Ashmore Group plc

Pillar 3 Disclosures as at 30 June 2016
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1.0 Overview

The purpose of this document is to outline the Pillar 3 disclosures for the Ashmore Group (hereafter, the Group). The disclosures on risk management and capital resources are as at the Group’s most recent financial year end, 30 June 2016.

The disclosures include the principal Financial Conduct Authority (FCA) regulated entities, Ashmore Investment Management Limited (AIML) and Ashmore Investment Advisors Limited (AIAL), which are both limited licence BIPRU €50k firms.

Ashmore is supervised on a consolidated basis in the United Kingdom by the FCA. The Group’s consolidated financial statements are prepared on the basis set out on page 85 of the Annual Report and Accounts for the year ended 30 June 2016. The method of consolidation used for prudential purposes is the same as that used for the Group’s consolidated financial statements. The disclosures included in this document relate to the Group.

1.1 Basis of Disclosures

The Group benefits 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 the Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU). The disclosures cover both the qualitative and quantitative requirements.

The Group is required to meet the requirements of the Basel capital adequacy framework, which consists of three pillars:

- Pillar 1 sets out the prescribed, rule-based minimum capital requirements for credit, market and operational risks;
- Pillar 2 requires firms to make their own assessment of the firm’s capital requirements; and
- Pillar 3 complements Pillars 1 and 2, and requires firms to disclose details of their risks, risk management processes and capital position.

1.2 Frequency of Disclosures

The Group has an accounting reference date of 30 June and in accordance with BIPRU 11.3.8, publishes its disclosures as soon as is practically possible after publication of the Annual Report and Accounts, and if appropriate, more frequently.

1.3 Media and location of Disclosures

These Pillar 3 disclosures are published on the Group’s website, http://www.ashmoregroup.com/investor-relations/reports-presentations.
2.0 Capital resources

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 85 of the 2016 Annual Report and Accounts. No adjustments are made in respect of insurance or other non-financial activities in determining the regulatory consolidation.

2.1 Own funds

<table>
<thead>
<tr>
<th></th>
<th>June 2016</th>
<th>June 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Permanent share capital</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Share premium account</td>
<td>15.7</td>
<td>15.7</td>
</tr>
<tr>
<td>Profit and loss and other reserves</td>
<td>661.0</td>
<td>640.4</td>
</tr>
<tr>
<td>Minority interests</td>
<td>3.3</td>
<td>14.0</td>
</tr>
<tr>
<td><strong>Tier 1 capital before regulatory adjustments</strong></td>
<td><strong>680.0</strong></td>
<td><strong>670.1</strong></td>
</tr>
<tr>
<td>Deductions from Tier 1 capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments in associates</td>
<td>(6.3)</td>
<td>(16.2)</td>
</tr>
<tr>
<td>Intangible assets and goodwill</td>
<td>(82.9)</td>
<td>(74.1)</td>
</tr>
<tr>
<td><strong>Tier 1 capital after deductions</strong></td>
<td><strong>590.8</strong></td>
<td><strong>579.8</strong></td>
</tr>
</tbody>
</table>

At 30 June 2016, the Group did not have Tier 2 or Tier 3 capital or any related deductions.
2.2 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 excess at all times during the period.

Ashmore’s regulatory capital requirement is the higher of the Pillar 1 and Pillar 2 calculations. The Group’s position at 30 June 2016 is summarised below, with June 2015 comparatives.

The Pillar 1 requirement of the Group, being the sum of actual solo regulated entity requirements and notional requirements for unregulated entities, is £63.1 million at 30 June 2016 (30 June 2015: £68.4 million). This is less than the Pillar 2 requirement of £99.9 million, partly reflecting the fact that the FCA’s Pillar 1 requirement for market risk is calculated at the standardised rate of 8%, per BIPRU, compared to the higher and more conservative rates that the Group recognises under Pillar 2, and the recognition of a 100% market risk charge in respect of undrawn illiquid seed capital positions under Pillar 2. In addition, the operational risk charge which forms part of the Pillar 2 requirement has decreased by 26% from £25.2 million at 30 June 2015 to £18.6 million at 30 June 2016 as part of the Group’s continual assessment of the risks facing the business.

