

**AEGON UK DISTRIBUTION HOLDINGS LIMITED**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2010**

**COMPANY NUMBER 4475386**

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# **AEGON UK DISTRIBUTION HOLDINGS LIMITED**

## **COMPANY INFORMATION**

<b>Directors</b>	Howard Evans Patrick Gale Charles Garthwaite, BSc, ACA Adrian T Grace, MBA Simon Lloyd
<b>Secretary</b>	James K MacKenzie, LLB, Dip LP, NP
<b>Registered Office</b>	6 Devonshire Square London EC2M 4YE
<b>Auditors</b>	Ernst & Young LLP Ten George Street Edinburgh EH2 2DZ
<b>Company Number</b>	4475386

# **AEGON UK DISTRIBUTION HOLDINGS LIMITED**

## **REPORT BY THE DIRECTORS**

The Directors of AEGON UK Distribution Holdings present their report and the audited financial statements for the year ended 31 December 2010

### **Structure of these accounts**

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as they apply to the financial statements of the Company for the year ended 31 December 2010 and applied in accordance with the Companies Act 2006

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

### **Principal and ongoing activity**

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

### **Results and dividends**

The results for the year are set out on page 7. The Company paid dividends of £nil during the year (2009: £nil).

### **Review of business and future developments**

The Company acts as an investment holding company. The major investments of the Company are in Tenet Group plc, AEGON UK Direct Ltd and AEGON Benefit Solutions Limited, and the main key performance indicators relate to the performance of these underlying businesses. Over the longer term, performance of the underlying businesses is the key driver of the results presented in the accounts of the Company. These accounts include impairments in the year relating to loans and investments totalling £1,026,000 (2009: £4,080,000). On 28 September 2010, the AEGON UK Group announced the wind down of the AEGON Benefit Solutions business and its closure on 1 October 2011. On 8 September 2011, the AEGON UK Group announced the intention to close AEGON UK Direct Limited by the end of 2011.

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

### **Directors and their interests**

The current Directors of the Company are shown on page 1.

Mark Laidlaw resigned from the board on 21 June 2010. Otto Thoresen and Peter Dornan resigned from the board on 31 March 2011. Clare Bousfield and Adrian Thomas Grace were appointed to the board on 31 March 2011. Howard Evans, Patrick Gale, Charles Garthwaite and Simon Lloyd were appointed to the board on 23 August 2011. Clare Bousfield resigned on 23 August 2011. David Elston was appointed as Company Secretary on 1 July 2010, resigning on 24 September 2010. James Kenneth MacKenzie was appointed as Company Secretary on 31 March 2011.

Each of the current Directors has been granted a qualifying third party indemnity by the Company, in terms of the relevant sections of the Companies Act 2006.

### **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.

# AEGON UK DISTRIBUTION HOLDINGS LIMITED

## REPORT BY THE DIRECTORS

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

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

### Going Concern

In assessing whether the Company is a going concern the Directors have taken into account the guidance issued by the Financial Reporting Council in October 2009.

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

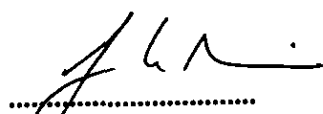
### Auditors

An elective resolution was passed on 18 December 2002 to (a) dispense with the requirement to lay the Report and Accounts before the Company in the general meeting, (b) dispense with the holding of an Annual General Meeting for 2002 and subsequent years, and (c) dispense with the obligation to appoint auditors annually.

### Disclosure of information to auditors

The Directors who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information, being information needed by the auditors in connection with preparing their report, of which the auditors are unaware, and each Director has taken all steps that he ought to have taken as Director to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

This report was approved by the Board on 20 September 2011 and signed on its behalf by



James K MacKenzie  
Company Secretary  
AEGON Lochside Crescent  
Edinburgh Park  
Edinburgh

## **AEGON UK DISTRIBUTION HOLDINGS LIMITED**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the Directors' Report and the Company's financial statements ('the financial statements') in accordance with applicable United Kingdom law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they present fairly the state of affairs of the Company and the net income of the Company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance, and
- state that the Company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

We have audited the financial statements of AEGON UK Distribution Holdings Limited for the year ended 31 December 2010 which comprise the Income Statement, Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

**Respective responsibilities of directors and auditors**

As explained more fully in the Statement of 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 Financial Statements and the Report by the Directors, to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 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 Report by the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements

