

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED

COMPANY NUMBER 64697

DIRECTORS' REPORT

AND

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002



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SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED

COMPANY INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2002

Directors

David A Henderson, FCCA
Otto Thoresen, MA, FFA
Roy Patrick, LLB

Secretary

Ian G Young MA, LLB

Auditors

Ernst & Young LLP
Ten George Street
Edinburgh
EH2 2DZ

Registered Office

Scottish Equitable House
Edinburgh Park
Edinburgh
EH12 9SE

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED

REPORT BY THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2002

The Directors have pleasure in submitting the annual report and audited financial statements of the Company for the year ended 31 December 2002.

Principal activity and review of the business

The Company undertakes the transacting of reinsurance of unit linked pension and life assurance business from Scottish Equitable plc. The company has reassured onwads certain inwards business to external fund management groups. The Company ceased to write direct business with effect from 1 January 1994.

Financial Results

The Company's results are shown on pages 8 and 9. During the year the Company paid a dividend of £20 million to Scottish Equitable plc. The balance on the Profit and Loss account is carried forward to reserves.

Directors and their interests

The Directors who held office at the date of this report are shown on page 1. The Directors have declared that they had no interest in the share capital at the beginning or end of the year. All the Directors served throughout the year.

The Directors participate in the share option scheme operated by AEGON NV, the ultimate parent undertaking to subscribe for ordinary shares. The options of Roy Patrick and Otto Thoresen are disclosed in the accounts of Scottish Equitable plc and those of David A Henderson are disclosed in the accounts of AEGON UK plc.

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED

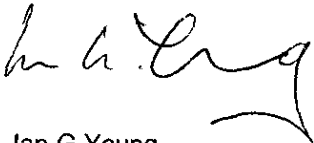
REPORT BY THE DIRECTORS (CONT'D)

FOR THE YEAR ENDED 31 DECEMBER 2002

Elective Resolutions

An elective resolution was passed on 23 December 1998 to dispense with the requirement to lay the Report and Accounts before the Company in general meeting. Resolutions were passed on 24 February 1999 to dispense with (a) the holding of an Annual General Meeting for 1999 and subsequent years, and (b) the obligation to appoint Auditors annually.

By Order of the Board



Ian G Young
Secretary
Edinburgh Park
Edinburgh

11 March 2003

SCOTTISH EQUITABLE (MANAGED FUNDS) 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 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; and
- state whether applicable accounting standards have been followed, 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 proper accounting records which 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 provisions of 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.

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED
INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2002

We have audited the company's financial statements for the year ended 31 December 2002 which comprise the Profit and Loss Account, Balance Sheet, Accounting Policies and related notes 1 to 17. These financial statements have been prepared on the basis on the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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 described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with the relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the company as at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
Edinburgh
11 March 2003

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED

ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 DECEMBER 2002

Basis of presentation and disclosure requirements

The accounts are prepared under the provisions of schedule 9A of the Companies Act 1985 applicable to insurance companies in accordance with applicable accounting standards and with the Statement of Recommended Practice (SORP) issued by the Association of British Insurers.

The SORP requires insurance groups to adopt prescribed formats for their profit and loss account and balance sheet, the headings and content of which must conform to certain rules. These rules require the overall investment return in the profit and loss account to be based on actual investment income and investment gains during the year.

Premiums

Linked business premiums are accounted for when the actuarial liability arises.

Investment income

Credit is taken in the profit and loss account for interest on fixed interest investments and for dividends due on equity shareholdings on an ex-dividend basis. Investment income includes gains on realisation of investments. Investment income directly connected with the carrying on of long-term insurance is included in the technical account as recommended by the Statement of Recommended Practice (SORP).

Investment gains/losses

Realised gains and losses on investments are the difference between sale proceeds and cost. Unrealised gains and losses on investments are the movement in valuation since the date of purchase, or the last balance sheet date, whichever is later. The movement in unrealised gains and losses in investments includes the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current year.

