SCOTTISH EQUITABLE HOLDINGS LIMITED

STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2013

COMPANY NUMBER SC144516

SCOTTISH EQUITABLE HOLDINGS LIMITED

COMPANY INFORMATION

Directors	Clare J Bousfield Darryl D Button John P Cliff Philip C Easter James Ewing Simon J Gulliford Adrian T Grace Erik Lagendijk Caroline F Ramsay Michael R Tuohy
Secretary	James K MacKenzie
Company Number	SC144516
Registered Office	Aegon Lochside Crescent Edinburgh Park Edinburgh EH12 9SE
Auditors	Ernst & Young LLP Ten George Street Edinburgh EH2 2DZ

SCOTTISH EQUITABLE HOLDINGS LIMITED

THE STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013

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 it is in a strong position for the challenges and opportunities which continue to arise through regulatory and market changes, which include the impacts of Solvency II, the Retail Distribution Review and Pensions Reform.

The Company is an investment holding company and does not prepare consolidated accounts. As a result the financial statements show the results of investment holding activity rather than the trading performance of each of the underlying investments. The main key performance indicators of the Company relate to the performance of Scottish Equitable plc. Over the longer term the performance of Scottish Equitable plc is the key driver of results presented in the accounts of the Company. In 2013 the Company made a loss before tax of £14.2m from this investment holding activity, compared to a loss of £31.4m in 2012.

Capital contributions have been received in the year as set out in the statement of changes in equity.

It is possible that following a referendum in September 2014, Scotland may vote to become independent from the remainder of the United Kingdom. Any actual changes would not take effect until after Independence Day, which based on Scottish Government indications would not be until March 2016 at the earliest. The details of any changes are impossible to predict with certainty at present, and will depend on post-referendum negotiations and agreements between the Scottish Government and other organizations at UK and EU level. Independence could result in inter alia changes in the monetary system, currency, taxation, regulatory and legal framework, and membership of the EU. Some possible outcomes of independence could have an adverse effect on Aegon UK plc Group's business, financial condition and results of operations in the future.

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 short term deposits, 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 16 July 2014 and signed on its behalf by

James K MacKenzie
Company Secretary
Aegon Lochside Crescent
Edinburgh Park
Edinburgh

SCOTTISH EQUITABLE HOLDINGS LIMITED

THE DIRECTORS REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013

The Directors present their report and the audited financial statements for the year ended 31 December 2013.

Structure of these accounts
Scottish Equitable Holdings Limited's (the Company), 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 2013 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 period are set out on page 6. No interim dividends were paid during the year (2012: nil). The Directors do not propose a final dividend payment for the year ended 31 December 2013 (2012: £nil).

Directors and their interests
The current Directors of the Company are shown on page 1. The following appointment/resignations occurred throughout the year. All other Directors served throughout the year.

Name of Director	Date of Appointment	Date of Resignation
Roy C Gillson	-	08/02/2013
Jan J. Nooitgedagt	-	23/04/2013
Caroline F Ramsay	21/05/2013	-
Darryl D Button	08/08/2013	-
Charles M Garthwaite	-	31/12/2013
Patrick Peugeot	-	26/03/2014
James Ewing	03/04/2014	-

Laurence J Edwards resigned as Company Secretary on 12 June 2014 and James K Mackenzie was appointed on 12 June 2014.

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.

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.

Ernst & Young will resign from office following finalisation of the 2013 accounts and it is proposed to appoint PWC as auditors in accordance with section 485 of the Companies Act 2006.

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 16 July 2014 and signed on its behalf by

James K MacKenzie
Company Secretary
Aegon Lochside Crescent
Edinburgh Park
Edinburgh

SCOTTISH EQUITABLE HOLDINGS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Company financial statements in accordance with applicable United Kingdom law and regulations. Company law requires the directors to prepare Company financial statements for each financial year. Under that law, the directors have elected to prepare Company financial statements under International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Under Company Law the directors must not approve the Company 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 the Company financial statements the directors are required to:

- present fairly the financial position, financial performance and cash flows of the Company;
- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements that are reasonable;
- provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union 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 whether the Company financial statements have been prepared in accordance with IFRSs as adopted by the European Union.