**AEGON UK DISTRIBUTION HOLDINGS LIMITED**  
**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF**  
**AEGON UK DISTRIBUTION HOLDINGS LIMITED**

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- Adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- The financial statements are not in agreement with the accounting records and returns, or
- Certain disclosures of directors' remuneration specified by law are not made, or
- We have not received all the information and explanations we require for our audit

*Ernst & Young LLP.*

George M Reid (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
Edinburgh

22 September 2011

# AEGON UK DISTRIBUTION HOLDINGS LIMITED

## INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

	<u>Notes</u>	<u>2010</u> <u>£000's</u>	<u>2009</u> <u>£000's</u>
<b>Revenue</b>			
Investment income	2	<u>11</u> 11	<u>7</u> 7
<b>Expenses</b>			
Administrative expenses	3	-	(1,190)
Finance costs		-	(214)
Impairment charge	4	<u>(1,404)</u>	<u>(4,080)</u>
<b>Total expenses</b>		<u>(1,404)</u>	<u>(5,484)</u>
<b>Loss before tax</b>		(1,393)	(5,477)
Tax credit	5	68	1,595
<b>Loss for the year</b>		<u>(1,325)</u>	<u>(3,882)</u>

The results for the year relate wholly to continuing activities

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



**AEGON UK DISTRIBUTION HOLDINGS LIMITED**

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2010**

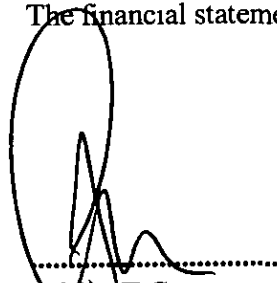
	<b>2010</b>	<b>2009</b>
	<b>£000's</b>	<b>£000's</b>
<b>Net income</b>	<b>(1,325)</b>	<b>(3,882)</b>
<b>Other comprehensive income:</b>		
Net losses on available for sale investments	<u>(30)</u>	<u>-</u>
Other comprehensive income for the year	<u>(30)</u>	<u>-</u>
<b>Total comprehensive income attributable to equity holders of AEGON UK Distribution Holdings Limited</b>	<b><u>(1,355)</u></b>	<b><u>(3,882)</u></b>

# AEGON UK DISTRIBUTION HOLDINGS LIMITED

## BALANCE SHEET AS AT 31 DECEMBER 2010

	<u>Notes</u>	<u>2010</u> <u>£000's</u>	<u>2009</u> <u>£000's</u>
<b>Non-current assets</b>			
Investments in subsidiaries	6	3,271	2,633
Investments in associates	7	7,230	7,000
Financial assets	8	261	291
		<u>10,762</u>	<u>9,924</u>
<b>Current assets</b>			
Financial assets	8	50	49
Trade and other receivables	9	17	6
Cash and short term deposits	10	-	4
Tax receivable		-	1,595
		<u>67</u>	<u>1,654</u>
<b>Total assets</b>		<u>10,829</u>	<u>11,578</u>
<b>Current liabilities</b>			
Trade and other payables	11	10,073	9,840
Financial liabilities		373	-
<b>Total liabilities</b>		<u>10,446</u>	<u>9,840</u>
<b>Net assets</b>		<u>383</u>	<u>1,738</u>
<b>Capital and reserves</b>			
Issued capital	12	5,000	5,000
Capital contribution		53,375	53,375
Revaluation reserves		(30)	-
Retained earnings		<u>(57,962)</u>	<u>(56,637)</u>
<b>Total equity</b>		<u>383</u>	<u>1,738</u>

The financial statements were approved by the Board on 20 September 2011 and signed on its behalf by

  
 .....  
 Adrian T Grace  
 Director

# AEGON UK DISTRIBUTION HOLDINGS LIMITED

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

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

## FOR THE YEAR ENDED 31 DECEMBER 2009

	<u>Issued capital £000's</u>	<u>Capital contribution £000's</u>	<u>Retained earnings £000's</u>	<u>Total £000's</u>
At 1 January 2009	5,000	53,375	(52,755)	5,620
Loss for the year recognised in the income statement	-	-	(3,882)	(3,882)
<b>At 31 December 2009</b>	<b>5,000</b>	<b>53,375</b>	<b>(56,637)</b>	<b>1,738</b>