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Group financial resources</td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>Pillar 1 capital requirement</td>
<td>63.1</td>
<td>68.4</td>
</tr>
<tr>
<td>Pillar 2 capital requirement</td>
<td>99.9</td>
<td>94.4</td>
</tr>
<tr>
<td>Capital resources requirements (higher of Pillar 1 and 2)</td>
<td>99.9</td>
<td>94.4</td>
</tr>
<tr>
<td>Excess/(deficit) financial resources</td>
<td>490.9</td>
<td>485.4</td>
</tr>
<tr>
<td>Solvency ratio</td>
<td>491%</td>
<td>514%</td>
</tr>
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The Group’s Pillar 2 capital requirement has increased at 30 June 2016 primarily as a result of an increase in the market risk capital charge (shown below). The market risk charge has increased primarily due to the group committing an additional £19.4m into illiquid seed capital, for which a 100% deduction is taken.

<table>
<thead>
<tr>
<th>Summary of Capital Requirements</th>
<th>June 2016</th>
<th>June 2015</th>
<th>Variance</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>%</td>
</tr>
<tr>
<td>Market risk</td>
<td>75.3</td>
<td>62.8</td>
<td>12.5</td>
<td>19</td>
</tr>
<tr>
<td>Credit risk</td>
<td>6.0</td>
<td>6.4</td>
<td>(0.4)</td>
<td>(6)</td>
</tr>
<tr>
<td>Operational risk</td>
<td>18.6</td>
<td>25.2</td>
<td>(6.6)</td>
<td>(26)</td>
</tr>
<tr>
<td>Total capital requirement</td>
<td>99.9</td>
<td>94.4</td>
<td>5.5</td>
<td>5</td>
</tr>
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3.0 Corporate governance and risk management

In accordance with the principles of the 2014 UK Corporate Governance Code, the Ashmore Group plc Board (hereafter, 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.

3.1 Governance framework

As a consequence of its business activities, Ashmore is exposed to a variety of risks. The Board has ultimate responsibility for the Group’s risk strategy and determines the Group’s risk appetite and accepted tolerance levels within which the business can operate. Active and effective management of the inherent and emerging risks within the underlying business model is critical to the successful performance of the business. The Board has set out a corporate governance framework that seeks to capture and quantify each of these risks, which subsequently allows it to assess the effectiveness of its internal control and risk management systems. The graphic below explains this framework in more detail.

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 accountability for individual controls. The internal control framework provides a process for identifying, evaluating and managing the Group’s principal risks. The process is regularly reviewed by the Group’s Audit and Risk Committee (ARC).
3.2 Risk management framework

Ashmore’s risk management framework sets out to identify, monitor, report and manage risk throughout the Group. The Board is responsible for managing risk and the Group has in place an extensive risk management framework, designed to embed risk awareness into all strategic and operational business decisions.

Ashmore’s risk management framework operates using a “three lines of defence” model, ensuring that ownership and accountability for identifying, mitigating and monitoring risk remains with each department head with an independent oversight from key control functions forming an additional layer of control.

The three lines of defence:

- The first line is the various business departments, who are responsible for the identification, mitigation and 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 independently and actively monitor the effectiveness of the control environment in order to flag to senior management where it may not be operating as expected.

- The third is the Group’s internal audit function, which operates under an independent mandate to provide retrospective assurance to senior management, the Board and the Audit and Risk Committee (ARC) on the effectiveness of specific risk areas.

Risk management policies

Ashmore has core values and policies which together comprise the Group’s high-level principles and controls, with which all staff are expected to comply. These policies are documented clearly within manuals of policies and procedures which are applicable to all business units and address the key risk categories described on page 11 of this document. Procedures are in place for reporting weaknesses and for monitoring corrective action. Equally, the Group upholds a code of business conduct with procedures for reporting compliance therewith and has in place a defined operational framework and organisational structure with appropriate delegation of authority and segregation of duties with accountability that has regard to acceptable levels of risk.
Risk management processes

The key processes within the risk management framework include:

- A planning framework is maintained, which incorporates a Board approved strategy, with objectives for each business unit;

- A risk appetite framework 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;

- Regular reviews of the financial and operating performance of the Group are undertaken by the Group’s Operating Committee to focus on delivery of the Group’s key strategic objectives;

