Clear.Bank®

2020 Pillar 3 Disclosure

Registration number
09736376

Unlocking Potential

ClearBank® is here to unlock potential for our partners, and for our people. The two go hand in hand. It's the brilliance and foresight of our people that unlocks potential for our partners.

Our purpose

At ClearBank, our purpose is to provide great technology that unlocks our partners' potential, ensuring everyone has the freedom to choose the financial services they need.

Our vision

We are committed to being a responsible business, driving forward the transformation of payment services. Our technology platform and banking license enables our partners to thrive by providing access to next generation financial solutions.

Why

For decades, the clearing of financial transactions remained unchanged and unchallenged. We asked, 'What if there was a better way? What if we could make those transactions faster, safer, more reliable and accessible to all?'

Contents

Our business at a glance

Using our next generation financial solutions to transform the UK clearing and payment services landscape. Enabling partners to unlock their potential by effortlessly accessing real-time and innovative payment services.

Who we are

ClearBank's technology platform and banking license enables our partners to thrive by providing access to next generation financial solutions. We are a specialist technology-enabled clearing bank with a clear focus on innovating in the UK clearing and agency banking landscape with our transformational banking platform.

What we do

ClearBank focuses on clearing, agency banking and Banking as a Service products. We are committed to being a responsible business, driving forward the transformation of payment services.

We provide access to all UK payment schemes (Bacs, CHAPS, credit clearing and Faster Payments) and other banking services (Financial Services Compensation Scheme ('FSCS') protected deposits and virtual account solutions) to financial institutions and small and medium-sized enterprises ('SMEs') across all industries and markets.

Compelling partner proposition

Our value proposition is unique amongst our competition. Our robust and scalable banking technology offers real-time clearing services through all the UK payment schemes and foreign exchange and multi-currency services.

We hold every pound of our partners UK balances at the Bank of England. As these funds are not used for any other purpose such as commercial lending, our partners are reassured that their funds are safe with ClearBank.

02 Disclosure Policy

Delivering solid growth

"We attest that, to the best of our knowledge, the Pillar 3 disclosures have been prepared in accordance with ClearBank's Pillar 3 disclosure standards and internal controls framework"

James Hopkinson
Chief Financial Officer

Basis of preparation

The European Union Capital Requirements Directive came into effect on 1 January 2007. This introduced consistent capital adequacy standards and an associated supervisory framework in the EU based on the Basel II accord. Following publication of the Basel III accord, this was replaced by the Capital Requirements Regulation ('CRR') and the Capital Requirements Directive (together referred to as 'CRD IV') which came into force on 1 January 2014 and is enforced in the UK, together with local implementing rules and guidance, by the PRA. The rules include disclosure requirements known as 'Pillar 3' which apply to banks and building societies. These are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes.

Following the PRA's statement on the 30 December 2020 regarding their concerns around the EBA exemption of software assets from CET1 capital deductions, ClearBank have decided to adopt CRR Article 3 and apply stricter requirements in this regard.

This Pillar 3 disclosure complies with CRD IV and delegated legislation as at 31 December 2020.

Article 432 of the CRR permits ClearBank to exclude certain disclosures if they contain proprietary information or if the information is non-material.

Scope of consolidation

ClearBank has five wholly owned subsidiaries but these are deemed de minimus for regulatory purposes. ClearBank is the only regulated entity in the Group and as such these Pillar 3 disclosures are prepared for this entity only.

Verification and quality assurance

CRR requires that the Directors of ClearBank ensure that its external risk disclosures are accurate and comprehensive. The Directors have considered the adequacy of this Pillar 3 disclosure and are satisfied that the disclosures are both accurate and comprehensive.

Pillar 3 disclosures are not subject to external audit. However, in line with ClearBank policy, these Pillar 3 disclosures have been reviewed in line with the internal governance procedures applicable to all ClearBank external reporting, including review and approval by the Board Risk Committee and Board.
The Pillar 3 Disclosure Standard requires that

- Appropriate reconciliations are performed on the disclosures to ensure alignment with financial results;
- Narrative content is subject to appropriate senior review and approval;
- Compliance with regulatory requirements, as set out in Part 8 of the CRR, is documented and met;
- Risk based review activities are performed across the three lines of defence, to provide assurance over the disclosures; and
- The BRC reviews and approves the disclosures.

Reporting

Key aspects of ClearBank's capital position are reported monthly to the Board in ClearBank's financial business performance pack. More detailed reports of capital, risk and liquidity are considered monthly by Asset and Liability Committee ('ALCO'). A range of Key Risk Indicators and Key Performance Indicators are routinely monitored (in both actual and forecast terms) by management, and by the Board, Board Risk Committee ('BRC') and its sub-committees, to ensure that appropriate actions can be taken should triggers be breached.

Frequency, media and location

ClearBank's policy is to publish Pillar 3 disclosures on an annual basis in conjunction with the ClearBank Annual Report and Accounts. Pillar 3 disclosures are published on the corporate website: **www.clear.bank**. The frequency of disclosure will be reviewed if there should be any material changes in regulatory requirements, corporate structure or capital calculation methodology.

Robust capital, liquidity and balance sheet

In line with our risk appetite,we maintained a robust capital position throughout the year, with a CET1 of 114% (2019: 88%) at the year end, maintaining headroom in excess of our total capital requirements. The Bank's CET1 ratio has been strengthened by a further investment of £44 million during the year, taking total share capital invested in the Group to £157 million. This demonstrates the strong ongoing support and commitment to the Bank from our investors, as we seek to build our business and challenge the existing clearing market.

In addition to our strong regulatory capital position, we remained significantly above all our regulatory minimum requirements throughout the year, with a Liquidity Coverage Ratio as at year end of 186% (2019: 127%) and our Net Stable Funding Ratio of 3,298% (2019: 324%). This demonstrates a strong liquidity position for the Bank with High Quality Liquid Assets of £1,012 million (2019: £526.3 million) all held in cash at the Bank of England. Cash balances represent 96.1% (2019: 93.6%) of the Bank's total assets of which £926 million (2019: £458 million) are customers balances.

Brexit

This Pillar 3 disclosure broadly follows the format of the previous years disclosure.

The effects of the UK leaving the European Union whilst bringing some uncertainty to the UK market, as a UK-focused clearing bank, the impact on ClearBank has been minimal and has not impacted the services that we provide to customers. The UK's transition period ended at 11pm on 31 December 2020. During the transition period, EU law continued to apply in the UK. The UK regulatory authorities and HM Government have undertaken a legal program to ensure that the UK continues to have a functioning Financial Services regulatory regime once EU law ceased to apply in the UK at the end of the transition period. These disclosures take into consideration any relevant Bank of England/PRA policy materials and EU exit instruments in place at the end of December 2020.

04 Summary Analysis

The following provides summary analysis of ClearBank's key regulatory metrics as at 31 December 2020.

Table 1: Capital and leverage ratios

	2020	2019
CET1	**114%**	88%
Tier 1	**114%**	88%
Total regulatory capital	**114%**	88%
CRD leverage ratio	**3%**	3%
UK leverage ratio	**30%**	21%

The Bank's capital ratios exceed the minimum requirements of CRD IV. Neither leverage ratio is currently applicable to ClearBank; with the UK leverage ratio only being applicable to UK Banks with retail deposits of at least £50 billion.

Table 2: Own funds

	2020 £'000	2019 £'000
Paid up share capital and premiums	**157,112**	112,999
Other reserves	**9,519**	5,723
Retained losses	**(108,788)**	(76,950)
Total equity as per balance sheet	**57,843**	41,772
Regulatory capital adjustments		
Deferred tax	**(5,899)**	(6,047)
Intangible assets	**(21,992)**	(18,265)
CET1	**29,952**	17,460
Total own funds	**29,952**	17,460

Regulatory capital is categorised as either Tier 1 or Tier 2 depending on the characteristics of the capital items. Certain capital deductions and regulatory adjustments are made against these capital items reflecting the different regulatory treatment for capital adequacy purposes.

As at 31 December 2020, ClearBank's capital includes deductions for intangible assets and deferred tax assets. ClearBank's capital after deductions represents own funds for capital adequacy purposes.

Table 3: Movement in Capital Resources

	£'000
As at 1st January 2020	**17,460**
Movement in share capital and premiums	44,113
Movement in retained earnings	(31,838)
Movement in other reserves	3,796
Movement in intangible assets	(3,727)
Movement in deferred tax assets	148
As at 31st December 2020	**29,952**

During the year we continued to grow our business, supported by a £44m capital raise. This additional investment allowed us to continue the IT development of further functionality and increase headcount to meet operational and regulatory requirements. Total capital resources decreased in the year driven mainly by operational costs involved in on-boarding and serving our customers.

Table 4: Movement in Risk-Weighted Assets

	£'000
As at 1st January 2020	**15,664**
Movement in assets risk-weighted at 20%	122
Movement in assets risk-weighted at 50%	0
Movement in assets risk-weighted at 100%	(2,109)
Movement in assets risk-weighted at 250%	3,243
As at 31st December 2020	**16,920**

06 Regulatory Capital Framework

CRD IV which came into effect on 1st January 2014, together with relevant EU delegated acts and PRA policies, define the regulatory capital framework applicable to ClearBank.

Regulatory capital resources

Throughout the financial year, ClearBank complied with the capital requirements that were in force as set out by European and national legislation. All disclosures are on an end-point basis unless otherwise stated.

