

AEGON INVESTMENT MANAGEMENT UK LTD

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

COMPANY NUMBER 212159

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AEGON INVESTMENT MANAGEMENT UK LTD

COMPANY INFORMATION

Chairman	Lord Smith of Kelvin Kt, CA, FCIBS
Directors	Andrew N R Fleming, BA (Chief Executive) Jonathan M Bennett, BA Colin I Black, BSc, FFA Christophe C Ferrand, DESCF, MaBa Mark Laidlaw, BSc, FFA Philip J G Smith, MA, CA Otto Thoresen, MA, FFA Maxwell C B Ward, MA
Secretary	Ian G Young, MA, LLB
Company Number	212159
Registered Office	AEGON House Edinburgh Park Edinburgh EH12 9SA
Auditors	Ernst & Young LLP Ten George Street Edinburgh EH2 2DZ

AEGON INVESTMENT MANAGEMENT UK LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2008

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

Structure of these accounts

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

These are the Company's first financial statements prepared in accordance with IFRSs, with the 2007 comparatives restated accordingly. Previously the financial statements were prepared based on the reporting requirements of UK Generally Accepted Accounting Practice (UK GAAP).

Principal and ongoing activity

The principal activity is the provision of intra-group asset management services. The Company is incorporated and domiciled in Scotland and regulated by the Financial Services Authority.

Results and dividends

The results for the period are set out on page 8.

The company delivered profits after tax but before dividends of £3,549k (2007: £3,043k). The Directors recommended and ratified an interim dividend of £1,000k (2007: £2,950k) which was paid during the year. The Board of Directors consider the results to be satisfactory.

Net assets at the end of the year were £2,873k (2007: £324k). This was in line with Directors' expectations.

The Directors recommend that no final dividend is paid and that the balance on the income statement for the year is carried forward to reserves.

Review of business and future developments

The business review for the year to 31 December 2008 can be found in the parent company accounts of AEGON Asset Management UK plc.

Directors and their Interests

The Directors who held office at the date of this report are shown on page 1. On 19 May 2008 Mark Laidlaw and Otto Thoresen were appointed to the board as executive Directors, followed by the appointment of Lord Smith of Kelvin Kt and Maxwell Ward as non-executive Directors on 31 July 2008. All other Directors served throughout the year.

The Directors have declared that they had no interest in the share capital of the Company in the year to 31 December 2008.

Each of the Directors has been granted a qualifying third party indemnity by the Company, in terms of the sections of the Companies Act 1985 & 2006.

Creditor payment policy

The objective is to treat our suppliers fairly and in accordance with good commercial practice. Suppliers' invoices are settled in accordance with agreed contractual terms or, if no terms are scheduled, generally within 30 days of the appropriate invoice date.

AEGON INVESTMENT MANAGEMENT UK LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2008

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 plc 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 is a wholly owned subsidiary of an entity regulated by the Financial Services Authority. The Company does not have individual capital requirements but is potentially subject to capital requirements under consolidation.

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 major banks of acceptable credit standing, and intercompany receivables from other AEGON UK group companies.

Risk and Capital Management and Financial Instruments

The Company has a very simple balance sheet consisting largely of cash and short-term assets and liabilities.

Credit Risk

The company offers standard industry credit terms to clients and has an appetite for limited credit risk for this purpose. Aged items exceeding these terms are monitored against set thresholds for acceptable overdue debts. Action is taken to recover such debts (through deduction from client assets if appropriate). The company's main sources of non-client related credit risk are other AEGON Group companies. These are considered inherent in the business activities of the company.

No restrictions are imposed on the size of such debts, but there is an aim to collect these in a timely way. The company has no appetite for on-balance sheet trading activity that might create excessive counter-party risk, other than in the course of collective investment scheme management.

The company has no appetite for direct market risk and is subject to indirect market risk through market impacts on fee income. The company considers this risk to be uncontrollable; it is inherent in the business of asset management. This risk is mitigated where possible through diversification of asset types. Potential market risk is monitored through scenario analysis.

