

Key Features

of the Flexible Options Bond

Important information you need to read

The Financial Services Authority is the independent financial services regulator. It requires us, Scottish Widows, to give you this important information to help you to decide whether our Flexible Options Bond is right for you. You should read this document carefully so that you understand what you are buying, and then keep it safe for future reference.

These Key Features give you the main points about our Flexible Options Bond. They include an illustration showing what you might get in the future. Please read the Key Features and illustration carefully and keep them with your other Flexible Options Bond documents.

Its aims

To provide either:

- capital growth over the medium to long-term. You should aim to keep your Bond for at least five to ten years; or
- an income (i.e. you can withdraw money out of your Bond on a regular basis) if you choose. We call this taking regular withdrawals.
- To allow you to choose how your money is invested.

Your commitment

- You make a single payment of at least £5,000, or at least £1,000 if you are adding to an existing Bond.
- There's no set investment period.

Risk factors

- What you get back depends on investment performance and isn't guaranteed.
- The value of your Bond can go down as well as up. You may not get back as much as you invested.
- If you cash in the Bond, you may get back less than illustrated. This could happen if, for example:
 - investment performance is lower than illustrated;
 - your regular withdrawals have been more than illustrated;
 - our charges are higher than those illustrated;
 - you cash in all or part of your Bond within five years of making a payment. In that case we'll reduce the cash-in value by applying a charge. Please see the illustration for details. The charge doesn't apply to regular withdrawals.
- If you cash in your Bond in the early years, you're unlikely to get back as much as you invested.
- If you take regular withdrawals from your Bond, it is possible that the withdrawals could be greater than any growth achieved, causing your capital to be depleted.
- The more you withdraw from your Bond, the smaller the remaining value of your Bond.
- Your Bond may invest in a range of investment funds, which carry different levels of risk.
- If you invest in a unit-linked investment fund, the value of your Bond can fall as well as rise depending on investment performance (and currency exchange rates where a fund invests overseas). This type of investment does not offer any guarantees. Please contact us for more details.
- If you invest in the With-Profits Growth fund and/or the With-Profits Income fund, the value of your Bond can fall as well as rise. For example, we can apply Market Value Reductions. You can find more details in the relevant With-Profits guide(s) for your Bond. Please contact us for more details.
- If you choose a fund that invests in property, there could be a delay in cashing in units of up to six months, as property can be difficult to sell. The value of property is generally the valuer's opinion rather than fact.
- Tax rules can change.
- If you decide in the first 30 days that you don't want your Bond, you may not get all your money back if its value has fallen.

Questions & Answers

What is the Scottish Widows Flexible Options Bond?

- It's a way of investing a cash sum over the medium to long-term. You should aim to keep your Bond for at least five years.
- It's a Bond that's made up of a number of individual policies.
- It can be issued to one person, or two people jointly.

How flexible is it?

- Once you have set up your Bond, you can make further payments into it of at least £1,000 at any time.
- The total amount you can invest in your Bond is currently £1,000,000.
- Your Bond can be invested in up to ten funds at any one time.
- You can take regular withdrawals as detailed in 'Can I take money out?'
- You can cash in part or all of your Bond at any time, although there may be a delay for any part of your Bond invested in certain funds.
- The Bond's flexibility may change for further payments. Further information can be found in the consumer guide.

What might I get back?

- If you cash in all or part of your Bond you will get back the value of your units, less any deductions. See the illustration for details of the charge which can apply when you cash in all or part of the Bond. The value of the Bond isn't guaranteed.
- What you get back will depend for example on:
 - how much you've paid in;
 - how long each payment has been invested;
 - how well our investments have performed;
 - how much you've taken as regular withdrawals;
 - how much you've already cashed in;
 - how much we've charged.

- What we pay out on death is covered later under 'What happens to the Flexible Options Bond if I die?'
- The enclosed illustration gives you an idea of what you might get back.

Can I take money out?

- Yes, but this will lower the value of your Bond.
- You can take money out by taking regular withdrawals. There are two types of regular withdrawals – Fixed Withdrawals and Natural Income Withdrawals. You can only have one type of regular withdrawal in force at any one time.
- If you choose Fixed Withdrawals:
 - For Bonds taken out on or after 11 December 2006 (and any further payments made to these Bonds) withdrawals can be up to 7.5% a year of the amount you invested. Please also read the section "What about tax?" If all or part of your Bond is invested in either of our With-Profits funds, you will only be able to take fixed withdrawals of up to 5% a year of the total amount you invested.
 - For Bonds taken out before 11 December 2006 (and any further payments made to these Bonds) withdrawals can be up to 5% a year of the amount you invested.
 - The amount you can take will be lower if you have already cashed in part of your Bond.
 - They can be taken from all of the funds your Bond is invested in, or just from some of them;
 - The terms available at the start of your Bond for Fixed Withdrawals from either of the with-profits funds may not be available if you don't start taking the withdrawals until later. For details see the relevant With-Profits guide(s);

