Scottish Life
INTERNATIONAL
a Royal London company

safe combination™ bond

INVESTMENT GUIDE

An investment guide to how the funds within the *safe combination*™ bond work

Introduction

As an investor in the *safe combination*™ bond you will have access to a range of funds which are linked to a diverse range of stock markets and which can grow in different ways. Each fund range also has a choice of quarterly capital protection of between 100% and 95%.

You can select and change the composition of your portfolio each and every quarter.

To assist you with your fund selections this guide provides an overview of how each fund range works on a quarterly basis. It also provides examples of fund performance under various market conditions.

From these examples you will be able to see how these funds can:

- make you money when stock markets don't rise
- make you more money than the markets when they rise
- make you money even when the markets fall
- and protect your capital when they crash.

And by investing via our *safe combination*™ system, your choice can be simplified and you can ensure that your bond is constantly managed with the intention of protecting your capital. Scottish Life International encourages investors to make full use of this innovative system. Direct investment in the protected funds (i.e. without using the *safe combination*™ system) should only be made by investors who fully understand and are comfortable with the risks attached to the funds. The *safe combination*™ system is available, at no additional cost, to the investor.

A full description of the charges and how they might affect the fund value of your bond and your protected capital amount can be found in the *Key features* document.

If you have selected charging structure A, or have applied for the International *safe combination*™ bond, your protected capital amount will be reduced by the effect of contract charges during the first five years of an investment.

This guide uses examples which do not take into account any product charges although they do include annual management charges as these come out of the fund.

Protection of original capital and investment growth is provided by other major financial institutions and not Scottish Life International. If any of the financial institutions with whom your money is invested were unable to meet their obligations the protection of your bond would be at risk.

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A world of investment choice

The range of protected funds from Scottish Life International covers most of the major markets of the world plus a technology based index.

Investors can link their *safe combination*™ bond to indices representing:

Europe (EURO STOXX 50)
Japan (Nikkei 225)
UK (FTSE 100)
USA (S&P 500)

In addition, investors have access to an index representing the leading technology companies in the **Nasdaq-100**.

Investors can create a portfolio based on any combination of these markets or they can select from our two mixed funds (below) which will automatically spread their investment across a specified range of markets;

Multi Index – will passively allocate the investment across Europe, Japan, the UK and the USA according to the size (also known as market capitalisation) of each market.

Worldwide – will automatically invest 20% into each market (including technology) each quarter. This option is only available on the With Bonus fund range.

What types of protected fund can I invest in?

Once you have decided in which market you want to invest you will need to decide on how you want to earn your bonuses. You can choose from the following range of capital protected funds. Each range has its own simple formula for earning a bonus.

Protected Index funds
Protected Deposit Bonus funds
Protected With Bonus funds
Protected Cash Bonus fund

Each fund range provides a potential bonus and a choice of capital protection from 100% to 95% each quarter with the exception of the Protected Cash Bonus fund where the capital protection level is always 100%.

Protected Index funds

How do the Protected Index funds earn a bonus?

1. At the start of each quarter a profit rate is declared which determines the extent to which the funds will participate in any stock market growth.

2. At the end of the quarter, the profit rate is multiplied by any growth in the stock market index to calculate the bonus for the period. The closing level of the index used in these calculations will normally be the average value of the index over the final five days of the quarter.

3. This bonus is then added to the protected amount to form the starting value for the following quarter.

If the index falls or does not grow over the quarter, no bonus is added but the capital protected amount – between 95% and 100% – remains intact.

You should note that any bonus payment each quarter is applied to the protected amount and not the current fund value. This means that in the event of the market remaining flat over a quarter then investors in the Protected Index 95% funds will lose 5%. Were this to happen over a number of months then investors could lose capital whilst the market has not grown or fallen. At 100% capital protection the fund price will not fall in these circumstances. See the “Risk profile” section on page 5.