CET1

This is the strongest form of capital and consists of ordinary shares, associated share premium and allowable reserves. CET1 capital available to a bank is calculated after deducting certain regulatory adjustments, including deductions for intangible assets as per CRR article 37 and deferred tax assets that are not allowable for exemption from deduction as per article 48 of the CRR.

ClearBank's total capital resources continue to be made up entirely of CET1 capital.

Regulatory capital requirements

ClearBank manages its capital structure to ensure that it continues to exceed minimum regulatory requirements, as well as providing capacity for further business development.

As part of the risk appetite framework, strong capital ratios relative to regulatory requirements are targeted and any material changes to the balance sheet, and potential regulatory developments are considered in advance. The capital structure is managed to ensure that minimum regulatory requirements are always met, based on actual and forecast stressed performance.

A number of tools are employed to support the management of capital. The Board is responsible for setting risk appetite which is articulated through its risk appetite statements and these are translated into specific risk metrics, which are monitored by BRC, ERMC and ALCO.

Pillar 1 capital requirements

Pillar 1 requirements set out the methodology for determining the minimum capital requirements for credit, counterparty credit, market and operational risks. The minimum capital requirement for these risks is 8% of their associated Risk Weighted Assets ('RWAs').

CRD IV allows for a range of approaches to calculating the associated RWAs. As at 31 December 2020, ClearBank had negligible counterparty credit and market risks. ClearBank calculate credit risk RWAs using the Standardised Approach and the operational risk RWAs using the Basic Indicator Approach.

Pillar 2 capital requirements

Pillar 2 capital requirements are those subject to the PRA's Supervisory Review and Evaluation Process ('SREP') where additional capital is required to cover specific risks not covered by the minimum regulatory requirements of Pillar 1. As such, Pillar 2 requirements play an important role in ensuring that the bank holds appropriate levels of capital for the risks to which it is exposed.

Internal Capital Adequacy Assessment Process ('ICAAP')

ClearBank undertakes an ICAAP which is an internal assessment of Pillar 2A and Pillar 2B capital requirements. The Pillar 2A assessment considers firm specific risks and risks not included in Pillar 1. The Pillar 2B element provides an assessment of ClearBank's stressed capital adequacy in the context of its business strategy, risk appetite, risk profile and capital plan throughout a five-year planning horizon. The capital plan forms the starting point for stress testing which considers the impact of alternative scenarios to ClearBank's plan and deploys management actions where necessary to ensure we would remain within our risk appetite under the hypothetical scenarios. The ICAAP is undertaken annually or more frequently should the need arise.

The ICAAP is presented to ALCO and BRC, for challenge and approval. The Board ratifies the ICAAP following its approval by BRC. The PRA assesses ClearBank's ICAAP and sets the Total Capital Requirement ('TCR').

Pillar 2A

ClearBank's latest TCR and Buffer requirements, were received in October 2020. The TCR is a point in time estimate by the PRA, of the amount of capital required to be held to meet risks not fully covered by Pillar 1 such as credit concentration and operational risk, and those risks outside the scope of Pillar 1 such as pensions and interest rate risk.

ClearBank's current prescribed TCR is 18.56% of RWAs. This means that in order to meet its TCR requirements, ClearBank must hold capital equal to 10.56% of RWAs in addition to the 8% minimum requirement under Pillar 1. At least 56.25% of the Pillar 1 and Pillar 2a requirements must be met by holding CET1 capital.

ClearBank currently meets 100% of its Pillar 1 and Pillar 2 capital requirement with CET1 capital.

Pillar 2B

The PRA approach for new banks is to set the initial Pillar 2B capital requirement equal to a bank's expected wind-down costs over a 12-month period. The Pillar 2B requirement is recalculated by firms and agreed with the PRA as part of the SREP; however, the PRA requires all banks to preserve confidentiality with respect to their specific PRA Buffer Pillar 2B requirements.

Regulatory capital buffers

Under CRD IV, institutions are required to meet the following own funds requirements: A CET1 capital ratio of 4.5%, a Tier 1 capital ratio of 6% and a total capital ratio of 8%. These form the institution's Pillar 1 requirements. Pillar 2A covers firm specific risks and those that are not fully addressed by Pillar 1. In addition to the minimum capital requirements, CRD IV requires institutions to hold capital buffers, together the combined capital buffer, that can be utilised to absorb losses in stressed conditions.

Under the PRA's Pillar 2 framework it may also set a Pillar 2B PRA buffer defining a firm specific capital buffer over and above the combined buffer that should be maintained in non-stressed conditions as a mitigation against future possible stress periods. The PRA requires that the level of this buffer is not publicly disclosed.

The PRA buffer is assessed alongside other capital buffers, as described below. All buffers must be met with CET1 resources.

Capital Conservation Buffer ('CCoB')

The CCoB is designed to ensure that institutions build up capital buffers outside times of stress that can be drawn upon if required. From January 2019, the capital conservation buffer requirement was 2.5% of risk-weighted assets.

Countercyclical Capital Buffer ('CCyB')

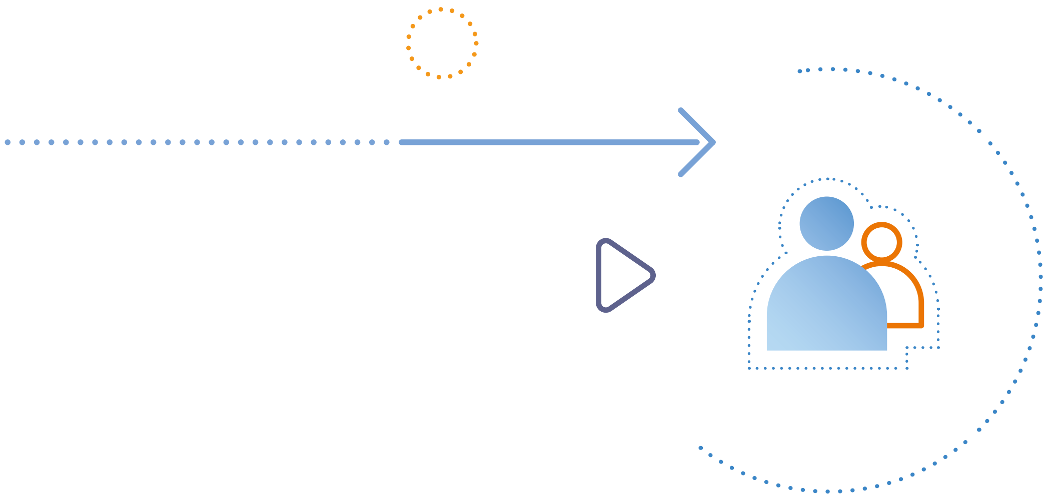
A bank must calculate a countercyclical capital buffer of CET1 capital equal to its total risk exposure multiplied by the weighted average of the countercyclical buffer rates that apply to exposures in the jurisdictions where the bank's relevant credit exposures are located. ClearBank operates only in the UK and so the weighted average countercyclical buffer rate is equal to the UK buffer rate of 1.0%.

On 11 March 2020, the Bank of England reduced the CCyB for the UK to 0% in response to their measures to counter the economic shock from Covid-19.

Other Capital Buffers

Financial institutions that are considered to represent a higher risk to either the global or domestic financial system are defined as either globally systemically important institutions ('G-SIIIs') or domestically systemically important institutions ('D-SIIs'). In addition, there is a systemic risk buffer introduced by the PRA, that is applicable to both ring-fenced banks and large building societies. These additional buffer requirements range from 1% to 2.5% of RWAs.

None of the other capital buffers are currently applicable to ClearBank.



08 Summary of capital requirements

The table below summarises the CRD IV capital requirements and how they apply to ClearBank.

Table 4: CRD IV capital requirements

Requirement/capital buffer	Calculation	Capital required to meet requirement	Impact on ClearBank
Pillar 1	Fixed percentage of RWAs as prescribed in CRR article 92	▪ At least 4.5% of RWA met by CET1; ▪ At least 6% of RWAs met by T1 and; ▪ At least 8% of RWAs met by total capital	ClearBank met this requirement with CET1 capital
Pillar 2A	Expressed as a percentage of RWAs	▪ At least 56.25% to be met with CET1; ▪ At least 75% to be met with T1 and; ▪ 100% to be met by total capital	ClearBank met this requirement with CET1 capital
Countercyclical buffer	Expressed as a percentage of RWAs	▪ CET1 capital	ClearBank met this requirement with CET1 capital
PRA buffer ('Pillar 2B')	Expressed as a percentage of RWAs	▪ At least 100% of CET1	This buffer is set by the PRA and is confidential and is met with CET1 capital

Leverage ratio framework
ClearBank monitors its leverage ratio on both an EBA and UK leverage framework basis, however in the UK the leverage ratio framework is only currently applicable to those financial institutions that hold retail deposits of at least £50bn.

Minimum requirements for own funds and eligible liabilities
As part of the Bank Recovery and Resolution Directive ('BRRD'), the Bank of England, in its capacity as the UK resolution authority, has published its policy for setting the minimum requirement for own funds and Eligible Liabilities ('MREL') and have provided firms with indicative MREL which is applicable to UK firms from 1 January 2020 and fully phased in by 1 January 2022. ClearBank has been informed by the PRA that we are not currently required to hold any additional capital in respect of MREL.

