

Elavon Financial Services Limited Pillar III Risk Disclosures

31 December 2013

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1. Overview

Elavon Financial Services Limited ('the Bank') is a bank licensed by the Central Bank of Ireland. The Bank's ultimate parent undertaking is U.S. Bancorp, a company incorporated in Delaware, U.S.A. who is also the parent of U.S. Bank National Association ('U.S. Bank'), the fifth largest US commercial bank. The Bank, its branches and its subsidiaries are hereinafter referred to as 'the Group'.

The Group's activities in Europe during 2013 were principally focused on the provision of:

- Merchant Services in respect of card transactions to merchants,
- Corporate Trust administration services for structured and securitised transactions, and
- Corporate Payment Systems to merchants, multinational corporations and governments with complex payment processing needs.

1.1. Pillar III

The Revised Basel Accord ('Basel II') framework was implemented in the European Union ('EU') through the Directive 2006/48/EC and 2006/49/EC collectively known as the Capital Requirements Directive or CRD.

This framework consists of three mutually reinforcing 'Pillars', described as follows:

- Minimum Capital Requirements (Pillar 1) involves the calculation of minimum capital requirements for credit, market and operational risk as prescribed by the CRD;
- Supervisory Review (Pillar 2) focuses on a bank's Internal Capital Adequacy Assessment Process ('ICAAP') and the Supervisory Review and Evaluation Process ('SREP') by regulators of banks' internal capital adequacy; and
- Market Discipline (Pillar 3) requires banks to publicly disclose detailed quantitative and qualitative information on their risk management policies, practices and exposures to allow investors and other market participants to understand the risk profile of the institution.

Quantitative disclosures as required under Annex XII of the CRD are provided throughout the document which should be read in conjunction with the Group's Annual Report & Accounts 2013.

1.2. Scope of application

The Bank's Pillar 3 disclosures address the operations of the Bank and its subsidiaries on a consolidated basis. The Bank has continued in the current year to report on an amended solo reporting basis, as per Article 70(1) of Directive 2006/48/EC. The following subsidiary undertakings are currently included in Elavon's amended solo consolidation:

- USB Nominees (UK) Limited;
- U.S. Bank Trustees Limited; and
- euroConex Technologies Ltd.

1.3. Date of Pillar 3 disclosures

The Bank's disclosures are based on its financial position as at 31 December 2013.

1.4. Distinction between IFRS and Pillar III Quantitative Disclosures

It should be noted that there are fundamental differences in the basis of calculation between financial statement information based on IFRS accounting standards and Basel II Pillar 1 information based on regulatory capital adequacy concepts and rules.

While some of the Pillar 3 quantitative disclosures based on Basel II methodologies may be comparable with quantitative disclosures in the Group's Annual Report 31 December 2013 in terms of disclosure topic covered, any comparison should bear these differences in mind.

The disclosures contained in this document have not been subject to external audit.

2. Risk Management

2.1. Risk Categorisation

The following key risk types have been identified through the Group's risk assessment process for capital purposes: business and strategic risk, credit risk, market risk and operational risk, as well as concentrations within these risk types. The Group's strategies and processes to manage these risks are set out in section 4 ("Key Risks") of this disclosure.

2.2. Corporate Governance Structure

The Group has defined internal governance arrangements, which include an organisational structure with defined, lines of responsibility; a Risk Management Framework designed to identify, measure, control, monitor and report the risks to which it is or might be exposed; an Internal Controls Framework designed to support adequate internal control mechanisms; and a Remuneration Policy and practices that are consistent with and promote sound and effective risk management.

The Board of Directors

The Board of Directors has overall responsibility for the Group. In particular, the Board of Directors is responsible for the ethical oversight of the Group; setting the business strategy for the Group; and ensuring that risk and compliance are properly managed.

