

SCOTTISH EQUITABLE HOLDINGS LIMITED

STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
31 DECEMBER 2015

COMPANY NUMBER SC144516

MONDAY



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**SCOTTISH EQUITABLE HOLDINGS LIMITED**  
**COMPANY INFORMATION**

Directors	Clare J Bousfield
	Darryl D Button
	Philip C Easter
	Adrian M Eastwood
	James Ewing
	Adrian T Grace
	Simon J Gulliford
	Michael J Merrick
	Caroline F Ramsay
	David M Dalton-Brown
Secretary	James K MacKenzie
Company Number	SC144516
Registered Office	Aegon Lochside Crescent Edinburgh Park Edinburgh EH12 9SE
Independent Auditors	PricewaterhouseCoopers LLP Atria One 144 Morrison Street Edinburgh EH3 8EX

**SCOTTISH EQUITABLE HOLDINGS LIMITED**  
**STRATEGIC REPORT FOR THE**  
**YEAR ENDED 31 DECEMBER 2015**

**Principal activity**

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

**Review of business and future developments**

The Company is the immediate holding company of Scottish Equitable plc, which operates under the brand Aegon, and is one of the UK's leading providers of individual and group pensions, protection, annuities and investment products. The Directors remain confident that the Company is well placed for the challenges and opportunities that continue to arise through regulatory and market changes, which include the continued impacts of increased pensions flexibility noted above, the continual implementation of Department of Work and Pensions (DWP) cap on group pension charges and embedding of Solvency II.

The Company is an investment holding company and is exempt from preparing consolidated financial statements. As a result the financial statements show the results of investment holding activity rather than the trading performance of each of the underlying investments. The main key performance indicators of the Company relate to the performance of Scottish Equitable plc. Over the longer term the performance of Scottish Equitable plc is the key driver of results presented in the financial statements of the Company. In 2015 the Company made a loss before tax of £4.7m from this investment holding activity, compared to a loss of £5.8m in 2014.

Scottish Equitable plc, a direct subsidiary, has undertaken significant transactions following the balance sheet date. Please see note 12 (Post Balance Sheet Events) for further details. These transactions have been undertaken as part of Scottish Equitable plc's continuing focus on its strategy of growing its platform business.

As set out in the statement of changes in equity, there have been no capital contributions received in the year (2014: £104m).

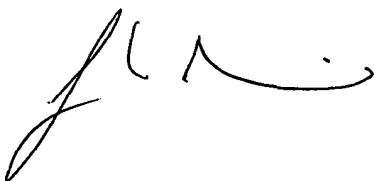
**Corporate governance, capital management and financial instruments**

The Aegon UK Group, of which the Company is a part, has established a governance framework for monitoring and overseeing strategy, conduct of business standards and operations of the business across the group that includes a clearly stated corporate organisational structure, appropriate delegated authorities and independent internal audit and risk management functions. Risk management for the Company operates within this governance framework.

The Company's objective in managing its capital is to ensure that there are adequate resources to meet the Company's liabilities as they fall due, and to allocate capital efficiently to support growth and repatriate excess capital where appropriate. The Company's capital is managed in conjunction with that of other companies in the Aegon UK Group. The Company manages its capital by measuring its resources and cash available on a regular basis. The Company's capital position and the movement in this from the prior year are disclosed within the Statement of Changes in Equity. The Company has no externally imposed capital requirements.

The Company's exposure to financial instrument risk is in the form of interest rate risk and credit risk. The Company's exposure to interest rate risk is on its financial liabilities as interest is charged based on LIBOR. Credit risk is significantly reduced as assets are primarily cash and cash equivalents, which are placed with high credit-rated banks. As the Company is an investment holding company the main risk directly impacting the Company relates to the performance, and therefore carrying value and dividend payment capability, of the Company's principal subsidiaries.

This report was approved by the Board on 22 June 2016 and signed by order of the Board by



James K MacKenzie  
Company Secretary  
Aegon Lochside Crescent  
Edinburgh Park  
Edinburgh

**SCOTTISH EQUITABLE HOLDINGS LIMITED**  
**DIRECTORS' REPORT FOR THE**  
**YEAR ENDED 31 DECEMBER 2015**

The Directors present their report and the audited financial statements for the year ended 31 December 2015.

**Structure of these financial statements**

Scottish Equitable Holdings Limited's (the Company), 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 2015 and applied in accordance with the Companies Act 2006. The Company has made use of the CA 2006 S400 exemption from preparing consolidated financial statements.

