Clear.Bank®

2018 Annual Report

For the year ended 31 December 2018

Registration number: 09736376

Contents

Highlights	3

Strategic Report

Chairman's Statement	5-6
Chief Executive Review	7-9
Business Review	10-11
Financial Review	12
People and Culture	13-15
Risk Management	16-26

Governance

Corporate Governance	28-32
Board Audit Committee Report	33-35
Board Risk Committee Report	36-38
Remuneration Committee Report	39-41
Nomination Committee Report	42
Report of the Directors	43-45
Statement of Directors' Responsibilities	46
Independent Auditor's Report	47-52

Financial Statements

Consolidated Statement of Comprehensive Income	54
Consolidated Statement of Financial Position	55
Company Statement of Financial Position	56
Consolidated Statement of Changes in Equity	57
Company Statement of Changes in Equity	58
Consolidated Statement of Cash Flows	59
Notes to the Financial Statements	60-99

Glossary and Key Information

Glossary	100
Key Information	101

Highlights

ClearBank® is the first clearing bank built entirely on cloud technology. Our innovative and scalable Banking as a Service platform continues to attract key strategic partners, driving momentum into 2019 and beyond

2017

2018

December 2017

- Live customers transacting on the portal, following our exit from mobilisation

February 2018

- Awarded Best Technology Initiative of the Year

April 2018

- Awarded ISO 22301:2012 and 27001:2013 certification
- Strategic partnership with Ecology Building Society announced
- Strategic partnership with allpay announced

May 2018

- Successfully completed a £10m capital raise

June 2018

- Launched enhanced and simplified JSON ISO API and Portal to drive improved performance and stability

August 2018

- Successfully completed a £15m capital raise

September 2018

- Ranked 4th in LinkedIn Top Startups 2018, the 25 most sought after startups in the UK
- Introduced BACS collections to our product suite for customers
- Opened our Innovation Hub in Devonshire Square

October 2018

- Announced commercial partnership with Featurespace the world's leading provider of behavioural analytics and advanced real-time fraud and AML detection

November 2018

- Winner of the Payments Infrastructure Award and accepted the Payments Pioneer Award on behalf of our Founder and Investor Director Nick Ogden
- Introduced Dynamic Banking, including new segregated services accounts and specific deposit accounts for ringfenced client monies under CASS 7 rules

2019

January 2019

- Successfully completed a £10m capital raise

February 2019

- Granted £60m from Banking Competition Remedies Ltd in conjunction with our strategic partner Tide, to improve SME outcomes in the UK

Continuing the momentum

Clear.Bank®

Strategic Report

For the year ended 31 December 2018

Chairman's Statement

ClearBank's mission is to enable our partners to succeed in an open and competitive payments and banking marketplace through innovation and delivery of resilient state-of-the-art technology

Changes to the Board

I joined the Board on 3 September 2018. Following my appointment as Chairman in January 2019, ClearBank announced our founder Nick Ogden's retirement from his Executive Chairman role, having both successfully founded and guided ClearBank to the launch of its payments and agency banking services. We are delighted that Nick will remain on the Board as Founder and Investor Director and will continue to help expand our vision.

I would like to thank Nick on behalf of the whole team for his outstanding leadership, enthusiasm and commitment since inception and subsequent growth into the business it has become today.

Strong governance

The Board continues to demonstrate its commitment to providing strong and effective oversight and governance. We will continue to strengthen our governance structure and the experience of our Board and Executive Committee, maintaining the highest standards of corporate oversight and control to protect the interest of all of our stakeholders.

Overview

With the continued support of our investors, ClearBank refreshed and sharpened its strategic focus in 2018, developed an outstanding executive team and built a market leading state-of-the-art Banking as a Service capability.

These accomplishments have been borne out in our commercial partnerships. For instance we are the first bank in the world to be fully developed in Azure, Microsoft's cloud computing platform, and we will continue to work closely with Microsoft to enhance this partnership. We announced our partnership with Featurespace enabling ClearBank to offer a customisable, machine learning-driven fraud detection and risk management solution that learns individual behaviours and detects anomalies in real-time to enhance the level of security for our customers.

We have developed significant strategic partnerships with allpay, Ecology Building Society and Tide. In conjunction with our strategic partner Tide, we were granted £60m from the Alternative Remedies Package. Finally, we have progressed our application for a Republic of Ireland banking licence, expanding our services to include Euro currency capabilities.

These achievements validate ClearBank's successful progression from concept to reality, and we enter 2019 with a high level of confidence supported by an impressive pipeline of new strategic partnerships to be announced in the first half of the year.

Outlook

2019 will provide further challenges to the banking and payments industries. The social, economic and regulatory landscape will continue to change and the actual effects of Brexit, in whatever form it takes, will only add to the uncertainty. However, change generates opportunity, and ClearBank's unique neutral positioning together with our next-generation infrastructure makes us confident that the demand for our payments and agency banking services from both new and existing participants will continue to rise through 2019 and beyond.

Conclusion

I am delighted to be part of such an exciting business and have the opportunity to work with ClearBank's highly entrepreneurial and dedicated team.

On behalf of the Board, I would like to acknowledge the support we have received from all of our customers, the payment schemes and our regulators. I would also like to thank our investors and the team, ably led by Charles McManus, for their exceptional commitment, hard work and achievement over the last year.

David Gagie
Non-Executive Chairman
18 April 2019

David Gagie
Non-Executive Chairman

Chief Executive Review

We continue to build momentum and execute our strategy of investing in customer service through our Banking as a Service proposition

This year has been another crucial year in the development of ClearBank. Following the commencement of trading at the end of 2017, we continue to provide services that the market and our customers require. This approach has seen us continuing to build momentum and execute our strategy of delivering Banking as a Service.

Banking as a Service

Based on customer engagement in the first half of the year we reviewed the technology delivery plan and worked closely with our strategic partner Microsoft to facilitate improvements in the customer journey and build enhancements to our state-of-the-art cloud based architecture. We took the decision to make these changes ahead of accelerating our customer onboarding. In the short term this delayed the initial part of our growth, however based on these changes we have built significant momentum at the end of 2018 which is continuing into 2019.

A key part of this process was to simplify our API from our existing architecture to a scenario based JSON payload containing the required ISO standard for electronic data interchange between financial institutions. This has made it much quicker and simpler to migrate into our customers' technology.

These changes were made possible by developing an agile culture across ClearBank, which has led to cross functional teams working collectively to solve business problems for our customers and resolve queries faster than before. This could not have been achieved without the decision to relocate our development team to a state-of-the-art Innovation Hub in Devonshire Square.

In addition to our technology journey, we streamlined our customer onboarding and due diligence process which has resulted in a significant reduction in time to onboard customers, performing ahead of industry standards for financial institutions.

Whilst we continue to develop, grow and see an increase in the levels of volume, transaction size and cash balances, our commitment to protecting our customers remains paramount. We have been working in partnership with Featurespace, the world's leading provider of Adaptive Behavioural Analytics technology, and during the year we launched advanced real-time fraud and AML detection, utilising machine learning and the cutting-edge ability for in-life monitoring and defence against financial crime.

In the year we also launched a series of new products and services available to all of our customers. BACS collections were introduced and adopted by our strategic customer allpay, the UK's largest Bill Payment collections provider and leading Prepaid Card specialist. In November, we launched our Dynamic banking proposition, which in addition to our existing deposit account offering, includes a segregated services account, providing a specific deposit account designed for firms where ring-fenced client monies are held under CASS 7 rules.

Going into the second half of next year, we will be expanding our proposition by introducing euro currency capabilities to our customers and obtaining a banking licence to operate within the Republic of Ireland.

The next stage of our evolution has seen the development of our strategy to support the UK SME market, bringing together our modern technology and revolutionising banking services to the 5.6 million SME businesses within this market[1].

At the end of the year we announced our commitment to improving SME outcomes in the UK and our intention to apply for the Alternative Remedies Package to be implemented and overseen by the Banking Competition Remedies Ltd ('BCR').

In February, in conjunction with our strategic partner Tide, we were successfully granted £60m from the BCR. This was one of three Pool A grants of the Capability and Innovation Fund which formed part of the £775 million Alternative Remedies Package agreed in principle between the UK Government and the EU Commission[2].

We will be utilising this grant to challenge the oligopoly that currently dominates this marketplace; by providing UK SME's with the option of a dedicated and focused banking partner that will help them grow their businesses. We expect all of these key developments to accelerate revenues in 2019 and beyond.

Momentum into 2019

Following the departure of Toby Mason as Chief Operating Officer and review of the executive team we would like to welcome Nigel Walder, who joins from Barclays as Chief Operating Officer responsible for IT and Operations. Nigel brings with him significant experience in building scalable and operationally resilient technology, which is of utmost important at this stage of our life cycle.

We would also like to welcome John Salter who has joined as Chief Digital and Customer Officer responsible for strategic planning and executing our business development activity across both digital and physical channels. John has joined from Lloyds Banking Group and his extensive experience of corporate and financial institutions and track record of building successful client facing teams will prove invaluable as ClearBank accelerates the deployment of its world class proposition for the benefit of existing and new customers.

Finally, we have appointed our new Chief Risk and Compliance Officer, Lisa Nowell who will be joining the executive team in early 2019. Lisa joins from Masthaven Bank where she has overseen the risk and compliance functions through their growth, which is valuable and timely experience as we enter the next phase of our development.

These changes will further strengthen the executive team and enhance our commitment to supporting our customers.

The success we have experienced in 2018 would not have been possible without the dedication and commitment of our world class team. We are building a community delivering exceptional cross department collaboration, in an agile and legacy free manner. This was recognised by LinkedIn who rated ClearBank as the 4th 'Top Startups' to work for in 2018. We would like to thank the team for their continued hard work throughout the year.

Source:
[1] Government Department for Business Energy and Business Strategy
[2] www.gov.uk

We continue to support the wider community and this is evidenced through our social committee supporting the Lord Mayor's Appeal, bringing employees and neighbouring communities together to find solutions to some of London's most pressing societal issues.

In recognition for our innovation and revolutionising the payments industry, we were delighted to collect on behalf of the team The Payments Infrastructure Award and on behalf of our Founder and Investor Director Nick Ogden, the Payments Pioneer Award, at the recent Payment Awards during 2018. This in addition to our continued accreditation to ISO, recognises the excellent work of the ClearBank community in serving our customers.

In conclusion

2018 has been a critical year in our development. It has seen us continue to invest significantly in our proposition and execute on our strategy of delivering positive outcomes for our customers. We have created greater momentum and customer flow through investment in our leading edge ISO accredited API and the launch of BACS to our platform in September. In line with our vision, this ensures that our customers have the legacy free payments schemes products that they require and provides a scalable platform as we accelerate into 2019.

Going into 2019 with increased levels of interest and growth from customers, we are on track to significantly increase revenues and drive to profitability. This will be achieved through our customer focused scalable business model and alignment to our original vision of radically changing the competitive market dynamic.

CAMcManus

Charles McManus
Chief Executive Officer
18 April 2019

Charles McManus
Chief Executive Officer

Business Review

Our proposition proves compelling for the entire spectrum of financial regulated customers, from fintechs through to banks and building societies

Delivering value

During 2018 we continued to develop our Banking as a Service proposition, significantly extending our Agency Banking services. This proposition is designed to provide regulated financial customers with the ability to leverage ClearBank's infrastructure to offer their customers own-branded full payment scheme current accounts and deposits, as opposed to developing themselves. As a result, our customers can now choose any permutation of functionality from Agency Banking payment clearing and settlement through to full Banking as a Service and everything in between.

In designing our Banking as a Service proposition, ClearBank continues to deliver the following key value:

- A robust and secure banking platform backed by appropriate SLAs
- Streamlined and cost-effective setup
- Rapid sort code deployment
- Competitive transactional pricing
- Platform enabled product innovation, cost reduction and extended product reach
- Failover technology to minimise the impact of Payment Scheme failures
- Real-time data and analytics, providing greater liquidity control, business insight and data collection for regulatory reporting
- Clear and transparent pricing
- Exceptional service
- Non-compete neutrality

Customer promise

In addition to the economic and operational value we deliver to our customers is ClearBank's promise with respect to use of customer funds. Every pound of our financial institution customer funds placed with us to facilitate payment liquidity is held by ClearBank at the Bank of England and not used for any other purpose, such as lending.

A compelling proposition

We believe the combination of delivering customer value and our promise regarding use of customer funds together creates a compelling proposition for the entire regulated financial institution market. This belief is confirmed by the market response to date. As we end 2018 and build momentum into 2019, we have a healthy and growing pipeline and our existing customers continue to migrate their business and increase volume across our platform on a daily basis.

Market analysis

In the regulatory environment we have seen the introduction of the second Payments Services Directive ('PSD2') and General Data Protection Regulations ('GDPR').

From March 2019 as part of PSD2, banks are required to allow third party access to customer accounts and the ability to grant access to their payment data to authorised third parties providing payments related services.

In May 2018 the introduction of GDPR saw the most material overhaul of the data privacy requirements in twenty years, with enforcement action including regulatory fines being significantly enhanced. This aligns to our commitment to the highest standard of data security supported by our ISO 27001 certification, the leading information security benchmark.

Although Brexit itself is outside our control, we remain vigilant to mitigate against the effects of leaving the EU. Given our business model, Brexit will not have a significant direct operational impact. We are also reviewing our data arrangements to ensure that adequate measures are in place to allow continued uninterrupted flow of data.

The UK fintech market continues to significantly grow with £2.4bn being invested in UK fintech companies in 2018[1]. ClearBank continues to support the growth of financial institutions in this sector, including a number of institutions in start-up mode.

An important announcement within the year has seen the leading retail payments authority in the UK, formerly know as the New Payment Scheme Operator ('NPSO') announce its new name and brand; Pay. UK.

In 2018, Pay.UK also announced that Faster Payments broke the record for the highest amount of payments processed in a single year at 2.0 billion, increasing from 1.7 billion in the prior year[2]. This aligns to the scalability of ClearBank's architecture, which through its modern platform continues to support the growth of the industry.

Source
[1] fintech.global
[2] fasterpayments.org.uk

Financial Review

The Board has set a comprehensive Risk Appetite, driving inherently stable capital and liquidity strength and supporting sustainable profitability

The directors do not consider a full suite of financial and non financial KPI's to be relevant for the 2018 Annual Report. As such, an abridged set of KPI's and financial review is provided below:

	As at 31 Dec 2018	As at 31 Dec 2017
Capital		
Common Equity Tier 1 Ratio	**35%**	53%
UK Leverage Ratio	**74%**	84%
Liquidity		
Liquidity Coverage Ratio	**237%**	3,718%
Net Stable Funding Ratio	**432%**	878%
High Quality Liquid Assets as a % of Total Gross Assets	**71%**	68%

Continued investment

Operating expenses increased to £30.4 million in 2018 (2017: £17.6 million), reflecting our capability build across the bank as we begin to scale for volume.

During the period £9.0 million (2017: £4.8 million) of software costs were capitalised in the Statement of Financial Position as an asset, as we continue to develop and enhance the platform.

ClearBank reported a loss before tax of £29.5 million for the year (2017: £17.6 million).

A robust capital position

In line with risk appetite, ClearBank maintained a robust capital position during the year, with a year end CET1 ratio of 35%. In January 2019 a further capital investment of £10m was provided by our investors who continue to support the development of ClearBank.

Marc

Marc Jenkins
Chief Financial Officer
18 April 2019

People and Culture

Our people are at the heart of our mission. Their talents, commitment and creativity are building our bank and delivering an innovative market leading experience to our customers

Our culture

ClearBank's 'Values and Behaviours' are core to all aspects of our working environment and underpin our continued focus on building a sustainable and compliant culture. The principles of high standards of conduct are intrinsic in how we direct and contribute to our customer and business outcomes.

Our values and behaviours

Encouraging everybody

Active collaboration and listening

Looking after and respecting each other

Driving innovation wherever it creates value for our customers and business

Demonstrating integrity in all of our systems and decisions by being transparent, honest and fair

Being accountable to our stakeholders for delivering these values

Back row: **Rebecca Alderson, Ashleigh Kirstenfeldt, Romy Smith, Tina Meschino, Jenny Tong** Front row: **Caroline Sabiiti, Sophie Entress**
ClearBank netball team

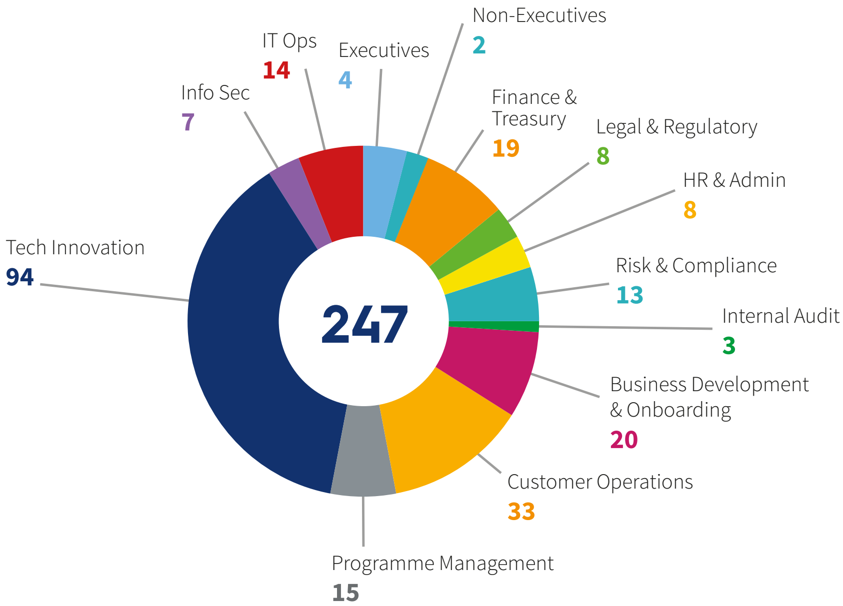
Jenny Perry
Scrum Master

(L-R) **Marcelo Hatti, Neil Jayasooriya, Mike Oliveira**
IT Help Desk Engineers

Building our team and capabilities

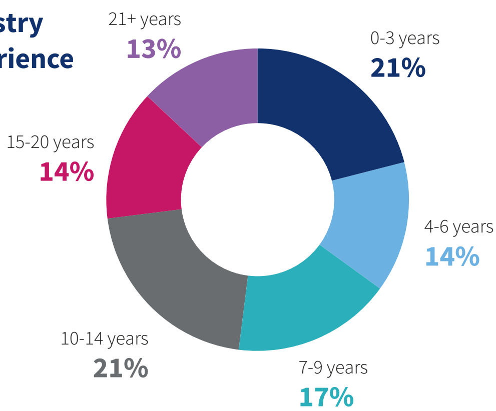
By 31 December 2018, our team of employees and individual suppliers grew to over 240 people, driven primarily through significant investment in our innovation, information security and customer facing teams, all consistent with ClearBank's strategy.

