

AEGON UK DISTRIBUTION HOLDINGS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

COMPANY NUMBER 4475386

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AEGON UK DISTRIBUTION HOLDINGS LIMITED
COMPANY INFORMATION

Directors

Howard Evans
Patrick N C Gale
Charles M Garthwaite
Adrian T Grace
Simon T Lloyd

Secretary

James K MacKenzie

Registered Office

6 Devonshire Square
London
EC2M 4YE

Auditors

Ernst & Young LLP
Ten George Street
Edinburgh
EH2 2DZ

Company Number

4475386

AEGON UK DISTRIBUTION HOLDINGS LIMITED

REPORT BY THE DIRECTORS

The Directors of AEGON UK Distribution Holdings present their report and the audited financial statements for the year ended 31 December 2011

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 2011 and applied in accordance with the Companies Act 2006

Consolidated accounts have not been prepared because AEGON UK Distribution Holdings Limited is a subsidiary of the ultimate parent company, AEGON NV a European company into which the results of AEGON UK Distribution Holdings Limited are consolidated

Principal and ongoing activity

The Company acts as a direct or indirect investment holding company for financial services businesses. The principal subsidiary companies are listed in Note 6 to these financial statements. The Company is incorporated and domiciled in England and Wales.

Results and dividends

The results for the year are set out on page 7. The Company paid dividends of £nil during the year (2010 £nil).

Given the nature of the business, the directors do not consider the inclusion of financial key performance indicators to be necessary in order to understand the performance of the business.

Review of business and future developments

The Company acts as an investment holding company. The major investments of the Company are in Tenet Group plc, AEGON UK Direct Ltd and AEGON Benefit Solutions Limited, and the main key performance indicators relate to the performance of these underlying businesses. Over the longer term, performance of the underlying businesses is the key driver of the results presented in the accounts of the Company. These accounts include impairments in the year relating to loans and investments totalling £2,264,000 (2010 £1,404,000). On 28 September 2010, the AEGON UK Group announced the wind down of the AEGON Benefit Solutions business and its closure on 1 October 2011. On 8 September 2011, the AEGON UK announced the intention to close AEGON UK Direct Limited by the end of 2011.

There are no other changes planned to the operations of the Company.

Directors and their interests

The current Directors of the Company are shown on page 1. The following appointment/resignations occurred throughout the year.

Name of Director	Date of Appointment	Date of Resignation
Clare Bousfield	31 March 2011	23 August 2011
Peter G Dornan	12 August 2002	31 March 2011
Howard Evans	23 August 2011	-
Patrick N C Gale	23 August 2011	-
Adrian T Grace	31 March 2011	-
Simon T Lloyd	23 August 2011	-
Otto Thoresen	02 July 2002	31 March 2011

All other Directors served throughout the year. 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.

AEGON UK DISTRIBUTION HOLDINGS LIMITED

REPORT BY THE DIRECTORS

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 has no externally imposed capital requirements.

The Company is not exposed to significant financial instrument risk. The Company's main exposure to risk arising from financial instruments is its exposure to credit risk arising on financial assets. Cash and short term deposits are placed with high credit rated banks which significantly reduces credit risk. Financial assets include intercompany receivables where credit risk is monitored by regular reviews of the performance of the relevant subsidiary company. Market risk on non intercompany financial assets is managed and monitored through regular investment reviews by the AEGON UK Group.

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 letter of support received from AEGON UK plc, the parent company, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future (being 12 months from the date of this report). Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

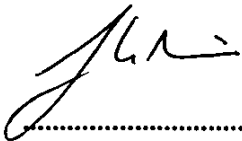
Auditors

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) dispense with the holding of an Annual General Meeting for 2002 and subsequent years, and (c) dispense with 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, being information needed by the auditors in connection with preparing their report, 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 17 September 2012 and signed on its behalf by



James K. MacKenzie
Company Secretary
AEGON Lochside Crescent
Edinburgh

AEGON UK DISTRIBUTION HOLDINGS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Directors' Report and the Company's 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 that law the directors have elected to prepare the financial 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 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, and
- state that the Company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements, and
- 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.

