



IFG Pensco Limited  
Pillar 3 Disclosures

Financial Year ended 31 December 2008

# 1. Overview

## Background

The Capital Requirements Directive ('CRD') implemented the Basel capital adequacy framework ('Basel II'), and applies to all investment firms, banks and building societies.

The CRD comprises three key components or 'pillars' as follows:

- **Pillar 1: Minimum Capital requirements**
- **Pillar 2: Supervisory review**
- **Pillar 3: Market Discipline/Disclosure requirements**

The implementation of the CRD required regulated firms to make changes to the way their capital requirements are calculated (Pillar 1), the process for supervisory review of the firm's risk management framework and capital adequacy (Pillar 2) and the disclosure to the market of key information about risk exposures and risk management processes (Pillar 3).

Most of the provisions in the CRD did not come into effect for IFG Pensco Limited ('IFG Pensco') until 1 January 2008. As of that date, the firm has complied with the minimum capital requirement provisions under Pillar 1 of the CRD and completed and maintained its Internal Capital Adequacy Assessment Process (ICAAP) under Pillar 2 of the CRD. IFG Pensco's ICAAP has been designed to capture and address any risks not fully considered under Pillar 1 and to ensure that adequate measurement and assessment of any such risks is considered in determining the capital requirements of the firm.

The aim of Pillar 3 is to improve market discipline by requiring firms to publish certain details of their risks, capital and risk management. Institutions are required to certify to the Financial Regulator on an annual basis that they have complied with the new disclosure requirements. The disclosures are required on an annual basis aligned to the institution's annual reporting cycle.

## Structure and principal activities

IFG Pensco is regulated by the Financial Regulator under the European Communities (Markets in Financial Instruments) Regulations, 2007. The principal activity of the firm is the provision of investment advisory services, investment management services, consultancy services and pension scheme administration.

IFG Pensco is a wholly owned subsidiary of IFG Group plc, whose head office is located in Booterstown, Co. Dublin. IFG Group plc is a highly diversified financial services company specialising in the provision of independent financial advisory and administrative services across Ireland, the UK and other parts of Europe. IFG Group plc includes a number of regulated entities but IFG Pensco is the only company in the group subject to the CRD.

## Scope

These Pillar 3 disclosures have been prepared as at 31 December 2008, which is the firm's financial year end. This document should be read in conjunction with the firm's 2008 annual report.

## Basis of Disclosures

These disclosures have been prepared in accordance with Part 11 of the European Communities (Capital Adequacy of Credit Institutions) Regulations 2006 ('CI Regulations').

The Pillar 3 disclosures in this document include both the quantitative and qualitative information as required by the CRD. IFG Pensco follows the standardised approach to the calculation of credit risk under Pillar 1 of the CRD.

The firm has reviewed the range of disclosure requirements covered by Part 11 of the CI Regulations and not all disclosure requirements apply to IFG Pensco. As this document has been produced solely for the purposes of providing information on the capital adequacy and risk management of the firm, any disclosure requirements that do not apply have not been included. In addition, any information considered by the Board of IFG Pensco to be immaterial, proprietary or confidential has not been included in this document.

## Location and Verification

The Pillar 3 disclosures have been reviewed by the Management Committee of IFG Pensco and approved by the Board of IFG Pensco. They are published in the 'Media & News'/'Downloads' area of the firm's website ([www.ifgpensco.ie](http://www.ifgpensco.ie)). The Board believes that the publication of these disclosures on IFG Pensco's website is the most appropriate medium. These disclosures are based on the position at 31 December 2008. Future disclosures will be issued on at least an annual basis and made available on the website as soon as practicable.

These disclosures are not subject to audit by IFG Pensco's external auditors.