Liquidity Risk

The company has a low tolerance for liquidity risk. The company's assets are in cash or short term deposits and invoices are settled as they fall due without the need to realise illiquid assets. Shortfalls are tolerated only for very short periods. Such situations are managed by borrowing from the company's parent, AEGON Asset Management UK plc.

AEGON INVESTMENT MANAGEMENT UK LTD

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2008**

Market Risk

Revenues can be impacted by market risk as they are dependant upon the value of assets under management. (Note 11).

Interest Rate Risk

Interest Rate Risk is significant only in the impact of interest rate movements upon our assets under management. This refers to business risk caused by fluctuations in the wider stock market that will affect the valuation of the assets that we manage. The company considers this risk uncontrollable, as it is inherent in the business of asset management.

Auditors

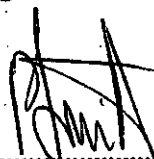
An elective resolution was passed on 10 August 2001 to dispense with (a) the requirement to lay the Report and Accounts before the Company in a general meeting, (b) the holding of an Annual General Meeting for 2001 and subsequent years, and (c) the obligation to appoint auditors annually.

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 of Directors and authorised for issue on 22/04/2009

Signed on its behalf by



Philip J G Smith, MA, CA
Director

AEGON INVESTMENT MANAGEMENT UK LTD

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AEGON INVESTMENT MANAGEMENT UK LTD

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AEGON INVESTMENT MANAGEMENT UK LTD

We have audited the financial statements of AEGON Investment Management UK Ltd for the year ended 31 December 2008 which comprise Income Statement, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 13. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

AEGON INVESTMENT MANAGEMENT UK LTD

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
AEGON INVESTMENT MANAGEMENT UK LTD**

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP

Ernst & Young LLP

Registered auditor

Edinburgh

23 April
.....2009

AEGON INVESTMENT MANAGEMENT UK LTD

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	<u>2008</u> <u>£000's</u>	<u>2007</u> <u>£000's</u>
Revenue			
Revenue from rendering of services	2	39,545	37,167
Cost of sales		<u>(4,144)</u>	<u>(4,346)</u>
Gross profit		35,401	32,821
Administrative expenses	3	<u>(30,752)</u>	<u>(28,507)</u>
Operating profit		4,649	4,314
Finance revenue	4	<u>243</u>	<u>161</u>
Profit before tax		4,892	4,475
Tax charge	5	<u>(1,343)</u>	<u>(1,432)</u>
Profit for the year		<u>3,549</u>	<u>3,043</u>

The result for the year relates wholly to continuing activities.

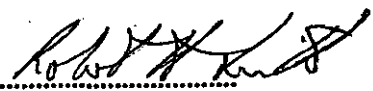
The profit for the year is attributable to the equity holders of the Company.

AEGON INVESTMENT MANAGEMENT UK LTD

BALANCE SHEET AS AT 31 DECEMBER 2008

	<u>Notes</u>	<u>2008</u> <u>£000's</u>	<u>2007</u> <u>£000's</u>
Non-current assets			
Deferred tax	6	2,416	1,858
Trade and other receivables	7	187	227
		<u>2,603</u>	<u>2,085</u>
Current assets			
Trade and other receivables	7	2,188	2,490
Tax Receivables		278	-
Cash and short term deposits	8	2,034	2,425
		<u>4,500</u>	<u>4,915</u>
Total assets		<u>7,103</u>	<u>7,000</u>
Current liabilities			
Tax payables		-	2,092
Trade and other payables	9	3,906	4,187
		<u>3,906</u>	<u>6,279</u>
Non-current liabilities			
Trade and other payables	9	324	397
Total liabilities		<u>4,230</u>	<u>6,676</u>
Net assets		<u>2,873</u>	<u>324</u>
Capital and reserves			
Issued capital	10	-	-
Retained earnings		2,873	324
Total equity		<u>2,873</u>	<u>324</u>

The financial statements were approved by the Board on 22/04/2009 and signed on its behalf by


