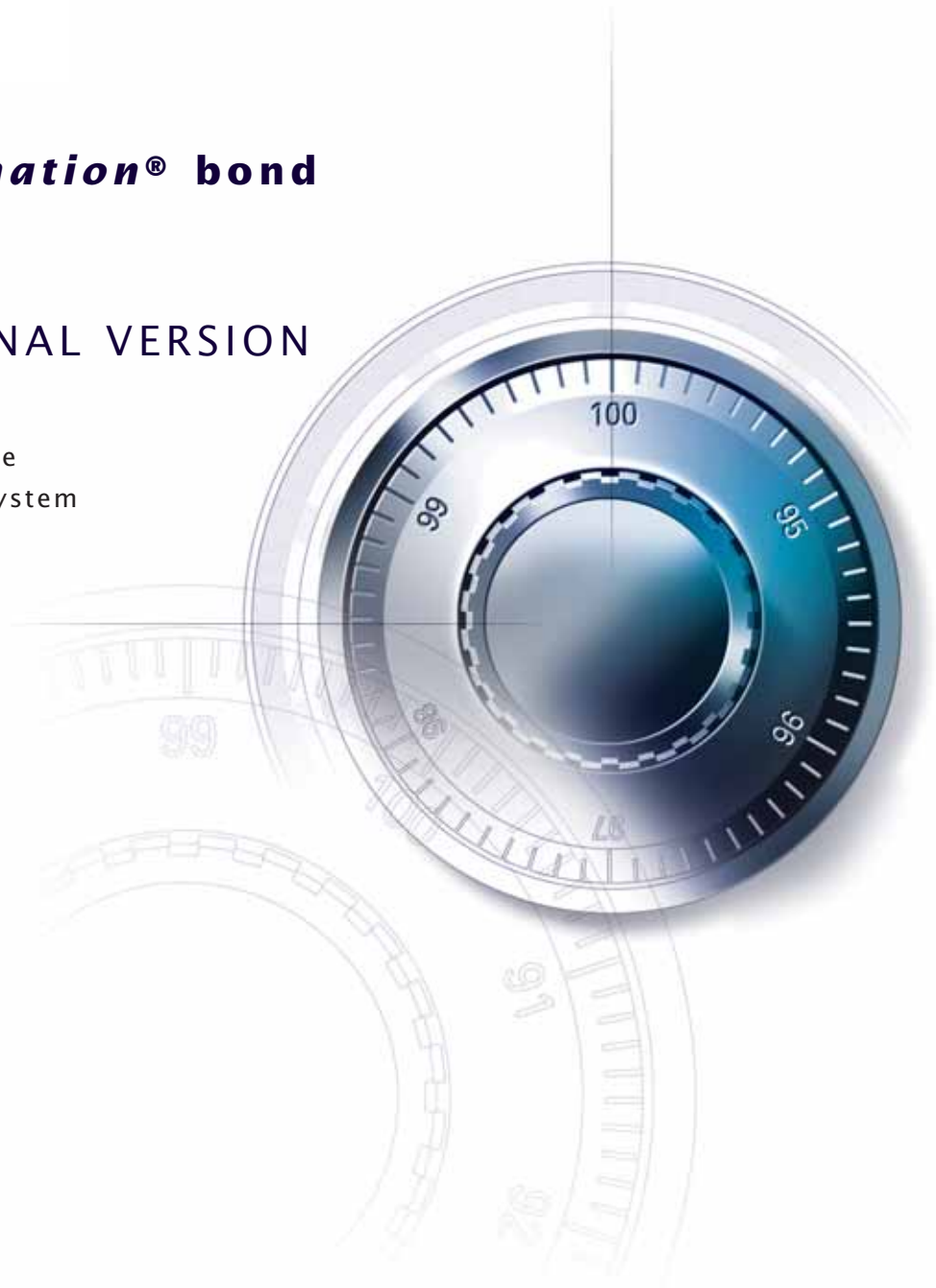


***safe combination*[®] bond**

SYSTEM GUIDE

INTERNATIONAL VERSION

A guide to the unique
safe combination[®] system





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“safe combination® allows you to specify risk and potential reward in far more meaningful terms than ever before.”

Your personal *safe combination*®

Controlling risk, earning rewards

The unique and award-winning range of capital protected funds from Scottish Life International were designed to give you control over the level of investment risk to which your investment is exposed by offering protection levels between 100% and 95% of your investment each quarter.

