

**SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED**

**COMPANY NUMBER 64697**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2007**

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**SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED**  
**COMPANY INFORMATION**

**Chairman**

Otto Thoresen, MA, FFA (Chief Executive)

**Directors**

Maurice C Brunet, MA, FIA

Mark Laidlaw, BSc, FFA

Feilim Mackle

**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 2007**

The Directors present their report and the audited financial statements for the year ended 31 December 2007

#### **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 or, if appropriate, to effect a transfer of the business to 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 £51m at 31 December 2007 compared to £40m at 31 December 2006.

#### **Financial results**

The Company's results are set out on pages 10 and 11. No dividend was paid during the year (2006 £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 2007 (2006 £nil).

#### **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 on the value of shareholders' fixed interest securities. The Company also has some exposure to liquidity risk. Liquidity risk is the risk that the Company may have insufficient liquid assets to meet claims as they become due. As the Company invests almost exclusively in liquid assets and has normally positive cash flow, this is not generally a significant risk. In respect of the unit linked commercial property fund, the Company has the right to defer payment of certain withdrawals to allow for the orderly sale of properties so as to provide liquidity for the fund.

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 the FSA under its Prudential Sourcebook for Insurers.

**SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED**

**DIRECTORS' REPORT (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2007**

**Directors and their interests**

The current Directors of the Company are shown on page 1

Graham Dumble resigned as Director and Chairman of the Company on 9 November 2007 and Otto Thoresen was appointed Chairman of the Company on 9 November 2007. Peter Dornan resigned and Feilim Mackle was appointed as Director on 7 December 2007. 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 current Directors has been granted a qualifying third party indemnity by the Company, in terms of the relevant sections of the Companies Acts 1985 and 2006

**Elective resolutions**

An elective resolution was passed on 24 February 1999 to dispense with the 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

20 March 2008

**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 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 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 2007**

We have audited the company's financial statements for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses 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 the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF  
SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED  
FOR THE YEAR ENDED 31 DECEMBER 2007 (CONTINUED)**

**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 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 2007 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*  
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Ernst & Young LLP  
Registered Auditor  
Ten George Street  
Edinburgh  
EH2 2DZ

20 March 2008

**SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED**  
**ACCOUNTING POLICIES**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

**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

As in the prior period these accounts have been prepared in accordance with the requirements of FRS 26 'Financial Instruments Recognition & Measurement'

**Adoption of new standards**

The requirements of FRS 29 'Financial Instruments. Disclosures' apply to these financial statements for the year ended 31 December 2007. The standard introduces additional disclosures relating to financial statements, which are primarily set out in note 14. There is no impact on the results of the Company as a result of implementing this new accounting standard.

**Premiums**

Accepted and ceded reinsured business premiums are not recognised in the technical account and are accounted for as deposits on investment contracts within the balance sheet.

**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. For available for sale investments and loans and receivables the effective interest rate method is used to allocate interest income over the relevant period. Investment income directly connected with the carrying on of long term insurance is included in the technical account as recommended by the SORP

**Investment gains /losses**

Investment gains and losses on investments classified as fair value through profit or loss directly connected with the carrying on of long term insurance business are included in the technical account

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.

**Claims**

Accepted and ceded reinsured business claims are not recognised in the technical account and are accounted for as a reduction in deposits on investment contracts within the balance sheet

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 (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

**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 taxes enacted at the balance sheet date

The transfer from the long term business technical account is grossed-up at the effective rate of tax charged on shareholders profits for the year.

**Financial assets**

**Classification**

The Company designates financial assets as fair value through profit or loss when doing so matches the underlying liability treatment. The Company has not held for trading financial assets.

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 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 profit and loss account.

