Ashmore Investment Saudi Arabia

Pillar III Qualitative and Quantitative Disclosures

As of 30 June 2020

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A. General

Ashmore Investment Saudi Arabia (hereinafter referred to as “AISA” or “the Company”) is a Saudi Closed Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010420651 dated 07 Shawwal 1435 H (corresponding to 3 August 2014). The address of the Company’s head office is as follows:

Ashmore Investment Saudi Arabia
P.O. Box 8022
Riyadh 112213
Kingdom of Saudi Arabia

The shareholding structure of the company is as follows:

Name of shareholders	As at 30 June 2020			
	No. of shares	Value per share	Total	% of holding
Ashmore Investment (UK) Ltd	4,500,000	10	45,000,000	90
Dr. Khalid Al Sweilem	500,000	10	5,000,000	10
	5,000,000		50,000,000	100

The company has no local or foreign subsidiaries or associates. The Company also does not jointly manage or exercise any type of governance on any local or foreign company.

The objective of the company is to provide investment managing services, including managing investment funds, client portfolio management and advisory services in relation to the securities business pursuant to Capital Market Authority License No. (14174-22) dated 19/3/1435H corresponding to 13/4/2014G.

In accordance with CMA regulation, AISA publishes its Pillar III disclosures on an annual basis at its website http://www.ashmoresaudiarabia.com.sa/

B. CAPITAL STRUCTURE

AISA capital structure is composed of:

Tier-1 capital of the Company consists of paid up share capital of SAR 50 million (consisting of 5 million shares at par value per share of SAR 10) and also audited profit of SAR 2.697 million for the financial year 2019-2020 (2018-2019: audited profit of SAR 9.022 million). Total Tier-1 Capital is SAR 36.114 million (2018-2019: SAR 33.270 million). There are no Sub-ordinated Loans, Cumulative Preference Shares, Revaluation Reserves or other deductions which implies Tier-2 capital is SAR 0 and Total Capital Base SAR 36.114 million.

C. CAPITAL ADEQUACY

AISA has an Audit and Risk Committee to monitor all risks inherent in its business.

AISA has adopted Pillar I capital calculation methodologies under the guidelines issued by the CMA.

AISA as of the financial year end 30 June 2020 is well capitalized with a total capital ratio of 2.89x (30 June 2019: 3.45x), well above CMA's minimum regulatory requirement of 1.00x.

For disclosures on the capital adequacy please refer to Appendix 1.

D. RISK MANAGEMENT

1. Risk Governance Structure

The cornerstone of Ashmore's risk management culture is to identify, manage and monitor risks inherent to the business, is based on a structure that is designed to capture said mainly through the establishment of; a Risk & Compliance Committee ("RCC"), Investment Committees ("ICs") and an Audit and Risk Committee ("ARC") of the Board supported by various policies to govern the risks associated with the Company.

a) Risk and Compliance Committee

The purpose of this Committee is to assist the Company and its Board by reporting to the Audit & Risk Committee with appropriate information on the risks inherent in the business and how to address those.

Risk is inherent in all businesses and is therefore present within the Company's activities. The Company seeks to effectively identify, monitor and manage each of its risks and actively promotes a risk and compliance awareness culture throughout the organization. The ultimate responsibility for risk management rests with the Board of Directors of the Company.

The standing members of the Company's RCC are:

1) Managing Director (Chief Executive Officer)
2) Chief Financial Officer
3) Head of Risk
4) Compliance & AML Officer
5) Chief Operation Officer
6) Head of Business Development

Duties and Authority of the RCC shall be:

(i) to support the Board of Directors of AISA who are responsible for system of internal controls and for reviewing and reporting upon its effectiveness to shareholders.

(ii) to identify and assess significant risks affecting AISA as applicable on an on-going basis.

(iii) to assist the Board of Directors, management and others within the organization in establishing a clear understanding of what risks are acceptable to the Company and how to manage and mitigate them.