Risk Management

Effective risk management is strategically important to ClearBank. A robust approach enables us to identify, assess and manage the principal risks whilst maximising the potential upside of our business strategy.

Key highlights of 2020

Our business has developed during 2020, including advancing our business in the following areas

- Increased customer numbers
- Significantly higher transaction volumes
- A range of new products and initiatives

To ensure our risk management framework remains ahead of our future requirements we have worked on refining our approach and making it more forward looking and scalable. Changes in our risk profile in 2020 were driven primarily by the initiatives set out below and have driven the need to improve our risk management framework to ensure that it remains in line with our robust approach to risk management:

- Driving increased agency banking transaction volumes, values and client numbers
- Scaling our Banking-as-a-Service partnerships
- Developing foreign exchange and multi-currency capabilities

This is against a backdrop of unprecedented uncertainty in the political and economic environment, with events such as Brexit and the COVID-19 pandemic testing our business model, operational resilience, business continuity and our ability to adapt to quickly to change. The changes and planning in 2019, which continued in 2020 has provided us with many real world tests of our risk management framework. I am pleased with how we have reacted through this uncertainty and our ability to adapt quickly and take the necessary action to manage our risks appropriately. We will look to continually enhance our approach to risk management as we continue to learn and develop to ensure we have planned for 2021 and deliver on our risk management strategy and vision.

Enterprise Risk management framework

We materially enhanced our risk management framework in 2020, further embedding our three lines of defence model and delivering significant improvements in:

- **Risk reporting** – We delivered more refinements to our risk reporting. This included enhancements to the quality, timeliness and consistency to support effective risk oversight
- **Risk appetite framework, statements and metrics** – We refreshed our risk appetite framework, statements and metrics to reflect our business and our desired state
- **First line of defence control testing** – we have a Risk and Control Self-Assessment ('RCSA') process in place and formalised and tracked control testing progress and results by the first line and incorporated this into our risk reporting

We used external third parties during 2020 to provide independent validation that the enhancements in our risk management framework were designed and operating effectively and whilst we will continue to grow our risk management framework and capabilities, commensurate with our growth. This provided us with the external benchmarking we were seeking. We are committed to delivering further improvements by strengthening our Risk Taxonomy, Policies and Framework, Risk Management Process and Governance and Reporting in 2021 and beyond.

Financial Crime

We reviewed our financial crime framework and formed a programme of change activity to deliver the next stage of maturity and automation in relation to our financial crime systems and controls. We have made material progress in terms of implementation of this change programme with further enhancements to be delivered in 2021. As part of this programme of change, we:

- Designed and implemented a review customer risk assessment methodology
- Enhanced our transaction monitoring system and tools
- Enhanced our approach to sanctions compliance
- Updated our customer due diligence process and procedures
- Established a dedicated Financial Crime Compliance Committee, chaired by the MLRO as a sub-committee of our Enterprise Risk Management Committee to increase oversight

This programme of change is overseen by a dedicated programme steering committee and reported through our risk management governance structure. The programme plan aligns to ClearBank's growth strategy, as it focuses on enhancing key elements of the Financial Crime compliance framework and building capability that will support such growth.

Risk management function

We made changes to our risk management function in 2020, bringing in individuals with the additional skills and experience to enable us to deliver on the next stage of our risk management strategy. This compliments the bank's strategy and the development of new business initiatives including Foreign exchange and multi-currency, the enhancement of the BaaS proposition and the BCR related projects such as overdraft facilities and digital cheques.

Looking ahead

As ClearBank's business grows and develops, our risk management framework and approach needs to remain effective in managing both current and future risks. Our areas of focus for 2021 will concentrate on continuing those initiatives underway in 2020 including making further enhancements to our risk management framework, financial crime framework including fraud, bribery and corruption and supporting ClearBank in the achievement of our strategic objectives.

Risk Management continued

Risk management process

Our overall risk strategy is maintained by the CRO and approved by the Board. We have a set of risk management principles that must be followed across the Bank, and robust controls in place to ensure risk is managed effectively. Our risk strategy and Risk Management Framework are under continuous review. Our risk management process involves the identification and assessment of specific risks within these risk groups, mitigation and management of these risks, and monitoring and reporting against these risks, which provides the foundation to enable us to deliver against our strategic objectives.

IDENTIFY	ASSESS	MITIGATE	REVIEW	REPORT
Risks are identified by either a 'bottom-up' process involving line management or a 'top-down' review by the executive management team. These are reported to, and reviewed by, the Executive, Board Risk Committees and the Board on a regular basis.	The likelihood and impact of each risk is assessed against suitable risk matrices and key risk indicators to calculate the potential level of exposure on the business.	Actions being taken, or that should be taken, to help mitigate and reduce the potential exposure to the risks are regularly reviewed to ensure the appropriate individual 'owns' the risk and the actions being taken remain effective.	Risk registers are regularly reviewed to capture and identify new risks and identify opportunities to improve the mitigating actions.	The executive management team reviews all identified risks, and assigned actions around those risks, on a quarterly basis, with the principal risks being monitored, reported to and reviewed by the Audit and Risk Committees as well as the Board. In addition, risk strategy and policies are reported to the regulator on an annual basis.
Line of defence				
1st, 2nd and 3rd	1st, 2nd and 3rd	1st and 2nd	2nd and 3rd	2nd and 3rd

Risk management framework

ClearBank has documented RMF which explains how risks are identified and managed within a defined risk appetite. ClearBank's RMF is designed to manage, minimise and control all our business risks, as documented on the individual risk pages later in this report.

Risk operating model

The risks that ClearBank face are identified and recorded in the risk control self-assessments and risk register. A detailed assessment of these risks and their materiality is undertaken on a regular basis and the conclusions are documented and reported to the Board via ERMC and BRC. The risk assessments help to assess residual risks, controls, and control enhancements, to ensure we operate within our defined risk appetite and supporting metrics.

ClearBank's strategic vision	ClearBank's vision is to build an independent, neutral and transparent clearing bank with market leading service levels, resilience and expansion capabilities
ClearBank's risk appetite	To maintain a financially secure and operationally resilient bank that operates in a compliant and reputable manner, to serve the interests of customers in the banking and payment services sector

We set our risk appetite in alignment with our risk taxonomy to ensure that we articulate the nature and level of risk that we are willing to take in pursuit of our strategy and business objectives. We measure our actual risk against our risk appetite on a regular basis through our risk governance structure in our risk reporting.

Risk Culture

Risk culture is at the heart of ClearBank. Without a strong risk culture centred around our values, we cannot be certain of ensuring the best outcome for our stakeholders, including our customers, regulators and staff.

Risk culture is established and maintained by adoption of a common set of values, risk principles and setting the tone from the top. ClearBank aims for employees to be risk aware and to understand their role and responsibilities accountabilities.
An understanding of risk and risk appetite is embedded within our business practices.

Code of Conduct

ClearBank is committed to serving its customers, the community in which it operates and supporting the financial services industry responsibly. To deliver this commitment, we have a Code which is deeply rooted across the business. It is the personal responsibility of each and every one of our colleagues to live and breathe this Code.

The Code is a clear statement of the values and ideals that ClearBank believes in and our statement on the approach we take to our day-to-day activities and decision making.

Risk Management continued

Risk profile table

Risks	Committees	Description of risks being mitigated
Strategic and business	Enterprise Risk Management Committee	These are the risks that we do not set the right strategy, a material business decision fails, or external market factors impact the viability of the business. This could include an inability to develop or introduce new business lines effectively, to expand organically, or to enhance the effectiveness of our operational infrastructure.
Financial	Asset and Liability Committee	These are the risks facing our business in terms of inadequate or failed management of finances and the risk introduced by external factors that could have a detrimental impact on our cash flow, capital, and liquidity.
Compliance	Conduct and Compliance Risk Committee Financial Crime Committee	Failure to comply with regulatory or legislative requirements.
Conduct	Conduct and Compliance Risk Committee	This is the risk of not delivering fair outcomes caused by the poor judgement of managers and employees. This could create a financial impact for both partners and the firm.
Operational	Operational Risk Committee	This is the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events.

^ Relative changes in control environment and processes over the period.

↓	↔	↑
Improving	Stable	Worsening

Example risks	2020 change in risk	2020 change in control environment^	2021 outlook
▪ Lower sales and/or profit hindering future plans ▪ Risk of loss arising due to changes or developments in technology	↔	↔	↔
▪ Not holding enough capital to meet business or regulatory requirements ▪ Having insufficient liquid funds to meet current/future liabilities ▪ Not have sufficiently stable and diverse sources of funding	↓	↔	↓
▪ Complaint handling ▪ Failure due to internal processes or procedures to identify/prevent the use of its banking facilities for illegal use	↔	↓	↔
▪ Loss, regulatory action, and reputational damage from: – inadequate complaints handling processes – not identifying and treating vulnerable customers fairly – substandard sales process	↔	↓	↔
▪ Loss due to insufficient capacity, capability or performance ▪ Failure of IT systems infrastructure and/or applications	↔	↓	↓

Risk Management continued

Principal risks and uncertainties

The risks our business faces are carefully monitored and managed. We seek to minimise adverse effects of these on the Group's financial performance, position, capital, liquidity and reputation. ClearBank's ERMF includes the following principal risks.