- Detailed investment reports are prepared and discussed at each of the sub-committee meetings of the Group’s Investment Committees, which take place weekly or monthly depending on investment theme, with follow up actions agreed and implemented within a strict operational framework;

- Supervision by the Group’s Pricing and Oversight Committee (POC) of the effectiveness of pricing policies for all investments held in Ashmore sponsored funds where a reliable pricing source is available. This includes the responsibility to ensure that appointed third-party pricing agents carry out the agreed pricing policy faithfully and manage the pricing sources appropriately;

- Oversight of the valuation methodologies used for clients’ fund investments that cannot be readily externally priced is the responsibility of the Group’s Pricing Methodology and Valuation Committee (PMVC) and Public Equity Valuation Committee (PEVC), which meet monthly and quarterly respectively to review the current valuation methodology for each of these investments and to propose an updated valuation methodology where appropriate;

- Semi-annual senior management systems and controls meetings chaired by the Group Head of Compliance are held with attendees including the Group Finance Director, the Group Head of Human Resources, the Group Head of Risk Management and Control, the Group Head of Middle Office and Technology, and the Group Head of Legal and Transaction Management and in which the Chief Executive Officer participates at least annually. These meetings include evaluation of the potential impact and likelihood of identified risks and possible new risk areas;

- The Group Compliance function, whose responsibilities and processes include: ensuring that the Group at all times meets its regulatory obligations; integrating regulatory compliance procedures and best practices within the Group; ongoing compliance monitoring programme covering all the relevant areas of the Group’s operations; and identifying any breach of compliance with applicable financial services regulation, which includes real-time investment restrictions monitoring of client mandate requirements. Results of the compliance monitoring programme are reported to the Risk and Compliance Committee (RCC) in support of the overall risk management and internal control framework;
A matrix of principal risks identifies key strategic and business, client, treasury, investment and operational risks, and considers the likelihood of those risks crystallising and the resultant impact. The inherent risk within each business activity is identified, with the adequacy and mitigating effect of existing processes being assessed to determine a current residual risk level for each such activity. On the basis that further mitigants and/or controls may be employed over time, a target residual risk for each activity after one to two years is defined and progress to target is formally tracked;

Key risk indicator (KRI) statistics are reported to and analysed by the RCC. The KRIs indicate trends in the Group’s risk profile, assist in the reduction of errors and potential financial losses and seek to prevent exposure by dealing with a potential risk situation before an event actually occurs;

Financial controls are maintained to ensure accurate accounting for transactions, appropriate authorisation limits to contain exposures, and reliability of data processing and integrity of information generated;

There are well-defined procedures and thresholds governing the appraisal and approval of corporate investments, including seeding of funds and purchase of own shares, with detailed investment and divestment approval procedures, incorporating appropriate levels of authority and regular post-investment reviews;

Oversight and management of the Group’s foreign currency cash flows and balance sheet exposures are the responsibility of the FX Management Committee, which determines the appropriate level of hedging required;

The Group has secure information and communication systems capable of capturing relevant and up to date information by relevant personnel, with oversight and direction provided by the Group’s IT Steering Group, which implements the IT strategy, and establishment and oversight of all IT projects;

The development of new products, consideration of material changes to existing funds, and the restructuring of funds and products is the responsibility of the Product Committee and forms an important part of the Group’s business in responding to clients’ needs, changes in the financial markets and treating customers fairly; and

a Global Investment Performance Standards (GIPS) Committee, which acts as the primary decision making body within the Group in relation to any changes to the existing set of composites, and approving the creation of new composites.

Through the ARC, the Board has conducted an annual review and assessment of the effectiveness of the risk management and internal control systems, and has identified no significant failings or weaknesses during this review. In conducting this review, the Board and/or ARC has considered the periodic reports on compliance and risk matters, including reports provided by the internal audit function, and the annual report on risk management and internal control processes from the Group’s RCC. These reports were received throughout the year up to the latest practicable date prior to the approval of the annual report and accounts. The Board is satisfied that appropriate planned actions continue to be effective in improving controls as the Group develops, and its overall assessment of the control framework continues to be satisfactory.
Risk Identification

Responsibility for risk identification is shared among 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.

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 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, the Group Finance Director, the Group Head of Compliance, the Group Head of Finance, the Group Head of Middle Office and 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. Responsibility for risk identification is shared amongst these senior management personnel, with each such individual being responsible for day-to-day control of risk in their business area.

