

Clear.Bank[®]

Next Generation Banking Solutions

ClearBank® is the first clearing bank built entirely on cloud technology. Our innovative and scalable Banking-as-a-Service platform continues to attract customers and partners, driving momentum into 2020 and beyond

Our purpose is to enable an open and competitive banking marketplace

How? Through our banking licence and intelligent robust technology solutions, we enable our customers to offer real-time payments and innovative banking services



Powering Banking Innovation

Highlights

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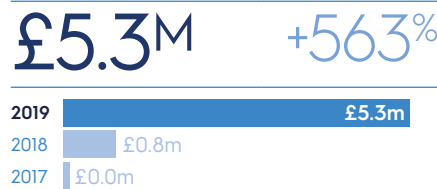
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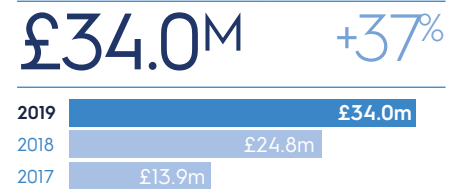
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Financial highlights

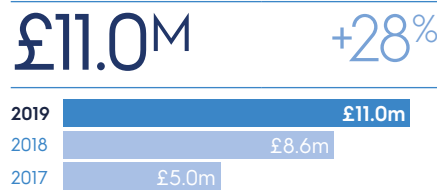
Revenue



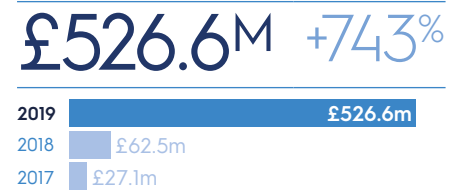
Loss after tax for the year



Investment in technology assets



Balances at the Bank of England



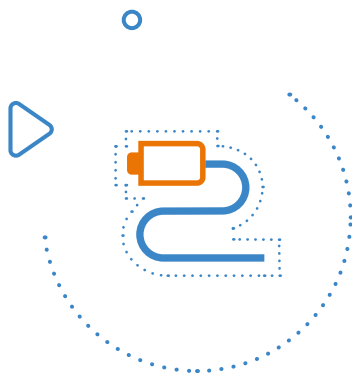
Operational highlights

Number of people to support our customers

261

Total shareholder investment

£113M



02 Our business at a glance

Our technology is transforming the clearing and agency banking landscape, enabling our customers to effortlessly offer real-time payments and innovative banking services

Transforming the



2019

Jan – Mar 2019

- Successfully completed £10m capital raise
- David Gagie appointed as chairman



OakNorth
Bank

- OakNorth announced

tide

- Granted £60 million from Banking Competition Remedies (BCR) in conjunction with Tide, to improve SME outcomes in the UK



TIGERWIT

- TigerWit announced



moorwand

- Moorwand announced

Apr – Jun 2019



ARCHAX

- Archax announced

- Successfully completed £10m capital raise



OpenPayd
UNLOCKS BANKING

- OpenPayd announced



dozens

- Dozens announced

Who we are

ClearBank is a specialist technology enabled clearing bank with a clear focus on bringing innovation to the UK clearing and agency banking landscape.

Our aim is to be the definitive provider of clearing and banking services in the UK payments market.

What we do

ClearBank is the only bank in the UK to solely focus on clearing and agency banking services.

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

landscape



Jul – Sept 2019

- Won Technical Communication Award for ClearBank Knowledge Centre



- Payen announced



- Established our presence at SIBOS the world premier financial services event

Oct – Dec 2019



- Contis announced

- Crowned UK's No.1 FinTech Disrupter

- Successfully completed £10m capital raise



- Partnership with DPR



- Ranked 11th in LinkedIn Top Startups 2019

Insurtech UK

- ClearBank joins Insurtech UK Trade Association as its first Banking Services Partner
- ClearBank became a member of Innovate Finance



- Winner of the 'Pioneer of the Year' at the British Bank Awards

2020 and beyond

- Successfully completed £5m capital raise

- Successfully completed £19m capital raise



- incuto announced



- Winner of the 'Most Disruptive Financial Sector Technology' at the FS Tech Awards

04 Why customers choose us

A value proposition that is unique amongst our competition

Compelling



Their API and virtual account support capabilities are best-in-class and in ClearBank, we've found a long-term, strategic partner who will enable us to provide an even faster and more seamless experience for our clients

OakNorth Bank



There are very few clearing banks to choose from and even fewer that support FinTechs. ClearBank's future-proofed technology stack and can-do attitude have made a big difference in helping grow our business and deliver innovative services to our clients