Level 1 Risk	Level 2 Risk	Risk Description	Example	Mitigants
Strategic and Business	Political, Economic and Social	**Strategic risk** This is the risk of external market factors impacting the viability of ClearBank's business model	Changes in market prices, for example interest rates, create the risk of financial loss through a reduction in earnings or change in the value of assets or liabilities	▪ Defined risk appetite and limits are set out within the Risk Appetite Statement ▪ Alignment between strategic business planning activity and risk appetite ▪ Experienced Board and Executive Leadership Team supported by an established corporate governance framework ▪ Regular validation and review of business plan delivery
Financial	Capital	**Capital adequacy risk** Breaching internal limits or regulatory requirements for capital	Not holding sufficient capital to meet business or regulatory requirements	▪ At least annual assessment of capital requirements using the Internal Capital Adequacy Assessment Process ('ICAAP') ▪ Forward-looking capital adequacy is monitored to ensure resource consumption effectively managed ▪ Periodic capital raise from investors and progression to break-even.
Compliance	Regulatory/ Compliance	**Compliance risk** Failure to comply with regulatory or legislative requirement	Inadequate complaints handling processes or not identifying and treating vulnerable customers fairly	▪ Robust Anti-Money Laundering ('AML') systems and controls in place to onboard customers ▪ Policies and procedures ensure compliance with applicable regulations ▪ Mandatory training is provided to all staff Compliance Monitoring Plan regularly tests process adherence.
	Financial Crime	**Fraud/legal risk** Failure due to internal processes or procedures to identify/prevent the use of its banking facilities for illegal use	AML and Sanctions due diligence reviews	
Operational	Transaction Processing	**Operational Risk.** Major or sustained execution failures to critical activities/ processes	Inadequate or failed internal processes or systems, human error or external events, create a risk of direct or indirect financial loss and reputational damage	▪ Policies and procedures covering our people, technology, data, security and third party relationships ▪ Key risks and controls identified as part of the RCSA process ▪ Regularly tested business continuity and IT disaster recovery plans ▪ Dedicated Operational Resilience Programme ▪ Effective systems and controls in place to ensure high levels of customer service and compliance. ▪ Monitor events with the potential to cause reputational damage ▪ Compliance Monitoring Plan provides assurance regarding data protection activities.
	Fraud	**Detriment risk.** ClearBank or a customer falling victim to material loss due to fraud		
	Legal	**Regulatory risk.** Non-compliance of existing statutes	Loss attributed to noncompliance with or changes to Financial Crime or GDPR regulations, legislation and/or guidance	

Emerging risks

We maintain a register of key and emerging risks. We monitor the key elements of our Principal Risk on an ongoing basis. This is integral to our approach to risk management and forms a cornerstone of our business planning activities, ensuring that strategies and activities are appropriately focussed on addressing these concerns. In addition to our principal risks, we monitor other potentially significant or emerging risks. These include:

Brexit

The UK economy continues to face uncertainty resulting from the UK's exit from the EU ('Brexit'), and the end of the post-Brexit transition period on 31 December 2020. Brexit poses risks and opportunities to the UK economy in the short, medium and long term. As part of our risk management disciplines we are monitoring the risks of withdrawal from the EU, the adoption of the new trade agreement with the EU, negotiation of new trade agreements with the rest of the world and foreign investment.

The structure of the UK regulatory environment post-transition period is yet to be confirmed, we will closely monitor all guidance released by the Prudential Regulatory authority ('PRA') relating to capital and liquidity treatments and whether the UK will align to the European Banking Authority ('EBA') rules. Direct operational impacts on us from the EU exit are limited but we are aware of indirect effects on our colleagues and customers. We believe the UK's continued provision of innovation and high-value services, the weaker pound and the relatively flexible labour market should enable the UK to prosper longer term.

COVID-19

The emergence of the COVID-19 pandemic has generated a sudden and unprecedented downturn in the economy with an unfavourable short to medium term outlook. Given the already uncertain economic situation arising from Brexit and the end of the post-Brexit transition period, concerns remain about the level of disruption that the wider economy, and financial services in particular. The long term trend of electronic payments increasing has continued throughout the pandemic due in part to the demand for contactless payments. These macro-economic impacts have been incorporated into our latest forecasts and stress testing provisioning models to mitigate these issues and take advantage of the opportunities presented.

Climate Change

The importance of climate change is highlighted in our Economic, Social and Governance section on pages 20-21, including our support of the net zero and other initiatives. Climate change risks manifest across multiple risk types such as credit, market, operational and conduct risk. It is important to note that ClearBank does not a lending book. Our Board sets the overarching approach to managing climate change risk with periodic reports provided as part of the wider review of the business' risk profile.

Operational and Cyber Resilience

As a digital bank it is imperative that we have appropriate cyber security controls to protect customer data from loss or exploitation and in doing so avoid significant brand damage. As well as the due diligence, design and testing that contributes to building network and systems security, ClearBank operates perimeter controls to detect and prevent attempts to compromise systems. We continue to develop and embed our approach to managing cyber risk across the Bank, learning from intelligence sources and industry peers to identify new and emerging cyber risks. We use intelligence-led insight to manage our cyber risk profile, enabling us to stay ahead of the continuously evolving threat of cyber threats in order to protect our customers and the Bank.

Risk Management continued

Composition of regulatory capital of the Company

	31 Dec 2020 £'000	31 Dec 2019 £'000
Share capital	**–**	–
Share premium	**157,112**	112,999
Share-based payments reserve	**9,519**	5,723
Retained losses	**(108,788)**	(76,950)
Total shareholders' funds	**57,843**	41,772
Deductions:		
Deferred tax	**(5,899)**	(6,047)
Intangible assets	**(21,992)**	(18,265)
Total	**(27,891)**	(24,312)
CET1 capital	**29,952**	17,460
CET1 ratio	**114%**	88%

Funding and liquidity risk

Liquidity exposure represents the potential stressed outflows in any future period less expected inflows and considers liquidity from both an internal and a regulatory perspective. ClearBank maintains adequate levels of liquidity and will ensure that it continues to maintain sufficient levels of liquidity to meet foreseeable and unexpected needs. Limits for the level, type and maturity of liquidity and deposit funding balances are set by BRC and independently monitored by the Finance, Treasury and Risk departments on a daily basis for compliance within these limits.

Daily monitoring and control processes are in place to address internal and regulatory liquidity requirements. ClearBank monitors a range of market and internal early warning indicators on a daily basis for early signs of liquidity risk in the market or specific to ClearBank. This captures regulatory metrics as well as metrics ClearBank considers relevant for its liquidity profile. These are a mixture of quantitative and qualitative measures, including: daily variation of customer balances; cash outflows; funding concentration; and changing funding costs.

Internal stress testing is carried out on its liquidity and potential cash flow mismatch position over both short and long-term horizons against a range of scenarios forming an important part of the internal risk appetite. The scenarios and assumptions are reviewed at least annually to ensure that they continue to be relevant to the nature of the business including reflecting emerging horizon risks to ClearBank, such as the UK exit from the EU.

Credit risk

Credit Risk is the risk of financial loss arising from a borrower or counterparty failing to meet their financial obligations in accordance with agreed terms. Currently, ClearBank has not started lending to customers and hence has no direct credit exposure.

The table below shows ClearBank's credit risk exposure by asset and exposure class at 31 December.

		Exposures		Risk Weighted Assets	
Asset Class	Exposure Class	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Cash and cash equivalents	Central Banks	**1,012,198**	526,454	**–**	–
Collateral	Other items	**370**	364	**210**	205
Other assets	Other items	**12,018**	12,848	**16,710**	15,459
Total		**1,024,586**	539,666	**16,920**	15,664

Market and interest rate risk

ClearBank's banking activities expose it to the risk of adverse movements in market prices, predominantly interest rates, exchange rates and equity prices. ClearBank is primarily affected by changes in the Bank of England ('BOE') base rate, due to ClearBank banking all cash balances with the BOE. Depression in the BOE base rate would lead to a reduction in interest earnt on these cash balances. The volatility of market values can be affected by both the transparency of prices and the amount of liquidity in the market for the relevant asset or liability.

Foreign exchange exposure arises from ClearBank's investment and services provided in its overseas operations. Given the structure and products currently offered, ClearBank has minimal exposure to these risks.

Conduct risk

ClearBank recognises the importance that culture plays in delivering fair outcomes and ensuring values are demonstrated in practice. ClearBank's leadership values and tone from the top promote positive and fair outcomes for all customers. This includes the fair treatment of customers being at the heart of the business strategy and having the ability to evidence good outcomes for customers.

The management of conduct risk forms a core pillar of the RMF; this framework along with the independent oversight and assurance provided by the second and third lines of defence, ensure that the strategy, principles, policies and resources are aligned to the risk appetite, regulatory requirements and industry best practices.

Operational risk
Operational risk can result in financial or non-financial losses such as customer detriment or reputational damage resulting from inadequate or failed internal processes, people and systems. Given the nature of ClearBank's focus on transactional banking services, maintaining secure and reliable systems connectivity to the various payment schemes is essential.

ClearBank continues to develop and invest in systems and controls to mitigate all operational risks, supported by the oversight of experienced staff.

Regulatory and compliance risk
Regulatory and compliance risk covers the possibility that regulatory and legislative changes may significantly impact the business model or that ClearBank fails to comply with existing requirements.

ClearBank operates within the context of the UK Legal and Regulatory environment, but also within European law adopted and supported by UK regulators. In addition, it also complies with United Nations sanctions obligations and other internationally focused regulations where applicable. This context does not in itself create any material or specific risks, however, non-adherence or breach of such laws and regulations could have significant negative impact.