 Lord Smith of Kelvin Kt, CA, FCIBS
 Chairman

AEGON INVESTMENT MANAGEMENT UK LTD

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

	<u>Issued capital £000's</u>	<u>Capital contribution £000's</u>	<u>Retained earnings £000's</u>	<u>Total £000's</u>
At 1 January 2008	-	-	324	324
Profit for the year	-	-	3,549	3,549
Dividends paid	-	-	(1,000)	(1,000)
At 31 December 2008	<u>-</u>	<u>-</u>	<u>2,873</u>	<u>2,873</u>

FOR THE YEAR ENDED 31 DECEMBER 2007

	<u>Issued capital £000's</u>	<u>Capital contribution £000's</u>	<u>Retained earnings £000's</u>	<u>Total £000's</u>
At 1 January 2007	-	-	231	231
Profit for the year	-	-	3,043	3,043
Dividends paid	-	-	(2,950)	(2,950)
At 31 December 2007	<u>-</u>	<u>-</u>	<u>324</u>	<u>324</u>

All equity is attributable to equity holders of the Company.

The Company did not recognise any income or expense directly in equity (2007 - £nil)

AEGON INVESTMENT MANAGEMENT UK LTD

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	<u>2008</u> <u>£000's</u>	<u>2007</u> <u>£000's</u>
Operating activities			
Profit before tax		4,892	4,475
<i>Adjustment to reconcile profit before tax to net cash inflow from operating activities:</i>			
Finance revenue		(243)	(161)
Decrease in trade and other receivables		341	631
Decrease in trade and other payables		(354)	(822)
Income tax paid		(4,270)	(1,919)
Interest received	4	<u>243</u>	<u>161</u>
Net cash flow from operating activities		609	2,365
Financing activities			
Dividends paid		<u>(1,000)</u>	<u>(2,950)</u>
Net cash flow used in financing activities		(1,000)	(2,950)
Net decrease in cash and cash equivalents		(391)	(585)
Cash and cash equivalents at 1 January		<u>2,425</u>	<u>3,010</u>
Cash and cash equivalents at 31 December	8	<u>2,034</u>	<u>2,425</u>

The cash flow statement is prepared according to the indirect method

AEGON INVESTMENT MANAGEMENT UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

1. Accounting Policies

1.1. Basis of preparation

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

These are the Company's first financial statements prepared in accordance with IFRSs, with the 2007 comparatives restated accordingly. Previously the financial statements were prepared based on the reporting requirements of UK Generally Accepted Accounting Practice (UK GAAP).

1.1.2. Adoption of new IFRS accounting standards

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

- IFRIC 12 Service concession arrangements;*
 - IFRIC 14 IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction;
 - Amendments to IAS 39 and IFRS 7 Reclassification of financial instruments.
- * not yet endorsed by the European Union

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

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

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

1.1.3. Future adoption of new IFRS accounting standards

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

- IAS 1 Presentation of financial statements;
- Amendments to IAS 23 Borrowing costs;

AEGON INVESTMENT MANAGEMENT UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

- Amendments to IFRS 2 Share-based payments - vesting conditions and cancellations;
 - IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and separate financial statements (Revised); *
 - IFRS 8 Operating segments;
 - IFRIC 16 Hedges of a net investment in a foreign operation; *
 - Amendments to IAS 39 Eligible hedged items *
 - Improvements to IFRS (2008) *
- * not yet endorsed by the European Union

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

1.2. Transition to IFRS

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

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

The effect of the transition to IFRS as of 1 January 2007 on the financial position and financial performance can be found in note 13.

1.3. 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.

1.4. Revenue recognition

Revenue is recognised to the extent that it 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:

Rendering of services

Fees are recognised as revenue over the period in which related services are provided.

AEGON INVESTMENT MANAGEMENT UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

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.

1.5. Deferred transaction costs

Incremental costs, such as initial commission, that are directly attributable to securing future investment management services are recognised as an asset if they can be identified separately and measured reliably and if it is probable that they will be recovered. This is reported within prepayments and accrued income.

