

SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED

COMPANY NUMBER 64697

DIRECTORS' REPORT

AND

FINANCIAL STATEMENTS

For the year ended 31 December 1995



**SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED**

**Directors**

**David A Berridge, BSc, FFA (Chairman)**  
**David A Henderson, FCCA**  
**William W Stewart, BSc, FFA**

**Secretary**

**Roy Patrick, LLB**

**Appointed Actuary**

**Niall A M Franklin, BSc, FFA**

**Auditors**

**KPMG**  
**Saltire Court**  
**20 Castle Terrace**  
**EDINBURGH**  
**EH1 2EG**

**Registered Office**

**Edinburgh Park**  
**EDINBURGH**  
**EH12 9SE**

**SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED**  
**REPORT BY THE DIRECTORS**

**For the year ended 31 December 1995**

The Directors have pleasure in submitting their seventeenth annual report and audited accounts of the Company for the year to 31 December 1995.

**Principal Activity**

The principal activity of the Company is that of transacting reinsurance of approved pension and life business of Scottish Equitable plc. The Company ceased to write its own business with effect from 1 January 1994.

**Results and Dividend**

The Company's results are shown on pages 8 and 9. The Directors recommend that no dividend be paid.

**Changes in Presentation of the Financial Statements**

The financial statements have been prepared in accordance with the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993, ("Regulations") which amends section 255 and schedule 9A of the Companies Act 1985 and came into effect for periods commencing on or after 23 December 1994.

The Regulations require insurance companies to adopt prescribed formats for the profit and loss account and balance sheet and accordingly the prior year figures have been restated.

Where changes in accounting policies have been made to comply with the Regulations the effect is explained on pages 6 and 7 to the financial statements.

**Share Capital**

The authorised, allotted and fully paid up share capital is shown in note 11 on page 16.

**Directors and their interests**

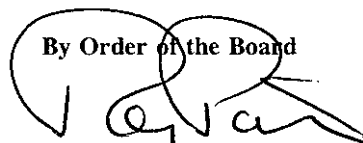
The Directors who held office at the date of this report are shown on page 2. All Directors served throughout the year. David J Kirkpatrick ceased to be a Director upon his retirement on 30 September 1996. The Directors have declared that they had no interest in the share capital of the Company at the beginning or end of the year.

The Directors participate in the share option scheme operated by AEGON NV, the ultimate parent undertaking, to subscribe for ordinary shares which are exercisable by 31 December 2000. Details of options granted are disclosed in the statutory accounts of the parent undertaking, Scottish Equitable plc.

**Auditors**

Our Auditors KPMG have indicated that a limited liability company, KPMG Audit Plc, is to undertake part of their audit business. Accordingly, a resolution is to be proposed at the annual general meeting for the appointment of KPMG Audit Plc as Auditors of the Company.

Date 18. 10. 96

By Order of the Board  


R Patrick, Secretary  
Edinburgh Park, Edinburgh

**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 for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and 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**  
**AUDITORS' REPORT TO THE MEMBERS OF**  
**SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED**

**For the year ended 31 December 1995**

We have audited the financial statements on pages 6 to 18.

**Respective Responsibilities of Directors and Auditors**

As described on page 4 the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

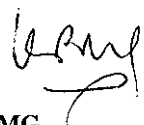
**Basis of Opinion**

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

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

**Opinion**

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 December 1995 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
KPMG  
Chartered Accountants  
Registered Auditors  
Edinburgh

Date 18 October 1996

**SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED**  
**ACCOUNTING POLICIES**

**For the year ended 31 December 1995**

**Basis of Presentation and Disclosure Requirements**

The financial statements have been prepared in accordance with Section 255 and Schedule 9A to the Companies Act 1985 and with applicable Accounting Standards. Schedule 9A implements into UK law the European Union Council Directive on the annual accounts of insurance undertakings which came into effect for periods commencing after 23 December 1994.

