Investec
Specialist Bank

Impala Scottish Widows 2023

Option 1: 3m Libor + 2.90% Floating Rate Notes
Option 2: 1.9% RPI Linked Notes

23 September 2013

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Issuer Series	Option 1: IMP SCOT WID FLTG RTE NTS 16/06/23
	Option 2: IMP SCOT WID 1.9% INFLTN-LKD NTS 16/06/23
ISINs/SEDOLs	Option 1: XS0963352884/BDC7QG7
	Option 2: XS0963352025/BDC7QD4
Format	Senior Secured, Dated, Unsubordinated
Security	Scottish Widows plc 5.5% 2023 Subordinated Debt
Security Rating	BBB+
Maturity Date	16 June 2023
Coupon	Option 1: 3-month Libor + 2.90%, paid quarterly
	Option 2: 1.90% real interest rate paid annually, with notional RPI adjusted
Issue Price	100.00
Minimum Denominations	£1,000 plus increments of £100
Listing & Trading	London Stock Exchange
Pricing	Committed on SEAQ (LSE), Bloomberg
Close Date	18 September 2013
Issue Date	23 September 2013
Distribution	Available in the secondary market

The Impala Scottish Widows Floating Rate Notes and RPI Linked Notes are issued by Investec Bank plc.

Why Scottish Widows plc?

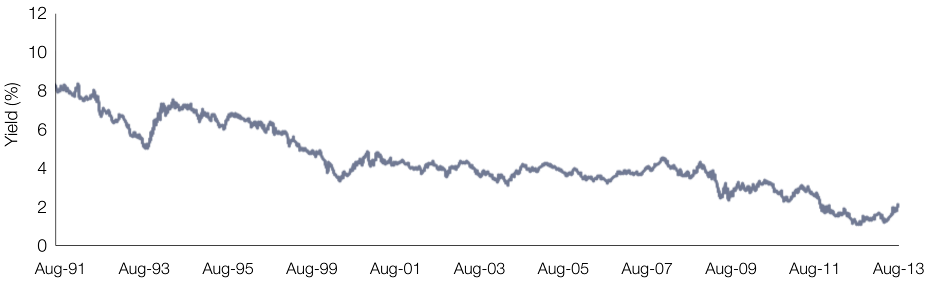
- Long term senior rating of ‘A’ and subordinated rating of ‘BBB+’
- Fitch have stated that they feel the long term senior rating is commensurate to an ‘A+’, however the actual rating is “compressed to ‘A’ as they are constrained by the rating of their ultimate parent LBG”
- Strong franchise with a leading position in the UK life, pensions and investment market
- Strong capital position with their regulatory capital at the end of 2011 of 1.9x the minimum required
- Scottish Widows’ financial leverage at the end of 2011 at 22% is significantly below the peer average (Old Mutual at 28% and Legal & General at 27%)
- Scottish Widows liquid assets/policyholder liabilities ratio is over 100%, which indicates a strong liquidity position
- Scottish Widows issued two bonds in April 2013, one with a 2023 maturity and another with a 2043 maturity, for a total size of £1.5bn
  - The bonds were 4.5x oversubscribed on issuance
- The new Impala Scottish Widows notes will trade in minimum £1k denominations plus increments of £100

Source: Investec, Fitch November 2012

Continued overleaf

Option 1: Why is the Impala note being offered as an FRN?

- Due to investor demand to access high yielding, longer-dated bonds whilst avoiding mark-to-market losses associated with increases in interest rates
- Fixed income investors are concerned about the potential impact of Gilt yields increasing over the medium term, resulting in greater price volatility in fixed rate bonds. These concerns have intensified recently given the sharp rise in yields
- Yields are at all time lows:



- Where will rates go in the future?
- Does it make sense to hedge a portion of your portfolio?

- One solution which mitigates the negative mark-to-market exposure to interest rates is to invest in FRNs, which reduce interest rate exposure whilst ensuring income reflects changes to interest rates
- The Investec Impala solution bridges the gap between investor demand for Floating Rate Notes and the limited availability, and liquidity, of Floating Rate Notes currently available in the market

Scenario analysis (at inception): Fixed vs. FRN

Impala Scottish Widows (XS0963352884)					Scottish Widows Fixed Rate Bond (XS0914791412)			
Change in 3mnth Libor %	Credit Spread %	Quarterly Coupon %	FRN Price		Change in GRY* %	Coupon %	Bond Price	Capital Gain / Loss %
-0.51	2.75	2.75	100.00		-0.51	5.50	103.87	3.87
0.00	2.75	3.26	100.00	vs	0.00	5.50	100.00	0.00
1.00	2.75	4.26	100.00		1.00	5.50	92.87	-7.13
2.00	2.75	5.26	100.00		2.00	5.50	86.40	-13.60
3.00	2.75	6.26	100.00		3.00	5.50	80.49	-19.51