- If your Bond is invested in several funds including either (or both) of the with-profits funds, what you can take as Fixed Withdrawals from that with-profits fund is limited. For more information please see the relevant With-Profits guide(s).
- If you choose Natural Income Withdrawals:
 - They come only from the With-Profits Income Fund. They are only available if your Bond is invested in that fund. You can't take regular withdrawals from any other fund your Bond is invested in while you are taking them;
 - The level of Natural Income Withdrawals depends on the regular bonus rates we decide for the With-Profits Income Fund. It will, therefore, rise or fall while you are taking the withdrawals. Future bonus rates are not guaranteed and may change at any time. For more information please see the relevant With-Profits guide.
- Taking regular withdrawals will reduce the value of your Bond and they could be greater than any growth achieved. The higher the level of withdrawals you take from the Bond, the more likely it is that they could be greater than any growth achieved. This could result in your capital being depleted.
- For both types of regular withdrawal the lowest withdrawal from your Bond is £30. Regular withdrawals can be taken monthly, quarterly, half-yearly or yearly. A minimum level of investment in your Bond is required if you wish to take monthly withdrawals. You must leave at least £100 in each of the Bond's policies. We can change these limits.
- You can cash in part of your Bond. You can do this by cashing in:
 - parts of policies, complete policies or a combination of both; or
 - your Bond's investments in particular funds.

The lowest amount that you can cash in from your Bond is £500. You must leave at least £100 in each of the Bond's policies that you are not cashing in fully. We can change these limits.

If you cash in all or part of your Bond within five years of making a payment you may get back less than illustrated. In that case we'll reduce the cash-in value by applying a charge. Please see the illustration for details. The charge doesn't apply to regular withdrawals.

Where is my payment invested?

- We offer a wide range of investment funds for you to choose from. Some are managed by us and some are managed by other fund managers.
- Your Bond can be invested in up to ten funds at any one time. For further details please see the fund choice booklet. We may change the selection of funds that we make available. There may be restrictions on the amount you can invest in certain funds. Please contact us for details on restrictions that apply.
- We use your payments to buy units in the funds you choose.
- You can switch in and out of the funds to change the mix of investments, though there may be conditions and a charge for doing this. The first twelve fund switches in each Bond year are currently free. We can add to or reduce the range of funds available.
- If you choose our unit-linked funds:
 - each of our funds is made up of 'units', which are like shares of the fund;
 - the price of one unit in each fund depends on the value of the investments and the number of units in it;
 - we work out the value of your Bond (before any charges) based on the total number of units you have in each fund;
 - if the unit prices rise or fall, so will the value of your Bond.
- If you choose our With-Profits Growth and/or our With-Profits Income fund:
 - they're made up of units;
 - unlike our other funds, the value of units in these funds isn't directly related to the value of the fund itself. The value of units in these funds depends on bonuses, market value reductions and charges that we decide;
 - the value of your Bond can fall as well as rise;
 - you can find more details in the relevant With-Profits guide(s) for your Bond.

What happens to the Flexible Options Bond if I die?

A cash sum will be paid on your death or on the second death if the Bond is based on two lives. The amount of cash sum will be 101 % of the value of your Bond on the day after we receive written notification of the death.

However, if the death, or second death if applicable, occurs as a direct result of an accident before the Bond has been running for 5 years, the cash sum paid may be the higher of

- 101 % of the value of the Bond, and
- 120 % of the total payments into the Bond.

Please check your policy documents to see if your Bond has this benefit and for full details including the exclusions that apply.

Unit-linked funds will be valued at the selling price of the units held. Please see the relevant With-Profit guide for your Bond for details of how we value With-Profits units on death.

- For income tax purposes, the Bond will be treated as though it had been cashed in immediately before death. Please see 'What about tax?'
- All or part of the value of your Bond is included in your estate. Inheritance tax may have to be paid on the Bond.
- If the Bond is written under trust, the cash sum will be paid to the Trustees.
- Please contact your financial adviser if you want to find out more about inheritance tax or writing your Bond under trust.

What are the charges?

- We charge for managing and investing your Bond. We take our charges partly from your payment, and partly from the value of your Bond.
- We have the power to change, at any time, most of the charges we make. We may use this power if our costs turn out to be unexpectedly high, compared to our charges. Charges could increase if, for example:
 - tax rules change;
 - our staff or overhead costs are more than we anticipate; or
 - our income from charges is less than we anticipate.
- If you've invested in fund(s) managed by other fund managers they have the power to change any charges they make.
- Your illustration shows the charges and how they affect the value of your Bond.