**Results and dividends**

The results for the year are set out on page 7. No interim dividends were paid during the year (2014: £nil). The Directors do not propose a final dividend payment for the year ended 31 December 2015 (2014: £nil).

**Directors and their interests**

The current Directors of the Company are shown on page 1. The following appointments and resignations occurred throughout the year and up to the date of signing the financial statements. All other Directors served throughout the year.

Name of Director	Date of Appointment	Date of Resignation
Karen Wright	18/05/2015	17/06/2016
David M Dalton-Brown	11/09/2015	-
Michael R Tuohy	-	10/12/2015

**Going concern**

In assessing whether the Company is a going concern the Directors have taken into account the guidance issued by the Financial Reporting Council in October 2009. After making enquiries, which include considering the liquidity of the Company's assets and the repayment terms of the company's liabilities, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future (being 12 months from the date of this report). Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

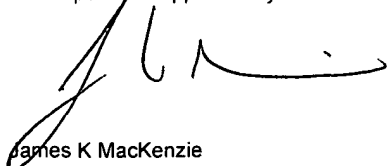
**Independent auditors**

An elective resolution was passed on 18 December 2002 to (a) dispense with the requirement to lay the Report and Accounts before the Company in the general meeting, (b) to dispense with the holding of an Annual General Meeting for 2002 and subsequent years, and (c) to 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 they ought to have taken as director to make themselves 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 22 June 2016 and signed by order of the Board by



James K MacKenzie  
Company Secretary  
Aegon Lochside Crescent  
Edinburgh Park  
Edinburgh

**SCOTTISH EQUITABLE HOLDINGS LIMITED**  
**STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE**  
**YEAR ENDED 31 DECEMBER 2015**

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union, have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF SCOTTISH EQUITABLE HOLDINGS LIMITED**

## **Report on the financial statements**

### **Our opinion**

In our opinion, Scottish Equitable Holdings Limited financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its net income and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **What we have audited**

The financial statements, included within the Strategic Report, Directors' Report and Financial Statements (the "Annual Report"), comprise:

- the Statement of Financial Position as at 31 December 2015;
- the Income statement for the year then ended;
- the Cash Flow Statement for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union, and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

### **Opinion on other matter prescribed by the Companies Act 2006**

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

### **Other matters on which we are required to report by exception**

#### **Adequacy of accounting records and information and explanations received**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

#### **Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

### **Responsibilities for the financial statements and the audit**

#### **Our responsibilities and those of the directors**

As explained more fully in the Statement of Directors' Responsibilities in relation to the Financial Statements 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.*

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF SCOTTISH EQUITABLE HOLDINGS LIMITED**

**What an audit of financial statements involves**

We conducted our audit in accordance with ISAs (UK & Ireland). 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Strategic report, Directors' report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Shujaat Khan (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Edinburgh

22 June 2016

**SCOTTISH EQUITABLE HOLDINGS LIMITED**  
**INCOME STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

	Note	<u>2015</u> <u>£000's</u>	<u>2014</u> <u>£000's</u>
<b>Revenue</b>			
Investment income	4	<u>14</u>	<u>12</u>
<b>Total revenue</b>		<u>14</u>	<u>12</u>
<b>Expenses</b>			
Finance costs	5	<u>(4,752)</u>	<u>(5,825)</u>
<b>Loss before tax</b>		<u>(4,738)</u>	<u>(5,813)</u>
Tax credit	6	<u>959</u>	<u>1,250</u>
<b>Loss for the year</b>		<u><u>(3,779)</u></u>	<u><u>(4,563)</u></u>

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

The loss for the year relate wholly to continuing activities.

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



**SCOTTISH EQUITABLE HOLDINGS LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2015**

	Note	<u>2015</u> <u>£000's</u>	<u>2014</u> <u>£000's</u>
<b>Non-current assets</b>			
Investments in subsidiaries	7	<u>2,075,317</u>	<u>2,075,317</u>
<b>Current assets</b>			
Tax receivables		1,867	908
Cash and cash equivalents	8	<u>3,416</u>	<u>3,402</u>
		<u>5,283</u>	<u>4,310</u>
<b>Total assets</b>		<u>2,080,600</u>	<u>2,079,627</u>
<b>Financial Liabilities</b>			
Non-current	9	<u>123,010</u>	<u>118,258</u>
<b>Total liabilities</b>		<u>123,010</u>	<u>118,258</u>
<b>Net assets</b>		<u>1,957,590</u>	<u>1,961,369</u>
<b>Capital and reserves</b>			
Issued share capital	10	253,000	253,000
Share premium account		249,000	249,000
Capital contribution reserve	10	1,693,149	1,693,149
Retained earnings		<u>(237,559)</u>	<u>(233,780)</u>
<b>Total equity</b>		<u>1,957,590</u>	<u>1,961,369</u>

