



1. BACKGROUND

The Capital Requirements Directive enacted by the European Union in 2006 established a new framework for the management of regulatory capital. The framework consists of three 'pillars':

- Pillar 1 sets out the minimum capital requirements that firms must meet using standard criteria.
- Pillar 2 involves an assessment of risk and the capital that should be held, specific to each firm.
- Pillar 3 requires firms to publicly disclose their policies for managing risk and their capital requirements.

In the UK, the Capital Requirements Directive was implemented by the Financial Services Authority (FSA) through the publication of the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU). Chapter 11 of BIPRU sets out the disclosure requirements in relation to Pillar 3.

Martin Currie Limited is the UK consolidation group consisting of three firms regulated by the FSA: Martin Currie Investment Management Limited, Martin Currie Unit Trusts Limited, and Martin Currie Inc.

Martin Currie Limited is subject to consolidated supervision by the FSA. The disclosure which follows relates to Martin Currie Limited, the UK consolidation group, and meets the requirements of Chapter 11 of BIPRU.

Martin Currie Limited is referred to in this document as 'Martin Currie'.

2. RISK MANAGEMENT

Risk Management Objectives

Martin Currie recognises that risk management is an important tool, not only as a key element of effective governance, but also as an enabler in managing performance, by proactively identifying and managing the risks inherent in its strategy, products and processes.

Risk is an inherent part of Martin Currie's business. The extent to which risks are properly identified, assessed, monitored and managed is critical to its financial soundness, reputation and future profitability. Martin Currie's objective is not to completely eliminate risk but to manage it to an acceptable level while balancing risk with reward.

Effective risk management assists in the delivery of strategic objectives; protecting the value of Martin Currie by managing the potential threats and adding value by enhancing its ability to take advantage of the available opportunities. It also aids capital planning, enabling Martin Currie to retain the ability to meet its liabilities as they fall due.

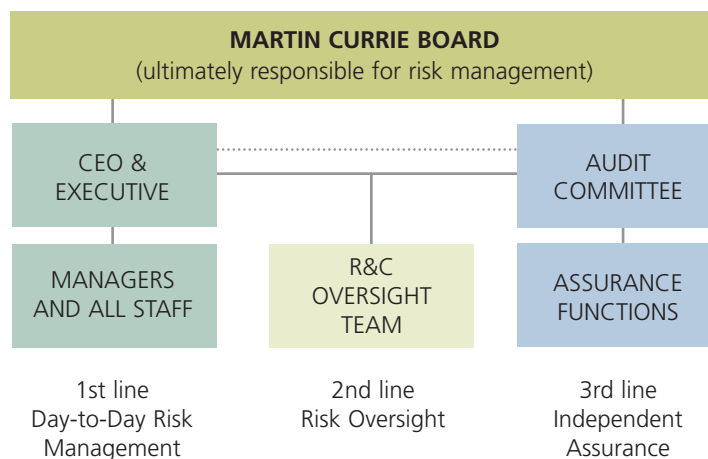
To achieve all of this, a robust risk management framework is in place.

Risk Management Framework

The Board of Directors of Martin Currie has delegated responsibility to line management for the day-to-day management of risks in their areas of responsibility and for designing and operating suitable systems and controls to manage risk within the stated risk appetite. The Board sets reporting standards and regularly reviews management information to obtain comfort that the business continues to operate within its defined risk appetite:

Martin Currie has an appetite for risk that varies from very low to medium depending on the nature of the risk concerned and how central it is to the Martin Currie culture. Generally speaking, it has a low or very low risk appetite in areas that are fundamental to the culture of Martin Currie and its business model - the investment process, client service and regulatory compliance. It is more accepting of risks - for example, risks to product development plans - where the overall effect, though potentially significant, is likely to be short to medium term, given its belief that continuing to focus on the fundamentals will deliver long-term success.

There is a continuous process within Martin Currie of risk identification, assessment, mitigation, analysis and evaluation, monitoring and reporting. The process is subject to appropriate independent challenge to ensure clear processes for decision-making and mitigating risk are in place, with a governance structure, which clearly defines roles and responsibilities, based on the adopted 'three lines of defence' model.



1st Line of Defence

Management and staff responsibilities are clearly defined and reporting lines ensure the appropriate segregation of responsibilities between investment management, dealing and operations. Recruitment is targeted at high calibre management and staff, who are then provided with relevant training. Policies to ensure compliance are consistently applied and there is insistence on the highest standards of integrity.

2nd Line of Defence

The Risk & Compliance function provides oversight and independent assurance that risk policies and practices are aligned with the risk appetite set by the Board on an ongoing basis.

3rd Line of Defence

The Internal Audit function, which is outsourced to KPMG LLP, provides independent assurance on the effectiveness of systems and controls. Martin Currie has also appointed an external audit firm, Deloitte LLP, to perform independent testing of its achievement of control objectives in accordance with AAF 01/06 guidance.

The Board and the Audit Committee, which is chaired by a non-executive director of the Board, receive regular reports from Risk & Compliance and Internal Audit to enable them to monitor adherence to the risk appetite.

Risk Management Policies

Martin Currie manages a number of different categories of risk, with those relevant to this disclosure described below.

Business risk

Martin Currie is purely an equity investment management company, investing on behalf of our clients in global equity markets, and is therefore exposed to the risk of a significant general market downturn. Conservative assumptions are therefore adopted in business planning and stress testing is performed to ensure that in the event of a severe downturn, there would be sufficient capital to enable the business to meet its capital requirements.

Credit risk

Martin Currie's principal financial assets are bank balances and cash, trade and other receivables and investments. The company's credit risk is primarily attributable to its trade debtors. As exposure is spread over a large number of counterparties and those counterparties are principally institutions with high credit ratings, the company has no significant concentration of credit risk. Martin Currie has no history of bad debt amongst its creditors. Most clients pay fees on a quarterly basis and there is therefore regular cash flow into Martin Currie.

Market risk

Martin Currie's involvement in international markets means a large proportion of its revenue is in non-sterling currencies, whilst the cost base is predominantly in sterling. This creates a potential exposure to foreign currency movements, which is managed by means of a foreign currency hedging strategy.

From time to time, Martin Currie provides seed capital to facilitate the launch of new products. Seed capital is provided on a short term basis only, until the fund is of a sufficient size, and is not made for investment purposes. The value of such seed capital is not material in the context of Martin Currie's net overall assets.

Concentration risk

Exposure to concentration risk is limited through the diversification in the Martin Currie business model. There is diversification in terms of the product range and geographically. No single investment strategy accounts for more than 25% of funds under management.

Liquidity risk

Liquidity risk is low: Martin Currie has had strong relationships with the top five banks for over forty years and has been able to secure finance on favourable terms when required. The firm is profitable, has healthy cash flows, and liquidity risk is not a concern.

Operational risk

Operational risk relates to inadequacies or failures in Martin Currie's processes, people or systems or as a result of external events. As described earlier, a robust risk management framework is applied rigorously to limit operational risk to an acceptable level. Insurance cover, with a highly rated and financially sound underwriter, is also in place in relation to certain risks, should it be required.

3. CAPITAL RESOURCES AND REQUIREMENTS

Martin Currie's capital resources are significantly in excess of regulatory requirements. Further information on capital requirements under Pillar 1 and Pillar 2 and on the firm's approach to managing its capital will be provided once the financial results for the year ended 31 December 2008 have been audited, in the first part of 2009.

Martin Currie Limited

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Martin Currie Investment Management Limited, Martin Currie Unit Trusts Limited and Martin Currie Inc are authorised and regulated by the Financial Services Authority. Please note that calls to the above numbers may be recorded.