Legal Counsel and Compliance functions monitor changes to the legal or regulatory landscape and are responsible reporting forthcoming changes management committees and to the Board, and for determining what appropriate subsequent actions need to be taken by senior management in response.

Operational resiliency
Whilst not a specific risk, operational resiliency relates to our ability to prevent, respond to, recover and learn from operational disruptions. Our overarching goal is to maintain the provision of our services to our customers throughout any operational disruption that might arise with the minimum possible impact.

There are five key risk areas that we manage in the context of Operational resiliency, these include Information security, Technology, People, third party Supplier Management and Business continuity risks. For instance, a technology incident might result in the failure to process a transaction for our customers, resulting in a potential loss, this would in turn test the correct functioning of our business continuity procedures and our employees ability to action them.

Information security risk
Our core banking system is built with security in mind using the approach of 'assume breach' – this ensures that response and recovery services are part of the design objective and that any interruptions do not cause our customers detrimental impact. ClearBank sets strong policies, processes and controls in line with industry best practice (International Standards Organisation ('ISO') & National Institute of Standards and Technology ('NIST')), which are regularly assessed and evaluated. Ongoing system monitoring and staff training are also part of our day-to-day activities. ClearBank partner with major suppliers to ensure we leverage world-class knowledge and functionality to ensure our environment continues to be best in class, including cyber security and resilience capabilities.

Financial crime risk
ClearBank has designed and adopted policies and procedures to detect and prevent the use of its banking facilities being used for money laundering, terrorist financing, bribery, fraud, and activities prohibited by legal and regulatory sanctions. ClearBank regularly reviews and assesses these policies to keep them current, effective, and consistent.

ClearBank continues to ensure that industry guidance including from the Joint Money Lending Steering Group ('JMLSG'), HM Treasury, and the Financial Action Task Force ('FATF') are reviewed and actioned accordingly.

Climate change
During 2020, we made good progress in developing our Environmental, Social and Governance objectives ('ESG'). A key part of ESG is our commitment to the Bankers for NetZero initiative which brings together banks, businesses, and regulators to successfully support their clients, accelerate the transition to net zero and deliver on the UK government's ambitions for addressing climate change. As a signatory to the climate change commitment, we have pledged to publish a net zero carbon route map during 2021 and to work alongside our fellow members to improve the climate outcomes for everyone.

Risk Governance and Control

Corporate governance

The Board recognises that exemplary standards of corporate governance throughout ClearBank are essential for the delivery of ClearBank's strategic objectives, regulatory compliance and stakeholder value.

It is recognised that good governance should emanate from the Board and disseminate through the entire organisation, being reflected in its culture, committees, policies and procedures.

Board function

The Board is responsible for the promotion of the long-term sustainable success of ClearBank. In formulating, reviewing and approving ClearBank's strategy and risk appetite, the Board is cognisant not only of ClearBank's regulatory obligations but also of its obligations to all stakeholders, including customers, suppliers and employees.

The Board has responsibility to maintain a system of internal controls, which provide assurance of effective and efficient operations, internal financial controls and compliance with all applicable laws and regulations. The Board is responsible for ensuring that the Executive maintains an effective risk management and oversight process across ClearBank to enable delivery of the strategy and business performance within the approved risk appetites and risk control framework.

The Board's terms of reference include a formal schedule of matters specifically reserved for the Board's decision, which is reviewed at least annually.

Board committees

Board committees
The Board has established a number of Board committees to provide effective oversight and leadership.

Board Audit Committee ('BAC')
The Board Audit Committee's responsibilities include monitoring of the integrity of ClearBank's financial statements and internal controls. The ultimate responsibility for reviewing and approving the annual report and accounts remains with the Board.

Board Risk Committee ('BRC')
The Board Risk Committee's responsibilities include the development and maintenance of the bank's risk management framework. The BRC also monitors and reviews the formal arrangements established by the Board in respect of the RMF and reviews the effectiveness of the bank's systems for risk management and compliance with financial services legislation and regulatory requirements.

Remuneration Committee ('RemCo')
The Remuneration Committee's main responsibilities include agreeing the framework and policy for remuneration and terms of employment.

Nominations Committee ('NomCo')
The Nominations Committee's responsibilities include reviewing the structure, size and composition (including the knowledge and experience) of the Board and consideration of succession planning for directors and senior executives. The Nominations Committee is responsible for identifying and nominating candidates to fill vacancies as and when they arise on the Board, as well as the memberships of the Board committees.

Executive Committees

The Board is supported by five executive committees: The Executive Committee ('ExCo'), Enterprise Risk Management Committee ('ERMC')., Asset and Liability Committee ('ALCO'), Customer Committee ('CC') and IT and Operations Committee ('ITOC').

Each Committee meets at least monthly and then reports to the Board, where appropriate, with each executive responsible for compiling departmental reports to the Board Committee.

Executive committees

Executive Committee ('ExCo')
The purpose of the Executive Committee is to assist the Chief Executive Officer in the performance of his duties, including the development and implementation of strategy, operational plans and budgets.

Asset and Liability Committee ('ALCO')
The purpose of ALCO is to oversee liquidity, funding and market risks and regulatory and economic capital requirements within the risk appetite set by the Board. ALCO also oversees, reviews and makes recommendations on the bank's ICAAP and ILAAP documents which are then presented to ERMC and BRC for review.

The ICAAP is an assessment of ClearBank's capital requirements based on its risk profile under normal and stressed operating conditions, whereas the ILAAP is an assessment of ClearBank's liquidity position under normal and stressed conditions. These are the responsibility of the CFO in conjunction with business and risk functions. Both are prepared annually, although material changes in internal requirements or external factors may require more frequent revision.

Stress Testing
Stress testing is an important risk management tool, with specific approaches documented for the major regulatory exercises of the ICAAP, ILAAP and the Recovery and Resolution Plan ('RRP'). Stress testing assesses the adequacy of the bank's financial resources (both capital and liquidity) and the potential management actions available to mitigate the effect of any adverse events.

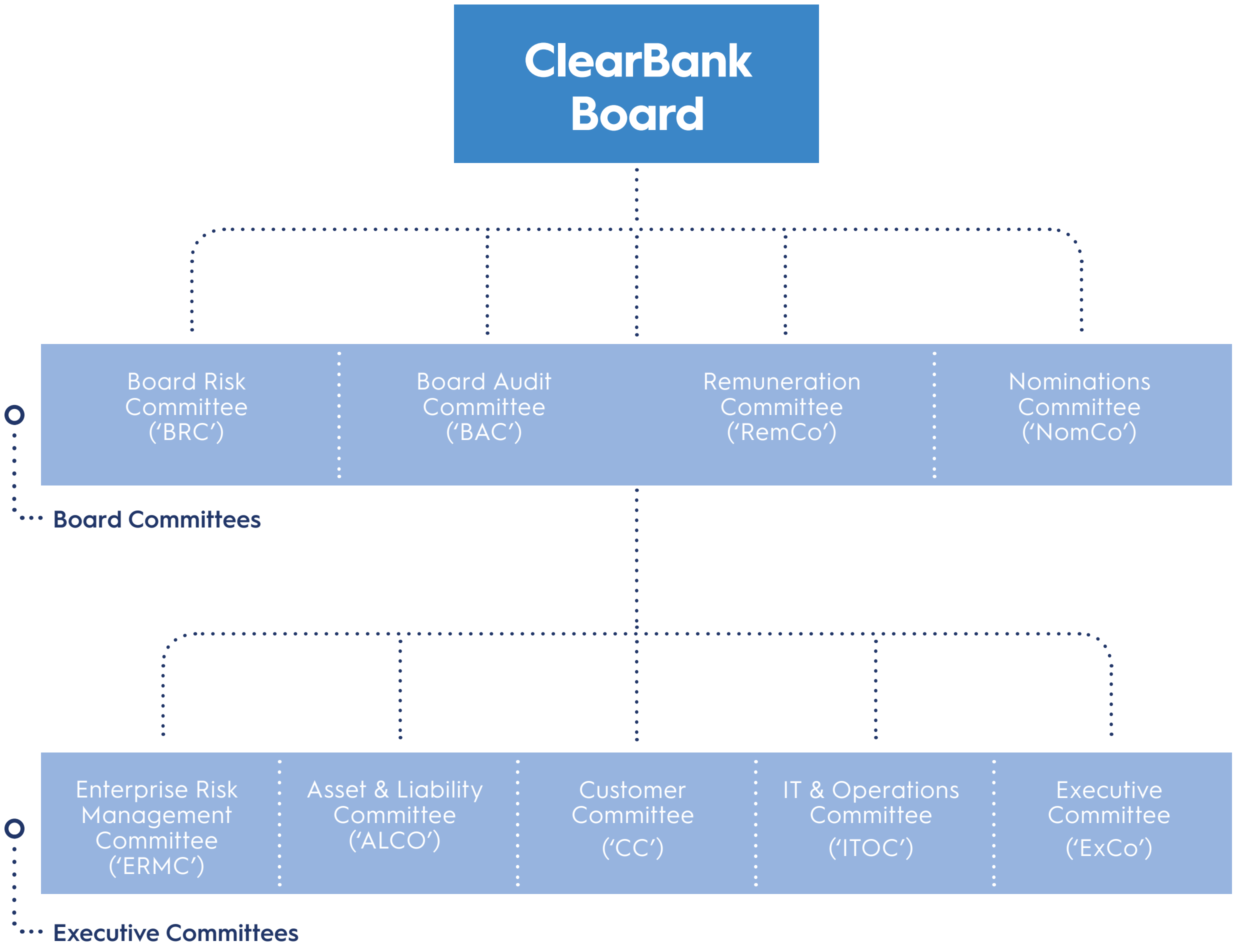
Enterprise Risk Management Committee ('ERMC')
The purpose of the ERMC is to maintain and monitor the RMF, commensurate with Risk Appetite and regulatory requirements. In addition, ERMC oversees the operational risk and conduct risk profile of ClearBank, the efficiency of controls and management actions.

