

Elavon Financial Services Limited

Risk Disclosures



Principal Activities

Elavon Financial Services Limited ('the Bank') is a bank licensed by the Irish Financial Services Regulatory Authority. The Bank's ultimate parent undertaking is U.S. Bancorp. The Group's activities in Europe are principally focused on the provision of:

- Merchant Services in respect of card transactions to financial institutions and merchants, and
- Corporate Payment Systems to merchants, fleet enterprises and multinational corporations and governments with complex payment processing needs.

Merchant customers span most areas of economic activity, including retail, hotel, restaurant, entertainment, fuel, call centre, internet and government. Corporate Payment Systems encompass a range of products from commercial aviation fuelling cards to freight payments and supply chain management solutions.

Principal Risks and Uncertainties

Risk management is an integral part of the Group's business process. The Group defines the key categories of risk in its risk framework as follows:

Risk Category

Strategic – The risk to earnings or capital arising from adverse business decisions or improper implementation of those decisions. Strategic risk arises when the bank offers products or services that are not compatible with the bank's strategic goals or that do not provide an adequate return on investment. This kind of risk increases when management introduces new, or modified products or services, without performing adequate due diligence reviews or without implementing an appropriate risk management infrastructure to oversee the activity. Strategic risk also increases when management does not have adequate expertise and experience to properly oversee these products or services. This risk is a function of the compatibility of an organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals, and the quality of implementation. The resources needed to carry out business strategies are both tangible and intangible. They include communication channels, operating systems, delivery networks, and managerial capacities and capabilities.

Reputation - The potential that negative publicity or press regarding a bank's business practices or products, whether true or not, will cause a decline in the customer base, costly litigation, or revenue reductions.

Credit - The risk to earnings or capital arising from an obligor's failure to meet the terms of any contract with the bank or otherwise failure to perform as agreed. Credit risk is found in all activities where success depends on counterparty, issuer, or borrower performance. It arises any time bank funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet. Credit risk is the most recognizable risk associated with banking. This definition, however, encompasses more than the traditional definition associated with lending activities. Credit risk also arises in conjunction with a broad range of activities, including selecting investment portfolio products, derivatives trading partners or foreign exchange counterparties. Credit risk also arises due to country or sovereign exposure, as well as indirectly through guarantor performance.

Market – The risk to a financial institution's condition resulting from adverse movements in market rates or prices such as with interest rates, liquidity, and funding. Many companies use the term price risk interchangeably with market risk. This is because price risk focuses on the changes in market factors (e.g. interest rates, market liquidity, volatilities, etc.) that affect the value of traded instruments. The primary accounts affected by price risk are those which are revalued for financial presentation (e.g. trading accounts for securities, derivatives, and foreign exchange products).

Liquidity risk, a subset of market risk, is the potential that an institution will be unable to meet its obligations as they come due because of an inability to liquidate assets or obtain adequate funding (referred to as "funding liquidity risk") or that it cannot easily unwind or offset specific exposures without significantly lowering market prices because of inadequate market depth or market disruptions ("market liquidity risk"). Liquidity Risk is also defined as the risk to earnings or capital arising from a bank's inability to meet its obligations when they come due, without incurring unacceptable losses. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources. Liquidity risk also arises from the bank's failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

Interest Rate Risk - The risk to earnings or capital arising from movements in interest rates. The economic perspective focuses on the value of the bank in today's interest rate environment and the sensitivity of that value to changes in interest rates. Interest rate risk arises from differences between the timing of rate changes and the timing of cash flows (re-pricing risk); from changing rate relationships among different yield curves affecting bank activities (basis risk); from changing rate relationships across the spectrum of maturities (yield curve risk); and from interest related options embedded in bank products (options risk). The evaluation of interest rate risk must consider the impact of complex, illiquid hedging strategies or products, and also the potential impact on fee income, which is sensitive to changes in interest rates. In those situations where trading is separately managed, this refers to structural positions and not trading portfolios.

Price risk - is the risk to earnings or capital arising from changes in the value of portfolios of financial instruments. This risk arises from market-making, dealing, and position-taking activities for interest rate, foreign exchange, equity and commodity markets.

