

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED

COMPANY NUMBER 64697

DIRECTORS' REPORT

AND

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

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SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED

COMPANY INFORMATION

Chairman

Graham W Dumble, FFA

Directors

Otto Thoresen, MA, FFA (Chief Executive)

Maurice C Brunet, MA, FIA

Peter G Dornan

Mark Laidlaw, BSc, FFA

Secretary

Ian G Young MA, LLB

Registered Office

AEGON Lochside Crescent
Edinburgh Park
Edinburgh
EH12 9SE

Auditors

Ernst & Young LLP
Registered Auditor
Ten George Street
Edinburgh
EH2 2DZ

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2006

The Directors present their report and the audited financial statements for the year ended 31 December 2006

Principal activity, review of the business and future developments

The Company undertakes the transacting of reinsurance of unit linked life assurance business from Scottish Equitable plc. The Company has not written direct business since 1 January 1994. On 16 December 2005 the internal reinsurance agreements with Scottish Equitable plc in respect of pensions business were cancelled and the related assets and liabilities were transferred to Scottish Equitable plc.

The Company intends to continue with the transacting of life reinsurance business until it is appropriate to cancel the current reinsurance agreement with Scottish Equitable plc.

The main key performance indicator for the Company is solvency which is monitored by a committee of the Board of the Company on a regular basis. The excess of available capital resources to cover long term insurance business over the Capital Resources Requirement was £40m at 31 December 2006 compared to £39m at 31 December 2005.

Financial results

The Company's results are set out on pages 9 and 10. No dividend was paid during the year (2005 £nil) to Scottish Equitable plc. The balance on the Profit and Loss account is transferred to reserves. The Directors do not propose a final dividend payment for the year ended 31 December 2006 (2005 £nil).

Changes in accounting policy

Financial Reporting Standard (FRS) 25 'Financial Instruments: Disclosure and Presentation' and FRS 26 'Financial Instruments: Measurement' were adopted and apply to accounting periods ending on or after 1 January 2006. The impact of the adoption of FRS 26 is shown in note 13. The impact in regards to the adoption of FRS 25 is to increase disclosures as presented in notes 6, 12 and 14.

Risk Management and Financial Instruments

The Company is not exposed to significant risks arising from financial instruments. There is a small amount of interest rate risk, since movements in interest rates will impact the value of shareholder's fixed interest securities. Exposure to financial risks is monitored by an appropriate sub-committee of the Board of the Company's immediate parent undertaking, Scottish Equitable plc, particularly as part of the Individual Capital Assessment process required by FSA under its Integrated Prudential Sourcebook.

Directors and their interests

The current Directors of the Company are shown on page 1. Maurice Brunet, Peter Dorman and Janet Wyles were appointed as Directors on 22 February 2006. Roy Patrick resigned as a Director on 28 April 2006 and Janet Wyles resigned as a Director on 12 June 2006. All other Directors served throughout the year. The Directors have declared that they had no interest in the share capital at the beginning or end of the year.

Each of the Directors has been granted a qualifying third party indemnity by the Company, in terms of section 309A and B of the Companies Act 1985 and these indemnities remain in force.

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2006

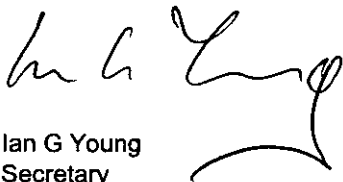
Elective Resolutions

An elective resolution was passed on 24 February 1999 to dispense with requirement to lay the Report and Accounts before the company in the general meeting. Resolutions were passed on 5 April 2002 to dispense with (a) the holding of an Annual General Meeting for 2002 and subsequent years and (b) the obligation to appoint Auditors annually.

Disclosure of information to the 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 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.

By Order of the Board



Ian G Young
Secretary
AEGON Lochside Crescent
Edinburgh Park
Edinburgh

22 March 2007

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 UK 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 provisions of the Companies Act 1985. 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2006

We have audited the company's financial statements for the year ended 31 December 2006 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, Accounting Policies and the related notes 1 to 17. These financial statements have been prepared under 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with the relevant legal and regulatory requirements and International Standards of Auditing (UK and Ireland).