Credit Committee ('CC')
The purpose of the CC is to monitor portfolio performance and review policy issues, such as provisioning and lending policies and recommending these to the ERMC. The CC reviews credit reports covering the quality of new lending, credit performance on the portfolio, defaults and non-performing agreements, as well as considering appropriate provisioning requirements for impaired facilities.

Board and committee structure

Board committees

As detailed below, the Board has established a number of Board committees to provide effective oversight and leadership.



Environmental, Social and Governance ('ESG') 'Bigger than ClearBank'

Our team is committed to playing a positive role in the communities in which we live and work, increasing diversity and reducing our impact on the climate

Last year we launched our ESG programme to develop and embed over the medium term.

We have spent this year building our framework throughout the business and have internally branded this 'Bigger than ClearBank'.

We have benefitted from a high level of engagement from our people and have established the following priorities:

- deliver positive outcomes for partners, employees, investors and society
- improve the level of diversity
- reduce our impact on the environment
- manage our business in an ethical and responsible way
- maximise the potential of our people and attract new talent

Adapting to change

We are committed to being a responsible company and are also supportive of the enhancements in reporting requirements that help comparability and transparency such as:

- Task Force for Climate Related Financial Disclosures ('TCFD')
- Streamlined Energy and Carbon Report Regulations ('SECR')
- Gender Pay Gap reporting
- Payment Practices and Performance Reporting ('PPPR')

We expect to continue to develop and evolve our reporting in the future. We recognise we are part of something larger than ourselves and have a responsibility to make positive change through our community and business activities.

Meaningful proposition

Our proposition promotes better outcomes for end consumers either through our partners or through our support to credit unions and community banks to enable financial inclusion. Delivering payment and innovative banking services means that consumer transactions, from employee salary payments to paying rent, are cleared in real-time.

Impactful partnerships

As we develop and embed ESG in how we operate, we also need to be thoughtful about the impact of our partners and suppliers and ensure that they share our socially responsible

Environmental

Near term

- Workshops and focus groups with representatives from across the business to better understand material issues
- Developing a base line for our environmental agenda including our carbon footprint
- Utilising the output from the above to evolve our strategy whilst continuing to reflect the needs of our people

Medium term

- Using measurement discipline to show meaningful progress on our pathway to net zero
- Develop achievable goals and Key Performance Indicators ('KPIs') to monitor progress against our targets
- Align our vision, purpose and KPIs against the strategic framework to roll out across the business

Long term

- Work with our peers to collectively achieve the UK Green Finance Strategy net zero emissions target
- Consider adopting relevant accreditations to be accountable for our actions
- Enhance our process for onboarding suppliers and partners to ensure their values align with our framework
- Assess our carbon offsetting strategy to support our target of being net zero as soon as possible

approach. Our partners are providing business banking services and promoting responsible lending to the under-served in society and are innovating to develop new products for the benefit of all.

What does responsibility mean to us?

We have a responsibility to be more than a sustainably profitable enterprise. We want to have a positive impact on our people, our suppliers, partners and on the wider environment. The climate crisis is one of the most critical challenges facing our global society and economy in the 21st century.

The financial sector has an important role to play in addressing this crisis by supporting the transition to a sustainable, low-carbon economy that balances the environmental, social and economic needs of society. Operating as a responsible business requires clear recognition of the ESG issues that are important to all our stakeholders and our business.

From awareness to action

There is widespread financial sector awareness of the need to act on climate change and recognition of the link to risks likely to arise within the financial system.

We made good progress during 2020 in developing our ESG initiatives, including joining Bankers for NetZero. This is an initiative to bring together banks, businesses and regulators to enable banks to successfully support their customers, accelerate the transition to net zero and deliver on the UK government's ambitions for addressing climate change.

As a signatory to the climate change commitment we pledged to publish in 2021 a net zero carbon route map and to work alongside our fellow members to improve the climate outcomes for everyone.

2021 focus areas

We will be working to ensure ESG matters are integrated into all aspects of our decision-making and business practices, including our business model and strategy.

By understanding the long-term consequences of our decisions, we are better able to manage risks and generate value.

Social

- Through our vision and purpose, develop initiatives to clearly articulate the concept of 'Bigger than ClearBank'
- Define what diversity, equality and inclusion means to us
- Ensure a clear understanding of what delivers value and acts as a unifier for the business to drive culture, community and innovation
- Aim to attract, inspire and engage a talented and diverse workforce

- Identifying causes that align with our vision, establish how we best support them long term
- Donate our time, skills and money to work to help others and be a better corporate citizen
- Establish what diversity and inclusion means for us and how we measure success

- Embed diversity and inclusion best practices throughout our business activities including recruitment, engagement, recognition and feedback
- Develop ways of celebrating our successes and look back at having made a real difference
- Play an active and a positive role in our community to deliver lasting improvements for our causes

Governance

- Defining our vision and purpose to clearly articulate why ClearBank exists beyond commercial success
- Embed the values that underpin our vision and purpose throughout the business
- Review our policies and procedures to ensure clear lines of accountability and oversight whilst maintaining our flexibility for innovation and creativity

- Ensure effective governance of social risks and environmental risks including climate change risk, are managed through the working group and Executive Committee
- Regular progress updates provided to the Board who are ultimately responsibility for environmental and social risks
- Oversee ESG governance framework and assess the KPIs against the strategic framework

- Perform a post-implementation review, monitoring progress against KPIs
- Consider ESG factors are included in the Executive Committee remuneration framework
- Monitor our corporate responsibility, sustainability and stakeholder engagement activities

Credit Risk

ClearBank uses the Standardised Approach ('SA') to calculate credit risk. Under the SA, the bank applies a risk weighted asset value to each of its exposure classes and provides 8% of that risk weighted value as the minimum capital requirement for credit risk under Pillar 1.

Overview

Credit risk is defined as the risk of financial loss arising from a borrower or counterparty failing to meet their financial obligations to the bank in accordance with agreed terms.

ClearBank carries credit risk through our cash and liquid asset placement activity. When managing surplus liquidity, the bank only places funds with the Bank of England ('BOE') or will invest in government instruments as appropriate.

Credit risk measurement

ClearBank uses the Standardised Approach ('SA') to calculate credit risk. Under the SA, the bank applies a risk weighted asset value to each of its exposure classes and provides 8% of that risk weighted value as the minimum capital requirement for credit risk under Pillar 1.

For a summary of the bank's credit risk exposure by asset and exposure class, please see table on page 16. Each exposure class is defined in article 112 of the CRR.

Operational risk

Operational risk is defined as the risk of financial loss or reputational damage resulting from inadequate or failed internal processes, people and systems or from external events.

ClearBank operates a three lines of defence model to manage its operational risk. Details on this approach are set out below. The operational risk profile is informed by risk assessments from across the Bank, and by review and challenge by both management and the Risk Oversight function who operate as a second line of defence. Risk Oversight supports management in managing the risks it faces in its normal day-to-day activities and when implementing change programmes. ClearBank continues to enhance and embed its operational and conduct risk framework, expanding the use of techniques such as scenario analysis to support the understanding of current and future risks and to optimise risk-based decision making across ClearBank.

Line of defence	Departments	Description
1st	Business operations and support functions	Manages existing and emerging risks within agreed risk appetites, by applying the risk management process and escalating issues where required.
2nd	Risk and compliance function	Provides independent risk oversight, to monitor, assess and report to the board on the adequacy and effectiveness of the measures, policies and procedures for risk management. Considering regulatory developments and their likely impact on the business.
3rd	Internal audit	Provides independent assurance that controls are operating effectively and reports to the Audit Committee.

All three lines of defence are responsible for supporting and developing a culture of risk awareness and risk management.

Operational risk measurement

ClearBank uses the Basic Indicator Approach for calculating its Pillar 1 operational risk capital requirements. Given that the Bank have only been in operation for two years, forward projections have been included as relevant indicators in our measurement.

ClearBank's capital requirement for operational risk as at 31 December 2020 was £0.7m (2019: £0.3m).

Liquidity and Funding Risk

ClearBank's management of liquidity and funding risks always aims to ensure that there are sufficient liquid assets, both as to amount and quality, to cover cash flow mismatches and fluctuations in funding, to meet financial obligations as they fall due, even during periods of stress.

This is achieved through management and stress testing of business cash flows, setting appropriate risk limits to maintain a prudent funding mix and maturity profile, and maintaining sufficient levels of high-quality liquid assets and appropriate encumbrance levels.

As at 31 December 2020, ClearBank's LCR was 186% (and averaged 185% during Q4) which was well above the UK regulatory minimum of 100%. ClearBank continues to manage its liquidity against its internal risk appetite; such appetite being more prudent than the regulatory requirements.

