

# Pillar III Disclosures

for the year ended 31 December 2015



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# 1. Introduction

## 1.1 Principal activities and business objectives

Elavon Financial Services Limited ('the Bank') is 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 Bank, its branches and its subsidiaries are hereinafter referred to as 'the Group'.

The Group's primary business objective in 2015 was to support the growth of U.S. Bancorp's various businesses in Europe. In 2015, the Group demonstrated its continued financial strength and produced solid growth in earnings by its continued focus on product innovation and execution.

The Group's activities in Europe during 2015 were principally focused on the provision of:

Elavon Merchant Services in respect of card transactions to merchants;

Global Corporate Trust Services for structured and securitised transactions; and

Corporate Payment Systems to merchants, multinational corporations and governments with complex payment processing needs.

Elavon Merchant Services ('EMS') is one of Europe's largest merchant acquirers and is well positioned in all of the key European acquiring markets. Merchant customers are from most areas of economic activity, including retail, hotel, restaurant, entertainment, fuel, travel and government.

# 1. Introduction Cont'd.

Global Corporate Trust Services ('GCTS') is one of the premier providers of corporate trust services in the United States and Europe, serving private and public companies, government and tax-exempt entities, and financial services companies. It has been a provider of comprehensive corporate trust services for nearly 100 years and our European team has been active in the European corporate trust market for more than a decade. GCTS provides a wide range of trust and agency services such as corporate bond trustee, calculation/paying agent, and collateral administration.

Corporate Payment Systems ('CPS') existing business lines are focused on meeting the needs of our U.S. based multinational customers with subsidiaries located in Europe, delivering best in class travel and freight payment products and services.

## 1.2 Capital Requirements Regulation

The Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation (CRR) collectively known as "CRD IV", came into force on 17 June 2013. CRD IV transposes into EU law the latest global standards on bank capital adequacy commonly known as Basel III, which builds on and expands the existing Basel II regulatory base. The CRD IV legislation is being implemented on a phased basis from 1 January 2014, with full implementation by 2019.

# 1. Introduction Cont'd.

CRD IV consists of the following three Pillars:

**Pillar 1:** contains mechanisms and requirements for the calculation by financial institutions of their minimum capital requirements for credit risk, market risk and operational risk.

**Pillar 2:** intended to ensure that each financial institution has sound internal capital adequacy processes in place and requires Supervisors to evaluate how well financial institutions are assessing their capital adequacy needs relative to their risks.

**Pillar 3:** requires Bank's to disclose information on the scope of CRD IV requirements

This document presents the Bank's Pillar III disclosures as at 31 December 2015 as required by Article 13 of the Capital Requirements Regulation ("CRR").

## 1.3 Scope of Application

The Bank's banking licence requires both Elavon Financial Services Ltd "EFS" on amended solo basis and the Parent Company Elavon European Holdings B.V. "BV" on a consolidated basis to file regulatory returns to the Central Bank of Ireland.

# 2. Encumbered Assets

## 2. Encumbered and unencumbered assets

Encumbered Assets held by the Group (Elavon European Holdings B.V.) consist of Irish Minimum Reserve and a Polish Minimum Reserve balance held in Narodowy Bank Polski and also a Cash Ratio Deposit held in Bank Of England.

The Group has €7.3bln of unencumbered “Other assets”, €1.9bln is primarily made up of assets which would not be deemed available for encumbrance in the normal course of business and include intangible assets, tax assets, fixed assets and derivative assets. The remaining balance €5.4bln are Loans and advances other than loans on demand.

### Template A- Assets

As at 31 December 2015

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
<b>ASSETS</b>	76,801,234	-	7,482,443,969	
<b>Equity Instruments</b>	-	-	100,448,725	100,448,725
<b>Debt Securities</b>	-	-	-	-
<b>Other assets</b>	76,801,234		7,381,995,244	-

## 2. Encumbered Assets Cont'd.

### Template B- collateral received

As at 31 December 2015

	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received	-	-
Equity Instruments	-	-
Debt Securities	-	-
Other collateral received	-	-
Own debt securities issued other than own covered bonds or ABSs	-	-

### Template C- Encumbered assets/collateral received and associated liabilities

As at 31 December 2015

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	-	-

# 3. Use of External Credit Assessment Institutions

## 3. Use of External Credit Assessment Institutions (ECAIs)

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 ECAIs for its rated exposures.