Our people

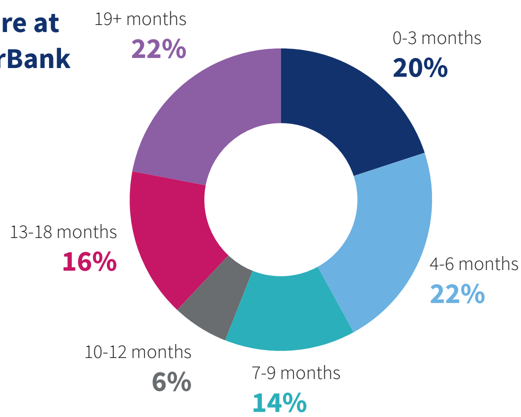


September saw ClearBank rated 4th in the LinkedIn Top 25 most sought-after start-ups in the UK. The growing strength of our employer brand has ensured that we continue to attract innovative and experienced employees with broad industry and regulatory capabilities. In turn, this drives innovation whilst maintaining tenure and stability across core delivery teams. We've assembled a strong team with significant industry experience; 38% of the team have been with ClearBank for more than 12 months.

Industry experience



Tenure at ClearBank



A comprehensive and streamlined onboarding program, educating on the values and standards we believe are fundamental to the success of ClearBank, has been key to ensuring immediate engagement and productivity of our new people.

Developing our community and a sustainable culture

Since our inception we have sought to develop a culture which is open, enables continuous learning, and encourages employees to feel they can speak up. During 2018 we have focused on initiatives through which the ideas of our employees can directly contribute to the continued development of our workplace.

Support of the ClearBank community has also been a key priority for the management team, with the continuation of our weekly meet-ups, Clear.Coffees, regular CEO and CTO lunches and roadshows. Recognition of team and individual success, championing internal networking activities and sponsoring external charity events, also continue to build our culture.

Achievements in 2018

- ClearBank's Performing People Framework, introduced in 2017, was further embedded in 2018 and extended to incorporate personal development and career change opportunities resulting in a number of internal promotions and key development appointments from our internal talent pool
- We extended our London footprint with the opening of our Innovation Hub in Devonshire Square, creating a unique space for our agile technologists and domain experts to continue the development of our core platform and service offering. "Innovate Fridays" have become a monthly highlight of this new space and have delivered tangible improvements to our core platform
- We successfully ran our first employee survey which has provided important baseline data for understanding how ClearBank is evolving and how our initiatives are being received by our people. With approximately 70% of our workforce responding, 85% believe we are building a strong community, 96% believe they have opportunities to speak and be listened to and 89% said they would recommend ClearBank as a place to work
- Our Clear.Leaders community has been central to the development of our employee experience this year, with this group of 55 talented leaders coming together regularly to discuss company performance, share insights and learn from each other's experience
- 92% of our employees highlighted within our survey that their leaders really listen to what they have to say
- ClearBank's Employee Options Program was introduced, the spirit of which is to ensure that employees who have contributed to the building of ClearBank, can benefit from the value which has been created through our journey

Bernice Smith
Chief People Officer

Risk Management

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

At ClearBank we have best in class risk management practices and controls. In these early years of building ClearBank, we have also made sure that the controls are proportionate and suitable for us as well as for our customers. Risk-taking is an inherent part of banking and sound risk management practices enable ClearBank to take risks knowingly, to reduce risks (where appropriate) and to prepare strategic, operational and financial plans which consider inherent and residual risks, uncertainties and our control responses.

The Board is ultimately responsible for setting the risk appetite and strategy. The Board delegates this responsibility through the Board Risk Committee ('BRC') which in turn receives recommendations from the Executive Risk Committee ('ERC') for approval. The sub-committees of ERC include Credit Committee (‘CC’), Asset and Liability Committee (‘ALCO’) and Conduct & Operational Risk Committee (‘CORC’). The BRC’s responsibilities include the development and maintenance of the Risk Management Framework (‘RMF’), ensuring that its strategy, principles, policies and resources are aligned to the risk appetite, as well as to regulatory and industry best practices.

The Board promotes a strong risk culture and expects every employee within ClearBank to adhere to these high standards.

The BRC monitors and reviews the formal arrangements established by the Board in respect of internal controls, and reviews the effectiveness of ClearBank’s systems for risk management and compliance with financial services legislation and regulatory requirements. The BRC is chaired by Graeme Smith, an independent non-executive director, and the Chief Risk and Compliance Officer ('CRCO') is a permanent attendee. The CRCO is also the chair of the CC, CORC and the ERC. Further details about the role of these committees are detailed in the Corporate Governance section.

The CRCO leads the Risk function of ClearBank and is independent from ClearBank’s operational and commercial functions. The CRCO is accountable for appropriate risk management processes, policies and controls in place which are proportionate and sufficiently robust. The CRCO’s role is also to ensure that key risks are identified, assessed, monitored and mitigated effectively and swiftly. The CRCO is responsible for providing assurance to the Board that the principal risks are appropriately managed and that ClearBank is operating within its risk appetite.

Risk Appetite Framework ('RAF')

The Risk Appetite Framework is a core component of the Risk Management Framework. Risk appetites articulate the acceptable levels of risk which are inherent in the business model across various risk types and the RAF defines the amount and nature of risk that ClearBank is willing to take (or the loss it is prepared to accept) in pursuit of its strategy and business objectives.

The risk appetites for each risk category are articulated in a series of statements and these provide the mandate for the management team to be able to measure performance against acceptable risk limits within which to operate. These limits clarify where risk can be taken and to what extent. The effective communication of the risk appetite statements throughout ClearBank's community acts to enhance the awareness and the effectiveness of the RMF and develop our Risk Culture. Risk appetites are reviewed at ERC and BRC at least monthly, to ensure adherence to the limits which have been set.

The RMF is supported by policies, procedures, governance, systems and controls which enable effective risk management. ClearBank also use a series of risk metrics and risk indicators to assess its overall risk profile, which are reported alongside the risk appetite limits. Furthermore, the Risk team regularly reviews policies and controls to verify compliance/relevance to the business and to reflect changes in market conditions and business activities. Training (including quarterly compliance training), management standards and procedures are used to develop a robust and effective control environment where all colleagues understand the accountabilities and responsibilities in their role and in ClearBank as a whole.

The risks that ClearBank face are identified and recorded in risk control self assessments and risk registers. 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 CORC, ERC and BRC. The risk assessments help to define residual risks, controls and control enhancements, to ensure it operates within its formally stated risk appetite.

Risk Management Framework ('RMF')

ClearBank has a documented Risk Management Framework which explains how risks are identified and managed within a defined risk appetite.

The RMF has three core components

- **Risk management strategy:** This articulates the strategic risks ClearBank faces and sets-out how the strategy will be matched and managed by its risk approach - e.g. via the risk appetites. It also considers how risk culture is embedded
- **Risk governance:** This outlines the communication, escalation and decision-making approach that ClearBank takes to ensure that it operates within risk appetite tolerances and limits. The 'three lines of defence' structure sits at the core of risk governance
- **Risk management policies and processes:** These are the policies and processes which define the risk management activities, and are undertaken by the business (including the assessment and measurement of risk)

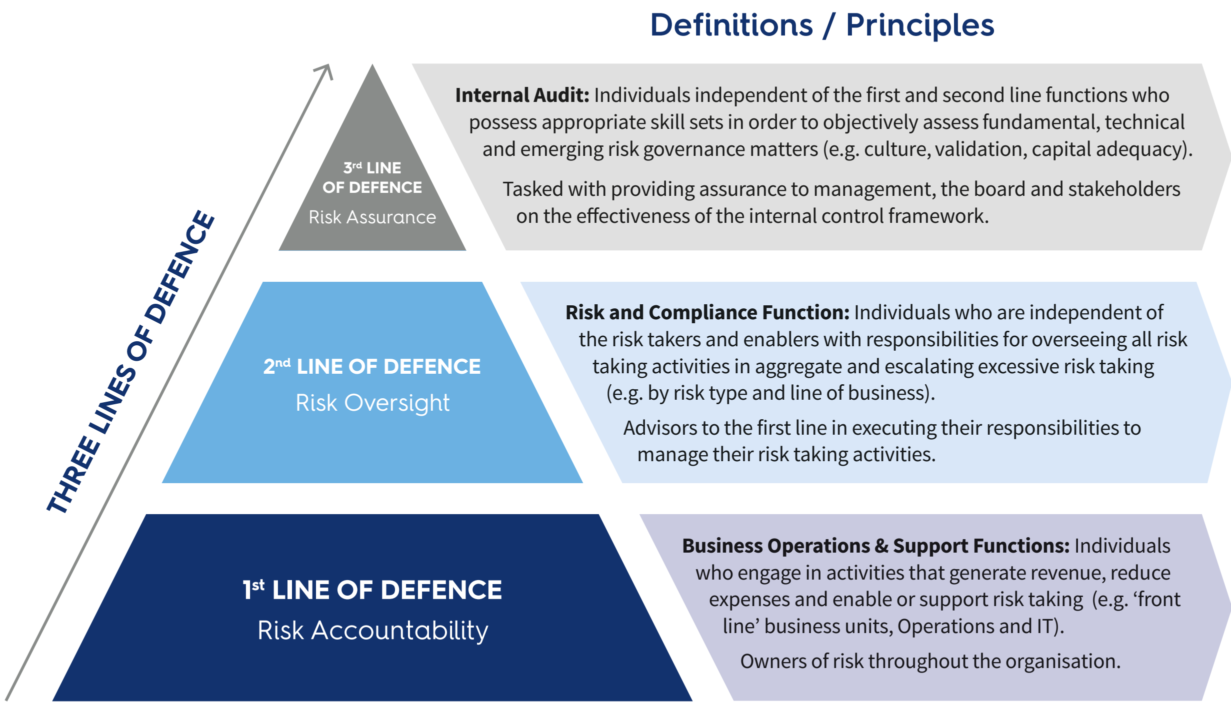
Risk culture

Risk culture is established and maintained by the adoption of a common set of values, risk principles and setting the correct "tone from the top". ClearBank aims for employees to be risk aware, to understand accountabilities and consequences of not adhering to policies and procedures and to be open and accountable with effective performance management. An understanding of risk and the risk appetite is embedded within business practices.

The RMF is reviewed and approved by the Board at least annually following a recommendation by BRC. The CEO and the CRCO ensure that business objectives and practices are fully aligned to the RMF. The executives and managers ensure that the RMF is embedded in its day-to-day management and control activities. The RMF is subject to assurance reviews undertaken by Internal Audit and these are made available to external stakeholders as and when required.

The three lines of defence

The RMF is implemented using the 'three lines of defence' model at its core. This model minimises conflict of interest as far as possible and aims to drive the right behaviours by clear delineation of responsibilities.



1st line of defence (risk accountability) - Business operations and support functions

The first line manages the risks within agreed risk tolerances or limits set in the risk appetite statements. First line identify, measure, monitor and control risks within each functional area. They also report and escalate issues.

The first line implements and adheres to the mandates, policies and processes that are part of the control environment.

The first line also identifies and quantifies new or emerging risks as internal activities, business strategy or the external environment changes and responds by implementing appropriate controls to mitigate these risks.

2nd line of defence (risk oversight) - Risk and compliance function

The Risk and Compliance function provides risk oversight. The function operates independently to monitor and assess the adequacy and effectiveness of the measures, policies and procedures put in place in relation to its regulatory requirements and advises the Board in relation to those matters. The function supports a structured approach to risk management as outlined in the RMF.

The Board and BRC receive detailed risk oversight reporting at each meeting, as well as information about regulatory developments and their likely impact on the business.

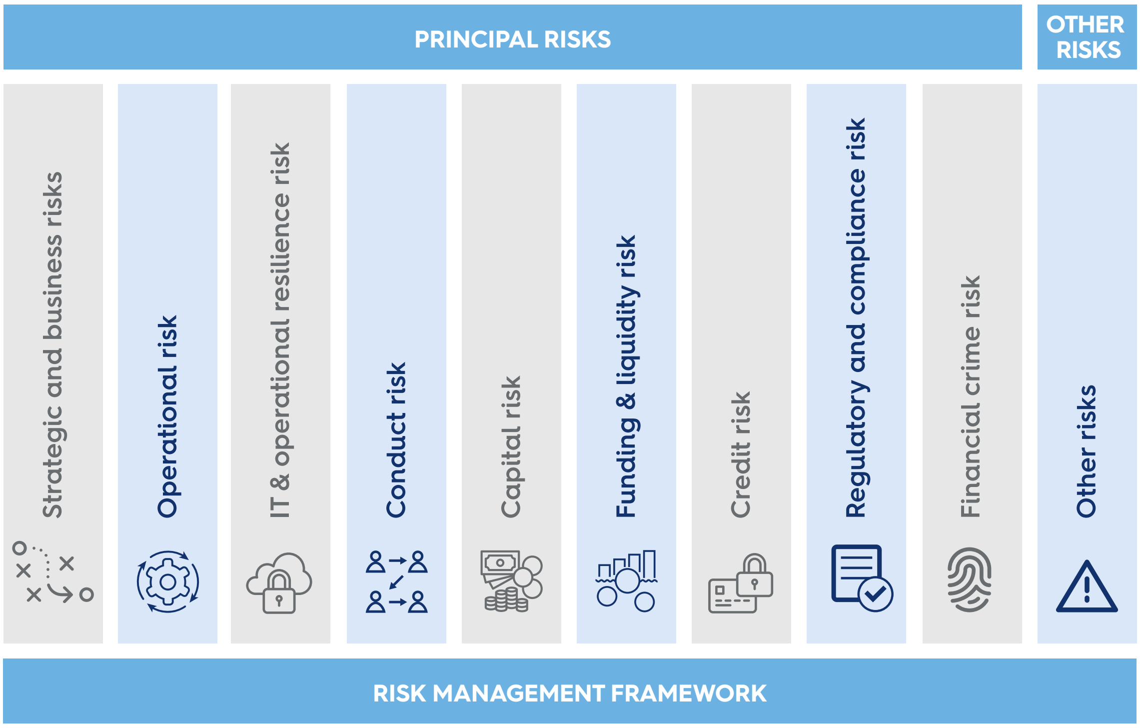
3rd line of defence (risk assurance) - Internal audit

The Internal Audit function reports to the Board via the Audit Committee and provides independent assurance that controls are operating effectively. Internal Audit has an annual plan, updated at least quarterly, which reviews ClearBank's risk priorities, based on an audit universe of all the key functions and processes. This audit universe is compared to the risk and compliance function's assurance plan, to co-ordinate assurance activity throughout ClearBank (thus avoiding duplication of effort and making sure that key priorities are aligned – though Internal Audit's perspective is designed to operate so that it is fully independent and objective).

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

Risks

ClearBank's RMF is designed to manage, minimise and control the following principal risks:



Principal Risks

Strategic and business risks

Strategic and business risks can affect ClearBank's ability to achieve its corporate and strategic objectives both in the short or long-term.

Considering risks at this wide level is important as it provides a holistic perspective on risk and includes external factors. Such risks will include changes to the external operating environment, competition and the regulatory landscape.

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.

IT and operational resilience risk

IT and operational resilience risk is the risk that service levels to our customers fall below agreed standards due to IT infrastructure failure or due to the failure of key suppliers.

ClearBank's IT and operational infrastructure has been designed to minimise and mitigate this from the ground- up. We have built real time monitoring of payment schemes availability and our own system performance, with inbuilt triggers and alarms providing push notification.

Danielle Sharpe
Financial Crime Manager

Conduct risk

Conduct risk is the risk of causing unfair outcomes or detriment and/or undermining market integrity as a result of behaviour, decision making, activities, actions of its employees or the policies and processes it adopts. 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 promotes 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 robust governance 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.

Capital risk

Capital risk is the risk that ClearBank has insufficient capital to cover regulatory requirements, growth plans or stressed conditions.

ClearBank has maintained regulatory capital in excess of the level set by the Prudential Regulation Authority ('PRA') as part of our Individual Capital Guidance ('ICG'). The capital position is monitored monthly by Asset and Liability Committee ('ALCO') and reported monthly to the ERC and BRC.

Composition of regulatory capital of the Company

	As at 31 Dec 2018 £'000	As at 31 Dec 2017 £'000
Share Capital	-	-
Share Premium	**78,125**	53,254
Share-Based Payments Reserve	**3,301**	467
Retained Losses	**(44,167)**	(20,143)
Total Shareholders' Funds	**37,259**	33,578
Deductions:		
Deferred Tax	**(5,951)**	(3,652)
Intangible Assets	**(13,418)**	(6,245)
Total	**(19,369)**	(9,897)
Common Equity Tier 1 (CET) Capital	**17,890**	23,681
(CET1) Capital Ratio	**35%**	53%

Leverage ratio

Capital Requirements Directive IV ('CRD IV') requires firms to calculate a non-risk weighted leverage ratio. The leverage ratio measures the relationship between capital resources and total assets. The leverage ratio is calculated based on ClearBank's capital divided by exposures which are defined as the total of on and off-balance sheet exposures less any deductions applied to Tier 1 capital.

As at 31 December 2018, the Company's UK Leverage Ratio was 74%.

	2018	2017
	£'000	£'000
Total Regulatory Capital	**17,890**	23,681
Total Risk Exposure	**24,147**	28,160
UK Leverage Ratio	**74%**	84%

Funding and liquidity risk

Funding risk is defined as the risk that ClearBank does not have sufficiently stable and diverse sources of funding. Liquidity risk is defined as the risk of insufficient financial resources to meet its commitments as they fall due.

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 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.

ClearBank carries theoretical counterparty credit risk through our cash and liquid asset placement activity as a means of managing our surplus liquidity. However, ClearBank only places funds with the Bank of England.

The Standardised Approach ('SA') to credit has been adopted. Under the SA, ClearBank 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.

The table below shows ClearBank's credit risk exposure by asset and exposure class at 31 December 2018.

Asset Class	Exposure Class	Exposures		Risk Weighted Assets	
		2018	2017	**2018**	2017
		£'000	£'000	**£'000**	£'000
Cash and cash equivalents	Central Banks	**62,526**	27,005	**-**	-
Other Assets	Central Governments	**-**	233	**-**	-
Collateral	Other Items	**364**	315	**205**	158
Other Assets	Other Items	**5,399**	2,208	**8,979**	2,208
Total		**68,289**	29,761	**9,184**	2,366

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.

To ensure that awareness of both current and upcoming legal or regulatory changes ClearBank allocates the responsibility for monitoring changes to the Legal Counsel and Compliance functions. This latter function is within the second-line of defence, reporting to the CRCO. Reporting forthcoming changes to regulation or law is routinely made to a number of management committees and to the Board, for both communication and for subsequent actions to be taken by senior management.

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. As well as compliance with all relevant Financial Crime legislation and regulation, specific attention has been applied to the 4th EU Money Laundering Directive and the Money Laundering Regulations 2017. 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. ClearBank endeavours to be industry leaders in the use of technology designed to predict, prevent and detect Financial Crime, including the use of machine learning and artificial intelligence.

Other Risks

Market and interest rate risk

Market risk is defined as the risk that unfavourable market moves (including changes in and increased volatility of interest rates, market-implied inflation rates, credit spreads and prices for bonds, foreign exchange rates, equity, property and commodity prices and other instruments) lead to reductions in earnings and impact the value of assets and liabilities.

Interest Rate Risk is the risk of financial loss through un-hedged or mis-matched asset and liability positions which are sensitive to changes in interest rates.

ClearBank's banking activities expose it to the risk of adverse movements in market prices, predominantly interest rates, exchange rates and equity prices. 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 in its overseas operations. In addition, ClearBank incurs foreign exchange risk through non-functional currency flows from services provided by customer facing operations.

Given structure and products currently offered, ClearBank has minimal exposure to these risks.

