

**SCOTTISH EQUITABLE  
(MANAGED FUNDS) LIMITED**

ANNUAL RETURN UNDER THE  
INTERIM PRUDENTIAL SOURCEBOOK FOR INSURERS

CHAPTER 9  
APPENDICES 9.1, 9.3, 9.4, 9.6

For the year ended 31 December 2008

HEAD OFFICE  
EDINBURGH PARK, EDINBURGH, EH12 9SE.

Registered in Scotland (No. 64697) and principal office at above address.



**Statement of solvency - long-term insurance business**Name of insurer **Scottish Equitable (Managed Funds) Limited**

Global business

Financial year ended **31 December 2008**

Solo solvency calculation

	Company registration number	GL/ UK/ CM	day	month	year	Units
	<b>R2</b>	<b>64697</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2008</b>
			<b>As at end of this financial year</b>			<b>As at end of the previous year</b>
			<b>1</b>			<b>2</b>

**Capital resources**

Capital resources arising within the long-term insurance fund	<b>11</b>			
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	<b>12</b>		7933	52960
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	<b>13</b>		7933	52960

**Guarantee fund**

Guarantee fund requirement	<b>21</b>		2518	2231
Excess (deficiency) of available capital resources to cover guarantee fund requirement	<b>22</b>		5415	50729

**Minimum capital requirement (MCR)**

Long-term insurance capital requirement	<b>31</b>			
Resilience capital requirement	<b>32</b>			
Base capital resources requirement	<b>33</b>		2518	2231
Individual minimum capital requirement	<b>34</b>		2518	2231
Capital requirements of regulated related undertakings	<b>35</b>			
Minimum capital requirement (34+35)	<b>36</b>		2518	2231
Excess (deficiency) of available capital resources to cover 50% of MCR	<b>37</b>		6674	51844
Excess (deficiency) of available capital resources to cover 75% of MCR	<b>38</b>		6045	51287

**Enhanced capital requirement**

With-profits insurance capital component	<b>39</b>			
Enhanced capital requirement	<b>40</b>			

**Capital resources requirement (CRR)**

Capital resources requirement (greater of 36 and 40)	<b>41</b>		2518	2231
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	<b>42</b>		5415	50729

**Contingent liabilities**

Quantifiable contingent liabilities in respect of long-term insurance business as shown in a supplementary note to Form 14	<b>51</b>			
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**Covering Sheet to Form 2**

**Form 2**

Name of insurer        **Scottish Equitable (Managed Funds) Limited**

Global business

Financial year ended    **31 December 2008**

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**O. THORESEN, Chief Executive**

.....

**J.M. LAIDLAW, Director**

.....

**F. MACKLE, Director**

**Edinburgh, 25 March 2009**

**Components of capital resources**Name of insurer **Scottish Equitable (Managed Funds) Limited**

Global business

Financial year ended **31 December 2008**

	Company registration number	GL/ UK/ CM	day	month	year	Units
<b>R3</b>	<b>64697</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2008</b>	<b>£000</b>
		General insurance business		Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year
		<b>1</b>		<b>2</b>	<b>3</b>	<b>4</b>

**Core tier one capital**

Permanent share capital	<b>11</b>		225	225	22500
Profit and loss account and other reserves	<b>12</b>		7708	7708	30460
Share premium account	<b>13</b>				
Positive valuation differences	<b>14</b>				
Fund for future appropriations	<b>15</b>				
Core tier one capital in related undertakings	<b>16</b>				
Core tier one capital (sum of 11 to 16)	<b>19</b>		7933	7933	52960

**Tier one waivers**

Unpaid share capital / unpaid initial funds and calls for supplementary contributions	<b>21</b>				
Implicit Items	<b>22</b>				
Tier one waivers in related undertakings	<b>23</b>				
Total tier one waivers as restricted (21+22+23)	<b>24</b>				

**Other tier one capital**

Perpetual non-cumulative preference shares as restricted	<b>25</b>				
Perpetual non-cumulative preference shares in related undertakings	<b>26</b>				
Innovative tier one capital as restricted	<b>27</b>				
Innovative tier one capital in related undertakings	<b>28</b>				

<b>Total tier one capital before deductions (19+24+25+26+27+28)</b>	<b>31</b>		7933	7933	52960
Investments in own shares	<b>32</b>				
Intangible assets	<b>33</b>				
Amounts deducted from technical provisions for discounting	<b>34</b>				
Other negative valuation differences	<b>35</b>				
Deductions in related undertakings	<b>36</b>				
Deductions from tier one (32 to 36)	<b>37</b>				
<b>Total tier one capital after deductions (31-37)</b>	<b>39</b>		7933	7933	52960

**Components of capital resources**Name of insurer **Scottish Equitable (Managed Funds) Limited**

Global business

Financial year ended **31 December 2008**

	Company registration number	GL/ UK/ CM	day month year			Units
<b>R3</b>	<b>64697</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2008</b>	<b>£000</b>
		General insurance business <b>1</b>	Long-term insurance business <b>2</b>	Total as at the end of this financial year <b>3</b>	Total as at the end of the previous year <b>4</b>	

**Tier two capital**

Implicit items, (tier two waivers and amounts excluded from line 22)	<b>41</b>				
Perpetual non-cumulative preference shares excluded from line 25	<b>42</b>				
Innovative tier one capital excluded from line 27	<b>43</b>				
Tier two waivers, innovative tier one capital and perpetual non-cumulative preference shares treated as tier two capital (41 to 43)	<b>44</b>				
Perpetual cumulative preference shares	<b>45</b>				
Perpetual subordinated debt and securities	<b>46</b>				
Upper tier two capital in related undertakings	<b>47</b>				
<b>Upper tier two capital (44 to 47)</b>	<b>49</b>				

Fixed term preference shares	<b>51</b>				
Other tier two instruments	<b>52</b>				
Lower tier two capital in related undertakings	<b>53</b>				
<b>Lower tier two capital (51+52+53)</b>	<b>59</b>				

<b>Total tier two capital before restrictions (49+59)</b>	<b>61</b>				
Excess tier two capital	<b>62</b>				
Further excess lower tier two capital	<b>63</b>				
<b>Total tier two capital after restrictions, before deductions (61-62-63)</b>	<b>69</b>				

**Components of capital resources**Name of insurer **Scottish Equitable (Managed Funds) Limited**

Global business

Financial year ended **31 December 2008**

	Company registration number	GL/ UK/ CM	day month year			Units	
	<b>R3</b>	<b>64697</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2008</b>	<b>£000</b>
		General insurance business	Long-term insurance business	Total as at the end of this financial year		Total as at the end of the previous year	
		<b>1</b>	<b>2</b>	<b>3</b>		<b>4</b>	

**Total capital resources**

Positive adjustments for regulated non-insurance related undertakings	<b>71</b>					
<b>Total capital resources before deductions (39+69+71)</b>	<b>72</b>		7933	7933		52960
Inadmissible assets other than intangibles and own shares	<b>73</b>					
Assets in excess of market risk and counterparty limits	<b>74</b>					
Deductions for related ancillary services undertakings	<b>75</b>					
Deductions for regulated non-insurance related undertakings	<b>76</b>					
Deductions of ineligible surplus capital	<b>77</b>					
<b>Total capital resources after deductions (72-73-74-75-76-77)</b>	<b>79</b>		7933	7933		52960