Investment gains and losses on investments held for linked business are dealt with in full in the technical account and those on investments held for shareholders are dealt with in full in the non-technical account.

Claims

Claims payable on maturity are accounted for when due for payment and claims payable on death are accounted for on notification. Surrenders are accounted for at the earlier of the payment date or when the policy ceases to be included within the provision for linked liabilities.

For claims payable the related internal and external claims handling costs are borne by the immediate UK parent undertaking, Scottish Equitable plc.

Expenses

Expenses comprise the management charges payable to the UK parent undertaking.

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED

ACCOUNTING POLICIES (CONT'D)

FOR THE YEAR ENDED 31 DECEMBER 2002

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted at the balance sheet date.

Valuation of assets

Listed investments and OEICs are included at middle market value, fixed interest securities are included at amortised cost and Authorised Unit Trusts at Bid Value. Unlisted investments are shown at Directors' valuation. Derivative contracts are included at realisable value at the year end date.

Foreign Currencies

Assets and liabilities in currencies other than sterling have been translated at the rates of exchange ruling at the financial year end. Foreign currency transactions are translated at rates of exchange ruling at the time of transaction. Exchange differences arising are dealt with in the Technical Account.

Technical provisions - linked business

Technical provisions for linked business reflect the current value of the liabilities to unit holders.

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.

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED

PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT - LONG TERM BUSINESS

FOR THE YEAR ENDED 31 DECEMBER 2002

		2002	(as restated) see note 17 2001
	Note	<u>£'000</u>	<u>£'000</u>
Earned premiums, net of reinsurance	1	2,339,218	2,095,974
Investment income	2	330,229	323,327
		<hr/>	<hr/>
Total income		<u>2,669,447</u>	<u>2,419,301</u>
Claims incurred, net of reinsurance		(1,256,586)	(1,248,565)
Change in technical provisions for linked business, net of reinsurance	9	852,775	641,767
Investment expenses and charges	3	(835,385)	(347,061)
Net operating expenses	4	(105,915)	(110,908)
Unrealised losses on investments		(1,316,572)	(1,337,778)
Tax attributable to long-term business	5	<u>13,904</u>	<u>(8,770)</u>
		<hr/>	<hr/>
Total charges		<u>(2,647,779)</u>	<u>(2,411,315)</u>
Balance on long term business technical account		<u><u>21,668</u></u>	<u><u>7,986</u></u>

The accounting policies on pages 6 and 7 and the notes on pages 12 to 17 are an integral part of these financial statements.

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED

PROFIT AND LOSS ACCOUNT - NON-TECHNICAL ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2002

		<u>2002</u>	(as restated) see note 17 <u>2001</u>
	Note	<u>£'000</u>	<u>£'000</u>
Balance on long-term business technical account		21,668	7,986
Tax attributable to balance on long-term business technical account		9,261	-
Other charges		<u>(57)</u>	<u>(268)</u>
Profit on ordinary activities before tax		30,872	7,718
Tax on profit on ordinary activities	5	<u>(9,261)</u>	<u>(2,099)</u>
Profit for the financial year	13	21,611	5,619
Dividend paid	13	(20,000)	-
Retained profit for the financial year		<u><u>1,611</u></u>	<u><u>5,619</u></u>

The Company has no recognised gains or losses other than the profit for the year.

The results for the year relate wholly to continuing operations.

There is no material difference between the results for the current year and the previous year as described in the profit and loss accounts and the results on an unmodified historical cost basis. Accordingly a note of the historical cost profits and losses for the year is not given.

The accounting policies on pages 6 and 7 and the notes on pages 12 to 17 are an integral part of these financial statements.

