

AEGON FINANCIAL SERVICES LIMITED

COMPANY NUMBER 1838226

DIRECTORS' REPORT

AND

FINANCIAL STATEMENTS

For the year ended 31 December 1996



AEGON FINANCIAL SERVICES LIMITED

Directors

W W Stewart, BSc, FFA
R Patrick, LLB

Company Secretary

I G Young, MA, LLB

Auditors

KPMG Audit Plc
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

Registered Office

165 Queen Victoria Street
London
EC4V 4DD

AEGON FINANCIAL SERVICES LIMITED

REPORT BY THE DIRECTORS

For the year ended 31 December 1996

The Directors present their report and audited financial statements for the year ended 31 December 1996.

Principal Activities and Review of Business

The principal activity of the Company is the provision of sales and marketing services. The results are set out in the Profit and Loss Account on page 7.

Following a reorganisation of the AEGON Financial Services Group, a decision was made to close the group's life assurance company to further new business. Accordingly, this Company will in future only receive commission in respect of existing regular premium business and its activities will, therefore, be reduced significantly.

The administration of the Company was transferred to Scottish Equitable plc with effect from 1 January 1995.

The Directors do not recommend payment of a dividend.

Directors and their Interests

The Directors who held office at the date of this report are shown on page 2. None of the Directors retire at this date.

The Directors have declared that they had no beneficial interest in share capital of the company.

The Directors participate in the share option scheme operated by AEGON NV, the ultimate parent undertaking, to subscribe for ordinary shares which are exercisable by 31 December 2000 (for 1994 options), 31 December 2001 (for 1995 options) and 31 October 2001 (for 1996 options). Details of options granted and exercised are as undernoted.

<u>Director</u>	<u>Total</u> <u>Options at</u> <u>1/1/96</u>		<u>Options</u> <u>Granted</u>		<u>Options</u> <u>Exercised</u>		<u>Total</u> <u>Options</u> <u>at 31/12/96</u>
	<u>Date</u>	<u>No.</u>	<u>Date</u>	<u>No.</u>	<u>Date</u>	<u>No.</u>	<u>Price</u> <u>NLG</u>
Roy Patrick	7,500	1.11.96	3,750	20.11.96	3,750	94.20	7,500

The options of William W Stewart are disclosed in the statutory accounts of the UK parent undertaking, Scottish Equitable plc.

Options granted in 1994 may be acquired at NLG41.64, those in 1995 may be acquired at NLG59.90 and those on 1 November 1996 at NLG86.30 (in each case representing the price of AEGON NV shares at the date of the option). The market price of the company's shares on 31 December 1996 was NLG 110.10. The exchange rate at 31 December 1996 was NLG 2.96 to the £.

AEGON FINANCIAL SERVICES LIMITED


REPORT BY THE DIRECTORS (cont'd)

For the year ended 31 December 1996

Auditors

In accordance with section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as Auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board


I G Young
Secretary
Edinburgh Park, Edinburgh

Date 10/7/97

AEGON FINANCIAL SERVICES LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare financial statements for each financial year which 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 those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

AEGON FINANCIAL SERVICES LIMITED

AUDITORS' REPORT TO THE MEMBERS OF AEGON FINANCIAL SERVICES LIMITED

We have audited the financial statements on pages 7 to 11.

Respective Responsibilities of Directors and Auditors

As described on page 5 the Company's Directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

Basis of Opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Edinburgh

Date *14 July 1997*

AEGON FINANCIAL SERVICES LIMITED

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 1996

	Notes	1996 £	1995 £
Turnover	2	439,448	1,974,311
Administration Expenses	3	(231,115)	(2,089,337)
Operating Profit/(Loss)		<u>208,333</u>	<u>(115,026)</u>
Profit/(Loss) on ordinary activities before taxation	4	208,333	(115,026)
Taxation	5	<u>-</u>	<u>-</u>
Retained Profit/(Loss) for the financial year		<u>208,333</u>	<u>(115,026)</u>

The results, as set out above, for the year and the prior year relate entirely to the continuing operations of the Company.

There were no recognised gains or losses in the year, or the prior year, other than those shown above. Therefore, no statement of the total recognised gains and losses has been presented.

The notes on pages 9 to 11 are an integral part of these accounts.