**Available capital resources for GENPRU/INSRU tests**

Available capital resources for guarantee fund requirement	<b>81</b>		7933	7933		52960
Available capital resources for 50% MCR requirement	<b>82</b>		7933	7933		52960
Available capital resources for 75% MCR requirement	<b>83</b>		7933	7933		52960

**Financial engineering adjustments**

Implicit items	<b>91</b>					
Financial reinsurance - ceded	<b>92</b>					
Financial reinsurance - accepted	<b>93</b>					
Outstanding contingent loans	<b>94</b>					
Any other charges on future profits	<b>95</b>					
Sum of financial engineering adjustments (91+92-93+94+95)	<b>96</b>					

**Analysis of admissible assets**Name of insurer **Scottish Equitable (Managed Funds) Limited**

Global business

Financial year ended **31 December 2008**Category of assets **Total other than long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
<b>R13</b>	<b>64697</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2008</b>	<b>£000</b>	<b>1</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	
Land and buildings			<b>11</b>				

**Investments in group undertakings and participating interests**

UK insurance dependants	Shares	<b>21</b>		
	Debts and loans	<b>22</b>		
Other insurance dependants	Shares	<b>23</b>		
	Debts and loans	<b>24</b>		
Non-insurance dependants	Shares	<b>25</b>		
	Debts and loans	<b>26</b>		
Other group undertakings	Shares	<b>27</b>		
	Debts and loans	<b>28</b>		
Participating interests	Shares	<b>29</b>		
	Debts and loans	<b>30</b>		

**Other financial investments**

Equity shares	<b>41</b>			
Other shares and other variable yield participations	<b>42</b>			
Holdings in collective investment schemes	<b>43</b>			
Rights under derivative contracts	<b>44</b>			
Fixed interest securities	Approved	<b>45</b>	3895	39363
	Other	<b>46</b>		
Variable interest securities	Approved	<b>47</b>		
	Other	<b>48</b>		
Participation in investment pools	<b>49</b>			
Loans secured by mortgages	<b>50</b>			
Loans to public or local authorities and nationalised industries or undertakings	<b>51</b>			
Loans secured by policies of insurance issued by the company	<b>52</b>			
Other loans	<b>53</b>			
Bank and approved credit & financial institution deposits	One month or less withdrawal	<b>54</b>	4527	9373
	More than one month withdrawal	<b>55</b>		
Other financial investments	<b>56</b>			
Deposits with ceding undertakings	<b>57</b>			
Assets held to match linked liabilities	Index linked	<b>58</b>		
	Property linked	<b>59</b>		

**Analysis of admissible assets**Name of insurer **Scottish Equitable (Managed Funds) Limited**

Global business

Financial year ended **31 December 2008**Category of assets **Total other than long term insurance business assets**

	Company registration number	GL/ UK/ CM	day month year			Units	Category of assets	
	<b>R13</b>	<b>64697</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2008</b>	<b>£000</b>	<b>1</b>
						<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
						<b>1</b>	<b>2</b>	

**Reinsurers' share of technical provisions**

Provision for unearned premiums	<b>60</b>		
Claims outstanding	<b>61</b>		
Provision for unexpired risks	<b>62</b>		
Other	<b>63</b>		

**Debtors and salvage**

Direct insurance business	Policyholders	<b>71</b>		
	Intermediaries	<b>72</b>		
Salvage and subrogation recoveries		<b>73</b>		
Reinsurance	Accepted	<b>74</b>		
	Ceded	<b>75</b>		
Dependants	due in 12 months or less	<b>76</b>		
	due in more than 12 months	<b>77</b>		
Other	due in 12 months or less	<b>78</b>	33	3684
	due in more than 12 months	<b>79</b>		

**Other assets**

Tangible assets	<b>80</b>		
Deposits not subject to time restriction on withdrawal with approved institutions	<b>81</b>		
Cash in hand	<b>82</b>		
Other assets (particulars to be specified by way of supplementary note)	<b>83</b>		
Accrued interest and rent	<b>84</b>	12	540
Deferred acquisition costs (general business only)	<b>85</b>		
Other prepayments and accrued income	<b>86</b>		

Deductions from the aggregate value of assets	<b>87</b>		
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Grand total of admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (11 to 86 less 87)	<b>89</b>	8467	52960
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**Analysis of admissible assets**Name of insurer **Scottish Equitable (Managed Funds) Limited**

Global business

Financial year ended **31 December 2008**Category of assets **Total other than long term insurance business assets**

	Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets	
	<b>R13</b>	<b>64697</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2008</b>	<b>£000</b>	<b>1</b>
						<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
						<b>1</b>	<b>2</b>	

**Reconciliation to asset values determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting**

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	<b>91</b>	8467	52960
Admissible assets in excess of market and counterparty limits	<b>92</b>		
Inadmissible assets directly held	<b>93</b>		
Capital resources requirement deduction of regulated related undertakings	<b>94</b>		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	<b>95</b>		
Inadmissible assets of regulated related undertakings	<b>96</b>		
Book value of related ancillary services undertakings	<b>97</b>		
Other differences in the valuation of assets (other than for assets not valued above)	<b>98</b>		
Deferred acquisition costs excluded from line 89	<b>99</b>		
Reinsurers' share of technical provisions excluded from line 89	<b>100</b>		
Other asset adjustments (may be negative)	<b>101</b>	(33)	
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 101)	<b>102</b>	8434	52960
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	<b>103</b>		

**Analysis of admissible assets**Name of insurer **Scottish Equitable (Managed Funds) Limited**

Global business

Financial year ended **31 December 2008**Category of assets **Total long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
<b>R13</b>	<b>64697</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2008</b>	<b>£000</b>	<b>10</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	
Land and buildings			<b>11</b>				

**Investments in group undertakings and participating interests**

UK insurance dependants	Shares	<b>21</b>		
	Debts and loans	<b>22</b>		
Other insurance dependants	Shares	<b>23</b>		
	Debts and loans	<b>24</b>		
Non-insurance dependants	Shares	<b>25</b>		
	Debts and loans	<b>26</b>		
Other group undertakings	Shares	<b>27</b>		
	Debts and loans	<b>28</b>		
Participating interests	Shares	<b>29</b>		
	Debts and loans	<b>30</b>		

**Other financial investments**

Equity shares	<b>41</b>		
Other shares and other variable yield participations	<b>42</b>		
Holdings in collective investment schemes	<b>43</b>		
Rights under derivative contracts	<b>44</b>		
Fixed interest securities	Approved	<b>45</b>	
	Other	<b>46</b>	
Variable interest securities	Approved	<b>47</b>	
	Other	<b>48</b>	
Participation in investment pools	<b>49</b>		
Loans secured by mortgages	<b>50</b>		
Loans to public or local authorities and nationalised industries or undertakings	<b>51</b>		
Loans secured by policies of insurance issued by the company	<b>52</b>		
Other loans	<b>53</b>		
Bank and approved credit & financial institution deposits	One month or less withdrawal	<b>54</b>	
	More than one month withdrawal	<b>55</b>	
Other financial investments	<b>56</b>		
Deposits with ceding undertakings	<b>57</b>		
Assets held to match linked liabilities	Index linked	<b>58</b>	
	Property linked	<b>59</b>	
		1586263	1672256