Contis

customer → proposition

Through our robust, scalable and real-time technology we provide security by holding every pound of our customers' balances at the Bank of England. As these funds are not used for any other purpose such as commercial lending, our customers are reassured that their funds are safe with ClearBank

incuto

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We're delighted to partner with ClearBank and incorporate its innovative solution into our own technology for credit unions and community banks. The combination of online access to banking services and automated faster payments is transformative for the community banking sector, and key to our mission to promote financial inclusion

incuto



06 Why ClearBank

Providing cutting-edge technology



Our Pillars



Safe and secure

All customer funds are held securely at the Bank of England and not used for other purposes such as commercial lending.

We have no operational reliance on any other bank, so you know exactly who you are working with.

Through our banking licence customers can have greater confidence due to the level of regulatory oversight compared to other BaaS providers.



Operational resilience

We achieve better outcomes for our customers by providing high levels of availability, reliability and resilience.

We protect against operational risk events by mirroring our cloud-native technology platform in separate zones within Microsoft Azure, and deliver failover technology to minimise the impact to our customers.



People

Our people are our greatest asset. We are made up of passionate, dedicated and inclusive individuals who help bring our vision to life.

From developing innovative technology that powers the bank, to delivering customer service excellence, our people are key to everything we deliver.



Non-compete

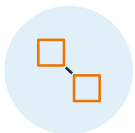
We are the only clearing bank in the UK that does not offer retail banking services.

Our customer promise means that we never compete with our customers, so we can be relied upon to support their end consumers.

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Modern financial infrastructure that simplifies the movement of money and enhances our customers' payments capabilities

Charles McManus
Group Chief Executive Officer



Customer experience

We understand our customers' payments needs and their industries.

Consumers are seeking a seamless, but safe, transaction experience, bringing together all their interactions.

Our technology provides a modern customer experience over clearing technology provided by incumbent banks.



Market knowledge

Our people have a deep knowledge of the payments market.

This includes changes in customer preferences, potential developments in the UK payments schemes, recent technological innovations and upcoming banking and regulatory changes.

This ensures that our customers' evolving needs are at the forefront of everything we do.



Technology platform

Our next-generation cloud-based banking infrastructure, fully developed in Microsoft Azure, is robust, secure and operationally resilient.

Our market leading proprietary ISO 20022 accredited and user-friendly API supports streamlined setup and straightforward integration.



Scalable

We provide our customers with the flexibility of our scalable infrastructure.

By utilising the magnitude of Microsoft's Azure cloud we offer near boundless scalability to support our customers' growth.

Unlike on-premise solutions the flexibility of the cloud ensures customer demands can be efficiently supported.

08 Customer case study

Lasting dynamic relationships



We believe in a clear and transparent approach to providing Banking-as-a-Service to our customers, ensuring every step of the payments process is as simple and easy to use as it possibly can be

Simon Jones
ClearBank, Chief Customer Officer





Company description

Contis powers reliable payments designed for the new economy. They provide an end-to-end payments platform for banks, FinTechs, insurers and other future leaning businesses.

ClearBank opportunity

Contis were keen to make transactions faster, more efficient and more cost-effective. They wanted a partner that could match their technological capabilities, and work in a collaborative and transparent manner.

The relationship with ClearBank has allowed Contis to scale and sustain its ongoing period of hyper-growth. ClearBank's focus on cutting-edge technology and their agile 'FinTech' attitude has been a breath of fresh air for Contis.