* gross redemption yield

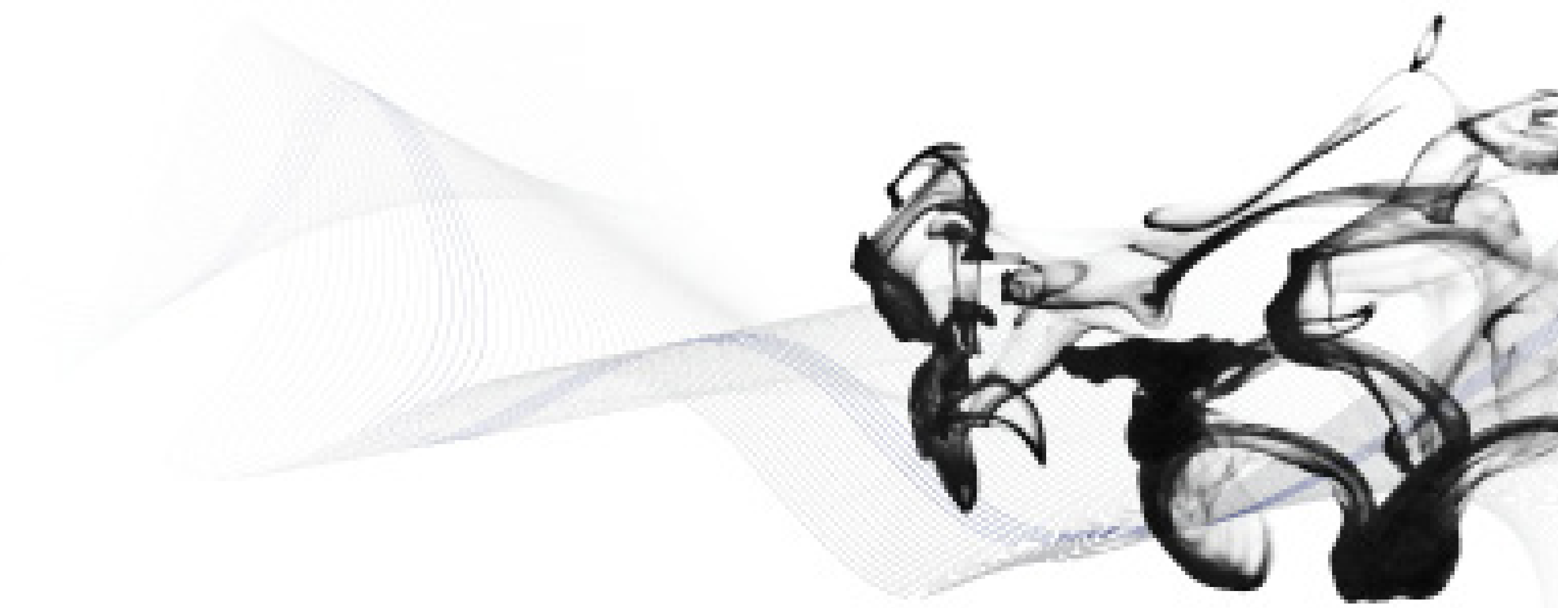
Option 2: Why is the Impala note being offered as an RPI Linked note?

- Institutional investors have a natural demand for bonds which offer inflation protected income and capital
- RPI linked bonds maintain investor purchasing power over the life of the bond whilst providing for an additional return, i.e. positive real return. For those institutional investors with inflation linked liabilities, the ability to invest in inflation linked bonds is especially crucial
- Unfortunately very few bonds are linked to inflation, and those that are don't always match investor requirements; they are typically long dated, offer low real coupons and are relatively less liquidity
- Investec Impala notes provide a solution by giving investors access to (1) shorter maturity (2) higher real yield (3) liquid RPI linked notes

Risk and considerations

- Investors will retain credit exposure to the underlying credit, Scottish Widows plc Subordinated debt, until they sell or redeem the Impala Scottish Widows notes. The price of the Impala Scottish Widows note will therefore be affected by changes in the underlying credit
- In the event that Investec or the underlying credit becomes insolvent, investors will have exposure to the underlying fixed coupon bond (Scottish Widows plc 5.5% 2023), in addition to the mark-to-market of the swap put in place by Investec
- The Impala notes, although listed on the Official List of the UKLA and admitted to trading on the LSE, can only ever be as liquid as the underlying fixed coupon bond
- Investec undertake, under normal market conditions, to make a live daily market on the Impala notes

Please refer to the important information overleaf



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