As at 31 December 2013, the Board of Directors of the Bank was comprised of the following members:

- Pamela Joseph USA
- Declan Lynch
- John McNally Independent Non-Executive Director
- John Collins Independent Non-Executive Director
- Malcolm Towlson
- Craig Gifford USA
- Bryan Calder USA
- Kurt Adams USA
- Michael Passilla (Appointed 03/01/2013, Resigned 30/04/2013)
- Simon Haslam (Appointed 19/09/2013)

The Board of Directors delegate's authority to sub-committees or management to act on behalf of the Board in respect of certain matters but, the Board has established mechanisms for documenting the delegation and monitoring the exercise of delegated functions. The governance structure includes the following Committees:

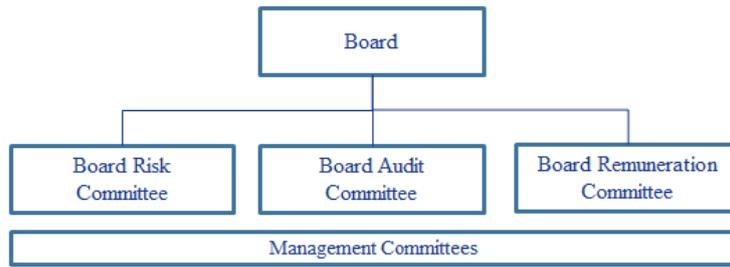


Figure: [25.1] Corporate Governance Structure of Elavon Financial Services Limited.

Board Risk Committee

The Board Risk Committee has been delegated authority by the Board to provide oversight and advice to the Board on the current risk exposure of the Group and future risk strategy. Additionally, the Committee has been delegated responsibility by the Board to oversee the Group's Risk Management Framework. The Committee is responsible for monitoring all aspects of risk associated with the operations of the Group. The Board Risk Committee is chaired by an independent non-executive director.

Board Audit Committee

The Board Audit Committee has been delegated authority to provide assistance to the Board in fulfilling its responsibility to the shareholders with respect to its oversight of the financial reporting process and the quality and integrity of the Group's financial statements; the Group's internal controls; the statutory audit of the annual and consolidated accounts; the independence of the Group's auditor, and the provision of additional services to the Company; and the effectiveness of the Group's Internal Audit function. The Board Audit Committee is chaired by an independent non-executive director.

Board Remuneration Committee

The Board Remuneration Committee has been delegated authority by the Board to oversee the Group's Remuneration Policy and practices, as well as considering senior management remuneration and, if required, making recommendations to the Board in respect of the remuneration arrangements of the Executive Directors of the Group. The Board Remuneration Committee is chaired by an independent non-executive director.

Management Committees

The Board of Directors has established a small number of management committees, as follows:

- Managing Committee, which has primary responsibility for proposing the direction of the Bank to the Board, and ensuring the effective implementation of the Board's strategy, risk appetite, policies and other guidance;
- Risk Management Committee, which has primary responsibility for ensuring the effective implementation of the Board's risk frameworks;
- Asset & Liability Management Committee, which has primary responsibility for the implementation of the Board's asset and liability management strategies and policies;
- Credit Management Committee, which has primary responsibility for the implementation of the Board's credit risk policies; and
- Internal Capital Adequacy Assessment Process ("ICAAP") Committee, which has primary responsibility for ensuring the effective implementation of the Board's ICAAP.

2.3. Approach to managing risk

Risk Appetite

The Board has developed a documented risk appetite, which is expressed in both qualitative terms and quantitative metrics. The Group’s risk culture is based on the risks the Group faces and how they are managed, taking into account its risk appetite.

The Board ensures the Risk Management Framework and Internal Controls Framework reflect the risk appetite and that there are adequate arrangements in place to ensure that there is regular reporting to the Board on risk appetite.

Risk Cycle

The Group manages the risks to which it is exposed to through the risk cycle:

Identify	Ensuring the risk inherent in all material products, activities, processes and systems is identified to make sure they are well understood.
Assess	Understanding the Group’s risk profile and allocating risk management resources and strategies most effectively.
Control	Activities undertaken to ensure adherence to the risk appetite and strategy, as well as individual policies and limits established by the Group.
Monitor & report	Regular monitoring of the Group’s risk profile and material exposures to losses and the communication of this to relevant parties.

Risk Management & Strategy

The Group’s approach to risk management has been developed to provide an environment that supports the achievement of strategy in a sustainable way. This is achieved through aligning risk limits and controls to strategy, through direct alignment to the Board’s risk appetite.