In accordance with GENPRU 1.2.30, the Group must, at all times, maintain overall financial resources and internal capital, including own funds and liquidity resources which are adequate both as to amount and quality to ensure there is no significant risk that its liabilities cannot be met as they fall due. 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 semi-annually and challenged and adopted by the Board at each point. As part of the ICAAP, the Group’s three year detailed financial forecast is subject to scenario-based downside stress-testing, covering the impact of negative investment performance and a decline in AuM. Consequently, the Board regularly assess the amount of capital that the Group is required to hold to cover its principal risks, including the amounts required under a range of adverse planning scenarios.

Risk Appetite Statement

The Group’s strategy and business model are underpinned by a group-wide risk aware culture, central to which, is a governance framework in place to identify, mitigate, monitor and report on those principal risks identified in the business model. This conservative approach to risk underpins the Group’s RAS.

The RAS describes the types and levels of risk that the Group is prepared to take in pursuit of its strategic objectives. The Group’s three phase strategy, as described on pages 6-7 of the Group’s 2016 Annual Report and Accounts has been in place since 2006 and is designed to deliver long-term growth to clients and shareholders by capitalising on the powerful social, economic and political convergence trends evident across
Emerging Markets. The business model employed to achieve the Group’s strategic aims is described on pages 8-9 of the Annual Report and Accounts.

The principles, thresholds and measurement criteria are set by the Board and are regularly reviewed for suitability in the context of the overall risk environment. The Board and ARC receive quantitative reporting on the RAS and the applicable thresholds on a quarterly basis.

The Group defines its risk appetite in the context of the following categories, in accordance with GENPRU 1.2.30:

- Credit / Counterparty risk
- Market risk
- Liquidity risk
- Operational risk
- Concentration risk
- Residual risk
- Securitisation risk
- Business risk
- Interest rate risk (including in the non-trading book)
- Risk of excessive leverage
- Pension obligation risk
- Group risk
- Reputational risk
- Insurance risk

For each of the risks identified per category, the RAS includes a full description of the risk, the main sources of the risk, the level of risk the Group is prepared to accept in pursuit of its strategic objectives as well as details of how this risk is monitored and reported against pre-approved thresholds. The level of risk the Group is prepared to accept is in the form of a qualitative statement of the Group’s risk appetite, defined as either:

- **High** – the Group actively seeks the risk in order to achieve its strategic goals and manages the risk within an appropriate control framework;

- **Medium** – the Group accepts the risk as it is necessary, but it is supported with the appropriate control activities or;

- **Low** – the Group actively seeks to avoid the risk, other than as incurred through the normal course of business. Control activities are implemented to minimise any risk that is accepted through the normal course of business.

### 4.0 Risk categories

Under BIPRU 11, the Group must disclose its risk management objectives and policies for each separate category of risk, including those referred to under BIPRU 11.5.1R to BIPRU 11.5.17R. Consequently, those key risks, the Group’s appetite towards each and the monitoring and mitigation of those risks are set out below for each category that Ashmore considers as part of its risk appetite statement.
4.1 Credit risk

The risk of loss due to an obligor’s non-payment of an outstanding debt, loan or other line of credit (either the principal or interest (coupon) or both).

The Group’s credit / counterparty risk is primarily in relation to:

i) Cash deposits and mark to market exposure in relation to derivative FX forward contracts used for hedging purposes; and

ii) Management fee debtors and accrued fee income in relation to clients’ assets managed by Ashmore and its affiliates.

The Group’s credit / counterparty policy ensures concentration risk arising from exposures to any single bank or group of connected banks are within pre-agreed thresholds. These exposures are typically short dated and are only with counterparties approved in accordance with the Group’s counterparty policy and Board approved thresholds. Exposures to financial institutions and/or liquidity funds are routinely monitored and reviewed by the Finance department monthly and also included within the Risk Management & Control (RMC) department’s quarterly counterparty review to the Group’s RCC. The Group’s exposure to management fee debtors and accrued fee income is also routinely monitored and reviewed by the Finance department and is also reported monthly in the Finance report to the Group RCC.