AEGON UK DISTRIBUTION HOLDINGS LIMITED
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
AEGON UK DISTRIBUTION HOLDINGS LIMITED

We have audited the financial statements of AEGON UK Distribution Holdings Limited for the year ended 31 December 2011 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 14. 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 auditor's 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 auditor

As explained more fully in the Directors' Responsibilities 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 and express an opinion on 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. In addition, we read all the financial and non-financial information in the Report by the Directors and the financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011 and of its loss 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.

AEGON UK DISTRIBUTION HOLDINGS LIMITED
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
AEGON UK DISTRIBUTION 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, or returns adequate for our audit have not been received from branches not visited by us, or
- the 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

20 September 2012

AEGON UK DISTRIBUTION HOLDINGS LIMITED

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

	<u>Notes</u>	<u>2011</u> <u>£000's</u>	<u>2010</u> <u>£000's</u>
Revenue			
Investment income	2	<u>13</u>	<u>11</u>
		13	11
Expenses			
Administrative expenses	3	-	-
Impairment charge	4	<u>(2,264)</u>	<u>(1,404)</u>
Total expenses		(2,264)	(1,404)
Loss before tax		(2,251)	(1,393)
Tax credit	5	3	68
Loss for the year		<u>(2,248)</u>	<u>(1,325)</u>

The results for the year relate wholly to continuing activities

The result for the year is attributable to the equity holders of the Company

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

	2011 £000's	2010 £000's
Net income	(2,248)	(1,325)
Other comprehensive income:		
Net gains/losses on available for sale investments	<u>30</u>	<u>(30)</u>
Other comprehensive income for the year	<u>30</u>	<u>(30)</u>
Total comprehensive income attributable to equity holders of AEGON UK Distribution Holdings Limited	<u>(2,218)</u>	<u>(1,355)</u>

AEGON UK DISTRIBUTION HOLDINGS LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2011

	<u>Notes</u>	<u>2011</u> <u>£000's</u>	<u>2010</u> <u>£000's</u>
Non-current assets			
Investments in subsidiaries	6	2,307	3,271
Investments in associates	7	7,230	7,230
Financial assets	8	161	261
		<u>9,698</u>	<u>10,762</u>
Current assets			
Financial assets	8	50	50
Trade and other receivables	9	-	17
Cash and short term deposits	10	169	-
		<u>219</u>	<u>67</u>
Total assets		<u>9,917</u>	<u>10,829</u>
Current liabilities			
Trade and other payables	11	10,044	10,073
Financial liabilities		742	373
Taxation Payable		166	-
Total liabilities		<u>10,952</u>	<u>10,446</u>
Net assets		<u>(1,035)</u>	<u>383</u>
Capital and reserves			
Issued capital	12	5,000	5,000
Capital contribution		54,175	53,375
Revaluation reserves		-	(30)
Retained earnings		(60,210)	(57,962)
Total equity		<u>(1,035)</u>	<u>383</u>

The financial statements were approved by the Board on 17 September 2012 and signed on its behalf by



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Adrian T Grace
Director

AEGON UK DISTRIBUTION HOLDINGS LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

	<u>Issued capital £000's</u>	<u>Capital contribution £000's</u>	<u>Revaluation reserves £'000's</u>	<u>Retained earnings £000's</u>	<u>Total £000's</u>
At 1 January 2011	5,000	53,375	(30)	(57,962)	383
Loss for the year recognised in the income statement	-	-	-	(2,248)	(2,248)
Other comprehensive income					
Revaluations	-	-	(100)	-	(100)
Impairment	-	-	130	-	130
Total other comprehensive income	-	-	30	-	30
Total comprehensive income for 2011	-	-	30	(2,248)	(2,218)
Capital contribution	-	800	-	-	800
At 31 December 2011	5,000	54,175	-	(60,210)	(1,035)

FOR THE YEAR ENDED 31 DECEMBER 2010

	<u>Issued capital £000's</u>	<u>Capital contribution £000's</u>	<u>Revaluation reserves £'000's</u>	<u>Retained earnings £000's</u>	<u>Total £000's</u>
At 1 January 2010	5,000	53,375	-	(56,637)	1,738
Loss for the year recognised in the income statement	-	-	-	(1,325)	(1,325)
Other comprehensive income					
Revaluations	-	-	(30)	-	(30)
Total other comprehensive income	-	-	(30)	-	(30)
Total comprehensive income for 2010	-	-	(30)	(1,325)	(1,355)
At 31 December 2010	5,000	53,375	(30)	(57,962)	383