Each fund provides a clear definition of how much it could fall by in each quarter and, naturally, the more risk there is associated with a particular fund, the greater the potential reward.

However, unless you are prepared to play the role of an active investment manager, then choosing, reviewing and switching funds each and every quarter can become very time-consuming. It can also be difficult to decide which level of protection to switch to every three months.



The *safe combination*® system holds the solution to this problem, but more than that, it represents a whole new approach to the risks and rewards of stock market investment.

safe combination® allows you to specify risk and potential reward in far more meaningful terms than ever before.


It is a unique, automatic investment system which allows you to create your own, tailor-made investment strategy. It allows you to benefit from the potential of the stock market, set your own protection level for your initial investment and lock in profits each and every quarter.

There are four simple steps involved in setting up your investment strategy, which are described in this guide:

- Step 1: Setting your personal protection level
- Step 2: Reaping the rewards
- Step 3: Locking in your profits
- Step 4: Choosing the right fund

“Create your own, tailor-made, secure investment strategy.”

Step 1: Setting your protection level



To create your own personal *safe combination*[®], you start by telling us exactly how much of your initial investment you want to protect.

This protected amount may be 100% of your bond's initial investment although more adventurous investors may want to protect a little less (the example on page 9 explains this further).

Whichever amount you decide to protect, your personal *safe combination*[®] will not allow fluctuations in investment performance to take the value of your *safe combination*[®] bond below this protected amount. The charges on the bond may reduce the protected amount - particularly if you are a new investor, have been invested in the *safe combination*[®] bond for less than five years, or have made an additional investment within the last five years.

During the first five years of your investment, the fund value of your *safe combination*[®] bond will not be the same as your cash-in value. Should you wish to cash in your bond within the first five years of making your initial or additional investment, your cash-in value will be equal to the fund value minus any remaining set-up charge. These charges may therefore reduce the protection level you have set.

A full description of the charges can be found in the key features document.

An example of the effect of charges on the fund value of your bond and your protected amount can be seen in the example on page 11 of this guide.

Important information

Investment growth and protection of initial capital is provided by a range of highly rated, financially strong institutions and not by Scottish Life International itself. If any of these financial institutions with whom your money is invested were to default on their obligations, the protection and growth potential of your bond would be at risk and may have no value.

Scottish Life International has a conservative credit-assessment policy and our standard practice is to use only financially strong institutions with a minimum short-term credit rating of A-1 (Standard & Poor's) or P-1 (Moody's). Please see Important information for an explanation of these agencies (page 15, paragraph 6).

How does the *safe combination*[®] system protect my initial investment?

Your personal *safe combination*[®] system invests in protected funds from Scottish Life International which offer between 100% and 95% capital protection each quarter. The system uses the clearly defined features of these funds - capital protection and performance potential - to create an investment strategy to suit your own requirements. Once you have specified your personal protection level, your *safe combination*[®] system will never risk any more than the 'gap' between your protected amount and your fund value. Furthermore, the system will never place more than 5% of the fund value at risk in any one quarter.

Over time this means that if you have gained profits from your investment, you can use these profits to move into funds with higher levels of risk and reward, whilst at no time ever risking your protected amount.

“Your safe combination[®] system will never risk any more than the ‘gap’ between your protected amount and your fund value.”

A very simple example

An investor makes an initial investment of £75,000. After six years there are no further contract charges to pay which could reduce the value of the protected amount. He now has a fund value of £100,000 and his protected amount at the beginning of this quarter is £98,000.

If his personalised *safe combination*[®] system were to invest solely in a fund with 95% protection, then it would be possible for the fund value to fall to £95,000 which would be below the protected amount.

Therefore the investor's personalised *safe combination*[®] system will automatically invest in a combination of funds to ensure the fund value is 98% protected. At worst, the fall in the value of his *safe combination*[®] bond will be limited to the level of the protected amount, which is £98,000.

To do this, the system invests in the following funds over the quarter:

95% protected fund - £40,000
100% protected fund - £60,000

The most that the 95% protected fund can fall is 5% of £40,000, being £2,000, whilst the whole of the 100% protected fund will remain intact. Therefore a minimum total of £98,000 is protected over the quarter.

Should the fund value fall to £98,000, in the following quarter the *safe combination*[®] system will automatically invest in a fund with 100% capital protection to ensure that it cannot fall any further. If the fund value grows, the system would invest more in the 95% protected fund, to maximise potential growth, but never to the extent that it would risk falling below the protected amount.