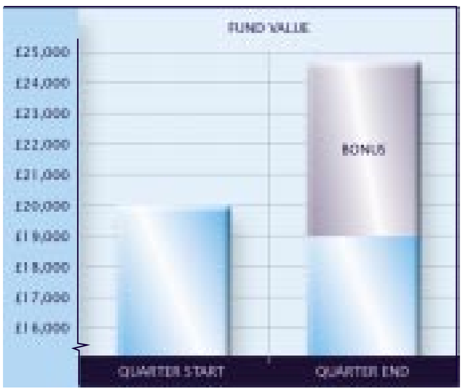
Investors can only access the Protected Index funds with quarterly protection of 95%, 96% and 97%, through the *safe combination*™ system.

Worked examples with market growth

Consider an investor who has a fund value of £20,000 at the start of the quarter and has selected the Protected UK Index fund with 95% capital protection (only available through the *safe combination*™ system). The FTSE 100 index stands at 4,000 at the start of the quarter and the profit rate for this fund for the quarter is 150%.

Example 1 – very strong market growth

Let us say that the closing level of the FTSE 100 index is 4,800 – a rise of 20%. The fund value to be carried forward to the next quarter would be calculated as follows:



PROTECTED CAPITAL AMOUNT:	95% OF £20,000	=	£19,000
BONUS:	150% OF 20% OF £19,000	=	£5,700
NEW INVESTMENT VALUE:	£19,000 + £5,700	=	£24,700

This means that the Protected UK Index 95 fund has grown by more than the market. This is typical when the profit rate is well above 100% and the growth in the stock market is very strong. You should note that very strong market growth of this amount is a rare occurrence but this is included here to demonstrate the features of this fund range.

Example 2 – low market growth

Let us say now, using the same criteria at the start of the quarter, that the closing level of the FTSE 100 index is 4,100 – a rise of 2.5%. The fund value to be carried forward to the next quarter would be calculated as follows:

PROTECTED CAPITAL AMOUNT:	95% OF £20,000	=	£19,000.00
BONUS:	150% OF 2.5% OF £19,000	=	£712.50
NEW INVESTMENT VALUE:	£19,000 + £712.50	=	£19,712.50

This means that the Protected UK Index 95 fund has fallen when the market has grown by a little. This is typical of the Protected Index 95 fund when the growth in the stock market over a quarter is only a few percent.

NOTE: If the index had fallen or not grown, the new fund value would be £19,000, the protected amount, and so the investor would have lost £1,000 whilst the market had not fallen.

The figures used in these examples are for illustrative purposes only and are not guaranteed. You might get back more or less than this. The value of your investments can fall as well as rise. These examples do not take into account any contract charges. Please refer to the key features document for full details.

Risk profile (technical details)

Protected Index 100 funds are lower risk than Protected Index 95 funds. The Protected Index 100 funds are slightly higher risk (and consequently have a higher potential reward) than a cash fund, but do not represent a substantial increase in risk.

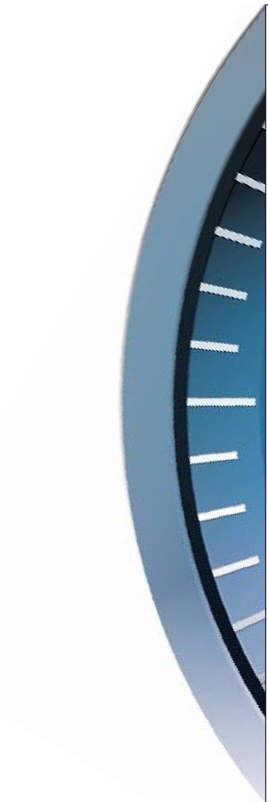
This is because a cash fund will normally increase each and every quarter, however the Protected Index 100 funds can, in a worst case scenario, fail to grow. With these funds all you are risking each quarter is the risk of lost interest.

The Protected Index 95 funds are clearly higher risk. They can fall by 5% when the market is flat over a quarter and can even fall when the market grows by a little. However, to compensate for this risk these funds can often have higher profit rates. So if the market increases (or falls) dramatically the Protected Index 95 funds can outperform the stock market.

You should note that whilst these funds provide quarterly 95% protection it is possible in the event of the market falling or remaining flat every quarter for your capital to lose 5% each and every quarter. Investing via the *safe combination*™ system provides you with the ability to avoid such losses to your capital.