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 whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the directors' report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards of Auditing (UK and Ireland) 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements.



Ernst & Young LLP
Registered Auditor
Ten George Street
Edinburgh
EH2 2DZ

22 March 2007

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED

ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 DECEMBER 2006

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) 2005 (as amended in December 2006) issued by the Association of British Insurers

Schedule 9A 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

Change in accounting policies

The disclosure requirements of FRS 25 'Financial instruments disclosure and presentation' and the full requirements of FRS 26 'Financial instruments measurement' apply to these financial statements for the year ended 31 December 2006. The principal impacts of FRS 26 are as follows

- (i) FRS 26 has introduced the definition of an insurance contract and, as a result, contracts that do not contain significant insurance risk are now classified as investment contracts. A product classification exercise has been performed and all accepted and ceded reinsured contracts have been classified as investment contracts
- (ii) Fixed interest securities that are held to match the liabilities arising from non linked non participating policies or are held as part of the shareholders' fund, have been classified as 'Available for Sale' resulting in the establishment of a fair value reserve. These investments were previously held at amortised cost
- (iii) Following the classification of all accepted and ceded reinsured contracts as investment contracts, premiums and claims in the year are no longer reported in the profit and loss account. Movements in these contracts are now shown as movements within the balance sheet

In line with the transition rules the comparatives within the profit and loss account and balance sheet have not been restated to reflect the adoption of FRS 26

Further details of this change in accounting policy are contained in note 13. As a result of the adoption of FRS 26 the Group was also required to adopt FRS 23 'The effects of changes in foreign exchange rates' which had no impact on these financial statements

Premiums

Prior to the change in accounting policy linked non participating business premiums were accounted for when the actuarial liability arose

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 SORP

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2006

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 directly connected with the carrying on of long term insurance business are included in the technical account.

Claims

Prior to the change in accounting policy claims payable on maturity were accounted for when due for payment and claims payable on death were accounted for on notification. Surrenders were accounted for at the earlier of the payment date or when the policy ceased 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.

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 laws enacted at the balance sheet date.

The transfer from the long term business technical account to the non technical account is grossed up at the effective rate of tax applicable for the year.

Valuation of financial assets

Classification

The Company designates financial assets as fair value through profit or loss when doing so matches the underlying liability treatment.

Shareholders fixed interest debt securities have been classified as available for sale.

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. Financial assets at fair value through profit or loss are measured at fair value with all changes in fair value recognised in the Profit and Loss Account as incurred. Available for sale assets are recorded at fair value with unrealised changes in fair value recognised directly in equity.

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2006

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.

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 Profit and Loss Account as a realised gain or loss. Any cumulative gain or loss previously recognised in equity is also recognised in the Profit and Loss Account.

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 and related party transactions

No cash flow statement has been prepared under FRS1 (revised 1996) nor has any disclosure been made of transactions with entities that are part of the AEGON Group 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 2006

		2006	2005
	Note	<u>£'000</u>	<u>£'000</u>
Gross premiums written			2,953,572
Outward reinsurance premiums			<u>(1,057,009)</u>
EARNED PREMIUMS, NET OF REINSURANCE	1		1,896,563
Investment income	2	62,355	3,856,598
Unrealised gains on investments		<u>51,202</u>	
TOTAL TECHNICAL INCOME		<u>113,557</u>	<u>5,753,161</u>
Claims incurred, net of reinsurance			(18,609,457)
Change in technical provisions of linked business, net of reinsurance	9	(80,064)	13,956,663
Investment expenses and charges	3	(185)	(3,320)
Net operating expenses	4	(12,463)	(173,906)
Unrealised losses on investments			(907,699)
Tax attributable to long term business	5	<u>(19,298)</u>	<u>(11,681)</u>
Total charges		<u>(112,010)</u>	<u>(5,749,400)</u>
Balance on long term business technical account		<u>1,547</u>	<u>3,761</u>