Important information

If you invest an additional amount in your *safe combination*[®] bond, the value of your protected amount will be increased by the amount of the additional investment. Similarly, should you withdraw money from your bond, the value of the protected amount will be reduced by the same amount.

Step 2: Reaping the rewards

How do we achieve growth?

With the *safe combination*[®] system you can invest in the major stock markets of the world. Importantly though, the system's priority is to return your protected amount at the end of each quarter. This means that only the proportion of your investment which is not required to achieve this protection is put at risk.

If you begin by choosing to protect 100% of your initial investment, then only a very small proportion of your investment will be allocated to assets which can fall in value. Consequently, the prospects for growth are initially reduced. As and when your investment grows in value, a greater amount is risked which provides equally greater growth prospects. Alternatively, if you begin by risking some of your initial capital, you can get access to higher growth potential right from the start.

To maximise the growth potential of your investment in these circumstances, the funds use investments called derivative options, which are based on the stock market chosen. The use of such options means that you can get stock market levels of growth for a relatively small outlay, so only a very small proportion of your fund need be put at risk. Additionally, the most you can lose is the cost of the option itself, so there is no danger of the spiralling losses often associated with derivative catastrophes such as LTCM or Barings.

Each quarter the *safe combination*[®] system will assess how much it needs to set aside to provide the protection element and how much is left to invest for growth. Generally speaking, the more there is to invest for growth, the more your investment will stand to participate in stock market growth (or, depending on the type of fund chosen, the higher the bonus it will potentially receive).

“The system's priority is to return your protected amount at the end of each quarter.”

Derivatives and derivative options

A derivative is an investment, the price of which is directly dependent upon the value of an underlying security or other asset. They can be used to hedge (or protect against) financial risk i.e. loss of capital.

A derivative option is a complex tool which uses the derivative to offer a special deal to the holder. The buyer of a call option has the right, but not the obligation, to buy a certain number of shares at a future date and at a pre-determined price. The buyer of a put option has the right, but not the obligation, to sell a certain number of shares at a future date and at a pre-determined price.

Step 3: Locking in your profits



As well as preserving some or all of your initial investment, it is also likely that, over time, you will want to preserve some of your profit. With your personal *safe combination*[®] system you can therefore decide: when you make a profit, how much of it do you want to lock in?

For example, let's take an investor in the *safe combination*[®] bond who, after five years, has accumulated a sum of £100,000.

- ◆ The investor now wishes to create a personalised *safe combination*[®] system and specify a protected amount of £100,000.
- ◆ Two years later, following a period of strong stock market performance, the fund value of the bond has increased to £123,000. However, the protected amount is still £100,000, which means that £23,000 is now at risk.

His personal *safe combination*[®] system will allow him to secure his profits in defined steps to ensure that if he makes a gain above a certain amount, it is locked in. All he needs to do is tell us how large or how small he wants those steps to be.

So, at the start of the two-year period described, the investor could have chosen to set his lock-in level at 5% of the fund value at that time, that is in 'steps' of £5,000.

This means that as soon as the fund value reaches £105,000, £110,000 or £115,000 (or any figure in steps of £5,000), the protected amount will rise to that level.

So, if halfway through this two-year period the fund value reaches £112,000, with lock-in steps of £5,000, the investor's personal *safe combination*[®] system will automatically lock in at £110,000. At the end of the two-year period, if the fund value of the *safe combination*[®] bond has reached £123,000, the investor's *safe combination*[®] system will lock in at £120,000, leaving only £3,000 at risk.

In addition to automatic lock-ins, you could choose to manually lock in profits at each and every quarter. Lock-in levels can be changed whenever you want and will take effect at the next available quarterly date. Once locked in, your increased protected amount can only fall as a result of charges, a withdrawal from your *safe combination*[®] bond or a reduction.

If the protected amount is set at a level below your fund value, the system will take into account this percentage difference when locking in any profits. Lock-in levels increase your protected amount and not your fund value. You should note that the lock-in steps will not change with the size of your fund or due to the effect of charges, withdrawals or additional investments. They will only change when you decide to change them.

The flexibility of the *safe combination*[®] system means that you are in control of the risks to your investment and your potential rewards.

Important information

Remember that the more profit you lock in, the lower risk your investment becomes and as a consequence, the lower your potential reward.