AEGON UK DISTRIBUTION HOLDINGS LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

	<u>Notes</u>	<u>2011</u> <u>£000's</u>	<u>2010</u> <u>£000's</u>
Operating Activities			
Loss before tax		(2,251)	(1,393)
<i>Adjustment to reconcile loss before tax to net cash flow from operating activities</i>			
Impairment losses	4	1,895	1,026
Increase in financial liabilities		369	373
(Decrease)/Increase in trade and other payables	11	(29)	233
Decrease/(Increase) in trade and other receivables	9	17	(11)
Income taxes received		169	1,663
Net cash flow from operating activities		<u>170</u>	<u>1891</u>
Investing Activities			
Investment in subsidiaries	6	(800)	(900)
Investment in associates	7	-	(994)
Investment Income	2	(13)	(11)
Dividend income received		12	10
Net cash flow from investing activities		<u>(801)</u>	<u>(1,895)</u>
Financing Activities			
Capital contribution from AEGON UK		800	-
Net cash flow from financing activities		<u>800</u>	<u>-</u>
Net increase/(decrease) in cash and cash equivalents		169	(4)
Cash and cash equivalents at 1 January		-	4
Cash and cash equivalents at 31 December	10	<u>169</u>	<u>-</u>

The cash flow statement is prepared according to the indirect method

AEGON UK DISTRIBUTION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

1 Summary of significant accounting policies

1.1 Basis of preparation

1.1.1 *Introduction*

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 2011 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 NV, which is incorporated in the Netherlands, prepares publicly available consolidated accounts which comply with IFRS

The financial statements of AEGON UK Distribution Holdings Limited for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the directors on 17 September 2012

The Company is dependent on its parent company, AEGON UK plc, for financial support. AEGON UK plc has given a letter of support which states that AEGON UK plc will continue to provide support to the Company for a period of at least 12 months from the date of approval of the balance sheet of the Company. Based on this parent company financial support, the financial statements have been prepared on a going concern basis.

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 2011, the following new standards issued by the IASB and Interpretations issued by the IFRS Interpretations Committee (formerly known as the IFRIC) became mandatory:

Improvements to IFRS (May 2010) The IASB issued, in May 2010, a number of minor amendments to 7 different standards and interpretations. These amendments, which are effective from January 1, 2011, deal with minor changes to the wordings used in the individual standards and seek to remove editorial and other inconsistencies in the literature. AEGON adopted all the relevant changes from the improvements project to its accounting policies. The improvements project did not result in any changes to the classification, measurement or presentation of any items in the 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, 2011 but are not currently relevant for the Company:

- IAS 24 (revised) Related Party Disclosures,
- IFRIC 14 (Amendment) Prepayment of a minimum funding requirement,
- IFRIC 19 Extinguishing financial liabilities with equity instrument,
- IFRS 1 (amendment) First Time Adoption – Limited Exemption from Comparative IFRS 7 Disclosures for First Time Adopters,
- IFRS 1 (amendment) First Time Adoption – Severe Hyperinflation and Removal of Fixed Dates for First Time Adopters
- Amendment to IAS 32 Classification of Rights Issues

AEGON UK DISTRIBUTION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

113 *Future adoption of new IFRS accounting standards*

The following standards, amendments to existing standards and interpretations, published prior to January 1, 2012, were not early adopted by the Group and will be applied in future years

- IFRS 7 Financial Instruments disclosures – Enhanced Derecognition Disclosure Requirements , *
- IFRS 9 Financial Instruments , *
- IFRS 12 Disclosure of Interest in Other Entities, *
- IFRS 13 Fair Value Measurement, *
- IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income *
- IAS 12 Income Taxes – Recovery of Tax Assets, *
- IAS 27 Separate Financial Statements, *
- IAS 28 Investments in Associates and Joint Ventures, * and
- Improvements to IFRS (2010) *

IFRS 7 Financial Instruments Disclosures – Enhanced Derecognition Disclosure Requirements The amendments to IFRS 7 are effective for annual periods beginning on or after July 1, 2011 and will improve the understanding of transfer transactions of financial assets including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. AEGON expects the impact on its current disclosures on financial instruments to be considerable.