The financial statements were approved by the Board on 22 June 2016 and signed on its behalf by



Adrian T Grace



Clare J Bousfield

**SCOTTISH EQUITABLE HOLDINGS LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

	<u>Share Capital</u>	<u>Share Premium Account</u>	<u>Capital Contribution Reserve</u>	<u>Retained Earnings</u>	<u>Total Equity</u>
	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>
At 1 January 2015	253,000	249,000	1,693,149	(233,780)	1,961,369
Additions	-	-	-	-	-
Loss for the year	-	-	-	(3,779)	(3,779)
At 31 December 2015	<u>253,000</u>	<u>249,000</u>	<u>1,693,149</u>	<u>(237,559)</u>	<u>1,957,590</u>

**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

	<u>Share Capital</u>	<u>Share Premium Account</u>	<u>Capital Contribution Reserve</u>	<u>Retained Earnings</u>	<u>Total Equity</u>
	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>
At 1 January 2014	253,000	249,000	1,589,149	(229,217)	1,861,932
Additions	-	-	104,000	-	104,000
Loss for the year	-	-	-	(4,563)	(4,563)
At 31 December 2014	<u>253,000</u>	<u>249,000</u>	<u>1,693,149</u>	<u>(233,780)</u>	<u>1,961,369</u>

The Company did not recognise any income or expense directly in equity (2014: £nil).

**SCOTTISH EQUITABLE HOLDINGS LIMITED**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

	Note	<u>2015</u> £000's	<u>2014</u> £000's
<b>Operating activities</b>			
Loss before tax		(4,738)	(5,813)
<i>Adjustment to reconcile loss before tax to net cash flow from operating activities:</i>			
Investment income	4	(14)	(12)
Finance costs	5	4,752	5,825
Interest income received		14	9
Income tax received		-	200
Net cash inflow from operating activities		<u>14</u>	<u>209</u>
<b>Investing activities</b>			
Capital contribution		-	15,642
Investment in Scottish Equitable plc		-	(15,642)
Net cash inflow from investing activities		<u>-</u>	<u>-</u>
<b>Financial activities</b>			
Capital contribution		-	88,358
Repayment of borrowings		-	(86,108)
Repayment of borrowings interest		-	(2,250)
Net cash flow used in financing activities		<u>-</u>	<u>-</u>
 Net increase in cash and cash equivalents		 14	 209
Cash and cash equivalents at 1 January		<u>3,402</u>	<u>3,193</u>
 Cash and cash equivalents at 31 December	 8	 <u>3,416</u>	 <u>3,402</u>

The Cash Flow statement is prepared according to the indirect method.

**SCOTTISH EQUITABLE HOLDINGS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

**1. Summary of significant accounting policies**

**1.1. Basis of Preparation**

**1.1.1 *Introduction***

The Company's financial statements have been prepared on the going concern basis and in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union as they apply to the financial statements of the Company for the year ended 31 December 2015 and applied in accordance with the Companies Act 2006. The financial statements have been prepared in accordance with the historical cost convention as modified by those financial instruments and financial liabilities that have been measured at fair value.

The principal accounting policies set out below have been consistently applied to all financial reporting periods presented in these financial statements.

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

The financial statements of Scottish Equitable Holdings Limited for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of the Directors on 22 June 2016.

**1.1.2 *Adoption of new IFRS accounting standards***

New standards and amendments to standards become effective at the date specified by IFRS, but may allow companies to opt for an earlier adoption date. In 2015, the following amendments to existing standards issued by the IASB became mandatory but are not currently relevant or do not significantly impact the financial position or financial statements:

- IAS 19 Employee Benefits - Amendment Employee Contributions;
- Annual improvements 2010-2012 Cycle; and
- Annual improvements 2011-2013 Cycle.

The above new standards, amendments to existing standards and interpretations have been endorsed by the European Union.