Emerging risks, uncertainties and mitigation

Apart from the above principal risks, the Board has identified emerging risks that have the potential to adversely impact our activities and business plans.

Cyber security risk

Cyber security risk relates to the protection of information systems and the unauthorised access, harm or misuse of hardware, software and their data.

ClearBank addresses this risk in a number of ways. First and foremost, our core banking system is built with security in mind using the approach of 'assume breach' - thus ensuring that response and recovery services are part of the design objective and that any interruptions do not cause our customers detrimental impact. Secondly, 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. Finally, we partner with major suppliers to ensure we leverage world-class knowledge and functionality to ensure ClearBank's environment continues to be best in class, including cyber security and resilience capabilities.

Financial crime risk

Financial crime risk is the risk of failure to protect against money laundering, terrorist financing, or fraud.

ClearBank has built strict and effective controls to mitigate against all facets of financial crime. We have dedicated financial crime teams in both the first and second lines of defence who ensure the resilience of the controls they have embedded for financial crime mitigation. We have also partnered with financial crime system providers, Featurespace, to help build and design our detection and prevention infrastructure to ensure market leading technology and industry best practices.

Regulatory breach

Regulatory breach is the risk that ClearBank fails to comply with applicable regulations or legal requirements, which could impact performance, liquidity, capital and reputation.

ClearBank takes its regulatory obligations and compliance extremely seriously. Real time liquidity and capital dashboard metrics are reviewed throughout the working day via an experienced Treasury Team. Regulatory reporting, managed by an experienced Regulatory Reporting Manager, is subject to full reconciliation and supervisory oversight. Major regulatory reporting submissions such as Internal Capital Adequacy Assessment Process ('ICAAP') and Internal Liquidity Adequacy Assessment Process ('ILAAP') are also quality assured by third party financial services professionals.

Geopolitical risk/ Brexit

Although Brexit itself is outside ClearBank's control, we remain vigilant to mitigate against the effects of leaving the EU. Brexit is not expected to have a significant operational impact. Given our corporate structure, this is not a major risk. We are also reviewing our data arrangements to ensure that adequate measures are in place to allow continued uninterrupted flow of data. The Board have reviewed potential impacts which could be a combination of threats and opportunities and continue to monitor as part of ongoing tactical and strategic management.

Adriana Cioarec
Information Security Analyst

Governance

For the year ended 31 December 2018

Corporate Governance

The Board recognises that exemplary standards of Corporate Governance throughout 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 but disseminate through the entire organisation, being reflected in its culture, committees, policies and procedures.

As a non-listed entity, ClearBank is not required to apply the principles set out in the UK Corporate Governance Code (published April 2016) (the "Code"), however, the bank uses the Code as guidance for its corporate governance wherever practicable and appropriate, having regard to its ownership structure, size and scope of operations.

Meet the Board

David Gagie

Non-Executive Chairman
(Appointed Non-Executive Director on 3 September 2018)

A globally experienced professional in banking, payments and risk management and was a Senior Advisor on regulatory conduct issues relating to retail banking, consumer credit and payments at the Financial Conduct Authority and the Payments Systems Regulator. David was appointed as Chairman on 10 January 2019.

Charles McManus

CEO and Executive Director

An experienced international banking professional with over 30 years' experience in global investment banking, wealth management and retail banking, Charles McManus is ClearBank's Chief Executive Officer and Executive Director.

Marc Jenkins

CFO and Executive Director

An international financial professional with over 25 years' experience in financial services including payments, retail banking, business banking and corporate banking, Marc Jenkins is ClearBank's Chief Financial Officer and Executive Director.

Shonaid Jemmett-Page

Senior Independent Director, Chair of the Audit Committee and Nomination Committee

An experienced finance professional, Shonaid Jemmett-Page is ClearBank's Senior Independent Director and Chair of the Board Audit, Remuneration and Nomination Committees.

Phil Kenworthy

Independent Non-Executive Director

With over 20 years' senior executive experience in the Payments and Settlement Industry, Phil Kenworthy sits on ClearBank's Board as an Independent Non-Executive Director.

Graeme Smith

Independent Non-Executive Director and Chair of Risk Committee

An experienced senior retail and commercial banker with more than 35 years' experience. Graeme Smith is an Independent Non-Executive Director and Chair of the Board Risk Committee.

Nick Ogden

Founder and Investor Director

An entrepreneur with over 30 years' experience in banking, payments and fintech, Nick Ogden is the founder of ClearBank and Investor Director.

Stan Spavold*

Investor Director

A corporate finance executive with 35 years' experience in senior financial services roles, Stan Spavold is one of ClearBank's Investor Directors.

Mel Carvill

Investor Director

A finance professional with many years' experience as a director of financial services companies. Mel Carvill is one of ClearBank's Investor Directors.

Full Biographies for each director can be found on the ClearBank website.

*John Risley is an alternate Investor Director for Stan Spavold

Board function

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

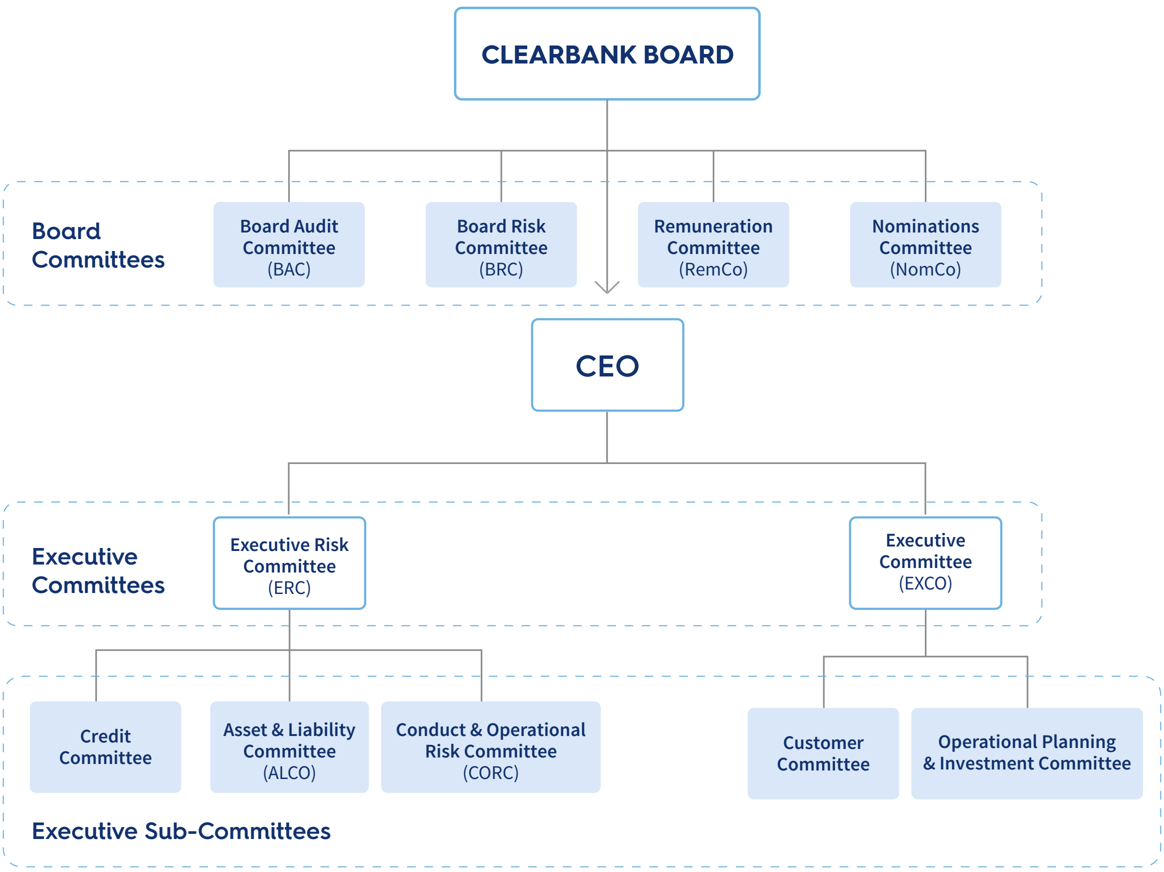
The Board has responsibility to maintain a system of internal controls, which provide assurance over the effectiveness and efficiency of operations, internal financial controls and compliance with all applicable laws and regulations. Additionally, the Board is responsible for ensuring that the executive members maintain an effective risk management and oversight process across ClearBank to enable delivery of the strategy and business performance within the approved risk appetite 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 and committee structure

Board Committees

As further detailed and as illustrated in the diagram below, to provide effective oversight and leadership, the Board has established a number of Board Committees at which matters are considered in a more detailed fashion by suitably experienced directors and, where appropriate, recommendations made to the Board as a whole for decision. The Board receives updates from the Board Committee Chairs as standing agenda items at each of its meetings and all directors are able to access and review the respective Committee meeting minutes.



Board Audit Committee ('BAC')

The Board Audit Committee's responsibilities include the monitoring of the integrity of the financial statements and the involvement of the External Auditors in that process, as well as review and assurance provision over the internal controls and risk management systems. In particular, external audit focuses on compliance with accounting policies and accounting estimates and ensuring that an effective system of internal financial control is maintained. Internal audit also provides assurance over financial systems and controls, in addition to completing a comprehensive review (via the audit universe) of the entirety of operating systems and controls, including but not limited to IT Security, IT Operations and Customer Onboarding. The ultimate responsibility for reviewing and approving the annual report and accounts remains with the Board. The BAC is chaired by Shonaid Jemmett-Page.

Board Risk Committee ('BRC')

The Board Risk Committee responsibilities include the development and maintenance of the Risk Management Framework ('RMF'), ensuring that its strategy, principles, policies and resources are aligned to the risk appetite, as well as to regulatory and industry best practices. The BRC also monitors and reviews the formal arrangements established by the Board in respect of internal controls and the RMF and reviews the effectiveness of ClearBank's systems for risk management and compliance with financial services legislation and regulatory requirements. The BRC is chaired by Graeme Smith.

Remuneration Committee ('RemCo')

The Remuneration Committee's main responsibilities include agreeing the framework and policy for remuneration, terms of employment and any changes, including service contracts, remuneration, pension arrangements, bonus awards and participation incentive and benefit plans available to employees. The Remuneration Committee is chaired by Shonaid Jemmett-Page.

Nomination Committee ('NomCo')

The Committee's responsibilities include the review of the structure, size and composition (including the knowledge and experience) of the Board to ensure that it retains an appropriate balance of skills to support the strategic objectives of ClearBank and consideration of succession planning for directors and senior executives. The Nomination Committee is responsible for identifying and nominating for Board approval candidates to fill vacancies as and when they arise on the Board, as well the memberships of the Board Committee. The Nomination Committee has recommended the reappointment of the existing executive and non-executive members to the appropriate committees; in addition details of the appointment of new members are set out in the Report of Directors. The Nomination Committee is chaired by Shonaid Jemmett-Page.

Executive Committees

The Board is supported by the two Executive Committees: The Executive Committee ('ExCo') and Executive Risk Committee ('ERC'). Each Committee meets on an at least monthly basis and then reports up to the Board where appropriate, with each Executive also responsible for compiling departmental reports to the Board Risk Committee ('BRC') and Board Audit Committee ('BAC').

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.

Executive Risk Committee ('ERC')

The purpose of the Executive Risk Committee is to monitor ClearBank's RMF, adherence to risk appetite and control of principal risks. The ERC acts as the point of escalation for the executive risk sub-committees.

Directors' roles and processes

Directors

During this reporting period ClearBank strengthened its Board of Directors with the appointment of a Non-Executive Director, David Gagie, who has subsequently become Chair of the Board on 10 January 2019.

Nick Ogden was Executive Chairman during the period until 14 December 2018 and remains on the Board as Founder and Investor Director.

At the end of the reporting period, the Board was composed of nine directors, being the Non-Executive Chairman, the Founder and Investor Director, two Executive Directors, three Independent Non-Executive Directors and two Investor Directors.

Board meetings

A month by month annual governance calendar is maintained to ensure that all relevant matters are considered at appropriate times in the financial and regulatory cycle. Seventeen board meetings were held during 2018. The table below shows each directors' attendance at Board and Board Committee meetings held in the year.

Board and committee attendance

The table below shows attendance at scheduled meetings and ad hoc meetings when these are required.

Attendance	Board[2]	Board Audit Committee	Board Risk Committee	Remuneration Committee	Nomination Committee
David Gagie[1]	4/4	4/4	5/5	2/2	-
Charles McManus	17/17	-	-	-	-
Marc Jenkins	16/17	-	-	-	-
Nick Ogden	16/17	-	-	-	-
Shonaid Jemmett-Page	17/17	12/12	13/15	5/5	5/5
Phil Kenworthy	16/17	12/12	15/15	5/5	5/5
Graeme Smith	17/17	12/12	15/15	5/5	5/5
Stan Spavold	14/17	-	-	-	-
Mel Carvill	15/17	-	-	-	-

[1] Appointed on 3 September 2018.
[2] This includes four ad hoc board meetings.

Approved by the Board of Directors and signed on behalf of the Board on 18 April 2019.

Philip House

Philip House
Chief Governance and Legal Officer

Board Audit Committee Report

The Board Audit Committee represents a key element of bank corporate governance, monitoring the integrity of the financial statements, effectiveness of internal controls, internal audit and external audit

Membership and meetings

The Board Audit Committee ('BAC') acts independently of the executive to ensure that the interests of the shareholders are properly protected in relation to financial reporting and internal control. The BAC is comprised solely of independent non-executive directors. Detailed information on the experience, skills and qualifications of all BAC members can be found in the Corporate Governance section.

The Committee held twelve meetings during the year. Whilst the Committee's membership comprises the Non-Executive Directors, the Investor Directors, Non-Executive Chairman and Chief Executive Officer may attend meetings as agreed with the Chairman of the Committee. The Chief Financial Officer, the Chief Internal Auditor, and the Chief Risk and Compliance Officer and the External Auditors also attend meetings of the Committee as appropriate.

The experience of committee members

The Board has confirmed that it is satisfied that Committee members possess an appropriate level of independence and offer a depth of financial and commercial experience across the industry, including the sector in which ClearBank operates. Committee members attend training and seminars to maintain a comprehensive knowledge in order to discharge their duties.

Shonaid Jemmett-Page
Chairman of Board Audit Committee
Senior Independent Director

The role and key responsibilities of the BAC

The main purpose of the Committee is to assist the Board in discharging its responsibilities for monitoring and reviewing ClearBank's financial reporting arrangements, the effectiveness of its internal controls and Risk Management Framework ('RMF'), its internal and external audit processes and its whistleblowing procedures. The Committee reports to the Board on its activities and makes recommendations, all of which have been accepted during the year.

The Board Audit Committee's responsibilities relating to ClearBank's financial statements, internal audit, external audit and whistleblowing:

Financial reporting

- To review and report to the Board on significant financial issues and material judgements
- To review and challenge critical accounting policies and methods used in deriving significant accounting estimates and judgements
- To review the clarity and completeness of disclosures in the financial statements to ensure compliance with accounting standards, legal requirements and regulations
- To review the statement in the Annual Report and Accounts on the internal controls and RMF and to assess the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non-financial risks
- To review and advise management on whether the Annual Report is fair, balanced and understandable
- To review management's approach to, and assessment of, the ability to remain as a going concern

Internal audit

- To review and assess the Internal Audit Programme and to ensure that resources are adequate
- To receive and review the Chief Internal Auditor's Report on the results of their work on a periodic basis and to review management's responsiveness to findings
- To meet regularly with the Chief Internal Auditor and ensure access to the Board
- To monitor and assess the role and effectiveness of the internal audit function in the overall context of the risk management systems

External audit

- To review and assess the effectiveness of the external audit and to recommend the appointment, reappointment or removal of the external auditor
- To oversee the relationship with the external auditor and to approve the terms of engagement and their remuneration in respect of the services provided
- To approve remuneration and review the supply of non-audit services in line with policy and to ensure that the provision of such services does not impair the external auditors' independence or objectivity
- To discuss with the external auditor, before the audit commences, the nature and scope of the audit; and after the audit to review the findings of their work, including any major issues that arose during the course of the audit and which have subsequently been resolved or remain unresolved

Whistleblowing and fraud

- To review the adequacy and security of whistleblowing arrangements, including potential or real conflicts of interest
- To review the procedures for preventing and detecting fraud, bribery and corruption

Key topics discussed by the committee in 2018

The Committee undertook the following core activities, which were considered and approved during the year:

- Reviewed the External and Internal Annual Audit Programmes and timetables
- Reviewed and monitored the integrity of the annual financial statements, with a focus of key accounting policies and judgements of ClearBank and its subsidiaries
- Reviewed and monitored policies and items raised in the Key Judgement Forum including:
  - VAT Recoverability Rate
  - IFRS 2 - Share-based payments
  - IFRS 15 - Revenue from contracts with customers
  - CASS 7 - Client money rules
  - IAS 38 - Intangible assets
  - IFRS 9 - Financial instruments
  - IFRS 16 - Leases
  - IAS12 - Income taxes
  - Transfer Pricing
- Reviewed the monthly Finance and Performance Review Reports
- Reviewed monthly Internal Audit Report
- Reviewed and approved the Annual Budget and Five-Year Business Plan
- Reviewed internal controls and risk management processes
- Monitored and reviewed the effectiveness and independence of the Internal Audit and Risk functions
- Reviewed the Board's approach to assessing the ability to remain as a going concern
- Reviewed the effectiveness of the whistleblowing procedure
- Assessed whether the Annual Report, taken as a whole, is fair, balanced and understandable

Shonaid Jemmett-Page

Shonaid Jemmett-Page
Chairman of the Board Audit Committee
Senior Independent Director

Board Risk Committee Report

The Board Risk Committee is responsible for providing oversight and advice to the Board with respect to current and potential risks. It is also key to promoting a risk aware culture throughout ClearBank

Membership and meetings

The Board Risk Committee (‘BRC‘) is a sub-committee of the Board. The BRC’s membership is made up of the three Independent Non-Executive Directors, however the two Investor Directors, Non-Executive Chairman, Chief Executive Officer, Chief Financial Officer and the Chief Risk and Compliance Officer have standing invitations to attend as guests, unless the Chairman of the BRC asks them to recuse themselves from a particular meeting or discussion.

The Committee held monthly meetings during the year, supplemented as and when required by additional ad hoc meetings of the Committee.

The Chief Operating Officer and the Chief Governance and Legal Officer and other colleagues attend as guests by invitation of the Chairman to present and report on relevant topics.

The experience of the Committee’s members

All of the Committee’s members who served during the year are considered by the Board to be appropriately experienced and qualified to fulfil their duties. Details of their experience, qualifications and attendance at Committee meetings during the year are shown within the Corporate Governance section.

Key responsibilities of the Committee

The main purpose of the Committee is to assist the Board in its oversight of risk within ClearBank, with particular focus on the risk appetite, risk profile in relation to capital, liquidity and the effectiveness of the Risk Management Framework (‘RMF’). In addition, the committee considers the risk profile relative to current and future strategy.

The Committee reviews the methodology used in determining the capital requirements and stress testing and ensures that, where appropriate, due diligence appraisals are carried out on strategic or significant transactions. In addition, the Committee reviews the operational risks and the significant ongoing changes to the regulatory framework while monitoring the prudential regulatory requirements across ClearBank. The Committee also works with the Remuneration Committee to ensure that risk management is properly considered in setting the Remuneration Policy and is responsible for promoting a risk awareness culture.