Risk Control & Compliance Function

The Risk & Compliance Function (“RCF”) helps the Group accomplish its objectives by ensuring that each key risk (including compliance risk) Elavon faces is identified and properly managed.

The RCF is divided into three key disciplines: Operational Risk, Enterprise Risk and Compliance.



Figure [25.2]: Structure chart showing reporting lines of the Risk & Compliance, Credit & Finance Functions of the Group.

The RCF supports the Board (and sub-Committees thereof) in managing risk across the Group through providing a holistic view of all relevant risks.

The RCF enables business units and support functions to effectively manage the risks their activities give rise to. The RCF is independent of the business and support units whose risks it controls.

In addition to the RCF, the Bank has dedicated Credit and Finance Functions from which the RCF is independent.

3. Capital Management

3.1. Capital Resources

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules set out in CRD 2006/48/EC, 2006/49/EC, 2009/27/EC, 2009/83/EC, 2009/111/EC & 2010/76/EU.

During the past year, the Bank has complied in full with all its externally imposed capital requirements.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains healthy capital ratios in order to support its business. The Bank has adopted the "Structured Approach"¹ to the ICAAP.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

Regulatory Capital

<i>In thousands of Euro</i>	Actual 2013	Required 2013	Actual 2012	Required 2012
Tier 1 Capital	424,913	114,347	304,628	65,839
- Share Capital	6,400		6,400	
- Capital Contribution	589,389		508,889	
- Eligible Reserves	(7,270)		(35,860)	
- Regulatory Adjustments	(163,606)		(174,801)	
Total Tier 1 Capital	424,913	114,347	304,628	65,839
Tier 2 Capital				
- General provisions	1,444	-	862	-
Total Tier 2 Capital	1,444	-	862	-
Total Capital	426,357	114,347	305,490	65,839
JV Deduction (Holdings in other credit and financial institutions amounting to more than 10% of their capital)	(71,184)	-		
Risk weighted assets	1,429,338		822,994	
Tier 1 Capital Ratio	25%	8%	37%	8%
Total Capital Ratio	25%	8%	37%	8%

¹ As set out in the European Banking Authority's (formerly the Committee of European Banking Supervisors') Paper on the Internal Capital Adequacy Assessment Process (ICAAP) for Smaller Institutions published on 26 March 2006.

3.2. Minimum Capital Requirements

The bank uses the Standardised Approach for the calculation of its Pillar I capital requirements for credit risk. The capital requirements for market risk are calculated in accordance with the Standardised Measurement Method. Operational Risk capital is determined using the Basic Indicator Approach.

Risk Capital Held as at December 2013

<i>In thousands of Euro</i>	Pillar I	Pillar II	Total
Credit Risk exposure Classes			
Central Governments and Central Banks	-	-	-
Regional Governments	28	-	28
Institutions	71,992	-	71,992
Corporates	8,931	-	8,931
Other Items	5,241	-	5,241
Market Risk			
Foreign Exchange Risk	753	-	753
Operational (basic indicator approach)	21,952	-	21,952
<hr/>			
Total Pillar I Capital Requirements	108,897	-	108,897
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Total Capital Requirements	108,897	5,450	114,347
Own Funds			25%

4. Key Risks

4.1. Credit Risk

The Group's strategy for credit risk management includes well-defined credit policies, uniform underwriting criteria and on-going risk monitoring and review processes for all credit exposures. The strategy emphasises regular credit examinations and management reviews to identify any deterioration in credit quality.

The Group takes on exposure to credit risk which is the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the Group or its failure to perform as agreed. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower and to geographical and industry segments.

Such risks are monitored on a revolving basis and subject to an annual, quarterly and monthly review. Authority to limit on the level of credit risk by product, borrower and industry sector is approved regularly by the Board of Directors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off statement of financial position exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet obligations. Exposure to credit risk is also managed, in part, by obtaining collateral and guarantees. Delayed funding has been utilised in cases of potential chargeback exposure.