**1.1.3 *Future adoption of new IFRS accounting standards***

The following standards, amendments to the existing standard and interpretations, published prior to January 1, 2016, were not early adopted by the Company, but will be applied in future years:

- IFRS 9 Financial Instruments\*;

\* Not yet endorsed by the European Union.

*IFRS 9 Financial Instruments* - The IASB issued the final version of IFRS 9 Financial Instruments in July 2014. IFRS 9 combines classification and measurement, the expected credit loss impairment model and hedge accounting. The standard will eventually replace IAS 39 and all previous versions of IFRS 9. Application is required for annual periods beginning or after January 1, 2018. Under the Classification and Measurement component financial assets are measured at amortised cost, fair value through profit or loss or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. The classification and measurement of financial liabilities is unchanged from existing requirements apart from own credit risk. For financial liabilities that are measured at fair value through profit or loss, the changes which are attributable to the change in an entity's own credit risk are presented in other comprehensive income, unless doing so would enlarge or create an accounting mismatch. For the Impairment component, the IASB included requirements for a credit loss allowance or provision, which should be based on expected losses rather than incurred losses. On November 19, 2013, the IASB issued a new version of Hedge Accounting, which includes the new hedge accounting requirements. Macro hedging is decoupled from the hedge accounting component in order to avoid impact on the effective date or timing of the completion of the IFRS 9 project. IFRS 9 is expected to have a significant impact on the Company's financial statements because it will likely result in a reclassification and remeasurement (including impairment) of the Company's financial assets. The full impact will only be clear after full assessment of the standard.

**SCOTTISH EQUITABLE HOLDINGS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

The following amendments to the existing standard and interpretation, published prior to January 1, 2015, which are not yet effective for or early adopted by the Company, will not significantly impact the financial position or financial statements:

- IFRS 10, IFRS 12 and IAS 28 - Investment Entities: Applying the Consolidation Exception\*;
- IFRS 10 and IAS 28 - Amendment Sale or Contribution of Assets between an Investor and its Associate or Joint Venture\*;
- IFRS 11 Joint Arrangements - Amendment Accounting for Acquisition of Interests in Joint Operations;
- IFRS 14 Regulatory Deferral Accounts\*;
- IFRS 15 Revenue from Contracts with Customers\*;
- IAS 1 Amendment Disclosure Initiative;
- IAS 27 Separate Financial Statements - Amendment Equity method in Separate Financial Statements;
- IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization; and
- Annual improvements 2012-2014 Cycle.

\* Not yet endorsed by the European Union.

**1.2. Investments in subsidiaries**

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

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

**1.3. Investment income**

Investment income includes the interest income on financial assets carried at fair value through profit or loss. Interest is recognised as it is earned.

**1.4. Tax assets and liabilities**

*Current income tax*

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 other comprehensive income and not in the income statement.

*Deferred income tax*

Deferred income tax is provided where required using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets and liabilities are measured 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 other comprehensive income is recognised directly in other comprehensive income 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 relate to the same taxable entity and the same taxation authority.

**1.5. Interest bearing loans**

Obligations for loans 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.

**SCOTTISH EQUITABLE HOLDINGS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

**1.6. Investments**

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.

*(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.

*(c) Amortised cost*

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

*(d) Impairment*

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.

*(e) 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.

*(f) Fair value and fair value hierarchy*

The following is a description of Company's methods of determining fair value, and a quantification of its exposure to assets and liabilities measured at fair value.

*Fair value is defined as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:*

- *In the principal market for the asset or liability; or*
- *In the absence of a principal market, in the most advantageous market for the asset or liability.*

In accordance with IFRS 13 the Company uses the following hierarchy for determining and disclosing the fair value of assets and liabilities:

- *Level I: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date;*
- *Level II: inputs other than quoted prices included within Level I 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 III: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) or using valuation techniques for which any significant input is not based on observable market data.*

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

The degree of judgment used in measuring the fair value of assets and liabilities generally inversely correlates with the level of observable valuation inputs. The Company maximizes the use of observable inputs and minimizes the use of unobservable valuation inputs when measuring fair value. Financial instruments, for example, with quoted prices in active markets generally

**SCOTTISH EQUITABLE HOLDINGS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

have more pricing observability and less judgment is used in measuring fair value. Conversely, financial instruments for which no quoted prices are available have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment.

The assets and liabilities categorization within the fair value hierarchy is based on the lowest input that is significant to the fair value measurement.