**Analysis of admissible assets**Name of insurer **Scottish Equitable (Managed Funds) Limited**

Global business

Financial year ended **31 December 2008**Category of assets **Total long term insurance business assets**

	Company registration number	GL/ UK/ CM	day month year			Units	Category of assets
<b>R13</b>	<b>64697</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2008</b>	<b>£000</b>	<b>10</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	

**Reinsurers' share of technical provisions**

Provision for unearned premiums	<b>60</b>		
Claims outstanding	<b>61</b>		
Provision for unexpired risks	<b>62</b>		
Other	<b>63</b>		

**Debtors and salvage**

Direct insurance business	Policyholders	<b>71</b>	
	Intermediaries	<b>72</b>	
Salvage and subrogation recoveries		<b>73</b>	
Reinsurance	Accepted	<b>74</b>	
	Ceded	<b>75</b>	
Dependants	due in 12 months or less	<b>76</b>	
	due in more than 12 months	<b>77</b>	
Other	due in 12 months or less	<b>78</b>	
	due in more than 12 months	<b>79</b>	

**Other assets**

Tangible assets	<b>80</b>	
Deposits not subject to time restriction on withdrawal with approved institutions	<b>81</b>	
Cash in hand	<b>82</b>	
Other assets (particulars to be specified by way of supplementary note)	<b>83</b>	
Accrued interest and rent	<b>84</b>	
Deferred acquisition costs (general business only)	<b>85</b>	
Other prepayments and accrued income	<b>86</b>	

Deductions from the aggregate value of assets	<b>87</b>	
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Grand total of admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (11 to 86 less 87)	<b>89</b>	1586263	1672256
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**Analysis of admissible assets**Name of insurer **Scottish Equitable (Managed Funds) Limited**

Global business

Financial year ended **31 December 2008**Category of assets **Total long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
R13	64697	GL	31	12	2008	£000	10
					As at end of this financial year	As at end of the previous year	
					1	2	

**Reconciliation to asset values determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting**

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	91	1586263	1672256
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93		
Capital resources requirement deduction of regulated related undertakings	94		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95		
Inadmissible assets of regulated related undertakings	96		
Book value of related ancillary services undertakings	97		
Other differences in the valuation of assets (other than for assets not valued above)	98		
Deferred acquisition costs excluded from line 89	99		
Reinsurers' share of technical provisions excluded from line 89	100		
Other asset adjustments (may be negative)	101	1176	(31643)
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 101)	102	1587440	1640613
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103		

**Long term insurance business liabilities and margins**Name of insurer **Scottish Equitable (Managed Funds) Limited**

Global business

Financial year ended **31 December 2008**Total business/Sub fund **Long Term Insurance Fund - Life**Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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Mathematical reserves, after distribution of surplus	<b>11</b>	1573597	1640613
Cash bonuses which had not been paid to policyholders prior to end of the financial year	<b>12</b>		
Balance of surplus/(valuation deficit)	<b>13</b>		
Long term insurance business fund carried forward (11 to 13)	<b>14</b>	1573597	1640613
Claims outstanding	Gross	<b>15</b>	
	Reinsurers' share	<b>16</b>	
	Net (15-16)	<b>17</b>	
Provisions	Taxation	<b>21</b>	5609
	Other risks and charges	<b>22</b>	
Deposits received from reinsurers	<b>23</b>		
Creditors	Direct insurance business	<b>31</b>	
	Reinsurance accepted	<b>32</b>	
	Reinsurance ceded	<b>33</b>	
Debenture loans	Secured	<b>34</b>	
	Unsecured	<b>35</b>	
Amounts owed to credit institutions	<b>36</b>		
Creditors	Taxation	<b>37</b>	2646
	Other	<b>38</b>	10021
Accruals and deferred income	<b>39</b>		
Provision for "reasonably foreseeable adverse variations"	<b>41</b>		
Total other insurance and non-insurance liabilities (17 to 41)	<b>49</b>	12667	31643
Excess of the value of net admissible assets	<b>51</b>		
Total liabilities and margins	<b>59</b>	1586263	1672256

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	<b>61</b>		
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	<b>62</b>	1573597	1640613

Total liabilities (11+12+49)	<b>71</b>	1586263	1672256
Increase to liabilities - DAC related	<b>72</b>		
Reinsurers' share of technical provisions	<b>73</b>		
Other adjustments to liabilities (may be negative)	<b>74</b>	1176	(31643)
Capital and reserves and fund for future appropriations	<b>75</b>		
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose its external financial reporting (71 to 75)	<b>76</b>	1587440	1640613

**Liabilities (other than long term insurance business)**Name of insurer **Scottish Equitable (Managed Funds) Limited**

Global business

Financial year ended **31 December 2008**

R15	Company registration number	GL/UK/CM	day month year			Units
	64697	GL	31	12	2008	£000
			As at end of this financial year			As at end of the previous year
			1			2

**Technical provisions (gross amount)**

Provisions for unearned premiums	11		
Claims outstanding	12		
Provision for unexpired risks	13		
Equalisation provisions	Credit business	14	
	Other than credit business	15	
Other technical provisions	16		
Total gross technical provisions (11 to 16)	19		

**Provisions and creditors**

Provisions	Taxation	21		
	Other risks and charges	22		
Deposits received from reinsurers		31		
Creditors	Direct insurance business	41		
	Reinsurance accepted	42		
	Reinsurance ceded	43		
Debenture loans	Secured	44		
	Unsecured	45		
Amounts owed to credit institutions		46		
Creditors	Taxation	47		
	Foreseeable dividend	48		
	Other	49	534	0
Accruals and deferred income		51		
Total (19 to 51)		59	534	0
Provision for "reasonably foreseeable adverse variations"		61		
Cumulative preference share capital		62		
Subordinated loan capital		63		
Total (59 to 63)		69	534	0

Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance	71	534	
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Amounts deducted from technical provisions for discounting	82		
Other adjustments (may be negative)	83	(33)	
Capital and reserves	84	7933	52960
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (69-82+83+84)	85	8434	52960