Foreign exchange risk - is the risk to earnings or capital arising from movement of foreign exchange rates. This risk is found in cross-border investing and operating activities. Market making and position taking in foreign currencies should be captured under price risk.

Operational – The risk of loss resulting from inadequate or failed internal processes, people, or systems, or from external events. This definition includes legal risk, but excludes strategic and reputation risk, although these may be impacted by operational risk events. Operational risk is also the risk to earnings or capital arising from problems with service or product delivery. The potential that inadequate operating processes, internal controls, fraud, employee integrity, or unforeseen catastrophes will result in unexpected losses. Examples of operational risk events include internal and external fraud, product or service execution or delivery failures, systems disruptions, damage to physical assets, workplace safety or employment practice issues, regulatory infractions, and product performance gaps. Operational risk exists in all products and services.

Technology – The risk that the systems development process will be delayed or more costly than planned or that the technology involved will not be scalable or will be unable to provide the necessary data security and business recovery safeguards to the Bank, resulting in financial and reputational loss. Technology risk is also the risk to earnings or capital arising from the failure to maintain acceptable availability of service associated with automated systems, and is a subset of operational risk.

Legal and Compliance (including Fiduciary) - The risk to earnings or capital arising from violations of, or non-compliance with, laws, rules, regulations, prescribed practices, or ethical standards.

Compliance risk also arises in situations where the laws or rules governing certain products or activities of the bank's clients may be ambiguous or untested. Compliance risk exposes the institution to fines, civil money penalties, payment of damages, and the voiding of contracts. Compliance risk can lead to a diminished reputation, reduced franchise value, limited business opportunities, lessened expansion potential, and lack of contract enforceability. Compliance risk is often overlooked as it blends into operational risk and transaction processing. A portion of this risk is sometimes referred to as legal risk.

This is not limited solely to risk from failure to comply with consumer protection laws; it encompasses all laws as well as prudent ethical standards and contractual obligations. It also includes the exposure to litigation from all aspects of financial services, traditional and non-traditional.

Fiduciary risk is the risk of loss arising from factors such as failure to maintain safe custody of client assets or negligence in the management of assets on behalf of a third party.

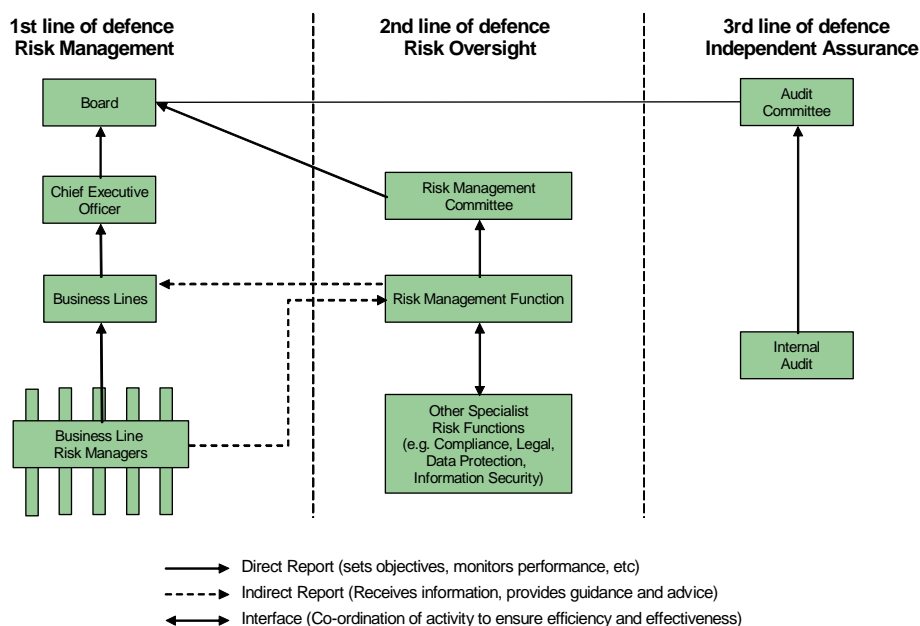
People - The risk to earnings or capital that arises from the heavy investment in people in the organization. Earnings, capital, and reputation can be affected due to the loss of key personnel, lack of management succession planning, use of temporary employees or non-market compensation packages, etc.