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 Company financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. 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

We have audited the financial statements of Scottish Equitable Holdings Limited for the year ended 31 December 2013, which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Equity and the related notes 1 to 11. 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 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.

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 2013 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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Giles Watson (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Edinburgh
22 July 2014

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	2013 £000's	2012 £000's
Revenue			
Investment income	4	15	26
Total revenue		15	26
Expenses			
Finance costs	5	(14,233)	(31,410)
Loss before tax		(14,218)	(31,384)
Tax (charge) / credit	6	(3,934)	1,093
Loss for the year		(18,152)	(30,291)

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

The loss for the year relate wholly to continuing activities.

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

SCOTTISH EQUITABLE HOLDINGS LIMITED

BALANCE SHEET
AS AT 31 DECEMBER 2013

	Notes	2013 £000's	2012 £000's
Non-current assets			
Investments in subsidiaries	7	2,059,675	2,059,675
Current assets			
Tax receivables		-	2,019
Cash and short term deposits	8	3,193	4,951
		3,193	6,970
Total assets		2,062,868	2,066,645
Current liabilities			
Tax payables		142	-
Financial liabilities	9	-	99,655
		142	99,655
Non-current liabilities			
Financial liabilities	9	200,794	458,911
		200,794	458,911
Total liabilities		200,936	558,566
Net assets		1,861,932	1,508,079
Capital and reserves			
Issued capital	10	253,000	253,000
Share premium account		249,000	249,000
Capital contribution		1,589,149	1,217,144
Retained earnings		(229,217)	(211,065)
Total equity		1,861,932	1,508,079

The financial statements were approved by the Board on 16 July 2014 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 2013

	Share Capital	Share Premium Account	Capital Contribution	Retained Earnings	Total
	£000's	£000's	£000's	£000's	£000's
At 1 January 2013	253,000	249,000	1,217,144	(211,065)	1,508,079
Additions	-	-	372,005	-	372,005
Loss for the year	-	-	-	(18,152)	(18,152)
At 31 December 2013	253,000	249,000	1,589,149	(229,217)	1,861,932

FOR THE YEAR ENDED 31 DECEMBER 2012

	Share Capital	Share Premium Account	Capital Contribution	Retained Earnings	Total
	£000's	£000's	£000's	£000's	£000's
At 1 January 2012	253,000	249,000	819,644	(180,774)	1,140,870
Additions	-	-	397,500	-	397,500
Loss for the year	-	-	-	(30,291)	(30,291)
At 31 December 2012	253,000	249,000	1,217,144	(211,065)	1,508,079

The Company did not recognise any income or expense directly in equity (2012 - £nil)

SCOTTISH EQUITABLE HOLDINGS LIMITED

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 £000's	2012 £000's
Operating activities			
Loss before tax		**(14,218)**	(31,384)
Adjustment to reconcile loss before tax to net cash flow from operating activities:			
Investment income	4	**(15)**	(26)
Finance costs	5	**14,233**	31,410
Interest income received		**15**	26
Income tax received / (paid)		**(1,773)**	4,769
Net cash flow from operating activities		**(1,758)**	4,795
Financial activities			
Capital contribution		**205,000**	47,000
Repayment of borrowings		**(193,150)**	(56,462)
Repayment of borrowings interest		**(11,850)**	(58)
Net cash flow used in financing activities		**-**	(9,520)
Net (decrease)/increase in cash and cash equivalents		**(1,758)**	(4,725)
Cash and cash equivalents at 1 January		**4,951**	9,676
Cash and cash equivalents at 31 December	8	**3,193**	4,951

The cash flow statement is prepared according to the indirect method.

