Ashmore Group plc

Pillar 3 Disclosures as at 30 June 2015

1.0 Overview

The purpose of this document is to outline the Pillar 3 disclosures for the Ashmore Group (the Group). The disclosures on risk management and capital resources are as at the Group's most recent financial year end, 30 June 2015 and further information is available in the Group's Annual Report and Accounts for the year ended 30 June 2015, as published on the Group's website (www.ashmoregroup.com).

1.1 Scope of Regulation

Ashmore is supervised on a consolidated basis in the United Kingdom by the Financial Conduct Authority (FCA). The Group's consolidated financial statements are prepared on the basis set out on page 80 of the Annual Report and Accounts for the year ended 30 June 2015. The method of consolidation used for prudential purposes is the same as that used for the Group's consolidated financial statements.

The disclosures include the principal FCA regulated entities, Ashmore Investment Management Limited (AIML) and Ashmore Investment Advisors Limited (AIAL), which are both limited licence €50k firms. Ashmore Investment Advisors Limited was established in 2014, as a result of the Alternative Investment Fund Managers Directive, to manage Ashmore Group plc's UK investment management activities of alternative investment funds. A full list of the regulated subsidiaries is provided in Appendix 1 to this document.

1.2 Basis of Disclosures

The UK entities benefit from the FCA Capital Requirements Regulation derogation allowing it to carry forward the CRD III rules as at 31 December 2013 and as such, the following disclosures are in accordance with the requirements of Chapter 11 of Building Societies and Investment Firms (BIPRU). The disclosures included in this document relate to the Group. The disclosures cover both the qualitative and quantitative requirements.

Ashmore Group plc is listed on the London Stock Exchange and is subject to prudential oversight by the UK Financial Conduct Authority (FCA). As such, the Group is required to meet the requirements of the FCA's capital adequacy framework, in addition to meeting the solo entity requirements of each of its regulated subsidiaries. This framework consists of three pillars:

- Pillar 1 sets out the minimum capital requirements for credit, market and operational risks;
- Pillar 2 requires that regulated firms take a view on whether a firm should hold additional capital against risks not covered by Pillar 1; and
- Pillar 3 complements Pillars 1 and 2, and requires firms to publish details of their risks, risk management processes and capital position.

1.3 Frequency of Disclosures

The Group has an accounting reference date of 30 June, and publishes its disclosures as soon as is practically possible after publication of the Annual Report and Accounts, and if appropriate, more frequently.

2.0 Corporate governance and internal controls

In accordance with the principles of the 2012 UK Corporate Governance Code, the Board is ultimately responsible for the Group's risk management and internal control systems and for reviewing their effectiveness. Such systems and their review are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

2.1 Governance framework

Within the Group's corporate governance framework, through which the Board aims to maintain full and effective control over appropriate strategic, financial, operational and compliance issues, an internal control framework has been established, against which the Company is able to assess the effectiveness of its risk management and internal control systems. The Group's system of internal control is integrated with the Group's strategy and business model and embedded within its routine business processes and operations, and a strong control culture is combined with clear management responsibility and accountabilities for individual controls.

The internal control framework provides an ongoing process for identifying, evaluating and managing the Group's principal risks, and has been in place for the year under review and up to the date of approval of the annual report and accounts. The process is regularly reviewed by the Group's Audit and Risk Committee (ARC), and accords with the guidance in the document 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' (the Guidance) published by the Financial Reporting Council in September 2014.

The Executive Directors oversee the key risks and controls and the risk management process on a day-to-day basis, and have put in place an organisational structure with clearly defined lines of responsibility and delegation of authority. The Group's Risk and Compliance Committee (RCC), which meets monthly, is responsible for maintaining a sound risk management and internal control environment and for assessing the impact of the Group's ongoing activities on its regulatory and operational exposures. The RCC is chaired by the Group Head of Risk Management and Control, and the other members are the Chief Executive Officer, the Group Finance Director, the Group Head of Compliance, the Group Head of Finance, the Group Head of Middle Office and Information Technology, the Group Head of Legal and Transaction Management, the Group Head of Distribution, the Group Head of Internal Audit, and the Group Head of Human Resources.

A detailed review of the corporate governance framework can be found on pages 43-51 of the 2015 Annual Report and Accounts.