ClearBank currently exceeds the expected 100% minimum future requirement for the Net Stable Funding Ratio ('NSFR'), with a ratio of 3,298% at 31 December 2020. These figures are based on current interpretations of European NSFR requirements.

The table below provides disclosure of ClearBank's LCR and presents an average of ClearBank's high-quality liquid assets, cash flows and the resulting LCR for the previous four quarters, as specified by the EBA disclosure guidelines. These values are calculated on a simple average basis using the average over each quarter-end LCR observations.

ClearBank manages liquidity and funding risks within a comprehensive risk framework which includes its policy, strategy, limit setting and monitoring, stress testing and robust governance controls. The size and mix of the liquid asset buffer is defined by the Bank's risk appetite as set by the Board, which is translated into a set of liquidity risk limits. ClearBank's liquid assets, which predominately comprise balances held at the Bank of England are managed by its Treasury function.

Liquidity coverage ratio for the year 2020

	Q4 Average	Q3 Average	Q2 Average	Q1 Average
High-quality liquid assets ('HQLA')	890,415	628,471	447,906	524,453
Cash outflows (weighted value)	480,229	361,496	295,482	411,874
Operational deposits (unweighted value)	66,074	68,708	63,393	47,178
Non-operational and other deposits (unweighted value)	736,305	474,259	312,015	405,899
Total cash outflows (no qualifying inflows)	480,229	361,496	295,482	411,874
Total cash inflows	0	0	0	0
Net outflows (weighted value)	480,229	361,496	295,482	411,874
Liquidity buffer	890,415	628,471	447,906	524,453
Liquidity Coverage Ratio (%)	**185%**	**174%**	**152%**	**127%**

Remuneration

The Remuneration Committee ensures that remuneration arrangements support the strategic aims of the business and enable the recruitment, motivation and retention of all staff within the required regulatory framework.

Remuneration policy and practices
This section provides details on the remuneration of the Board and employees of ClearBank including the approach for material risk takers for the year ending 31 December 2020. Material risk takers are those individuals whose actions may have a material impact on the risk profile of ClearBank. The policy and level of remuneration is determined by ClearBank's Remuneration Committee.

All employees who are subject to the Senior Managers Regime, either as a Senior Manager or as a Certified Individual, will be duly advised of their status on an annual basis. These employees are required to remain up to date with regulatory training and are subject to a more detailed performance management and development planning process. For these employees, ClearBank's Responsibility Map and the Individual Statements of Responsibility are used as the core underlying metrics and accountabilities. ClearBank will keep records of the results of these annual assessments, which will feed into a determination of each individual employee remuneration package and any decisions to review or adjust remuneration awards.

Remuneration policy
ClearBank's Remuneration Policy ('the Policy') and approach to remuneration are designed to support the delivery of ClearBank's corporate strategy and align remuneration with the long-term interests of our shareholders; in a manner that is compliant with the requirements and frameworks of the FCA and PRA's rules on remuneration.

Remuneration committee
Remuneration for ClearBank is overseen by the Remuneration Committee. The membership of the committee is made up of three independent Non-executive Directors who retain ultimate discretion for those matters as outlined within its Terms of Reference.

The committee agrees the framework and policy for remuneration, terms of employment and any changes to service contracts.

A standing invitation exists to either of the two Investor Directors to join the Committee or to attend at any time. In addition, the Non-Executive Chairman and the Chief Executive Officer may be invited to attend meetings on an ad-hoc basis, although neither have the mandate to determine policy for any matter brought before the Committee for approval.

Non-executive Directors' remuneration
Remuneration paid to Non-executive Directors is based on data from financial institutions of comparable size and complexity. Non-executive Directors are paid an annual fee which covers all their duties and responsibilities to ClearBank.

Executive Directors' remuneration
Executive Director remuneration is determined taking into account the specific role performed and is made up of individual remuneration components which when combined ensure an appropriate and reasonable remuneration package and include:
- Base Salary, including fixed allowances if any ('Fixed Pay')
- Performance-based remuneration ('Variable Pay') including bonus cash payments and Share options
- Pension and Insurance Schemes
- Other benefits

Fixed pay

Fixed pay is determined on the basis of the role and the position of the individual employee, including professional experience, responsibility, job complexity and local market conditions. Decisions on adjustments to employee's fixed pay are currently reviewed on an as-needed basis.

Variable pay

All variable pay is entirely discretionary. Any bonus payment or share option awarded are assessed at the time of delivery taking into account all relevant factors, including financial results, the achievement of personal milestones, adherence to standards of expected behaviour and any risk events and mitigation. Prior to any variable payments being made, the Remuneration Committee and Board confirms that such payment will not undermine the bank's capital position in relation to its regulatory requirements or risk appetite. Any variable payments for members of the Executive Committee and any senior officers in the risk and control functions will also be subject to approval by the committee.

Pension and insurance schemes

Pension and insurance schemes guarantee employees cover in the event of critical illness, short term loss of income, death and pension payment on retirement. Employees are covered by a suite of comprehensive and externally benchmarked insurance and pension schemes.

Other benefits

Other benefits include a company medical insurance programme and other benefits as awarded on the basis of individual employment contracts and local market practice.

Remuneration

The table below sets out the aggregate quantitative remuneration for key management personnel in relation to their services to the bank for the year ended 31 December 2020.

	Fixed remuneration £'000	Variable remuneration £'000	Total remuneration £'000
2020	**4,027**	**97**	**4,124**
2019	4,368	256	4,624

Appendix 1: EBA own funds disclosure template

The table below is disclosed in accordance with the template prescribed by the EBA. Any blank lines have been removed from this disclosure.

		2020 £m	2019 £m	EU No 575/2013 Article
CET1 capital: Instruments and reserves				
1	Capital instruments and the related share premium accounts	**166.6**	118.7	26(1), 27, 28, 29
2	Retained earnings	**(108.8)**	(77.0)	26(1)(c)
6	CET1 capital before regulatory adjustments	**57.8**	41.7	
CET1 capital: Regulatory adjustments				
8	Intangible assets including goodwill	**(21.9)**	(18.3)	36(1)(b)
10	Deferred tax assets that rely on future profitability	**(5.8)**	(6.0)	36(1)(c)
16	Direct, indirect and synthetic holdings of own CET1 instruments	**(0.0)**	(0.0)	36(1)(f)
28	Total regulatory adjustments to CET1	**(27.7)**	(24.3)	
29	CET1 capital	**30.1**	17.4	
45	Tier 1 capital	**30.1**	17.4	
59	Total capital	**30.1**	17.4	
60	Total risk weighted assets	**26.2**	19.9	
Capital ratios and buffers				
61	CET1 (as a percentage of total risk exposure)	**114.2%**	87.8%	92(2)(a)
62	Tier 1 (as a percentage of total risk exposure amount)	**114.2%**	87.8%	92(2)(b)
63	Total capital (as a percentage of total risk exposure amount)	**114.2%**	87.8%	92(2)(c)

Appendix 2: Leverage Disclosure

The tables below are disclosed in accordance with the templates prescribed by the EBA. Any blank lines have been removed from these disclosures.

Summary reconciliation of accounting assets and leverage ratio exposures

		2020 £m	2019 £m
1	Total assets as per published financial statements	**1,052.5**	564.0
7	Other adjustments	**(27.9)**	(24.3)
8	Leverage ratio total exposure measure	**1,024.6**	539.7

Leverage ratio common disclosure

		2020 £m	2019 £m
On-balance sheet exposures			
1	On-balance sheet items	**1,052.5**	564.0
2	(Asset amounts deducted in determining Tier 1 capital)	**(27.9)**	(24.3)
3	Total on-balance sheet exposures (sum of lines 1 and 2)	**1,024.6**	539.7
Capital and total exposure measure			
20	Tier 1 capital	**30.1**	17.4
21	Leverage ratio total exposure measure (sum of line 3 above)	**1,024.6**	539.7
Leverage ratio			
22	Leverage ratio	**2.9%**	3.2%

Split of on-balance sheet exposure

		2020 £m	2019 £m
EU-1	Total on-balance sheet exposures	**1,024.6**	539.7
EU-3	Banking book exposures, of which:	**1,024.6**	539.7
EU-5	Exposures treated as sovereigns	**0.0**	0.0
EU-7	Institutions	**1,012.2**	526.4
EU-12	Other exposures	**12.4**	13.3

Appendix 3: Glossary of Terms

ALCO	Asset and Liability Committee
Bacs	Bacs payments services limited
BRC	Board Risk Committee
CEO	Chief Executive Officer
CHAPS	Clearing house automated payment system
ClearBank	ClearBank Limited unless otherwise stated means the company in line with regulatory reporting requirements
CRCO	Chief Risk and Compliance Officer
EBA	European Banking Authority
FCA	Financial Conduct Authority
FI	Financial Institutions
FSCS	Financial Services Compensation Scheme
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Individual Liquidity Adequacy Assessment Process
LCR	Liquidity Coverage Ratio
PRA	Prudential Regulation Authority
RMF	Risk Management Framework
SREP	Supervisory Review and Evaluation Process
TCR	Total Capital Requirement

Appendix 4: Asset Encumbrance

Asset encumbrance arises where assets are pledged as collateral against secured funding and other collateralised obligations, and therefore cannot be used for other purposes.