(iv) to approve and annually review the strategies and main policies for managing, monitoring and mitigating the risks which the Company is or might be exposed to, including those posed by the macroeconomic environment in which it operates in relation to the status of the business cycle.

(v) to consider, and establish, on-going processes to be embedded within the overall business operations to monitor the effective application of the policies, processes and activities related to compliance, internal control and risk management.

(vi) to review and monitor the effectiveness of the Compliance Monitoring Programme of the Company.

(vii) to review the effectiveness of the Company's systems of internal control, financial reporting and risk management.

(viii) to demonstrate, through its actions as well as its policies, the necessary commitment to competence, integrity and the fostering of a climate of trust within the Company.

Responsibility for risk identification is shared amongst the Company's senior managers, with each individual manager being responsible for control of risk in their business area, and for appropriate reporting to the RCC.

b) Investment Committees and the Investment Risks

The purpose of the Investment Committees is to define how AISA manages the funds and portfolios under its management agreements, making for a transparent and responsible manner in which client monies are managed.

The Investment Committees have as standing members:

1) Chief Investment Officer (CIO)
2) Portfolio Managers
3) Analysts
4) Risk Manager as an invitee

For portfolio risks, the investment team conducts numerous on-site company visits, meetings with company management, as well as consulting with industry specialists and meetings with the companies' competitors. Our research includes a quantitative analysis of detailed financial information and a qualitative analysis of the company's management, corporate governance, competitive position and operating environment (i.e., local political, capital risk assessment).

The portfolio risk review is integrated into our process primarily through a rigorous, fundamental bottom up assessment of investment opportunity. This assessment focuses on quality, value and growth metrics. With attention to business risk in each of the portfolio holdings, we strive to mitigate downside losses relative to markets.

Meetings will be split into two parts, “macro” and “micro”. Firstly, the meeting will cover:

- macro analysis of the world economy and the region or country;
- investment sectors concerned; and
- impact on existing or new investments under consideration

The second part of the meeting will cover:

- a review of the minutes of the previous meeting and activity since the previous meeting
- a discussion of trades not carried out as per previous meeting
- review of previous month’s performance for various funds and investments
- any adjustments or proposals that may be identified for investments/funds
- discussion of new assets for consideration or divestment of existing assets

c) Audit and Risk Committee of the Board

The Committee consists of exclusively of not less than two non-executive directors appointed by the Board. Each member of the Committee shall be free from any relationship that may interfere with the exercise of his or her judgment as a member of the Committee.

The Committee shall meet as necessary and at least twice a year at appropriate intervals in the financial reporting and audit cycle, as decided by the chairman in consultation with the board secretary.

The Committee is authorised:

(i) to seek any information it requires from any employee of the Company in order to perform its duties related to review of financial statements, internal audit, external audit and any material risks to business plan,

(ii) to obtain, at the Company’s expense, outside legal or other professional advice on any matter within its terms of reference; and

(iii) to call any employee to be questioned at a meeting of the Committee as and when required.

2. Main Risk Definitions and Mitigation Policies

Risks are identified if their occurrence is likely to have an impact either on the Company's short term performance or on the long term sustainability of its earnings and growth. There are numerous risks that needs monitoring but the key risks are:

2.1) Strategic Risk

Strategic risk is the risk arising from adverse business decisions or improper implementation of those decisions. This risk is a function of the compatibility of AISA's strategic goals, the business strategies developed to achieve those goals, the resources deployed against those goals, and the quality of implementation. Mitigation of strategic risk is achieved by the Board and the Audit and Risk Committee of the Board.

2.2) External Risk

AISA is exposed to various events of risks. Such as, natural disasters, acts of war or terrorism, major macroeconomic shocks, can all severely impact the Company's earnings, economic and human capital in a very short period of time, and render its operations and business plan inadequate. Mitigation of external risk is achieved by implementing and updating and testing of Business Continuity Plan of the Company.