2.2 Risk management framework

One of the most important risk mitigants for any company is a strong and client-focused corporate culture. Ashmore takes a number of steps to foster a corporate culture that demonstrates these characteristics which ultimately serves to promote an environment of integrity, competence and one where Ashmore's clients are treated fairly and honestly. Key components representing Ashmore's cultural values include: Executive Management 'tone from the top'; compensation structures; compliance policies, procedures and awareness; and the introduction of conduct risk to the Principal Risk Matrix.

Ashmore's risk management framework operates using a "three lines of defence" model.

- The first line is the various business departments, who are responsible for the operation of their processes and for ensuring a robust control environment is upheld at all times.

- The second line is the Risk Management and Compliance functions, which perform independently and proactively to monitor the effectiveness of the control environment in order to flag to senior management where they may not be operating as expected.

- Ashmore has an internal audit function, which acts as the third line of defence and which operates under an independent mandate to provide assurance to senior management, the Board and the Audit and Risk Committee on the effectiveness of specific risk areas.

2.3 Risk Identification

Responsibility for risk identification is shared among these senior management personnel, with each such individual being responsible for day-to-day control of risk in their business area. There are established policies and procedures to enable the ARC and ultimately the Board, through its regular meetings, to monitor the effectiveness of the risk management and internal control systems, which cover all principal identified internal and external strategic, operational, financial, compliance and other risks, including the Group's ability to comply with all applicable laws, regulations and clients' requirements.

The ARC receives regular risk and internal audit reports while the Board receives regular financial and other management information related to the control of expenditure against budget and the making of investments, and for monitoring the Group's business and its performance, as well as regular compliance reports.

3.0 Risk appetite

The Group employs a proportionate approach in assessing, quantifying or analysing the risks and related risk appetite of the firm. While detailed analysis and review of the Group's risk appetite is undertaken in most cases it may not always be practical to apply quantitative techniques to estimate these. In these instances, the Group would engage in qualitative analysis and discussion to ensure those risks and related risk appetite have been appropriately considered.

3.1 Key principles of the risk appetite statement

The Group's risk appetite framework has been developed by engaging key stakeholders at the functional, business and executive levels of the organisation and accordingly, the Group's risk appetite statement (and its associated components) is regularly reviewed and updated in line with the evolving strategy, business model, financial capacity, business opportunities, regulatory constraints and other internal and external factors. This review takes place quarterly and is updated through the Annual Review of Risk Management and Internal Controls (ARRIC) documentation that combines the risk management processes at Ashmore.

The five key principles of the Group's Risk Appetite statement are:

3.1.1 Capital Resources:

It is the Group's policy to maintain a strong balance sheet in order to support regulatory capital requirements, to meet commercial demands of current and prospective investors, and to fulfil development needs across the business which include funding establishment costs of distribution, offices and local asset management ventures, seeding new funds, trading or investment in funds or other strategic initiatives.

3.1.2 Operating Efficiency:

The Group manages its underlying operating profitability through the adjusted EBITDA margin, which measures operating profit (excluding depreciation and amortisation) against net revenues. This margin is widely published in the Group's financial reporting. For the purposes of managing the risk appetite of the Group, this margin is adjusted to exclude the impact of seed investments, FX translations and performance fee income to calculate an adjusted EBITDA margin. This adjusted margin provides management with a view of the underlying operating efficiency and profitability of the Group for shareholders.

3.1.3 Liquidity:

The overall liquidity adequacy rule (BIPRU 12.2.1R) requires Ashmore at all times to maintain liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due. The primary liquidity risk arises in that the nature of illiquid instruments held within the Group's cash and cash equivalents, seed capital, and other assets may prevent efficient investment exit strategies being adopted, especially in a downturn situation. The Group has established thresholds for seed capital investments.

The Group's corporate FX management framework provides guidance as to the Group's appetite for FX risk and expected operating practices and procedures in managing and monitoring this risk. The primary FX risk arises as a result of the majority of management and performance fee revenues being USD denominated, whilst the Group's functional currency is GBP, as is the majority of its cost base. The Group recognises that it is impossible to eliminate this FX risk and seeks to manage it to within acceptable parameters.