The accounting policies and notes 1 to 17 form 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 2006

		<u>2006</u>	<u>2005</u>
	Note	<u>£'000</u>	<u>£'000</u>
Balance on long term business technical account		1,547	3,761
Tax attributable to balance on long term business technical account		<u>661</u>	<u>1,566</u>
Profit on ordinary activities before tax		2,208	5,327
Tax on profit on ordinary activities	5	<u>(661)</u>	<u>(1,537)</u>
Profit for the financial year	12	<u><u>1,547</u></u>	<u><u>3,790</u></u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	<u>2006</u>	<u>2005</u>
	<u>£'000</u>	<u>£'000</u>
Effect of adopting FRS 26 on 1 January 2006 (Note 12)	446	
Profit for the financial year	1,547	3,790
Movement on Available for Sale fair value reserve	<u>(408)</u>	
Total recognised gains and losses relating to the year	<u>1,139</u>	<u>3,790</u>
Total recognised gains and losses recognised since last annual report	<u><u>1,585</u></u>	<u><u>3,790</u></u>

All the amounts above are in respect of continuing operations. The accounting policies and notes 1 to 17 form an integral part of these financial statements.

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2006

	Note	2006		2005	
		<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
<u>Assets</u>					
Investments					
Other financial investments	6	<u>42,532</u>	42,532	<u>40,795</u>	40,795
Assets held to cover linked liabilities	7		1,339,420		943,734
Debtors					
Other debtors	8	<u> </u>		<u>204</u>	204
Prepayments and accrued income					
Accrued interest		<u>1,101</u>	<u>1,101</u>	<u>931</u>	<u>931</u>
Total assets			<u><u>1,383,053</u></u>		<u><u>985,664</u></u>

The accounting policies and notes 1 to 17 form an integral part of these financial statements

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED

BALANCE SHEET (CONTINUED)

AS AT 31 DECEMBER 2006

	Note	2006 £'000	2005 £'000
<u>Liabilities</u>			
Capital and reserves			
Called up share capital	11	22,500	22,500
Fair value reserve	12	38	
Profit and loss account	12	<u>19,352</u>	<u>17,805</u>
Equity shareholders' funds		41,890	40,305
Technical provisions for linked liabilities			
Non participating investment contracts	9	1,339,420	943,734
Creditors amounts falling due within one year			
Other creditors, including taxation and social security	10	<u>1,743</u>	<u>1,625</u>
Total liabilities		<u><u>1,383,053</u></u>	<u><u>985,664</u></u>

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



Graham W Dumble, FFA, Chairman

22 March 2007

The accounting policies and notes 1 to 17 form an integral part of these financial statements

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006

1 Gross premiums written

Gross premiums written, 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 shown below

Following the classification of all accepted and ceded reinsured contracts as investment contracts under FRS 26, premiums and claims in the year are no longer reported in the profit and loss account. Movements in these contracts are shown as movements in the balance sheet

2005 gross premiums have, as permitted by FRS 26, not been restated to eliminate premiums in respect of investment contracts

	<u>2006</u> <u>£'000</u>	<u>2005</u> <u>£'000</u>
Individual premiums		1,446,125
Premiums under group contracts		1,507,447
Reinsurance premiums		<u>(1,057,009)</u>
		<u>1,896,563</u>
Periodic premiums		871,147
Single premiums		2,082,425
Reinsurance premiums		<u>(1,057,009)</u>
		<u>1,896,563</u>

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

2 Investment income

Technical Account

	<u>2006</u> <u>£'000</u>	<u>2005</u> <u>£'000</u>
Income from other financial investments	29,290	485,503
Net gains on the realisation of investments	<u>33,065</u>	<u>3,371,095</u>
	<u>62,355</u>	<u>3,856,598</u>

On 16 December 2005 the internal reinsurance agreements with Scottish Equitable plc in respect of pensions business were cancelled and the related assets and liabilities were transferred to Scottish Equitable plc, giving rise to the significant gain on the realisation of investments in 2005