The Company did not recognise any income or expense directly in equity in 2009

# AEGON UK DISTRIBUTION HOLDINGS LIMITED

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

	<u>Notes</u>	<u>2010</u> <u>£000's</u>	<u>2009</u> <u>£000's</u>
<b>Operating Activities</b>			
Loss before tax		(1,393)	(5,477)
<i>Adjustment to reconcile loss before tax to net cash flow from operating activities</i>			
Impairment losses	4	1,026	4,080
Increase in financial liabilities		373	-
Investment income	2	(11)	(7)
Increase in trade and other payables	11	233	2,073
Increase in trade and other receivables	9	(11)	(6)
Income taxes received/(paid)		<u>1,663</u>	<u>(169)</u>
Net cash flow from operating activities		1,880	494
<b>Investing Activities</b>			
Investment in subsidiaries	6	(900)	(500)
Investment in associates	7	(994)	-
Dividend income received		<u>10</u>	<u>6</u>
Net cash flow from investing activities		(1,884)	(494)
Net decrease in cash and cash equivalents		(4)	-
Cash and cash equivalents at 1 January		4	4
<b>Cash and cash equivalents at 31 December</b>	10	<u>-</u>	<u>4</u>

The cash flow statement is prepared according to the indirect method

# AEGON UK DISTRIBUTION HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

### 1 Summary of significant accounting policies

#### 1.1 Basis of preparation

##### 1.1.1 *Introduction*

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union as they apply to the financial statements of the Company for the year ended 31 December 2010 and applied in accordance with the Companies Act 2006

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

The financial statements of AEGON UK Distribution Holdings Limited for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the directors on 20 September 2011.

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

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

New standards become effective on the date specified by IFRS, but may allow companies to opt for an earlier adoption date. In 2010, the following new standards issued by the IASB and Interpretations issued by the IFRS Interpretations Committee (formerly known as the IFRIC) became mandatory:

- IFRS 3 (revised) *Business Combinations*,
- IAS 27 (revised) *Consolidated and separate financial statements*,
- Improvements to IFRS (2009)

**IFRS 3 (revised) 'Business Combinations'** The revised IFRS 3, applicable prospectively to all new acquisitions undertaken after January 1, 2010, continues to require the application of the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business will be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured at fair value through profit or loss. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related transaction costs will be expensed.

The adoption of IFRS 3 (revised) does not change the accounting treatment, including the accounting for contingent consideration, for past acquisitions. The adoption of this standard did not have any impact during the current period as there were no acquisitions.

**IAS 27 (revised) 'Consolidated and separate financial statements' and consequential amendments to IAS 28 'Investments in Associates' and IAS 31 'Interests in Joint Ventures'** The revised IAS 27, applicable prospectively to all new transactions undertaken with non-controlling interests (minority interest) after

# AEGON UK DISTRIBUTION HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

January 1, 2010, requires the recording of the effect of all transactions in equity if there is no change in control. Where an interest is disposed and control (or significant influence or joint control) is lost, any remaining interest in the entity is re-measured to fair value and a gain or loss is recognized in profit and loss. In the past, the effect of transactions with non-controlling interests were accounted for as partial acquisitions and disposals and reflected either as goodwill or within the profit and loss account. The adoption of IAS 27 (revised) had no impact during the current period as there were no transactions with non-controlling interests and no disposals where an interest in an entity was retained after the loss of control (or significant influence or joint control) of that entity.

**Improvements to IFRS (2009)** The IASB issued, in April 2009, a number of minor amendments to IFRS which resulted from the IASB's 2009 annual improvements project. These amendments, which were effective either from July 1, 2009 or January 1, 2010, deal with minor changes to the wordings used in the individual standards and seek to remove editorial and other inconsistencies in the literature. The Company adopted all the relevant changes from the Improvements project to its accounting policies. The Improvements project did not result in any changes to the classification, measurement or presentation of any items in the financial statements.