**Profit and loss account (non-technical account)**Name of insurer **Scottish Equitable (Managed Funds) Limited**

Global business

Financial year ended **31 December 2008**

		Company registration number	GL/ UK/ CM	day	month	year	Units	
		<b>R16</b>	<b>64697</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2008</b>	<b>£000</b>
				This financial year		Previous year		
				1		2		
Transfer (to)/from the general insurance business technical account	From Form 20		<b>11</b>					
	Equalisation provisions		<b>12</b>					
Transfer from the long term insurance business revenue account			<b>13</b>			3764	9290	
Investment income	Income		<b>14</b>			1501	2451	
	Value re-adjustments on investments		<b>15</b>				1236	
	Gains on the realisation of investments		<b>16</b>			719		
Investment charges	Investment management charges, including interest		<b>17</b>			0	82	
	Value re-adjustments on investments		<b>18</b>			376		
	Loss on the realisation of investments		<b>19</b>			153	1061	
Allocated investment return transferred to the general insurance business technical account			<b>20</b>					
Other income and charges (particulars to be specified by way of supplementary note)			<b>21</b>					
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)			<b>29</b>			5455	11834	
Tax on profit or loss on ordinary activities			<b>31</b>			482	763	
Profit or loss on ordinary activities after tax (29-31)			<b>39</b>			4973	11071	
Extraordinary profit or loss (particulars to be specified by way of supplementary note)			<b>41</b>					
Tax on extraordinary profit or loss			<b>42</b>					
Other taxes not shown under the preceding items			<b>43</b>					
Profit or loss for the financial year (39+41-(42+43))			<b>49</b>			4973	11071	
Dividends (paid or foreseeable)			<b>51</b>			50000		
Profit or loss retained for the financial year (49-51)			<b>59</b>			(45027)	11071	

**Long-term insurance business : Revenue account**

Name of insurer **Scottish Equitable (Managed Funds) Limited**  
Total business / subfund **Long Term Insurance Fund - Life**  
Financial year ended **31 December 2008**  
Units **£000**

Financial year	Previous year
1	2

**Income**

Earned premiums	11	424921	501641
Investment income receivable before deduction of tax	12	43456	31355
Increase (decrease) in the value of non-linked assets brought into account	13		
Increase (decrease) in the value of linked assets	14	(276329)	1300
Other income	15		
<b>Total income</b>	<b>19</b>	<b>192048</b>	<b>534296</b>

**Expenditure**

Claims incurred	21	238555	214712
Expenses payable	22		
Interest payable before the deduction of tax	23	110	66
Taxation	24	(2221)	(9347)
Other expenditure	25	18857	18381
Transfer to (from) non technical account	26	3764	9290
<b>Total expenditure</b>	<b>29</b>	<b>259065</b>	<b>233102</b>

Business transfers - in	31		
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	(67017)	301194
Fund brought forward	49	1640613	1339420
Fund carried forward (39+49)	59	1573597	1640613

**Long-term insurance business : Analysis of premiums**

Name of insurer **Scottish Equitable (Managed Funds) Limited**  
 Total business / subfund **Long Term Insurance Fund - Life**  
 Financial year ended **31 December 2008**  
 Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Gross**

Regular premiums	11	2286			2286	2347
Single premiums	12	422636			422636	499294

**Reinsurance - external**

Regular premiums	13					
Single premiums	14					

**Reinsurance - intra-group**

Regular premiums	15					
Single premiums	16					

**Net of reinsurance**

Regular premiums	17	2286			2286	2347
Single premiums	18	422636			422636	499294

**Total**

Gross	19	424921			424921	501641
Reinsurance	20					
Net	21	424921			424921	501641

**Long-term insurance business : Analysis of claims**

Name of insurer **Scottish Equitable (Managed Funds) Limited**  
 Total business / subfund **Long Term Insurance Fund - Life**  
 Financial year ended **31 December 2008**  
 Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Gross**

Death or disability lump sums	11	29837		29837	28782
Disability periodic payments	12				
Surrender or partial surrender	13	207386		207386	184636
Annuity payments	14				
Lump sums on maturity	15	1333		1333	1294
<b>Total</b>	<b>16</b>	<b>238555</b>		<b>238555</b>	<b>214712</b>

**Reinsurance - external**

Death or disability lump sums	21				
Disability periodic payments	22				
Surrender or partial surrender	23				
Annuity payments	24				
Lump sums on maturity	25				
<b>Total</b>	<b>26</b>				

**Reinsurance - intra-group**

Death or disability lump sums	31				
Disability periodic payments	32				
Surrender or partial surrender	33				
Annuity payments	34				
Lump sums on maturity	35				
<b>Total</b>	<b>36</b>				

**Net of reinsurance**

Death or disability lump sums	41	29837		29837	28782
Disability periodic payments	42				
Surrender or partial surrender	43	207386		207386	184636
Annuity payments	44				
Lump sums on maturity	45	1333		1333	1294
<b>Total</b>	<b>46</b>	<b>238555</b>		<b>238555</b>	<b>214712</b>

**Long-term insurance business : Analysis of expenses**

Name of insurer **Scottish Equitable (Managed Funds) Limited**  
 Total business / subfund **Long Term Insurance Fund - Life**  
 Financial year ended **31 December 2008**  
 Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Gross**

Commission - acquisition	11				
Commission - other	12				
Management - acquisition	13				
Management - maintenance	14				
Management - other	15				
<b>Total</b>	<b>16</b>				

**Reinsurance - external**

Commission - acquisition	21				
Commission - other	22				
Management - acquisition	23				
Management - maintenance	24				
Management - other	25				
<b>Total</b>	<b>26</b>				

**Reinsurance - intra-group**

Commission - acquisition	31				
Commission - other	32				
Management - acquisition	33				
Management - maintenance	34				
Management - other	35				
<b>Total</b>	<b>36</b>				

**Net of reinsurance**

Commission - acquisition	41				
Commission - other	42				
Management - acquisition	43				
Management - maintenance	44				
Management - other	45				
<b>Total</b>	<b>46</b>				

**Long-term insurance business : Linked funds balance sheet**

Name of insurer **Scottish Equitable (Managed Funds) Limited**  
 Total business  
 Financial year ended **31 December 2008**  
 Units **£000**

Financial year	Previous year
1	2

**Internal linked funds (excluding cross investment)**

Directly held assets (excluding collective investment schemes)	11	1108526	1137969
Directly held assets in collective investment schemes of connected companies	12	110834	147829
Directly held assets in other collective investment schemes	13	366903	386458
<b>Total assets (excluding cross investment) (11+12+ 13)</b>	<b>14</b>	<b>1586263</b>	<b>1672256</b>
Provision for tax on unrealised capital gains	15		5609
Secured and unsecured loans	16		
Other liabilities	17	12667	26034
<b>Total net assets (14-15-16-17)</b>	<b>18</b>	<b>1573597</b>	<b>1640613</b>

**Directly held linked assets**

Value of directly held linked assets	21		
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**Total**

Value of directly held linked assets and units held (18+21)	31	1573597	1640613
Surplus units	32		
Deficit units	33		
<b>Net unit liability (31-32+33)</b>	<b>34</b>	<b>1573597</b>	<b>1640613</b>

**Long-term insurance business : Revenue account for internal linked funds**Name of insurer **Scottish Equitable (Managed Funds) Limited**

Total business

Financial year ended **31 December 2008**Units **£000**

Financial year 1	Previous year 2
---------------------	--------------------

**Income**

Value of total creation of units	11	424921	501641
Investment income attributable to the funds before deduction of tax	12	43456	31355
Increase (decrease) in the value of investments in the financial year	13	(276329)	(7990)
Other income	14		
<b>Total income</b>	<b>19</b>	192048	525005