2.3) Financial Risk

Financial risk is the risk to AISA's earnings or capital arising from violations of, or non-conformance with applicable laws, rules, prescribed practices, or ethical standards. It also arises in situations where the laws or rules governing certain products or activities may be ambiguous or untested. It exposes the Company to fines, civil money penalties, payment of damages, and the voiding of contracts. It can lead to a diminished reputation, internal and external fraud, reduced franchise value, limited business opportunities, lessened expansion potential, and lack of contract enforceability.

Mitigation of the financial risk is achieved by

1) Controls over all kind of expenses (capital or operational);
2) Strict and conservative Budget Planning, monthly review of the financials vs budgeted figures;
3) Various Insurance Policies; and
4) Risk Committees (RCC and ARC)

2.4) Operational Risk

Operational risk is derived from the potential that improper transaction processing, control errors, inappropriate information systems, technology failures, breaches of regulatory compliance, breaks of Company policy, or any other operational drawbacks result in operational losses for AISA. Operational risk is the risk to AISA's earnings or capital arising from problems with service or product delivery. This risk is a function of internal controls, information systems, employee integrity, and operating processes.

To mitigate the risk of operational risk, the Company follows the guidance of Audit and Risk Committee as well as Risk and Compliance Committee by The Operational Risk capital charge is calculated as higher of the amounts under the following two approaches.

Basic Indicator Approach: Under the Basic Indicator Approach, 15% capital charge is calculated on average operating income of the last three audited financials.

Expenditure Based Approach: Under the Expenditure Based Approach, 25% capital charge is calculated on all overhead expenses except extraordinary expenses as per the most recent audited annual financial statements.

Please refer to Appendix 2 for disclosure on Operational Risk.

2.5) Liquidity Risk

Liquidity risk is defined in two contexts. In one context, it is defined as funding risk implying inability to meet financial commitments when they arise. In another context, liquidity risk arises due to the lack of marketability for an asset that could result in non-execution of the order or execution at unfavourable prices.

To mitigate the liquidity risk, AISA follows a liquidity policy for company finances. Liquidity risk is minimised as of June 30, 2020 since majority of the company assets are short term and current account deposits.

Fund and DPM liquidities are monitored through MIS systems of AISA and reported to Risk and Compliance Committee on a monthly Basis.

Please refer to Appendix 3 for disclosure on Liquidity Risk.

2.6) Market Risk:

Market risk is the risk of loss resulting from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments. Price risk is the uncertainty derived from changes in interest rates, foreign exchange fluctuations and fluctuations in equities and commodities prices.

To mitigate the market risk, Investment Committees and the Risk Manager work in coordination. Risk Management provides the quantitative information required by the ICs. As of 30 June 2019, AISA doesn't have any exposures to Market risk. Hence, capital requirement for the market related risks are 'Nil'.

2.7) Credit Risk:

Credit risk is the risk of the default of the counterparty due to inability to comply with contractual obligation related to any kind of financial transaction. AISA is subject to minimum credit risk since by the licensing of CMA, the Company can only invest in low risk instruments such as cash and cash equivalents and deposits with Local Banks which have strong credit ratings.

The Company is also subject to credit risk because of DPM fee collections, which is managed by the RCC. Receivables which are outstanding for more than 90 days are reported to RCC. As of 30 June 2019, there are no past due claims or off- balance sheet exposures.

As per the Company's counterparty credit risk policy, all risk related to counterparties, brokers of the funds and the company are monitored via periodic reporting and strict approval mechanism. The Company is subject to minimum counterparty risks since the equity settlement in KSA is T+2 DVP. Also DPM account holders nominate their own custodian so the company is only responsible for administration of the DPM.

Please refer to Appendix 4 for disclosure on Credit Risk.