Overall this means that the Protected Index 95 funds have a risk and reward profile which is similar to the stock market itself.

Protected With Bonus funds



How do the Protected With Bonus funds earn a bonus?

1. At the start of each quarter a bonus rate is declared which will be paid in the event of the stock market index, to which the fund is linked, not falling over a quarter. The bonus rate is expressed as a percentage of the protected capital.

2. At the end of the quarter the bonus will be added to the protected capital provided the stock market has not fallen. If the stock market has fallen by less than 5% then a partial bonus will be payable. The closing level of the index used in these calculations will normally be the index level on the final day of the quarter.

3. This new value forms the starting value for the following quarter.

You should note that, unlike the Protected Index funds, this means that in the event of the market remaining flat over a quarter then investors in the Protected With Bonus funds will earn a bonus. Were this to happen over a number of months then investors could gain capital whilst the market has not grown.

At the same time, were the market to fall by 5% or more each and every quarter, investors would lose 5% of their capital each quarter in the Protected With Bonus 95 funds. In the Protected With Bonus 100 funds their fund price will normally remain flat under such circumstances. In fact, the Protected With Bonus 100 funds will normally grow unless the market has fallen by 5% or more.

You should note, however, that in the event of substantial market growth, investors will only receive the fixed bonus for the quarter and will not benefit from any further rise in the market that quarter.

See the “Risk profile” section on page 8.

The Protected With Bonus funds offer either 95% or 100% quarterly capital protection. Investors can access these funds directly or through the *safe combination*™ system.

Worked examples

Consider an investor who has a fund value of £20,000 at the start of the quarter and has selected the Protected Europe With Bonus fund with 95% capital protection. The EURO STOXX 50 index stands at 2,000 at the start of the quarter and the predetermined bonus rate for this fund is 10% of the protected capital.

Example 1 – full bonus

Let us say that, despite a 10% market fall at one point during the quarter, the EURO STOXX 50 recovers and ends the quarter where it started at 2,000. Because the index has not fallen the investor will receive the full bonus rate of 10%.

PROTECTED CAPITAL AMOUNT:	95% OF £20,000	=	£19,000
BONUS:	10% OF £19,000	=	£1,900
NEW INVESTMENT VALUE:	£19,000 + £1,900	=	£20,900

So the full bonus is paid even if stock markets do not rise. The fund has therefore grown by 4.5% over the quarter, despite no stock market growth.

Example 2 – partial bonus

Let us say using the same criteria at the start of the quarter, that despite a 15% market fall during the quarter, the EURO STOXX 50 partially recovers and ends the quarter having fallen 2% at 1,960.

PROTECTED CAPITAL AMOUNT:	95% OF £20,000	=	£19,000
BONUS [10%-(10%X2%/5%)]:	6% OF £19,000	=	£1,140
NEW INVESTMENT VALUE:	£19,000 + £1,140	=	£20,140

Since the index has fallen, but by less than 5%, a partial bonus is payable. The full bonus rate is reduced in proportion to the index fall - every 1% fall in the index results in a loss of one-fifth of the full bonus rate.

So – in this example – two-fifths of the bonus rate is lost so a partial bonus rate of 6% is paid even though the stock market has fallen. The fund has grown by 0.7% despite the fact that the market has fallen by 2%.

Worked examples - continued

It is possible that the partial bonus achieved still leaves the new investment value below the starting value of £20,000. But even in these circumstances the fund would still outperform the chosen index over that quarter.

In fact, only in the event of the stock market index falling by 5% or more will no bonus be added to the protected capital. However, in these circumstances investors will still have the peace of mind of knowing that their capital is 95% protected.

The figures used in these examples are for illustrative purposes only and are not guaranteed. You might get back more or less than this. The value of your investments can fall as well as rise. These examples do not take into account any contract charges. Please refer to the key features document for full details.