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2002

				(as restated) see note 17	
	Note	2002		2001	
		£'000	£'000	£'000	£'000
<u>ASSETS</u>					
<u>Investments</u>					
Other financial investments	6	<u>70,266</u>	70,266	<u>92,679</u>	92,679
<u>Assets held to cover linked liabilities</u>	7		9,552,728		10,405,503
<u>Reinsurers' share of technical Provisions - linked liabilities</u>	9		511,034		302,934
<u>Debtors</u>					
Other debtors	8	<u>1,143</u>	1,143	<u>3,408</u>	3,408
<u>Other assets</u>					
Cash at bank and in hand			-		111
<u>Prepayments and accrued income</u>					
Accrued interest		<u>872</u>	872	<u>971</u>	971
TOTAL ASSETS			<u><u>10,136,043</u></u>		<u><u>10,805,606</u></u>

The accounting policies on pages 6 and 7 and the notes on pages 12 to 17 are an integral part of these financial statements.

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED

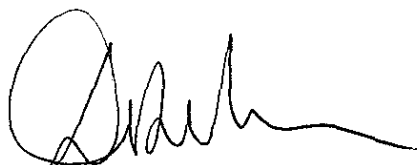
BALANCE SHEET (CONT'D)

AS AT 31 DECEMBER 2002

(as restated)
see note 17

		2002	2001
	Note	£'000	£'000
<u>LIABILITIES</u>			
<u>Capital and reserves</u>			
Called up share capital	12	22,500	22,500
Profit and loss account	13	<u>25,146</u>	<u>23,535</u>
Equity shareholders funds		47,646	46,035
<u>Technical provisions for linked liabilities</u>			
	9	10,063,762	10,708,437
<u>Provisions for other risks and charges</u>	10	4,890	39,614
<u>Creditors: amounts falling due within one year</u>			
Other creditors including taxation and social security	11	<u>19,745</u>	<u>11,520</u>
TOTAL LIABILITIES		<u><u>10,136,043</u></u>	<u><u>10,805,606</u></u>

Approved by the Board and signed on its behalf by



David A Henderson
Director
11 March 2003

The accounting policies on pages 6 and 7 and the notes on pages 12 to 17 are an integral part of these financial statements.

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2002

1. Premiums

Gross written premiums, net of reinsurance, all of which relate to the reinsurance of unit linked life and pensions business of Scottish Equitable plc in the UK, can be analysed as follows:

	2002	(as restated) see note 17 2001
	<u>£'000</u>	<u>£'000</u>
Individual premiums	1,287,024	1,300,073
Premiums under group contracts	1,349,594	1,076,303
Reinsurance premiums	(297,400)	(280,402)
	<u>2,339,218</u>	<u>2,095,974</u>
Periodic premiums	784,223	696,167
Single premiums	1,852,395	1,680,209
Reinsurance premiums	(297,400)	(280,402)
	<u>2,339,218</u>	<u>2,095,974</u>

The reinsurance premiums represents amounts paid to external fund management groups to effect fund management arrangements transacted under reinsurance policies.

2. Investment income

	<u>Technical Account</u>	
	2002	2001
	<u>£'000</u>	<u>£'000</u>
Income from investments		
Other investments	330,229	323,327
	<u>330,229</u>	<u>323,327</u>

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED

NOTES TO THE ACCOUNTS (CONT'D)

FOR THE YEAR ENDED 31 DECEMBER 2002

3. Investment expenses and charges

Technical Account

	<u>2002</u>	<u>2001</u>
	<u>£'000</u>	<u>£'000</u>
Net losses on realisation of investments	831,262	345,047
Bank charges	3,898	1,695
Interest paid on bank overdraft	225	319
	<u>835,385</u>	<u>347,061</u>

4. Net operating expenses

A management fee is paid to the UK parent undertaking, Scottish Equitable plc which pays all of the Company's expenses including Auditor's remuneration of £32,100 (2001 - £22,700).

No Directors' fees are paid in respect of the Company. Net operating expenses include amounts payable to Scottish Equitable plc in respect of management services provided.

