



Setanta Asset Management Limited

Capital Requirements Directive

Pillar 3 Risk Management Disclosures

BACKGROUND & SCOPE OF DIRECTIVE REQUIREMENTS

Setanta Asset Management Limited (Setanta) is regulated by the Irish Financial Services Regulatory Authority (IFSRA) in Ireland as an investment firm authorised to carry out portfolio management.

Investment firms, such as Setanta, are required to comply with the Capital Requirement Directives (CRD) as transposed into Irish law. The CRD implements the Basel II accord and creates a revised capital framework for financial institutions.

There are three key pillars in the CRD:

Pillar 1 sets out a methodology for the calculation of investment firms' minimum regulatory capital.

Pillar 2 requires firms to fully assess their risks and to ensure there is a practical link between their risk profile and the capital they maintain in accordance with their internal capital adequacy assessment process.

Pillar 3 obliges firms to publicly disclose information concerning their capital, risk exposures and risk assessment processes.

This document is Setanta's Pillar 3 disclosure in accordance with the requirements of the CRD.

RISK MANAGEMENT OBJECTIVES & POLICIES

Setanta's risk policy has been approved by the firm's Board of Directors. Setanta's Management Team monitors compliance with the risk policy and regularly reports to the Board of Directors in respect of compliance.

The firm's risk management framework stated in the risk policy is based on:

- An organisational structure with segregation of functions;
- Documented policies and procedures;

- An independent risk management function; and
- An oversight function by the Board of Directors and senior management.

Setanta uses an enterprise risk assessment process which is in use across the Great West Life Group. The process has been adopted to assess the risks borne by Setanta and is also utilised for the purpose of the Internal Capital Adequacy Assessment Process (ICAAP) under Pillar 2 of the CRD. Under the enterprise risk assessment process, the risk tolerance used for assessing each risk is based on the consequence to projected annual pre-tax gross income should the risk occur.

Setanta's Risk & Compliance Manager has operational responsibility for identifying, managing, controlling and communicating risks in respect of the firm. In addition, each business function/department head is responsible for identifying and owning the operational risks within his/her own business areas.

RISK EXPOSURES

Setanta's risks are typical for an investment manager that does not deal on own account. The main risk categories identified through the firm's risk assessment process are market risk, credit risk and operational risk.

Market Risk

Market risk relates to the impact that changes in the market value of securities/financial instruments as well as fluctuations in the value of real estate holdings managed by Setanta, have on the management fees and income of the firm.

This risk can predominantly materialise due to fluctuations in market prices, foreign exchange rates and interest rates. This could result in a fall in the value of assets under management with a consequential reduction in management fees. Market risk could also equate to a poor relative investment performance compared to competitors and/or the potential loss of new and/or existing clients, although most clients, like Setanta, are part of the Great West Life Group.

Ongoing quantitative performance assessment and individual fund manager performance reviews in addition to quarterly performance reviews by the Board of Directors ensure market risk is effectively managed and controlled in accordance with market leading practices.

Credit Risk

This is the risk of financial loss due to the firm's clients being unable to pay management fees to Setanta.

The majority of Setanta's clients prepay management fees and are part of the Great West Life Group, which is rated AA, of which Setanta is a member. Monthly reviews by Setanta's Management Team of management accounts that note fees due to the company and good client relations within the Great West Life Group further mitigate this risk.

All of the firm's assets and liabilities are denominated in Euro thereby ensuring foreign exchange fluctuations do not impact upon credit risk and the firm's assets.

Operational Risk

Operational risk relates to the loss resulting from inadequate or failed internal processes, people and systems, or from external events.

A broad range of risks fall into the category of operational risk. These include human resource risk, legal & regulatory risk, systems risk, liquidity risk, pension risk, client concentration/competitive risk and reputational risk. Along with all other risks, these risks are monitored, reviewed and controlled on an ongoing basis. Measures such as internal policies and procedures, process controls, regular reviews, strategic planning and finance controls reduce and mitigate the potential impact of such risks. Also, the fact that the great majority of clients are companies within the Great West Life Group further mitigates this risk.

CAPITAL REQUIREMENTS & RESOURCES

Setanta uses the Standardised Approach to calculate its CRD Pillar 1 Capital Requirement.

As at 31st March 2009 Setanta's regulatory capital requirement is as follows:

CRD Pillar 1 Capital Requirement is the higher of A & B:	
A 8% of the total of the risk weighted exposure amounts (calculated in accordance with IFSRA issued guidance) of credit and dilution risk:	
Claims on Institutions: Banks & Investment Firms:	€151,172
Other Items: Debtors and other assets:	<u>€ 55,392</u>
Requirement:	€206,564
B Fixed overhead requirement confirmed by the Financial Regulator	€2,118,000
CRD Pillar 1 Capital Requirement (B (fixed overhead) is higher)	€2,118,000
CRD Pillar 2 Capital Requirement	
Minimum internal capital adequacy amount under ICAAP following risk analysis & stress tests (which is lower than the Pillar 1 requirement)	€1,540,000
Setanta's CRD Minimum Regulatory Capital Amount (Higher of Pillar 1 & Pillar 2)	€2,118,000

As at 31st March 2009 Setanta's regulatory capital resources are as follows:

Called up Share Capital	€ 625,000
Other Reserves	€ 772,000
Profit and Loss Account (as at 31 Dec 2008)	<u>€2,478,000</u>
Total Shareholders' Funds	€3,875,000
Proposed 2008 Dividend (approved in April 2009)	<u>€1,000,000</u>
	€2,875,000
Setanta's capital resources for regulatory purposes	€2,875,000

As at 31st March 2009 Setanta has €757,000 of capital in excess of its CRD minimum regulatory capital amount of €2,118,000 representing a 36% surplus.

Setanta reviews its risk profile and capital resources on an ongoing basis to ensure at all times the firm has adequate capital having regard to the nature and scale of its business and the dynamic risks to which it is exposed and to meet its regulatory capital requirements while maintaining client and market confidence. If the outcome of the Pillar 2 ICAAP assessment is a higher capital requirement than under Pillar 1, Setanta would maintain this higher Pillar 2 capital requirement. Following recent IFSRA guidance issued to investment firms, Setanta regularly reviews its ICAAP, which will be presented to the Board of Directors for review at quarterly Board Meetings.

VERIFICATION, LOCATION, ONGOING REVIEW & FREQUENCY OF DISCLOSURES

Unless there is a foreseeable and significant risk or event that would detrimentally impact the firm's ICAAP and regulatory capital requirements, in accordance with the Pillar 2 risk analysis & stress tests, the disclosures set out herein will be updated on an annual basis.

Setanta's Management team note that the nature, scale and complexity of the firm's business are taken into account when reviewing the firm's ICAAP.

Setanta's Management Team has reviewed and approved the disclosures made in this document and believes that the publication of these disclosures on Setanta's website www.setanta-asset.com is the most appropriate medium. The disclosures will be subject to internal audit.

For more detail in relation to the foregoing, please contact us at compliance@setanta-asset.com

26th June 2009