In addition, the following new standards, amendments to existing standards and interpretations are mandatory for the first time for the financial year beginning January 1, 2010 but are not currently relevant for the Company:

- Amendments to IAS 39 *Financial Instruments – Eligible hedged items*,
- IFRIC 17 *Distributions of non-cash assets to owners*,
- IFRIC 18 *Transfers of assets from customers*,
- IFRS 1 (revised) *First time adoption of IFRS – additional exemptions*,
- Amendment to IFRS 2 *Share Based Payments (Group cash settled and share based payment transactions)*,
- Amendment to IAS 32 *Classification of Rights Issues*

### 1.1.3 Future adoption of new IFRS accounting standards

The following standards, amendments to existing standards and interpretations, published prior to January 1, 2011, were not early adopted by the Company and will be applied in future years:

- IFRS 9 *Financial Instruments*\*
- Improvements to IFRS (2010)\*
- IAS 24 (revised) *Related Party Disclosures*

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

**Improvements to IFRS (2010)** This set of improvements to IFRS issued by the IASB in May 2010 makes a number of minor amendments to 7 different standards and interpretations. These amendments, which are effective for accounting periods beginning on January 1, 2011, will all be applied by the

# AEGON UK DISTRIBUTION HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Company in its 2011 financial statements to the extent they are relevant. None of these amendments are expected to have a material change to the classification, measurement or presentation of any items in the Company's financial statements.

**IAS 24 (revised) Related Party Disclosures** The revised IAS 24 simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. These amendments, which are effective for accounting periods beginning on January 1, 2011, will be applied by the Company in its 2011 financial statements to the extent they are relevant. These amendments are not expected to have a material change to the Company's financial statements.

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

- IFRIC 14 (Amendment) *Prepayment of a minimum funding requirement*,
- IFRIC 19 *Extinguishing financial liabilities with equity instrument*,
- IFRS 1 (amendment) *First Time Adoption – Limited Exemption from Comparative IFRS 7 Disclosures for First Time Adopters*

\* not yet endorsed by the European Union

None of the above are expected to have a significant impact on the Company.

### 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.

#### Estimates and assumptions

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

#### *(a) Investments in subsidiaries and associates*

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

#### *(b) Financial assets*

Effective 1 January 2009 the Company adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. In accordance with this amendment the Company uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date,
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices of

# AEGON UK DISTRIBUTION HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

identical or similar assets and liabilities) using valuation techniques for which all significant inputs are based on observable market data, and

- Level 3 inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) using valuation techniques for which any significant input is not based on observable market data

The table below shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy

The fair values of the financial instruments carried at fair value were determined as follows

### 2010

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

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

### 2009

	Level 1 £'000	Level 2 £'000	Level 3 £'000
<b>Financial assets carried at fair value</b>			
Available for sale investments shares	291	-	-
	<u>291</u>	<u>-</u>	<u>-</u>

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

### 1 3 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured Revenue is measured at the fair value of the consideration received, excluding VAT The following specific recognition criteria must also be met before revenue is recognised

#### 1 3 1 Interest income

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

### 1 4 Financial assets

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



# **AEGON UK DISTRIBUTION HOLDINGS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010**

### *(a) Classification*

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

All remaining financial assets are classified as available for sale

### *(b) Measurement*

Financial assets are initially recognised at fair value plus, in the case of a financial asset not at fair value through profit or loss, any directly attributable incremental transaction costs. Loans are subsequently carried at amortised cost using the effective interest rate method.

Available for sale assets are recorded at fair value with changes in fair value recognised as a separate component of equity until the asset is derecognised or determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the Income Statement.

### *(c) Amortised cost*

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

### *(d) Fair value*

The fair value of an asset is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. For quoted financial assets for which there is an active market, the fair value is the bid price at the balance sheet date. In the absence of an active market, fair value is estimated by using present value or other valuation techniques.

### *(e) Impairment*

Available for sale fixed interest debt securities are impaired when it is considered probable that not all amounts due will be collected as scheduled. The impairment loss is calculated as the difference between the fair value and amortised cost of the investment. Any unrealised gain or loss previously recognised in shareholders' equity is therefore taken to the Income Statement as impairment loss.

### *(f) Derecognition*

A financial asset is derecognised when the contractual rights to the asset's cash flows expire, when the Company has transferred the asset and substantially all the risks and rewards of ownership, or when the Company has transferred the asset without transfer or retaining of substantially all the risks and rewards of ownership, provided the other party can sell or pledge the asset. On derecognition the difference between the disposal proceeds and the carrying amount is recognised in the Income Statement. Any cumulative gain or loss previously recognised in equity is also recognised in the Income Statement.

