SCOTTISH EQUITABLE HOLDINGS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

COMPANY NUMBER 144516

SCOTTISH EQUITABLE HOLDINGS LIMITED

COMPANY INFORMATION

Directors	Mark Laidlaw, BSc, FFA Otto Thoresen, MA, FFA
Secretary	David Elston, LLB
Company Number	144516
Registered Office	AEGON Lochside Crescent Edinburgh Park Edinburgh EH12 9SE
Auditors	Ernst & Young LLP Ten George Street Edinburgh EH2 2DZ

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2009

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

Structure of these accounts
The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) 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.

Consolidated accounts have not been prepared because Scottish Equitable Holdings Limited is a subsidiary of the ultimate parent company, AEGON N.V., a European company into which the results of Scottish Equitable Holdings Limited are consolidated.

Principal activity
The principal activity of the Company is that of holding shares in Scottish Equitable plc which transacts life assurance, pensions and other long-term assurance business in the United Kingdom. The company is incorporated and domiciled in Scotland.

Results and dividends
The results for the period are set out on page 7.

A dividend of £nil was paid during the year (2008: £nil).

Review of business and future developments
The Directors remain committed to the life and pensions market in the UK as it offers opportunities for profitable growth.

The Company is the immediate holding company of Scottish Equitable plc, which operates under the brand AEGON, and is one of the UK's leading providers of individual and group pensions, protection, annuities and investment products. The Directors remain confident that it is in a strong position for the challenges and opportunities which continue to arise through regulatory and market changes. Scottish Equitable plc is also well placed to take advantage of distribution opportunities which the market presents, while at the same time maintaining its focus on meeting customer requirements in a competitive environment.

The Company is an investment holding company and does not prepare consolidated accounts. As a result the financial statements show the results of investment holding activity rather than the trading performance of each of the underlying investments. The main key performance indicators of the Company relate to the performance of Scottish Equitable plc. Over the longer term performance of Scottish Equitable plc is the key driver of results presented in the accounts of the Company.

Directors and their interests
The Directors who held office at the date of this report are shown on page 1. All Directors served throughout the year.

Ian Young resigned as Company Secretary on 13 August 2009 and David Elston was appointed on 1 July 2010.

Each of the Directors has been granted a qualifying third party indemnity by the Company, in terms of the sections of the Companies Act 2006.

Corporate governance, capital management and financial instruments
The AEGON UK Group, of which the Company 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, appropriate delegated authorities and independent internal audit and risk management functions. Risk management for the Company operates within this governance framework.

The Company's objective in managing its capital is to ensure that there are adequate resources to meet the Company's liabilities as they fall due, and to allocate capital efficiently to support growth and repatriate excess capital where appropriate. The Company's capital is managed in conjunction with that of other companies in the AEGON UK Group. The Company manages its capital by measuring its resources and cash available 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 has no externally imposed capital requirements.

The Company is not exposed to significant financial instrument risk. Credit risk is significantly reduced as assets are primarily Cash and short term deposits, which are placed with high credit-rated banks, and intercompany receivables from other AEGON UK group companies. As Scottish Equitable Holdings Limited is an investment holding company the main risk directly impacting the Company relates to the performance, and therefore carrying value and dividend payment capability, of the Company's principal subsidiaries.

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 repayment terms of the company's liabilities, 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.

Auditors
An elective resolution was passed on 18 December 2002 to (a) dispense with the requirement to lay the Report and Accounts before the Company in the general meeting, (b) to dispense with the holding of an Annual General Meeting for 2002 and subsequent years, and (c) the obligation to appoint auditors annually.

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

This report was approved by the Board on 24th August 2010 and signed on its behalf by

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Director

OTTO THORESEN

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 HOLDINGS LIMITED

We have audited the financial statements of Scottish Equitable Holdings Limited for the year ended 31 December 2009 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Equity and the related notes 1 to 12. 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 4, 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 loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SCOTTISH EQUITABLE HOLDINGS LIMITED

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
27 August 2010

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009 £000's	2008 £000's
Revenue			
Investment income	4	4	10,524
Total revenue		4	10,524
Expenses			
Finance costs	5	(42,013)	(50,643)
Loss before tax		(42,009)	(40,119)
Tax credit	6	3,034	14,426
Loss for the year		(38,975)	(25,693)

The loss for the year is attributable to the equity holders of the Company.

The results for the year relate wholly to continuing activities.

Loss for the year is consistent with Total Comprehensive Income and there were no other items of comprehensive income not already reflected within Loss for the year.