**Expenditure**

Value of total cancellation of units	21	238555	214712
Charges for management	22	18725	18277
Charges in respect of tax on investment income	23	(2221)	(9347)
Taxation on realised capital gains	24		
Increase (decrease) in amount set aside for tax on capital gains not yet realised	25		
Other expenditure	26	4006	171
<b>Total expenditure</b>	<b>29</b>	259065	223812

Increase (decrease) in funds in financial year (19-29)	39	(67017)	301194
Internal linked fund brought forward	49	1640613	1339420
Internal linked funds carried forward (39+49)	59	1573597	1640613

**Long-term insurance business : Summary of new business**Name of insurer **Scottish Equitable (Managed Funds) Limited**

Total business

Financial year ended **31 December 2008**Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Number of new policyholders/  
scheme members for direct  
insurance business**

Regular premium business	11				
Single premium business	12	5035		5035	8812
<b>Total</b>	<b>13</b>	5035		5035	8812

**Amount of new regular  
premiums**

Direct insurance business	21				
External reinsurance	22				
Intra-group reinsurance	23				
<b>Total</b>	<b>24</b>				

**Amount of new single  
premiums**

Direct insurance business	25				
External reinsurance	26				
Intra-group reinsurance	27	400694		400694	477902
<b>Total</b>	<b>28</b>	400694		400694	477902



**Long-term insurance business : Summary of mathematical reserves**Name of insurer **Scottish Equitable (Managed Funds) Limited**Total business / subfund **Long Term Insurance Fund - Life**Financial year ended **31 December 2008**

Units

**£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Gross**

Form 51 - with-profits	11				
Form 51 - non-profit	12				
Form 52	13				
Form 53 - linked	14	1573597		1573597	1640613
Form 53 - non-linked	15				
Form 54 - linked	16				
Form 54 - non-linked	17				
<b>Total</b>	<b>18</b>	1573597		1573597	1640613

**Reinsurance - external**

Form 51 - with-profits	21				
Form 51 - non-profit	22				
Form 52	23				
Form 53 - linked	24				
Form 53 - non-linked	25				
Form 54 - linked	26				
Form 54 - non-linked	27				
<b>Total</b>	<b>28</b>				

**Reinsurance - intra-group**

Form 51 - with-profits	31				
Form 51 - non-profit	32				
Form 52	33				
Form 53 - linked	34				
Form 53 - non-linked	35				
Form 54 - linked	36				
Form 54 - non-linked	37				
<b>Total</b>	<b>38</b>				

**Net of reinsurance**

Form 51 - with-profits	41				
Form 51 - non-profit	42				
Form 52	43				
Form 53 - linked	44	1573597		1573597	1640613
Form 53 - non-linked	45				
Form 54 - linked	46				
Form 54 - non-linked	47				
<b>Total</b>	<b>48</b>	1573597		1573597	1640613





**Long-term insurance business : Distribution of surplus**

Name of insurer **Scottish Equitable (Managed Funds) Limited**  
 Total business / subfund **Long Term Insurance Fund - Life**  
 Financial year ended **31 December 2008**  
 Units **£000**

Financial year 1	Previous year 2
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**Valuation result**

Fund carried forward	11	1573597	1640613
Bonus payments in anticipation of a surplus	12		
Transfer to non-technical account	13	3764	9290
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	1577361	1649904
Mathematical reserves	21	1573597	1640613
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	3764	9290

**Composition of surplus**

Balance brought forward	31		
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	3764	9290
Total	39	3764	9290

**Distribution of surplus**

Bonus paid in anticipation of a surplus	41		
Cash bonuses	42		
Reversionary bonuses	43		
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46		
Net transfer out of fund / part of fund	47	3764	9290
Total distributed surplus (46+47)	48	3764	9290
Surplus carried forward	49		
Total (48+49)	59	3764	9290

**Percentage of distributed surplus allocated to policyholders**

Current year	61		
Current year - 1	62		
Current year - 2	63		
Current year - 3	64		

**Long-term insurance capital requirement**Name of insurer **Scottish Equitable (Managed Funds) Limited**

Global business

Financial year ended **31 December 2008**Units **£000**

LTICR factor	Gross reserves / capital at risk	Net reserves / capital at risk	Reinsurance factor	LTICR Financial year	LTICR Previous year
1	2	3	4	5	6

**Insurance death risk capital component**

Life protection reinsurance	11	0.0%				
Classes I (other), II and IX	12	0.1%				
Classes I (other), II and IX	13	0.15%				
Classes I (other), II and IX	14	0.3%				
Classes III, VII and VIII	15	0.1%				
<b>Total</b>	<b>16</b>					

**Insurance health risk and life protection reinsurance capital component**

Class IV supplementary classes 1 and 2 and life protection reinsurance	21					
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**Insurance expense risk capital component**

Life protection and permanent health reinsurance	31	0%				
Classes I (other), II and IX	32	1%				
Classes III, VII and VIII (investment risk)	33	1%				
Classes III, VII and VIII (expenses fixed 5 yrs +)	34	1%				
Classes III, VII and VIII (other)	35	25%				
Class IV (other)	36	1%				
Class V	37	1%				
Class VI	38	1%				
<b>Total</b>	<b>39</b>					

**Insurance market risk capital component**

Life protection and permanent health reinsurance	41	0%				
Classes I (other), II and IX	42	3%				
Classes III, VII and VIII (investment risk)	43	3%				
Classes III, VII and VIII (expenses fixed 5 yrs +)	44	0%				
Classes III, VII and VIII (other)	45	0%	1573597	1573597		
Class IV (other)	46	3%				
Class V	47	0%				
Class VI	48	3%				
<b>Total</b>	<b>49</b>		1573597	1573597		

<b>Long term insurance capital requirement</b>	<b>51</b>					
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**SCOTTISH EQUITABLE (MANAGED FUNDS) LTD.**  
**APPENDIX 9.4 [RULE 9.31(a)]**  
**ABSTRACT OF VALUATION REPORT**

**Introduction**

1. (1) The valuation date is 31 December 2008.
- (2) The previous valuation date was 31 December 2007.
- (3) No interim valuations (for the purposes of Rule 9.4) have been carried out since the previous valuation date.

**Product range**

2. The insurer merely accepts reinsurances of unit liabilities arising under the Series C internal linked funds of its parent company, Scottish Equitable plc. Any changes in the product range offering links to the Series C Funds are given in the Returns of Scottish Equitable plc.

**Discretionary charges and benefits**

3. (1) Not applicable.
- (2) Not applicable.
- (3) Not applicable.
- (4) Not applicable.
- (5) Not applicable.
- (6) No changes were made to the rates of annual management charge on the Series C internal linked funds during 2008.
- (7) Unit liabilities within the Firm arise within the Series C internal linked (life) funds. There are also a number of “open broker funds”, which are invested according to the decisions of particular intermediaries. The intermediaries specify the proportions of their “open broker funds” which may be invested in the Series C funds and directly in the stock market. In the case of benefits linked to “open broker funds”, there is absolute matching between the assets and liabilities of each individual fund.
  - (a) The process for creating and cancelling units measures the surplus or deficit of units arising continuously as claims are paid and premiums invested (traditionally known as the manager's box). In respect of the box, the aim in unit creation / cancellation is to eliminate all surpluses / deficits as soon as practicable after they arise.