**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.

**SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED**  
**ACCOUNTING POLICIES (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

**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 the 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 2007**

		<u><b>2007</b></u>	<u><b>2006</b></u>
	<b>Note</b>	<u><b>£'000</b></u>	<u><b>£'000</b></u>
Investment income	1	78,553	62,355
Unrealised gains on investments	2		51,202
Other technical income	3	<u>9,290</u>	<u></u>
<b>TOTAL TECHNICAL INCOME</b>		<u><b>87,843</b></u>	<u><b>113,557</b></u>
 Change in technical provisions of linked business, net of reinsurance	 10	 (14,264)	 (80,064)
Net operating expenses	4	(18,199)	(12,463)
Investment expenses and charges	5	(250)	(185)
Unrealised losses on investments	2	(52,938)	
Tax attributable to long term business	6	<u>8,672</u>	<u>(19,298)</u>
Total charges		<u>(76,979)</u>	<u>(112,010)</u>
 <b>Balance on long term business technical account</b>		 <u><u><b>10,864</b></u></u>	 <u><u><b>1,547</b></u></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 2007**

		<u>2007</u>	<u>2006</u>
	Note	<u>£'000</u>	<u>£'000</u>
Balance on long term business technical account		10,864	1,547
Tax attributable to balance on long term business technical account	6	<u>675</u>	<u>661</u>
Profit on ordinary activities before tax		11,539	2,208
Tax on profit on ordinary activities	6	<u>(675)</u>	<u>(661)</u>
Profit for the financial year	13	<u><u>10,864</u></u>	<u><u>1,547</u></u>

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

		<u>2007</u>	<u>2006</u>
		<u>£'000</u>	<u>£'000</u>
Profit for the financial year		10,864	1,547
Fair value gains/(losses) recognised during the year (net of tax)	13	<u>206</u>	<u>(408)</u>
Total recognised gains and losses relating to the year		<u><u>11,070</u></u>	<u><u>1,139</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 2007**

		<u>2007</u>		<u>2006</u>	
	<b>Note</b>	<b><u>£'000</u></b>	<b><u>£'000</u></b>	<b><u>£'000</u></b>	<b><u>£'000</u></b>
<b><u>Assets</u></b>					
<b>Investments</b>					
Other financial investments	7	<u>48,736</u>	48,736	<u>42,532</u>	42,532
<b>Assets held to cover linked liabilities</b>	8		1,640,613		1,339,420
<b>Debtors</b>					
Other debtors	9	<u>3,684</u>	3,684	<u>          </u>	
<b>Prepayments and accrued income</b>					
Accrued interest		<u>540</u>	<u>540</u>	<u>1,101</u>	<u>1,101</u>
<b>Total assets</b>			<u>1,693,573</u>		<u>1,383,053</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 2007**

		<u>2007</u>	<u>2006</u>
	Note	<u>£'000</u>	<u>£'000</u>
<b><u>Liabilities</u></b>			
<b>Capital and reserves</b>			
Called up share capital	12	22,500	22,500
Fair value reserve	13	244	38
Profit and loss account	13	<u>30,216</u>	<u>19,352</u>
<b>Equity shareholders' funds</b>		52,960	41,890
<b>Technical provisions for linked liabilities</b>			
Non participating investment contracts	10	1,640,613	1,339,420
<b>Creditors: amounts falling due within one year</b>			
Other creditors, including taxation and social security	11	<u>                    </u>	<u>1,743</u>
<b>Total liabilities</b>		<u>1,693,573</u>	<u>1,383,053</u>

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

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



Otto Thoresen, MA, FFA  
Chairman

20 March 2008

**SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

**1 Investment income**

	<b><u>Technical Account</u></b>	
	<b><u>2007</u></b>	<b><u>2006</u></b>
	<b><u>£'000</u></b>	<b><u>£'000</u></b>
Income from investments		
Net gains realised on investments (note 2)	44,828	33,065
Other investments		
Income on available for sale investments	2,123	2,603
Income on investments at fair value through profit or loss	6,084	11,843
Income on land and buildings investments	21,796	13,306
Income on loans and receivables	3,722	1,538
	<b><u>78,553</u></b>	<b><u>62,355</u></b>

There are nil net gains and losses realised on available for sale investments in 2007 (2006: £nil).