## 2. Risk Management Objectives and Policies

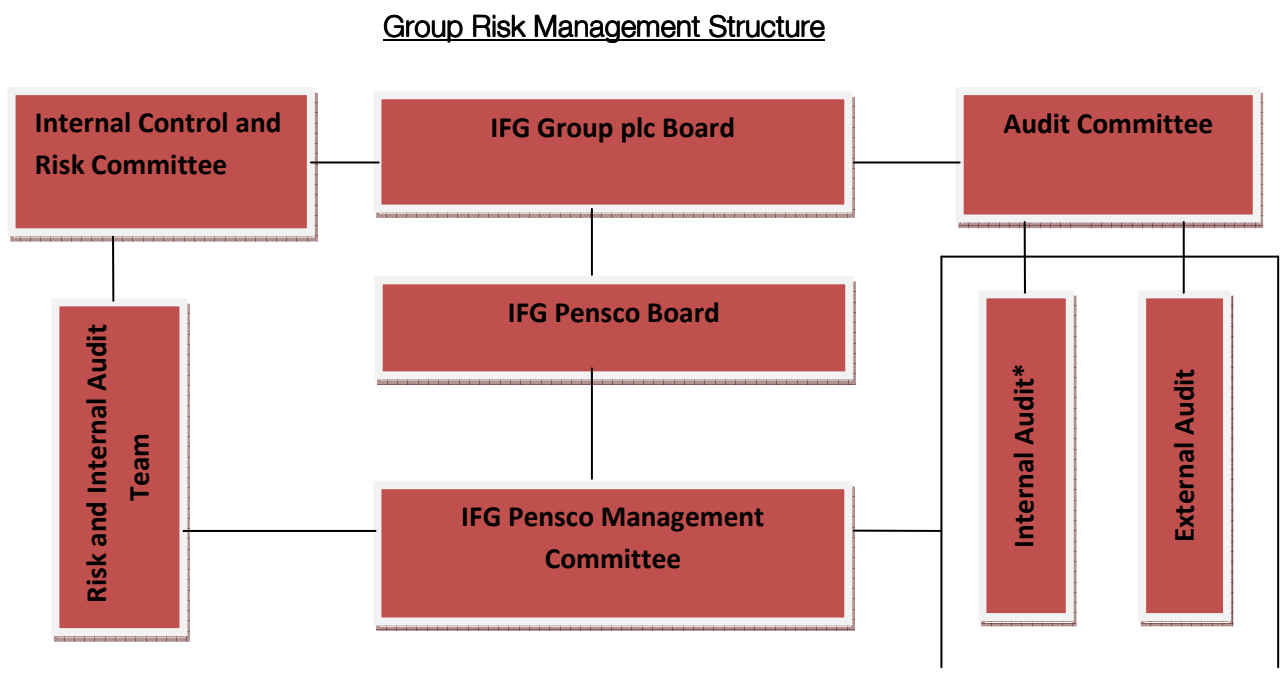
### 2.1 Risk Management Structure

The Board of Directors of IFG Pensco ('the Board') has ultimate responsibility for determining the firm's strategic direction and risk appetite. The Board is also responsible for establishing an effective corporate governance framework and for monitoring the effectiveness of this framework on an ongoing basis.

The Board meets on a quarterly basis and more frequently if necessary. In order to fulfil its obligations however, the Board has delegated day-to-day management responsibilities to the Management Committee, which includes three Board members and which meets on a weekly basis. Given the relatively small, non-complex nature of IFG Pensco’s business, the Board is satisfied that the Management Committee is fully equipped to assume the following responsibilities:

- Day-to-day management
- Monitoring and evaluating the adequacy and effectiveness of the firm’s systems, internal control mechanisms and other arrangements
- Ensuring the firm complies with all relevant regulatory requirements and obligations and managing the relationship with the firm’s regulators and external auditors
- Overseeing the firm’s Internal Capital Adequacy Assessment Process (ICAAP) and promoting a strong and effective risk management culture throughout the firm
- Overseeing IT strategy and policies

The Management Committee is supported by the Risk and Internal Audit Team. The Risk Management Structure is illustrated below:



\*Performed by the Risk and Internal Audit Team

The Audit Committee assists the Board of IFG Group plc in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control over financial reporting, the audit process and the company’s process for monitoring compliance with laws and regulations. It also liaises with the Internal Control and Risk Committee in relation to these matters.