Non-cash transactions:
In 2013 the Company made a repayment of borrowings from subsidiary undertaking of £167m, the settlement of which was made by assignment of an equivalent amount of the £372m of capital contributions received by the Company from the Company's parent undertaking.

In 2012 the Company made a repayment of borrowings from the Company's ultimate parent undertaking of £350.5m, the settlement of which was made by assignment of an equivalent amount of the £397.5m of capital contributions received by the Company from the Company's ultimate parent undertaking.

1. Accounting Policies

1.1. Basis of Preparation

1.1.1 *Introduction*

The Company's financial statements have been prepared on the going concern basis and in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union as they apply to the financial statements of the Company for the year ended 31 December 2013 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.

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

The financial statements of Scottish Equitable Holdings Limited for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the directors on 16 July 2014.

1.1.2 *Adoption of new IFRS accounting standards*

The nature and the impact of each new standard / amendment that has been applied for the first time in 2013 is described below:

IFRS 13 Fair Value Measurement - IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not impacted the fair value measurements carried out by the Company, which is described in note 1.6. IFRS 13 requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 Financial Instruments: Disclosures. The Company provides these disclosures in note 1.6.

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, 2013 but are not currently relevant for the Company:

- IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income;
- Annual improvements 2009-2011 Cycle;
- IAS 19 Employee Benefits;
- IAS 27 Separate Financial Statements;
- IAS 28, Investments in Associates and Joint Ventures;
- IFRS 1 First Time Adoption - Government Loans;
- IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
- IFRS 10 Consolidated Financial Statements;
- IFRS 11 Joint Arrangements;
- IFRS 12 Disclosure of Interests in Other Entities; and
- IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine

1.1.3 *Future adoption of new IFRS accounting standards*

The following standards, amendments to existing standards and interpretations, published prior to January 1, 2014, were not early adopted by the Company, but will be applied in future years:

- IFRS 9 Financial Instruments*
- IAS 36 Impairment of Assets – Recoverable Amounts Disclosures for Non-Financial Assets

* Not yet endorsed by the European Union.

IFRS 9 Financial Instruments - IFRS 9, "Financial Instruments: Classification and Measurement" is part of the project to replace IAS 39 with a new standard. The project is divided into multiple components, classification and measurement of financial instruments, impairment and hedge accounting. The IASB recently has decided tentatively to defer the mandatory effective date to January 1, 2018. In addition, the IASB decided to reopen IFRS 9 in order to consider interaction with the insurance project as well as the US FASB's classification and measurement model for financial instruments. For impairment, the IASB issued an exposure draft proposing the recognition and measurement of a credit loss allowance or provision based on expected losses rather than incurred losses. On hedge accounting the IASB is finalizing a more principle-based approach. Macro hedging is decoupled from the hedge accounting component, in order to avoid impact on the effective date or timing of the completion of this component. The company does not expect this to impact its classification and measurement of financial instruments.

IAS 36 Impairment of Assets – Recoverable Amounts Disclosures for Non-Financial Assets - The IASB has issued amendments to IAS 36, "Impairment of Assets" relating to disclosures in respect of fair value less costs of disposal. The IASB has made changes to three disclosure requirements, including the requirement to add information about the fair value measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal. The amendments are effective per January 1, 2014, with earlier application permitted. The amendment affects disclosure only and has therefore no impact on Company's financial position or performance.

The following amendment to the existing standard and interpretation, published prior to January 1, 2014, were not early adopted by the company as this amendment to existing standard and interpretation are not relevant for the company:

- IFRS 10 Consolidated Financial Statements - Amendment Investment Entities.
- IFRS 14 Regulatory Deferral Accounts*;
- IAS 19 Employee Benefits – Amendment Employee Contributions*;
- IAS 32 Financial Instruments: Presentation – Amendment Offsetting Financial Assets and Financial Liabilities;
- IAS 39/IFRS 9 Novation of Derivatives and Continuation of Hedge Accounting;
- Annual improvements 2010-2012 Cycle*;
- Annual improvements 2011-2013 Cycle*; and
- IFRIC 21 – Levies*

* Not yet endorsed by the European Union.