Risk Policy

Elavon's Risk Policy seeks to promote sound risk management practices throughout Elavon; a level of consistency in risk identification, assessment, mitigation and reporting throughout Elavon that supports sound enterprise-level operational risk assessment and management; compliance with those aspects of the Basel II Capital Accord and the ICAAP framework. Risk management embraces the whole spectrum of activities which address risk and which taken together supports the achievement of Elavon's objectives. This includes activities, both at the Elavon Corporate level and at the Business Line level, associated with the identification and evaluation of risks, the assessment of controls, the monitoring of the risk profile, the escalation and resolution of issues, and the oversight and assurance of roles and procedures.

Risk Governance & Oversight

Three Lines of Defence



The minimum standard for the Elavon risk management structure consists of 'three lines of defence' – Risk Management, Risk Oversight and Independent Assurance. This structure aims to ensure that there is an integrated approach to risk management with appropriate segregation of duties and avoidance of gaps or overlaps in activities.

The first line of defence has primary responsibility for the management of risk on a day-to-day basis. Elavon Corporate and Business Lines identify and evaluate their risk profile and ensure adequate control.

The second line of defence is responsible for risk oversight, policy, minimum standards and guidance, and ensuring these are complied with. The Elavon Risk Function and the Risk Committee acts as the senior management risk forum with defined terms of reference relating to risk management and oversight. It is the Risk Function's role to critically review and challenge the information produced by the corporate areas and

the business line risk functions in order to ensure that policies and standards are consistently applied. In addition, the Risk Function consolidates and aggregates business line risk information to produce the Elavon risk reports. The business lines risk officers develop, implement and operate a risk management framework tailored to meet the needs of the business line that satisfies the policy and minimum standards laid down by group.

The third line of defence provides independent assurance of the robustness of the model. The Audit Committee via the Internal Audit function independently reviews the effectiveness of the risk management framework, the key risks to the business and how they are controlled and monitored. Internal Audit through its program of work provides assurance of the effective operation of the risk management framework, processes, controls and procedures, as relevant, across Elavon. This encompasses compliance with minimum standards, quality assurance of the application of the framework and evaluation of control adequacy.

A detailed risk register is maintained by each division within the Group and plans to address the identified risks are updated and reviewed by the executive directors on a regular basis. The consolidated risk register is also reviewed and approved by the Risk Committee and is the subject of a report to the Board of Directors.