**Changes in Accounting Policies**

Implementation of the changes referred to above has necessitated changes to certain of the Company's accounting policies as well as introducing legally prescribed formats to the presentation of the financial statements. Details of the more significant accounting policy changes are given below. Comparative figures have been restated where necessary.

(i) **Investment Gains**

Both realised and unrealised gains and losses in respect of linked policyholders investments and shareholder investments continue to be accounted for in the profit and loss account as before.

(ii) **Technical Provisions**

The Long Term Business Fund reported in previous years is now shown differently. The main components of this figure is now shown in Technical Provisions.

(iii) **Profit and Loss Account**

The profit and loss account is divided into two parts, the technical and non-technical account. The technical account includes items relating to the insurance business. Items relating to the shareholders are dealt with in the non-technical account.

**Premiums**

Linked business premiums are accounted for when the actuarial liability is established. Where policyholders have the option of investing premiums in either investment-linked funds or insured funds, and the premiums have been invested in insured funds, these premiums are analysed as linked premiums.

**Interest, Dividends and Rents**

Credit is taken in the profit and loss account for interest and rents accrued on fixed interest and property investments, and for dividends due on equity shareholdings on an ex-dividend basis. Investment income includes gains on realisation of investments.

**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 long term business provision or the provision for linked liabilities.

Claims payable include related internal and external claims handling costs.

**SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED**  
**ACCOUNTING POLICIES (cont'd)**  
**For the year ended 31 December 1995**

**Expenses**

All expenses incurred for the acquisition of new business are borne by the parent company. Expenses comprise the management charges payable to the parent company and other costs of running existing business and are written off as incurred.

**Taxation**

The charge for UK corporation tax and income tax is on the basis applicable to the business of the Company.

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise. Provision is made for deferred tax on unrealised gains since these are recognised in the Profit and Loss Account.

**Valuation of Assets**

Listed investments are included at middle market value and Authorised Unit Trusts at bid value. Unlisted investments are shown at Directors valuation. Property is shown at open market value as assessed at least triennially by Independent Chartered Surveyors less provision for expenses of sale. 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 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.

**SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED**  
**PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT - LONG TERM BUSINESS**

For the year ended 31 December 1995

		1995		1994 As restated	
	Note	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Earned premiums, net of reinsurance					
Gross premiums written	1	743,710		788,622	
Outward reinsurance premiums		<u>-</u>	743,710	<u>-</u>	788,622
Investment income	2		237,214		355,491
Unrealised gains on investments			356,027		-
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(251,943)		(217,989)	
Reinsurers' share		<u>-</u>	(251,943)	<u>-</u>	(217,989)
Change in the provision for claims					
Gross amount		-		-	
Reinsurers' share		<u>-</u>	-	<u>-</u>	-
Change in other technical provisions, net of reinsurance, not shown under other headings					
Long term business, net of reinsurance					
Gross amount		-		-	
Reinsurers' share		<u>-</u>	-	<u>-</u>	-
Other technical provisions, net of reinsurance	9		(1,022,950)		(404,383)
Unrealised losses on investments			-		(470,895)
Bonuses and rebates, net of reinsurance			-		-
Net operating expenses	4		(41,026)		(33,360)
Investment expenses and charges	3		(1,098)		(11,881)
Tax attributable to long term business	5		<u>(19,934)</u>		<u>(5,605)</u>
Sub-total (balance on the technical account - long term business)			<u>-</u>		<u>-</u>

All of the amounts above are in respect of continuing operations.

The accounting policies on pages 6 and 7 and notes on pages 13 to 18 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 1995**

	Note	1995 £000	1994 As restated £000
Balance on the long term business technical account		Nil	Nil
Investment income		2,487	2,067
Unrealised gains on investments		318	-
Unrealised losses on investments		-	(1,721)
Other income		-	-
Other charges		(26)	(28)
Profit on ordinary activities before tax		2,789	318
Tax on profit on ordinary activities	5	(851)	80
Profit for the financial year		1,938	398
Dividends proposed		-	-
Retained profit for the financial year	12	<u>1,938</u>	<u>398</u>

All of the amounts above are in respect of continuing operations.