The Group's maximum exposure to credit risk is primarily reflected in the carrying amounts of financial assets on the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Credit risk for off balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in making conditional obligations as it does for on balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

The Group reviews the provision for chargebacks* and credit losses on a quarterly basis based on expected and potential losses in the Elavon merchant acquiring portfolio. The provision covers the loss exposure to known chargebacks, and expected losses arising from merchant receivables incurred but not received.

A reconciliation of the provision for chargebacks and credit losses, which is classified as industry type Corporates, as follows:

<i>In thousands of Euro</i>	2013	2012
At 1 January	(1,691)	(1,540)
Reserve releases	(1,832)	(151)
Reserve additions	-	-
At 31 December	(3,523)	(1,691)

*Chargebacks result from disputed returns and occur in the circumstances of dissatisfaction with goods purchased, non-delivery of goods & services or fraud.

The below table details credit risk exposures as per CRD exposure classes.

Credit Risk Exposures

CRD Exposure classes <i>In thousands of Euro</i>	31 December 20 13	Average exposures in 2013	31 December 2012	Average exposures in 2012
Central governments & central banks	35,192	29,747	24,376	21,691
Regional governments	1,743	1,803	1,644	1,219
Institutions*	4,462,259	2,680,138	1,794,415	1,678,273
Corporates	99,735	103,098	66,967	64,847
Other items	65,517	55,549	39,140	36,336
Total	4,664,446	2,870,335	1,926,542	1,802,366
*of which counterparty credit risk¹	1,967		2,020	

Note 1: Counterparty credit risk is calculated in accordance with the Mark-to-Market Method as set out in Part 3, Annex III of the CRD.

Elavon has a legally enforceable agreement with US Bank and its affiliates. This agreement allows Elavon and the parties to the agreement to settle outstanding cash amounts on a net basis. The balances relate to on balance sheet netting of expenses and claims incurred on an inter-group basis. In practice, Elavon and the counterparty calculate the amount on a net basis and pay or receive the amount to the corresponding counterparty. The balances which are netted are cash balances and no other forms of collateral are used. The balances are continually monitored and Elavon are able to identify the amounts to be netted at any time.

The collateral is therefore cash which does not have a material positive correlation to the protection provider (i.e. US Bank). This legal agreement is only in respect of cash and the procedures to arrange payment are outlined in the legal agreement. Elavon does not have procedures for collateral in relation to types of collateral accepted, valuation of collateral, around third party handling of the collateral and margins because Elavon only accepts cash. We note that although the Bank utilises other forms of credit risk mitigation including reserves and guarantees as part of the credit management processes, these mitigants are not recognised for the purposes of calculating credit risk capital requirements.

Finance monitors and controls the on balance sheet netting exposures on a net basis and have controls in place to control the risks associated with termination of the credit protection.

Compliance will monitor for changes in the eligibility criteria for credit risk management and have responsibility for informing Finance of the changes via the Regulatory Change Management Process.

The industry classification below is based on the industry sector classification of the exposure counterparty. Industry headings correspond to those identified by and reported to the Central Bank of Ireland.

Analysis of Credit Risk Exposures by Industry

31 December 2013

Industry Sector	Central Government	Regional Government	Institutions	Corporates	Other items	Total
Primary Industries	-	-	-	40	-	40
Manufacturing	-	-	-	80	-	80
Electricity, Gas, Steam and Air Conditioning Supply	-	-	-	986	-	986
Construction	-	-	-	212	-	212
Wholesale/Retail Trade & Repairs	-	-	-	33,193	15	33,208
Hotels and Restaurants	-	-	-	6,543	-	6,543
Transportation and Storage	-	-	-	4,952	-	4,952
Financial Intermediation (Excl. Monetary Financial Institutions)	-	-	-	31,306	-	31,306
Real Estate, Land and Development Activities	-	-	-	7,269	-	7,269
Education	-	-	-	243	-	242
Human Health and Social Work	-	-	-	582	-	582
Public Administration & Defence	-	1,743	-	1,599	-	3,342
Sundry Items	2,758	-	-	12,730	47,502	62,990
Credit Institutions	-	-	4,462,259	-	18,000	4,480,259
Central Bank	32,434	-	-	-	-	32,434
Total	35,192	1,743	4,462,259	99,735	65,517	4,664,446