Principal Risks and Uncertainties

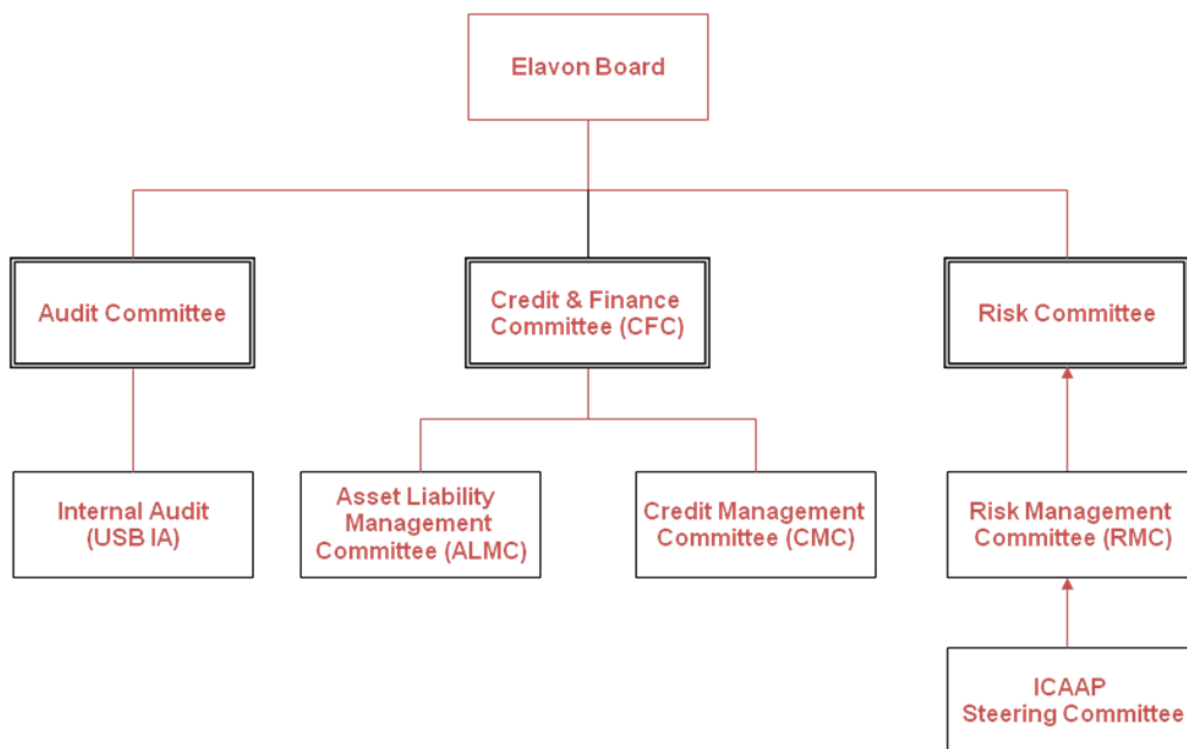
The risks and uncertainties which are currently judged to have the largest impact on the Group's performance are noted below:

- General economic conditions may negatively affect consumer spending, resulting in declines in retail sales.
- The Group faces strong competition in its various markets and if it fails to compete successfully, market share and profitability may decline.
- Changes in and adherence to government and regulatory compliance regulations, card scheme membership requirements, which could result in increased compliance costs for the Group and adversely affect profitability.
- Movements in foreign currency exchange rates may adversely affect the Group.
- The success of the Group is built upon a strong effective management team committed to achieving a superior performance in each of our divisions. The loss of key personnel could for a time have a significant impact on business performance.
- Operational risks, including technology and systems execution risk, protection of cardholder data, information security breaches and data protection compliance, compliance with card schemes, payment card industry standards, business continuity planning and disaster recovery, and general regulatory compliance.

Risk Management

The Group regards managing risks as an essential part of successfully operating a financial services group. Material risks are deemed to be those risks which may impact the Group's ability to deliver on its business plan, service its customers, operate in a legal and compliant manner, impact the Group's reputation and brand or cause financial loss exceeding normal business plan tolerances. Non-material risks are deemed to be those which do not impact the Group's ability to deliver on its business plan, service its customers, operate in a legal and compliant manner, impact the bank's reputation and brand. Non-material risks may cause financial loss within normal business plan tolerances.

The Group's management continually review its operations and assesses the level of risks given the Group's policies and controls, changes in its products and services, and changes in the market place and competitive environment in which it operates. The Group has a well defined corporate governance and risk management framework and structure, policies and procedures in place.



This includes the following:

Board - the role of the Board of Directors, together with the Group's Risk Committee, in the policy-setting stage and oversight of the overall activities of the Group is fundamental to the entire risk management process. The Board is responsible for setting the risk appetite level of the Group. In relation to this, the Board has approved the terms of reference of the Audit Committee, the Risk Committee, the Credit and Finance Committee, and the Asset Liability Committee. The Group has defined the parameters within which these Committees operate and has established the internal control framework that applies to the management of the assets and liabilities of the Group. The Audit Committee, Risk Committee and the Credit and Finance Committee all report to the Board. The Asset Liability Committee reports to the Credit and Finance Committee.

Risk Committee - the Risk Committee has been delegated responsibility by the Board to oversee the overall risk management framework within the Group. It is responsible for monitoring all aspects of risk associated with the operations of the Group. The Risk Committee is also responsible for overseeing the strategic, reputation, compliance, operational, counterparty, country, contractual, and accesses risks that may emerge as a result of any outsourcing arrangement entered into by the Group. The responsibility of the Risk Committee covers all relevant matters pertaining to risk which are not covered and monitored by other Board committees. The Risk Committee assists the Board in defining the risk appetite of the Group, and in embedding this into the day-to-day operations of the Group.