The deferred transaction costs are amortised in line with fee income, unless there is evidence that another method better represents the provision of services under the contract.

1.6. Deferred revenue

Initial fees, margins and front-end loadings paid by clients, for future investment management services, are deferred and recognised as revenue when the related services are rendered. This is reported within accruals and deferred revenue.

The deferred revenue is amortised in line with fee income, unless there is evidence that another method better represents the provision of services under the contract.

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

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

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

AEGON INVESTMENT MANAGEMENT UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

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; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

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

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.

1.8. Trade and other receivables

Trade receivables, which generally have 30 day terms, are recognised and carried at the lower of their original invoices value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that the company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

1.9. 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.

AEGON INVESTMENT MANAGEMENT UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

1.10. Long term Incentive Plan (LTIP)

The LTIP meets the definition of employee benefits as defined in IAS 19. It is a defined contribution plan and the contributions are payable by the company based on achievement of targets in specified calendar years. These targets include the realisation of profits on certain business lines and achievement of specified investment performance levels. The cost of the scheme is recognised as an expense and liability upon achievement of the targets. The company pays the set amount to an independent employee benefits trust in the year following recognition of the contribution. Once the contribution has been made, the company has no ability to recover any amount paid to the trust.

2. Revenue from rendering of services

	<u>2008</u> <u>£000's</u>	<u>2007</u> <u>£000's</u>
Fees	<u>39,545</u>	<u>37,167</u>

Revenue represents fees receivable from other AEGON UK plc subsidiary companies in respect of the provision of investment management services by the Company.

For terms and conditions relating to related party transactions, refer to note 12.

3. Administrative expenses

Administrative expenses include £28,681,000 (2007: £24,770,000) relating to recharges to the Company by AEGON UK Corporate Services Limited, a fellow subsidiary of AEGON UK plc. These recharges include the payment of audit fees of £16,000 (2007: £15,600). For terms and conditions relating to related party transactions, refer to note 12.

AEGON UK Corporate Services Limited, a fellow subsidiary of AEGON UK plc, employs all staff whose costs are included in administrative expenses.

Details of Directors' emoluments for the year ended 31 December 2008 can be found in the parent company accounts of AEGON Asset Management UK plc.

4. Finance revenue

	<u>2008</u> <u>£000's</u>	<u>2007</u> <u>£000's</u>
Cash and short term deposits income	<u>243</u>	<u>161</u>

AEGON INVESTMENT MANAGEMENT UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

5. Taxation

(a) Current year tax charge

	<u>2008</u> <u>£000's</u>	<u>2007</u> <u>£000's</u>
<u>UK current tax</u>		
Corporation tax for the year	<u>(1,901)</u>	<u>(2,388)</u>
Total current tax	<u>(1,901)</u>	<u>(2,388)</u>
<u>UK deferred tax</u>		
Origination of temporary differences	558	1,016
Impact of deferred tax rate (30% to 28%)	<u>-</u>	<u>(60)</u>
Total deferred tax	<u>558</u>	<u>956</u>
Total tax charge reported in the income statement	<u>(1,343)</u>	<u>(1,432)</u>

(b) Reconciliation of tax charge

	<u>2008</u> <u>£000's</u>	<u>2007</u> <u>£000's</u>
Accounting profit before tax	<u>4,892</u>	<u>4,475</u>
Accounting profit multiplied by the UK standard rate of corporation tax of 28.5% (2007: 30%)	<u>(1,394)</u>	<u>(1,342)</u>
Non tax deductible expenses	51	(30)
Impact of change in deferred tax rate (30% to 28%)	<u>-</u>	<u>(60)</u>
Total tax charge reported in the income statement	<u>(1,343)</u>	<u>(1,432)</u>

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

AEGON INVESTMENT MANAGEMENT UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

6. Deferred Taxation

Recognised deferred tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when income taxes relate to the same fiscal authority. The amounts are as follows:

	<u>2008</u> <u>£000's</u>	<u>2007</u> <u>£000's</u>
Deferred tax assets comprise		
Long term incentive plan	<u>2,416</u>	<u>1,858</u>
	<u>2,416</u>	<u>1,858</u>
	<u>2008</u> <u>£000's</u>	<u>2007</u> <u>£000's</u>
Deferred tax assets		
At 1 January	1,858	902
Amounts recorded in income statement	<u>558</u>	<u>956</u>
At 31 December	<u>2,416</u>	<u>1,858</u>

7. Trade and other receivables

	<u>2008</u> <u>£000's</u>	<u>2007</u> <u>£000's</u>
Non-current trade and other receivables		
Prepayments and accrued income	187	227
Current trade and other receivables		
Amounts owed by fellow AEGON UK plc subsidiary undertakings	2,115	2,443
Prepayments and accrued income	<u>73</u>	<u>47</u>
	<u>2,188</u>	<u>2,490</u>
	<u>2,375</u>	<u>2,717</u>

For terms and conditions relating to related party transactions, refer to note 12.

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8. Cash and short term deposits

	<u>2008</u> <u>£000's</u>	<u>2007</u> <u>£000's</u>
Short term deposits	2,034	2,425
	<u>2,034</u>	<u>2,425</u>

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 £2,034,015 (2007: £2,425k).

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

9. Trade and other payables

	<u>2008</u> <u>£000's</u>	<u>2007</u> <u>£000's</u>
Current trade and other payables		
Trade payables	-	3
Payables to fellow AEGON UK plc subsidiary undertakings	1,718	481
LTIP payable	1,972	3,619
Accruals and deferred income	128	84
Property Profit Share Bonus Payment	88	-
	<u>3,906</u>	<u>4,187</u>
Non-current trade and other payables		
Accruals and deferred income	324	397
	<u>4,230</u>	<u>4,584</u>

Terms and conditions of the above financial liabilities:

- For terms and conditions relating to related parties, refer to note 12.
- Trade payables are non-interest bearing and are normally settled in 30 days.
- The LTIP payable is non-interest bearing and normally settled 3 months after the year end.

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10. Capital and reserves

	<u>2008</u> £'s	<u>2007</u> £'s
Authorised share capital		
100 Ordinary shares of £1 each	<u>100</u>	<u>100</u>
Allotted, called up and fully paid		
2 Ordinary shares of £1 each	<u>2</u>	<u>2</u>

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

11. Risk Management

General

The company is exposed to financial risks. The main financial risks are credit risk, liquidity risk and market risk, with the principal elements of market risk being interest rate risk and equity price risk. The company is not exposed to significant currency risk other than through exposure to the funds it manages, and this risk is managed as for Market risk. The Risk and Capital Management and Financial Instruments section of the Report of the Directors describes the Company's general approach to risk management and the management of financial risks.

Credit Risk

The company is exposed to credit risk on standard industry credit available to clients and has an appetite for limited credit risk for this purpose. Aged items exceeding these terms are monitored against set thresholds for acceptable overdue debts. Action is taken to recover such debts (through deduction from client assets if appropriate). The company's main sources of non-client related credit risk are the Inland Revenue, or other AEGON Group companies. These are considered inherent in the business activities of the company. The Company does not hold financial instruments which give rise to concentrations of risk.

Details of these balances are listed under note 9.

Liquidity Risk

The company has only limited exposure to Liquidity risk as balances are held in cash and short term deposits. Amounts due are settled without the need to realise illiquid assets.

Details of these balances are listed under note 8.

Market Risk

Results of the Company's sensitivity analyses are presented throughout this section to show the estimated sensitivity of Net Income and Shareholder's 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

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the relevant risk variables that were reasonably possible at the reporting date. In performing the analyses and determining the impact for the financial year, the assumption is made that the financial instrument exposures at the balance sheet date were in existence for a full year. For each sensitivity test the impact of a reasonably possible change in a single factor is shown.