31 December 2012

Industry Sector	Central Government	Regional Government	Institutions	Corporates	Other items	Total
Primary Industries	-	-	-	33	-	33
Manufacturing	-	-	-	179	-	179
Electricity, Gas, Steam and Air Conditioning Supply	-	-	-	723	-	723
Construction	-	-	-	204	-	204
Wholesale/Retail Trade & Repairs	-	-	-	31,587	2	31,589
Hotels and Restaurants	-	-	-	4,572	11	4,583
Transportation and Storage	-	-	-	2,770	-	2,770
Financial Intermediation (Excl. Monetary Financial Institutions)	-	-	-	10,038	-	10,038
Real Estate, Land and Development Activities	-	-	-	4,868	-	4,868
Education	-	-	-	226	-	226
Human Health and Social Work	-	-	-	473	-	473
Public Administration & Defense	-	1,644	-	2,446	-	4,090
Sundry Items	3,117	-	-	8,848	39,127	51,092
Credit Institutions	-	-	1,794,415	-	-	1,794,415
Central Bank	21,259	-	-	-	-	21,259
Total	24,376	1,644	1,794,415	66,967	39,140	1,926,542

The geographical location of Credit Risk Exposures shown in the Table below is based on the counterparty location.

Analysis of Credit Risk Exposures by Geography

31 December 2013

Country	Central Government	Regional Government	Institutions	Corporates	Other items	Total
<i>United States</i>	-	-	3,989,969	516	4,621	3,995,106
<i>United Kingdom</i>	678	940	288,721	41,774	12,824	344,937
<i>Ireland</i>	31,904	802	26,552	14,162	18,927	92,347
<i>Poland</i>	2,610	1	49,828	6,507	9,598	68,544
<i>Norway</i>	-	-	32,845	18,570	82	51,497
<i>Spain</i>	-	-	2,311	422	19,465	22,198
<i>Germany</i>	-	-	14,768	5,040	-	19,808
<i>Sweden</i>	-	-	9,726	1,143	-	10,869
<i>Australia</i>	-	-	7,808	69	-	7,877
<i>Switzerland</i>	-	-	5,520	1,121	-	6,641
<i>Denmark</i>	-	-	1,675	3,272	-	4,947
<i>France</i>	-	-	3,950	202	-	4,152
<i>Austria</i>	-	-	2,368	267	-	2,635
<i>Italy</i>	-	-	1,732	612	-	2,344
<i>Netherlands</i>	-	-	1,090	1,196	-	2,286
<i>Japan</i>	-	-	1,211	1,006	-	2,217
<i>Brazil</i>	-	-	2,044	22	-	2,066
<i>Russia</i>	-	-	1,960	2	-	1,962
<i>Belgium</i>	-	-	1,278	607	-	1,884
<i>China</i>	-	-	1,681	105	-	1,786
<i>Other</i>	-	-	15,222	3,120	-	18,342
Total	35,192	1,743	4,462,259	99,735	65,517	4,664,446

31 December 2012

Country	Central Government	Regional Government	Institutions	Corporates	Other items	Total
<i>United States</i>	-	-	1,312,019	1,135	3,288	1,316,442
<i>United Kingdom</i>	1,242	885	264,475	35,615	10,414	312,631
<i>Ireland</i>	20,557	743	36,895	11,981	18,242	88,418
<i>Norway</i>	-	-	66,688	2,026	177	68,891
<i>Poland</i>	2,186	1	47,182	4,012	5,976	59,357
<i>Germany</i>	306	-	19,260	3,357	878	23,801
<i>Australia</i>	-	-	8,953	78	-	9,031
<i>Switzerland</i>	-	-	4,749	1,053	-	5,802
<i>Sweden</i>	-	-	3,535	493	-	4,028
<i>France</i>	-	15	3,105	136	-	3,256
<i>Belgium</i>	85	-	2,146	526	-	2,757
<i>Brazil</i>	-	-	2,467	29	-	2,496
<i>Netherlands</i>	-	-	1,583	897	-	2,480
<i>Japan</i>	-	-	1,253	918	-	2,171
<i>Italy</i>	-	-	1,803	325	-	2,128
<i>Russia</i>	-	-	1,841	0	-	1,841
<i>Denmark</i>	-	-	524	1,268	-	1,792
<i>Spain</i>	-	-	1,274	258	165	1,697
<i>Canada</i>	-	-	1,508	16	-	1,524
<i>China</i>	-	-	1,021	89	-	1,110
<i>Other</i>	-	-	12,134	2,755	-	14,889
Total	24,376	1,644	1,794,415	66,967	39,140	1,926,542