Solutions provided

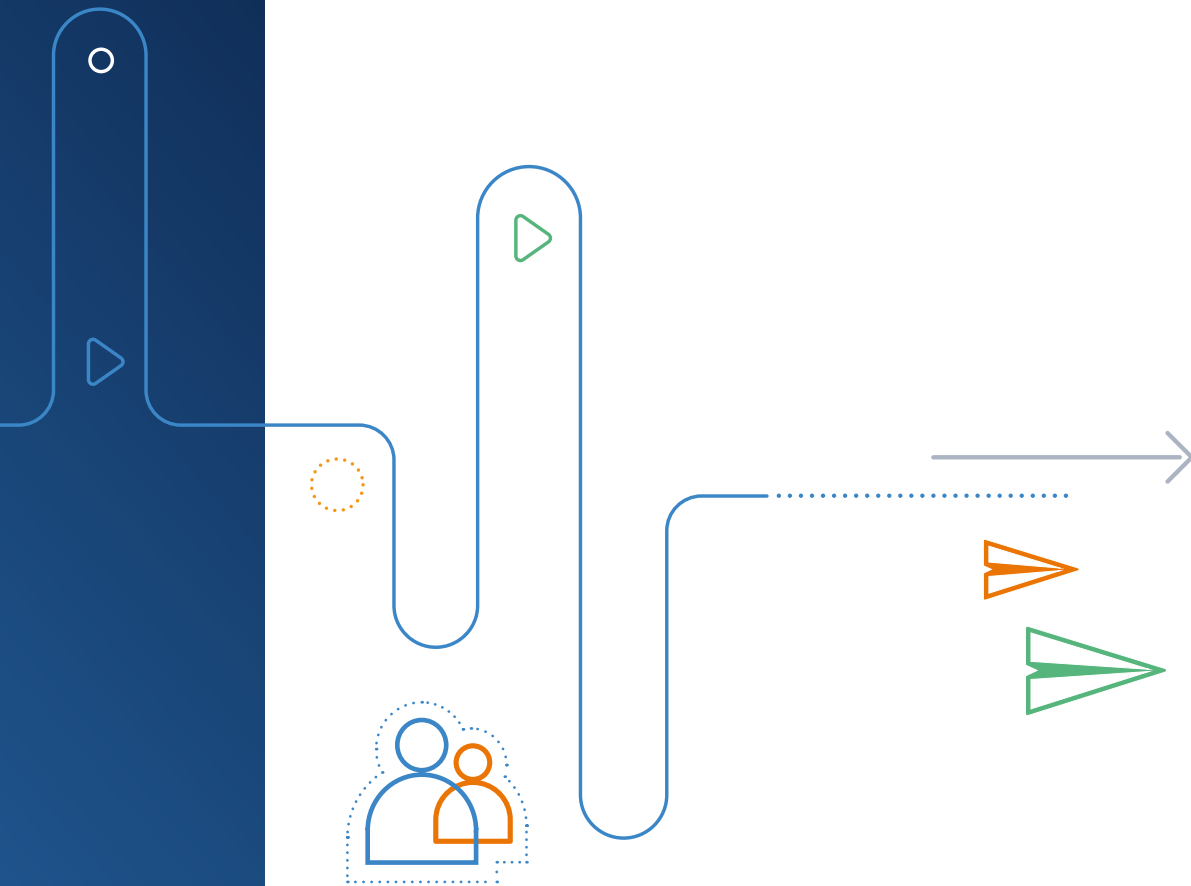
Contis uses ClearBank's real-time APIs to complement its comprehensive payments and banking platform.

ClearBank has provided Contis with dedicated sort codes and virtual accounts. It processes hundreds of thousands of payments for Contis' clients every month.

Partner benefit

Contis reported a significant improvement in managing their internal processes.

The integration has enabled Contis to future-proof itself and continue to scale at pace. Working closely together, ClearBank is continuing to innovate for Contis, and build an evolving proposition based on trust and agility.



10 Chairman's statement



Total shareholder investment

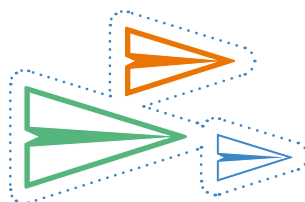
£113^M

Sharpening our focus

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

David Gagie
Chairman



Strategic focus

2019 was a pivotal year for ClearBank during which we achieved significant progress towards our aim to revolutionise the UK banking market. During the year we developed our strategic focus, strengthened our leadership team and our shareholders have continued to support the bank as we build for the future.

Ranked the UK's number 1 FinTech Disrupter¹, ClearBank continues to be recognised for our innovative clearing and payment services. This translates to our absolute focus on becoming the leading provider of payment services, agency banking and Banking-as-a-Service (BaaS) technology to our customers. To achieve this, we have continued to invest in the development of new services and in even greater operational resilience.

There is a massive and growing market opportunity for our services that comprise around 5,000 financial institutions and payments totalling £90 trillion in the UK alone. Our distinctive capabilities uniquely position us to take advantage of this opportunity which, allied to our commitment to operational excellence, has led to very encouraging commercial progress. After what has effectively been our first full year of operations, our customers now include allpay, OakNorth, Contis and Prepay Solutions. Additionally, ClearBank partnered with Tide in February 2019 and won £60 million from the RBS Alternative Remedies Package to provide UK SMEs with banking products that are a genuine alternative to the high street banks.