The Internal Control and Risk Committee assists the Board of IFG Group plc in fulfilling its oversight responsibilities for Corporate Governance, to evaluate business and reputational risks, to review the system of internal controls over business operations, and to review the company's processes for monitoring compliance with company law, regulations and codes of conduct set out by the relevant regulators and the Irish Stock Exchange.

Both Committees are supported by the Risk and Internal Audit Team.

## 2.2 Analysis of Key Risks

The most significant types of risk to which the firm is exposed are discussed below.

### Operational Risk

Operational risk is defined as the risk of loss as an outcome of inadequate or failed internal controls/processes or systems or losses due to actions performed by employees or external events, as well as reputation damage.

In the course of preparing the firm's ICAAP, IFG Pensco identified the following as the main sources of operational risk:

***Business Continuity:*** The occurrence of certain events, such as a fire, flooding or a power outage could result in the invocation of IFG Pensco's Business Continuity Plan ('BCP'). The business maintains a comprehensive BCP which is subject to routine testing, together with appropriate information security policies. The firm also has an insurance policy in place with BCP cover.

***Administration errors:*** The core business is the administration of corporate pension schemes and the provision of consultancy advice. Although the risk of administration errors is inherent in the nature of the firm's business, the Board considers that effective controls are in place to mitigate such risk. These include comprehensive training for all new administrative staff and update training on an ongoing basis as required. The performance of administrative staff is monitored daily and discussed at the weekly Management Committee meetings.

***Client Asset account:*** IFG Pensco provides a client asset bank account service to some of its clients. The operation of the client asset account is subject to regulation and IFG Pensco has strong procedures and internal controls in place around all activities on the client asset account.

Specialist support functions at IFG Group plc level also provide expertise in areas such as compliance/regulatory risk, IT risk and legal risk. Although the Board is ultimately responsible for the management of operational risk, in practice the Management Committee and all employees are required to assume responsibility for managing operational risk in respect of their activities.

## **Performance Risk (Portfolio Management)**

IFG Pensco is a portfolio manager due to the provision of the Lifestyle Pension Default Investment Option. The asset make up of the product is determined using the services of Barrie & Hibbert (the largest provider of modelling software to the UK insurance industry), who determine the appropriate mix of assets and who benchmark this approach against best practice. IFG Pensco initially markets this product to the Trustees of pension schemes as an appropriate default strategy for defined contribution pension schemes.

The performance risk is low for IFG Pensco because the underlying funds used in the lifestyle portfolios are designed to track the market indices and should perform to that. To ensure that the lifestyle portfolios remain appropriate, Barrie & Hibbert do a quarterly calibration review of the lifestyle product to see that it is performing in line with expectations. In addition, on an annual basis IFG Pensco conducts a full root and branch review of the asset allocations for each of the firm's three lifestyle strategies: Cautious, Balanced & Adventurous. The purpose of this review is to re-examine the existing strategies to see whether they remain as the best solutions and to see if the efficiencies of the portfolios can be improved upon, either by increasing return or reducing risk.

## **Credit Risk**

Credit risk represents the possibility that any amount owed to the firm by a client or counterparty may not be recoverable.

IFG Pensco employs industry standard credit procedures to limit credit risk and exposure. The firm's head of finance monitors credit risk on an ongoing basis and any breaches of credit procedures are reported to the Management Committee. IFG Pensco follows the standardised approach in calculating its capital requirement in respect of credit risk.

## **Liquidity Risk**

Liquidity risk is the risk of not having sufficient liquidity and therefore being unable to meet financial obligations as they arise.