1.2. Significant accounting judgements, estimates and assumptions

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

Investments in subsidiaries

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

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:

Interest income

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

1.4. Taxation

Current income tax

Current income tax assets and liabilities for the current period and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, or paid to or recovered from other group companies in respect of group relief surrendered or received. The tax rates and laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred income tax

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

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

1.5. Investments in subsidiaries

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

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

1.6 Financial assets

Financial assets are recognised on the trade date when the Company becomes a party to the contractual provisions of the instrument and are classified for accounting purposes depending on the characteristics of the instruments and the purpose for which they were purchased.

(a) Classification

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

(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 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company 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) 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 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 3) 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.

	Carrying amount December 31, 2013	Estimated fair value hierarchy			Total estimated fair value December 31, 2013
		Level I	Level II	Level III	
	£000's	£000's	£000's	£000's	£000's
Liabilities					
Debenture loan	11,743	-	-	13,904	13,904
Loans from subsidiary undertaking	87,055	-	-	87,055	87,055
Loans from ultimate parent undertaking	101,996	-	-	101,996	101,996

1.7. Cash and cash equivalents

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

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

1.8. Interest bearing loans and borrowings

Obligations for loans and borrowings are recognised when the company becomes party to the related contracts and are measured initially at the fair value of consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Borrowing costs are recognised as an expense when incurred.

Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance revenue and finance cost. The liability is derecognised when the Company's obligation under the contract expires, is discharged or is cancelled.

2. Administrative expenses

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

3. Directors emoluments

The amount of Directors' remuneration was as follows:	2013 £000's	2012 £000's
Fees	375.4	398.7
Remuneration including bonuses	2,127.9	2,166.6
	2,503.3	2,565.3

Contributions were made for two (2012: three) Directors to defined contribution schemes of £100,000 (2012: £114,233).

Three directors received Aegon N.V. shares in relation to long term incentive schemes in 2013 (2012: nil).

Compensation in respect of loss of office to directors is £462,000 in 2013 (2012: £nil).

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 no 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 Amounts included above:	2013 £000's	2012 £000's
Remuneration including bonuses	1,068.3	944.9

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 2013 and 31 December 2012 was not a member of the defined benefit pension scheme. Contributions of £nil (2012: £8,333) were made to a defined contribution scheme in respect of the highest paid Director at 31 December 2013.

The highest paid Director received Aegon N.V. shares in relation to long term incentive schemes in 2013 (2012: nil).

4. Investment Income

	2013 £000's	2012 £000's
Cash and short term deposit interest income	15	26

5. Finance costs

	2013 £000's	2012 £000's
Interest expense on debentures held by fellow Aegon N.V subsidiary undertakings	640	605
Interest expense on loans from subsidiary undertaking	11,253	20,348
Interest expense on loans from ultimate parent undertaking	2,340	10,457
	14,233	31,410

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

6. Taxation

(a) Current year tax credit

UK Current Tax	2013 £000's	2012 £000's
UK corporation tax credit	-	7,689
Prior year adjustment	(3,934)	(6,596)
Total current tax	(3,934)	1,093
Total tax (charge)/ credit reported in the income statement	(3,934)	1,093

(b) Reconciliation of tax credit

	2013 £000's	2012 £000's
Accounting loss before tax	(14,218)	(31,384)
Accounting loss multiplied by the UK standard rate of corporation tax of 23.25% (2012: 24.5%)	3,306	7,689
Losses not recognised	(3,306)	-
Prior year adjustment	(3,934)	(6,596)
Total tax (charge)/ credit reported in the income statement	(3,934)	1,093

No deferred tax asset is recognised on the balance sheet in respect of tax losses carried forward of £84.6m (2012: £53.1m) and in respect of interest expense deductible on a paid basis of £82.1m (2012: £82.1m) as there is insufficient certainty as to the availability of future profits. The potential tax values are £16.9m (2012: £12.2m) and £16.4m (2012: £18.9m) respectively.

