other assets and receivables
Other assets include trade and other receivables and prepaid expenses. Trade and other receivables are initially recognised at fair value and are subsequently measured at amortised cost.

1.10. 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 investment liabilities) are not included in cash and cash equivalents but are presented as investment for account of policyholders.

1.11. Impairment of assets
An asset is impaired if the carrying amount exceeds the amount that would be recovered through its use or sale. For financial assets, if not held at fair value through profit or loss, the recoverable amount of the asset is estimated when there are indications that the asset may be impaired.

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 than 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 the reversal cannot exceed its amortised cost at the reversal date.

1.12. 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.

1.13. Investment contracts

Contracts issued by the Company that do not transfer significant insurance risk, but that 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 policyholders without discretionary participation features

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

1.14. Interest bearing loans and borrowings

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 attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate 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.

1.15. 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 temporary differences except:

- When the deferred income tax liability 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 taxable profit or loss.

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 profit 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 in equity and not in the income statement.

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 relates 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 accrue to the benefit of policyholders.

1.16. <u>Events after the balance sheet date</u>

The financial statements are adjusted to reflect events that occurred between the balance sheet date and the date when the financial statements are authorised for issue, provided they give evidence of conditions that existed at the balance sheet date.

Events that are indicative of conditions that arose after the balance sheet date are disclosed, but do not result in an adjustment, of the financial statements themselves.

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. Fair value and fair value hierarchy

The following is a description of the Company's methods of determining fair value, and a quantification of its exposure to financial instruments measured at fair value. The accounting policies which determine the classification of specific financial instruments and the use of assumptions and estimation in valuing them, which remain consistent when compared to prior years, are described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms length transaction. Financial instruments measured at fair value on an ongoing basis include investments for the general account (classified as available for sale), investments designated at fair value and derivatives.

Effective 1 January 2009 the Company adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. In accordance with this amendment the Company uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices of identical or similar assets and liabilities) using valuation techniques for which all significant inputs are based on observable market data; and
- Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) using valuation techniques for which any significant input is not based on observable market data.

In accordance with the first time adoption requirements of the amendment to IFRS 7, this information is required only for the current year and comparative information is not required.

The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used.

The judgment as to whether a market is active may include, but is not restricted to, the consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads. In inactive markets, obtaining assurance that the transaction price provides evidence of fair value or determining the adjustments to transaction prices that are necessary to measure the fair value of the instrument requires additional work during the valuation process.

The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement is high. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable and, for them, the derivation of fair value is more judgmental. An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument's carrying amount and/or inception profit ('day 1 gain or loss') is driven by unobservable inputs. 'Unobservable' in this context means that there is little or no current market data available from which to determine the price at which an arms length transaction would be likely to occur. It generally does not mean that there is no market data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used). Furthermore, in some cases the majority of the fair value derived from a valuation technique with significant unobservable inputs may be attributable to observable inputs. Consequently, the effect of uncertainty in determining unobservable inputs will generally be restricted to uncertainty about the overall fair value of the financial instrument being measured.

The table below shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

The fair values of the financial instruments carried at fair value were determined as follows:

	Level 1 £000	Level 2 £000	Level 3 £000	2009 Total £000
Financial assets carried at fair value				
Available for sale investments				
Debt securities	2,953	-	-	2,953
Fair value through profit or loss				
Investments for account of policyholders	488,030	1,078,522	-	1,566,552
Derivatives	1,504	65	-	1,569
Financial liabilities carried at fair value				
Investments contracts for account of policyholders	-	(1,694,184)	-	(1,694,184)
Derivatives	(163)	(90)	-	(253)

Movements in Level 3 financial instruments measured at fair value

No items were classified at Level 3 during the year. Additionally, there were no transfers between Level 1 and Level 2.

Financial instruments

When available, the Company uses quoted market prices in active markets to determine the fair value of investments and derivatives. In the absence of an active market, the fair value of investments in financial assets is estimated by using other market observable data such as external quotes and present value or other valuation techniques. An active market is one in which transactions are taking place regularly on an arms length basis. Although not necessarily determinative, indicators that a market is inactive are lower transaction volumes, reduced transaction sizes and, in some cases, no observable trading activity for short periods. A fair value measurement assumes that an asset or liability is exchanged in an orderly transaction between market participants, and accordingly, fair value is not determined based upon a forced liquidation or distressed sale.

Valuation techniques are used when the Company determines the market is inactive for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, to arrive at the price at which an orderly transaction would occur between market participants at the measurement date. Therefore, unobservable inputs reflect the Company's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available.