ClearBank has placed collateral with the VISA credit card payment scheme and with SWIFT financial messaging service. The amounts placed of £319k and £51k respectively are treated as encumbered assets and are not used for any other purpose.

Appendix 5: Self-assessment of compliance with CRR disclosure requirements

CRR Reference	High-level summary	Disclosure reference
	Scope of disclosure requirements	
431(1)	Requirement to publish Pillar 3 disclosures	ClearBank published Pillar 3 disclosures
431(2)	Firms with permission to use specific operational risk methodologies must disclose operational risk information	Not applicable
431(3)	Institution must have a policy covering frequency of disclosures, their verification, comprehensiveness and appropriateness	ClearBank has a Pillar 3 disclosure policy which is the ClearBank Pillar 3 disclosure standard
431(4)	Explanation of ratings decision upon request	Not applicable
	Non-material, proprietary and confidential information	
432(1)	Institutions may omit information that is not material if certain conditions are respected	ClearBank's disclosures cover this
432(2)	Institutions may omit information that is proprietary or confidential if certain conditions are respected	ClearBank's disclosures cover this
432(3)	Where 432(2) applies this must be stated in the disclosures, and more general information must be disclosed	ClearBank's disclosures cover this
	Frequency of disclosures	
433	Disclosures must be published once a year at a minimum and more frequently if necessary	Disclosures are published at least annually
	Means of disclosure	
434(1)	To include all disclosures in one appropriate medium, or provide clear cross-references	ClearBank publishes all required disclosures on its website
434(2)	Disclosures made under other requirements (e.g. accounting) can be used to satisfy Pillar 3 if appropriate	Any cross-references to the annual accounts are mentioned
	Risk management objectives and policies	
435(1)(a)	The strategies and processes to manage risks	Page 9 onwards
435(1)(b)	Structure and organisation of risk management function	Page 9 onwards
435(1)(c)	Risk reporting and measurement systems	Page 9 onwards
435(1)(d)	Hedging and mitigating risk – policies and processes	Page 9 onwards
435(1)(e)	A declaration of adequacy of risk management arrangements approved by the Board	ClearBank Annual Report and Accounts
435(1)(f)	Concise risk statement approved by the Board	Risk appetite AR&A
435(2)(a)	Number of directorships held by Board members	Not applicable
435(2)(b)	Recruitment policy for selection of Board members, their actual knowledge, skills and expertise	ClearBank Annual Report and Accounts
435(2)(c)	Policy on diversity of Board membership and results against targets	ClearBank Annual Report and Accounts
435(2)(d)	Disclosure of whether a dedicated risk committee is in place and number of meetings in the year	Risk committee structure and number of meetings disclosed in Annual Report
435(2)(e)	Description of information flow on risk to Board	Page 18 onwards

Appendix 5: Self-assessment of compliance with CRR disclosure requirements continued

CRR Reference	High-level summary	Disclosure reference
	Scope of application	
436(a)	Name of institution	Disclosed
436(b)	Differences in basis of consolidation for accounting and prudential purposes	Not applicable
436(c)	Impediments to transfer of own funds within the group	Not applicable
436(d)	Capital shortfalls in any subsidiaries not consolidated	Not applicable
436(e)	Use of derogation from prudential requirements for subsidiaries	Not applicable
	Own funds	
437(1)(a)	Reconciliation of Capital items and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution	Appendix 1 EBA own funds disclosure template
437(1)(b)	Description of the main features of the CET1 instruments issued by the institution	Not applicable. No capital instruments issued
437(1)(c)	The full terms and conditions of all CET1 instruments	Not applicable
437(1)(d)	Disclosure of the nature and amounts of prudential filters (articles 32 to 35) deductions (articles 36,56,66) and items not deducted (articles 47,48,56,66 and 79)	Appendix 1 EBA own funds disclosure template
437(1)(e)	Description of all restrictions applied to the calculation of own funds	Not applicable
437(1)(f)	Where institutions disclose capital ratios calculated using elements of own funds determined on a different basis	Not applicable
	Capital requirements	
438(a)	Summary of institution's approach to assessing adequacy of capital levels	Page 6
438(b)	Result of ICAAP on demand from authorities	Not requested
438(c)	Capital requirements for each Standardised approach credit risk exposure class	Page 16
438(d)	Capital requirements for each Internal Ratings Based approach credit risk exposure class	Not applicable
438(e)	Capital requirements for market risk or settlement risk	No market or settlement risk requirements
438(f)	Capital requirements for operational risk, separately for the Basic Indicator Approach, the Standardised Approach, and the Advanced Measurement Approaches as applicable	Page 22
	Exposure to counterparty credit risk ('CCR')	
439(a)	Description of process to assign internal capital and credit limits to CCR exposures	Not applicable
439(b)	Discussion of policies for securing collateral and establishing credit reserves	Not applicable
439(c)	Discussion of management of wrong-way risk exposures	Not applicable

CRR Reference	High-level summary	Disclosure reference
439(d)	Disclosure of collateral to be provided (outflows) in the event of a ratings downgrade	Not applicable
439(e)	Derivation of net derivative credit exposure	Not applicable
439(f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods	Not applicable
439(g)	Notional value of credit derivative hedges and current credit exposure by type of exposure	Not applicable
439(h)	Notional amounts of credit derivative transactions	Not applicable. No derivatives
439(i)	Estimate of alpha, if applicable	Not applicable
	Capital buffers	
440(1)(a)	Geographical distribution of relevant credit exposure for calculation of countercyclical capital buffer	Not applicable as exposures are all UK
440(1)(b)	Amount of the institution specific countercyclical capital buffer	Page 7
	Indicators of global systemic importance	
441(1)	Disclosure of global systemic importance	Not applicable
	Credit risk adjustments	
442(a)	Disclosure of bank's definitions of past due and impaired	Annual Report & Accounts Glossary
442(b)	Approaches for calculating specific and general credit risk adjustments	No credit risk adjustments
442(c)	Disclosure of pre-CRM EAD by exposure class	No exposure at default
442(d)	Disclosure of pre-CRM EAD by geography and exposure class	No exposure at default
442(e)	Disclosure of pre-CRM EAD by industry and exposure class	No exposure at default
442(f)	Disclosure of pre-CRM EAD by residual maturity and exposure class	No exposure at default
442(g)	Breakdown of impaired, past due, specific and general credit risk adjustments, and impairment charges for the period	Not applicable
442(h)	Impaired, past due exposures, by geographical area, and amounts of specific and general impairment for each geography	Not applicable
442(i)	Reconciliation of changes in specific and general credit risk adjustments for impaired exposures	Not applicable
	Unencumbered assets	
443	Disclosures on unencumbered assets	Page 28 we disclosure encumbered assets all other assets are unencumbered
	Use of ECAIs	
444(a)	Names of the ECAIs used in the calculation of Standardised approach risk-weighted assets and reasons for any changes	Fitch Ratings
444(b)	Exposure classes associated with each ECAI	Corporate only

Appendix 5: Self-assessment of compliance with CRR disclosure requirements continued

CRR Reference	High-level summary	Disclosure reference
444(c)	Description of the process used to transfer credit assessments to non-trading book items	Not applicable
444(d)	Mapping of external rating to CQS (if the institution does not comply with EBA standards)	Not applicable
444(e)	Exposure value pre- and post-credit risk mitigation, by CQS	Not applicable
	Exposure to market risk	
445	Disclosure of position risk, large exposures exceeding limits, FX settlement and commodities risk	Not applicable
	Operational risk	
446	Scope of approaches used to calculate operational risk	
	Exposure in equities not included in the trading book	
447	Value, price, type, nature, gains and losses on equity exposures	Not applicable
	Exposure to IRR on positions not included in the trading book	
448(a)	Nature of risk and key assumptions in measurement models	Not applicable
448(b)	Variation in earnings or economic value by the bank from upward and downward shocks to interest rates, by currency	Not applicable
	Exposure to securitisation positions	
449	Article 449(a) to 449(r) various requirements	No Securitisations
	Remuneration disclosures	
450	Remuneration	Page 24
	Leverage	
451(1) (a)-(c)	Leverage ratio, and breakdown of total exposure measure, including reconciliation to financial statements and derecognised fiduciary items	Appendix 4 – EBA disclosure template on leverage
451(1) (d)-(e)	Descriptions of the risk management approach to mitigate excessive leverage, and factors that impacted the leverage ratio during the years	Not applicable
451(2)	EBA to publish implementation standards for points above	Not applicable
	Use of the IRB approach to credit risk	
452(a)-(j)	Permissions, ratings, controls, exposure values, etc	ClearBank use the Standardised Approach
	Use of credit risk mitigation techniques	
453(a)	Use of on- and off- balance sheet netting	Not applicable
453(b)	How collateral valuation is managed	Not applicable
453(c)	Description of collateral types used by ClearBank	Not applicable
453(d)	Types of guarantor and credit derivative counterparty	Not applicable

CRR Reference	High-level summary	Disclosure reference
453(e)	Disclosure of market or credit risk concentrations within risk mitigation	Not applicable
453(f) (g)	Exposures covered by eligible collateral, guarantees or derivatives	Not applicable
	Use of Advanced Measurement Approaches to operational risk	
454	Description of use of risk transfer mechanisms to mitigate risk	ClearBank use the Basic Indicator Approach
	Use of internal market risk models	
455(a)-(g)	Model characteristics, stress-testing, permissions etc	Not applicable

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