The weighted average applicable tax rate for the year is 23.25% (2012: 24.5%).

The Finance Act 2012 reduced the rate of corporation tax from 24% to 23% with effect from 1 April 2013.

On 20 March 2013, the Chancellor announced that the tax rate will reduce by 2% to 21% from 1 April 2014 and then reduce a further 1% to 20% from 1 April 2015. These changes from part of Finance Act 2013 and were substantively enacted on 2 July 2013.

The impact of these reductions in tax rates on the potential 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.

	2013	2012
	£000's	£000's
At 1 January	2,059,675	2,059,675
At 31 December	2,059,675	2,059,675

All subsidiaries are carried at cost less impairment losses.
At 31 December 2013 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)	Scotland
Aegon UK IT Services Limited	Leasing company (dormant)	Scotland

8. Cash and short term deposits

	2013	2012
	£000's	£000's
Short term deposits	3,193	4,951
	3,193	4,951

The weighted effective interest rate on short term deposits was 0.30% (2012: 0.33%) and these deposits have an average maturity date of 2 days (2012: 2 days). Cash and cash equivalents are not subject to any restrictions. The Company only deposits cash surpluses with major banks of high quality credit standing. Short term deposits at end 2013 are placed with a bank with a credit rating of A (2012: A). The fair value of short term deposits is £3,193k (2012: £4,951k).

9. Financial Liabilities

	2013	2012
	£000's	£000's
Current borrowings		
Loans from ultimate parent undertaking	-	99,655
	-	99,655
Non-current borrowings		
Debenture loan	11,743	11,103
Loans from subsidiary undertaking	87,055	447, 808
Loans from ultimate parent undertaking	101,996	-
	200,794	458,911
	200,794	558,566

The Debenture Loan is held by a fellow Aegon N.V. subsidiary undertaking. Unless previously repaid or redeemed, the principal sum will be repaid at par on 7 September 2018, together with any accrued interest on the principal sum. Interest will be paid at 5.75%. The fair value of this loan is £13.904m (2012: £14.129m).

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 NV 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.

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

10. Capital and reserves

	2013 £000's	2012 £000's
Authorised share capital		
300,000,000 Ordinary shares of £1 each	**300,000**	300,000
Allotted, called up and fully paid		
253,000,000 Ordinary shares of £1 each	**253,000**	253,000
One Special Share of £1	-	-

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

In accordance with the agreement between Aegon International BV and Scottish Equitable Life Assurance Society the Special Share conferred 0% of the voting rights during the year ended 31 December 2013 (0% during the year ended 31 December 2012). SEPT retains certain rights connected with the operation of Scottish Equitable plc's with profit sub-fund, including the right to be consulted on proposed bonus recommendations.

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

Nature and purposes of other reserves

Capital Contribution Reserve

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

The Company received capital contributions of £372m in the year, which were used to repay loans from the subsidiary undertaking.

11. Related party transactions

(a) Immediate parent undertaking

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

(b) Ultimate parent undertaking
The results of the Company are consolidated in the accounts of Aegon N.V., the ultimate parent undertaking, which is incorporated in the Netherlands. Copies of the consolidated accounts 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 2013 the Company has not made any provision for doubtful debt relating to amounts owed by related parties (2012: £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.

Non-cash transaction: The Company repaid loans from the loans contribution from the subsidiary undertaking of £421m in the period, the settlement of which was made by assignment of a claim relating to a capital contribution received by the Company from the Company's immediate parent undertaking.

(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 (2012: £nil).