Maturity Analysis of Credit Risk Exposures**31 December 2013**

CRD Exposure classes <i>In thousands of Euro</i>	Readily Marketable Assets	Sight to 8 days	Over 8 days	Over 1 mth	Over 3 mths	Over 6 mths	1 Year+	2 Years +	Total
Central governments & central banks	32,434	-	-	-	-	-	2,758	-	35,192
Regional governments	-	907	837	-	-	-	-	-	1,743
Institutions	484,327	3,975,867	126	36	57	-	1,652	196	4,462,259
Corporates	-	51,853	47,864	18	-	-	-	-	99,735
Other items	-	490	-	652	1,037	-	2,312	61,025	65,517
Total	516,761	4,029,117	48,827	705	1,094	-	6,722	61,221	4,664,446

31 December 2012

CRD Exposure classes <i>In thousands of Euro</i>	Readily Marketable Assets	Sight to 8 days	Over 8 days	Over 1 mth	Over 3 mths	Over 6 mths	1 Year+	2 Years +	Total
Central governments & central banks	21,259	-	-	-	-	-	3,117	-	24,376
Regional governments	-	855	789	-	-	-	-	-	1,644
Institutions	501,893	1,288,897	1,617	565	517	810	-	116	1,794,415
Corporates	-	34,823	32,144	-	-	-	-	-	66,967
Other items	-	803	2,482	1,898	803	-	-	33,154	39,140
Total	523,152	1,325,378	37,032	2,463	1,320	810	3,117	33,270	1,926,542

External Credit Assessment Institutions ('ECAI's)

Where counterparty is rated by an ECAI, the Bank uses the rating to calculate the required Risk Weighted Assets. The Bank uses the Fitch Group, Moody's Investors Service and Standard & Poor's Ratings Group as its nominated ECAs for its rated exposures.

In line with the provisions of Annex VI of the CRD and the Central Bank of Ireland's Implementation Notice, the ratings are mapped to a Pillar1 credit quality step, which in turn is mapped to a risk weight.

As at 31 December 2013 the exposure classes for which ECAs are used by the Bank in calculating its Pillar 1 minimum capital requirements are as follows:

- claims or contingent claims on central governments or central banks;
- claims or contingent claims on regional governments or local authorities;
- claims or contingent claims on institutions;

Analysis of Risk Weights by Asset Class**31 December 2013***In thousands of Euro*

Risk Weight	Central Government & Central Banks	Regional Government	Institutions	Corporates	Other Items	Total
0%	35,192	-	-	47,548	-	82,740
20%	-	1,743	4,438,053	-	-	4,439,796
50%	-	-	24,024	-	-	24,024
100%	-	-	-	52,187	65,517	117,704
150%	-	-	182	-	-	182
Total	35,792	1,743	4,462,259	99,734	65,517	4,664,446

31 December 2012*In thousands of Euro*

Risk Weight	Central Government & Central Banks	Regional Government	Institutions	Corporates	Other Items	Total
0%	24,376	-	-	-	-	24,376
20%	-	1,644	1,763,383	-	-	1,765,027
50%	-	-	31,005	-	-	31,005
100%	-	-	-	66,967	39,140	106,107
150%	-	-	27	-	-	27
Total	24,376	1,644	1,794,415	66,967	39,140	1,926,542

Geographical Distribution of Exposures

The Group's activities are diversified throughout various countries in Europe, all of which are considered to be developed and none of which experience hyper-inflationary conditions. As the Group is not excessively dependent on one market, geographical risk is not considered to be significant to the Group.