IFRS 9 Financial Instruments IFRS 9 Financial Instruments addresses classification and measurement of financial assets, is available for early adoption immediately but mandatory only for accounting periods beginning on or after January 1, 2013. IFRS 9 replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortized cost and fair value. IFRS 9 represents the first stage in the IASB's planned replacement of IAS 39. IFRS 9 is expected to have a significant impact on the Company's financial statements because it will likely result in a reclassification and re-measurement of the Company's financial assets. However, the full impact of IFRS 9 will only be clear after the remaining stages of the IASB's project on IFRS 9 are completed and issued.

IFRS 12 Disclosure of Interests in Other Entities The standard applies to financial years beginning on or after January 1, 2013, and provides disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles. The Company is currently assessing the impact of this standard.

IFRS 13 Fair Value Measurement The standard applies to financial years beginning on or after January 1, 2013, and provides a definition of fair value and a single source of fair value measurement, and disclosure requirements for use across IFRSs. The Company is currently assessing the impact of this standard.

AEGON UK DISTRIBUTION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income The amendments apply to financial years beginning on or after July 1, 2012. The amendments require the grouping together of items within other comprehensive income that may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in other comprehensive income and profit or loss should be presented as either a single statement or two consecutive statements. The Company is currently assessing the impact of this standard.

IAS 12 Income Taxes The amended standard is effective for annual periods beginning on or after January 1, 2012. The amendment provides a practical solution to the difficult and subjective assessment whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 Investment Property, by introducing a presumption that recovery of the carrying amount will, normally be through sale. The Company does not expect any impact on its financial position or performance.

IAS 27 Separate Financial Statements (as revised in 2011) As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013. As this amendment does not change the presentation of the separate financial statements, we do not expect any impact on the financial position or performance of the Company.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011) As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013. The Company is currently assessing the impact of IFRS 11 and IFRS 12, but we expect the impact the changes of IAS 28 on the Company's financial statements not significant.

Improvements to IFRS (2011) This set of improvements to IFRS issued by the IASB in June 2011, which applies to financial years beginning on or after January 1, 2013, makes a number of minor amendments to 5 different standards and interpretations. The Company is currently assessing the impact of the improvements. None of these amendments are expected to have a material change to the classification, measurement or presentation of any items in the Company's financial statements.

In addition to the above, the following standards, amendments to standards and interpretations have been published and are mandatory for accounting periods beginning on or after January 1, 2011 or later periods but are not relevant for the Company's operations:

- IFRS 10 Consolidated Financial Statements, *
- IFRS 11 Joint Arrangements, * and
- IAS 19 Employee Benefits, *

* not yet endorsed by the European Union

AEGON UK DISTRIBUTION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

12 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.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

(a) Investments in subsidiaries and associates

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.

(b) Financial assets

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 Group 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.

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:

2011

	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets carried at fair value			
Available for sale investments: shares	161	-	-
	<u>161</u>	<u>-</u>	<u>-</u>

No items were transferred to or from Level 3 during the year.

AEGON UK DISTRIBUTION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

2010

	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets carried at fair value			
Available for sale investments shares	261	-	-
	<u>261</u>	<u>-</u>	<u>-</u>

No items were transferred to or from Level 3 during the year

1 3 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:

1 3 1 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 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.

AEGON UK DISTRIBUTION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

(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 as impairment loss.

(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.

1.5 Investments in subsidiaries and associates

Subsidiaries are entities over which the Company has direct or indirect power to govern the financial and operating policies so as to obtain benefits from 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.

Entities over which the Company has significant influence through power to participate in financial and operating policy decisions, but which do not meet the definition of a subsidiary or joint venture, are classified as an associate.

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

1.6 Tax assets and liabilities

1.6.1 *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 other comprehensive income is recognised in comprehensive income and not in the income statement.

AEGON UK DISTRIBUTION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

1 6 2 *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 7 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.

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.