The Company employs an oversight structure over valuation of financial instruments that includes appropriate segregation of duties. Senior management, independent of the investing functions, is responsible for the oversight of control and valuation policies and for reporting the results of these policies. For fair values determined by reference to external quotation or evidenced pricing parameters, independent price determination or validation is utilised. Adjustments made to fair values as a result of the validation process are reported to senior management. Further details of the validation processes are set out below.

Shares
Fair values for unquoted shares are estimated using observations of the price/earnings or price/cash flow ratios of quoted companies considered comparable to the companies being valued. Valuations are adjusted to account for company-specific issues and the lack of liquidity inherent in an unquoted investment. Illiquidity adjustments are generally based on available market evidence. In addition, a variety of other factors are reviewed by management, including, but not limited to, current operating performance, changes in market outlook and the third-party financing environment.

Debt securities
When available, the Company uses quoted market prices in active markets to determine the fair value of its debt securities. These market quotes are obtained through index prices or pricing services.

The fair values of debt securities (including ABS – Housing, RMBS, CMBS and CDO securities) are determined by management after taking into consideration several sources of data. AEGON's valuation policy dictates that publicly available prices are initially sought from several third party pricing services. In the event that pricing is not available from these services, those securities are submitted to brokers to obtain quotes. The majority of brokers' quotes are non-binding. As part of the pricing process the Company assesses the appropriateness of each quote (i.e., as to whether the quote is based on observable market transactions or not) to determine the most appropriate estimate of fair value. Lastly, securities are priced using internal cash flow modelling techniques. These valuation methodologies commonly use the following inputs: reported trades, bids, offers, issuer spreads, benchmark yields, estimated prepayment speeds, and/or estimated cash flows. Only pricing services and brokers with a substantial presence in the market and with appropriate experience and expertise are used.

Third party pricing services will often determine prices using recently reported trades for identical or similar securities. The pricing service makes adjustments for the elapsed time from the trade date to the balance sheet date to take into account available market information. Lacking recently reported trades, third party pricing services and brokers will use modelling techniques to determine a security price where expected future cash flows are developed based on the performance of the underlying collateral and discounted using an estimated market rate. Also included within the modelling techniques for ABS – Housing, RMBS, CMBS and CDO securities are estimates of the speed at which principal will be repaid over their remaining lives. These estimates are determined based on historical repayment speeds (adjusted for current markets) as well as the structural characteristics of each security.

Money market and other short-term investments and deposits with financial institutions
The fair value of assets maturing within a year is assumed to be approximated by their carrying amount adjusted for credit risk, where appropriate, based on market observable credit spreads.

Financial derivatives
Where quoted market prices are not available, other valuation techniques, such as option pricing or stochastic modelling, are applied. The valuation techniques incorporate all factors that market participants would consider and are based on observable market data when available. All models are validated before they are used and calibrated to ensure that outputs reflect actual experience and comparable market prices.

Fair values for exchange-traded derivatives, principally futures and certain options, are based on quoted market prices. Fair values for over-the-counter (OTC) derivative financial instruments represent amounts estimated to be received from or paid to a third party in settlement of these instruments. These derivatives are valued using pricing models based on the net present value of estimated future cash flows, directly observed prices from exchange-traded derivatives, other OTC trades, or external pricing services. Most valuations are derived from swap and volatility matrices, which are constructed for applicable indices and currencies using current market data from many industry standard sources. Option pricing is based on industry standard valuation models and current market levels, where applicable. The pricing of complex or illiquid instruments is based on internal models. For long-dated illiquid contracts, extrapolation methods are applied to observed market data in order to estimate inputs and assumptions that are not directly observable. To value OTC derivatives, management uses observed market information, other trades in the market and dealer prices.

The Group normally mitigates credit risk in derivative contracts by entering into collateral agreements where practical and in ISDA master netting agreements for each of the Company's legal entities to facilitate the Group's right to offset credit risk exposure. Where appropriate collateral is not held by the Company or the counterparty, the fair value of derivatives is adjusted for credit risk based on market observable spreads. Changes in the fair value of derivatives attributable to changes in counterparty credit risk were not significant.

2.2. 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.