3.1.4 Operational Risk:

The Group's Principal Risk Matrix is an effective tool to highlight and monitor the principal risks of the Group and its evolution reflects changes in the business profile and the corresponding impact to internal controls and related processes. Whilst the Group recognises there are several key risk indicators that are routinely monitored as part of the Principal Risk Matrix, the Group proposes to specifically report the following as part of the Group's Risk Appetite framework:

a) The change in the net number of funds managed over a six month period in order to assess the ability of the Group's infrastructure to manage and administer an increased number of funds; and

b) The number and financial impact of operational errors over a six month period with a focus on trends or themes that could highlight specific areas of weakness.

3.1.5 Reputation:

The Group recognises the need to identify potential media related reputation management issues, and for effectively dealing with such issues as they arise. The Group therefore has an established Media and Reputation Management Policy focusing on understanding the information that is currently publicly available on the Group and the funds and individual investments it manages, especially that which could create negative reputational issues.

4.0 Key material risks

The Group seeks to identify, quantify, monitor and manage effectively each of the risks present in its activities. The ultimate responsibility for risk management rests with the Board, however for practical reasons, some of this activity is delegated and the Group actively promotes a risk awareness culture throughout the organisation.

The process through which Ashmore assess the amounts, types and distribution of financial resources, own funds and internal capital that it considers adequate to cover the risks to which it is exposed is through the Internal Capital Adequacy Process (ICAAP). The ICAAP document for the Group is formally updated at least bi-annually and reviewed and adopted by the Board at each point.

The assessment of the principal risks, their mitigants, and their delegated owners which are relevant to the Pillar 3 disclosures in this document are set out on pages 32-35 of the 2015 Annual Report and Accounts.

The material risks considered in relation to the Pillar 3 disclosures are as follows:

4.1 Strategic risk

The Group has identified the risk that the medium and long term profitability and/or reputation of the Group could be adversely impacted by the failure to either identify and implement the correct strategy, or to react appropriately to changes in the business environment.

4.2 Investment risk

The risk of non-performance or manager neglect of duty, including the risk that long term investment outperformance is not delivered, thereby damaging prospects for winning and retaining clients, and putting average management fee margins under increased pressure; and decreased market liquidity provided by counterparties that the Group and its funds rely on.

4.3 Treasury risk

These are the risks that management does not appropriately mitigate balance sheet risks or exposures which could impact the financial performance or position of the Group.

4.4 Operational risk

Annually, as part of the Principal Risk Review, the Risk and Compliance Committee and key risk owners, identify and challenge the key risks faced by the Group. These risks form the basis of the Principal Risk Matrix. This matrix documents the risks deemed to be significant and relevant to the Group and each is given a likelihood of occurrence using internal and external loss data. In each scenario, the risk is explained and quantified to arrive at a “worst case” loss outcome, for which the Group retains operational risk capital.

4.5 Market risk

The market risk factors considered by the Group are: equity risk, interest rate risk, foreign exchange risk and credit spread risk. The principal market risks the Group faces arise as a consequence of its seed investments, where the Group considers itself a sponsor of certain investment funds to provide initial scale, create a performance track record and facilitate the marketing of new funds, alongside co-investment with third-party investors.

For the purpose of estimating Pillar 2 capital requirements on seed investments, the Group uses a Value at Risk (VaR) model. The capital charge for market risk, including foreign exchange exposure is based on an internal VaR model and uses the 99th percentile VaR over a 10-day holding period and a multiplier of three.

4.6 Foreign exchange risk

In respect of the Group's exposure to non-sterling denominated income and expenses, the Group has a policy to hedge a proportion of its expected net management fee revenues. The Group is also subject to foreign exchange movements in the value of its monetary net assets whose functional currency is other than Sterling. The Group calculates Pillar 1 market risk charges under the standardised approach for these assets. Residual currency exposure has been incorporated into the Group's scenario and stress testing analysis.

4.7 Credit risk

In respect of a loss due to an obligor's non-payment of an outstanding debt, loan or other line of credit, the Group assesses the capital requirements using the standardised approach under Pillar 1. The Group's policy ensures exposures to any single bank issuer or group of connected bank issuers are within pre-agreed thresholds, in addition to targeting a maximum exposure per counterparty.

The Group had cash and cash equivalents as at June 2015 of £380.8m (2014: £372.2m). The majority of the Group's cash resources are placed with institutions or within liquidity funds rated A- or above, and Group funds are included within the Risk Management and Control (RM&C) department's monthly counterparty review.