The sensitivities do not reflect what the results for the period would have been if risk variables had been different, because, for financial instruments, the analysis is based on the exposures in existence at the reporting date rather than on those that actually occurred during the year. 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 the financial environment. Furthermore, the results of the analyses cannot be extrapolated for wider variations since effects are not always linear. No risk management process can clearly predict future results.

Interest Rate Risk

The sensitivity analysis in the table below shows an estimate of the effect of a parallel shift in the yield curve on Net Income and Shareholders' Equity. The effect of an increase in the yield curve would be to reduce the overall asset valuations thereby reducing fee income earned. The converse applies for a reduction in yield. Because assets are not held within the Balance Sheet of the Company the only equity impact of this change is on Fee Income earned and is carried directly through the Income Statement to impact Retained Profits.

	<u>Impact on</u> <u>net income</u> <u>2008</u> <u>£000's</u>	<u>Impact on</u> <u>equity</u> <u>2008</u> <u>£000's</u>
Immediate change		
Shift up 100 basis points	(952)	(952)
Shift down 100 basis points	952	952

Equity price risk

The sensitivity analysis of Net Income and Shareholders' Equity to changes in equity prices is presented in the table below. The sensitivity of Net Income and Shareholders' Equity primarily reflects changes in the value of Assets under Management leading to corresponding increases or decreases in fee income and therefore profits.

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	<u>Impact on</u> <u>net income</u>	<u>Impact on</u> <u>equity</u>
	<u>2008</u>	<u>2008</u>
	<u>£000's</u>	<u>£000's</u>
Immediate change		
Equity increase 10%	829	829
Equity decrease 10%	(829)	(829)

12. Related party transactions

(a) Immediate parent undertaking

The immediate parent company is AEGON Asset Management UK plc which, is registered in Scotland. Copies of AEGON Asset Management 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 company provides investment management services to other members of the AEGON UK plc Group at prices which are agreed from time to time between the Company and the recipients of the service, taking into account the size and nature of the service (see note 2 for total amount of such transactions). Administrative expenses are recharged to the Company at cost by AEGON UK Corporate Services Limited, a fellow subsidiary of AEGON UK plc (see note 3 for total amount of such transactions).

Outstanding balances are unsecured, interest free and cash settlement is generally expected within 30 days of invoice. The Company has not provided or benefited from any guarantees for any related party receivables or payables. During the year ended 31 December 2008 the Company has not made any provision for doubtful debt relating to amounts owed by related parties (2007: nil).

Year end balances for related party transactions are detailed in notes 7 and 9.

(d) Compensation of key management personnel (including directors)

	<u>2008</u> <u>£000's</u>	<u>2007</u> <u>£000's</u>
Short term employee benefits	1,213	1,191
Post employment employee benefits	105	102
Other long term benefits	782	781
	<u>2,100</u>	<u>2,074</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

13. First time adoption of IFRS

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

	<u>31 December</u> <u>2007</u> <u>£000's</u>	<u>1 January</u> <u>2007</u> <u>£000's</u>
UK GAAP shareholders' equity	469	344
Initial commission	274	284
Initial margin (net of discount)	(481)	(445)
Reduction in tax payable	62	48
Total adjustments	<u>(145)</u>	<u>(113)</u>
IFRS shareholders' equity	<u>324</u>	<u>231</u>

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

	<u>2007</u> <u>£000's</u>
Net income UK GAAP	3,075
Initial commission	(10)
Initial margin (net of discount)	(36)
Reduction in tax payable	14
Total adjustments	<u>(32)</u>
Net income IFRS	<u>3,043</u>

Initial commission and initial charge (net of discount)

Under IFRS, IAS 18 requires that initial margin (net of discount) and initial commission on sales be recognised over the period of the investment rather than in the year of sale. Under UK GAAP both initial margin (net of discount) and initial commission were recognised on receipt or payment. This has resulted in a change to the previously reported, under UK GAAP, profit attributable to shareholders and net income.

Tax differences

Tax differences relate to the tax effects of the above deferred initial charge (net of discount) and initial commission reconciling items