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

The accounting policies on pages 6 and 7 and notes on pages 13 to 18 form an integral part of these financial statements.

**SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED**  
**BALANCE SHEET**

**For the year ended 31 December 1995**

		1995		1994 As restated	
	Note	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
<b>ASSETS</b>					
Investments					
Land and buildings		-		-	
Other financial investments		<u>34,800</u>		<u>27,020</u>	
			34,800		27,020
Assets held to cover linked liabilities			4,331,523		3,308,573
Reinsurers' share of technical provisions					
Long term business provisions		-		-	
Claims outstanding		<u>-</u>		<u>-</u>	
			-		-
Debtors					
Debtors arising out of direct insurance operations	7	24,036		30,439	
Other debtors	8	<u>2,528</u>		<u>2,130</u>	
			26,564		32,569
Other assets					
Tangible assets		-		-	
Cash at bank and in hand		<u>-</u>		<u>233</u>	
			-		233
Prepayments and accrued income					
Accrued interest and rent		4,441		5,526	
Deferred acquisition costs		-		-	
Other prepayments and accrued income		<u>6,748</u>		<u>-</u>	
			<u>11,189</u>		<u>5,526</u>
Total Assets			<u>4,404,076</u>		<u>3,373,921</u>

**SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED**  
**BALANCE SHEET (cont'd)**

**For the year ended 31 December 1995**

		1995		1994 As restated	
	Note	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
<b>LIABILITIES</b>					
Capital and reserves					
Called up share capital	11	22,500		22,500	
Profit and loss account		<u>6,485</u>		<u>4,547</u>	
	12		28,985		27,047
Fund for future appropriations			-		-
Technical provisions					
Long term business provision		-		-	
Claims outstanding		<u>-</u>		<u>-</u>	
			-		-
Technical provisions for linked liabilities	9		4,331,523		3,308,573
Provision for other risks and charges	6		13,484		-
Creditors					
Creditors arising out of direct insurance operations		-		-	
Other creditors including taxation and social security	10	<u>30,084</u>	30,084	<u>38,301</u>	38,301
Accruals and deferred income			<u>-</u>		<u>-</u>
Total Liabilities			<u>4,404,076</u>		<u>3,373,921</u>
Amounts included in capital and reserves which are not distributable			<u>22,500</u>		<u>22,500</u>

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

Director



Date 18.10.96

The accounting policies on pages 6 and 7 and notes on pages 13 to 18 form an integral part of these financial statements.

**SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED**  
**SHAREHOLDERS' FUND CASH FLOW STATEMENT**

**For the year ended 31 December 1995**

		1995	1994
			As restated
	Note	£000	£000
Net cash inflow from operating activities	16(a)	7,863	4,495
Net cash inflow from Return on Investments			
Returns on investments		-	-
Interest received		-	-
Net cash inflow from Return on Investments and Servicing of Finance		-	-
Taxation			
Corporation tax paid		(402)	(136)
Investing activities			
Investments Purchased		-	-
Investments Sold		-	-
Net cash inflow from investing activities		-	-
Net cash inflow before financing		7,461	4,359
Financing			
Issue of ordinary share capital	16(d)	-	4,000
Increase in cash and cash equivalents	16(c)	<u>7,461</u>	<u>8,359</u>

The cash flows are those arising on shareholders' activities only and do not include other cash flows within long term business.

The accounting policies on pages 6 and 7 and notes on pages 13 to 18 form an integral part of these financial statements.

**SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED**  
**NOTES TO THE ACCOUNTS**

**For the year ended 31 December 1995**

**1. Premiums**

Gross earned premiums, all of which relate to direct insurance in the UK, can be analysed as follows:

	1995	1994 As restated
	<u>£000</u>	<u>£000</u>
Individual Premiums	484,351	513,314
Premiums under group contracts	<u>259,359</u>	<u>275,308</u>
	<u>743,710</u>	<u>788,622</u>
Periodic premiums	211,807	225,129
Single premiums	<u>531,903</u>	<u>563,493</u>
	<u>743,710</u>	<u>788,622</u>

**2. Investment Income**

	<u>Technical Account</u>		<u>Non-Technical Account</u>	
	1995	1994 As restated	1995	1994 As restated
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Income from investments				
Land and buildings	614	618	-	-
Other investments	158,557	106,338	2,487	2,067
Net gains on the realisation of investments	<u>78,043</u>	<u>246,803</u>	-	-
	<u>237,214</u>	<u>353,759</u>	<u>2,487</u>	<u>2,067</u>

**3. Investment Expenses and Charges**

	<u>Technical Account</u>	
	1995	1994 As restated
	<u>£000</u>	<u>£000</u>
Bank Charges	717	-
Interest paid on bank overdraft	381	134
Losses on the realisation of investments	-	<u>11,747</u>
	<u>1,098</u>	<u>11,881</u>

**4. Net Operating Expenses**

A management fee is paid to the UK parent undertaking who pay all the Company's expenses including Auditors' remuneration of £19,000 (1994 - £16,000). No Directors' fees are paid by the Company.

**SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED**  
**NOTES TO THE ACCOUNTS**

**For the year ended 31 December 1995**

**5. Taxation**

**Technical Account**

The charge for United Kingdom corporation tax and income tax is included in the accounts as follows:

	1995	1994
	<u>£000</u>	As restated <u>£000</u>
Corporation Tax at 25% (25%)	3,705	2,592
Income Tax	661	582
Foreign Tax	2,225	2,454
Provision for deferred tax	<u>13,343</u>	<u>(23)</u>
	<u>19,934</u>	<u>5,605</u>

Deferred tax in respect of any liability to corporation tax on chargeable gains which might arise on the sale of the Long-Term Business Fund investments after 31 December 1995 is included in the assessment of the adequacy of the Long-Term Fund.

**Non-Technical Account**

The non-technical account is subject to UK corporation tax and is included in the accounts as follows:

	1995	1994
	<u>£000</u>	As restated <u>£000</u>
Corporation Tax at 33% (33%)	820	668
Overprovision in previous years	(114)	(748)
Provision for deferred tax	<u>145</u>	<u>-</u>
	<u>851</u>	<u>(80)</u>

**6. Provisions for risks and charges**

	<u>£000</u>	<u>£000</u>
Deferred tax	<u>13,484</u>	=

**7. Debtors arising out of direct insurance operations**

	1995	1994
	<u>£000</u>	As restated <u>£000</u>
Sundry debtors	<u>24,036</u>	<u>30,439</u>

**SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED**  
**NOTES TO THE ACCOUNTS**

**For the year ended 31 December 1995**

**8. Other debtors**

	1995	1994 As restated
	<u>£000</u>	<u>£000</u>
Taxation recoverable	<u>2,528</u>	<u>2,130</u>

**9. Technical provisions**

Gross Amount	Long-term business provision £000	Technical provisions for linked liabilities £000	Total £000
Balance at beginning of year as restated	-	3,308,573	3,308,573
Movement from long term business technical account	<u>-</u>	<u>1,022,950</u>	<u>1,022,950</u>
Balance at end of year	<u>-</u>	<u>4,331,523</u>	<u>4,331,523</u>
<b>Reinsurers' share</b>			
Balance at beginning of year as restated	-	-	-
Movement from long term business technical account	<u>-</u>	<u>-</u>	<u>-</u>
Balance at end of year	<u>-</u>	<u>-</u>	<u>-</u>
Net movement from long term business technical account	<u>-</u>	<u>1,022,950</u>	<u>1,022,950</u>

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.