Audit Committee - the Audit Committee's role is to provide oversight in respect of the financial reporting process and the quality and integrity of the Group's financial statements; the Group's internal controls and compliance with legal and regulatory requirements; the statutory audit of the annual and consolidated accounts; the independence of the Group's auditor, and the provision of additional services to the Group; and the effectiveness of the Group's internal audit function. As part of its oversight role, the Audit Committee reports to the Board on the Group-level policies and procedures for managing financial and operational risks and the internal control environment. The Audit Committee reviews with management and the Group's Internal Audit function, the assessment of internal controls and financial risks made by Internal Audit, Credit Risk Assessment, the Group's Risk Function, the Financial Regulator and other regulators, including the Federal Reserve, as part of the normal risk, control and regulatory review processes.

Credit and Finance Committee - the Credit & Finance Committee has been delegated responsibility by the Board to formulate the Group's high-level credit policies and procedures, to oversee the credit administration function, and to oversee the Treasury function, in particular with respect to capital management, liquidity risk management, interest rate risk management, and investment and associated credit risk management. The responsibility of the Credit & Finance Committee also covers all relevant matters pertaining to external debtors (including periodic monitoring of the quality of credits granted), and the review of the Group's internal credit controls, including the effectiveness of the internal credit function.

Asset Liability Management Committee – the Asset Liability Management Committee has been delegated responsibility by the Board's Credit and Finance Committee for implementing the high-level Treasury policies set by the Board into day-to-day procedures to be followed by the Treasury function, as well as managing the Group's assets and liabilities to accomplish the Group's overall financial objectives. The Asset and Liability Management Committee evaluates the operational aspects of the Group's Treasury function on a regular basis, to ensure that these are undertaken within the parameters of the Asset Liability Management Policy. The Asset Liability Management Committee also ensures that actions are consistent with the Group's credit, liquidity, risk, tax and accounting policies and other applicable regulatory requirements. The Asset Liability Management Committee monitors the capital adequacy levels of the Group, its liquidity position and contingency funding, investments and the management of foreign exchange and interest rate risk.

The risk management function within the Group is carried out in respect of financial risks (primarily credit, market and liquidity risk), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit Risk

The Group takes on exposure to credit risk which is the risk that a counterparty will be unable to pay all amounts in full when due. 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 are 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 interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and guarantees and by selling non-recourse receivables.

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.

Provision for impairment of loans and advances to banks was nil at 31 December 2009 (nil at 31 December 2008).

The fair value of collateral held against receivables from issuing banks was nil at 31 December 2009 (nil at 31 December 2008).

None of the merchant receivables were past due or impaired. The fair value of collateral held against merchant receivables was nil at 31 December 2009 (nil at 31 December 2008).

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 is as follows:

<i>In thousands of Euro</i>	2009	2008
At 1 January	(1,154)	(2,354)
Reserve releases	210	1,200
At 31 December	(944)	(1,154)

Market Risk

The Group takes on exposure to market risks including currency, geographical and interest rate risk. The Board of Directors sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency 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 by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below is a sensitivity analysis which demonstrates the effects of potential 5% adverse movements in exchange rates of the given currencies versus the Euro. The assumptions used in this analysis have been updated from the prior year. The mitigating effects of the forward contracts outstanding at year end have now been included in the analysis. Intergroup balances, although eliminating on a Group level, have an impact on the analysis and are therefore also included. The effects of favourable movements would have the opposite effect on the Income Statement and Equity as noted below.

<i>In thousands of Euro</i>	2009		2008	
	Income Statement	Equity	Income Statement	Equity
GBP	(162)	(5,514)	(339)	(5,073)
NOK	(36)	(1,261)	46	(952)
PLN	34	(412)	(142)	(532)
USD	(36)	(12)	(237)	217
Total	(200)	(7,199)	(672)	(6,340)

Geographical Risk

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.

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 so short term. Interest rate risk is therefore not considered to be significant to the Group.