The ratings are mapped to a Pillar1 credit quality step, which in turn is mapped to a risk weight, in line with the provisions of Article 138 (d), (e), (f) of the CRR,

As at 31 December 2015 the exposure classes for which ECAIs are used by the Bank in calculating its Pillar 1 minimum capital requirements are as follows:

- exposures on central governments or central banks;
- exposures on regional governments or local authorities;
- exposures on Public Sector Entities;
- exposures on institutions;

# 3. Use of External Credit Assessment Institutions

## Cont'd.

**Table 2.1 below reflects the Group's exposures to Credit Risk and Securitisations**

Risk Weight	Central Governments	Corporates	Equities	Financial Institutions	In Default	Other Items	Public Sector Entities	Regional Governments	Securitisation
0%	1,641,393,827								
20%		473,334		5,343,386,291			172,792	427,789	
50%		1,965,871		667,282					
100%		45,474,922	59,481,719			55,129,710			
150%		94,659,359		26,508	979,747				422,916
250%	4,993,733		49,373,846						
1250%									422,916
<b>Grand Total</b>	<b>1,646,387,560</b>	<b>142,573,487</b>	<b>108,792,565</b>	<b>5,344,080,081</b>	<b>979,747</b>	<b>55,129,710</b>	<b>172,792</b>	<b>427,789</b>	<b>845,832</b>

**Table 2.2 below reflects the Group's exposures to Credit Risk and Securitisations after credit risk mitigation was applied**

Risk Weight	Central Governments	Corporates	Equities	Financial Institutions	In Default	Other Items	Public Sector Entities	Regional Governments	Securitisation
0%	1,641,393,827								
20%		473,334		5,334,219,825			172,792	427,789	
50%		1,965,871		667,282					
100%		45,474,922	59,481,719			55,129,710			
150%		94,659,359		26,508	979,747				422,916
250%	4,993,733		49,373,846						
1250%									422,916
<b>Grand Total</b>	<b>1,646,387,560</b>	<b>142,573,487</b>	<b>108,792,565</b>	<b>5,334,913,615</b>	<b>979,747</b>	<b>55,129,710</b>	<b>172,792</b>	<b>427,789</b>	<b>845,832</b>

# 4. Remuneration

## 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.

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. The RemCo met four times during 2015. RemCo has three Directors of the Board as members: two of whom are Independent Non-Executive Directors; one of whom is a Non-Executive (Group) Director.

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. In doing so, the Group has neutralised certain requirements relating to the form of variable remuneration paid and its deferral/payment period.

### 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.

The remuneration policy is in line with the business strategy, objectives, values and long-term interests of the Group, and incorporates measures to avoid conflicts of interest.

The remuneration policy has been established to ensure the Group implements regulatory requirements with regard to remuneration. The implementation of the remuneration policy is subject to annual review by Internal Audit.

# 4. Remuneration

## **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, internal audit legal, credit risk, finance and HR. 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.

The remuneration of the senior staff responsible for heading the control functions is directly overseen by the Remuneration Committee.

## **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, and cover the main parameters and rationale for variable components of compensation and related benefits. The remuneration policy makes a clear distinction between criteria for setting fixed remuneration and variable remuneration, reflecting the specific nature of both as relevant for the Group.

### **(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. When assessing risk and performance, the Group takes into account both current and future risks.

Following shareholder approval, the variable component of remuneration may not exceed 200% of the fixed component for Identified Staff.

### **(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.

# 4. Remuneration

Information Required	Split out by	Total ID Staff	Of Which Senior Mgmt	Payment Services	Shared Services & Exec
(i) the amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries;	(a) Fixed Remuneration (b) Variable Remuneration (c) Number of Beneficiaries	(a) €7,445,227 (b) €5,578,294 (c) 41	(a) €2,620,760 (b) €1,987,775 (c) 14	(a) €4,048,166 (b) €3,424,964 (c) 22	(a) €3,397,061 (b) €2,153,330 (c) 19
(ii) the amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types;	(a) Cash (b) Shares (c) Share Linked Instruments (d) Other Types (please list)	(a) €4,050,391 (b) None (c) €1,527,903 (d) None	(a) €1,350,341 (b) None (c) €637,433 (d) None	(a) €2,337,202 (b) None (c) €1,087,762 (d) None	(a) €1,713,186 (b) None (c) €440,141 (d) None
(iii) the amounts of outstanding deferred remuneration, split into vested and unvested portions;	(a) Vested (b) Unvested	(a) €1,118,275 (b) €4,636,969	(a) €441,365 (b) €1,558,752	(a) €659,879 (b) €3,004,917	(a) €458,395 (b) €1,632,052
(iv) the amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments;		0	0	0	0
(v) new sign-on and severance payments made during the financial year, and the number of beneficiaries of such payments;	Total amount of sign-on and severance payments made during year	One severance payment made during the year. For confidentiality reasons the amount has not been disclosed. However the fixed and variable components of total remuneration are appropriately balanced.			
(vi) the amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person;	Highest Severance Payment awarded during financial year	One severance payment made during the year. For confidentiality reasons the amount has not been disclosed. However the fixed and variable components of total remuneration are appropriately balanced.			
the number of individuals being remunerated EUR 1 million or more per financial year, for remuneration between EUR 1 million and EUR 5 million broken down into pay bands of EUR 500 000 and for remuneration of EUR 5 million and above broken down into pay bands of EUR 1 million;	1				
Footnotes					
1) Exchange Rates used Dec 2015 <a href="http://ec.europa.eu/budget/contracts_grants/info_contracts/inforeuro/inforeuro_en.cfm">http://ec.europa.eu/budget/contracts_grants/info_contracts/inforeuro/inforeuro_en.cfm</a>					
2) Amounts awarded for 2015 performance					