**2 Net gains and losses**

	<b><u>Technical Account</u></b>	
	<b><u>2007</u></b>	<b><u>2006</u></b>
	<b><u>£'000</u></b>	<b><u>£'000</u></b>
Net gains/(losses) on investments at fair value through profit or loss designated	30,043	52,021
Net gains/(losses) on land and buildings investments	(38,153)	32,246
	<b><u>(8,110)</u></b>	<b><u>84,267</u></b>

The above net gains and losses are presented in the profit and loss account as follows:

Net gains realised on investments (note 1)	44,828	33,065
Unrealised (losses)/gains on investments	(52,938)	51,202
	<b><u>(8,110)</u></b>	<b><u>84,267</u></b>

**SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

3. Other technical income

Other technical income in 2007 of £9,290,000 represents a linked fund surplus transferred to the shareholders' fund

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 Auditors' remuneration of £32,100 (2006 £32,100)

No Directors' fees are paid in respect of the Company

5. Investment expenses and charges

	<u>Technical Account</u>	
	<u>2007</u>	<u>2006</u>
	<u>£'000</u>	<u>£'000</u>
Bank charges	184	143
Interest paid on bank overdraft	<u>66</u>	<u>42</u>
	<u>250</u>	<u>185</u>



**SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

**6 Taxation**

	<u>2007</u> <u>£'000</u>	<u>2006</u> <u>£'000</u>
<b>Long term business account</b>		
Analysis of tax charge in the year		
<b>UK Current Tax</b>		
Current tax charge for the year	8,027	2,527
Adjustments in respect of prior periods	<u>(993)</u>	<u>1,852</u>
Total current tax charge on income	<u>7,034</u>	<u>4,379</u>
<b>UK Deferred tax</b>		
Origination and reversal of timing differences	(15,706)	14,919
Total deferred tax charge	<u>(15,706)</u>	<u>14,919</u>
Tax on profit on ordinary activities	<u>(8,672)</u>	<u>19,298</u>

UK corporation tax in the technical account has been calculated at rates between 20% and 30% (2006 20% and 30%) in accordance with the rates applicable to long term business of a life assurance company.

**Tax included in the statement of recognised gains and losses**

Current tax charge debited to shareholder equity	<u>84</u>	<u>170</u>
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**SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

6. Taxation (continued)

	<u>2007</u> <u>£'000</u>	<u>2006</u> <u>£'000</u>
<b>Non-technical account</b>		
(a) Analysis of tax charge in the year		
<b>UK Current Tax</b>		
Current tax on income for the period	675	661
Total current tax charge	<u>675</u>	<u>661</u>
(b) Factors affecting tax charge for the year	<u>2007</u> <u>£'000</u>	<u>2006</u> <u>£'000</u>
Profit on ordinary activities before tax	11,539	2,208
Profit on ordinary activities before tax at 30% (2006 30%)	3,462	661
Non taxable items included in transfer from technical account	(2,787)	
Total current tax charge	<u>675</u>	<u>661</u>

7. Other financial investments

	<u>2007</u> <u>£'000</u>	<u>2006</u> <u>£'000</u>
<i>Available for sale</i>		
Debt securities and other fixed income securities	39,363	36,360
<i>Loans and Receivables</i>		
Deposits with credit institutions	9,373	6,172
	<u>48,736</u>	<u>42,532</u>
Of which listed investments are	<u>39,363</u>	<u>36,360</u>

The available for sale financial investments are all valued based on an active market price

**SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

7. Other financial investments (cont'd)

Deposits with credit institutions comprise interest bearing deposits where there are no time restrictions on withdrawal

During the year £23 0m (2006 £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 2007 on Available for Sale financial assets

	Amortised Cost <b>£'000</b>	Unrealised Gains <b>£'000</b>	Unrealised losses <b>£'000</b>
Debt securities and other fixed income securities	<u>39,014</u>	<u>363</u>	<u>(14)</u>

