



Setanta Asset Management Limited
Capital Requirements Directive
Pillar 3 Risk Management Disclosures
December 2011

BACKGROUND & SCOPE OF DIRECTIVE REQUIREMENTS

Setanta Asset Management Limited (Setanta) is regulated by the Central Bank of Ireland as an investment firm authorised to carry out the services of portfolio management and the reception and transmission of orders in relation to one or more financial instruments.

Investment firms, such as Setanta, are required to comply with the Capital Requirement Directive (CRD) as transposed into Irish law.

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

Risk Management Policy

Setanta's risk policy has been approved by the Board of Directors. 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 management.

Management are responsible for ensuring that appropriate adequate risk management policies and procedures are established, implemented, documented and maintained, in line with good business practice, and to meet all legal and regulatory requirements.

Setanta's Risk & Compliance Manager, reporting to the Managing Director 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 their business area.

The Enterprise Risk Assessor (ERA) system, which is in use across the Great West Life group of companies, is the main tool used by management to assess the risks borne by Setanta relating to the firm's activities. Specific investment management risks are included in Setanta's ERA assessment by linking those risks to the predefined ERA risks.

An Internal Capital Adequacy Assessment (ICAAP) is prepared by management on a quarterly basis using the ERA system and scenario stress tests based on historical data. The ICAAP is presented to the Board of Directors for review and approval. Setanta reviews a number of market, credit and operational risks under its ICAAP in accordance with ERA ranges for risk likelihoods, consequences and ratings with respect to annual pre-tax gross income should the risks occur. The ICAAP is a fundamental part of Setanta's procedures to ensure it has adequate capital to support the firm's current and future activities.

In addition to quarterly ICAAP reviews, management reports to the Board of Directors annually, and more frequently if the need arises, in respect of an overall ERA risk review and compliance with the detailed risk management policy and procedures of the company.

Setanta reviews its risk profile and capital resources on an ongoing basis having regard to the nature and scale of its business, the dynamic risks to which it is exposed and its planning horizon to ensure at all times that the firm has adequate capital to meet the firm's business objectives and regulatory capital requirements while maintaining client and market confidence. In particular, management consider the firm's Pillar 1 & Pillar 2 capital requirements, the firm's ICAAP and capital adequacy in its decision making processes, including:

- The firm's business plan
- The firm's budget
- Capital requirements (dividend and capital reviews)

- Other relevant management issues and decisions

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 of the firm's 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 and management accounts 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 management fees are prepaid by the firm's clients most of whom are part of the Great West Life Group, of which Setanta is a member. Great-West Lifeco Inc., the publicly quoted parent of the Great West Life Group is rated A+. Monthly management reviews of management accounts that note fees due to the firm and good client relations within the Great West Life Group further mitigate this risk.

The vast majority of Setanta's assets and liabilities are denominated in Euro thereby ensuring foreign exchange fluctuations have a very limited 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 and business continuity planning and finance controls reduce and mitigate the potential impact of such risks. Also, the fact that the great majority of Setanta's 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 30 September 2011 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 Central Bank issued guidance) of credit and dilution risk:	
Claims on institutions: banks & investment firms:	164,000
Other Items: debtors and other assets:	<u>€ 66,000</u>
Requirement:	€230,000
B Fixed overhead requirement confirmed by the Central Bank in July 2011 (based on 2010 audited overheads)	€1,772,000
CRD Pillar 1 capital requirement (B (fixed overhead) is higher)	€1,772,000
CRD Pillar 2 ICAAP capital requirement	2,320,000
CRD minimum regulatory capital amount (Higher of Pillar 1 & Pillar 2 ICAAP)	€2,320,000

As at 30th September 2011 Setanta's regulatory capital resources are as follows:

Regulatory Capital on Reserve (Shareholder Assets)	3,105,000
Less CRD Pillar 2 capital requirement	<u>(€2,320,000)</u>
Excess capital as at 30 September 2011 based on Q3 ICAAP	785,000
% excess capital as at 30 September 2011 (€3,105k in excess of €2,320k)	+34%

If the Pillar 1 capital requirement is higher than the outcome of the Pillar 2 ICAAP assessment, Setanta would maintain this higher Pillar 1 capital requirement.

REMUNERATION

Setanta has implemented a Remuneration Policy, in accordance with the requirements of the CRD, which is reviewed by the Setanta Board on an annual basis.

MISCELLANEOUS

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.

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

Management 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 not be subject to internal audit.

This disclosure is published on the Setanta website: www.setanta-asset.com/pages/capital-requirements

This disclosure is based on financial data prepared to 30 September 2011.

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

23 December 2011