Under the standardised methodology under Pillar I, the capital required to cover credit risk in respect of cash and cash equivalents is £6.25m (2014: £5.8m). Given the vanilla nature of Ashmore's credit risk, the Pillar II charge is calculated on the same basis.

No credit risk requirement has been assessed as necessary for the Group's management fee debtors and accrued fee income since the Group manages client assets and would be able to make a claim against any contractually agreed outstanding amounts prior to any client redemption proceeds being returned.

4.8 Liquidity risk

In the context of the Group, liquidity risk primarily arises where investments in illiquid instruments prevent efficient investment exit strategies being adopted, especially in a downturn situation, for the Group's cash and cash equivalents, seed capital, and other assets.

The group's liquidity risk management framework is set out in a policy document that is authorised by the Board.

The Group prepares regular cash-flow forecasts, and matches the maturity profile of the Group's cash, cash equivalents and other assets and liabilities on a conservative basis.

In respect of seed investments, the Group only invests in Ashmore managed products. Liquidity management is a fundamental part of the firm's investment process across all its themes. There is a significant depth of expertise developed over the last two decades across the asset classes – and liquidity metrics are monitored on a regular basis by the RM&C department and the Investment Committee.

5.0 Own funds

Own funds, as with the Group financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the basis for consolidation is outlined on page 81 of the most recent Annual Report and Accounts. No adjustments are made in respect of insurance or other non-financial activities in determining the regulatory consolidation.

5.1 Capital resources

	June 2015
	£m
Permanent share capital	-
Share premium account	15.7
Profit and loss and other reserves	640.4
Minority interests	14.0
Common Equity Tier 1 capital (CET) before regulatory adjustments	**670.1**
Deductions from Tier 1 capital	
Material holdings	(16.2)
Intangible assets and goodwill	(74.1)
Tier 1 capital after deductions	**579.8**
Total capital resources	**579.8**

At 30 June 2015, the Group did not have Tier 2 or Tier 3 capital or any related deductions.

5.2 Capital requirements

It is the Group's policy that all entities within the Group have sufficient capital to meet regulatory and working capital requirements, and to keep an appropriate credit standing with counterparties. With this in mind, the Group conducts regular reviews of its capital requirements relative to its capital resources, and has maintained a significant surplus at all times during the period.

Ashmore's regulatory capital requirement is the higher of the Pillar 1 and Pillar 2 calculations. The Group calculates the Pillar 1 capital requirement in accordance with the General Prudential Sourcebook (GENPRU) as the higher of the sum of the market and credit risk requirements and the Fixed Overheads Requirement (FOR). The FOR is calculated in accordance with GENPRU and equates to one quarter of the firm's relevant fixed expenditure. The Group's Pillar 1 and Pillar 2 position at 30 June 2015 is summarised below, with June 2014 comparatives.

In assessing the Pillar 1 capital requirements, the Group has adopted the standardised approach for credit risk in accordance with BIPRU 3.4, whereby the minimum credit risk capital requirement is calculated as 8% of each risk weighted exposure.

The Pillar 1 requirement of the Group, being the sum of actual solo regulated entity requirements and notional requirements for unregulated entities, is £68.4 million at 30 June 2015. This is less than the Pillar 2 requirement of £94.4 million, partly reflecting the fact that the FCA's Pillar 1 requirement for market risk is calculated at a rate of 8% compared to the more conservative rates of 14 - 20% that the Group recognises under Pillar 2, and the recognition of a 100% market risk charge in respect of illiquid seed capital positions under Pillar 2. In addition, the Operational Risk charge which forms part of the Pillar 2 requirement has increased by 8% from £23.2 million at 30 June 2014 to £25.2 million at 30 June 2015 as a consequence of the Group's continual assessment of the operational risks facing the business.

GROUP FINANCIAL RESOURCES REQUIREMENT	**June 2015**		**June 2014**	
	£m	**£m**	**£m**	**£m**
Group financial resources		**579.8**		**539.5**
Pillar 1 capital requirement	68.4		61.6	
Pillar 2 capital requirement	94.4		72.9	
Capital resources requirements (higher of Pillar 1 and 2)		**94.4**		**72.9**
Excess/(deficit) financial resources		**485.4**		**466.6**
Solvency ratio		**514%**		**640%**

The Group's Pillar 2 capital requirement has increased at 30 June 2015 primarily as a result of an increase in the market risk capital charge (shown below). The market risk charge has increased due to a combination of the increase in the value of positions held in seed investments together with the market volatility experienced in the period prior to the year-end calculation being made.