The judgment as to whether a market is active may include, although not necessarily determinative, lower transaction volumes, reduced transaction sizes and, in some cases, no observable trading activity for short periods. In inactive markets, assurance is obtained that the transaction price provides evidence of fair value or determined that the adjustments to transaction prices are necessary to measure the fair value of the instrument.

The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement is high. However, certain assets and liabilities are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable and, for such assets and liabilities, the derivation of fair value is more judgmental. An instrument in its entirety is classified as valued using significant unobservable inputs (Level III) if, in the opinion of management, a significant proportion of the instrument's carrying amount is driven by unobservable inputs. "Unobservable" in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no market data available at all upon which to base a determination of fair value. Additional information is provided in the table headed "Effect of changes in significant unobservable assumptions to reasonably possible alternatives" below. While the Company believes, its valuation techniques are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain instruments (both financial and non-financial) could result in a different estimate of fair value at the reporting date.

To operationalize the Company's fair value hierarchy, individual instruments (both financial and non-financial) are assigned a fair value level based primarily on the type of instrument and the source of the prices (e.g. index, third-party pricing service, internally modelled). Periodically, this logic for assigning fair value levels is reviewed to determine if any modifications are necessary in the context of the current market environment.

*Fair value of assets and liabilities*

The estimated fair values of the Company's assets and liabilities correspond with the amounts that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When available, the Company uses quoted market prices in active markets to determine the fair value of investments and derivatives. In the absence of an active market, the fair value of investments in financial assets is estimated by using other market observable data, such as corroborated external quotes and present value or other valuation techniques. An active market is one in which transactions are taking place regularly on an arm's length basis. A fair value measurement assumes that an asset or liability is exchanged in an orderly transaction between market participants, and accordingly, fair value is not determined based upon a forced liquidation or distressed sale.

Valuation techniques are used when the Company determines the market is inactive or quoted market prices are not available for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). Therefore, unobservable inputs reflect Company's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available.

Valuation of assets and liabilities is based on a pricing hierarchy, in order to maintain a controlled process that will systematically promote the use of prices from sources in which the Company has the most confidence, where the least amount of manual intervention exists and to embed consistency in the selection of price sources. Depending on asset type the pricing hierarchy consists of a waterfall that starts with making use of market prices from indices and follows with making use of third-party pricing services or brokers.

**Fair value information about assets and liabilities not measured at fair value**

The following table presents the carrying values and estimated fair values of assets and liabilities, excluding assets and liabilities which are carried at fair value on a recurring basis.

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	Carrying amount December 31, 2015	Estimated fair value hierarchy			Total estimated fair value December 31, 2015
		Level I	Level II	Level III	
	£000's	£000's	£000's	£000's	£000's
<b>Liabilities</b>					
Debenture loan	13,129	-	14,923	-	14,923
Loans from ultimate parent undertaking	109,881	-	117,605	-	117,605

	Carrying amount December 31, 2014	* Estimated fair value hierarchy			Total estimated fair value December 31, 2014
		Level I	Level II	Level III	
	£000's	£000's	£000's	£000's	£000's
<b>Liabilities</b>					
Debenture loan	12,415	-	14,643	-	14,643
Loans from ultimate parent undertaking	105,843	-	116,209	-	116,209

\* Management do not consider that there are any significant unobservable inputs in the fair value measurements and as such have categorised as level II.

**1.7. Cash and cash equivalents**

Cash comprises cash at banks and in-hand. Cash equivalents are short-term, highly liquid deposits 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. Events after the balance sheet date**

The financial statements are adjusted to reflect events that occurred between the balance sheet date and the date when the financial statements are authorised for issue, provided they give evidence of conditions that existed at the balance sheet date. Events that are indicative of conditions that arose after the balance sheet date are disclosed, but do not result in an adjustment of the financial statements themselves.

**2. Administrative expenses**

The Company has not been subject to audit fees as this cost is borne by Scottish Equitable plc. The company did not have employees under contracts of service during the year to 31 December 2015 (2014: nil).

**3. Directors' emoluments**

The amount of Directors' remuneration was as follows:

	<u>2015</u>	<u>2014</u>
	<u>£000's</u>	<u>£000's</u>
Fees	555.0	467.1
Remuneration including bonuses	2,313.2	1,953.8
	<u>2,868.2</u>	<u>2,420.9</u>

Contributions were made for one director (2014: one) to defined contribution schemes of £14,000 (2014: £23,000).