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2006

3 Investment expenses and charges

	<u>Technical Account</u>	
	2006 £'000	2005 £'000
Bank charges	143	3,181
Interest paid on bank overdraft	42	139
	<hr/> 185	<hr/> 3,320

4 Net operating expenses

Net operating expenses include amounts payable to the UK parent undertaking Scottish Equitable plc in respect of management services provided. Scottish Equitable plc pays all of the Company's expenses including Auditor's remuneration of £32,100 (2005 £32,100)

No Directors' fees are paid in respect of the Company

5 Taxation

	2006 £'000	2005 £'000
Long-term business account		
Analysis of tax charge in the year		
UK Current Tax		
Current tax on income for the period	2,527	5,869
Adjustments in respect of prior periods	1,852	(4,650)
Overseas Tax		4,066
	<hr/> 4,379	<hr/> 5,285
UK Deferred tax		
Origination and reversal of timing differences	14,919	6,396
	<hr/> 14,919	<hr/> 6,396
	<hr/> 19,298	<hr/> 11,681

UK corporation tax in the technical account has been calculated at rates between 20% and 30% (2005 20% and 30%) in accordance with the rates applicable to long term business of a life assurance company

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2006

5 Taxation (continued)

	2006 £'000	2005 £'000
Non technical account		
(a) Analysis of tax charge in the year		
UK Current Tax		
Current tax on income for the period	661	1,537
Total current tax charge	661	1,537
(b) Factors affecting tax charge for the year		
Profit on ordinary activities before tax	2,208	5,327
Profit on ordinary activities before tax at 30% (2005 30%)	661	1,598
Non taxable items included in transfer from technical account		(189)
Prior year adjustment		128
Total current tax charge	661	1,537

6 Other financial investments

	2006 £'000	2005 £'000
<i>Available for sale</i>		
Debt securities and other fixed income securities	36,360	37,651
<i>Loans and Receivables</i>		
Deposits with credit institutions	6,172	3,144
	42,532	40,795
Of which listed investments are	36,360	37,651

Deposits with credit institutions include all interest bearing deposits where there are any time restrictions on withdrawal

During the year £14.1m was recognised as proceeds from the maturity of Available for Sale instruments. No realised gains or losses were recognised in the technical account

Unrealised gains and losses for the year ended 2006 on Available for Sale financial assets

	Amortised Cost £'000	Unrealised Gains £'000	Unrealised Losses £'000	Total Fair Value £'000	Fair Value of instruments with unrealised gains £'000	unrealised losses £'000
Debt securities and other fixed income securities	36,301	152	(93)	36,360	23,390	12,970

7 Assets held to cover linked liabilities

	2006 £'000	2005 £'000
Assets held to cover linked liabilities at market value	1,339,420	943,734
Purchase price of investments included under assets held to cover linked liabilities	1,176,074	819,048

Included in the market value of assets held to cover linked liabilities is £100.9m (2005 £32.0m) invested in OEICs managed by a fellow subsidiary undertaking

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2006

7 Assets held to cover linked liabilities (continued)

Listed investments included in assets held to cover linked liabilities at fair value are

	Current Value		Cost	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Shares and other variable securities and units in unit trusts	645,431	506,097	530,994	420,652
Debt and other fixed income securities	239,529	209,912	293,939	237,139
Total listed investments at fair value (based on published bid prices)	884,960	716,009	824,933	657,791

The grouping of assets held to cover linked liabilities into the various classes specified by FRS 26 is as follows

	2006 £'000	2005 £'000
Investments in property	402,685	168,013
Fair value through profit and loss	936,735	775,721
	<u>1,339,420</u>	<u>943,734</u>

8 Other debtors

	2006 £'000	2005 £'000
Cash at bank		47
Other debtors		157
		<u>204</u>

9 Technical provisions

	Technical provisions for linked liabilities £'000
Non participating investment contracts	
Balance at the beginning of the year as previously reported	943,734
Net cashflows from/(to) policyholders	315,622
Movement from long term business technical account	80,064
Balance at the end of the year	<u>1,339,420</u>