Appendix 1: Disclosure on Capital Base

Capital Base	June 2020 SAR in "000"	June 2019 SAR in "000"
Tier 1 Capital	36,114	33,270
Tier 2 Capital	-	-
Total Capital Base	**36,114**	33,270
Minimum Capital Requirement:		
Market Risk	-	-
Credit Risk	5,517	4,208
Operational Risk	6,977	5,427
Total Minimum Capital Required	**12,494**	9,635
Capital Adequacy Ratio:		
Total Capital Ratio (times)	**2.89x**	3.45x
Tier 1 Capital Ratio (times)	**2.89x**	3.45x
Surplus in Capital	**23,620**	23,635

Appendix 2: Disclosure on Operational Risks

Basic Indicator Approach (BIA)	Year Ended	Gross Income	Average Gross Income	Risk Capital Charge (%)	Capital Required
Operating income (SAR '000)	30 June 2018	20,876	26,658	15%	3,999
	30 June 2019	27,751			
	30 June 2020	31,347			

Expenditure Based Approach (EBA)	Year - 1	Overhead Expenses	Risk Capital Charge (%)	Capital Required
Overhead expenses (SAR '000)	30-Jun-20	27,908	25%	6,977

Capital requirement for Operational Risk for 30 June 2020 **(Higher of Basic Indicator Approach and Expenditure Based Approach)**	**6,977**

Appendix 3: Disclosure on Liquidity Risks

Cash and Cash Equivalents	June 2020 SAR in "000"	June 2019 SAR in "000"
Cash in hand	**25**	2
Cash at bank	**10,064**	2,353
Murabaha placement with original maturity of three months or less	**22,000**	25,000
Total Cash and Cash Equivalents	**32,089**	27,355

Short-term Murabaha Placements	June 2020 SAR in "000"	June 2019 SAR in "000"
Murabaha placement with original maturity of more than three months and less than one year	-	-
Murabaha placement with original maturity of more than one month and less than three months	**22,000**	20,000
Total Short-term Murabaha Placements	**22,000**	20,000

There are no long term investments or significant short term liabilities.

Appendix 4: Disclosure on Credit Risks

On-balance Sheet Exposures (SAR '000)							**RWA**	**Capital Requirement**
Governments and central banks	0%	20%	50%	100%	150%			
Exposures	-	-	-	-	-		-	-
Credit protection (-)								
Total	-	-	-	-	-			
APs and banks	20%	50%	100%	150%				
Exposures	32,064	-	-	-			6,413	898
Credit protection (-)								
Total	32,064	-	-	-				
Corporates	20%	50%	100%	200%	400%	714%		
Exposures	-	-	-	-	-	1,073	7,661	1,073
Credit protection (-)								
Total	-	-	-	-	-	11,032		
Investment funds	20%	50%	100%	150%	300%			
Exposures	-	-	-	10,316	-		15,474	2,166
Credit protection (-)								
Total	-	-	-	6,144	-			
Others exposures	0%	300%	714%				2,599	364
Cash or gold	25	-	-					
Tangible assets	-	572	-					
Deferred expenditure/accrued income	-	142	-					
Retail exposures	-	-	-					
Past due items	-	-	-					
Other assets	-	-	64					
Credit protection/ financial collateral	-	-	-					
Total	25	713	68					
Prohibited Expenses							**7,262**	**1,017**
TOTAL CREDIT RISKS							**39,408**	**5,517**

Exposure Class	Ratings of Counterparties (Amounts in SAR '000)							
	Credit quality step	1	2	3	4	5	6	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	CCC+ and below	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	CCC+ and below	Unrated
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to Ba3	B1 to B3	Caa1 and below	Unrated
	Capital Intelligence	AAA	AA to A	BBB	BB	B	C and below	Unrated
On and Off-balance-sheet Exposures								
Governments and Central Banks		-	-	-	-	-	-	-
Authorized Persons and Banks (including cash)		32,064	-	-	-	-	-	-
Corporates		-	-	-	-	-	-	1,073
Retail		-	-	-	-	-	-	-
Investment Funds		-	-	-	-	-	-	10,316
Securitization		-	-	-	-	-	-	-
Margin Financing		-	-	-	-	-	-	-
Other Assets		-	-	-	-	-	-	-
Total		**32,064**	**-**	**-**	**-**	**-**	**-**	**11,389**