5. Taxation

	<u>2002</u>	<u>2001</u>
	<u>£'000</u>	<u>£'000</u>
Long-term business account		
(a) Analysis of tax charge in the year		
UK Current Tax		
Current tax on income for the period	3,134	(275)
Adjustments in respect of prior periods	(2,526)	-
Overseas Tax	<u>5,488</u>	<u>5,272</u>
Total current tax charge	<u>6,096</u>	<u>4,997</u>
UK Deferred Tax		
Origination and reversal of timing differences	<u>(20,000)</u>	<u>3,773</u>
Total deferred tax (credit)/charge	<u>(20,000)</u>	<u>3,773</u>
	<u>(13,904)</u>	<u>8,770</u>

UK corporation tax in the technical account has been calculated at rates between 20% and 30% (2001: 20% and 30%) in accordance with the rates applicable to the long-term business of a long-term assurance company

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED

NOTES TO THE ACCOUNTS (CONT'D)

FOR THE YEAR ENDED 31 DECEMBER 2002

5. Taxation (continued)

	<u>2002</u>	<u>2001</u>
	<u>£'000</u>	<u>£'000</u>
Non-technical account		
(a) Analysis of tax charge in the year		
UK Current Tax		
Current tax on income for the period	9,312	2,315
Adjustment in respect of prior years	-	(216)
Total current tax charge	<u>9,312</u>	<u>2,099</u>
UK Deferred Tax		
Origination and reversal of timing differences	(51)	-
Total deferred tax charge/(credit)	<u>(51)</u>	<u>-</u>
	<u>9,261</u>	<u>2,099</u>
(b) factors affecting tax charge for the year		
	<u>2002</u>	<u>2001</u>
	<u>£'000</u>	<u>£'000</u>
Profit on ordinary activities before tax	30,872	7,718
Profit on ordinary activities before tax at 30% (2001 - 30%)	9,261	2,315
Effect of		
Adjustment in respect of prior years	-	(216)
Movement on deferred	51	-
Total current tax charge	<u>9,312</u>	<u>2,099</u>

6. Other financial investments

	<u>2002</u>	<u>2001</u>
	<u>£'000</u>	<u>£'000</u>
Debt securities and other fixed income securities	67,894	89,258
Deposits with credit institutions	<u>2,372</u>	<u>3,421</u>
	<u>70,266</u>	<u>92,679</u>
Of which listed investments are:-	<u>67,894</u>	<u>89,258</u>

7. Assets held to cover linked liabilities

	<u>2002</u>	<u>2001</u>
	<u>£'000</u>	<u>£'000</u>
Assets held to cover linked liabilities	<u>9,552,728</u>	<u>10,405,503</u>
Purchase price of investments included under assets held to cover linked liabilities	<u>10,315,417</u>	<u>10,145,359</u>

Included in the market value of assets held to cover linked liabilities is £136.7m (2001 - £394.5m) invested in unit trusts and OEIC's managed by a fellow subsidiary undertaking.

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED

NOTES TO THE ACCOUNTS (CONT'D)

FOR THE YEAR ENDED 31 DECEMBER 2002

8. Other debtors

	<u>2002</u>	<u>2001</u>
	<u>£'000</u>	<u>£'000</u>
Tax recoverable	189	-
Other debtors	954	3,408
	<u>1,143</u>	<u>3,408</u>

9. Technical provisions

(as restated) (as restated) (as restated)
see note 17 see note 17 see note 17

Gross **Reinsurers'** **Net**
Technical **Share** **Technical**
provisions **Share** **provisions**
for linked **Share** **for linked**
liabilities **Share** **liabilities**

	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Balance at beginning of year	10,708,437	(302,934)	10,405,503
Movement from long-term business technical account	<u>(644,675)</u>	<u>(208,100)</u>	<u>(852,775)</u>
Balance at end of the year	<u>10,063,762</u>	<u>(511,034)</u>	<u>9,552,728</u>

The reinsurers' share of the technical provisions arises from the reinsurance policies outlined in note 1.