SCOTTISH EQUITABLE HOLDINGS LIMITED

BALANCE SHEET
AS AT 31 DECEMBER 2009

	Notes	2009 £000's	2008 £000's
Non-current assets			
Investments in subsidiaries	7	**2,059,675**	2,059,675
		2,059,675	2,059,675
Current assets			
Tax receivables		-	15,064
Cash and short term deposits	8	**463**	597
		463	15,661
Total assets		**2,060,138**	2,075,336
Current liabilities			
Tax payables		**2,564**	-
Financial liabilities	9	**225,478**	8,873
		228,042	8,873
Non-current liabilities			
Financial liabilities	9	**647,920**	843,312
		647,920	843,312
Total liabilities		**875,962**	852,185
Net assets		**1,184,176**	1,223,151
Capital and reserves			
Issued capital	10	**253,000**	253,000
Share premium account		**249,000**	249,000
Capital contribution		**819,644**	819,644
Retained earnings		**(137,468)**	(98,493)
Total equity		**1,184,176**	1,223,151

The financial statements were approved by the Board on 24th August 2010 and signed on its behalf by

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Director

OTTO THORESEN

SCOTTISH EQUITABLE HOLDINGS LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009

	Share Capital	**Share Premium Account**	**Capital Contribution**	**Retained Earnings**	**Total**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
At 1 January 2009	**253,000**	**249,000**	**819,644**	**(98,493)**	**1,223,151**
Loss for the year	-	-	-	**(38,975)**	**(38,975)**
At 31 December 2009	**253,000**	**249,000**	**819,644**	**(137,468)**	**1,184,176**

FOR THE YEAR ENDED 31 DECEMBER 2008

	Share Capital	Share Premium Account	Capital Contribution	Retained Earnings	Total
	£000's	£000's	£000's	£000's	£000's
At 1 January 2008	253,000	249,000	819,644	(72,800)	1,248,844
Loss for the year	-	-	-	(25,693)	(25,693)
At 31 December 2008	253,000	249,000	819,644	(98,493)	1,223,151

The Company did not recognise any income or expense directly in equity (2008 - £nil)

SCOTTISH EQUITABLE HOLDINGS LIMITED

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 £000's	2008 £000's
Operating activities			
Loss before tax		**(42,009)**	(40,119)
Adjustment to reconcile loss before tax to net cash flow from operating activities:			
Investment income	4	**(4)**	(10,524)
Finance costs	5	**42,013**	50,643
Interest income received		**4**	24
Income tax received		**20,662**	18,007
Net cash flow from operating activities		**20,666**	18,031
Investing activities			
Dividend income received		**-**	10,500
Financing activities			
Repayment of debenture loan		**-**	(12,475)
Payment of debenture loan interest		**-**	(1,525)
New borrowings		**150,000**	-
Repayment of borrowings		**(95,000)**	-
Payment of borrowings interest		**(75,800)**	(14,016)
Net cash flow used in financing activities		**(20,800)**	(28,016)
Net increase in cash and cash equivalents		**(134)**	515
Cash and cash equivalents at 1 January		**597**	82
Cash and cash equivalents at 31 December	8	**463**	597

The cash flow statement is prepared according to the indirect method

1 Accounting Policies

1.1 Basis of Preparation

1.1.1 *Introduction*

The Company's financial statements have been prepared on the going concern basis and 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.

These are the separate financial statements of the Company. The Company is exempt from preparing consolidated accounts as the ultimate parent undertaking AEGON N.V., which is incorporated in the Netherlands, prepares publicly available consolidated accounts which comply with IFRS.

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)

IFRS 8 '*Operating Segments*'. This standard relates to disclosure and has no impact on the financial statements.

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.

IFRS 2 '*Share-based Payment – Vesting Conditions and Cancellations*'. The standard has been amended to clarify the definition of vesting conditions and to prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. The adoption of this amendment did not have any impact on the financial position or performance of the Company.

Amendment to IFRS 7 '*Financial Instruments: Disclosures*'. The amendment increases the disclosure requirements about fair value measurement and amends the disclosure about liquidity risk. This amendment is not relevant to the Company.

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*
- 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)
- IAS 27 Consolidated and separate financial statements (Revised)
- IFRS 9 Financial Instruments *

* not yet endorsed by the European Union

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

1.2. Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Investments in subsidiaries

The Company assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Investments in subsidiaries are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset and choose a suitable discount rate in order to calculate the present value of those cash flows. Value in use calculations generally utilise European Embedded Value calculations together with the present value of profits from expected new business.

1.3. Revenue recognition

Revenue is recognised to the extent that is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding VAT. The following specific recognition criteria must also be met before revenue is recognised:

Interest income

Revenue is recognised as interest accrues using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

1.4. Taxation

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 where required 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 assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

1.5. Investments in subsidiaries

Subsidiaries are entities over which the Company has direct or indirect power to govern the financial and operating policies so as to obtain benefits form its activities ('control'). The assessment of control is based on the substance of the relationship between the Company and the entity and, among other things, considers existing and potential voting rights that are currently exercisable and convertible.