The geographical market concentrations of receivables from issuing banks, Merchant receivables and Corporate Trust receivables are noted below:

Receivables from Issuing banks	2013	2012
Ireland	16%	17%
United Kingdom	57%	51%
Poland	10%	17%
Norway	14%	13%
Germany	3%	2%
Total	100%	100%

Merchant receivables	2013	2012
Ireland	28%	33%
United Kingdom	59%	56%
Poland	10%	9%
Germany	3%	3%
Total	100%	100%

Corporate Trust receivables	2013	2012
United Kingdom	100%	100%
Total	100%	100%

Certain European countries have recently experienced severe credit deterioration. The Group does not hold sovereign debt of any European country.

4.2. Operational risk

The Group defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Group manages operational risk through its Risk Management Framework and Internal Control Framework, and supporting procedures, policies and processes.

Management have direct and primary responsibility and accountability for identifying, assessing, controlling, and monitoring operational risks embedded in their business activities. The Group maintains a system of controls with the objective of providing proper transaction authorisation and execution, proper system operations, safeguarding of assets from misuse or theft, and ensuring the reliability of financial and other data. Management are responsible for ensuring that the controls are appropriate and are implemented as designed.

4.3. Liquidity risk

Liquidity risk is defined as the current or prospective risk to earnings and capital arising from the Group's inability to meet its liabilities when they come due. The Group's approach to liquidity risk management is designed to maintain sufficient liquidity in both normal operating environments as well as in periods of severe stress.

Liquidity risk is managed by the Asset & Liability Management Committee ("ALMC") of the Group and the ALMC regularly reviews the overall liquidity position of the Group. The ALMC Policy is approved by the Board. Liquidity risk is managed on a daily basis, with quarterly stress testing performed on the Group's liquidity position. The Group has a contingent liquidity funding plan and liquidity risk is mitigated by the significant net liquidity position of the Group.

4.4. Market risk

Market risk is defined as the current or prospective risk to earnings and capital arising from adverse movements in interest rates, foreign currency exchange, credit spreads, equity prices and risk related factors such as market volatilities.

The Group's primary exposures to market risks are foreign exchange and interest rate risk. The Board of Directors sets limits on the value of risk that may be accepted.

4.4.1 Foreign Exchange risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure which are monitored daily. The ALMC has responsibility for monitoring compliance with the asset and liability management policies, including foreign exchange exposures.

4.4.2 Interest Rate risk

The Group does not take on major exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows as the timing of the Group's cash flows are considered to be short term. Interest rate risk is therefore not considered to be significant to the Group. To minimise the volatility of net interest income and the market value of assets and liabilities, the Group monitors its exposure to changes in interest rates through asset and liability management activities within the guidelines established in the ALMC and approved by the Board of Directors. The ALMC has responsibility for monitoring compliance with the asset and liability management policies, including interest risk exposure. The company uses net interest income simulation analysis for measuring and analysing interest rate risk.

4.5 Business & Strategic risk

The Group defines business and strategic risk as the current or prospective risk to earnings and capital arising from changes in the business environment and from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment.

The Group manages and mitigates business and strategic risk primarily through its strategic planning and financial performance monitoring activity, and supporting procedures, policies and processes.

Management have direct and primary responsibility and accountability for identifying, assessing, controlling, and monitoring business and strategic risks embedded in their business activities, with the Risk Control Function providing independent oversight, under the guidance of the Board.

4.6 Concentration risk

The Group defines concentration risk as exposures with common characteristics that may arise within or across different asset categories throughout a firm with the potential to produce (i) losses large enough to threaten the firm's health or ability to maintain its core operations; or (ii) a material change in a firm's risk profile.

The Group manages and mitigates concentration risk through its risk management framework, and supporting policies and processes.

5. Equity holdings

The Equity holdings of the Bank as at 31 December 2013 measured at fair value were as follows:

<i>In thousands of Euro</i>	2013	2012
Listed equity shares	4,621	3,288
Total	4,621	3,288

The market valuation of the shares is based on the closing quoted price on the relevant stock exchange. Equity exposures are risk weighted, in line with the Standardised Approach, at 100% and included in total capital requirements.