Liquidity Risk

Liquidity risk is defined as the potential that the Group will be unable to meet its obligations as they come due because of an inability to liquidate assets or obtain adequate funding. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Asset/Liability Committee of the Group. 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, including a committed line of credit available from its parent shareholder. Liquidity risk is also mitigated by the significant net liquidity position of the Group.

The table below shows liabilities at 31 December 2009 by their remaining contractual maturity. Some liabilities, however, may be of a longer term nature; for example, loans are frequently renewed and accordingly short term loans can have longer term duration. Overdue liabilities, such as term deposits not withdrawn by the Group's customers, are classified within the 'demand and less than 1 month' column.

The liquidity position of the Group's liabilities at 31 December 2009 is set out below

<i>In thousands of Euro</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
Overdrafts	727	-	-	-	727
Due to banks	2,542	-	-	-	2,542
Merchant payables	272,495	-	-	-	272,495
Current tax liabilities	-	-	314	-	314
Deferred tax liabilities	-	-	7,570	-	7,570
Other liabilities	13,402	11,933	-	-	25,335
Total liabilities	289,166	11,933	7,884	-	308,983

The liquidity position of the Group's liabilities at 31 December 2008 is set out below:

<i>In thousands of Euro</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
Overdrafts	6,649	-	-	-	6,649
Due to banks	1,057	-	-	-	1,057
Merchant payables	253,924	-	-	-	253,924
Current tax liabilities	-	-	846	-	846
Deferred tax liabilities	-	-	8,685	-	8,685
Other liabilities	14,399	12,725	-	-	27,124
Total liabilities	276,029	12,725	9,531	-	298,285

The matching and/or controlled mismatching of the maturities of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities are the most important factor in assessing the liquidity of the Group and its exposure to changes in exchange rates.

Operational Risk

The Group defines operational risk as the risk of loss resulting from the group's operations, including, but not limited to, the risk of fraud by employees or persons outside the Group, the execution of unauthorised transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and compliance requirements and business continuation and disaster recovery. This risk of loss includes the potential legal actions that could arise as a result of an operational deficiency or as a result of non-compliance with applicable regulatory standards, adverse business decisions or their implementation, and customer attrition due to potential negative publicity. The Group manages operational risk through its risk management framework and its internal control procedures, policies and processes. Under the guidance of the Risk Committee, the Group's risk management function has established policies and interacts with the business lines to monitor the Group's significant operating risks on a regular basis (monthly, quarterly and annual basis).

Management have direct and primary responsibility and accountability for identifying, 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. The Group's risk management function together with management identify and evaluate the risk profiles of the business and work to ensure a suitable and adequate control environment is in place and operating. This includes the identification, assessment, and mitigation of risk and appropriate control environment. This includes risk identification, operational risk assessments, and development of remedial action plans for risks.

Capital Management

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 and ratios established by the Basel Committee in Banking Supervision and adopted by the Central Bank of Ireland in supervising the Bank.

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 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 2009	Required 2009	Actual 2008	Required 2008
Tier 1 Capital	93,765	32,133	81,044	30,521
Tier 2 Capital	-		-	
Total Capital	93,765	32,133	81,044	30,521
Risk weighted assets	401,667		381,515	
Tier 1 Capital Ratio	23%	8%	21%	8%
Total Capital Ratio	23%	8%	21%	8%

Regulatory capital consists of Tier 1 and Tier 2 capital. Tier 1 capital for Elavon consists of Share capital, plus Capital Contribution, plus Retained earnings/(losses) including current year profit/loss, plus Foreign currency translation, less Goodwill/other intangibles. The Bank does not have any Tier 2 capital.

Risk Capital Held as at December 2010

<i>In thousands of Euro</i>	Pillar	Pillar II	Total
Credit (standardised basis)	12,581	-	12,581
Market (foreign exchange risk)	840	-	840
Operational (basic indicator approach)	15,393	-	15,393
Other Assets	119	-	119
Sub-total	28,933	-	28,933
Concentration	-	400	400
Business and Strategic	-	2,800	2,800
Sub-total		3,200	3,200
Total	28,933	3,200	32,133
Own Funds			23%