More details on the wider approach to risk management can be found in the Risk Management section.

Key responsibilities of the Committee include:

Risk strategy and policy

- Overseeing the development, implementation and maintenance of the overall Risk Management Framework including its risk appetite, to ensure these are in line with emerging regulatory, corporate governance and industry best practice
- Considering the risk profile relative to current and future strategy and risk appetite and identify any risk trends, concentrations or exposures and any requirement for policy change
- Reviewing the design and implementation of risk management across ClearBank and the operation of the risk policy documents and their enforcement
- Oversight and reporting in relation to material breaches of regulation, internal policy, risk limits, or procedures
- Reviewing the design and implementation of the risk management and measurement strategies and the procedures for monitoring the adequacy of those processes

Risk profile

- Review the performance of ClearBank relative to its Risk Appetite

Risk appetite

- Reviewing and making recommendations to the Board in relation to the risk appetite and RMF, taking into account the capital and liquidity adequacy and the external risk environment
- Considering and overseeing functional risk appetite measures and related authorities, limits and mandates of external parties
- Ensuring the risk appetite is embedded within principles, polices, authorities and limits across ClearBank as it continues to grow and evolve and reflecting external market and regulatory developments

Graeme Smith
Chairman of Board Risk Committee
Independent Non-Executive Director

Key topics discussed by the BRC in 2018

During the year the following key matters were considered by the Committee:

- Annual review and recommendation to the Board regarding RMF
- Capital and Liquidity Matters including:
  - monthly updates on matters considered at the Asset and Liability Committee (‘ALCO’) via the Executive Risk Committee (‘ERC’) including review and approval of latest ICAAP and ILAAP
  - actions in relation to the 2018 Liquidity Supervisory Review and Evaluation Process (‘LSREP’)
- Reviewing the effectiveness of the risk monitoring and control framework
- Pillar 3 Disclosures
- Policies: Review and approval of risk-pertinent policies and policy updates, including Credit and Counterparty Risk Policy, Concentration Risk Policy, Financial Crime Policy, Conduct Risk Policy, Data Privacy Policy, Speak-up Policy and Cyber Resilience Strategy
- Regulatory developments: including in relation to General Data Protection Regulation (GDPR), Payment Services Regulations , and crypto-currency
- CRCO Monthly Reports: Standing items addressing Risk Appetite, Strategic Risks, Financial Crime Risk, Prudential Risk, Product and Conduct Risk and Operational Risk
- Operational Risk Incidents
- Business Impact Assessment ('BIA'), Business Continuity Planning and Management ('BCP/BCM')
- IT and operational resilience capability and risk management
- Cyber security
- Brexit risks and opportunities

Graeme Smith
Chairman of Board Risk Committee
Independent Non-Executive Director

Remuneration Committee Report

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

Membership and meetings

The Remuneration Committee's membership is made up of the three Independent Non-executive Directors. 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.

Through the course of 2018, the Remuneration Committee met on five occasions.

The experience of the Committee's members

All of the Committee's members who served during the year are considered by the Board to be appropriately experienced and qualified to fulfil their duties.

Key responsibilities of the Remuneration Committee

- To agree the framework and policy for terms of employment and remuneration, including: service contracts, policy for and scope of pension arrangements, the basis of bonus and bonus awards, participation in and awards under share option, incentive and benefit plans, and targets for any performance related pay schemes. Where shareholder approval is required it will recommend plans to the Board to be taken by the Board to shareholders
- Seek periodic internal assurances that the remuneration processes and principles as set out in its remuneration policy are being implemented in line with the policy
- Work with and seek advice from the Board Audit Committee, Board Risk Committee and other relevant internal or external parties on the management of remuneration risk, including advice on the measurement of performance in the context of incentives, the vesting of long-term incentives and the application of risk adjustments or clawback
- When setting remuneration packages for individuals subject to the FCA's Senior Managers Regime ('SMR') the Committee is authorised to obtain information about remuneration in other companies of comparable scale and complexity. The Committee has authority to appoint remuneration consultants at the expense of ClearBank
- Ensure full compliance with the IFPRU Remuneration Code, otherwise known as SYSC 19-A

Cessation of employment

- Agree terms for cessation of employment (in line with the Remuneration Policy) and ensure that any payments made are fair to the individual and ClearBank, that failure is not rewarded and that the duty to mitigate loss is fully recognised

Promote long term resilience, stability and success

- Exercise judgement in the application of the remuneration policy so as to promote the long term success of ClearBank
- The Committee shall ensure that management does not permit reward for failure or conduct that is not in line with ClearBank's Values & Behaviours

Disclosure

- Ensure that all provisions regarding disclosure of remuneration and benefits (including pensions) are fulfilled

Remuneration Policy

ClearBank's Remuneration 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.

David Unsdorfer, Harry Milligan, James Dillon, Sophie Entress, Sean Lee Rice
Client Coverage Team

Key Topics discussed by the Remuneration Committee in 2018

Within the context of the significant growth and diversification of the business through 2018, the activities of the committee have focused on the continued development and embedding of the core elements of our performance and reward environment which support the delivery of the long-term corporate strategy, the development of behaviours and a culture which closely aligns remuneration to standards of appropriate conduct.

There were a number of notable items discussed by the Committee, which are listed below, together with the key outcomes delivered in 2018.

- The Executive Committee and Senior Managers Succession Plans were expanded to reflect the growth in SMR and Certified positions across ClearBank, and additionally supplemented with a full review of all additional critical operational risk positions outside of our SMR and Certified population. Through this lens, the committee has ensured that the performance, reward and any retention arrangements take into account the importance of the operational resilience priorities
- The Remuneration Policy was reviewed and updated in line with the requirements and frameworks of the competent domestic authorities' respective rules on remuneration as applicable for ClearBank
- ClearBank's Performing People Framework, introduced within 2017, was further embedded with the addition of Mid-Year and Year-End reviews incorporating personal development discussions, and driving alignment of individual performance with corporate priorities and ongoing conduct expectations
- A balanced score card approach was introduced for management award determinations, linking variable awards for our leaders to both personal and business commercial performance
- ClearBank's Employee Options Program was introduced for eligible employees, the spirit of which is to ensure that employees who have contributed to the building of ClearBank can benefit from the value which has been created through our journey

In determining the pay outcomes for the 2018 financial year, the Remuneration Committee gave full consideration to all aspects of performance, ensuring a clear link to overall financial results against plan, achievement against ClearBank's four corporate objectives, individual performance, and the overall assessment of behaviours and accountability as appropriate for the regulatory risk and compliance priorities of ClearBank.

Shonaid Jemmett-Page

Shonaid Jemmett-Page
Chairman of the Remuneration Committee
Senior Independent Director

Nomination Committee Report

The Nomination Committee ensures the Board retains an appropriate balance of skills to support the strategic objectives of ClearBank

Chairman's overview

The main focus of the Nomination Committee is to consider the composition of the Board and its committees to review and manage succession planning. ClearBank has in place succession plans for the Board and senior management to ensure there is an appropriate future mix of skills and experience.

The Nomination Committee had a busy 2018, with the search for and appointment of a new Non-Executive Chairman, David Gagie, following the retirement of founder Nick Ogden from his Executive Chairman role, having both successfully founded and guided ClearBank to the launch of its payments and agency banking services.

Following a review of the Board's skillset, the need to recruit an Independent Non-executive Chairman with experience in the financial services sector was identified as important, both to the growth of ClearBank and to the development of higher standards of corporate governance. Several candidates were identified as having the experience necessary; these were shortlisted; and select individuals were interviewed by the Board and members of the Executive Committee. David Gagie joined ClearBank on 3 September 2018 bringing the necessary experience in banking and payment services required for ClearBank as it enters the next stage of its evolution.

Membership and meetings

The Nomination Committee's membership is made up of the three Independent Non-executive Directors. 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. Through the course of 2018, the Nomination Committee met on five occasions.

Experience of the committee's members

All of the Committee's members who served during the year are considered by the Board to be appropriately experienced and qualified to fulfil their duties. The Nomination Committee has recommended the reappointment of the existing executive and non-executive members to the appropriate committees; in addition details of the appointment of new members are set out in the Report of Directors. In 2019 David Gagie will be replacing Shonaid Jemmett-Page as Chairman.

Shonaid Jemmett-Page

Shonaid Jemmett-Page
Chairman of the Nomination Committee
Senior Independent Director

Report of the Directors

The Directors present their report and the consolidated financial statements for the year ended 31 December 2018

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'), as adopted by the European Union.

Principal activities

The principal activities during 2018 have continued to be the establishment of a clearing bank platform and provision of business banking services to support financially regulated and Fintech businesses in the UK.

Results and dividends

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 56.

No dividend was declared or paid during 2018 (2017: £nil). The Directors do not anticipate declaring a dividend in the near future.

Share capital

Details of the Share Capital, together with details of shares allotted during the year, is disclosed in note 18 to the financial statements on page 91.

Events after the reporting year end

ClearBank, in conjunction with our strategic partner Tide, were granted £60 million from the Alternative Remedies Package on the 22 February 2019. The grant from the Capability and Innovation Fund forms part of the Alternative Remedies Package, backed by the UK Government, and overseen by Banking Competition Remedies Ltd ('BCR').

In January 2019, an additional £10m capital injection was received from the existing shareholders.

On 15th January 2018, the Company granted 8,807 share options to all employees. The award is subject to the condition that the employees remain in the employ of ClearBank until the end of the agreed vesting period. The total estimated fair value of options granted is £0.9m.

In the opinion of the Directors there were no other events after the reporting year end which require disclosure in the financial statements.

Going concern statement

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group and parent company have the resources to continue in business for the foreseeable future (which has been taken as 12 months from the date of approval of the financial statements). In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the current state of the balance sheet, future projections of profitability, cash flows and capital resources and the longer-term strategy of the business. The capital and liquidity plans, including stress tests, have been reviewed by the Directors. The forecasts and projections show that it will be able to operate at adequate levels of both liquidity and capital for the foreseeable future, including under a range of stressed scenarios. After making due enquiries, the Directors believe that ClearBank has sufficient resources to continue its activities for the foreseeable future and to continue its expansion, and has sufficient capital to enable it to continue to meet its regulatory capital requirements as set out by the Prudential Regulation Authority.

Future developments in the business, research and development and details of expansion outside the UK

This year has been another crucial year in the development of ClearBank with the launch of a series of new products and services and announcement of a number of key strategic partnerships. This has culminated in successfully being granted £60m by the BCR under the Alternative Remedies Package.

In 2019 we will look to continue the momentum, executing our strategy of providing Banking as a Service to the financial services market. In conjunction with our Strategic Partner, Tide, we will utilise the BCR grant to provide UK SME's with a dedicated and focussed banking partner.

Going into the second half of next year. we will be expanding our proposition by introducing Euro currency capabilities to our customers and obtaining a banking licence to operate within Republic of Ireland.

Directors

The directors holding office during the year ended 31 December 2018 were as follows:

- **David Gagie**
  (Appointed on 3 September 2018)
- **Charles McManus**
- **Marc Jenkins**
- **Shonaid Jemmett-Page**
- **Philip Kenworthy**
- **Graeme Smith**
- **Nick Ogden**
- **Stan Spavold**
- **Mel Carvill**
- **John Risley***

*John Risley is an alternate Investor Director for Stan Spavold

Further details relating to the Directors are provided in the Corporate Governance section and also on the Company's website.

Directors' indemnities

The Directors who served on the Board up to the date of this report have benefited from qualifying third-party indemnity provisions by virtue of deeds of indemnity entered into by the Directors and the Company. The deeds indemnify the Directors to the maximum extent permitted by law and by the Articles of Association of the Company, in respect of liabilities (and associated costs and expenses) incurred in connection with the performance of their duties as a Director of ClearBank and any associated company, as defined by section 256 of the Companies Act 2006.

ClearBank also maintains Directors' and Officers' liability insurance which provides appropriate cover for legal actions brought against its Directors. The Directors intend to keep the level of cover provided under annual or more frequent review if appropriate.

Auditor

The auditor, BDO LLP, has expressed its willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming board meeting.

Approved by the Board of Directors and signed on behalf of the Board on 18 April 2019.

Charles McManus
Chief Executive Officer

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and Accounts in accordance with applicable laws and regulations

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare both the Group and the parent company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of the profit or loss of the Group for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State whether they have been prepared in accordance with International Financial Reporting Standards as adopted by the EU
- Assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on ClearBank's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that so far as they are aware, there is no relevant audit information (as defined by section 418(3) of the Companies Act 2006) of which the Company's auditors are unaware. The Directors have taken all the steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Approved by the Board of Directors and signed on behalf of the Board on 18 April 2019.

Charles McManus
Chief Executive Officer

Independent Auditor’s Report

Opinion

We have audited the financial statements of ClearBank Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018 which comprise the consolidated statement of comprehensive income, consolidated and company statement of financial position, consolidated cash flow statement, consolidated and company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard FRS 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- The financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's loss for the year then ended;
- The group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- The parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK)(ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- The director's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- The directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The risk

Capitalisation of software development expenses £9.0 million (2017: £4.8 million)

The capitalisation of software development expenses in respect of internally generated software is recognised only if it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably.

There is a risk that the software development expenses, which include staff and contractor costs, are not capitalised appropriately in accordance with international accounting standards.

The accounting policy and the estimates and judgements, in respect of the capitalisation of the software development expense, are disclosed in Note 6 and in Note 2.1 respectively, of the consolidated financial statements. Further information on the balance is included in Note 13 to the financial statements.

How it was addressed

We obtained a breakdown of the software expenses capitalised and reviewed the Group's methodology and accounting policy for capitalisation of these expenses to check that was in accordance with the requirements of the accounting standards.

We have tested software development expenses and agreed a sample of invoices to supporting documentation and traced to bank statements. We have tested that these sampled expenses are capitalised in accordance with the Group’s accounting policies.

We assessed whether the disclosures made relating to capitalisation of software expenses are appropriate and in line with accounting policies and principles.

The risk

Recognition of deferred tax asset £8.3million (2017: £3.7million)

In the prior year, a deferred tax asset had been recognised for the carry-forward of unused tax losses and unused tax credits to the extent that these can be utilised. Management have prepared and assessed forecasts of performance, which indicate a full utilisation in the foreseeable future.

The risk is that the deferred tax asset has not been appropriately recognised in accordance with international accounting standards.

The accounting policy and the estimates and judgements, in respect of the recognition of the deferred tax asset, are disclosed in Note 6 and Note 2.3 respectively, of the consolidated financial statements. Further information on the balance is included in Note 15 to the financial statements.

How it was addressed

We have reviewed the methodology and the accounting judgements used by management to evaluate the impact of the accounting treatment to recognise the deferred tax asset to check that this is in accordance with accounting standards.

We have audited the movement of the deferred tax asset during the year, with reference to cash flow forecasts prepared by management. Our work on the cash flow forecasts included considering these in light of historical accuracy and management's future plans, and our knowledge of the business.

We reviewed the accounting treatment and considered whether there was any evidence of potential management bias in management's assessment.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on the audit and in forming our opinion. Materiality is assessed on both quantitative and qualitative grounds.

Materiality	**£441,000**
Reporting threshold	**£9,000**

Materiality

We consider materiality to be the magnitude by which misstatements, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements.

We determined the materiality for the Group financial statements to be £441,000 (2017:£257,000), which was set at 1.5% of total expenses . This provides a basis for determining the nature and extent of our risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature and extent of further audit procedures.

We determined that group total expenses would be the most appropriate basis for determining overall materiality as we consider this to be one of the principal considerations for members of the Group in assessing the financial performance of the Group at this stage of its development. Materiality in respect of the audit of the parent company has been set at £431,000 (2017: £257,000) based on 1.5% of total expenses.

Performance and component materiality

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Performance materiality has been set at £331,000 (2017: £193,000), being 75% (2017: 75%) of the above materiality levels, based on our risk assessment together with our assessment of the group's overall control environment and history of misstatements.

Whilst materiality for the financial statements of a whole was £441,000, each component of the Group was audited to a lower level of materiality in the range of £500 (for the dormant entities) to £11,000.

Reporting threshold

We agreed with the Audit Committee that we would report all individual audit differences identified during the course of our audit in excess of £9,000 (2017: £5,000) and any other differences that, in our view, warranted reporting on qualitative grounds. We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in the light of other relevant qualitative considerations.

An overview of the scope of our audit

We tailored our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the group, the accounting processes and controls, and the industry in which the group operates. We considered that the Group only had one significant component, the parent company which was subject to full scope audit and the work was undertaken by the Group audit team.

Our audit approach is risk based and has been driven by our materiality thresholds set out above.

Our audit approach was developed by obtaining an understanding of the group's activities and the overall control environment. Based on this understanding we assessed those aspects of the group's transactions and balances which were most likely to give rise to a material misstatement.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of capitalising of software expenses where management exercises judgement.

We gained an understanding of the legal and regulatory framework applicable to the group and the industry in which it operates, and considered the risk of acts by the company which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with Companies Act 2006 and EU adopted IFRSs. We also considered the parent company's compliance with licence conditions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA'), and relevant tax legislation.

We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion.

We focused on laws and regulations that could give rise to a material misstatement in the financial statements. There are inherent limitations in an audit of financial statements and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Other information

Other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- The information given in the strategic report and the report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The strategic report and the report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report. We have nothing to report in respect of the following matters in relation to which the Companies

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The financial statements are not in agreement with the accounting records and returns; or
- Certain disclosures of remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the responsibilities statement set out on page 48, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the and the parent ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting website at: **www.frc.org.uk/audits responsibilities** This description forms part of our auditor's report.

Other matters we are required to address

Following the recommendation of the audit committee, we were appointed by the Directors on 21 November 2016 to audit the financial statements for the year ending 31 December 2016 and subsequent financial periods. We were re-appointed in respect of the year ended 31 December 2018 by the members on 23 April 2018. The period of total uninterrupted engagement is 3 years, covering the years ending 31 December 2016 to 31 December 2018. The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group and we remain independent of the company in conducting our audit. Our audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Daniel Taylor (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor

55 Baker Street, London, UK
18 April 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Clear.Bank®

Financial Statements

For the year ended 31 December 2018

Consolidated Statement of Comprehensive Income

	Notes	**Year ended 31 Dec 2018 £'000**	Year ended 31 Dec 2017 £'000
Interest income	7	**178**	46
Fee income	7	**660**	3
Total income		**838**	49
Staff costs	9	**(14,439)**	(7,377)
Depreciation	12	**(620)**	(490)
Amortisation of intangibles	13	**(1,745)**	(334)
Other operating expenses		**(13,567)**	(9,396)
Operating expenses		**(30,371)**	(17,597)
Operating loss		**(29,533)**	(17,548)
Other gains and losses		**6**	-
Finance costs		**-**	(3)
Loss for the year before taxation		**(29,527)**	(17,551)
Income tax credit	11	**4,683**	3,652
Loss for the year after taxation		**(24,844)**	(13,899)
Other comprehensive income		**-**	-
Total comprehensive loss for the year		**(24,844)**	(13,899)

The accompanying notes form an integral part of these consolidated financial statements.

The total comprehensive income is all attributable to the equity holders.