The total unrealised gains, gross of tax, on equity shares during the year were EUR 1,333 thousands (2012: EUR 1,042 thousands).

6. Remuneration

Oversight of Remuneration

The policy and practices around remuneration are governed by the Bank's Board of Directors ("the Board"), in its role as the ultimate decision making body of the Bank and by the Bank's various control functions.

The Board is ultimately responsible for the design, the approval and the oversight of the Bank's remuneration policy. In fulfilling this responsibility the Board ensures that amongst its membership are non-executive members that have sufficient knowledge of remuneration policies and structures.

As of December 2013, the Board Remuneration Committee ("RemCo") has been delegated authority by the Board of Directors to oversee the Bank's remuneration framework, as well as considering senior management remuneration and, if required, making recommendations to the Board in respect of the remuneration arrangements of the Executive Directors of the Bank.

Elavon considers that it applies its remuneration policies in a way that is appropriate to the size, internal organisation and the nature, scope and complexity of its activities.

Remuneration Policy

The Remuneration Policy ("the Policy") covers the entity Elavon Financial Services Limited including its European branches. The objective of the Policy is to ensure that the Board is encouraging a culture of aligning risk management practices with remuneration practices. The Policy should not encourage excessive risk taking and should be designed to ensure that the Bank maintains a sound capital base.

Control Functions

The Bank's control functions play an active part in the ongoing oversight and review of the Policy for business areas other than their own. Control functions are defined as risk management, compliance and internal audit. In order that the independence and appropriate authority of the control functions can preserve its influence on incentive remuneration the method of determining the remuneration of the control function personnel cannot itself compromise their objectivity or be likely to do so. To achieve this objective control function variable remuneration is based on a specific Corporate Scorecard for Risk & Compliance and the performance comprises of the following three components: (i) US Bancorp; (ii) combination of all business lines and; (iii) individual performance.

Risk Alignment

The key objective of the Policy is to ensure that the Bank is not exposed to excessive risk taking as a consequence of any misalignment of risk taking and variable compensation. Risk alignment includes; (i) the performance and risk measurement processes; (ii) the award process; and the pay-out process. These three elements of risk alignment have been developed in accordance with the Bank's policies and process around risk management and corporate governance.

(i) The link between pay and performance

Elavon is committed to pay for performance. Performance includes overall company performance, line of business performance, and individual performance. It is evaluated in terms of accomplishing measurable business results with achieving other assigned departmental and personal goals. In addition, Corporate Scorecards are issued by US Bancorp to all business lines each year. These scorecards are used to illustrate to business lines the components which, based on the performance of those components, derive their 'award pool' annually.

(ii) Award process

The award process is the means by which each individual's variable remuneration is determined. The award process translates performance assessment into variable remuneration component for each staff member.

(iii) Pay-out process

The pay-out process is a mechanism for aligning risk to remuneration. Whilst the pay-out process is deemed to be neutralised, the Policy does include deferral policy in place whereby variable remuneration is partly paid upfront and partly deferred over a four year period. The objective of the deferral is to reward staff for the sustainability of their performance over the long-term.

Aggregate Remuneration Expenditure (actually paid)

<i>In thousands of Euro</i>	2013	2012
Number of Identified Staff	30	18
Total Fixed and Variable Remuneration	8,103	4,756

Analysis of Remuneration between Fixed and Variable Amounts (actually paid)

<i>In thousands of Euro</i>	<i>In thousands of Euro</i>	2013	2012
Number of Identified Staff ¹		30	18
Remuneration Expenditure		4,927	2,763
Total Fixed Remuneration		4,927	2,763
Variable Remuneration			
Non Deferred Cash		2,492	1,550
Deferred Cash		684	443
Total Variable Remuneration		3,176	1,993
Total Fixed and Variable Remuneration		8,103	4,756

Note 1: Identified staff or those members of staff whose professional activities have a material impact on the Bank's risk profile, to which specific requirements regarding risk alignment apply, have been identified by the Board.

Note 2: Restricted Stock Units ("RSUs") did not form part of the actual remuneration paid for 2012 however, a small number of staff received RSUs awarded in respect of the period 2013 that will be paid in future years. This amount is not deemed to be material.