

11 August 2014

PRUDENTIAL - AFRICAN BANK EXPOSURE

The events surrounding African Bank has been widely publicised over the past week, and the bank was placed under curatorship by the SA Reserve Bank on Sunday the 10th of August 2014. As a manager of R180 billion of client assets, Prudential is a substantial participant in South African capital markets. It will therefore not come as a surprise that our client portfolios do hold some exposure to African Bank.

Over the past number of months, as African Bank's trading positions worsened, we have taken a number of steps across our unit trust portfolios to limit the impact of potential losses on any African Bank instruments. Our portfolio management philosophy has always placed a high premium on risk management, and this approach has contributed to us being able to report as follows:

- We hold no exposure to equity or preference shares in African Bank Investments Limited ("ABIL") in any of our unit trust funds. We also do not have any exposure to Credit Linked Notes with African Bank exposure in any unit trust funds. Our portfolios have thus been spared the effect of the collapse in the ABIL share price following the trading update on the 6th of August 2014.
- Our multi-asset and fixed interest portfolios do however carry exposure to African Bank, as opposed to the ABIL holding company, through senior and sub-ordinate debt instruments issued by the bank.
- The SA Reserve Bank announcement on Sunday effectively values all senior debt instruments at 90% of their face value. We have therefore adjusted our senior debt instrument valuations to 90% of face value, i.e. to reflect a 10% impairment.
- The SA Reserve Bank announcement is less clear about the value to be placed on sub-ordinated debt instruments. We have taken the conservative decision to write down these instruments fully, to 0% of face value, until further facts come to light.

Variable Priced Unit Trust Portfolios

The African Bank debt exposure across our affected unit trust portfolios with variable daily unit prices are given below. The exposures are as at the 5th of August (prior to ABIL's trading update and the subsequent fall in ABIL share price) and also today (after the impairments of fixed interest holdings discussed above). We believe the extent of our impairments is conservative.

Fund Name	African Bank debt exposure at 5 August 2014	African Bank debt exposure at 11 August 2014 (after impairments)
Prudential Equity Fund *	0.01%	0.01%
Prudential Dividend Maximiser Fund *	0.01%	0.01%
Prudential Enhanced Property Tracker Fund *	0.03%	0.03%
Prudential Balanced Fund	0.36%	0.15%
Prudential Inflation Plus Fund	0.62%	0.38%
Prudential Enhanced Income Fund	1.93%	0.92%
Prudential High Yield Bond Fund	1.41%	0.24%
Prudential High Interest Fund	2.04%	1.84%

*The African Bank debt exposure in these funds is as result of indirect exposure via holdings in the Prudential Money Market and/or Prudential High Interest Funds.

The impact of the above instrument impairments will be reflected in the unit prices of the portfolios from today.

Fixed Price Unit Trust Portfolios (Prudential Money Market Fund and Prudential Dividend Income Feeder Fund)

The Prudential Money Market Fund holds a small amount of exposure to senior debt issued by African Bank.

This Fund, and as result the Prudential Dividend Income feeder fund which is fully invested in the Money Market fund, do not have variable unit prices that mark-to-market daily. Instead, these funds are priced at a stable price of 100 cents.

The Prudential Money Market Fund has always been managed in a highly conservative manner, which has contributed to us being able to report as follows:

- Over the past number of months, as African Bank's trading position worsened, we have taken a number of steps to limit the impact of loss by reducing African Bank exposure within the Money Market fund.
- As of today the only exposure left in the Money Market fund is a small amount of senior debt, in the form of a wholesale deposit. The SA Reserve Bank announcement of Sunday effectively implies that this instrument is worth 90% of its face value. We have therefore written down this deposit by 10% to reflect this impairment.
- The extent of this write-down in the overall Money Market Fund is small, and will be reflected by a reduction in the yield of the Fund today. This is in accordance to guidance issued to all unit trust funds by the Financial Services Board.
- The Prudential Money Market Fund is thus able to honour its 100 cent par value, and clients will not experience any capital loss as result of the small African Bank exposure.

Conclusion

Prudential continues to monitor the African Bank situation closely, and we will communicate with clients should any material further developments occur that impact any of our Funds.

Sincerely

Bernard Fick

Chairman: Prudential Unit Trusts

John Kinsley

Managing Director: Prudential Unit Trusts