Risk profile (technical details)

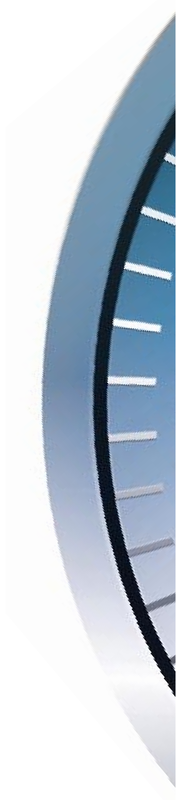
Protected With Bonus 100 funds are lower risk than the Protected With Bonus 95 funds. It should also be noted that the risk (and potential reward) of the Protected With Bonus fund range is lower than the Protected Index fund range.

There are two reasons for this; Firstly, the Protected With Bonus fund can grow when the market is flat or indeed when it falls by a little, which is not the case with the Protected Index fund range. Secondly, there is a greater probability of the market being up or flat over a quarter than there is of it being down. Therefore there is a greater chance that bonuses will be paid on the Protected With Bonus fund range.

However as the bonuses are predetermined on the Protected With Bonus fund range this means that in the event of the market rising substantially only a modest bonus by comparison will be paid. Again this is very different from the Protected Index fund range.

Overall, this means that the Protected With Bonus 95 funds have a risk and reward profile which is about halfway between cash and the stock market, whilst the 100% funds are closer to cash but even lower risk than the Protected Index 100 funds, as they will always grow unless the market falls by 5% or more.

Protected Deposit Bonus funds



How do the Protected Deposit Bonus funds earn a bonus?

1. At the start of each quarter a bonus rate is declared which will be paid in the event of both the S&P and the FTSE 100 not falling over a quarter. The bonus rate is expressed as a percentage of the protected capital.

2. At the end of the quarter the bonus will be added to the protected capital provided **neither** stock market has fallen. The closing level of the index used in these calculations will normally be the average value of the index over the final five days of the quarter.

3. This new value forms the starting value for the following quarter.

You should note that this means that in the event of BOTH markets remaining flat over a quarter then investors in the Protected Deposit Bonus funds will earn a bonus. Were this to happen over a number of months then investors could gain capital whilst the markets have not grown.

At the same time were EITHER market to fall by even a small amount each and every quarter, investors would lose 5% of the capital each quarter in the Protected Deposit Bonus 95 funds. In the Protected Deposit Bonus 100 funds their fund value would remain flat under such circumstances.

However, in the event of substantial market growth, investors will only receive the fixed bonus for the quarter and will not benefit from any further rise in the market that quarter.

See the "Risk profile" section on page 10.

Investors can only access the Protected Deposit Bonus funds with quarterly protection of 95%, 96%, 97% and 98%, through the *safe combination™* system.

A worked example

Consider an investor who has a fund value of £20,000 at the start of the quarter and has selected the Protected Deposit Bonus fund with 95% capital protection (only available through the *safe combination*™ system). The FTSE 100 and the S&P 500 indices stand at 4,000 and 800 respectively, the bonus rate for the fund this quarter is 11% and the bonus is added provided neither market falls over the quarter.

Let us say that the closing level of the FTSE 100 is 4,100 and the S&P 500 closes at 825. These levels represent the average index levels over the last five days of the quarter. As neither index has fallen and the bonus depends on the index movements over the entire quarter, the bonus is added to the protected amount. The fund value to be carried forward to the next quarter would be calculated as follows:

PROTECTED CAPITAL AMOUNT:	95% OF £20,000	=	£19,000
BONUS:	11% OF £19,000	=	£2,090
NEW INVESTMENT VALUE:	£19,000 + £2,090	=	£21,090

If either index had fallen – even by a small amount, the new fund value would be £19,000 – the protected capital amount.

Risk profile (technical details)

Protected Deposit Bonus 100 funds are lower risk than the Protected Deposit Bonus 95 funds. It should also be noted that the risk (and potential reward) of the Protected Deposit Bonus fund range lies between the Protected With Bonus and Protected Index fund ranges.

Unlike the Protected With Bonus funds these funds cannot rise when the market falls. Indeed, as this range is linked to two markets there is the additional risk that only one will fall (by a very small amount) and you will not receive a bonus. However to compensate for this risk the bonuses which the Protected Deposit Bonus funds can earn are higher than those for the Protected With Bonus funds.