Subsidiaries are accounted for at cost. Any impairment on individual investments in subsidiaries held at cost is determined at each reporting date. Dividends from subsidiaries are included in investment income when paid (or in respect of final dividends when approved), net of any impairment of the investment in subsidiary resulting from the dividend.

1.6 Financial assets

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.

(a) Classification

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

All remaining financial assets are classified as available for sale.

(b) Measurement

Financial assets are initially recognised at fair value plus, in the case of a financial asset not at fair value through profit or loss, any directly attributable incremental transaction costs. Loans are subsequently carried at amortised cost using the effective interest rate method.

Available for sale assets are recorded at fair value with changes in fair value recognised as a separate component of equity until the asset is derecognised or determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the Income Statement .

(c) Amortised cost

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

(d) Fair value

The fair value of an asset is the amount for which an asset could be exchanged between knowledgeable, willing parties in an 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.

(e) Impairment

Available for sale fixed interest debt securities are impaired when it is considered probable that not all amounts due will be collected as scheduled. The impairment loss is calculated as the difference between the fair value and amortised cost of the investment. Any unrealised gain or loss previously recognised in shareholders' equity is therefore taken to the Income Statement.

(f) 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 or retaining of substantially all the risks and rewards of ownership, provided the other party can sell or pledge the asset. On derecognition the difference between the disposal proceeds and the carrying amount is recognised in the Income Statement. Any cumulative gain or loss previously recognised in equity is also recognised in the Income Statement.

1.7. Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

1.8. 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 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.

2. Administrative expenses

The Company has not been subject to audit fees as this cost is borne by Scottish Equitable plc.

3. Directors emoluments

The amount of Directors' remuneration was as follows:	**2009**	2008
	£000's	£000's
Remuneration including bonuses	**995.1**	1,314.3
Aggregate amounts receivable by Directors in respect of long-term incentive schemes (other than shares and share options)	-	-
	995.1	1,314.3
	Number	Number
Number of Directors to whom retirement benefits accrued under a defined benefit scheme.	**2**	2

The Directors of Scottish Equitable Holdings Limited are also Directors of other AEGON UK plc group companies. The total emoluments of the Directors are disclosed above, all of which was paid by the

AEGON UK plc group. The Directors do not believe that it is practicable to apportion this amount between their services as Directors of Scottish Equitable Holdings Limited and its subsidiaries and their services to other AEGON UK plc group companies.

The above includes the following amounts in respect of the highest paid Director for his services to the Company and other AEGON UK plc group companies.

Highest paid Director Amounts included above:	**2009** **£000's**	2008 £000's
Remuneration including bonuses	**667.9**	848.5
Aggregate amounts receivable by Directors in respect of long-term incentive schemes (other than shares and share options)	-	-
	667.9	848.5

These emoluments for the highest paid Director included above are also disclosed in the accounts of AEGON UK plc and Scottish Equitable plc where he is also a Director.

The accrued pension of the highest paid Director was £145,367 as at December 2009 (2008: £145,812).

Directors have the choice of taking a full pension or a lump sum together with a lower residual pension. The maximum accrued lump sum at 31 December 2009 was £437,000 (2008: £412,500) with a residual pension of £119,210 (2008: £117,558).

The Directors participated in the share option scheme operated by AEGON NV, the ultimate parent undertaking, to subscribe for ordinary shares.

4. Investment Income

	2009 **£000's**	2008 £000's
Dividends from subsidiary undertakings	-	10,500
Cash and short term deposit interest income	4	24
	4	10,524

5. Finance costs

	2009 **£000's**	2008 £000's
Interest expense on debentures held by fellow AEGON N.V subsidiary undertakings	**516**	1,215
Interest expense on loans from subsidiary undertaking	**35,842**	45,413
Interest expense on loans from ultimate parent undertaking	**5,655**	4,015
	42,013	50,643

For terms and conditions relating to related party transactions, refer to note 11.

6. Taxation

(a) Current year tax credit

UK Current Tax	2009 £000's	2008 £000's
Corporation tax for the year	**3,034**	14,426
Total current tax	**3,034**	14,426

(b) Reconciliation of tax credit

	2009 £000's	2008 £000's
Accounting loss before tax	**(42,009)**	(40,119)
Accounting loss multiplied by the UK standard rate of corporation tax of 28.0% (2008: 28.5%)	**11,762**	11,434
Non tax deductible expenses	**(1,583)**	-
Non taxable income	**-**	2,992
Loss relief	**(7,145)**	-
Total tax credit reported in the income statement	**3,034**	14,426

A deferred tax asset has not been recognised in respect of the value of unutilised tax losses carried forward of £46.5m (2008: £21m) as there is insufficient certainty as to the availability of future profits.

The weighted average rate of tax is 28.0% (2008: 28.5%). The weighted average 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.