## **1.5 Investments in subsidiaries and associates**

Subsidiaries are entities over which the Company has direct or indirect power to govern the financial and operating policies so as to obtain benefits from its activities ('control'). The assessment of control is

# **AEGON UK DISTRIBUTION HOLDINGS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010**

based on the substance of the relationship between the Company and the entity and, among other things, considers existing and potential voting rights that are currently exercisable and convertible

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

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

### **1.6 Tax assets and liabilities**

#### **1.6.1 *Current income tax***

Current income tax assets and liabilities for the current period and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, or paid to or recovered from other group companies in respect of group relief surrendered or received. The tax rates and laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Current income tax relating to items recognised directly in other comprehensive income is recognised in comprehensive income and not in the income statement.

#### **1.6.2 *Deferred income tax***

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

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

### **1.7 Cash and cash equivalents**

Cash comprises cash at banks and in-hand. Cash equivalents are short-term, highly liquid investments that are readily convertible to known cash amounts, are subject to insignificant risks of changes in value and are held for the purpose of meeting short-term cash requirements.

### **1.8 Interest bearing loans and borrowings**

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

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

Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance revenue and finance cost.

# AEGON UK DISTRIBUTION HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

The liability is derecognised when the Company's obligation under the contract expires, is discharged or is cancelled

### 19 Impairment of assets

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

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

### 2 **Investment income**

	<u>2010</u> <u>£000's</u>	<u>2009</u> <u>£000's</u>
Interest income on loans to subsidiary undertakings	1	1
Dividend income from available for sale investments	10	6
	<u>11</u>	<u>7</u>

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

# AEGON UK DISTRIBUTION HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

### 3 Administrative expenses

No directors' fees are paid by the Company. The audit fees have been borne by AEGON UK plc.

### 4 Impairment charge

	<u>2010</u> <u>£000's</u>	<u>2009</u> <u>£000's</u>
Available for sale investments	-	54
Investments in subsidiary undertakings	640	350
Investment in associates	764	3,676
	<u>1,404</u>	<u>4,080</u>

Included within the impairment charge for Investments in subsidiary undertakings is an amount of £378,000 relating to an obligation the Company had under a letter of support (as described in note 14) at the balance sheet date.

### 5 Taxation

#### (a) Current year tax credit

	<u>2010</u> <u>£000's</u>	<u>2009</u> <u>£000's</u>
<u>UK current tax</u>		
Current tax credit for the year	-	(324)
Adjustment in respect of prior year	(68)	(1,271)
Total current tax credit	<u>(68)</u>	<u>(1,595)</u>
 Total tax credit reported in the income statement	 <u>(68)</u>	 <u>(1,595)</u>

Legislation already enacted at the balance sheet date means that with effect from 1 April 2011 the corporate tax rate was expected to reduce to 27% (from 28%).

In the Budget of 23 March 2011 the Chancellor announced that instead of reducing to 27% from 1 April 2011, the corporation tax rate would in fact reduce to 26%. This further reduction was not substantively enacted at 31 December 2010, hence the 27% rate has been applied in the accounts.

Subsequent reductions of 1% each year thereafter until it reaches 23% from 1 April 2014 were also confirmed, and are to be dealt with by future legislation.

# AEGON UK DISTRIBUTION HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

### (b) Reconciliation of tax credit

	<u>2010</u> <u>£000's</u>	<u>2009</u> <u>£000's</u>
Accounting loss before tax	<u>(1,393)</u>	<u>(5,477)</u>
Accounting loss multiplied by the UK standard rate of corporation tax of 28% (2009 28%)	(390)	(1,534)
Adjustment in respect of prior years	(68)	(1,271)
Non taxable income	(3)	(2)
Non tax deductible expenses	393	1,143
Notional interest on intercompany loan	-	69
Total tax credit reported in the income statement	<u>(68)</u>	<u>(1,595)</u>

The weighted average applicable tax rate is 28% (2009 28%)

### 6 Investments in subsidiaries

	<u>2010</u> <u>£000's</u>	<u>2009</u> <u>£000's</u>
At 1 January	2,633	2,483
Additions	900	500
Impairment losses recognised	<u>(262)</u>	<u>(350)</u>
At 31 December	<u>3,271</u>	<u>2,633</u>

All investments in subsidiaries are carried at cost less impairment losses

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

During the year the Company injected additional capital into AEGON UK Direct Limited

At 31 December 2010 the Company held 100% of the shares in the following principal subsidiaries The undertakings have only one class of share An asterisk (\*) indicates holdings not directly held by the Company