We have recently entered a new partnership with incuto, from which members of credit unions and community banks will now benefit from faster and more efficient payments. This marks a positive step forward for credit unions and community banks, which focus on financial education, and serve customers who are traditionally financially excluded.

One of the underlying reasons for us successfully onboarding customers has been the building of a highly talented and experienced executive team ably led by our CEO, Charles McManus. In addition to the strengthening of our executive team, highlighted by Charles in his Chief Executive Review, we are also making changes to our Board. With Marc Jenkins stepping down as Chief Financial Officer in early 2020, James Hopkinson has joined as acting Chief Financial Officer and will be joining the Board. Marc Jenkins will continue with ClearBank, leading a number of strategic projects, including the establishment of ClearBank Europe.

James brings a significant level of global financial and investor relations experience from his time at Standard Chartered Bank, which will be crucial in our next stage of development. In addition to James, I am delighted that Catherine Doran is due to be joining the Board as a Non-Executive Director and Chairman of the Board Risk Committee in early 2020. Catherine is highly experienced in the management of the operational and IT risks, which are central to ClearBank's operating model and succeeds Graeme Smith as Chairman of our Risk Committee. I would like to take this opportunity on behalf of the Board to thank both Graeme Smith and Marc Jenkins for their dedication, support and professionalism, which has been instrumental in enabling ClearBank's success so far.

Throughout the year ClearBank have been grateful to our investors for their continued support.

Market outlook

In recent years we have seen a rapid rate of technological change and significant innovation in payment methods. This has brought ever-greater choice in how consumers pay for goods and services using online banking, mobile banking and contactless payments. Throughout 2019 business and consumer demand for instant payments continued to grow as they extend their popularity in the UK. The speed and efficiency of instant payments have proved appealing to both businesses and consumers. This has been particularly helpful to smaller businesses, who have made use of online banking, enabling them to focus on their business instead of making payments. This has been an area of strategic focus for ClearBank who have targeted the SME market through our partnerships with Tide.

We expect 2020 to provide similar opportunities as customers seeking to develop new services and more resilient operational capabilities turn to ClearBank as the most attractive and effective partner in all sectors.

A key driver of market change will be the increased focus by the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) who are putting in place a stronger regulatory framework to promote operational resilience and ensuring that major operational and security incidents are reported under the Payment Services Regulations. This focus aligns with ClearBank's capabilities, placing us in a leading position to leverage our resilient, next-generation, cloud-native infrastructure to our customers.

While the effects of leaving the European Union on 31 January 2020 will bring continuing uncertainty to the UK market. As a currently UK-focussed sterling clearing bank the impact on ClearBank, and the services provided to customers, will likely be minimal. We do not expect any future changes to the UK's regulatory landscape arising from Brexit to have any material effect on us. The UK's payments and agency banking market opportunity will continue to grow, and ClearBank's next-generation infrastructure uniquely positions us to succeed.

Governance

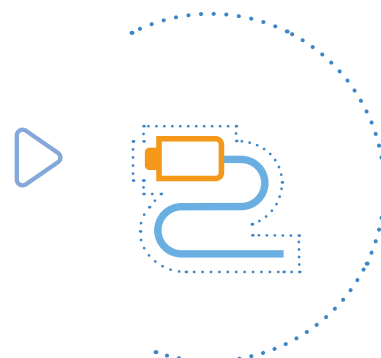
The Board has increased its focus on ensuring strong risk governance throughout the Bank commensurate to the mission-critical services we provide to our customers and their end-consumers. To facilitate this, we appointed Deloitte to help us review and update our internal governance processes enabling us to further sharpen the Board's oversight of our risk governance framework and processes.

Conclusion

I am delighted with the progress ClearBank made in 2019 with the development of our leadership team, technology and operational platform, and our growing number of customers. We enter 2020 with a very strong pipeline of new customers ensuring the prospect of significant future growth.

As always, we are grateful for the continued support we have received from our customers, the payment schemes, our regulators, and our investors. I would especially like to thank all of our colleagues across the entire bank for their exceptional creativity and personal commitment, throughout last year, without which we would not have had such a successful 2019.

David Gagie
Chairman
8 April 2020



12 Chief Executive's Review



This year has been another crucial year in our development. We understand that consumers and our customers expect their payments to be cleared successfully and immediately. This is why ensuring the free flow of funds is at the heart of what we do.

Through our banking licence and intelligent, robust cloud native technology solutions, we enable our customers to offer real-time payments and innovative banking services. Together we are meeting the demands of the next generation of consumers and businesses.