7. Investment in subsidiaries

The investment is in shares of Scottish Equitable plc, the principal subsidiary undertaking of the Company, which is wholly owned, is registered in Scotland and has one class of share capital. The nature of business of Scottish Equitable plc is the transaction of life assurance, pensions and other long-term insurance in the United Kingdom.

	2009 £000's	2008 £000's
At 1 January	**2,059,675**	2,059,675
At 31 December	**2,059,675**	2,059,675

All subsidiaries are carried at cost less impairment losses.

At 31 December 2009 Scottish Equitable plc held 100% of the shares in the following subsidiary undertakings operating in the UK. Each undertaking has only one class of share.

Name	Principal Activity	Registered
Scottish Equitable (Managed Funds) Limited	Reassurance of life assurance business (until 1 January 2010)	Scotland
Scottish Equitable Finance Limited	Finance Company	Scotland
Scottish Equitable IT Services Limited	Leasing company (dormant)	Scotland

8. Cash and short term deposits

	2009 £000's	2008 £000's
Short term deposits	**463**	597
	463	597

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates. The fair value of cash and short term deposits is £463,000 (2008: £597,000).

The Company only deposits cash surpluses with major banks of high quality credit standing.

9. Financial Liabilities

	2009 £000's	2008 £000's
Current borrowings		
Debenture loan	-	8,873
Loans from ultimate parent undertaking	**225,478**	-
	225,478	8,873
Non current borrowings		
Debenture loan	**9,388**	-
Loans from ultimate parent undertaking	-	69,823
Loans from subsidiary undertaking	**638,532**	773,489
	647,920	843,312
	873,398	852,185

The Debenture Loan is held by a fellow AEGON N.V. subsidiary undertaking. Unless previously repaid or redeemed, the principal sum will be repaid at par on 7 September 2018, together with any accrued interest on the principal sum. Interest will be paid at 5.75%. The fair value of this loan is £10.187m.

A new loan of £150m was received from the ultimate parent undertaking, AEGON N.V., on 30 March 2009. It is repayable by 31 December 2010 and pays interest based on LIBOR. This was used to repay loans from subsidiary undertakings on the same date.
The remaining balance relates to both accrued interest on the original principal of £116.2m repaid in 2007, which has been rolled over in previous years in accordance with the loan agreement and the new loan of £150m. Both are repayable by 31 December 2010. Where interest is rolled over, additional deferral interest is payable to the ultimate parent undertaking based on LIBOR.

Amounts due to subsidiary undertaking in 2009 relate to unsecured loans which are repayable in 2017, or earlier in certain specified circumstances, and charge interest at LIBOR plus 300 basis points per annum. As permitted under the loan agreements interest on certain of these loans is currently being rolled up into the loan balance.

10. Capital and reserves

	2009 £000's	2008 £000's
Authorised share capital		
300,000,000 Ordinary shares of £1 each	**300,000**	300,000
Allotted, called up and fully paid		
253,000,000 Ordinary shares of £1 each	**253,000**	253,000
One Special Share of £1	-	-

The Special Share is held by Scottish Equitable Policyholders Trust Limited (SEPT). SEPT is a voting trust company established for the benefit of all members of Scottish Equitable Life Assurance Society at 31 December 1993 and future participating (or with profits) policyholders of Scottish Equitable plc. The Special Share conferred a specified percentage of the voting rights in the company but no income or capital rights (other than the right to repayment of one pound).

In accordance with the agreement between AEGON International BV and Scottish Equitable Life Assurance Society the Special Share conferred 0% of the voting rights during the year ended 31 December 2009 (0% during the year ended 31 December 2008). SEPT retains certain rights connected with the operation of Scottish Equitable plc's with profit sub-fund, including the right to be consulted on proposed bonus recommendations.

Information on capital management and risk management is included in the Directors' Report under 'Corporate governance, capital management and financial instruments'.

Nature and purposes of other reserves

Capital Contribution Reserve
The capital contribution reserve is used to record capital contributions received from the immediate parent undertaking.

11. Related party transactions

(a) Immediate parent undertaking
The immediate parent company is AEGON UK plc which is registered in England and Wales. Copies of AEGON UK plc accounts are available from the Company Secretary, AEGON UK plc, Edinburgh Park, Edinburgh, EH12 9SE.

(b) Ultimate parent undertaking
The ultimate parent company is AEGON NV, which is incorporated in the Netherlands. The group accounts of AEGON NV are available from the Company Secretary, AEGON UK plc, Edinburgh Park, Edinburgh, EH12 9SE.

(c)Year end balances and transactions with related parties
The terms of the loans from related parties are described in note 9. 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 note 9.

(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).

12. Post balance sheet events

With effect from 30 June 2010 the loans, set out in note 9, from the ultimate parent undertaking AEGON N.V., are repayable by 31 December 2013. Interest payable is based on LIBOR plus 1.15%.