On the other hand, the less profit you lock in, the greater the risk you take and the higher your potential reward.

Investors should be aware that the value of investments can fall as well as rise and is not guaranteed.

“ You are in control of the risk to your investment and your potential rewards. ”

Examples of the *safe combination*[®] system in practice

Sarah – an existing "adventurous" investor

Sarah describes herself as an adventurous long-term investor. She invested in the *safe combination*[®] bond at the launch of the Protected UK Index funds over five years ago but has switched her investment over the years. As an adventurous, long-term investor, Sarah is not too concerned about short-term risk and is more interested in the long-term potential of her money. Even though

Sarah is an adventurous investor, she switched to the *safe combination*[®] system to have greater control over her bond. Over the years she has seen her fund value increase from her original investment of £60,000 to £85,000 and as the initial set-up charge period is over, the protected amount will not fall due to charges. Sarah is still keen to take on some risk and improve the potential upside of her investment, therefore she set her protected amount at £78,000. She decided not to apply an automatic profit lock-in level but to lock in profits manually at times of her own choice.

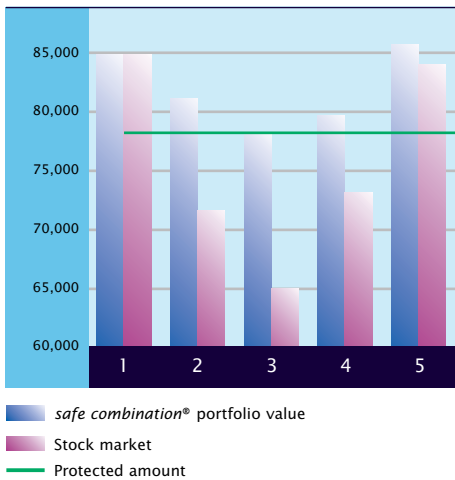
Sarah's *safe combination*[®] system in practice

Start of the quarter	Protected amount	Stock market linked value	<i>safe combination</i> [®] bond value*
1	£78,000	£85,000	£85,000
2	£78,000	£71,400	£80,750
3	£78,000	£64,974	£78,005
4	£78,000	£72,771	£79,783
5	£78,000	£83,687	£85,376

*Assumes no trail and/or investment advisor fee

Important information

Note: both these examples use the Protected UK Index funds to illustrate the *safe combination*[®] system. However, the *safe combination*[®] system can operate with the full range of capital protected funds from Scottish Life International. A full description of how the capital protected funds work is available in the additional *Investment guide*.



The above figures are for illustrative purposes only.

1. As Sarah has set the protected amount at £78,000, the *safe combination*® system knows that if the fund value falls by 5% from £85,000 (which would bring the value down to £80,750), it will not breach the £78,000 protected amount. So her *safe combination*® system automatically sets the protection level for the next three months at 95%.
2. Unfortunately, a fall in the stock market of 16% means that the fund value falls by 5% to £80,750, the maximum loss over the quarter. Should the *safe combination*® system risk a further 5%, the fund value would fall below £78,000. Therefore the *safe combination*® system elects to reduce the risk and provides 96.6% protection (should the worst happen, the fund value will fall to just over £78,000).
3. Again the markets and the funds fall. This time Sarah's protected amount is effectively equal to the fund value of her *safe combination*® bond so the system switches into a 100% protected fund with a lower profit rate. This ensures she cannot lose any more money over the next three months and there is no possibility of the fund value falling below her protected amount.
4. Stock markets recover by 12% over the quarter and Sarah sees her £78,000 increase in value as the 100% fund shares in some of the rise in the stock market. This 2.28% increase means that the fund value rises to £79,783. Consequently her *safe combination*® system can afford to take a little more risk and decreases the protection level to 97.8%.
5. Again the stock market recovers. Because Sarah's *safe combination*® system is taking more risk this quarter, she has a greater potential profit rate. Her fund value increases to just over £85,000. Sarah may wish to lock in her profits now and raise her protected amount to £85,000, ensuring the fund value of her *safe combination*® bond never falls below £85,000 again.

Important information

Remember the more profit you lock in, the lower risk your investment becomes and as a consequence, the lower your potential reward.

On the other hand, the less profit you lock in, the greater the risk you take and the higher your potential reward.