The Group assesses the credit / counterparty risk capital requirement using the standardised approach under Pillar 1. 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. No provisions for bad debts or unpaid management fees are held in the Group’s balance sheet at 30 June 2016 (June 2015: £nil).

Credit risk is calculated for undrawn illiquid seed capital positions arising on closed ended funds with a lock-in period greater than five years. In addition to the credit risk charge of 8% under Pillar 1 on invested amounts, those commitments as yet undrawn are assigned a Credit Conversion Factor in accordance with BIPRU 3.7, the charge for which is also included in the Group’s Pillar 1 credit risk charge. The risk weighted charge for these undrawn amounts is 4% of the undrawn commitment.
4.2 Market Risk

This is the risk of loss resulting from fluctuation in the market value of positions held on the Group’s balance sheet attributable to changes in market variables, such as interest rates, foreign exchange rates, equity and commodity prices or an issuer’s credit worthiness.

The market risk factors considered by the Group are: equity risk, credit spread risk, interest rate risk and foreign exchange risk.

i) Equity and Credit spread risk

The Group’s equity and credit spread exposure is primarily in relation to its seed capital investments.

ii) Interest rate risk

The Group’s interest rate exposure is limited as the Group does not have any borrowings and cash holdings are typically in overnight or on relatively short-dated deposits or in ALF (Ashmore’s daily dealing liquidity fund used for cash management).

iii) Foreign exchange risk

The primary FX risks arise as a result of the majority of management and performance fee revenues being USD denominated and having a proportion of the Group’s balance sheet denominated in US dollars, while the Group’s functional currency is GBP.

The Group targets interest rate bearing products with short dated maturities. The Group’s tolerance to equity and credit spread risk is covered as part of the seed capital thresholds approved by the Board and is monitored and reported on by the Finance department on a monthly basis to the Board. 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 Group recognises that it is impossible to completely eliminate this FX risk and seeks to manage it to within acceptable parameters. In respect of the Group’s exposure to non-Sterling denominated income and expenses, the Group has a Board approved 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 the purpose of estimating market risk Pillar 2 capital requirements on liquid seed investments, the Group uses a Value at Risk (VaR) approach. The capital charge for market risk, including foreign exchange exposure is based on a third party VaR model. The Pillar 2 market risk capital requirement is based on the 99th percentile VaR over a 10-day holding period and a multiplier of three.

Market risk is also calculated for drawn and undrawn illiquid seed capital positions arising on closed ended funds with a lock-in period greater than five years. The firm recognises a market risk charge of 8% under Pillar 1 on invested amounts and a 100% deduction under Pillar 2 for all undrawn illiquid commitments.
The capital charge on undrawn illiquid seed capital positions is £24.6 million (2015: £5.2 million), an increase of £19.4m year on year, attributable to new undrawn commitments made into the Group’s illiquid strategies during the year.

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. In respect of the Group’s balance sheet risk relating to seed capital investments and currency exposures other than Sterling, the associated foreign exchange risk has been incorporated within the market risk quota set out above, to facilitate an aggregated view.

Other assets and liabilities, comprising bank balances, management fees receivable and rebates payable, have been analysed by currency, with a capital charge being computed according to the VaR methodology outlined above; this results in a capital charge of £27.1 million (June 2015: £26.1 million).

4.3 Liquidity risk

This is the risk that a position cannot be sold, liquidated or closed out at limited cost in an adequately short timeframe. It is also the risk that a firm, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost. 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 currently does not have any debt on its balance sheet.

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. 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 Board has established the following tolerances for the Group:

- Sufficient liquidity will be maintained to be able to meet, from available cash or cash equivalent balances (including the Ashmore liquidity funds) under stressed scenarios, all liabilities as they fall due;
- Sufficient cash and cash equivalents (including the Ashmore liquidity funds) will be held to meet budgeted operational expenditure for a period of six months and rent for an additional 12 months; and
- Surplus cash will be held in Ashmore liquidity funds and other highly liquid deposits and money market instruments with a diversity of banks and with a range of maturities, individually not exceeding 12 months.