Consolidated Statement of Financial Position

	Notes	**As at 31 Dec 2018 £'000**	As at 31 Dec 2017 £'000
Non-current assets			
Property, plant and equipment	12	**819**	1,082
Intangible assets	13	**13,924**	6,728
Financial investments		**-**	-
Deferred tax asset	15	**8,335**	3,652
		23,078	11,462
Current assets			
Cash and cash equivalents		**62,527**	27,062
Collateral placed with card schemes	16	**364**	315
Receivables and other assets	16	**1,487**	1,176
		64,378	28,553
Total assets		**87,456**	40,015
Current liabilities			
Other payables	17	**6,403**	4,367
Customer deposits		**44,145**	1,601
Total liabilities		**50,548**	5,968
Net assets		**36,908**	34,047
Capital and reserves			
Called up share capital	18	**-**	-
Share premium	18	**78,329**	53,458
Treasury shares		**(204)**	(204)
Share-based payment reserve		**3,301**	467
Retained losses		**(44,518)**	(19,674)
Total shareholders' funds		**36,908**	34,047

The accompanying notes form an integral part of these consolidated financial statements.

The financial statements were approved by the Board on 18 April 2019.

Charles McManus
Chief Executive Officer
18 April 2019

Marc Jenkins
Chief Financial Officer
18 April 2019

Company Statement of Financial Position

ClearBank Limited Company Number: 09736376

	Notes	As at 31 Dec 2018 £'000	As at 31 Dec 2017 £'000
Non-current assets			
Property, plant and equipment	12	**819**	1,080
Intangible assets	13	**13,418**	6,245
Financial investments		**-**	-
Investment in subsidiary undertakings	14	**-**	-
Deferred tax asset	15	**8,335**	3,652
		22,572	10,977
Current assets			
Cash and cash equivalents		**62,526**	27,005
Collateral placed with card schemes	16	**364**	315
Receivables and other assets	16	**2,194**	1,359
		65,084	28,679
Total assets		**87,656**	39,656
Current liabilities			
Other payables	17	**6,252**	4,477
Customer deposits		**44,145**	1,601
Total liabilities		**50,397**	6,078
Net assets		**37,259**	33,578
Capital and reserve			
Called up share capital	18	**-**	-
Share premium	18	**78,125**	53,254
Share-based payment reserve		**3,301**	467
Retained losses		**(44,167)**	(20,143)
Total shareholders' funds		**37,259**	33,578

The Company has taken exemption under Companies Act Section 408 (4) to not disclose the Company Statement of Comprehensive Income.

The accompanying notes form an integral part of these consolidated financial statements.

The financial statements were approved by the Board on 18 April 2019.

CA McManus

Charles McManus
Chief Executive Officer
18 April 2019

Marc Jenkins
Chief Financial Officer
18 April 2019

Consolidated Statement of Changes in Equity

	Share Capital £'000	Share Premium £'000	Treasury Shares £'000	Share-Based Payments Reserve £'000	Retained Losses £'000	Total Equity £'000
Balance at 1 January 2017	-	25,254	-	-	(5,775)	19,479
Loss for the year	-	-	-	-	(13,899)	(13,899)
Issue of share capital	-	28,204	-	-	-	28,204
Own shares acquired	-	-	(204)	-	-	(204)
Share-based payments	-	-	-	467	-	467
Balance at 31 December 2017	**-**	**53,458**	**(204)**	**467**	**(19,674)**	**34,047**
Loss for the year	-	-	-	-	(24,844)	(24,844)
Issue of share capital	-	24,871	-	-	-	24,871
Share-based payments	-	-	-	2,834	-	2,834
Balance at 31 December 2018	**-**	**78,329**	**(204)**	**3,301**	**(44,518)**	**36,908**

The accompanying notes form an integral part of these consolidated financial statements.

Company Statement of Changes in Equity

	Share Capital	Share Premium	Share-Based Payments Reserve	Retained Losses	Total Equity
	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2017	-	25,254	-	(5,775)	19,479
Loss for the year	-	-	-	(14,368)	(14,368)
Issue of share capital	-	28,000	-	-	28,000
Share-based payments	-	-	467	-	467
Balance at 31 December 2017	**-**	**53,254**	**467**	**(20,143)**	**33,578**
Loss for the year	-	-	-	(24,024)	(24,024)
Issue of share capital	-	24,871	-	-	24,871
Share-based payments	-	-	2,834	-	2,834
Balance at 31 December 2018	**-**	**78,125**	**3,301**	**(44,167)**	**37,259**

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Year ended 31 Dec 2018 £'000	Year ended 31 Dec 2017 £'000
Cash flows from operating activities		
Loss for the year after tax	**(24,844)**	(13,899)
Adjustments for non-cash movements		
Depreciation of property, plant and equipment	**620**	490
Loss on disposals of property, plant and equipment	**5**	-
Amortisation of intangibles	**1,745**	334
Costs of share issue	**-**	92
Share-based payment expense	**2,834**	467
Tax benefit	**(4,683)**	(3,652)
Operating cash flows before changes in working capital	**(24,323)**	(16,168)
Net changes in working capital		
(Increase) in collateral	**(49)**	(315)
(Increase) in receivables	**(311)**	(689)
Increase in payables	**1,620**	1,920
Increase in amounts due to customers	**42,544**	1,601
Net cash generated /(used) in operating activities	**19,481**	(13,651)
Cash flows used in investing activities		
Purchase of property, plant and equipment	**(320)**	(640)
Purchase of intangible assets	**(8,567)**	(5,030)
Net cash used in investing activities	**(8,887)**	(5,670)
Cash flows from financing activities		
Proceeds from issue of ordinary shares	**24,871**	27,908
Net cash from financing activities	**24,871**	27,908
Net increase in cash and cash equivalents	**35,465**	8,587
Cash and cash equivalents at beginning of the year	**27,062**	18,475
Cash and cash equivalents at end of the year	**62,527**	27,062

The accompanying notes form an integral part of these consolidated financial statements.

Notes to the Financial Statements

1. Basis of preparation

1.1. General information

These financial statements are the consolidated financial statements of ClearBank Limited (the 'Company') and its subsidiaries (together, the 'Group'). The separate financial statements of the Company are also reported. The Company together with its subsidiaries (refer to note 14) provide corporate banking services in the United Kingdom.

The Company is registered in England and Wales and incorporated under the Companies Act 2006. The address of the registered office is Level 29, The Gherkin, 30 St Mary Axe, London, EC3A 8EP.

1.2. Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board ('IASB'), as adopted by the European Union ('EU'), with interpretations issued by the IFRS Interpretations Committee ('IFRICs'), and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial statements are presented in pounds sterling, the functional currency of the Company and presentational currency of the Group, rounded to the nearest thousand pounds (£'000) except where otherwise indicated.

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

In accordance with Section 408 of the Companies Act 2006, the Company has taken advantage of the legal dispensation not to present its own Statement of Comprehensive Income or Income Statement. The amount of loss for the financial period dealt with in the financial statements of the Company is disclosed in the Company Statement of Changes in Equity.

1.3. Statement of compliance

These Company financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'). The Company has taken advantage of the following disclosure exemptions under FRS 101:

- The requirements of IAS 7 statement of cash flows;
- The requirements of paragraphs 30 and 31 of IAS 8 accounting policies, changes in accounting estimates and errors;
- The requirements of paragraph 17 of IAS 24 related party disclosures;
- The requirements in IAS 24 related party disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 *Impairment of Assets.*

The Directors have approved these disclosure exemptions for the Company.

1.4. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries which are entities controlled by the Company made up to 31 December each year.

Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect returns.

If facts and circumstances indicate that there are changes to one or more of the three elements of control listed above, the Company reassesses whether or not it controls an investee.

Subsidiaries are consolidated when the Company obtains control and are deconsolidated from the date that control ceases. Uniform accounting policies are applied consistently across the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

1.5. Going concern

The financial statements have been prepared on a going concern basis, as the Directors are satisfied that the Group will have adequate resources to continue in business for the foreseeable future (which has been taken as 12 months from the date of approval of the financial statements). In assessing going concern, the Directors have considered the current statement of financial position, the financial projections, longer-term strategy of the business and the capital and liquidity plans, including stress tests and plans for future capital injections. The Directors have also considered the minimum capital requirements set by the Prudential Regulation Authority (‘PRA’) and are satisfied that the Group will be able to meet its ongoing capital obligations.

The Company is the only cash generating unit within the Group.

2. Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to exercise judgement in applying accounting policies and make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. Critical accounting estimates and judgements are those that involve the most complex or subjective assessments and assumptions. Management uses its knowledge of current facts and circumstances and applies estimation and assumption setting techniques that are aligned with relevant actuarial and accounting guidance to make predictions about future actions and events. Actual results may differ significantly from those estimates.

The Board Audit Committee reviews the reasonableness of judgements and assumptions applied and the appropriateness of significant accounting policies adopted in the preparation of these financial statements.

The areas where judgements, estimates and assumptions have the most significant effect on the amounts recognised in the consolidated financial statements are discussed below:

2.1. Capitalisation of intangible assets

Development expenditure represents expenditure incurred in relation to the internal development of the banking platform to support the services and products of the Group. Management exercises judgement in determining which platform development costs meet the IAS 38 Intangible Assets criteria for capitalisation and lead to future economic benefits sufficient to recover the costs capitalised. This includes estimates as to the amount of time spent directly on development of new software or significant improvement of the existing systems. The capitalised assets are amortised over the useful economic lives of these assets.

2.2. Value added tax ('VAT')

Judgement is used in determining the percentage of VAT on taxable purchases that is recoverable.

During the year the Group took a prudent approach to provide for zero recoverability on VAT. This included adjustments to fixed assets and internally developed software to reflect the irrecoverable VAT as an increased asset cost. Depreciation and amortisation were also revised accordingly.

2.3. Deferred tax

The calculation and recognition of temporary differences resulting in deferred tax balances includes judgement as to the extent to which future taxable profits are available against which temporary differences can be utilised. Estimation of income taxes includes the assessment of recoverability of deferred tax assets. Deferred tax assets are only recognised to the extent they are considered more likely than not to be recoverable based on existing tax laws and forecasts of future taxable profits against which the underlying tax deductions can be utilised.

The Group's expectations as to the level of future taxable profits take into account the Group's long-term financial and strategic plans and anticipated future tax-adjusting items. In making this assessment, account is taken of business plans, the Board-approved operating plan and the expected future economic outlook, as well as the risks associated with future regulatory change. Further information can be found in Note 15.

2.4. Share-based payments

The fair value of the share awards is calculated using statistical models. The inputs to these models require management judgement to estimate the probability and timings of events taking place in the future. The significant inputs used in the models include the exercise price, share price, expected volatility, expected life and the risk-free rate. The share-based payment recognised can be materially affected by these assumptions. Further information on the key assumptions can be found in Note 22.

2.5. Impairment of financial assets at amortised cost

Under IFRS 9, a forward-looking impairment model, based on expected credit losses ('ECLs'), applies to financial assets held at amortised cost. ECLs are probability-weighted estimates of credit losses. In calculating this ECL allowance, the Group considers information about past events and current conditions as well as supportable information about future events and economic conditions.

In addition, for loans to which the three-stage general model of impairment is applied, judgement is required to determine which indicators represent a significant increase in credit risk and thereby trigger the recognition of a lifetime ECL allowance.

3. New standards, amendments to standards and interpretations adopted in the 2018 financial statements

The Group adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers for the first time from 1 January 2018. Although significant standards, they did not have a material impact on the Group. The majority of the Group's financial assets and liabilities continue to be measured at fair value through profit or loss ('FVTPL') after the implementation of IFRS 9. In relation to IFRS 15 the Group was already largely compliant in the way it recognises fee income. The impact of adopting these two new standards is outlined in Note 5: Changes in accounting policies.

3.1. Other standards

There are a number of amendments to IFRS that have been issued by the International Accounting Standards Board ('IASB') that become mandatory during 2018 or in a subsequent accounting period. The Group has evaluated these changes and none are expected to have a significant impact on the consolidated financial statements.

4. Future standards, amendments to standards and interpretations not early adopted in these financial statements

Certain new standards, interpretations and amendments to existing standards have been published by the IASB that are mandatory for the Group's annual accounting periods beginning after 1 January 2019. The Group has not early adopted these standards, amendments and interpretations. The new standards that will have a significant impact on the Group are summarised below:

4.1. IFRS 16 Leases

IFRS 16 will be effective for accounting periods beginning on or after 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019 and replaces IAS 17 Leases and related interpretations. This introduces a comprehensive model for the identification of lease arrangements and accounting treatment for both lessors and lessees, which distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. There is substantially no change to the accounting requirements for lessors. IFRS 16 requires operating leases, where the Group is the lessee, to be included on the Group's statement of financial position, recognising a right-of-use ('ROU') asset and a related lease liability representing the present value obligation to make lease payments. Certain optional exemptions are available under IFRS 16 for short-term (less than 12 months) and low-value leases. The ROU asset will be assessed for impairment annually and depreciated on a straight-line basis, adjusted for any remeasurements of the lease liability. The lease liability will subsequently be adjusted for lease payments and interest, as well as the impact of any lease modifications. IFRS 16 also requires extensive disclosures detailing the impact of leases on the Group's financial position and results.

The adoption of IFRS 16 will result in a significant gross-up of the Group's reported assets and liabilities on the statement of financial position. The rental expense which is currently recognised within rent expense in other operating costs in the Group's statement of comprehensive income will no longer be incurred and instead depreciation expense (of the ROU asset) and interest expense (unwind of the discounted lease liability) will be recognised. This will also result in a different total annual expense profile under the new standard (with the expense being front-loaded in the earlier years of the lease term as the discount unwind on the lease liability reduces over time). The Group has considered the available transition options and has decided to apply modified retrospective option 1 and the impact will be a recognition of a ROU asset of £2.9 million and lease liability of £2.5 million.

4.2. Other

The IASB issued IFRIC 23 Uncertainty over Income Tax Treatments in June 2017. This Interpretation sets out how to determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates (collectively referred to as 'accounting tax position') where there is uncertainty over treatment. The Group is currently evaluating the impact of the adoption of this interpretation. This revised requirement is not expected to have a significant impact on the Group. IFRIC 23 is effective for the Group for the year commencing 1 January 2019.

Although there are other new standards, interpretations and amendments to existing standards that have been published, they are not expected to have a significant impact on the consolidated financial statements of the Group.

5. Changes in accounting policies

Except for the below, the Group has consistently applied the accounting policies as set out in note 6 to all periods presented in these consolidated financial statements.

As outlined in note 3, the Group has adopted IFRS 9 Financial instruments (July 2014) and IFRS 15 Revenue from Contracts with Customers from 1 January 2018. The adoption of IFRS 15 has not resulted in any material impact on the Group's existing practises and accounting policies, except for the incorporation of new terminology introduced by the standard. The adoption of IFRS 9 during the year has resulted in changes to accounting policies and a reclassification of financial instruments. There was no adjustment to opening retained earnings required for moving to a forward-looking impairment model, based on ECLs.

5.1. IFRS 9 Financial Instruments

Transition

The Group will adopt IFRS 9 by recognising the cumulative effect of initially applying IFRS 9 as an adjustment to the opening balance of equity at 1 January 2018. The Group has taken advantage of the exemption in IFRS 9 from restating prior periods in respect of IFRS 9's classification and measurement (including impairment) requirements, as such comparative information will not be adjusted and will continue to be reported under IAS 39.

Financial instruments (other than derivatives)

Financial instruments cover a wide range of financial assets, including financial investments, trade receivables, cash and cash equivalents and financial liabilities, including investment contract liabilities, trade payables, and borrowings.

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes party to the contractual provisions of the instrument. The Group derecognises a financial asset when the contractual rights to receive cash flows have expired or been forfeited by the Group. A financial liability is derecognised when, and only when the liability is extinguished.

Classification and measurement of financial assets and financial liabilities

Initial measurement

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at fair value through the profit or loss ('FVTPL'), transaction costs that are directly attributable to its acquisition.

Subsequent measurement

Under IFRS 9, for the purpose of subsequent measurement, a financial asset is classified, on initial recognition, as measured at: amortised cost; fair value through other comprehensive income ('FVOCI')-debt instrument; FVOCI-equity investment; or FVTPL. The classification of financial assets depends on (i) the purpose for which they were acquired, (ii) the business model in which a financial asset is managed, and (iii) its contractual cash flow characteristics. This classification determines the subsequent measurement basis.

The following accounting policies apply to the subsequent measurement of financial assets.

Category	Accounting policies
Financial assets at FVTPL	These financial assets are subsequently measured at fair value. Net gains and losses, including interest and dividend income, are recognised in statement of comprehensive income.
Amortised cost	These financial assets are subsequently measured at amortised cost using the effective interest rate method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in statement of comprehensive income. Any gain or loss on de-recognition is recognised in statement of comprehensive income.
Debt investments at FVOCI	These financial assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in statement of comprehensive income. Other net gains and losses are recognised in OCI. On de-recognition, gains and losses accumulated in OCI are reclassified to statement of comprehensive income.
Equity investments at FVOCI	These financial assets are subsequently measured at fair value. Dividends are recognised as income in statement of comprehensive income unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to statement of comprehensive income.

Business model assessment

The Group assesses the objective of a business model in which an asset is held at a portfolio level because this best represents the way the business is managed and information is reported to management. The assessment considers the stated portfolio policies and objectives. It is important to determine whether management's strategy in holding the financial asset is to earn contractual interest revenue, for example to match the duration of financial assets to the duration of liabilities that are funding those assets or to realise cash flows through the sale of the assets. The frequency, volume and timing of sales in prior periods may be reviewed, along with the reasons for such sales and expectations about future sales activity. This helps management determine whether financial assets should be measured at fair value.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets. Reclassifications are expected to occur infrequently.

Amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest ('SPPI') on the principal amount outstanding on specified dates.

For the purposes of this assessment, principal is defined as the fair value of the financial asset on initial recognition. Interest is defined as consideration of the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

Financial assets at FVOCI

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise to cash flows that are SPPI on the principal amount outstanding on specified dates.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

Financial assets at FVTPL

All other financial assets that are not measured at amortised cost or FVOCI are classified as measured at FVTPL. In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI, at FVTPL, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets that are held for trading or whose performance is evaluated on a fair value basis are measured at FVTPL because this best reflects the way they are managed and they do not satisfy the qualifying conditions for the other two business models.

The Group's interests in equity securities are designated at FVTPL, as they are part of groups of financial assets which are managed and whose performance is evaluated on a fair value basis. These investments are recognised at fair value initially and subsequently, with changes in fair value recognised in investment return in the consolidated statement of comprehensive income.

The fair value of quoted financial investments are based on the value within the bid-offer spread that is most representative of fair value. If the market for a financial investment is not active, the Group establishes fair value by using valuation techniques such as recent arm's length transactions, reference to similar listed investments, discounted cash flow or option pricing models.

The Group recognises purchases and sales of financial investments on trade date, which is the date that the Group commits to purchase or sell the assets. The costs associated with investment transactions are included within expenses in the statement of comprehensive income.

Loans and advances to customers

Loans and advances to customers are recognised when cash is advanced to customers and consist of overdrafts and overdrawn balances. These are initially measured at fair value and subsequently measured at amortised cost less and are subject to the impairment requirements outlined below. The daily fee charged on overdrafts does not contain an interest element so no effective interest rate method has been applied. The fee charged on overdrafts is recognised within fee income.