During 2008, a daily analysis of the opening unit position for each internal fund was calculated. Estimates were made of the day's new cashflow into each fund. This information permitted the box manager to assess whether each fund was in a net creation / cancellation position on each business day.

All required creations / cancellations were then notified daily to the investment managers. Cancellations were not actioned if the value of the surplus units was less than £1,000.

For internal funds with positive & negative respective flows of investment, unit cancellations were made at prices based on offer & bid values of assets. Where internal funds on a particular day move from a positive cashflow position into a negative cashflow position, an internal pricing framework applies under which unit prices are manoeuvred towards a full "bid basis" depending upon the size of the net movement, market bid / offer spreads and dealing expenses associated with and appropriate to the Firm's activity in the market. Similar principles apply if, on a particular day, cashflows move from a negative to a positive position.

Valuation of assets occurs at 12 noon on each business day. Transactions other than switches receive the price calculated that day. Individual policy and open broker fund switches receive prices calculated later by one business day, assuming that notification of the switch is received prior to 12 noon. If notification of such a switch occurs after 12 noon, the switch receives a price calculated later by two business days. This approach ensures equitable treatment where large switching volumes occur.

After the 12 noon cut off the box manager assesses the cancellation / creation position on each internal linked fund, and advises the investment manager of the investment position required.

Slight variations in these procedures can occur within externally managed funds, where individual prices are provided by the external managers.

The investment managers have a degree of freedom to accommodate any asset creations / cancellations required in particular linked funds by purchasing / selling the required units from any of the Insurer's "fund of funds", provided this is appropriate for the overall investment strategy of the particular fund.

- (b) There are no circumstances where different pricing bases apply to different policies. Pricing bases vary depending on the position of individual unit-linked funds as described above.
  - (c) The internal linked Series C Life Funds hold shares in OEICs of AEGON Fund Management UK Limited, a wholly owned subsidiary of AEGON Asset Management UK plc. The holdings in the OEICs are bought and sold between the companies at the applicable creation and cancellation prices of the OEICs.
- (8) Transfers in respect of tax are made from the Series C funds on a basis consistent with the tax actually paid by the Insurer as and when this happens.
  - (9) An undiscounted Capital Gains Tax provision was assessed at each daily valuation date, at the full rate of Capital Gains Tax (less indexation allowance) of 20%, and an explicit provision was held within each Series C internal linked fund.
  - (10) Where internal linked funds invest in units in permitted scheme interests, charges borne by and disclosed to policyholders are inclusive of charges borne by both the internal linked funds and the underlying units (i.e. policyholder charges are assessed and disclosed on a full look-through basis).

#### **Valuation basis (other than for special reserves)**

- 4. (1) The assets and liabilities are exactly matched, all liabilities being in respect of property linked benefits. The nature of the contracts relating to "Open Broker Funds" is such that there is absolute matching between assets and liabilities for each individual fund.

- (2) Interest is not applicable to the valuation of liabilities.
- (3) Interest is not applicable to the valuation of liabilities
- (4) Mortality is not applicable to the valuation of liabilities.
- (5) Morbidity is not applicable to the valuation of liabilities.
- (6) Not applicable. Under the terms of the reinsurance treaty, contracts are administered by Scottish Equitable plc, which is required to reserve for expenses incurred.
- (7) Not applicable – see (6) above
- (8) Not applicable as the Firm writes no with profits business.
- (9) Not applicable.
- (10) Not applicable.
- (11) Account is taken of derivative contracts to the extent that any market value or the value of the amounts margined contributes to the value of the assets underlying each internal linked fund.
- (12) Not applicable.

#### **Options and guarantees**

5. The Firm offers no options or guarantees.

#### **Expense reserves**

6. Under the terms of the reinsurance treaty, all expenses are borne by Scottish Equitable plc and, consequently, the Firm is not required to hold any expense reserves.

#### **Mismatching reserves**

7. As assets and liabilities are exactly matched, no mismatching reserves arise.

#### **Other special reserves**

8. There are no special reserves that exceed the lesser of £10m and 0.1% of total mathematical reserves.

#### **Reinsurance**

9. There are no reinsurances ceded.

#### **Reversionary (or annual) bonus**

10. Not applicable – the Firm writes no with profits business.

**Returns under the Accounts and Statements Rules  
Supplementary Notes  
Scottish Equitable (Managed Funds) Limited  
Global business  
Financial year ended 31 December 2008**

**Notes to Form 3**

**0301 Net Admissible Asset Reconciliation (£000)**

Net admissible assets :	<b>31/12/08</b>	<b>31/12/07</b>
Form 13 Line 89 (other than long-term insurance business)	8,467	52,960
Form 13 Line 89 (long-term insurance business)	1,586,263	1,672,256
Form 14 Lines 11, 12 & 49	(1,586,263)	(1,672,256)
Form 15 Line 69	534	-
Total capital resources after deductions (Form 3 Line 79)	7,933	52,960

**0313 Reconciliation of Profit and Loss Account and Other Reserves (£000)**

	<b>2008</b>	<b>2007</b>
Profit & loss account and other reserves at start: Form 3 Line 12 Column 4	30,460	19,390
Profit/loss for year: Form 16 Line 59 Column 1	(45,027)	11,071
Increased reserves from reduction in permanent share capital: Form 3 Line 11	22,275	-
Profit & loss account and other reserves at end: Form 3 Line 12 Column 3	7,708	30,460

**Notes to Form 13**

**Other than Long Term Insurance Business**

**1304 Set Off of Amounts in Form 13**

Amounts have been set off to the extent permitted by generally accepted accounting principles.

**1305 Counterparty Exposure Limits**

The investment guidelines operated by the insurer during 2008 were to restrict counterparty exposure to the level of the market risk and counterparty limits prescribed by INSPRU 2.1.22R.

There were no breaches of these guidelines during 2008.

**1306 Exposures to Large Counterparties**

The following individual bank deposits as at 31 December 2008 exceeded 5% of the sum of the base capital resources requirement and the long-term insurance liabilities, excluding property-linked liabilities and net of reinsurance ceded :

Citibank: £0.8m

## Long Term Insurance Business

### 1310 Set Off of Amounts in Form 13

Amounts have been set off to the extent permitted by generally accepted accounting principles.

### 1311 Counterparty Exposure Limits

There are no exposure limits restricting the investment operation of internal linked funds.

## Long Term and Other than Long Term Insurance Business

### 1318 Other Asset Adjustments

The entries in Form 13 Line 101, which relates to the grossing up of figures in the Return compared with the accounts, can be broken down as follows (£000):

	31/12/08	31/12/07
Derivative valuation differences:	1,176	-
Provisions – taxation:	(33)	(5,609)
Creditors – taxation:	-	(11,328)
Creditors – other:	-	(14,706)
<b>Total</b>	<b>1,143</b>	<b>(31,643)</b>

## Notes to Form 14

### 1401 Provisions for Reasonably Foreseeable Adverse Variations

The Insurer has no obligations or potential obligations to which GENPRU 1.3.26R to GENPRU 1.3.29R or INSPRU 3.2.17R to INSPRU 3.2.18R apply.