AEGON FINANCIAL SERVICES LIMITED

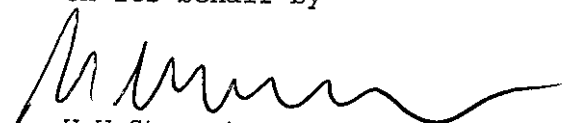
BALANCE SHEET

As at 31 December 1996

	Notes	1996 £	1995 £
CURRENT ASSETS			
Debtors	6	4,391	213,981
CREDITORS			
Amounts falling due within one year	7	(5,479,655)	(5,897,578)
NET CURRENT LIABILITIES		<u>(5,475,264)</u>	<u>(5,683,597)</u>
CAPITAL AND RESERVES			
Called up share capital	8	15,256,166	15,256,166
Profit and loss account	9	(20,731,430)	(20,939,763)
Shareholders' funds	10	<u>(5,475,264)</u>	<u>(5,683,597)</u>

The notes on pages 9 to 11 form an integral part of these accounts.

These financial statements were approved by the Board of Directors and signed on its behalf by


W W Stewart
Director
Edinburgh

Date 10/7/97

AEGON FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1996

1. Principal Accounting Policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

1.1 Basis of Accounting

The financial statements are prepared in accordance with the historical cost convention on a going concern basis. The appropriateness of this treatment is dependent on the continued support of the immediate UK parent undertaking AEGON Financial Services Group (UK) PLC which has given written confirmation of its intention to support the Company as a going concern for the foreseeable future.

1.2 Turnover

Earned commission has been credited to profit and loss account on a receivable basis.

2. Turnover

Turnover is derived entirely from operations within the United Kingdom and consists of:-

	1996 £	1995 £
Commission receivable from AEGON Life Assurance Company (UK) Limited	349,448	1,884,311
Expense margins receivable from AEGON Life Assurance Company (UK) Limited	<u>90,000</u>	<u>90,000</u>
	<u>439,448</u>	<u>1,974,311</u>

3. Administrative Expenses

3.1 Directors' remuneration and Staff Costs

Directors contracts of service are with the UK parent undertaking referred to in note 12 and their remuneration is included in the group financial statements.

	1996 £	1995 £
Lease Rentals		
Hire of assets - operating leases	<u>-</u>	<u>49,332</u>

AEGON FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 1996

4. Profit/(Loss) on Ordinary Activities

	1996 £	1995 £
The profit/(loss) on ordinary activities is stated after charging:		
Auditors' remuneration - audit services	<u>4,700</u>	<u>5,875</u>
Auditors' remuneration - other services	<u>-</u>	<u>-</u>

5. Taxation

No taxation charge arises for the year (1995 - £ Nil) due to tax losses brought forward.

6. Debtors

	1996 £	1995 £
Unearned commission advanced	<u>4,391</u>	<u>213,981</u>

7. Creditors

	1996 £	1995 £
Amounts due to Agents of the Company	17,886	336,933
Amounts due to AEGON Financial Services Group (UK) PLC	<u>5,461,769</u>	<u>5,560,645</u>
	<u>5,479,655</u>	<u>5,897,578</u>

8. Share Capital

	1996 £	1995 £
Authorised:		
80,000,000 Ordinary Shares of 25p each	<u>20,000,000</u>	<u>20,000,000</u>
Allotted, called up and fully paid up:		
61,024,663 Ordinary Shares of 25p each	<u>15,256,166</u>	<u>15,256,166</u>

9. Profit and Loss Account

	1996 £	1995 £
At 1 January	(20,939,763)	(20,824,737)
Retained Profit/(Loss) for the Financial Year	<u>208,333</u>	<u>(115,026)</u>
At 31 December	<u>(20,731,430)</u>	<u>(20,939,763)</u>

AEGON FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 1996

10. Reconciliation of Movement in Shareholders' Funds

	1996	1995
	<u>£</u>	<u>£</u>
Opening shareholders' funds	(5,683,597)	(5,568,571)
Retained Profit/(Loss) for the Financial year	<u>208,333</u>	<u>(115,026)</u>
Closing shareholders' funds	<u>(5,475,264)</u>	<u>(5,683,597)</u>

11. Cash Flow Statement

No cash flow statement has been prepared under FRS1 (revised 1996) since the results of the company are consolidated in the financial statements of AEGON NV, the ultimate parent undertaking, which are publicly available.

12. UK Parent Undertaking

The immediate parent company is AEGON Financial Services Group (UK) PLC. The accounts are first consolidated in the accounts of Scottish Equitable plc, the UK parent undertaking, a company incorporated in the United Kingdom. Copies of the financial statements of the UK parent undertaking are available from its registered office at:

Edinburgh Park
Edinburgh
EH12 9SE

13. Ultimate Parent Company

The ultimate parent company is AEGON NV, a company incorporated in the Netherlands. Copies of the financial statements of the ultimate parent company may be obtained from its registered office at:

AEGON NV
Mariahoeveplein 50
PO Box 202
2501 CE
The Hague
The Netherlands