The Group does not currently have any loans and advances to customers.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits that are readily convertible to a known amount of cash. All cash and cash equivalents are classified as at amortised cost which means they are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method and are subject to the impairment requirements outlined overleaf.

Financial liabilities and equity

Management also determines the classification of financial liabilities at initial recognition. The Group classifies its financial liabilities, as measured at either amortised cost or FVTPL.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. Financial liabilities are measured at amortised cost using the effective interest method.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Trade payables and receivables

Due to the short-term nature of trade payables and receivables, their carrying amount is considered to be the same as their fair value.

Investments in subsidiaries

Parent company investments in subsidiary undertakings are initially stated at cost. Subsequently, investments in subsidiary undertakings are stated at cost less provision for impairment. An investment in a subsidiary is deemed to be impaired when its carrying amount is greater than its estimated recoverable amount, and there is evidence to suggest that the impairment occurred subsequent to the initial recognition of the asset in the financial statements. All impairments are recognised in the statement of comprehensive income as they occur.

Impairment of financial assets

IFRS 9 introduces an expected loss accounting model for credit losses that differs significantly from the incurred loss model under IAS 39 and results in earlier recognition of credit losses.

The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Financial assets at amortised cost include trade receivables, cash and cash equivalents and corporate debt securities.

Under IFRS 9, credit loss allowances are measured on each reporting date according to a three stage ECL impairment model.

Performing financial assets

Stage 1

From initial recognition of a financial asset to the date on which an asset has experienced a significant increase in credit risk relative to its initial recognition, a stage 1 loss allowance is recognised equal to the credit losses expected to result from its default occurring over the earlier of the next 12 months or its maturity date ('12-month ECL').

Stage 2

Following a significant increase in credit risk relative to the initial recognition of the financial asset, a stage 2 loss allowance is recognised equal to the credit losses expected from all possible default events over the remaining lifetime of the asset ('Lifetime ECL').

The assessment of whether there has been a significant increase in credit risk requires considerable judgment, based on the lifetime probability of default ('PD'). Stage 1 and 2 allowances are held against performing loans; the main difference between stage 1 and stage 2 allowances is the time horizon. Stage 1 allowances are estimated using the PD with a maximum period of 12 months, while stage 2 allowances are estimated using the PD over the remaining lifetime of the asset.

Impaired financial assets

Stage 3

When a financial asset is considered to be credit-impaired, the allowance for credit losses ('ACL') continues to represent lifetime expected credit losses, however, interest income is calculated based on the amortised cost of the asset, net of the loss allowance, rather than its gross carrying amount.

Application of the new impairment model

The Group applies IFRS 9's new ECL model to the following financial assets that are not measured at FVTPL:

- Trade receivables and contract assets, to which the simplified approach prescribed by IFRS 9 is applied. This approach requires the recognition of a Lifetime ECL allowance on day one;
- Loans and advances;
- Loan commitments issued.

ECLs are a probability-weighted estimate of credit losses. ECLs for financial assets that are not credit-impaired at the reporting date are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due in accordance with the contract and the cash flows that the Group expects to receive). ECLs for financial assets that are credit-impaired at the reporting date are measured as the difference between the gross carrying amount and the present value of estimated future cash flows. ECLs are discounted at the effective interest rate of the financial asset. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

The measurement of ECLs considers information about past events and current conditions, as well as supportable information about future events and economic conditions. The Group has revised its impairment methodology for estimating the ECL, taking into account forward-looking information in determining the appropriate level of allowance. In addition, it has identified indicators and set up procedures for monitoring for significant increases in credit risk.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and any debt financial assets carried at FVOCI are credit-impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes events such as significant financial difficulty of the issuer, a breach of contract such as a default or past due event that the Group would not otherwise consider.

Presentation of impairment

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is recognised in OCI, instead of reducing the carrying amount of the asset.

Write-off

Financial assets are written off (either partially or in full) when there is no realistic prospect of the amount being recovered. This is generally the case when the Group concludes that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Hedge accounting

IFRS 9 reforms the approach to general hedge accounting, aligning the accounting treatment with an entity's risk management activities. The Group does not use hedge accounting and so this element of the new standard is not applicable.

IFRS 9 Transition

Assessments have been carried out on the basis of the facts and circumstances that existed at the date of initial application to determine the business model within which a financial asset is held and to establish the designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except that, in accordance with the transitional provisions in IFRS 9, comparative information for prior periods has not been restated. Accordingly, all comparative period information is presented in accordance with the Group's previous accounting policies. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1 January 2018.

Classification and measurement on adoption

For the Group, there is no financial impact on adopting IFRS 9 for changes in the measurement basis for financial assets and liabilities and consequently no adjustment to opening retained earnings at 1 January 2018. There has however been a change to classification terminology for the Group's main financial instruments.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018.

	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 £'000	New carrying amount under IFRS 9 £'000
Financial assets					
Receivables and other assets	(a)	Loans and receivables	Amortised cost	599	599
Cash and cash equivalents		Loans and receivables	Amortised cost	27,062	27,062
Total financial assets				**27,661**	**27,661**

(a) Receivables and other assets that were classified as loans and receivables under IAS 39 are now classified at amortised cost.

See note 20 for further information.

IFRS 9 introduces a third classification and measurement model, fair value through other comprehensive income ('FVOCI'), which was not applicable to the Group on transition.

Impairment on adoption

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of IFRS 9's impairment requirements at 1 January 2018 does not result in an additional impairment allowance. The only assets on the Group's statement of financial position to which the expected loss model applies are fees receivables, which do not have a history of credit risk or expected future recoverability issues. We have assessed the expected lifetime credit losses for these assets by applying the Group's internal risk modelling weightings for both likelihood of loss and exposure to loss. The Group has determined that the application of IFRS 9's impairment requirements at 1 January 2018 does not result in an additional impairment allowance as follows.

	£'000
Closing retained losses at 31 December 2017 under IAS 39	19,674
Opening retained losses at 1 January 2018 under IFRS 9	**19,674**

5.2. IFRS 15 Revenue from Contracts with Customers

As indicated in note 3, the Group has adopted IFRS 15 Revenue from Contracts with Customers as issued by the IASB in May 2014 using the cumulative effect method by recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Accordingly, the comparative information presented for 2017 has not been restated, i.e. it is presented, as previously reported, under IAS 18 Revenue.

Under IFRS 15, revenue is recognised when a customer obtains control of goods or services. Determining the timing of the transfer of control, at a point in time or over time, requires judgement. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised.

The Group performed an assessment to determine the impact of the new standard on the Group's statement of financial position. It considered the five-step analysis prescribed by the standard, taking into account the different types of contracts it has with its customers, the corresponding types of services provided to customers and when these service obligations are satisfied. In addition, the Group considered the types of fee income generated across all products from the contracts with its customers and when the fee income is recognised – see the table below for further information. The assessment concluded that given the straightforward nature of the Group's revenue streams and the absence of significant judgement required in determining the timing of transfer of control of services, the adoption of IFRS 15 would not result in the Group having to change the nature or timing of satisfaction of performance obligations and significant payment terms. Consequently, the cumulative impact of adoption was £nil and as a result no adjustment to the Group's opening retained earnings as at 1 January 2018 has been recognised.

Fee income represents the fair value of services provided, net of value-added tax and consists of fees charged to clients in respect of banking services. The fees may be for fixed amounts or vary with the volume of transactions or number of active accounts.

Fixed fee income

Fixed fee income is recognised as revenue over the period the customer gains control of the agency banking services provided and is billed on a monthly basis in arrears.

Variable fee income

Variable fee income comprises fees on active accounts and variable transaction fees. Account fees charged depend on the number of active and virtual accounts and are billed in arrears in the following month and are generally deducted from the customer's deposit balance. Account fee income is recognised as revenue over the period the customers' account services are provided.

Variable fee income is recognised as revenue at the point in time the customer uses the services provided such as transactional and agency banking services and variable monthly charges for various add-ons such as payment remediations. These are billed in arrears in the following month and are generally deducted from the customer's deposit balance.

Timing of payment

Where fees are received in advance of providing the contracted services, the income is deferred and recognised as a contract liability on the statement of financial position and released to the statement of comprehensive income as services are provided over the relevant contracted period.

Where fees are received in arrears of providing the contracted services, the income is accrued in the statement of comprehensive income as services are provided over the relevant contracted period and recognised as accrued income on the statement of financial position. The accrued income is derecognised from the statement of financial position when the fees are received.

The table below summarises the types of fee income generated by the Group.

Type of fee	Description	Nature of change in accounting policy
Fixed and variable monthly fees	Periodic fee income charged according to the underlying contract terms. These are recognised on provision of the transaction.	IFRS 15 did not have a significant impact on the Group's accounting policies.
Transactional and agency banking fees	Fees in respect of the number of banking products and services transacted with the customer. Fee income is recognised at the time the product or service is executed.	
Implementation fees	This relates to initial fees taken on signing of contracts and recognised on receipt over the life of the contract.	

The introduction of IFRS 15 did not result in changes to the Group's significant accounting policies, except to update them for new terminology introduced by the new standard for contract costs (previously known as deferred acquisition costs for non-insurance contracts), contract assets, and contract liabilities (previously known as deferred fee income from contracts with customers).

6. Significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements, as set out below, have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise stated.

6.1. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

Interest income and expense are recognised in the statement of comprehensive income for all interest-bearing financial instruments using the effective interest method, except for those classified at fair value through profit or loss. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the financial instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability, including early redemption fees, and related penalties; and premiums and discounts that are an integral part of the overall return. Direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument are also taken into account.

Fee income which is not an integral part of the effective interest rate is generally recognised when the service has been provided.

6.2. Tax

Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to income tax payable in respect of previous years. Current tax is charged or credited to the statement of comprehensive income, except when it relates to items recognised directly in equity or in other comprehensive income.

Deferred tax

Deferred taxes are calculated according to the statement of financial position method, based on temporary differences between the tax base of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset is realised.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred tax is charged or credited to the statement of comprehensive income, except when it relates to items recognised directly in equity or in other comprehensive income. In certain circumstances, as permitted by accounting guidance, deferred tax balances are not recognised. In particular, where the liability relates to the initial recognition of goodwill, or transactions that are not a business combination and at the time of their occurrence affect neither accounting nor taxable profit. Note 15 includes further detail of circumstances in which the Group does not recognise temporary differences.

6.3. Goodwill and intangible assets

The recognition of goodwill arises on the acquisition of a business and represents the premium paid over the fair value of the Group's share of the identifiable asset and liabilities acquired at the date of acquisition. Intangible assets include both purchased intangible assets initially recognised as part of a business combination and internally generated assets, such as software development costs related to amounts recognised for in-house systems development.

Goodwill and goodwill impairment

Goodwill arising on the Group's investments in subsidiaries is shown as a separate asset, while that on associates where it arises is included within the carrying value of those investments. Goodwill is recognised as an asset at cost at the date that control is achieved (the acquisition date) and is subsequently measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to annual impairment reviews.

Goodwill is allocated to one or more cash-generating units (CGUs) expected to benefit from the synergies of the combination, where the CGU represents the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. Goodwill is reviewed for impairment at least once annually, as a matter of course even if there is no indication of impairment, and whenever an event or change in circumstances occurs which indicates a potential impairment. For impairment testing, the carrying value of goodwill is compared to the recoverable amount, which is the higher of value-in-use and the fair value less costs of disposal. Any impairment loss is recognised immediately in statement of comprehensive income and is not subsequently reversed.

On disposal of an operation within a group of CGUs to which goodwill has been allocated, the goodwill associated with that operation is included in the carrying amount of the operation when determining the gain or loss on disposal. It is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Intangible assets acquired as part of a business combination

Intangible assets acquired as part of a business combination are recognised where they are separable and can be measured reliably. Acquired intangible assets consist primarily of contractual relationships such as customer relationships and distribution channels. Such items are capitalised at their fair value, represented by the estimated net present value of the future cash flows from the relevant relationships acquired at the date of acquisition. Brands and similar items acquired as part of a business combination are capitalised at their fair value.

Subsequent to initial recognition acquired intangible assets are measured at cost less amortisation and any recognised impairment losses. Amortisation is provided at rates calculated to write off the cost or valuation less estimated residual value, using a straight-line method over their estimated useful lives. The amortisation period is re-evaluated at least at the end of each financial year end.

Internally developed software

There are a number of factors taken into account when considering whether internally developed software meets the recognition criteria in IAS 38 Intangible assets. Where for example a third-party provider retains ownership of the software, this will not meet the control criterion in the standard (i.e. the power to obtain benefits from the asset) and the costs will be expensed as incurred.

Where it is capitalised, internally developed software is held at cost less accumulated amortisation and impairment losses. Such software is recognised in the statement of financial position if, and only if, it is probable that the relevant future economic benefits attributable to the software will flow to the Group and its cost can be measured reliably.

Costs incurred in the research phase are expensed, whereas costs incurred in the development phase are capitalised, subject to meeting specific criteria, as set out in the relevant accounting guidance, the main one being that future economic benefits can be identified as a result of the development expenditure. Amortisation is charged to statement of comprehensive income on a straight-line basis over the estimated useful life of the relevant software.

Amortisation is charged on the following basis:

Banking software	20% straight line
Software licences	Licence period

Subsequent expenditure

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Impairment testing for intangible assets

For intangible assets with finite lives, impairment charges are recognised where evidence of impairment is observed. If an indication of impairment exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount is calculated as the higher of fair value less costs to sell and value-in-use. If the recoverable amount of an intangible asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense in the statement of comprehensive income immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

6.4. Property, plant and equipment

Property, plant and equipment consists principally of computer equipment, office equipment, fixtures and fittings, and is stated at cost less accumulated depreciation and any recognised impairment losses. Cost includes the original purchase price of the asset and the costs of bringing the asset to its working condition for its intended use. Depreciation is charged to statement of comprehensive income on a straight-line basis to write down the cost of the asset to its residual value over its estimated useful life.

Depreciation is charged on the following basis:

Computer equipment	33% straight line
Office equipment	33% straight line
Fixture and fittings	20% straight line

Management determines useful lives and residual values for assets when they are acquired, based on experience of similar assets and taking into account other relevant factors such as any expected changes in technology. The Group assesses and adjusts (if required) the useful life, residual value and depreciation method for property, plant and equipment on an annual basis.

Items of property, plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows. Where the carrying amount of an asset is greater than its estimated recoverable amount, which represents the higher of the asset's fair value less costs of disposal and value in use, it is written down immediately to its recoverable amount and an impairment loss is recognised in the statement of comprehensive income. Impaired non-financial assets, except goodwill, are reviewed for possible reversal of the impairment at each reporting date. On de-recognition of an item of equipment, any gain or loss on disposal, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is included in statement of comprehensive income in the period of the de-recognition. Items of property and equipment that are not owned by the Group, but are held under lease arrangements are accounted for in accordance with the accounting policy on leases.

6.5. Foreign currency translation

Functional and presentation currency

Items included in the financial statements are measured using pounds Sterling, the currency of the UK, which is the primary economic environment in which the entity operates ('the functional currency').

The financial statements are presented in pounds Sterling, which is the presentation currency.

Transactions and balances

Transactions in a foreign currency are translated into the functional currency using the exchange rates prevailing at the date of the transaction.

Monetary items denominated in a foreign currency are translated using the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign currency differences arising on translation are recognised in other income. Gains and losses arising from foreign currency transactions offered to customers are also recognised in other income.

6.6. Leases

Operating leases

Leases where the lessor retains the risks and rewards of ownership of the underlying asset are classified as operating leases. Where the Group is the lessee, payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the term of the lease.

Finance leases

Lease agreements where the Group substantially accepts the risks and rewards of ownership of the leased asset are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Lease payments are allocated between the liability and finance charges so as to achieve a constant interest rate on the outstanding balance of the liability. Finance lease obligations, net of finance charges, are included in liabilities. The interest element of the finance cost is charged to statement of comprehensive income over the lease period under the effective interest method. Where applicable, assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

See Note 4.1 IFRS 16 Leases for further information in relation to the application of the standard from 1 January 2019.

6.7. Financial assets and liabilities

The following accounting policy applies to financial assets and liabilities for the year ending 31 December 2017 at which date IAS39 Financial Instruments: Recognition and Measurement was in force, for further details see note 5.1.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ('FVTPL'), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial liabilities are measured at amortised cost unless they are required to be measured at FVTPL or the Group has opted to measure a liability at FVTPL.

Certain liabilities are required to be measured at FVTPL. These include all derivatives (such as foreign currency forwards or interest rate swaps) and the Group's own liabilities that it considers to be held for trading purposes. Financial liabilities that are required to be measured at FVTPL (as distinct from those that the Group has chosen to measure at FVTPL, which is discussed below) continue to have all fair value movements, including those related to changes in the credit risk of the liability, recognised in profit or loss.

The amortised cost of a financial asset or financial liability is defined as the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the 'effective interest method' of any difference between that initial amount and the amount payable at maturity and minus any reduction (directly or using an allowance account) for impairment or un-collectability.

6.8. Cash and cash equivalents

The Group considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The cash and cash equivalents on the statement of financial position consists solely of cash.

Cash is recognised initially at the amount received by the Group or the amount received into the Group's bank account. Cash equivalents are initially recognised at cost, which is the fair value of the consideration given to acquire the cash equivalent.

6.9. Collateral pledged and received

The Group has pledged a cash collateral for the Visa card payment scheme. This is identified separately in the statement of financial position and not included as a component of cash and cash equivalents.

The Group receives and accepts collateral in the form of cash and is recognised when placed with the Group. The cash is held in a Mandated Minimum Balance ('MMB') account and is a requirement of becoming a customer with the bank. The MMB account is held separately from other operational customer funds and is held throughout the term of the contract. The collateral received from customers is disclosed as part of deposits from customers in the statement of the financial position.

6.10. Receivables and payables

Due to the short-term nature of trade payables and receivables, their carrying amount is considered to be the same as their fair value.

6.11. Deposits from customers

Deposits from customers are initially measured at fair value, which is normally the proceeds received net of any directly attributable transaction costs incurred. Subsequent measurement is at amortised cost, using the effective interest rate method. Amounts represent cash held on account to support customer transactions and the MMB balance. A corresponding asset in connection to these amounts is maintained within "cash and cash equivalents".

6.12. Investment in subsidiaries

In the Company accounts, investment in subsidiaries are stated at cost less, where appropriate, provisions for impairment. The carrying cost is reviewed at each statement of financial position date by reference to the income that is projected to arise there from. At 31 December 2018, there were no income streams projected to arise from the investment and as a result, it was fully impaired.

6.13. Share capital

Equity instruments

Shares are classified as equity instruments when there is no contractual obligation to deliver cash or other assets to another entity on terms that may be unfavourable. The value of the Company's share capital consists of the number of ordinary shares in issue multiplied by their nominal value. The difference between the proceeds received on issue of the shares and the nominal value of the shares issued is recorded in share premium.

Share issue costs

Incremental external costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds of the issue and disclosed where material.

Shares held by trusts

Shares in the parent company that are held by the Employee Benefit Trust ('EBT') are treated as 'own shares' or Treasury shares. The EBT purchases shares in the parent company for delivery to employees under employee incentive plans. Purchased shares are recognised as a deduction from equity at the price paid for them.

Treasury shares

Where the Company or its subsidiaries purchase the Company's share capital or obtain rights to purchase its share capital, the consideration paid (including any attributable transaction costs net of income taxes) is shown as a deduction from total shareholders' equity. Gains and losses on own shares are charged or credited to the treasury share account in equity.