#### 1402 (a) Charges over Assets

No charge has been made on the assets of the Insurer.

#### (b) Potential Capital Gains Tax Liability

The potential liability, which equals the liability provided, for tax on capital gains that might arise if the Insurer disposed of its assets was nil as at 31 December 2008.

#### (c) Contingent Liabilities

There are no contingent liabilities.

#### (d) Guarantees, Indemnities etc.

There are no guarantees, indemnities or contractual commitments in respect of the existing or future liabilities of related companies.

### 1405 Other Adjustments to Liabilities

There is an entry of 1,176 in Form 14 Line 74, details of which are given in note 1318.

## **Notes to Form 15**

### **1501 Provisions for Reasonably Foreseeable Adverse Variations**

The Insurer has no obligations or potential obligations to which GENPRU 1.3.26R to GENPRU 1.3.29R or INSPRU 3.2.17R to INSPRU 3.2.18R apply.

### **1502 (a) Charges over Assets**

No charge has been made on the assets of the Insurer.

### **(b) Potential Capital Gains Tax Liability**

The potential liability, which equals the liability provided, for tax on capital gains that might arise if the Insurer disposed of the assets attributable to "other than long term insurance business" is nil as at 31 December 2008.

### **(c) Contingent Liabilities**

There are no contingent liabilities.

### **(d) Guarantees, Indemnities etc.**

There are no guarantees, indemnities or contractual commitments in respect of the existing or future liabilities of related companies.

### **1507 Other Adjustments to Liabilities**

There is an entry of (33) in Form 15 Line 83, details of which are given in note 1318.

## **Notes to Form 17**

### **1700 Analysis of Derivative Contracts**

As there are no figures to report, this Form has been omitted from the return.

## **Notes to Form 16**

### **1601 Basis of Conversion of Foreign Currency**

Assets and liabilities in currencies other than sterling have been translated at the rates of exchange ruling at the financial year-end. Revenue transactions and investment realisations have been translated at the rates of exchange ruling at the time of the transaction.

## **Notes to Form 40**

### **4002 Other Income and Other Expenditure**

"Other Expenditure" represents management charges due to Scottish Equitable plc. This treatment reflects the terms of the reinsurance agreement between Scottish Equitable plc and Scottish Equitable (Managed Funds) Ltd.

**4008 Provision of Management Services**

Scottish Equitable plc provided management services to the Insurer throughout the year. Under the terms of a reinsurance treaty with Scottish Equitable plc, the charges under the unit funds of the Insurer are payable to Scottish Equitable plc.

**4009 Material Connected Party Transactions**

The Insurer entered into no material connected party transactions during 2008, apart from under the terms of the reinsurance agreement with its parent company, Scottish Equitable plc. Details of the agreement are given in the Return of Scottish Equitable plc.

**Notes to Form 44**

**4401 Valuation of Assets**

For the purposes of these Returns, the assets have been valued in accordance with GENPRU 1.3.

**4402 Aggregate Value of Rights and Liabilities**

The aggregate value of rights under derivative contracts, both gross & net of variation margin, was £533,612 as at 31 December 2008.

The aggregate value of liabilities under derivative contracts, both gross & net of variation margin, was £247,578 as at 31 December 2008.

**Notes to Form 45**

**4502 Other Income and Expenditure**

Other expenditure at line 26 comprises open broker fund fees and revenue collection charges, including interest paid.

**Notes to Form 60**

6001 The LTICR is nil, because all business falls, in relation to the insurance expense risk capital component, to be classified at Form 60 line 34, but the Insurer meets no expenses, which are all borne by its parent company, Scottish Equitable plc.

## **Returns under the Accounts and Statements Rules**

### **Statement of additional information on derivative contracts as required by rule 9.29**

#### **Scottish Equitable (Managed Funds) Limited**

#### **Global business**

#### **Financial year ended 31 December 2008**

- (a) Investment Guidelines operated during the year to 31 December 2008 :
- (i) Exchange traded Index Futures may be used in the equity and fixed interest sectors of the long term business fund for efficient portfolio management and reduction of risk up to a level of 25% of the relevant "sector" fund.
  - (ii) Margin requirements on Futures positions may be deposited with suitable counterparties who have a Moody's long-term credit rating of A1 or better. Overall exposure is limited to 25% of the relevant "sector" fund.
  - (iii) Stock options are rarely used, but occasionally exchange traded puts or calls on individual shares may be bought or sold. Options sold by the insurer must be covered. Overall exposure is limited to 10% of the equity "sector" fund.
  - (iv) Currency forward contracts may be used to hedge overseas currency exposure. Currency options may be used as an alternative to currency forwards. Currency hedging may be occasionally achieved by using borrowings. Hedging can only be applied against currencies actually held by the insurer. The maximum level is 10% of the equity "sector" fund or 25% for those "sector" funds which have, from time to time, more than 50% of the value of their investments held overseas.
  - (v) Over the Counter (OTC) derivatives may normally be used only for very specific purposes and for relatively small amounts of money. The Board must approve any individual OTC Derivative over £50m: the aggregate exposure of such derivatives cannot exceed 5% of the equity "sector" fund. Where investment guarantees are given to policyholders, the guarantees may be achieved by entering into an OTC contract with an investment bank.
  - (vi) Derivatives may be utilised within structured documented programmes that do not comply with (a)(i)-(v) above. These programmes specifically detail the way in which derivatives may be used and the funds to which they apply. The limits on the use of derivatives within such programmes are capped at 100% of the value of the fund and the use of derivatives must comply with FSA rules.
- (b) The Investment Guidelines do not normally permit any new contracts to be bought or sold which are more than 10% out of the money (this includes over the counter options). The only exceptions are where a contract that is more than 10% out of the money is covered by an additional contract that is less than 10% out of the money, or the out of the money contract, potentially in combination with other contracts, has the effect of reducing investment risk as defined in FSA rules. The Guidelines also specifically require care to be taken so that out of the money options are not exercised and losses consequently incurred.
- (c) The insurer was not a party to any such contracts as described in sub-paragraph (b) above during 2008.
- (h) No derivative contract was held at any time during the financial year which required a significant provision to be made for it under INSPRU 3.2.17R, or did not fall within the definition of a permitted derivative contract.

- (i) During 2008 within the linked long-term insurance fund, the insurer received a fixed consideration of £0.5m in return for granting rights under derivative contracts. The derivative contracts in question were put and call options written against both individual company holdings and standard indices.

**Returns under the Accounts and Statements Rules**  
**Statement of additional information on controllers required by rule 9.30**  
**Scottish Equitable (Managed Funds) Limited**  
**Global business**  
**Financial year ended 31 December 2008**

All the issued share capital of the Insurer was held throughout the year by Scottish Equitable plc (the immediate parent undertaking of the Insurer). This entitled Scottish Equitable plc to 100% of the voting rights in the insurer.

All the issued share capital of Scottish Equitable plc is held by Scottish Equitable Holdings Ltd. With the exception of the special share referred to below, all share capital of Scottish Equitable Holdings Ltd. is held by AEGON UK plc, a wholly owned subsidiary of AEGON Holdings (UK) Ltd.