4,331,523

**SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED**  
**NOTES TO THE ACCOUNTS**

**For the year ended 31 December 1995**

**10. Creditors: Amounts Falling Due Within One Year**

	1995	1994 As restated
	<u>£000</u>	<u>£000</u>
Sundry Creditors	26,473	32,836
Bank Overdraft	-	-
Due to UK Parent Undertaking	2,895	5,198
Corporation Tax	<u>716</u>	<u>267</u>
	<u>30,084</u>	<u>38,301</u>

**11. Share Capital**

The share capital of the Company is as follows:

	Authorised		Allotted & Fully Paid-Up	
	<u>1995</u>	<u>1994</u>	<u>1995</u>	<u>1994</u>
Ordinary £1 shares	<u>30,000,000</u>	<u>30,000,000</u>	<u>22,500,000</u>	<u>22,500,000</u>

**12. Reconciliation of Movements in Shareholders' Funds**

	1995	1994 As restated
	<u>£000</u>	<u>£000</u>
<u>Equity Interests</u>		
Opening Balance	27,047	26,649
Retained Profit for Year	<u>1,938</u>	<u>398</u>
Closing Balance	<u>28,985</u>	<u>27,047</u>

**13. UK Parent Undertaking**

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

Copies of the Group accounts of Scottish Equitable plc are available from Edinburgh Park, Edinburgh, EH12 9SE.

**14. 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 AEGON NV, Mariahoeveplein 50, PO Box 202, 2501 CE, The Hague, Netherlands.



**SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED**  
**NOTES TO THE ACCOUNTS**

**For the year ended 31 December 1995**

**15. Capital Commitments and Forward Currency Contracts**

There were no future capital commitments at 31 December 1995, (1994 - Nil).

At 31 December 1995 the Company had entered into, in the normal course of business, forward foreign exchange contracts.

**16. Notes to Cash Flow Statement**

**a) Reconciliation of Profit on ordinary activities before Tax to Net Cash Inflow from Operating Activities**

	1995	1994
	<u>£000</u>	As restated <u>£000</u>
Profit on ordinary activities before Tax	2,789	318
(Increase)/Decrease in Debtors	(5)	3,392
Increase/(Decrease) in Creditors	5,397	(936)
Change in Value of Investments	<u>(318)</u>	<u>1,721</u>
Net Cash Inflow from Operating Activities	<u>7,863</u>	<u>4,495</u>

**b) Analysis of Changes in Shareholders' Funds Cash and Cash Equivalents During the Year**

	Cash & Cash Equivalents 1995	Cash & Cash Equivalents 1994
	<u>£000</u>	As restated <u>£000</u>
Balance at 1 January	10,789	2,430
Net Cash Inflow	<u>7,461</u>	<u>8,359</u>
Balance at 31 December	<u>18,250</u>	<u>10,789</u>

**c) Analysis of the Balances of Shareholders' Funds Cash and Cash Equivalents included in the Balance Sheet**

	1995	Change in Year	1994
	<u>£000</u>	<u>£000</u>	As restated <u>£000</u>
Cash at Bank	-	(1)	1
Deposits	<u>18,250</u>	<u>7,462</u>	<u>10,788</u>
Total Cash & Cash Equivalent	<u>18,250</u>	<u>7,461</u>	<u>10,789</u>

Deposits are included within other financial investments.

**d) Analysis of Changes in Financing During Year**

	Share Capital 1995	Share Capital 1994
	<u>£000</u>	As restated <u>£000</u>
Financing at 1 January	22,500	22,500
Cash Inflow from Financing	-	4,000
Decrease in current account with parent undertaking	-	(4,000)
Financing at 31 December	<u>22,500</u>	<u>22,500</u>

**SCOTTISH EQUITABLE (MANAGED FUNDS) LIMITED**  
**NOTES TO THE ACCOUNTS**

**For the year ended 31 December 1995**

**17. Restatement of 1994 Long Term Fund and Other Reserves**

As set out in the Balance Sheet on page 11, the long term business fund is now reclassified. Technical provisions are now shown in their place. A reconciliation of balances as previously stated with restated balances are as follows:-

Balances at 31 December 1994 as previously stated:

	<u>£000</u>
Long term business fund	3,308,573
Shareholders' fund	<u>27,047</u>
	<u>3,335,620</u>

Restated as:

Technical provisions for linked liabilities	3,308,573
Shareholders' fund	<u>27,047</u>
	<u>3,335,620</u>