6.14. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, it's carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Where some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that the reimbursement will be received, and the amount receivable can be measured reliably.

6.15. Impairment of non-financial assets

Non-financial assets are assessed for indications of impairment at each reporting date, or more frequently where required by events or changes in circumstances. If indications of impairment are found, these assets are subject to an impairment review. The impairment review compares the carrying value of the assets with their recoverable amount, which are defined as the higher of the fair value less costs to sell and their value in use. Fair value less costs to sell is the amount at which the asset could be sold in a binding agreement in an arm's length transaction. Value in use is calculated as the discounted cash flows generated as a result of the asset's continued use including those generated by its ultimate disposal, discounted at a market rate of interest on a pre-tax basis.

Where impairments are indicated, the carrying values of fixed assets are written down by the amount of the impairment and the charge is recognised in the statement of comprehensive income in the period in which it occurs. A previously recognised impairment charge on an asset may be reversed in full or in part through the statement of comprehensive income where a change in circumstances leads to a change in the estimates used to determine its recoverable amount. The carrying value will only be increased to the value at which it would have been held had the impairment not been recognised.

6.16. Segmental reporting

All of the Group's activities are in the United Kingdom. The Group incorporated a company in Republic of Ireland, within the year. As there are currently no trading activities in this company, no segmental analysis is presented on an operating or geographical basis.

6.17. Employee benefits

Defined contribution pension obligation

The Group operates a defined contribution scheme which has been established for eligible employees of the Group. The Group makes contributions to members' pension plans but has no further payment obligations once the contributions have been paid.

Under a defined contribution plan, the Group's legal or constructive obligation is limited to the amount it agrees to contribute to a pension fund and there is no obligation to pay further contributions if the fund does not hold sufficient assets to pay benefits. Contributions in respect of defined contribution schemes for current service are expensed in the statement of comprehensive income as staff costs and other employee-related costs when incurred.

Employee share-based payments

The Company operates equity-settled share-based remuneration plans for its employees. This involves an award of shares or options in the Group. None of the Group's plans are cash-settled.

The Company accounts for these plans in accordance with the requirements of IFRS 2. All goods and services received in exchange for the grant of any share-based payment are measured at their fair values.

Where employees are rewarded using share-based payments, the fair value of employees' services is determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions).

All share-based remuneration is ultimately recognised as an expense in the statement of comprehensive income with a corresponding credit to a share-based payment reserve in equity. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any adjustment to cumulative share-based compensation resulting from a revision is recognised in the current period. The number of vested options ultimately exercised by holders does not affect the expense recorded in any period.

Upon exercise of share options, the proceeds received, net of any directly attributable transaction costs, are allocated to share capital up to the nominal (or par) value of the shares issued with any excess being recorded as share premium.

7. Income

Net interest income

	Year ended 31 Dec 2018 £'000	Year ended 31 Dec 2017 £'000
Interest receivable on cash and cash equivalents	**277**	46
Interest payable on customer deposits	**(99)**	-
Total net interest income	**178**	46

Net fee income

Net fee income represents fees receivable from transactional and agency banking services provided to customers less fee expenses. Net fee income relates to services provided to customers in the UK and is stated net of value added tax.

	Year ended 31 Dec 2018 £'000	Year ended 31 Dec 2017 £'000
Fee income	**746**	3
Fee expenses	**(86)**	-
Net fee income	**660**	3
Timing of revenue recognition		
Over time	**719**	3
At a point in time	**27**	-
Total	**746**	3

8. Loss for the year

Loss for the year has been arrived at after charging:

	Year ended 31 Dec 2018 £'000	Year ended 31 Dec 2017 £'000
Staff costs	**14,439**	7,377
Professional fees	**4,130**	3,340
Depreciation	**620**	490
Amortisation of intangibles	**1,745**	334
Loss on foreign exchange	**5**	18
VAT	**2,173**	1,759

Strategic Report
Governance
Financial Statements

9. Staff costs

The aggregate remuneration of employees' and Directors' during the year was:

	Year ended 31 Dec 2018 £'000	Year ended 31 Dec 2017 £'000
Salaries and wages	**9,579**	5,809
Social security costs	**1,223**	802
Retirement obligations	**891**	299
Share-based payments	**2,746**	467
Total staff costs	**14,439**	7,377

Employee numbers

The average number of persons employed by the Group (including Directors) during the year was:

	Year ended 31 Dec 2018 £'000	Year ended 31 Dec 2017 £'000
Executives[1]	**12**	5
Legal and Regulatory	**7**	2
Risk and Compliance	**11**	6
Programme management	**12**	8
Sales	**13**	5
Finance and Treasury	**12**	6
Technology	**47**	27
Human Resources and Administration	**7**	6
Operations	**24**	9
Internal Audit	**3**	1
Total average number of employees during the year	**148**	75

[1] Includes Non-Executive Directors

10. Auditors' remuneration

Included in operating expenses are fees paid to the Group's auditors. These can be categorised as follows (excluding VAT):

	Year ended 31 Dec 2018 £'000	Year ended 31 Dec 2017 £'000
Fees for audit services		
Fees for audit of the Group's financial statements	**105**	32
Fees for audit of the Company's subsidiary financial statements	**14**	6
Total audit fees	**119**	38
Fees for non-audit services		
Other non-audit services	**5**	14
Total Group auditors' remuneration	**124**	52

11. Tax

This note analyses the income tax credit recognised in statement of comprehensive income for the year and the various factors that have contributed to the composition of the credit.

a) Tax credited to the statement of comprehensive income

The total tax credit for the year comprises:

	Year ended 31 Dec 2018 £'000	Year ended 31 Dec 2017 £'000
Current tax		
Current tax on income for the year	**-**	-
Adjustments in respect of prior years	**-**	-
Total current tax	**-**	-
Deferred tax		
Origination and reversal of timing differences	**5,257**	3,290
Adjustments in respect of prior years	**(21)**	845
Effect on deferred tax of changes in tax rates	**(553)**	(483)
Total tax credited to Statement of Comprehensive Income	**4,683**	3,652

b) Reconciliation of the total income tax credit

The tax credit shown in the Statement of Comprehensive Income differs from the tax credit that would apply if all accounting losses had been taxed at the UK corporation tax rate.

A reconciliation between the tax credit and the accounting loss multiplied by the UK corporation tax rate for the years ended 31 December 2018 and 2017 is as follows:

	Year ended 31 Dec 2018 £'000	Year ended 31 Dec 2017 £'000
Loss on ordinary activities before tax	**(29,527)**	(17,551)
Tax at UK standard rate of 19% (2017: 19.25%)	**5,610**	3,378
Effects of:		
Adjustments in respect of prior years	**(21)**	-
Non-deductible expenses	**(193)**	(87)
Current year losses for which no deferred tax was recognised	**(106)**	(2)
Effect of rate changes	**(553)**	(483)
Other timing differences on which deferred tax was not previously recognised	**-**	845
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(54)**	-
Utilisation of losses on which no deferred tax was previously recognised	**-**	1
Total tax credited to Statement of Comprehensive Income	**4,683**	3,652

There are no material uncertainties within the calculation of corporation tax. The tax provisions are based on tax legislations in the relevant jurisdictions and have not required any judgements or material estimates.

12. Property, plant and equipment

Group

	Computer Equipment £'000	Office Equipment £'000	Total £'000
Cost			
As at 1 January 2017	994	1	995
Additions	598	42	640
As at 31 December 2017	**1,592**	**43**	**1,635**
Additions	300	20	320
Transfer from intangible assets	42	-	42
Disposals	(6)	-	(6)
As at 31 December 2018	**1,928**	**63**	**1,991**
Accumulated depreciation			
As at 1 January 2017	63	-	63
Depreciation charge for the year	479	11	490
As at 31 December 2017	**542**	**11**	**553**
Depreciation charge for the year	604	16	620
Disposals	(1)	-	(1)
As at 31 December 2018	**1,145**	**27**	**1,172**
Net book value			
As at 31 December 2018	**783**	**36**	**819**
As at 31 December 2017	1,050	32	1,082

12. Property, plant and equipment (continued)

Company

	Computer Equipment £'000	Office Equipment £'000	Total £'000
Cost			
As at 1 January 2017	986	1	987
Additions	611	29	640
As at 31 December 2017	**1,597**	**30**	**1,627**
Additions	300	22	322
Transfer from intangible assets	42	-	42
Disposals	(6)	-	(6)
As at 31 December 2018	**1,933**	**52**	**1,985**
Accumulated depreciation			
As at 1 January 2017	61	-	61
Depreciation charge for the year	486	-	486
As at 31 December 2017	**547**	**-**	**547**
Depreciation charge for the year	604	16	620
Disposals	(1)	-	(1)
As at 31 December 2018	**1,150**	**16**	**1,166**
Net book value			
As at 31 December 2018	**783**	**36**	**819**
As at 31 December 2017	1,050	30	1,080

13. Goodwill and intangible assets

Group

	Goodwill £'000	Software costs £'000	Other Intangibles £'000	Total £'000
Costs				
As at 1 January 2017	575	1,531	37	2,143
Additions	-	4,801	229	5,030
As at 31 December 2017	**575**	**6,332**	**266**	**7,173**
Additions	-	8,981	2	8,983
Transferred to Property, Plant and Equipment	-	(42)	-	(42)
Other movements	-	121	-	121
As at 31 December 2018	**575**	**15,392**	**268**	**16,235**
Accumulated amortisation				
As at 1 January 2017	92	11	8	111
Charge for the year	-	196	138	334
As at 31 December 2017	**92**	**207**	**146**	**445**
Charge for the year	-	1,711	34	1,745
Other movements	-	121	-	121
As at 31 December 2018	**92**	**2,039**	**180**	**2,311**
Net book value				
As at 31 December 2018	**483**	**13,353**	**88**	**13,924**
As at 31 December 2017	483	6,125	120	6,728

Allocation of goodwill to cash-generating units ('CGUs') and impairment testing

Goodwill is allocated to the Group's CGUs that are expected to benefit from the synergies of the combination. The lowest level of CGU is considered to be ClearBank.

Goodwill is tested for impairment by comparing the carrying value of the CGU to which the goodwill relates, to the recoverable value of the CGU. In accordance with the requirements of IAS 36 Impairment of Assets, goodwill is tested annually for impairment for each CGU, by comparing the carrying amount of the CGU to its recoverable amount, being the higher of that CGU's value-in-use or fair value less costs to sell. An impairment charge is recognised when the recoverable amount is less than the carrying value.

As at 31st December 2018, the recoverable amount was considered to be the value-in-use derived by assessing the estimated future cash flows expected to be derived from the Company's operations, discounted to their present value. These cash flows were based on strategic plans and financial models approved by the Board of Directors. The forecasts considered various aspects of the Company's operations over the next five years, including proposed capital raises required to support the Company prior to achieving profitability, as well as maintaining sufficient CET1 Capital in line with the proposed growth of the statement of financial position. Based on this, the recoverable amount exceeded the carrying amount and goodwill remained un-impaired.

Sensitivity analysis of the key assumptions

The CGU has sufficient headroom (i.e. where the recoverable amount of the CGU is in excess of the carrying value), such that it is insensitive to all reasonable possible changes in the value of ClearBank used for the purpose of goodwill impairment testing.

13. Goodwill and intangible assets (continued)

Company

	Software costs £'000	Other Intangibles £'000	Total £'000
Costs			
As at 1 January 2017	1,530	30	1,560
Additions	4,923	109	5,032
As at 31 December 2017	**6,453**	**139**	**6,592**
Additions	8,960	-	8,960
Transferred to Property, Plant and Equipment	(42)	-	(42)
As at 31 December 2018	**15,371**	**139**	**15,510**
Accumulated amortisation			
As at 1 January 2017	11	1	12
Charge for the year	317	18	335
As at 31 December 2017	**328**	**19**	**347**
Charge for the year	1,711	34	1,745
As at 31 December 2018	**2,039**	**53**	**2,092**
Net book value			
As at 31 December 2018	**13,332**	**86**	**13,418**
As at 31 December 2017	6,125	120	6,245

14. Investment in subsidiary undertakings

Company

	Total £'000
Costs	
As at 1 January 2017	191
Additions	-
As at 31 December 2017	**191**
Additions	-
As at 31 December 2018	**191**
Provision for impairment	
As at 1 January 2017	-
Written off	191
As at 31 December 2017	**191**
Written off	**-**
As at 31 December 2018	**191**
Net book value	
As at 31 December 2018	-
As at 31 December 2017	-

The principal subsidiaries of the Company as at 31 December 2018 all of which have been included in the consolidated financial statements are:

Name of Subsidiary	Principal activity	Jurisdiction	Ownership
Abele Technologies Limited	IT consultancy	England and Wales[2]	100%
CB Infrastructure Limited	Software development	England and Wales[2]	100%
ClearBank Europe DAC	Business Banking	Republic of Ireland[3]	100%
CloudZync Limited[1]	Software development	England and Wales[2]	100%
Tapsley Limited[1]	IT service	England and Wales[2]	100%

[1] Shares held by Abele Technologies Limited.

Registered office:

[2] Level 29, The Gherkin, 30 St Mary Axe, London, EC3A 8EP.

[3] Riverside One, Sir John Rogerson Quay, Dublin 2, DO2 X576.

The Employee Benefit Trust is consolidated within the Group. See Note 22 for further details.

15. Deferred tax assets and liabilities

Deferred income taxes are calculated on all temporary differences at the tax rate applicable to the jurisdiction in which the timing differences arise.

Deferred tax summary

	Year ended 31 Dec 2018	Year ended 31 Dec 2017
	£'000	£'000
Deferred tax asset	**8,335**	3,652
Deferred tax liability	**-**	-
Net deferred tax asset	**8,335**	3,652

Deferred tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable, on the basis of all available evidence it is considered more likely than not that there will be suitable taxable profits against which the reversal of the deferred tax asset can be deducted.

The movement on the recognised deferred tax assets account is as follows.

	Tax losses	**Fixed assets**	**Share-based payments**	**Other temporary differences**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
At 1 January 2017	-	-	-	-	-
Credit to the Statement of Comprehensive Income	3,454	149	29	20	3,652
At 31 December 2017	**3,454**	**149**	**29**	**20**	**3,652**
Credit to the Statement of Comprehensive Income	4,307	49	330	(3)	4,683
At 31 December 2018	**7,761**	**198**	**359**	**17**	**8,335**

At 31 December 2018, the Group had temporary timing differences of £50.8m (2017: £22.4m) available to offset against future taxable profits. A deferred tax asset is recognised only in the event that the Directors consider it probable that sufficient future taxable profit will be generated to utilise the available losses.

On an annual basis, management reassess the probability that sufficient future taxable profit will be generated to utilise the available losses. In making this assessment, the Board reviews the Group's expectations as to the level of future taxable profits taking into account the Group's long-term financial and strategic plans, anticipated future tax-adjusting items and a forecast consistent with the five-year operational plan, which is subject to internal review and challenge. The forecast includes projections of future taxable income based on the business plan and how timing of that income affects the rate of deferred tax is valued. Based on these forecasts and plans, the Directors' consider it probable that sufficient future taxable profits will be generated to utilise the available losses and consequently continue to recognise a deferred tax asset.

Deferred tax not recognised

A deferred tax asset of £0.3m (2017: £0.2m) has not been recognised in respect of unused tax losses arising in subsidiary entities as it is not considered probable that there will be future profits available.

16. Receivables and other assets

	Group Year ended 31 Dec 2018 £'000	Group Year ended 31 Dec 2017 £'000	**Company Year ended 31 Dec 2018 £'000**	Company Year ended 31 Dec 2017 £'000
Receivables				
Prepayments	**897**	892	**897**	1,017
Accrued income	**126**	10	**126**	10
Employee loans	**64**	36	**64**	36
Other receivables	**400**	7	**400**	6
VAT receivable	**-**	231	**-**	233
Balance owed by subsidiaries	**-**	-	**707**	57
	1,487	1,176	**2,194**	1,359
Other assets				
Assets pledged as collateral	**364**	315	**364**	315
	364	315	**364**	315

The carrying amounts approximate fair value. Assets pledged as collateral relate to the cash collateral for the Visa card payment scheme.

17. Other payables

	Group Year ended 31 Dec 2018 £'000	Group Year ended 31 Dec 2017 £'000	**Company Year ended 31 Dec 2018 £'000**	Company Year ended 31 Dec 2017 £'000
Other payables				
Taxes and social security costs	**409**	1,176	**409**	1,176
Accruals	**3,405**	2,376	**3,253**	2,486
VAT payable	**162**	-	**162**	-
Other payables	**2,427**	815	**2,428**	815
	6,403	4,367	**6,252**	4,477

The carrying amounts approximate fair value.

18. Share capital

Group and Company

	2018 Number	2017 Number	2018 £	2017 £
Allotted, issued and fully paid				
Class A ordinary shares of £0.00001 each				
At 1 January	**950,230**	800,000	**9.5**	8.0
Issued during 2017[1]	**-**	150,230	**-**	1.5
Issued during 2018[2]	**142,472**	-	**1.4**	-
Re-designated from Class B ordinary shares[3]	**80,000**	-	**0.8**	-
At 31 December	**1,172,702**	950,230	**11.7**	9.5
Class B1 ordinary shares of £0.00001 each				
At 1 January	**80,000**	80,000	**0.8**	0.8
Re-designation to Class A ordinary shares[3]	**(80,000)**	-	**(0.8)**	-
At 31 December	**-**	80,000	**-**	0.8
Class B2 ordinary shares of £0.00001 each				
At 1 January and 31 December	**120,000**	120,000	**1.2**	1.2
Class C1 ordinary shares of £0.00001 each				
At 1 January and 31 December	**80,000**	80,000	**0.8**	0.8
Class C2 ordinary shares of £0.00001 each				
At 1 January and 31 December	**120,000**	120,000	**1.2**	1.2
Class D ordinary shares of £0.00001 each				
At 1 January and 31 December	**1**	1	**-**	-
At 31 December			**14.9**	13.5

Only A, B1, and B2 ordinary shares have full voting rights attached.

[1] On 9 August 2017, the Company issued 50,000 Class A ordinary shares of £0.00001 each for £7m. On 27 October 2017, the Company issued 100,230 Class A ordinary shares of £0.00001 each for £21m.

[2] On 4 May 2018, the Company issued 52,283 Class A ordinary shares of £0.00001 each for £10m. On 30 August 2018, the Company issued 90,189 Class A ordinary shares of £0.00001 each for £15m.

[3] On 5 April 2018, the Company re-designated 80,000 Class B1 ordinary shares of £0.00001 each to 80,000 Class A ordinary shares of £0.00001 each. The re-designation shares now rank equally with the existing issued Class A ordinary shares of the Company.

18. Share capital (continued)

Share Premium Account

Group

	2018 £'000	2017 £'000
Share Premium Account		
At 1 January	**53,458**	25,254
Issue of shares, net of costs	**24,871**	28,204
At 31 December	**78,329**	53,458

Company

Share Premium Account		
At 1 January	**53,254**	25,254
Issue of shares, net of costs	**24,871**	28,000
At 31 December	**78,125**	53,254

19. Capital management

The Group's objectives when managing capital are: i) to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; ii) to maintain a strong capital base and utilise it efficiently to support the development of its business and iii) to comply with the regulatory capital requirements set by the PRA. Capital adequacy and the use of regulatory capital are monitored by the Group's management and Board. The Group is required to maintain appropriate levels of capital in accordance with Capital Requirements Directive IV ('CRD IV') and the Individual Capital Guidance ('ICG') issued by the PRA.