The Group’s business model has historically provided a high correlation between earnings and cash flow. From operating profit of £137.9 million for the period (FY2014/15: £181.0 million), the Group generated cash of £151.2 million before working capital charges (FY2014/15: £215.2 million) and £125.2 million of cash from operations (FY2014/15: £190.4 million). Management fee income is typically received on a quarterly basis from the funds and segregated mandates which Ashmore manages, and as a consequence of the close working
nature between the investment manager and the main fund administrator, Northern Trust, fees are paid to Ashmore within one week of being invoiced. Fixed costs are well controlled and the timing of annual variable compensation and quarterly UK tax payments allows for cash to build up on the balance sheet over the course of the year.

For a variety of reasons, the Group has historically held significant cash balances and has no requirement to hold debt to fund operating capital requirements. A significant majority of the Group’s income is derived in US dollars and therefore the Group takes foreign exchange risk on currency holdings.

The Group’s cash balances are invested within a strict framework which emphasises capital preservation, security, liquidity and counterparty risk. Cash is invested only in institutions with approved instruments. Typically, during the financial year, investments have been in short-term cash deposits and SICAV liquidity funds.

Cash and liquidity is managed by the Finance team, with daily cashflows summaries prepared to forecast funding requirements and identify any excess balances not required for operating expenses. These excess amounts are placed on term deposits with a variety of credit institutions over a series of timeframes up to 12 months. As at June 2016, a total of £199m (June 2015: £170m) was placed on deposit ranging from 1-3 months, 3-6 and 6-12 months forward dated as follows:

<table>
<thead>
<tr>
<th>Timeframe</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 month</td>
<td>£30m</td>
</tr>
<tr>
<td>1 – 3 months</td>
<td>£52m</td>
</tr>
<tr>
<td>3 – 6 months</td>
<td>£52m</td>
</tr>
<tr>
<td>6 – 12 months</td>
<td>£65m</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>£199m</strong></td>
</tr>
</tbody>
</table>

In respect of seed investments, the Group invests only in Ashmore managed products. In the case where seed investments are made in closed ended funds with lock-in periods of greater than five years, a Pillar 2 capital charge of 100% of the undrawn commitment has been recognised within the market risk charge.

The Group’s illiquid fixed assets, goodwill and intangibles are deducted in full when calculating the available capital resources. The liquidity risk of seed capital investments has been fully captured within the market and counterparty risk charges at 30 June 2016.

4.4 Operational Risk

Risks in this category are broad in nature and inherent in most businesses and processes. Operational risks can lead to losses arising from inadequate or failed internal processes, people, systems, or other external events.

The Group’s risk appetite statement recognises that operational risk results from a lack of resources or planning, error or fraud, weaknesses in systems and controls, or incorrect accounting, tax, legal regulatory or similar failings. The RAS includes thresholds for each category of risk, in addition to details of the measurement and reporting against each defined threshold.
The Principal Risk Matrix includes a consideration of the likelihood of those risks identified occurring using a “High, Medium, Low” narrative, alongside the resultant impact. In addition, the inherent risk within each business activity is identified, with the adequacy of existing controls and mitigants being assessed to determine a current residual risk level for each such activity. An assessment is also made of the progress towards the 1-2 year residual risk target.

To assess the operational risk capital requirement, the Group reviews all risks classified as “High” and appraises those remaining classed as “Medium” or “Low” for topical interest. A total of 13 risks form the basis for the operational risk capital charge (2015: 14). For each risk, an assessment of the severe, yet plausible likely loss was quantified on a 1 in 20 year basis. The aggregation of the quantitative output from each of the scenarios forms the basis for the operational risk capital requirement. The Group does not reduce the capital requirement by taking into account any benefit arising from existing insurance policies in place.

4.5 Residual Risk

This is the risk that risk mitigation techniques (i.e. hedges) used by the firm for credit and market risk proves less effective than expected. The Group does not currently use credit default swaps to mitigate credit risk on the balance sheet. The Group uses financial hedges where appropriate (e.g. FX derivatives) to mitigate foreign exchange risk.

Given the nature of this risk, the Group has not set a specific risk appetite in relation to residual risk. The Group’s FX exposure and financial hedges are monitored by the Finance department and assessed by the FX Management Committee at each meeting. The Finance department also reports FX exposure and financial hedges to the RCC as part of its monthly reporting of its KRIs.

There is no Board approved threshold for residual risk and no regulatory capital charge is considered necessary at this time.

4.6 Securitisation risk

The risk that the capital resources held by a firm in respect of assets which it has securitised are inadequate having regard to the economic substance of the transaction, including the degree of risk transfer achieved.