AEGON 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 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

	2009 £'000	2008 £'000
Interest income	40,890	20,306
Dividend income	12,951	9,279
Rental income	8,365	15,901
	62,206	45,486
Investment income related to general account	45	2,030
Investment income for account of policyholders	62,161	43,456
	62,206	45,486
Investment income from financial assets held for general account:		
Available for sale	38	1,516
Other	7	514
	45	2,030
Investment income from:		
Shares	12,951	9,279
Bonds and money market instruments	40,089	14,073
Real estate	8,365	15,901
Other	801	6,233
	62,206	45,486

4. Results from financial transactions

	2009 £'000	2008 £'000
Realised gains and losses on financial investments	(3)	47
Net fair value change on derivatives	938	(2,003)
Net fair value change on for account of policyholders financial assets at fair value through profit or loss (all designated), other than derivatives	147,168	(223,170)
Net fair value change in investments in real estate for account of policyholders	(4,128)	(54,919)
	143,975	(280,045)

	2009 £'000	2008 £'000
Net fair value change on for account of policyholder financial investments at fair value through profit or loss comprise:		
Shares	120,110	(204,295)
Bonds and money market investments	15,272	(2,943)
Separate accounts and unconsolidated investment funds	11,786	(15,932)
	147,168	(223,170)

Investments for account of policyholders comprise financial assets and investments in real estate. Refer to note 11 for further information. Financial assets for account of policyholder are classified as fair value through profit or loss. Investment income on investments for account of policyholders is included in investment income. Refer to note 3 for further information.

5. Other income

Other income in 2009 of £3,369k (2008: £3,764k) represents a linked fund surplus transferred to the shareholders' fund.

6. Policyholder claims and benefits

	2009 £'000	2008 £'000
Change in valuation of liabilities for investment contracts	178,414	(253,383)

7. Commissions and expenses

	2009 £'000	2008 £'000
Management fees	16,687	18,397
Other expenses	44	208
	16,731	18,605

All management fees are recharged by the UK parent undertaking Scottish Equitable plc in respect of management services provided.

No Directors' fees are paid in respect of the Company. The Company has not been subject to audit fees as this cost is borne by Scottish Equitable plc.

8. Interest charges and related fees

	2009 £'000	2008 £'000
Bank charges	137	252
Bank overdraft	26	110
	163	362

9. Income Tax

	2009 £'000	2008 £'000
Current tax		
Current year	12,667	3,281
Adjustment to prior years	(1,815)	585
	10,852	3,866
Deferred tax		
Reversal of timing differences	(8)	(5,497)
Tax credit for the period	10,844	(1,631)

Reconciliation between standard and effective income tax:	2009 £'000	2008 £'000
Income before tax	14,242	3,621
Income tax calculated using weighted average applicable statutory rates	3,988	1,032
Difference due to the effects of:		
Non-taxable income	(935)	(1,075)
Other taxes	9,606	(2,173)
Adjustment to prior years	(1,815)	585
Tax charge/(credit) for the period	10,844	(1,631)

The weighted standard rate of tax is 28.0% (2008: 28.5%). The weighted standard rate of tax of 28.0% for 2009 is lower than 2008 as a result of the reduction in UK corporation tax from 30% to 28% with effect from 1 April 2008.

10. Investments

Investments for the general account comprise financial assets, excluding derivatives. Refer to note 11 for investments for which the investment risk is borne by the policyholders .

	2009 £'000	2008 £'000
Available for sale		
Bonds and money market investments	2,953	3,895

Of the bonds and money market investments £2,953k is current (2008 £nil).

11. Investments for the account of policyholders

Investments for account of policyholders comprise financial assets at fair value through profit or loss, excluding derivatives, as well as investments in real estate held for own use. Refer to note 12 for details on derivatives for account of policyholders.

	2009 £'000	2008 £'000
Fair value through profit or loss – designated:		
Shares	817,233	603,924
Bonds	469,400	373,634
Money market and other short term investments	121,342	256,628
Deposits with financial institutions	73,559	97,500
Separate accounts and unconsolidated investment funds	85,018	58,294
	1,566,552	1,389,980
Investments in real estate	117,523	175,053
Total investments for account of policyholders	1,684,075	1,565,033

Investments in real estate

	2009 £'000	2008 £'000
At 1 January	175,053	353,627
Additions	8,781	-
Subsequent expenditure capitalised	1,407	442
Disposals	(63,590)	(124,097)
Fair value gains/(losses)	(4,128)	(54,919)
At 31 December	117,523	175,053

No property interests held under operating leases are classified and accounted for as investment property. The investment property is fully leased out under operating leases. Rental income is reported as part of investment income in the income statement. There are no restrictions on the realisability of investment property or the remittance of income and proceeds of disposal. All property was last valued in 2009 by independent external appraisers.