1 9 Impairment of assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used, these calculations corroborated by valuation multiples, or other available fair value indicators. Impairment losses on continuing operations are recognised in the income statement in expenses.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

AEGON UK DISTRIBUTION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

2 Investment income

	<u>2011</u> <u>£000's</u>	<u>2010</u> <u>£000's</u>
Interest income on loans to subsidiary undertakings	1	1
Dividend income from available for sale investments	12	10
	<u>13</u>	<u>11</u>

For terms and conditions relating to related party transactions, refer to note 8

3 Administrative expenses

Fees paid to non-executive Directors totalled £107,433 (2010 £nil) Directors' fees and audit fees have been borne by AEGON UK plc

4 Impairment charge

	<u>2011</u> <u>£000's</u>	<u>2010</u> <u>£000's</u>
Available for sale investments	130	-
Investments in subsidiary undertakings	2,134	640
Investment in associates	-	764
	<u>2,264</u>	<u>1,404</u>

Included within the impairment charge for Investments in subsidiary undertakings is an amount of £369,000 (2010 £373,000) relating to an obligation the Company has under a letter of support (as described in note 14) at the balance sheet date

5 Taxation

(a) Current year tax credit

	<u>2011</u> <u>£000's</u>	<u>2010</u> <u>£000's</u>
<u>UK current tax</u>		
Current tax credit for the year	-	-
Adjustment in respect of prior year	(3)	(68)
Total current tax credit	<u>(3)</u>	<u>(68)</u>
Total tax credit reported in the income statement	<u>(3)</u>	<u>(68)</u>

On 23 March 2011 the Chancellor announced that the corporation tax rate applicable from 1 April 2011 would be 26%. This change in rate was enacted on 29 March 2011. The previously enacted reduction from 28% to 27% was reflected in the deferred tax calculations as at 31 December 2010.

A further reduction in corporation tax rate to 25% with effect from 1 April 2012 was enacted by Finance Act 2011 in July 2011. The effect of this reduction in tax rate has been included in the above figures.

AEGON UK DISTRIBUTION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

On 21 March 2012 the Chancellor announced an additional 1% reduction in the tax rate applicable from 1 April 2012, this reduction down to 24% was not substantively enacted at the balance sheet date and has not been reflected in the above figures. Further changes to the rate are proposed such that it will reduce by 1% per annum to 22% by 1 April 2014. These reductions have not yet been substantively enacted and are therefore not included in the above figures.

(b) Reconciliation of tax credit

	<u>2011</u> <u>£000's</u>	<u>2010</u> <u>£000's</u>
Accounting loss before tax	<u>(2,251)</u>	<u>(1,393)</u>
Accounting loss multiplied by the UK standard rate of corporation tax of 26.5% (2010: 28%)	(597)	(390)
Adjustment in respect of prior years	(3)	(68)
Non taxable income	(3)	(3)
Non tax deductible expenses	600	393
Total tax credit reported in the income statement	<u>(3)</u>	<u>(68)</u>

The weighted average applicable tax rate is 26.5% (2010: 28%)

6 Investments in subsidiaries

	<u>2011</u> <u>£000's</u>	<u>2010</u> <u>£000's</u>
At 1 January	3,271	2,633
Additions	800	900
Impairment losses recognised	<u>(1,764)</u>	<u>(262)</u>
At 31 December	<u>2,307</u>	<u>3,271</u>

All investments in subsidiaries are carried at cost less impairment losses.

An impairment was recognised in respect of a subsidiary due to losses made by the subsidiary.

During the year the Company injected additional capital into AEGON UK Direct Limited and has recognised impairment loss due to winding up of AEGON UK Direct Limited.

AEGON UK DISTRIBUTION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

At 31 December 2011 the Company held 100% of the shares in the following principal subsidiaries. The undertakings have only one class of share. An asterisk (*) indicates holdings not directly held by the Company.

Name	Principal Activity	Registered	Holding %
AEGON Benefit Solutions Limited	Employee Benefit Management Services	England	100%
Elliott Bayley Holdings Limited	Holding Company	England	100%
Elliott Bayley Financial Services Limited*	Non Trading	England	100%
Aurora Financial Group Limited	Non trading	England	100%
Origen Limited	Service Company	England	100%
AEGON UK Direct Limited	Direct Sales	England	100%

7 Investments in associates

	<u>2011</u> <u>£000's</u>	<u>2010</u> <u>£000's</u>
At 1 January	7,230	7,000
Additions	-	994
Impairment losses recognised	-	(764)
At 31 December	<u>7,230</u>	<u>7,230</u>

At 31 December 2011 the Company held interests in Tenet Group Limited, which has both 'A' and 'B' ordinary shares. Tenet Group Limited has a reporting period ended 30 September 2011. During 2010 additional shares were purchased in Tenet Group Limited.