Three directors received Aegon N.V. shares in relation to long term incentive schemes in 2015 (2014: two).



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The Executive Directors of Scottish Equitable plc are also Executive Directors of other Aegon UK plc group companies. The total remuneration of the Executive Directors is disclosed above, all of which was paid by the Aegon UK plc group. The Directors do not believe that it is practicable to apportion this amount between their services as Executive Directors of Scottish Equitable plc and its subsidiaries and their services to other Aegon UK group companies.

Fees relate to payments to Non-executive Directors. Non-Executive Directors do not participate in any incentive or bonus plans or pension arrangements.

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

Highest paid Director	<u>2015</u>	<u>2014</u>
Amounts included above:	<u>£000's</u>	<u>£000's</u>
Remuneration including bonuses	<u>1,170.1</u>	<u>1,016.9</u>

The highest paid director became a member of the Management Board of Aegon N.V. on 17 February 2012. The remuneration for the highest paid Director included above is also disclosed in the Scottish Equitable plc financial statements where he is also a Director.

The highest paid Director at 31 December 2015 and 31 December 2014 was not a member of the defined benefit pension scheme. Contributions of £nil (2014: £nil) were made to a defined contribution scheme in respect of the highest paid Director at 31 December 2015.

The highest paid Director received Aegon N.V. shares in relation to long term incentive schemes in 2015 and 2014.

**4. Investment Income**

	<u>2015</u>	<u>2014</u>
	<u>£000's</u>	<u>£000's</u>
Cash and cash equivalents interest income	<u>14</u>	<u>12</u>

**5. Finance costs**

	<u>2015</u>	<u>2014</u>
	<u>£000's</u>	<u>£000's</u>
Interest expense on debentures held by fellow Aegon N.V. subsidiary undertakings	714	675
Interest expense on loans from subsidiary undertaking	-	1,303
Interest expense on loans from ultimate parent undertaking	<u>4,038</u>	<u>3,847</u>
	<u>4,752</u>	<u>5,825</u>

For terms and conditions relating to related party transactions, refer to note 9.

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**6. Taxation**

**(a) Current year tax credit**

	<u>2015</u>	<u>2014</u>
	<u>£000's</u>	<u>£000's</u>
<u>UK Current Tax</u>		
UK corporation tax credit	959	1,250
Total current tax	<u>959</u>	<u>1,250</u>
Total tax credit reported in the income statement	<u>959</u>	<u>1,250</u>

**(b) Reconciliation of tax credit**

	<u>2015</u>	<u>2014</u>
	<u>£000's</u>	<u>£000's</u>
Accounting loss before tax	(4,738)	(5,813)
Income tax on accounting loss calculated using the weighted average applicable statutory rates	959	1,250
Total tax credit reported in the income statement	<u>959</u>	<u>1,250</u>

No deferred tax asset is recognised on the balance sheet in respect of tax losses carried forward of £84.6m (2014: £84.6m) and in respect of interest expense deductible on a paid basis of £82.1m (2014: £82.1m) as there is insufficient certainty as to the availability of future profits. The potential tax values are £16.1m (2014: £16.9m) and £15.6m (2014: £16.4m) respectively.

The weighted average applicable tax rate for the year is 20.25% (2014: 21.5%).

The Finance Act 2013 reduced the rate of corporation tax from 21% to 20% with effect from 1 April 2015. The Finance (No. 2) Act 2015, substantively enacted on 26 October 2015, included future reductions to the corporation tax rate from 20% to 19% with effect from 1 April 2017 and then from 19% to 18% from 1 April 2020. The impact of these reductions in tax rates on the deferred tax balances have been included in the above figures.

**7. Investment in subsidiaries**

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

	<u>2015</u>	<u>2014</u>
	<u>£000's</u>	<u>£000's</u>
Balance at January 1	2,075,317	2,059,675
Additions	-	15,642
Balance at 31 December	<u>2,075,317</u>	<u>2,075,317</u>

All subsidiaries are carried at cost less impairment losses.

At 31 December 2015 Scottish Equitable plc held 100% of the shares in the following subsidiary undertakings operating in the UK. Each undertaking has only one class of share.