Examples of the *safe combination*[®] system in practice



Douglas – a low-risk investor

Douglas has recently invested in the *safe combination*[®] bond. The set-up charge is applied to his investment over a five-year period. He is not keen on stock market risk so wants to achieve steady growth with very little risk. He invests £20,000 into the Protected UK Index fund with 100% protection and sets his protected

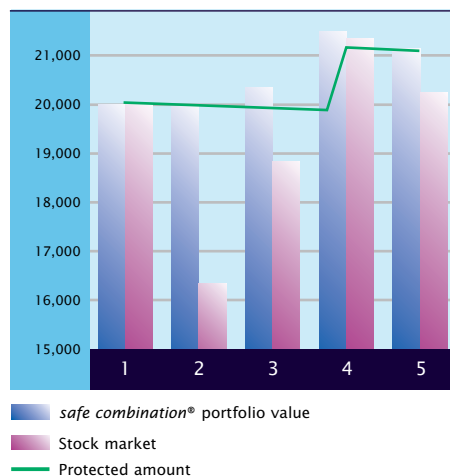
amount to £20,000. He sets his profit lock-in level at 3% - so the protected amount will automatically increase in value by steps of £600.

This means that as soon as the fund value of the *safe combination*[®] bond reaches £20,600, for example, or £21,200, the protected amount is locked in at the highest level.

Douglas's *safe combination*[®]

Start of the quarter	Protected amount	Stock market linked value	<i>safe combination</i> [®] bond fund value*
1	£20,000	£20,000	£20,000
2	£19,920	£16,400	£19,920
3	£19,840	£18,860	£20,407
4	£21,200	£21,500	£21,528
5	£21,113	£20,425	£21,113

*Assumes no trail and/or investment advisor fee



The above figures are for illustrative purposes only.

1. As the fund value of Douglas's *safe combination*[®] bond is equal to the protected amount of £20,000, the system automatically invests in a fund with 100% protection. There is no possibility of the fund value falling as a result of a stock market fall over the next three months.
2. Over the next quarter the stock market crashes by 18%. As Douglas's *safe combination*[®] system was invested in the Protected UK Index fund with 100% protection, his bond does not suffer any loss as a result of stock market movements.

“The protected gains can now only fall as a result of charges and not the stock market.”

However, as Douglas has just set up his *safe combination*[®] bond, the set-up charge is £80 for the quarter and therefore his protected amount and fund value have been reduced by this amount. It is important to note that the reduction in his fund value is solely due to the effect of charges and not the effect of the stock market. With the fund equal to his protected amount, his *safe combination*[®] system will automatically set his protection level at 100% to ensure there are no investment losses.

3. The next quarter the market rises (15% in this example) and recovers some of the loss. As Douglas invested in a Protected UK Index fund with 100% protection, he benefits from some of the recovery growth of the stock market. The fund value of his bond grows by 2.45% (after the set-up charge for this quarter) and has therefore increased to just over £20,400. Douglas's *safe combination*[®] system can now take a little risk as a 'gap' has opened up between the fund value and the protected amount of £19,840.
4. The following quarter the stock market rally continues and the index increases by 14%. As Douglas's *safe combination*[®] system is able to take a little more risk this quarter, his fund benefits from greater

participation in the growth of the stock market. Therefore his fund value grows by just under 5.5% (after the effect of set-up charges) to £21,528. This brings his fund value well above the first lock-in level step of £20,600; indeed it is now above the second step of £21,200. Therefore the *safe combination*[®] system automatically raises the protected amount to £21,200. This profit is now locked in and cannot be reduced due to stock market movements. The profit which has not been locked in can be placed at risk over the next quarter to increase his potential return.

5. Unfortunately, over the final quarter, the stock market falls by 5%. The stock market fall cannot reduce the fund value of Douglas's *safe combination*[®] bond below the protected amount of £21,200, but charges reduce the protected amount to £21,113, a fall of just 1.9% including the charges. The protected amount has only been reduced by the effect of charges.

This means that during a volatile period of the stock market, the fund value of Douglas's *safe combination*[®] bond has risen and he has captured a significant share of the market gains. His protected gains can now only fall as a result of charges and not the stock market.



Important information

Remember that the more profit you lock in, the lower risk your investment becomes and as a consequence, the lower your potential reward.

On the other hand, the less profit you lock in, the greater the risk you take and the higher your potential reward.