At the same time, in the event of the market rising substantially, only the fixed bonus will be paid which is likely to be lower than the bonus which the Protected Index funds would pay.

Therefore the Protected Deposit Bonus funds sit between the risk profile of the Protected With Bonus and Protected Index funds.

The figures used in these examples are for illustrative purposes only and are not guaranteed. You might get back more or less than this. The value of your investments can fall as well as rise. These examples do not take into the account any contract charges. Please refer to the key features document for full details.

The Protected Cash Bonus fund

Fund overview

The Protected Cash Bonus fund provides a return by investing in offshore bank, building society and similar deposits thereby allowing investors to benefit from capital protection. The fund aims to outperform leading offshore deposit accounts.

Although investment in the world's stock markets has consistently provided greater rewards than deposit accounts, many investors prefer to retain part of their portfolio in cash. The main attraction of deposit accounts is their level of security coupled with the interest rate they can provide.

However, a major disadvantage of deposit accounts, whether onshore or offshore, is that they are often not an integral part of investors' portfolios. This can make it difficult for investors to employ all of the safety features that cash deposits can offer.

The Protected Cash Bonus fund is an alternative for investors who wish to enjoy the security of a cash deposit while benefiting from the tax advantages of an offshore life assurance bond. The value of tax benefits depends on individual circumstances and can change.

How the fund works

The Protected Cash Bonus fund invests in offshore bank and building society deposits which offer complete capital protection. The choice of accounts is managed with the aim of achieving a highly competitive return while offering investors access to their capital.

The Protected Cash Bonus fund is a managed fund investing in offshore bank and building society deposits. It is not itself a bank or building society account which would typically offer capital security guarantees and easy access at any time, usually without penalty.

You should note that this fund is not available through the *safe combination*™ system.

Important information

This *Investment guide* should be read in conjunction with the product *Brochure* and *Key features* of Scottish Life International's *safe combination*™ bond (or International *safe combination*™ bond). Investors should pay particular attention to the section headed 'Risk factors' and 'Where is my money invested?' in the *Key features*.

The returns from the funds are directly linked to assets arranged with some of the world's major financial institutions. The capital protection and potential returns offered are not provided by Scottish Life International but depend on the ability of these financial institutions to meet their obligations.

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 of the Protected Index and Protected Deposit Bonus funds is normally an average of index levels over the final five working days in the quarter. In the case of the Protected With Bonus fund range, this closing level will normally be the index on the final working day of the quarter. Further details are available from Scottish Life International.

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

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.

The value of tax benefits depends on individual circumstances and may change in the future. All returns are gross of tax – UK investors may be liable to income tax which would have the effect of reducing the returns shown.

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

A full description of the charges and how they might affect the value of the bond can be found in the *Key features* document. For further information on the *safe combination*™ bond (or International *safe combination*™ bond) investors should consult their financial adviser.

Scottish Life International Insurance Company Limited is supervised by the Isle of Man Government Insurance and Pensions Authority. Accordingly, holders of policies issued by the company will not be protected by the United Kingdom Financial Services Compensation Scheme should the company become unable to meet its liabilities to them. However, investors do receive the protection of the Isle of Man Life Assurance (Compensation of Policyholders) Regulations 1991. 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.

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New business & Ongoing Service

New business
PO Box 154, Douglas, Isle of Man IM99 1WS
Telephone: +44 1624 681578 Fax: +44 1624 690578
Email: newbusiness@sli.co.im

Ongoing Service
PO Box 154, Douglas, Isle of Man IM99 1WS
Telephone: +44 1624 681530 Fax: +44 1624 690530
Email: servicing@sli.co.im

IFA Support

UK business – IFA Support UK
3 Melville Street, Edinburgh EH3 7PE
Telephone: 0131 456 6070 Fax: 0131 456 6001
Email: ifasupportuk@sli.co.im

Non-UK business – International Adviser Support
Telephone: +44 1624 611077
Email: customerservice.international@sli.co.im

Marketing

3 Melville Street, Edinburgh EH3 7PE
Telephone: +44 131 456 6000 Fax: +44 131 456 6001
Email: marketing@sli.co.im

Internet: www.sli.co.im
Extranet: www.sli-central.com

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