Name	Principal Activity	Registered
Scottish Equitable (Managed Funds) Limited	Reassurance of life assurance business (until 31 December 2009) (dormant)	Scotland
Aegon UK IT Services Limited	Leasing company (dormant)	Scotland

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**8. Cash and cash equivalents**

	<u>2015</u> <u>£000's</u>	<u>2014</u> <u>£000's</u>
Cash at bank	3	-
Short term deposits	<u>3,413</u>	<u>3,402</u>
	<u>3,416</u>	<u>3,402</u>

The weighted effective interest rate on short term deposits is 0.45% (2014: 0.27%) and these deposits have an average maturity date of 4 days (2014: 2 days). Short term deposits are held in a bank with a credit rating of A (2014: A). Cash and cash equivalents are not subject to any restrictions. The cash at bank is held with a bank with a credit rating of BBB.

The carrying amounts disclosed reasonably approximate the fair values as at the year-end.

**9. Financial Liabilities**

	<u>2015</u> <u>£000's</u>	<u>2014</u> <u>£000's</u>
<b>Non-current borrowings</b>		
Debenture loan	13,129	12,415
Loan from ultimate parent undertaking	<u>109,881</u>	<u>105,843</u>
	<u>123,010</u>	<u>118,258</u>

The Debenture Loan is held by a fellow Aegon N.V. subsidiary undertaking. Unless previously repaid or redeemed, the principal sum will be repaid at par on 7 September 2018, together with any accrued interest on the principal sum. Interest will be paid at 5.75% per annum. The fair value of this loan is £14.923m (2014: £14.643m).

Loans from the ultimate parent undertaking Aegon N.V. are repayable by 30 September 2018 and pay interest at LIBOR plus a margin based on Aegon N.V. and Scottish Equitable plc credit spreads. Where interest is rolled over, additional deferral interest is payable to the ultimate parent undertaking based on the same rate.

**10. Capital and reserves**

	<u>2015</u> <u>£000's</u>	<u>2014</u> <u>£000's</u>
<b>Allotted, called up and fully paid</b>		
253,000,000 Ordinary shares of £1 each (2014: 253,000,000 shares of £1)	<u>253,000</u>	<u>253,000</u>
<b>One Special Share of £1</b>	<u>-</u>	<u>-</u>

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

In accordance with the agreement between Aegon International BV and Scottish Equitable Life Assurance Society the Special Share conferred 0% of the voting rights during the year ended 31 December 2015 (0% during the year ended 31 December 2014). SEPT retains certain rights connected with the operation of Scottish Equitable plc's with profit sub-fund, including the right to be consulted on proposed bonus recommendations.

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

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**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.

In 2015 the Company received no capital contributions (2014: £104m). The capital contribution in 2014 was used to repay loans from subsidiary undertakings (£88.4m) and the remaining amount was invested in Scottish Equitable plc (£15.6m).

**11. Related party transactions**

**(a) Immediate parent undertaking**

The immediate parent company is Aegon UK plc which is registered in England and Wales. Copies of Aegon UK plc financial statements 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 financial statements of Aegon N.V., the ultimate parent undertaking, which is incorporated in the Netherlands. Copies of the consolidated financial statements of Aegon N.V. are available to the public and may be obtained from The Company Secretary, Aegon UK plc, Aegon Lochside Crescent, Edinburgh Park, Edinburgh, EH12 9SE.

**(c) Year end balances and transactions with related parties**

The terms of the loans from related parties are described in note 9. The Company has not provided or benefited from any guarantees for any related party receivables or payables. During the year ended 31 December 2015 the Company has not made any provision for doubtful debt relating to amounts owed by related parties (2014: £nil).

Finance costs arise on loans from related parties as detailed in note 5. Year end balances related to related party transactions are detailed in note 9.

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

No key management personnel (including directors) received any compensation in respect of services provided to the Company (2014: £nil).

**12. Post balance sheet events**

The following transactions have been undertaken by the company's direct subsidiary, Scottish Equitable plc, following the balance sheet date:

- Sale of £6.5 billion of annuities to Rothesay Life Limited announced on 11 April 2016, subject to the completion of a Part VII transfer. A reinsurance agreement has been put in place until the Part VII process is complete.
- Sale of £3 billion of annuities to Legal and General Group announced on 23 May 2016, subject to the completion of a Part VII transfer. A reinsurance agreement has been put in place until the Part VII process is complete.
- The purchase of £12 billion worth of assets of Blackrock's defined benefit contribution business, announced on 3 May 2016, subject to the completion of a Part VII transfer.