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

# AEGON UK DISTRIBUTION HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Origen Limited	Service Company	Scotland	100%
AEGON UK Direct Limited	Direct Sales	England	100%

### 7 Investments in associates

	<u>2010</u> <u>£000's</u>	<u>2009</u> <u>£000's</u>
At 1 January	7,000	10,676
Additions	994	-
Impairment losses recognised	(764)	(3,676)
At 31 December	<u>7,230</u>	<u>7,000</u>

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

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

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

### 8 Financial assets

	<u>2010</u> <u>£000's</u>	<u>2009</u> <u>£000's</u>
<b>Non current financial assets</b>		
Available for sale investments	<u>261</u>	<u>291</u>
	261	291
<b>Current financial assets</b>		
Loans to subsidiary undertakings	<u>50</u>	<u>49</u>
	50	49
	<u>311</u>	<u>340</u>

Loans to subsidiary undertakings relate to unsecured loans which are repayable on demand. Interest is charged at 6 months or 12 months LIBOR. As at 31 December 2010 loans to subsidiary undertakings at a nominal value of £10,849,000 (2009 £10,849,000) were impaired and a provision of £10,849,000 (2009 £10,849,000) was in place against these loans. The impairment charge relating to these loans in 2010 was £nil (2009 £nil).

# AEGON UK DISTRIBUTION HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

### 9 Trade and other receivables

	<u>2010</u> <u>£000's</u>	<u>2009</u> <u>£000's</u>
Receivables from immediate parent undertaking	17	6
	<u>17</u>	<u>6</u>

For terms and conditions relating to related parties, refer to note 14

### 10 Cash and short term deposits

	<u>2010</u> <u>£000's</u>	<u>2009</u> <u>£000's</u>
Short term deposits	-	4
	<u>-</u>	<u>4</u>

Short term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates. The fair value of cash and short term deposits is £nil (2009 £4,000)

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

### 11 Trade and other payables

	<u>2010</u> <u>£000's</u>	<u>2009</u> <u>£000's</u>
Payables to immediate parent undertaking	10,073	6,936
Other payables	-	2,904
	<u>10,073</u>	<u>9,840</u>

For terms and conditions relating to related parties, refer to note 14

### 12 Capital and reserves

	<u>2010</u> <u>£000's</u>	<u>2009</u> <u>£000's</u>
<b>Authorised share capital</b>		
100,000,000 Ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>
<b>Allotted, called up and fully paid</b>		
5,000,000 Ordinary shares of £1 each	<u>5,000</u>	<u>5,000</u>

# AEGON UK DISTRIBUTION HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

#### *Revaluation Reserve*

The revaluation accounts for available-for-sale investments include unrealised gains and losses on these investments, net of tax. Upon sale, the amounts realised are recognised in the income statement or transferred to retained earnings. Upon impairment, unrealised losses are recognised in the income statement

### **13 Related party transactions**

#### **(a) Immediate parent undertaking**

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

#### **(b) Ultimate parent undertaking**

The results of the Company are consolidated in the accounts of AEGON NV, the ultimate parent company, which is incorporated in the Netherlands. The group accounts of AEGON NV are available from the Company Secretary, AEGON UK plc, Edinburgh Park, Edinburgh, EH12 9SE

#### **(c) Year end balances and transaction with related parties**

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

As interest on certain loans to subsidiary undertakings is considered doubtful, it has been excluded from the income statement. The amount of gross interest not recognised in the income statement but which would have been recognised under the original terms of the loan is for 2010 £0.1m (2009 £0.245m)

Investment income from subsidiary undertakings is described in note 2 and 8

Outstanding payables relate to unsecured, interest free intercompany accounts with no specified credit period. The company has not provided or benefited from any guarantees for any related party receivables or payables. During the year ended 31 December 2010 the company has made provision of £nil (2009 £nil) for doubtful debt relating to amounts owed by related parties. Year end balances related to related party transactions are detailed in notes 8, 9 and 11

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

#### **(d) Management personnel**

No key management personnel (including directors) received any compensation in respect of services provided to the company (2009 £nil)



# **AEGON UK DISTRIBUTION HOLDINGS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010**

### **14 Parent Company Support**

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

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

### **15 Post Balance Sheet Events**

On 8 September 2011, the AEGON UK group announced its intention to close AEGON UK Direct Limited, a subsidiary of the Company, by the end of 2011