Continuing to build momentum

Continuing from last year, we have welcomed a number of customers and are working closely with their teams to transition from their current agency banking providers.

As highlighted in the latest public commitments from the BCR, Tide, with whom we were awarded £60 million, have surpassed 2.25% market share in the SME market and are continuing to be successful in attracting new customers, demonstrating consumer confidence in our proposition.

By further enhancing the operational resilience of our proposition and listening to our customers and responding to their needs, we have built capacity into our platform which is proving attractive to larger customers who have higher volumes and more complex requirements. Examples of customers whom we have partnered with include:

- Contis, who serve over 200,000 individual customers utilising our platform to provide end-to-end payments solutions

“

We continue to build momentum and execute our strategy of investing in customer service through our BaaS proposition

Charles McManus
Group Chief Executive Officer

Building → momentum

- OakNorth, a UK bank providing business and property loans to small and medium sized companies, is considered Europe's most valuable FinTech¹.

These are examples of how we are able to support our customers, through our leading-edge technology offering real-time and more effective processing of payment flows, to assist consumers including the unbanked or underbanked in our society.

We recognise the important role that core banking providers and technology partners play for financial institutions across the market. With this in mind we are delighted to have announced DPR as one of our integration partners. This brings together DPR's established core banking technology and fully integrated origination and servicing solutions, with our real-time banking and payments solution through a single channel API.

In addition, we have formed a partnership with incuto who provide a hosted banking platform for credit unions and community banks. At ClearBank, we share incuto's ethos of giving everyone access to fair and affordable finance and enabling ethical lenders to better serve their communities.

These strategic partnerships complement our existing relationships with core banking system innovators such as 10x and key suppliers such as Microsoft. We will continue to build further relationships in 2020.

BaaS

We are continuing to deliver on our strategy to enable customers to effortlessly offer real-time payments and innovative banking services through a menu of cloud-based solutions. This includes expanding our FSCS product, which we launched in 2019.

As always, we provide our customers with the solutions that they require to enable and support their business growth. In response to this we have formed a strategic partnership with a market leading institution to offer multi-currency and foreign exchange capabilities. Our commitment to expanding our operations into Europe remains and we continue to progress our banking licence in Ireland.

People

Our people remain at the forefront of our success and integral to ensuring that our platform is secure, scalable, resilient and aligned to our customers' requirements. This is achieved through our agile, collaborative approach and maintaining a FinTech culture.

As highlighted by David in the Chairman's statement one of the reasons for our success has been the strength of our team. This has been underpinned by a number of new appointments to the executive team to ensure we have the right blend of experience, expertise and culture to deliver on our strategy and support our customers.

Simon Jones has joined as Chief Customer Officer and is responsible for strategic planning and the execution of ClearBank's business development activity. Simon brings with him over thirty-years experience in finance, treasury and transaction banking. Prior to joining ClearBank, Simon spent many years with JP Morgan.

Nadine Adams, was appointed Head of Human Resources, at ClearBank responsible for driving and supporting the People agenda across the organisation. Nadine joined ClearBank at the beginning of 2018, following a successful time at Barclays.

As highlighted by David, James Hopkinson has joined as acting Chief Financial Officer. James brings with him significant and diverse experience of the banking industry, gained at a senior level at Standard Chartered. These changes will further strengthen the executive team and enhance our commitment to supporting our customers and ensuring we maintain a strong culture.

We continue to support our community. This year we launched the Midas Cup to complement our existing community initiative "Bigger than ClearBank". The Midas Cup provides an opportunity for our amazing pool of talented, innovative and committed employees to come together in small teams and compete against each other with unique ideas to raise money from an initial seed capital for their chosen charities.

Emerging issues

We continue to monitor the development of COVID-19. ClearBank's robust technology solutions and high levels of operational resilience has enabled effective business-wide remote working, with minimal impact to our service levels. The effects of COVID-19 are expected to be limited because we do not offer lending and hold all customer balances at the Bank of England. This provides our customers with security that their money is safe and accessible when they require. Further details on COVID-19 can be found on page 29.