An impairment was recognised in 2010 in respect of the associate due to results being lower than previous expectations.

Name	Principal Activity	Registered	Holding %
Tenet Group Limited	Independent Financial Advisers	England	22.04%

AEGON UK DISTRIBUTION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

8 Financial assets

	<u>2011</u> <u>£000's</u>	<u>2010</u> <u>£000's</u>
Non current financial assets		
Available for sale investments	161	261
	<u>161</u>	<u>261</u>
Current financial assets		
Loans to subsidiary undertakings	50	50
	<u>50</u>	<u>50</u>
	<u>211</u>	<u>311</u>

Loans to subsidiary undertakings relate to unsecured loans which are repayable on demand. Interest is charged at 6 months or 12 months LIBOR +1.5%. As at 31 December 2011 loans to subsidiary undertakings at a nominal value of £10,849,000 (2010: £10,849,000) were impaired and a provision of £10,849,000 (2010: £10,849,000) was in place against these loans. The impairment charge relating to these loans in 2011 was £nil (2010: £nil).

9 Trade and other receivables

	<u>2011</u> <u>£000's</u>	<u>2010</u> <u>£000's</u>
Receivables from immediate parent undertaking	-	17
	<u>-</u>	<u>17</u>

For terms and conditions relating to related parties, refer to note 13.

10 Cash and short term deposits

	<u>2011</u> <u>£000's</u>	<u>2010</u> <u>£000's</u>
Short term deposits	169	-
	<u>169</u>	<u>-</u>

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 £169,000 (2010: £nil).

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

AEGON UK DISTRIBUTION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

11 Trade and other payables

	<u>2011</u> <u>£000's</u>	<u>2010</u> <u>£000's</u>
Payables to immediate parent undertaking	<u>10,044</u>	<u>10,073</u>
	<u>10,044</u>	<u>10,073</u>

For terms and conditions relating to related parties, refer to note 13

12 Capital and reserves

	<u>2011</u> <u>£000's</u>	<u>2010</u> <u>£000's</u>
Authorised share capital		
100,000,000 Ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>
Allotted, called up and fully paid		
5,000,000 Ordinary shares of £1 each	<u>5,000</u>	<u>5,000</u>

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. The company received a capital contribution during the year to support investment activity.

Revaluation Reserve

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.

AEGON UK DISTRIBUTION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

13 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 results of the Company are consolidated in the accounts of AEGON NV, the ultimate parent company, 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 transaction with related parties

The terms of loans to related parties are described in note 8.

As interest on certain loans to subsidiary undertakings is considered doubtful, it has been excluded from the income statement. The amount of gross interest not recognised in the income statement but which would have been recognised under the original terms of the loan is for 2011 £0.1m (2010 £0.1m).

Investment income from subsidiary undertakings is described in note 2 and 9.

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 2011 the company has made provision of £nil (2010 £nil) for doubtful debt relating to amounts owed by related parties. Year end balances related to related party transactions are detailed in notes 8, 9 and 11.

Letters of support have been provided to support subsidiary undertakings as described in note 14. The letters of support provided to the Company from its parent, AEGON UK plc, is described in note 1.

(d) Management personnel

The compensation of key management personnel (non-exec directors) in respect of services to the company was £107,433 (2010 nil). No other key management personnel (including directors) received any compensation in respect of services to the company.

14 Parent Company Support

The Company has given a letter of support which confirms that the Company will continue to provide financial support to AEGON Benefit Solutions Limited (a subsidiary of the Company) for a period of at least 12 months from the date of approval of the balance sheet of that subsidiary company.

The Company has given a letter of support which confirms that the Company will continue to provide financial support to Origen Limited (a subsidiary of the Company) for a period of at least 12 months from the date of approval of the balance sheet of that subsidiary company.