SUMMARY OF CAPITAL REQUIREMENTS	**June 2015 £m**	**June 2014 £m**	**Variance £m**	**Variance %**
Market risk	62.8	43.5	19.3	44
Credit risk	6.4	6.2	0.2	3
Operational risk	25.2	23.2	2.0	8
Total capital requirement	**94.4**	**72.9**	**21.5**	**29**

The Group has a well-capitalised, debt free balance sheet and the business model provides for high operating margins and consistent cash generation. Audited Group net assets at June 2015 are £670.1m, including profits after tax of £138.7m which have been added to reserves.

6.0 Code staff aggregate remuneration

The Group Remuneration Report, contained within the Annual Report and Accounts for the year ending 30 June 2015, includes information required to be disclosed in accordance with the FCA's prudential sourcebook for banks, building societies and investment firms (BIPRU) 11.5.18(1) and (2).

The information below is provided in accordance with BIPRU 11.5.18(6) and (7). A total of 12 individuals were Code Staff during the year ending 30 June 2015. Code Staff are the Group's employees whose professional activities could have a material impact on the Group's risk profile. The list of individuals who are Code Staff includes:

- Directors of Ashmore Group plc
- Non-executive Directors of Ashmore Group plc
- Staff performing a Significant Influence Function within the Group
- Material Risk Takers; and
- Employees in key control function roles

Ashmore Group plc considers that it has a single business area (investment management) which is supported by various administrative functions. As required to be disclosed under BIPRU 11.5.18(1), the aggregate remuneration of the 12 Remuneration Code Staff was £6.6m in the year ended 30 June 2015.

Of these 12 Remuneration Code Staff, the aggregate amounts paid to senior management (12 employees) was £6.6m and to other members of staff (nil employees), £nil.

With respect to the remaining disclosures required under BIPRU 11.5.18, these are disclosed in further detail within the Remuneration Report included within pages 52-65 of the 2015 Annual Report and Accounts.

Appendix one - Ashmore regulated entities

Corporate entity	Effective ownership	Local regulator
Ashmore Investment Management Limited	100%	FCA
Ashmore Investment Advisors Limited	100%	FCA
Ashmore Management Company Turkey Ltd	100%	GFSC
Ashmore Portfoy YAS	99.96%	CMB
Ashmore Management Company Ltd	100%	GFSC
Ashmore Global Special Situations Fund 3 (GP) Ltd	100%	GFSC
Ashmore Global Special Situations Fund 4 (GP) Ltd	100%	GFSC
Ashmore Global Special Situations Fund 5 (GP) Ltd	100%	GFSC
Ashmore Special Opportunities (GP) Ltd	100%	GFSC
Ashmore Emerging Markets Special Situations Opportunities Fund (GP) Ltd	100%	GFSC
Ashmore Private Equity Turkey Fund 1 (GP)	91.2%	GFSC
AA Development Capital Investment Managers (Mauritius)	55%	FSCM
Ashmore Management Company Brasil Limited	91.3%	GFSC
Ashmore Brasil Gestora de Recursos Limitada	91.2%	CVM
AA Development Capital India (GP) Limited	55%	GFSC
Ashmore Japan Co Ltd	100%	JFSA
Ashmore Investment Management (US) (AIMUS)	100%	FINRA
Ashmore Equities Investment Management LLC	62.9%	SEC
Ashmore EMM (Ireland) Ltd	67.5%	CBI
Ashmore Investment Management (Singapore) Pte. Ltd.	100%	MAS
PT Ashmore Asset Management Indonesia	70%	OJK

FCA = Financial Conduct Authority;

GFSC = Guernsey Financial Services Commission;

CMB = Capital Markets Board, Turkey;

FSCM = Financial Services Commission Mauritius;

CVM = Brazilian Securities Exchange Commission;

JFSA = Financial Services Agency of Japan;

SEC = Securities and Exchange Commission;

CBI = Central Bank of Ireland;

MAS = Monetary Authority of Singapore;

OJK = Otoritas Jasa Keuangan (Indonesian Financial Services Authority)