Total
provision
£'000

The principal assumptions underlying the calculations of the technical provisions were as follows:

Unit Linked Business

The provision is equal to the nominal value of units credited to the policyholders' account, with a minimum provision equal to the surrender value. This represents the value of the long-term fund.

10,063,762

10. Provision for other risks and charges

	<u>2002</u>	<u>2001</u>
	<u>£'000</u>	<u>£'000</u>
At beginning of year	39,614	41,541
(Credit)/Charge for year - technical account	(20,000)	3,773
Charge for year - non-technical account	(51)	-
Transfer from linked liabilities	<u>(14,673)</u>	<u>(5,700)</u>
At end of year	<u>4,890</u>	<u>39,614</u>

Deferred tax held within provision for risks and charges 4,890 39,614

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED

NOTES TO THE ACCOUNTS (CONT'D)

FOR THE YEAR ENDED 31 DECEMBER 2002

11. Creditors: amounts falling due within one year

	<u>2002</u>	<u>2001</u>
	<u>£'000</u>	<u>£'000</u>
<u>Other creditors including tax and social security</u>		
Other creditors	-	1,735
Due to UK parent undertaking	19,745	9,785
	<u>19,745</u>	<u>11,520</u>

12. Share capital

The share capital of the Company is as follows:

	<u>Authorised</u>		<u>Allotted, called up & fully paid</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Ordinary £1 shares	<u>22,500</u>	<u>22,500</u>	<u>22,500</u>	<u>22,500</u>

13. Movements in shareholders' fund

	<u>Share Capital</u>	<u>Profit and Loss account</u>	<u>Total Shareholders Funds</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
<u>Equity Interests</u>			
Opening balance at 1 January	22,500	23,535	46,035
Profit for the financial year before dividends	-	21,611	21,611
Dividends	-	(20,000)	(20,000)
Closing balance at 31 December	<u>22,500</u>	<u>25,146</u>	<u>47,646</u>

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED

NOTES TO THE ACCOUNTS (CONT'D)

FOR THE YEAR ENDED 31 DECEMBER 2002

14. Related party transactions

In accordance with the exemption granted under Financial Reporting Standard 8, Related Party Disclosures, the company does not disclose transactions with other group companies and investees of the group qualifying as related parties.

15 Immediate parent undertaking

The Immediate parent undertaking in whose accounts the Company's results are first consolidated is Scottish Equitable plc which is registered in Scotland.

Copies of the Group accounts of Scottish Equitable plc are available to the public and may be obtained from the Company Secretary, Scottish Equitable plc, Edinburgh Park, Edinburgh, EH12 9SE.

16 Ultimate parent company

The ultimate parent company is AEGON NV, which is incorporated in the Netherlands.

The Group accounts of AEGON NV are available to the public and may be obtained from the Company Secretary, AEGON UK plc, Edinburgh Park, Edinburgh, EH12 9XX.

17 Prior year adjustments

In preparing the financial statements for the period to 31 December 2002 the accounting for a number of reinsurance arrangements has been revised to reflect more clearly the substance of the underlying transactions. The arrangements, which had previously been accounted for as investment management contracts, arose from the extension of the range of external funds available for policyholders to invest in. The reinsurance arrangements are in the name of Scottish Equitable plc rather than Scottish Equitable (Managed Funds) Limited and are in the process of being novated to Scottish Equitable (Managed Funds) Limited. The arrangements have been treated in these accounts as if the novation had taken place. The Directors believe this represents the substance of the transactions.

The restatement of the prior year financial statements does not give rise to a change in the balance on the long term technical account, or the profit for the period, but has increased outwards reinsurance premiums by £278.3 million, reduced unrealised losses on investments by £11.0 million and reduced claims net of reinsurance by £12.8 million; a compensating adjustment has been made to the technical provisions. The restatement has also resulted in a reduction in Assets held to cover linked liabilities of £302.9 million, a corresponding increase has been made to the reinsurers' share of technical provisions.