	Total Fair Value <b>£'000</b>	Fair Value of instruments with unrealised gains <b>£'000</b>	unrealised losses <b>£'000</b>
Debt securities and other fixed income securities	<u>39,363</u>	<u>26,365</u>	<u>12,998</u>

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

	Amortised Cost <b>£'000</b>	Unrealised Gains <b>£'000</b>	Unrealised losses <b>£'000</b>
Debt securities and other fixed income securities	<u>36,301</u>	<u>152</u>	<u>(93)</u>

	Total Fair Value <b>£'000</b>	Fair Value of instruments with unrealised gains <b>£'000</b>	unrealised losses <b>£'000</b>
Debt securities and other fixed income securities	<u>36,360</u>	<u>23,390</u>	<u>12,970</u>

**SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

8. Assets held to cover linked liabilities

	<u>2007</u> <u>£'000</u>	<u>2006</u> <u>£'000</u>
Assets held to cover linked liabilities at market value	<u>1,640,613</u>	<u>1,339,420</u>
Purchase price of investments included under assets held to cover linked liabilities	<u>1,449,170</u>	<u>1,176,074</u>

Included in the market value of assets held to cover linked liabilities is £147 8m (2006 £100 9m) invested in OEICs managed by a fellow subsidiary undertaking.

Assets held to cover linked liabilities at fair value are

	<u>2007</u> <u>£'000</u>	<u>2006</u> <u>£'000</u>
Land and buildings	353,627	402,685
Listed shares and other variable securities and units in unit trusts	750,235	645,218
Listed debt and other fixed income securities	318,529	239,529
Deposits with credit institutions	238,802	76,563
Other net liabilities	<u>(20,580)</u>	<u>(24,575)</u>
Total assets held to cover linked liabilities	<u>1,640,613</u>	<u>1,339,420</u>

**SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

**8 Assets held to cover linked liabilities (cont'd)**

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

	<u>2007</u> <u>£'000</u>	<u>2006</u> <u>£'000</u>
Investments in property	353,627	402,685
Fair value through profit and loss	1,286,986	936,735
	<u>1,640,613</u>	<u>1,339,420</u>

The cost of listed investments included in assets held to cover linked liabilities is.

	Current Value		Cost	
	<u>2007</u> <u>£'000</u>	<u>2006</u> <u>£'000</u>	<u>2007</u> <u>£'000</u>	<u>2006</u> <u>£'000</u>
Listed shares and other variable securities and units in unit trusts	749,816	645,431	667,275	530,994
Listed debt and other fixed income securities	318,529	239,529	319,291	293,939
	<u>1,068,345</u>	<u>884,960</u>	<u>986,566</u>	<u>824,933</u>

**9 Other debtors**

	<u>2007</u> <u>£'000</u>	<u>2006</u> <u>£'000</u>
Tax recoverable	<u>3,684</u>	

**SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

10. Technical Provisions

	<u>Technical provisions for linked liabilities</u>
	<u>£'000</u>
<b>Non participating investment contracts</b>	
Balance at the start of the year	1,339,420
Net cash flows from policyholders	286,929
Movement from long term business technical account	<u>14,264</u>
Balance at the end of the year	<u><u>1,640,613</u></u>

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

The total assets include £1,641m (2006: £1,339m) attributable to the long term business funds of the company

11 Creditors' amounts falling due within one year

	<u>2007</u> <u>£'000</u>	<u>2006</u> <u>£'000</u>
Taxation and social security		<u><u>1,743</u></u>

12 Called up share capital

The share capital of the Company is as follows

	<u>Authorised</u>		<u>Allotted, called up &amp; fully paid</u>	
	<u>2007</u> <u>£'000</u>	<u>2006</u> <u>£'000</u>	<u>2007</u> <u>£'000</u>	<u>2006</u> <u>£'000</u>
Ordinary £1 shares	<u>22,500</u>	<u>22,500</u>	<u>22,500</u>	<u>22,500</u>

**SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

13. Movements in shareholders' fund

	<u>Share Capital</u> <u>£'000</u>	<u>Fair Value reserve</u> <u>£'000</u>	<u>Profit and Loss account</u> <u>£'000</u>	<u>Total Shareholders' Funds</u> <u>£'000</u>
<u>Equity Interests</u>				
Opening balance at 1 January	22,500	38	19,352	41,890
Revaluation		206		206
Profit for the financial year			10,864	10,864
Closing balance at 31 December	22,500	244	30,216	52,960

Fair value reserve comprises.

	<u>Available for Sale Bonds</u> <u>2007</u> <u>£'000</u>	<u>Available for Sale Bonds</u> <u>2006</u> <u>£'000</u>
Gross	349	59
Tax	(105)	(21)
Net	244	38

Fair value reserve movements

	<u>Available for Sale Bonds</u> <u>£'000</u>
Opening balance at 1 January	38
Revaluation	290
Tax effect	(84)
Closing balance at 31 December	244

**SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED**

**NOTES TO THE ACCOUNTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2007**

**14. Risk and capital management**

The Company is exposed to financial risks on its financial instruments. The main risks to which the Company is exposed are interest rate risk and liquidity risk. Credit risk is limited as shareholder investments are primarily government bonds and bank deposits. The Company does not have significant exposure to equity risk or currency risk. Unit linked funds of the Company do have exposure to market risk (such as equity price, interest rate and real estate) and currency risk, however these investment risks are borne by the unit linked policyholders. The impact of these risks on fund related charges is primarily borne by the Company's immediate parent undertaking. The most significant risks and the controls that mitigate them are noted in the Risk management and financial instruments section in the Directors' Report.

**Capital Management**

The key objective of the Company's capital management is to ensure compliance with the requirements of the Financial Services Authority (FSA). As noted in the Directors' Report, the main key performance indicator is in relation to the excess of available capital resources to cover long term insurance business over the capital resources requirement. The Company complied with all capital requirements as set out by the FSA in 2007 and 2006.

**Interest Rate Risk**

For interest rate risk, the analysis below shows how Profit for the Financial Year and Equity Shareholders' Funds are impacted by changes in interest rates that were reasonably possible at the reporting date. In performing the analyses and determining the impact for the financial year, the assumption is made that the financial instrument exposures at the balance sheet date were in existence for a full year.

The sensitivities do not reflect what the results for the period would have been if risk variables had been different, because, for financial instruments, the analysis is based on exposures in existence at the reporting date rather than on those that actually occurred during the year. Nor are the sensitivities intended to be on an accurate prediction of the Company's future equity or earnings.

The sensitivity analysis in the table below shows an estimate of the effect of a parallel shift in the yield curve on Profit for the Financial Year and Equity Shareholders' Funds. Increases in interest rates have a negative effect on equity in the current year because they result in unrealised losses on investments that are carried at fair value. Increases in interest rates have a positive effect on profit due to higher returns on bank deposits.



**SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED**  
**NOTES TO THE ACCOUNTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

**14 Risk and capital management (cont'd)**

Immediate change	Impact on profit (after tax)		Impact on equity	
	<u>2007</u> <u>£'000</u>	<u>2006</u> <u>£'000</u>	<u>2007</u> <u>£'000</u>	<u>2006</u> <u>£'000</u>
Shift up 100 basis points	66	43	(1,973)	(1,866)
Shift down 100 basis points	(66)	(43)	2,194	2,069

**Credit 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	<u>2007</u>	<u>2006</u>
	AAA	AAA
	<u>£'000</u>	<u>£'000</u>
Debt securities and other fixed income	39,363	36,360

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

**Liquidity Risk**

Investment contract liabilities, in a worst case scenario, would be repayable within one year and the best estimate valuation of this would be the current value presented in the accounts (based on underlying unit pricing).

**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 2007**

**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