Please note that although figures used throughout this guide are in sterling (£), the *safe combination*[®] system is also available in euro and US dollars. Whilst the *safe combination*[®] system can provide you with security from stock market risk, it is possible for your final investment value to be lower than your initial investment value. This can be either due to the effect of charges on your contract (if a set-up charge applies), to withdrawals, or because you elect to set your protected amount lower than your initial investment.

Step 4: Choosing the right fund



Once you have decided how you want your personal *safe combination*[®] system to work, all you need to discuss with your adviser is:

1. which type of protected funds (or combination of them) you want to invest in

Protected Index funds

or

Protected Deposit Bonus funds

or

Protected With Bonus funds

Each of these funds provides *safe combination*[®] protection but earns bonuses and profits in different ways and in different market circumstances.

2. which indices you want your funds to be linked to

FTSE 100 (UK);
S&P 500 (USA);
Nikkei 225 (Japan);
EURO STOXX 50 (Eurozone);
Nasdaq-100 (Technology); or
a selection of mixed funds.

You can switch and change investment choices each quarter as you desire and you can use combinations of them.

Furthermore, you can alter your investment selection secure in the knowledge that your *safe combination*[®] system will continue to operate, based on your specified protected amount and lock-in level.

Please note that if you select the *safe combination*[®] system, it will apply to your entire *safe combination*[®] bond. This means that, for example, you could not allocate 50% of your bond to the *safe combination*[®] system and 50% to another individual selection of our protected funds outside the system.

Should you wish to employ this type of strategy, it can be accomplished through our Personal Investment Management Service. Please ask your financial adviser for more details if you feel this may be more appropriate for your needs.

Keeping track of your *safe combination*[®] system

Your financial adviser can keep track of and amend your *safe combination*[®] protected amount, switch your investment selection or alter your lock-in level whenever you require through **www.sli-central.com**.

“Switch investment selections or alter lock-in levels whenever required through www.sli-central.com”



Important information



This guide should be read in conjunction with the *Brochure* and *Key features*. Investors should pay particular attention to the section headed '*Risk factors*', '*Where is my money invested?*' and '*What are the charges?*' in the *Key features*.

You should note that the protection levels chosen for the *safe combination*[®] system are achieved by an appropriate mix of protected funds which have either 100% capital protection or 95% capital protection per quarter.

A full description of the charges can be found in the key features document.

For further information, investors should consult their financial adviser.

Investment growth and protection of initial capital is provided by a range of highly rated, financially strong institutions and not by Scottish Life International itself. If any of these financial institutions with whom your money is invested were to default on their obligations, the protection and growth potential of your bond would be at risk and may have no value.

Scottish Life International has a conservative credit-assessment policy and our standard practice is to use only financially strong institutions with a minimum short-term credit rating of A-1 (Standard & Poor's) or P-1 (Moody's).

These companies are independent credit rating agencies whose rigorous research is used to provide information on credit ratings, indices, risk evaluation, investment analysis, and information on stocks, bonds,

mutual funds and other investment vehicles. They also offer opinions on the issuers' ability to honour short-term financial obligations. Standard & Poor's A-1 rating is the highest category possible, and the capacity to meet its financial commitment on the obligation is strong. Moody's P-1 rating (Prime-1) means issuers have a superior ability to repay short-term debt obligations.

The example rates of return shown are not necessarily appropriate for investments in currencies other than sterling, euro or US dollars. In circumstances where the investor subscribes in a currency other than sterling, euro or US dollars, benefits may be affected by fluctuations in exchange rates.

Investors should be aware that the value of investments can fall as well as rise and is not guaranteed.

Whilst great care has been taken to ensure that the information contained in this document is correct, Scottish Life International cannot accept responsibility for its interpretation, nor does its content give legal or investment advice.

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The company reserves the right to adjust the returns from the bond to cater for any levy or charge made on the company under these regulations or similar legislation.

The value of tax benefits depends on individual circumstances and may change in the future. All example returns are shown gross of tax.

The stock market indices mentioned measure capital performance only and include no allowance for dividend payments from their constituent shares. For the purposes of measuring growth in stock market indices over each quarter, the closing index level is normally an average of index levels over the last five working days in the quarter. In the case of the Protected With Bonus fund range, this closing level will normally be the last working day of the quarter. Further details are set out in the *Investment guide*.

Scottish Life International reserves the right to change the investment objective of any of the funds, after giving written notice and provided it believes that such a change is in the best interests of its policyholders.

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