IFG Pensco monitors its liquidity position on a daily basis and management information is provided to the Management Committee on a monthly basis from the firm's head of finance. In addition, funding will be provided by the firm's 100% parent, IFG Group plc, should the need arise.

### 3. Capital Resources

At 31 December 2008 and throughout that year, the firm complied with the capital requirements set down in the CRD and imposed by the Financial Regulator. The firm issued 2,900 ordinary shares and 1,500 deferred shares during the year at a premium of €710,500 for the purposes of providing additional capital for the development of the business and to meet the capital requirements of the Financial Regulator. The table below details the composition of IFG Pensco's regulatory capital as at 31 December 2008.

Capital Resources	31 December 2008
	€'000
<b>Tier 1 capital</b>	
Called up share capital	18
Share premium	3,680
Profit and loss account and other reserves	(2,678)
<i>Deductions from Tier 1 Capital:</i>	
Material losses of the current financial year	<u>(204)</u>
<b>Total tier 1 capital (after deductions)</b>	<b>816</b>
<b>Tier 2 capital</b>	<b>-</b>
<b>Capital resources</b>	<b>816</b>
<b>Total regulatory capital requirement*</b>	<b><u>321</u></b>
<b>Capital surplus</b>	<b>495</b>

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium and reserves.

\*Under the CRD, the expenditure requirement, equivalent to one quarter of the preceding year's fixed overheads, determines the Pillar 1 capital requirement for IFG Pensco. The expenditure requirement is set on an annual basis by the Financial Regulator, following the submission of the firm's financial statements. This document will be updated to reflect any change in the firm's expenditure requirement.



## **Pillar 2 – ICAAP**

IFG Pensco's ICAAP has been prepared and approved by the Board of Directors. The ICAAP has been designed to capture and address any risks not fully considered under Pillar 1 and to ensure that adequate measurement and assessment of any such risks is considered in determining the capital requirements of the firm. The firm's ICAAP is forward looking and will be updated on at least an annual basis, and more frequently if required. The following is a summary of the key risks considered in the course of completing the ICAAP and of the firm's conclusions in terms of capital requirements in respect of those risks.

### **Operational risk**

Please refer to section 2 above (Risk management objectives and policies) for a summary of IFG Pensco's approach to the management of operational risk.

Under Article 20 of the CRD, certain small firms were allowed to avail of an exemption from the capital requirement in respect of operational risk.

As part of the ICAAP, IFG Pensco reviewed all operational risks and performed stress-tests where appropriate. The firm concluded that no additional capital over its Pillar I capital requirement is required in respect of operational risk.

### **Performance risk**

Please refer to section 2 above (Risk management objectives and policies) for a summary of IFG Pensco's approach to the management of performance risk.

As part of the ICAAP, IFG Pensco reviewed its performance risk and performed stress-tests where appropriate. The firm concluded that no additional capital over its Pillar I capital requirement is required in respect of performance risk.

### **Credit Risk**

IFG Pensco calculates its capital charge against credit risk using the standardised approach.

Under the standardised approach, the firm calculates its minimum credit risk capital requirement as 8% of the total of its risk weighted exposures. To calculate risk weighted exposure amounts, risk weights shall be applied to all exposures (unless the exposure has been deducted directly from own funds). The application of risk weights shall be based on the exposure class to which the exposure is assigned and in certain instances the maturity of the exposure and its credit quality.

In determining risk weightings to use in its regulatory capital calculations, IFG Pensco uses S&P, Moody's and Fitch. These are recognised by the Financial Regulator as eligible External Credit Assessment Institutions for the purposes of calculating credit risk assessments under the standardised approach.

**Market risk**

IFG Pensco does not have a trading book and has no foreign exchange exposure.

**Interest rate risk**

IFG Pensco does not have any debt and has limited deposits. Therefore no capital requirement arises in respect of interest rate risk.