

Lord Myners
HM Treasury
Horse Guards Road
London
SW1A 2HQ

12 February 2010

Dear Paul,

Thank you for your letter dated January 28, 2010. We welcome the opportunity to comment on this issue.

Please be assured that AEGON Asset Management UK is acutely aware of its responsibilities as a significant shareholder in many UK companies. We actively engage with companies on a wide range of issues, both directly and via the ABI, where we are members of the investment committee.

We have for a number of years applied significant resource to corporate governance activities, which we integrate into our investment processes. Specialist staff within our investment management teams give careful consideration to the remuneration policies of all the UK companies that we invest in, and we believe that banks should not be treated as a special case. We seek a full explanation of remuneration practices and how these are aligned with long-term value creation for shareholders. We believe our voting record and direct correspondence with companies fully supports this statement.

In the period leading up to the financial crisis, our fund managers questioned senior executives on risk concentrations and funding dependencies at several of the UK's large listed banks. We also actively voted against remuneration reports, for example, where we felt that best practice was not being followed. However, shareholding institutions cannot exercise direct control over bonuses throughout companies, particularly in the banking sector, where large bonuses can be awarded well below director level. We believe our focus instead should be on exercising proper oversight of boards and remuneration committees, as they are in a position to make informed judgements on bonus awards based on detailed information on how much capital has been at risk.

The financial regulators also have a significant role to play, as they have both the depth of resource and more importantly necessary information quality, which is invariably denied to shareholders, to force the hand of senior executives at large banks on such an issue. We would also note that UKFI, a major shareholder in a number of banks, has yet to make clear in terms of a public line how it will deal with remuneration issues.


Post The Treasury's recapitalisations in the banking sector, in our meetings with the executive management teams of relevant financial institutions, both our equity and fixed income fund managers have emphasised the importance of capital preservation and the rebuilding of balance sheets through retention of earnings. We have discouraged any activity, such as excessive dividends or bonuses that detracts from this objective.

We fully recognise the need for banks to rebuild balance sheets, to reduce funding costs and an over dependence on wholesale funding, provide credit to the economy and satisfy regulatory requirements. However, as investors, we are also very aware that UK companies cannot act alone in managing the 'bonus issue'. In a global marketplace, UK banks need to retain the necessary talent that will enable them to recapitalise partly through retained earnings and this will require competitive remuneration practices.

More generally, with regard to the corporate governance oversight of the companies that we invest in, we welcomed the Walker Review and indeed responded to Sir David Walker with our comments during the consultation period. As members of the ABI's Investment Committee, we also actively contributed last year to the FSA's consultation on its Code of Practice on remuneration policies.

Thank you once again for the opportunity to comment on this issue.

Yours sincerely,



Andrew Fleming
chief executive
AEGON Asset Management

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