This is not applicable to the Group as at 30 June 2016. Accordingly the Group has assessed that no capital requirement is necessary.

4.7 Business 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. In addition, the risk to a firm arising from changes in its business and remuneration policy, including the acute risk to earnings posed by falling or volatile income; the broader risk of a firm's business model or strategy proving inappropriate due to macroeconomic, geopolitical, industry, regulatory or other factors; the risk that a firm may not be able to carry out its business plan and desired strategy; as well as any potential reputational risk a firm may be exposed to.
The Group assesses its underlying operating profitability through the adjusted EBITDA margin, which measures operating profit (excluding depreciation and amortisation) against net revenues (excluding FX and seed capital gains and losses). This margin is reported monthly in the Group’s management accounts and also externally in the Group’s Interim Report and Annual Report and Accounts. No regulatory capital charge is specifically required against this measure.

4.8 **Interest rate risk (in non-trading book)**

This is the risk that a movement in interest rates will impact the Group’s profitability. The Group’s balance sheet is not leveraged and cash balances are held on overnight or short term deposit. Given this and the historically low level of interest rates at present, the Group has assessed that no capital requirement is necessary.

4.9 **Pensions obligation risk**

This is the risk to a firm caused by its contractual or other liabilities to, or with respect to, a pension scheme (whether established for its employees or those of a related company or otherwise). It also means the risk that the firm will make payments or other contribution to, or with respect to, a pension scheme because of a moral obligation or because the firm considers that it needs to do so for some other reason.

The Group does not have a defined benefit pension scheme. Contributions to the defined contribution employee pension scheme are made as the Group’s liability arises. Accordingly the Group has assessed that no capital requirement is necessary.

4.10 **Group risk**

This is the risk that other entities within the Group, may adversely affect the financial position of the whole group (e.g. reputational contagion). The main sources of risk are in relation to the Group’s overseas offices and joint ventures.

The Group aims to control and mitigate this risk by ensuring there is sufficient governance and oversight for subsidiaries and joint ventures. Where appropriate, the Group has local Investment and Risk and Compliance Committees for local office subsidiaries and has Board representation in relation to joint ventures. In the case of local offices, the Group also has a Global Operating Model and the Group’s Operating Committee and the Board receive annual updates on the effectiveness of the Global Operating Model.

4.11 **Reputational Risk**

This is the risk arising from negative perception on the part of clients, counterparties, investors, regulators or other third parties that can adversely affect the Group’s ability to maintain existing, or establish new, business relationships. Reputational risk reflects the perception of those third parties. Furthermore, it exists throughout the organisation and exposure to reputational risk is essentially a function of the adequacy of the Group’s internal risk management and internal control processes, as well as the manner and efficiency with which senior management responds to external influences.
The Group is exposed to reputational risk from a number of sources including traditional, digital and social media and seeks to identify the risks associated with negative press, inaccurate reporting and potential abuse from both traditional and digital sources which may impact Ashmore’s reputation.

The Group has an established Board approved Media & Reputation Management Policy focusing on understanding the information that is publicly available on the Group, including employees and directors of the Group as well as the funds and individual investments it manages, especially that which could create negative reputational issues. The Group also assesses reputational risk as part of its quarterly principal risk review. No regulatory capital charge is specifically required against this risk.

**4.12 Insurance Risk**

This is the risk in relation to claims on insurance that a firm has made or is in the course of making. The Group maintains insurance that is considered appropriate against the principle risks inherent in its business as an asset manager, in particular Professional Indemnity, Directors and Officers Liability and Fidelity cover together with Commercial Combined Risk and Travel.

In assessing its capital requirements, the Group does not assume the benefit from potential insurance claims being used to offset potential losses.
5.0 Code staff aggregate remuneration

The Ashmore Group plc Remuneration Report for the year ending 30 June 2016 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 20 individuals were Code Staff during the year ending 30 June 2016 (June 2015: 12). 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 20 Remuneration Code Staff was £12.1m in the year ended 30 June 2016 (June 2015: 12, £6.6m).

Of these 20 Remuneration Code Staff, the aggregate amounts paid to senior management (20 employees) was £12.1m and to other members of staff (nil employees), £nil.