How much will the advice cost?

- Your financial adviser will give you details about the cost. The amount will depend on the size of the payment and for how long the payment is invested. It will be paid for out of the charges.

What about tax?

- Scottish Widows pays corporation tax on the funds' investment income and actual gains when the funds' investments are sold. You can't reclaim the tax we pay.
- All amounts you receive from your Bond are free from personal liability to income tax at the starting and basic rates.
- You don't have to pay any capital gains tax.
- If you are, or close to being, a higher rate taxpayer, additional income tax may have to be paid when you cash in parts of policies, complete policies, or on death.
- All or part of your Bond is included in your estate. Inheritance tax may have to be paid if you die.

- You can take out a limited amount from your Bond without having to pay any tax at the time. The limit is currently 5% a year of your payments into the Bond, until you reach a total of 100%. When you cash in a policy, any withdrawals you've taken from it previously will be included in the tax calculation. If you go over the limit, or cash in one or more of your policies, we'll send you a statement (Chargeable Event Certificate). This will give you enough information to complete your self-assessment form.
- If you take regular withdrawals of more than 5% a year there may be tax implications. You should discuss this with your financial adviser.
- If you're over 65, your entitlement to age allowance could also be affected.
- Also, any entitlement to Child and/or Working Tax Credit could be affected.
- The value to an investor of any tax advantage will depend on personal circumstances, which may change.
- Further details are outlined in the accompanying product information.
- Tax rules can change.

Can I change my mind?

You can change your mind within 30 days of receiving your cancellation notice. If you decide that you don't want the Bond, we'll give you your money back less any fall in the investment value. You may not get back what you paid in. If you don't cancel your Flexible Options Bond, it will continue.

How will I know how my Bond is doing?

- We'll send you a statement each year.
- You can check the unit prices of our unit-linked funds from our website as detailed opposite, or get an up-to-date valuation of your Bond by contacting us using the details shown. Please see 'How to contact us'.

How to contact us

If you've any questions at any time, or any changes you want to make to your Bond, please contact us. You can phone us, send us a fax, or write to us.

Call us on: 0131 655 6000 during the following times:

Monday to Friday 8.00am – 6.00pm

Saturday 9.00am – 12.30pm

We may record and monitor calls to help us to improve our service.

Fax number: 0131 662 4053

Website: www.scottishwidows.co.uk

Address: Scottish Widows plc
15 Dalkeith Road
Edinburgh
EH16 5BU

We will communicate with you in English.

Other information

How to complain

If you ever need to complain, first contact us using the details shown earlier. If you're not satisfied with our response, you can complain to:

The Financial Ombudsman Service
South Quay Plaza
183 Marsh Wall
London E14 9SR

Tel: 0845 0801 800

Email: enquiries@financial-ombudsman.org.uk

Website: www.financial-ombudsman.org.uk

Complaining to the Ombudsman won't affect your legal rights.

Terms and conditions

- These Key Features give a summary of the Scottish Widows Flexible Options Bond. They don't include all the definitions, exclusions, terms and conditions. Further details of the benefits, charges and conditions of the plan are given in the product booklet and Policy Provisions, which are available on request from Scottish Widows.
- We have the right to change some of the terms and conditions at any time. We'll write and explain if this affects your Bond.
- Full terms and conditions are available on request from Scottish Widows. Charges, terms and limits may change.

Law

- For legal purposes the law of England & Wales, Scotland or Northern Ireland will apply, according to where you reside when you take out your Bond.
- This information represents Scottish Widows' interpretation of the law and Revenue practice as at date of publication. The contract terms, and the amount and taxation of benefits described, assume that there's no change in tax or other laws affecting Scottish Widows or its investments.

Money Laundering Regulations

- Under these regulations, there's a requirement to prove the identity of people who wish to take out a life, pension or investment product. You may therefore be asked to supply documents as evidence of your identity and your address. Please refer to the application form for further information.

Compensation

- We are covered by the Financial Services Compensation Scheme. You may be entitled to compensation from the scheme if we cannot meet our obligations (for example, if Scottish Widows was to become insolvent or unable to meet the claims against it). This depends on the type of business and the circumstances of the claim, for example most types of investment are covered for 100% of the first £30,000 and 90% of the next £20,000 so the maximum compensation is £48,000, whilst most insurance contracts are covered for 100% of the first £2,000 and 90% of the remainder of the claim.
- Further information about compensation arrangements is available from the Financial Services Compensation Scheme, who can be contacted on 020 7892 7300 or via their website at www.fscs.org.uk