The direct operating expenses relating to investments in real estate for account of policyholders that generated rental income was £792k (2008: £748k).

12. Derivatives

	2009 £'000	2008 £'000
Rights under derivatives contracts not designated as a hedge – for account of policyholders	1,569	3,399
Obligations under derivative contracts not designated as a hedge – for account of policyholders	(253)	(1,176)
Total derivatives	1,316	2,223

Of these derivatives £1,114k net asset is current (2008: £2,218k). See note 1.8 for details on measurement of derivatives.

The fair value of the derivatives reflects the estimated amounts that the company would receive or pay to terminate the contracts on the reporting date. Market quotes are available for many derivatives; for those products without readily available market quotes generally accepted valuation models, such as option pricing, are used to estimate fair value.

The Company uses derivatives as part of the asset management process in the unit linked fund either for efficient portfolio management or for the reduction of equity, interest rate and currency risk.

Exchange traded derivative positions are all cleared through a central clearer and margining is reviewed daily. For over-the-counter derivatives, collateral is used to limit the counterparty exposures arising.

13. Other assets and receivables

	Note	2009 £'000	2008 £'000
Receivables	13.1	5,748	9,429
Accrued income		11,006	9,591
		16,754	19,020

All accrued income is current.

13.1. Receivables

	2009 £'000	2008 £'000
Receivables from policyholders	548	335
Cash outstanding from assets sold	2,256	3,920
Income tax receivable	44	77
Other	2,900	5,097
	5,748	9,429

All receivables are current.

14. Cash and cash equivalents

	2009 £'000	2008 £'000
Short term deposits	5,269	4,527

The weighted effective interest rate on short term deposits was 0.5% (2008: 5.65%) and these deposits have an average maturity date of 1 day (2008: 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.

15. Shareholders' equity

	Note	2009 £'000	2008 £'000
Share capital	15.1	225	225
Retained earnings		8,141	7,743
Revaluation reserves	15.2	(14)	(34)
		8,352	7,934

15.1. Share capital

	2009 £'000	2008 £'000
Authorised, allotted, called up and fully paid:		
At 1 January	225	22,500
Capital reduction	-	(22,275)
At 31 December	225	225

In October 2008 the share capital of the Company was reduced from £22,500,000 divided into 22,500,000 ordinary shares of £1 each, all of which are issued and fully paid up, to £225,000 divided into 22,500,000 ordinary shares of 1 penny each by redenominating each ordinary share of £1 as an ordinary share of 1 penny. This capital reduction was made under the procedure set out in part 17 of the Companies Act 2006, and resulted in a transfer of £22,275,000 between share capital and retained earnings.

15.2. Revaluation reserves

	Available for sale bonds 2009 £'000	Available for sale bonds 2008 £'000
At 1 January	(34)	244
Gross revaluation	25	(339)
Net gains transferred to income statement	3	(47)
	28	(386)
Tax effect	(8)	108
At 31 December	(14)	(34)

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.

16. Investment contracts for account of policyholders

	2009 £'000	2008 £'000
Without discretionary participation features:	1,694,184	1,573,597

All the investment contract for account of policyholders liability relates to reinsurance accepted from the Company's immediate parent undertaking Scottish Equitable plc. Under the terms of the reinsurance arrangement all charges under the Company's unit funds are payable to Scottish Equitable plc.

17. Deferred tax

	2009 £'000	2008 £'000
Deferred tax liabilities	-	-

	Financial Assets £'000
At 1 January 2009	-
Charged to income statement	(8)
Charged to equity	8
At 31 December 2009	-
At 1 January 2008	5,605
Charged to income statement	(5,497)
Charged to equity	(108)
At 31 December 2008	-

No deferred tax is recognised on the balance sheet in respect of losses arising under capital gains tax legislation of £101.1m (2008: £83.6m). These losses may carry forward without expiry.

All deferred taxes are non-current by nature.

18. Other liabilities

	2009 £'000	2008 £'000
Income tax payable	1,842	2,612
Investment creditors	2,692	7,541
Payable to Scottish Equitable plc	1,434	1,667
Other creditors and accruals	1,863	1,347
	7,831	13,167

All other liabilities are current.

19. Risk and capital management

General

The Company is exposed to financial risks on its financial instruments. The main risks to which the Company is exposed are interest rate risk and liquidity risk. Credit risk is limited as shareholder investments are primarily government bonds and bank deposits. The Company does not have significant exposure to equity risk or currency risk. Unit-linked funds of the Company do have exposure to market risk (such as equity price, interest rate and real estate) and currency risk; however these investment risks are borne by the unit-linked policyholders. The impact of these risks on fund related charges is primarily borne by the Company's immediate parent undertaking. The most significant risks and the controls that mitigate them are noted in the Risk management and financial instruments section in the Directors' Report.