AEGON Holdings (UK) Ltd. is a wholly owned subsidiary of AEGON INTERNATIONAL N.V., which is a wholly owned subsidiary of AEGON N.V., the ultimate parent undertaking. Both AEGON INTERNATIONAL N.V. and AEGON N.V. are incorporated in the Netherlands.

The ultimate parent undertaking of Scottish Equitable (Managed Funds) Ltd. is AEGON N.V.. Vereniging AEGON holds approximately 11% of AEGON N.V.'s outstanding common shares and all of the preferred shares. This corresponds to approximately 22% of voting rights. In the event of a "special cause", Vereniging AEGON's voting rights would currently increase to around 32%, for up to 6 months per "special cause". A "special cause" would be such as the acquisition of a 15% interest in AEGON N.V., a tender offer for AEGON N.V. shares or a proposed business combination by any person or group of persons, whether individually or as a group, other than in a transaction approved by AEGON N.V.'s Executive Board and Supervisory Board.

The special share in Scottish Equitable Holdings Ltd. is held by Scottish Equitable Policyholders' Trust Ltd. ("SEPT"), a voting trust established for the benefit of the members of the Scottish Equitable Life Assurance Society at 31 December 1993 and future with profits policyholders of Scottish Equitable plc. As holder of the special share, SEPT is entitled to receive notice of and attend meetings of members of Scottish Equitable Holdings Ltd. and to vote on a show of hands. On a poll, however, the voting rights attaching to the special share have now reduced to nil, a direct consequence, under the Constitution, of policyholders' interests in the non-participating business falling to zero.

**Returns under the Accounts and Statements Rules  
Certificate required by rule 9.34(1)  
Scottish Equitable (Managed Funds) Limited  
Global business  
Financial year ended 31 December 2008**

We certify that:

- (1) (a) the return has been properly prepared in accordance with the requirements in IPRU (INS), GENPRU and INSPRU; and  
  
(b) the directors are satisfied that :
  - (i) throughout the financial year in question, the insurer has complied in all material respects with the requirements in SYSC and PRIN as well as the provisions of IPRU (INS), GENPRU and INSPRU; and
  - (ii) it is reasonable to believe that the insurer has continued so to comply subsequently, and will continue so to comply in future.
  
- (2) (a) in the directors' opinion, premiums for contracts of long-term insurance business entered into during the financial year and the resulting income are sufficient, under reasonable actuarial methods and assumptions, and taking into account the other financial resources of the insurer that are available for the purpose, to enable the insurer to meet its obligations in respect of those contracts and, in particular, to establish adequate mathematical reserves;  
  
(b) the sum of the mathematical reserves and the deposits received from reinsurers as shown in Form 14 constitute proper provision at the end of the financial year for the long-term insurance business liabilities (including all liabilities arising from deposit back arrangements, but excluding other liabilities which had fallen due before the end of the financial year) including any increase in those liabilities arising from a distribution of surplus as a result of an actuarial investigation as at that date into the financial condition of the long-term insurance business;  
  
(d) the directors have, in preparing the return, taken and paid due regard to advice from every actuary appointed by the insurer to perform the actuarial function in accordance with SUP 4.3.13R.

**O. THORESEN**, Chief Executive

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**J.M. LAIDLAW**, Director

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**F. MACKLE**, Director

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Edinburgh, 25 March 2009

**Independent auditors' report to the directors pursuant to rule 9.35 of the Interim Prudential Sourcebook for Insurers**  
**Scottish Equitable (Managed Funds) Limited**  
**Global business**  
**Financial year ended 31 December 2008**

We have examined the following documents prepared by the insurer pursuant to the Accounts and Statements Rules set out in Chapter 9 of IPRU(INS) the Interim Prudential Sourcebook for Insurers, GENPRU the General Prudential Sourcebook and INSPRU the Prudential Sourcebook for Insurers ("the Rules") made by the Financial Services Authority under section 138 of the Financial Services and Markets Act 2000:

- Forms 2, 3, 13 to 16, 40 to 45, 58 and 60 (including the supplementary notes) ("the Forms");
- the statement required by IPRU(INS) rule 9.29 ("the statement"); and
- the report required by IPRU(INS) rule 9.31(a) ("the valuation report").

We are not required to examine and do not express an opinion on the following:

- Forms 46, 47, 50, 53 and 55 (including the supplementary notes);
- the statement required by IPRU(INS) rule 9.30; and
- the certificate signed in accordance with IPRU(INS) rule 9.34(1).

This report is made solely to the insurer's directors, in accordance with IPRU(INS) rule 9.35. Our examination has been undertaken so that we might state to the insurer's directors those matters we are required by the Rules 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 insurer for our examination, for this report, or for the opinions we have formed.

**Respective responsibilities of the insurer and its auditors**

The insurer is responsible for the preparation of an annual return (including the Forms, the statement and the valuation report) under the provisions of the Rules. Under IPRU(INS) rule 9.11 the Forms, the statement and the valuation report are required to be prepared in the manner specified by the Rules and to state fairly the information provided on the basis required by the Rules. The methods and assumptions determined by the insurer and used to perform the actuarial investigation as set out in the valuation report prepared in accordance with IPRU(INS) rule 9.31(a) are required to reflect appropriately the requirements of INSPRU 1.2.

It is our responsibility to form an independent opinion as to whether the Forms, the statement and the valuation report meet these requirements, and to report our opinion to you. We also report to you if, in our opinion, the insurer has not kept proper accounting records or if we have not received all the information we require for our examination.

**Basis of opinion**

We conducted our work in accordance with Practice Note 20 'The audit of insurers in the United Kingdom (revised)' issued by the Auditing Practices Board. Our work included examination, on a test basis, of evidence relevant to the amounts and disclosures in the Forms, the statement and the valuation report. The evidence included that previously obtained by us relating to the audit of the financial statements of the insurer for the financial year on which we reported on 25 March 2009. It also included an assessment of the significant estimates and judgments made by the insurer in the preparation of the Forms, the statement and the valuation report.

We planned and performed our work 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

Forms, the statement and the valuation report are free from material misstatement, whether caused by fraud or other irregularity or error, and comply with IPRU(INS) rule 9.11.

In accordance with IPRU(INS) rule 9.35(1A), to the extent that any document, Form, statement, analysis or report to be examined under IPRU(INS) rule 9.35(1) contains amounts or information abstracted from the actuarial investigation performed pursuant to IPRU(INS) rule 9.4, we have obtained and paid due regard to advice from a suitably qualified actuary who is independent of the insurer.

### **Opinion**

In our opinion:

- (a) the Forms, the statement and the valuation report fairly state the information provided on the basis required by the Rules and have been properly prepared in accordance with the provisions of those Rules; and
- (b) the methods and assumptions determined by the insurer and used to perform the actuarial investigation as set out in the valuation report prepared in accordance with IPRU(INS) rule 9.31(a) appropriately reflect the requirements of INSPRU 1.2.

Ernst & Young LLP  
Registered Auditor  
Edinburgh  
25 March 2009