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

Total provision £'000
<u>1,339,420</u>

10 Creditors amounts falling due within one year

	2006 £'000	2005 £'000
Taxation and social security	1,743	1,625
	<u>1,743</u>	<u>1,625</u>

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2006

11 Called up share capital

The share capital of the Company is as follows

	<u>Authorised</u>		<u>Allotted, called up & fully paid</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</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>

12 Movements in shareholders' fund

	<u>Share Capital</u>	<u>Fair Value reserve</u>	<u>Profit and Loss account</u>	<u>Total Shareholders Funds</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
<u>Equity Interests</u>				
Opening balance at 1 January	22,500		17,805	40,305
Effect of adopting FRS 26 on 1 January 2006 (see note 13)		446		446
Revaluation		(408)		(408)
Profit for the financial year			<u>1,547</u>	<u>1,547</u>
Closing balance at 31 December	<u>22,500</u>	<u>38</u>	<u>19,352</u>	<u>41,890</u>

13 Change in accounting policy

The adoption of FRS 26 resulted in the shareholder's debt securities being classified as available for sale. This has resulted in the requirement for a fair value reserve to reflect changes in the fair value of the debt securities. The transitional requirements permit an entity not to restate the comparatives.

The impact of the adoption of FRS 26 on the Company balance sheet at 1 January 2006 is noted below.

	<u>As previously reported</u>	<u>FRS 26 adjustment</u>	<u>Restated</u>
	<u>2005</u>	<u>2005</u>	<u>2005</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
<u>Assets</u>			
<u>Investments</u>			
Other financial investments	40,795	637	41,432
Total assets	985,664	637	986,301
<u>Liabilities</u>			
<u>Capital and reserves</u>			
Fair value reserve		446	446
<u>Creditors - amounts falling due within one year</u>			
Other creditors including tax and social security	1,625	191	1,816
Total Liabilities	985,664	637	986,301

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2006

14 Risk Management

The Company is exposed to financial risks on its financial instruments. These risks and the controls that mitigate them are noted in the Directors' Report.

Interest Rate

The following table indicates the contractual re-pricing dates for the Company's significant financial assets and liabilities that are exposed to interest rate risk. Assets and liabilities held within unit-linked funds where all financial risks are borne by the policyholder are excluded from the table.

31 December 2006

	Within 1 year <u>£'000</u>	Yield (%)	1 5 years <u>£'000</u>	Yield (%)
Debt securities and other fixed income	23,390	6.69%	12,970	4.61%
Loans and receivables	6,172	5.21%		

Equity Market and other investment risk

Market risks (such as equity, real estate and interest rate) are also present in unit linked products whereby policyholder funds are invested at the discretion of the policyholder, here most of the risk remains with the policyholders. The Company typically pays a fee on the asset balance in these products and therefore has a risk related to the investment performance.

Credit Rate risk

An indication of the Company's exposure to credit risk is the quality of the investments and counterparties with which it transacts. The company is most exposed to credit risk on debt and other fixed income securities and deposits with credit institutions. Debt and other fixed income securities comprise government bonds.

The following table gives an indication of the level of creditworthiness of those categories of assets which are most exposed to credit risk using principally ratings prescribed by Fitch. Assets held within unit linked funds have been excluded from the table below as the credit risk on these assets is borne by the policyholders rather than the shareholders.

31 December 2006

	AAA <u>£'000</u>
Debt securities and other fixed income	<u>36,360</u>

Loans and receivables are short term bank deposits with banks rated by Fitch AA or above.

15 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.

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2006

16 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, AEGON Lochside Crescent, Edinburgh Park, Edinburgh, EH12 9SE

17 Ultimate parent undertaking

The ultimate parent undertaking 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, AEGON Lochside Crescent, Edinburgh Park, Edinburgh, EH12 9SE