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 bond and money market investments and cash and cash equivalents. Bonds and money market investments comprise government bonds.

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

	2009 £'000	2008 £'000
AAA	2,953	3,895
AA-	5,269	3,764
A+	-	763
	8,222	8,422

Financial assets above comprise:	2009 £'000	2008 £'000
Bonds and money market investments	2,953	3,895
Cash and cash equivalents	5,269	4,527
	8,222	8,422

All bonds and money market investments are sovereign exposure. There were no general account past due or impaired assets at 31 December 2009 or 31 December 2008.

Liquidity risk
There are no general account liabilities at 31 December 2009 (2008: £534k repayable in less than one year). All investment contract liabilities are repayable in less than one year.

Capital Management
The Company's objective in managing its capital is to ensure compliance with the requirements of the Financial Services Authority ("FSA"), and to allocate capital efficiently to support growth and repatriate excess capital where appropriate. Due to the nature of the Company's business the most onerous regulatory capital requirement is currently the EU minimum capital requirement of Euro 3.5m. The Company manages its capital by measuring its resources on a regular basis. The Company's capital position and the movement in this from the prior year are disclosed within the Statement of Changes in Equity. The Company complied with all capital requirements as set out by the FSA in 2009 and 2008.

Market Risk
Results of the Company's sensitivity analyses are presented throughout this section to show the estimated sensitivity of Net Income and Shareholders' Equity to various scenarios. For interest rate risk and equity market 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.

These 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 take into account the impact of future new business, which is an important component of the Company's future earnings. It also 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 Shareholders' Equity. Increases in interest rates have a negative effect on Shareholders Equity in the current year because it results in unrealised losses on investments that are classified as available for sale and therefore are carried at fair value.

General account interest bearing financial assets are principally available for sale investments for which unrealised gains and losses are recorded in the fair value reserve in equity rather than as part of Net Income. Therefore although the interest rate shocks below have an impact on Shareholders' Equity they do not materially impact Net Income.

	Impact on equity 2009 £'000	Impact on equity 2008 £'000
Immediate change		
Shift up 100 basis points	**50**	(169)
Shift down 100 basis points	**(50)**	189

The change in the sensitivity is due to available for sale bond holdings at end 2009 having a maturity date in early 2010.

Equity market risk
Changes in equity markets do not impact the Company's Net Income or Shareholders' Equity.

20. Related party transactions

(a) Immediate parent undertaking
The immediate parent undertaking in whose financial statements the Company's results are first consolidated is Scottish Equitable plc which is registered in Scotland.

Copies of the Group accounts of Scottish Equitable plc are available to the public and may be obtained from the Company Secretary, Scottish Equitable plc, AEGON Lochside Crescent, Edinburgh Park, Edinburgh EH12 9SE.

(b) Ultimate parent undertaking
The ultimate parent undertaking is AEGON NV, which is incorporated in the Netherlands.

The Group financial statements of AEGON NV are available to the public and may be obtained from the Company Secretary, AEGON UK plc, AEGON Lochside Crescent, Edinburgh Park, Edinburgh, EH12 9SE.

(c) Year end balances and transactions with related parties
Management services are provided to the company by the UK parent undertaking Scottish Equitable plc. The management fee is equal to the annual management charges on the Company's policyholder assets (see note 7 for total amount of such transactions). The terms of reinsurance arrangements are described in note 16. Outstanding payables 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 or payables. During the year ended 31 December 2009 the Company has not made any provision for doubtful debt relating to amounts owed by related parties (2008: nil).

Year end balances related to related party transactions are detailed in notes 16 and 18.

(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 (2008: nil).

21. Post balance sheet events

On 1 January 2010 the business of the Company was transferred to Scottish Equitable plc (the Company's parent) by way of a transfer under Case 4 of section 105(3) of the Financial Services and Markets Act 2000. As a result of the transfer the contracts under which the Company reinsured unit linked life assurance business from Scottish Equitable plc terminated. The transfer included all linked assets. The consideration for the transfer of assets and business was the assumption by Scottish Equitable plc of the liabilities of the Company. Following the transfer the residual assets of the Company were:

	£'000
Investments	2,953
Other assets and receivables	130
Cash and cash equivalents	5,269
	8,352