At the year end, the Company's Common Equity Tier 1 ('CET1') capital resources totalled £17.9m (2017: £23.7m). This CET1 Capital number is comprised of the Company's net equity of £37.3m (2017: £33.6m), less certain capital deductions, including the intangible asset balance of £13.4m (2017: £6.2m).

Company

CET 1 capital resources

	As at 31 Dec 2018 £'000	As at 31 Dec 2017 £'000
Share capital	-	-
Retained losses	**(44,167)**	(20,143)
Share premium	**78,125**	53,254
Share based payment reserve	**3,301**	467
Less ineligible assets:		
Intangibles	**(13,418)**	(6,245)
Deferred tax	**(5,951)**	(3,652)
Total CET1	**17,890**	23,681
Net Equity	**37,259**	33,578

20. Financial instruments

The Group's financial instruments principally comprise of cash and cash equivalents, receivables, customer deposits and payables. All these arise as a result of our normal operations. The Group does not enter into transactions for speculative purposes and there are no instruments held for trading. The analysis of financial assets and liabilities into their categories as defined in IFRS 9 Financial Instruments is set out in the following tables. The Group has taken advantage of the exemption in paragraph 7.2.15 of IFRS 9 from restating prior periods in respect of IFRS 9's classification and measurement (including impairment) requirements.

All gains and losses on measuring the financial assets and liabilities at each reporting date are included in the determination of statement of comprehensive income for the period.

Categories of financial instruments

Group

At 31 December 2018	Fair value Mandatorily at FVTPL £'000	Amortised cost £'000	Total £'000
Financial liabilities			
Other payables	-	4,152	4,152
Customers deposits	-	44,145	44,145
Total financial liabilities	**-**	**48,297**	**48,297**

At 31 December 2017	Fair value Mandatorily at FVTPL £'000	Amortised cost £'000	Total £'000
Financial liabilities			
Other payables	-	3,191	3,191
Customers deposits	-	1,601	1,601
Total financial liabilities	**-**	**4,792**	**4,792**

The Group adopted IFRS 9 Financial Instruments for the first time in 2018. IFRS 9 introduces new classification and measurement categories. The Fair Value Through Profit or Loss (FVTPL) category includes financial assets that are managed (and their performance evaluated) on a fair value basis, including those previously described as 'held for trading'. The majority of the Group's financial assets and liabilities continue to be measured at amortised cost after the implementation. The Group has taken advantage of the exemption in IFRS 9 from restating prior periods in respect of IFRS 9's classification and measurement (including impairment) requirements.

21. Financial risk management

Risk is an inherent part of the Group's business activities. The Group seeks to identify, assess, monitor and manage each of the various types of risk involved in its business activities in accordance with defined policies and procedures. A key component of our approach to capital management is to ensure that the Group's policies are aligned with the Group's overall strategy, business plans and risk appetite. No balances are past due or impaired at 31 December 2018 or at 31 December 2017.

The key focus of financial risk management for the Group is ensuring that the proceeds from its financial assets are sufficient to fund the obligations arising from its business banking operations. The main financial risks arising from our financial instruments are liquidity risk, credit risk and market risks (price and interest rate risk).

The Group's exposure to liquidity, credit and market risks along with management's objectives, policies and processes for managing those risks are discussed below.

Liquidity risk

Liquidity risk is the risk that the Group is not able to meet its financial obligations as they fall due, or can do so only at excessive cost.

The Group maintains adequate levels of liquidity and ensures that it maintains sufficient levels of liquidity to meet foreseeable and unexpected needs. Policies and procedures are in place to manage liquidity risk. Limits for the level, type and maturity of liquidity and deposit funding balances are set by the Board Risk Committee ('BRC'). Independently, the Finance, Treasury and Risk departments monitor compliance with these limits. The level of liquidity is monitored on a daily basis to ensure there are sufficient liquid assets at all times to cover cash flow movements and fluctuations in funding, enabling us to meet all financial obligations and to support anticipated asset growth.

The table below sets out the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

Group

31 December 2018	Repayable on demand £'000	Up to 1 month £'000	1 to 3 months £'000	3 to 12 months £'000	1+ years £'000	Total £'000
Financial liabilities						
Customers deposits	33,295	1,000	9,300	550	-	44,145
Other payables	-	2,575	1,338	239	-	4,152
Total financial liabilities	**33,295**	**3,575**	**10,638**	**789**	**-**	**48,297**

31 December 2017	Repayable on demand £'000	Up to 1 month £'000	1 to 3 months £'000	3 to 12 months £'000	1+ years £'000	Total £'000
Financial liabilities						
Customers deposits	1,601	-	-	-	-	1,601
Other payables	-	-	3,191	-	-	3,191
Total financial liabilities	**1,601**	**-**	**3,191**	**-**	**-**	**4,792**

Company

31 December 2018	Repayable on demand £'000	Up to 1 month £'000	1 to 3 months £'000	3 to 12 months £'000	1+ years £'000	Total £'000
Financial liabilities						
Customers deposits	33,295	1,000	9,300	550	-	44,145
Other payables	-	2,571	1,208	222	-	4,001
Total financial liabilities	**33,295**	**3,571**	**10,508**	**772**	**-**	**48,146**

31 December 2017	Repayable on demand £'000	Up to 1 month £'000	1 to 3 months £'000	3 to 12 months £'000	1+ years £'000	Total £'000
Financial liabilities						
Customers deposits	1,601	-	-	-	-	1,601
Other payables	-	-	3,301	-	-	3,301
Total financial liabilities	**1,601**	**-**	**3,301**	**-**	**-**	**4,902**

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations to repay the Group in accordance with agreed terms.

Our credit risks arise principally through our exposure to our customers that results in an increase in fees receivables. Our policy of collecting monthly fees on the second day of the following month and transactional fees as the transaction occurs from customers' deposit accounts, minimises our exposure to credit risk. The Group does not provide retail credit to customers and is therefore not exposed to retail credit risks.

Credit risk within our treasury operations

Credit risk exists where we have acquired securities or placed cash deposits with other financial institutions as part of our treasury portfolio of assets. We consider the credit risk of treasury assets to be relatively low as the Bank places all funds with the Bank of England or invests in UK government instruments. The Bank manages and controls credit risk by setting limits on the amount of risk it's willing to accept for individual counter parties and monitoring exposures in relation to such limits. No assets are held for speculative purposes or actively traded. Certain liquid assets are held as part of our liquidity buffer.

Collateral

As discussed in note 6.9, the Group holds collateral from customers in the form of cash in a Mandated Minimum Balance ('MMB') account. The MMB is a separately held account from the customers operational accounts and it is required to be held throughout the term of the contract. The collateral is held in the event of a customer not maintaining the Mandated Intra-Day Liquidity balance ('MILB') to cover fees and charges owed to the Bank. The Group does not lend, advance funds or offer overdraft facilities to customers and therefore has no direct credit exposure to its customers.

The following table sets out the total cash held as collateral which is shown as part of deposits from customers:

	At 31 Dec 2018 £'000	At 31 Dec 2017 £'000
Deposit from customers		
Mandated Minimum Balance account	**9,310**	520
Other deposits from customers	**34,835**	1,081
Total deposits from customers	**44,145**	1,601

Impairment under IFRS 9

IFRS 9 replaces the IAS 39 'incurred loss' impairment approach with an 'expected credit loss' ('ECL') approach meaning there no longer needs to be a triggering event in order to recognise impairment losses.

The revised approach requires an entity to recognise a loss allowance for expected credit losses on all debt-type financial assets that are not measured at fair value through profit or loss, this includes lease receivables, contract assets and loan commitments and financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

The ECL approach requires an expected credit loss allowance to be established upon initial recognition of an asset reflecting the level of losses anticipated after having regard to the Group's historical credit loss experience, current conditions and its expectation of reasonable and supportable future economic conditions that incorporate more forward-looking information.

Under IFRS 9, credit loss allowances are measured on each reporting date according to a three stage ECL model.

Stage 1 Entities are required to recognise a 12-month expected loss allowance for assets that have not had a significant increase in credit risk since initial recognition and interest revenue is calculated on the gross carrying amount of the asset.

Stage 2 Entities are required to recognise a lifetime expected loss allowance for assets that have experienced a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment; and interest income is still calculated on the gross carrying amount of the asset.

Stage 3 For assets that have objective evidence of impairment at the reporting date (which is similar to the guidance on incurred losses in IAS 39), lifetime ECL are recognised and interest income is calculated on the net carrying amount

The Group will apply the practical expedient permissible under IFRS 9 to use the simplified approach to determine lifetime expected credit losses for fees receivable which will be based on actual credit loss experience over the recent past and future expectation. The Group's fees receivable are short term and do not contain significant financing components.

The Group's loss provisions are driven by changes in credit risk of fees receivable (as described below), with a provision for lifetime expected credit losses recognised where the risk of default of an instrument has increased significantly. Risk of default and expected credit losses must incorporate forward looking and macroeconomic information.

Significant increase in credit risk

The Group considers a fee receivable to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

1. Quantitative criteria: The remaining lifetime probability of default at the reporting date has increased, compared to the residual lifetime probability of default expected at the reporting date when the exposure was first recognised
2. Qualitative criteria: persistent issues funding intra-day liquidity; whenever this information is available (i.e. the customer has not funded their intra-day liquidity balance)
3. Backstop: As defined in IFRS 9 where the customer is more than 30 days past due

Customer default

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit impaired. The definition of 'credit-impaired' is aligned with the Group's definition of default. The Group defines a financial asset as in default when it meets one or more of the following criteria:

1. 90 days past due
2. The customer's outstanding balance is in excess of their mandated minimum balance (their 'Collateral') and intraday-liquidity balance

The Group writes off fees receivable against the related loss provisions when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery.

After performing a detailed analysis in calculating ECLs, the Group has determined that the application of IFRS 9's impairment requirements for fees receivables did not result in a material impairment allowance considering the credit quality of the counter parties.

Market and Interest rate risk

Market risk is the risk that changes in market prices, such as interest rates will affect income or the value of the Group's assets and liabilities. The objective of our market risk management strategy is to manage and control market risk exposures within acceptable parameters to ensure solvency while optimising the return on risk.

Interest rate risk is the risk of financial loss through un-hedged or mis-matched asset and liability positions which are sensitive to interest rate changes. Given the Group structure and products currently offered, the Group has negligible exposure to these risks.

Capital risk

Capital risk is the risk that the Group has insufficient capital to cover regulatory requirements and/or support its growth plans. The Group operated in line with its capital risk appetite as set by the Board and above its regulatory capital requirements throughout the year ended 31 December 2018 and 31 December 2017. Further information is provided in the Risk Management section of the Annual Report.

22. Share-based payments

Employee Benefit Trust

In November 2016, the Group established an Employee Benefit Trust ('EBT') to facilitate share-based payments to key employees through issuance of either share options or shares.

Share-based payments - Options

As at 31 December 2018, the Group maintained an equity settled share-based payment scheme for remuneration. Options under this programme allow holders to acquire ordinary shares in the Company upon vesting.

The options will vest upon a change in control event which is considered to be the earlier of the Company being acquired by another entity or an Initial Public Offering. During 2018 no options were cancelled or lapsed (2017: Nil).

The movement of the options outstanding under these arrangements during the year is detailed below:

	Share Options Number	Share price	Exercise price
Outstanding at 1 January 2017	3,900	£7.14	£3.74
Granted during the year	29,784	£209.52	£0.00001/£34.00
Outstanding at 31 December 2017	**33,684**		
Granted during the year	2,034	£166.32	£66.36
Forfeited during the year	(2,450)	-	-
Outstanding at 31 December 2018	**33,268**		

Exercisable at 31 December 2018	**-**
Exercisable at 31 December 2017	-

The exercise price of options outstanding at 31 December 2018 ranged between £0.00001 and £66.36 (2017: £0.00001 and £34.00) and their weighted average contractual life was 1.9 years (2017: 3.1 years).

The weighted average exercise price of options outstanding at the end of year was £8.67 (2017: £5.72).

The weighted average exercise price (at the date of issue) of options forfeited during the year was £16.00 (2017: n/a).

The weighted average fair value of each option granted during the year was £66.36 (2017: £5.98).

The fair value of the options granted was determined using the Black Scholes model. The charge is adjusted at each statement of financial position date to reflect the actual number of forfeitures, cancellations and leavers during the period as well as the estimated period to vesting. The fair value is recognised in the statement of comprehensive income on a straight-line basis over the vesting period. The total estimated cumulative fair value of options granted is £6.3m (2017: £6.0m). The principal assumptions used in the valuation of the options were as follows:

	2018 Grant	2017 Grant
Vesting period end	**2021**	2020/ 2021
Volatility	**33.55%**	33.48%
Risk-free investment rate	**0.84%**	0.69%

The underlying expected volatility was determined by reference to historical data of the Company's selected comparator's shares over a period, relevant to the remaining term of the share option grants. No special features inherent to the options granted were incorporated into measurement of fair value.

During the year ended 31 December 2018, £2.1m (2017: £0.4m) was charged to the statement of comprehensive income in relation to these options.

Share-based payments – Shares

During the year, the Company did not issue any shares to employees.

The EBT is consolidated into the Group accounts in accordance with IFRS 10. Any shares it holds in the Company are reclassified as treasury shares in the statement of financial position of the Group accounts. Any gain or loss from the purchase, sale, issue or cancellation of these shares to the EBT is eliminated at Group level.

There are transfer restrictions on the issued shares however, this is consistent with the restrictions imposed on other shareholders.

During the year ended 31 December 2018, £0.6m (2017: £0.1m) was charged to the statement of comprehensive income in relation to these shares.

As at 31 December 2018, the EBT held 1.8% (2017: 5.64%) of the ordinary share capital of the Company.

23. Related party transactions

As specified in note 1.3, the Company has taken advantage of the exemption under FRS 101 and IAS 24 Related Party Disclosures not to disclose transactions with wholly owned subsidiaries.

Transactions with key management personnel, remuneration and other compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director. Key management personnel for the Group have been determined to be the Executive Directors and members of the Executive Committee.

Key management personnel compensation

	Year ended 31 Dec 2018 £'000	Year ended 31 Dec 2017 £'000
Salaries and wages	**1,574**	1,893
Social security costs	**259**	316
Retirement obligations	**91**	72
Share-based payments	**1,809**	345
Total key management costs	**3,733**	2,626

Aggregate Directors' remuneration

	Year ended 31 Dec 2018 £'000	Year ended 31 Dec 2017 £'000
Salaries and wages	**1,009**	1,025
Social security costs	**122**	157
Retirement obligations	**41**	28
Share-based payments	**13**	21
Total directors' remuneration	**1,185**	1,231

Remuneration of the highest paid director

	Year ended 31 Dec 2018 £'000	Year ended 31 Dec 2017 £'000
Salaries and wages	**294**	341
Social security costs	**39**	59
Retirement obligations	**-**	8
Total highest paid director	**333**	408

24. Operating leases

The Group has entered into commercial non-cancellable leases on certain property, plant and equipment where it is not in the best interest of the Group to purchase these assets. Such leases have varying terms, escalation clauses and renewal rights. All Group leases are operating leases, being leases where the lessor retains substantially all the risks and rewards of the ownership of the leased asset. During the year to 31 December 2018 £2.5m (2017: £1.2m) was recognised as an expense in the statement of comprehensive income in respect of operating leases. The future minimum payments due under non-cancellable operating leases are as follows:

Group and Company

	At 31 Dec 2018 Land and buildings £'000	**At 31 Dec 2018 Hire of Equipment £'000**	At 31 Dec 2017 Land and buildings £'000	At 31 Dec 2017 Hire of Equipment £'000
Operating lease payments due:				
Within one year	**1,861**	**2**	1,856	-
In one to five years	**718**	**-**	470	-
	2,579	**2**	2,326	-

See note *4.1 IFRS 16 Leases* for further information in relation to the application of the standard from 1 January 2019.

25. Post-employment obligations

The Group operates a defined contribution scheme. Participants receive a monthly pension supplementary to their salaries. The Group pays contributions to a separately administered pension scheme. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised in as staff costs in the consolidated statement of comprehensive income.

The pension cost charge for the period was £0.9m (2017: £0.3m).

26. Contingent liabilities and commitments

There are no contingent liabilities as at 31 December 2018 (2017: £nil).

27. Events after the reporting year end

The Company, in conjunction with our strategic partner Tide, was successfully granted £60m from Banking Competition Remedies Ltd. This was one of three Pool A grants of the Capability and Innovation Fund which formed part of the £775 million Alternative Remedies Package agreed in principle between the UK Government and the EU Commission.

In January 2019, an additional £10m capital injection was received from the existing shareholders.

On 15th February 2019, the Company granted 8,807 share options to all employees. The award is subject to the condition that the employees remain in the employment of the Company until the end of the agreed vesting period. The total estimated fair value of options granted is £0.9m.

There have been no other significant events between 31 December 2018 and the date of approval of the financial statements which would require a change or additional disclosure in the financial statements.

28. Ultimate controlling party

There is no parent undertaking or ultimate controlling party.

Glossary

ALCO	Asset and Liability Committee
API	Application Program Interface
BaaS	Banking as a Service
BAC	Board Audit Committee
BDP/BCM	Business Continuity Planning and Management
BIA	Business Impact Assessment
BRC	Board Risk Committee
CET1	Common Equity Tier 1
CGU	Cash-generating units
CHAPS	Clearing House Automated Payment System
ClearBank®	ClearBank Limited, unless otherwise stated means the Company and its subsidiaries
CRCO	Chief Risk and Compliance Officer
EBT	Employee Benefit Trust
ECL	Expected credit losses
ERC	Executive Risk Committee
EU	European Union
ExCo	Executive Committee
FATF	Financial Action Task Force
FRS 101	Financial Reporting Standard 101 Reduced Disclosure Framework
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
GDPR	General Data Protection Regulation
IASB	International Accounting Standards Board
ICAAP	Internal Capital Adequacy Assessment Process
ICG	Individual Capital Guidance
IFRICs	IFRS Interpretations Committee
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IMF	Information Management & Security Framework
ISO	International Standards Organisation
JSON	JavaScript Object Notation
JMLSG	Joint Money Lending Steering Group
MILB	Mandated Intra-Day Liquidity Balance
MLD IV	Money Laundering Directive IV
MMB	Mandated Minimum Balance
NIST	National Institute of Standards and Technology
NomCo	Nomination Committee
PaaS	Platform as a Service
PRA	Prudential Regulation Authority
PSD2	Payment Services Directive
PSR	Payment Systems Regulator
RAF	Risk Appetite Framework
RemCo	Remuneration Committee
RMF	Risk Management Framework
ROU	Right-of-use
SA	Standardised Approach
SOA	Services Oriented Architecture
SPPI	Solely payments of principal and interest
VAT	Value added tax

Key Information

Registered Office Address

Level 29
The Gherkin
30 St Mary Axe
London
England
EC3A 8EP

Independent Auditors

BDO LLP
55 Baker Street
London
W1U 7EU

Solicitors

Herbert Smith Freehills
Exchange House
Primrose Street
London
EC2A 2EG

Company Registered Number

09736376

For more information please visit our website:

Clear.Bank