Delivering our strategy

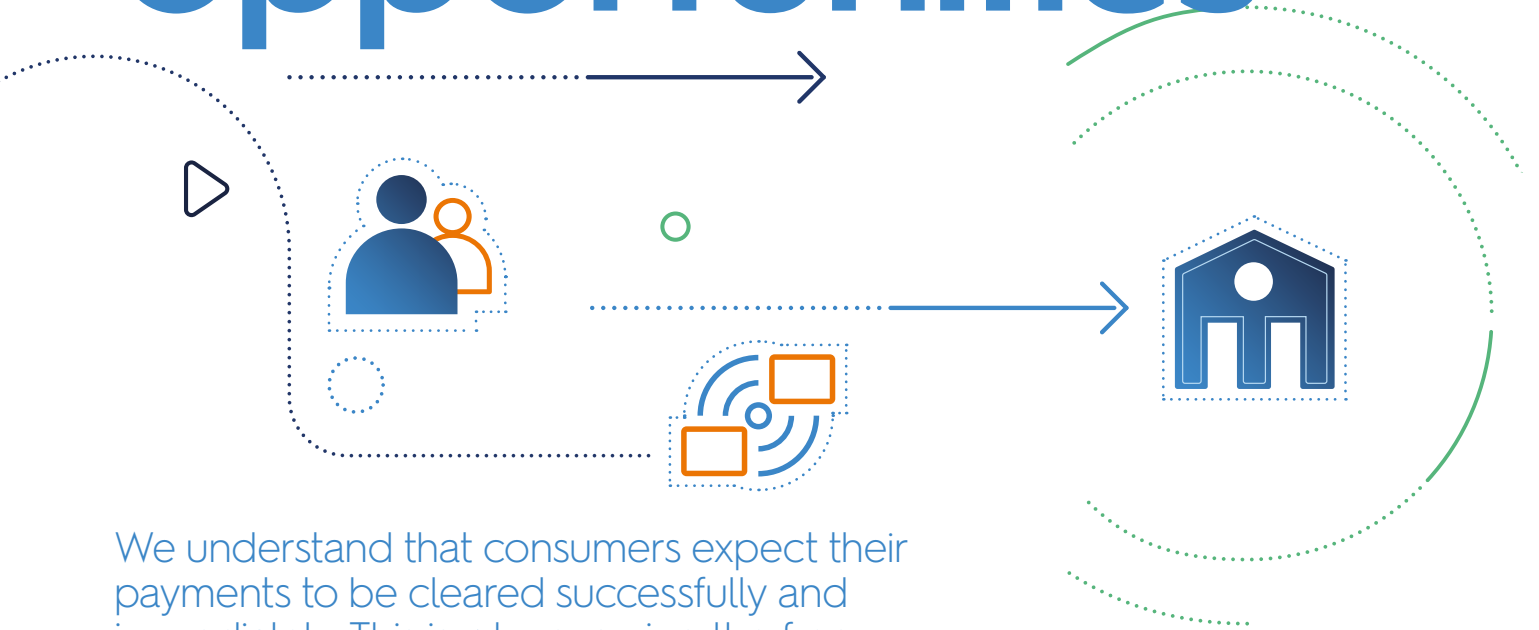
Going into 2020 with increased levels of interest and growth from customers, we are on track to execute against our strategy. This will be achieved through our customer focussed, scalable business model and continued alignment to our original vision of radically changing the market dynamic.

Charles McManus

Group Chief Executive Officer
8 April 2020




¹ FinTech Magazine, 2019

Our market opportunities



We understand that consumers expect their payments to be cleared successfully and immediately. This is why ensuring the free flow of funds is at the heart of what we do

Estimated number of potential UK financial institution customers

Banks		Large	5
		Medium	20
		Small	168
		Foreign branches	155
FinTechs		EMIs & payments	~1,100
		Non-EMIs	~500
Other financial institutions		Insurance	~950
		Other FIs	~2,000

Source: Press Search, McKinsey Capital IQ analysis, Bank of England opportunity Pipeline



The rise of innovative FinTech solutions are posing an ever growing risk to established banking business models

Inside Payments

ClearBank within the UK payments market

ClearBank provides a unique offering within the marketplace with our focussed core payments capability and specialist products. Through our banking licence and intelligent, robust technology solutions, we enable our customers to offer real-time payments and innovative banking services. Together, we are meeting the demands of the next generation of consumers and businesses.

Our unique proposition provides a variety of opportunities. From agency banking services, provided to financial institutions, to our BaaS proposition. The successful award of the BCR grant and our partnership with Tide, enables us to support the SME market with FSCS protected deposit capabilities. This is underpinned by providing real-time payment services to these markets.

Our evolution

From agency banking to BaaS, banking is continually undergoing transformations in response to new technology, regulation, and operating models, and arguably no change has been more important than the recent rise of BaaS. BaaS is not merely a matter of migrating legacy software, payments processes, or product offerings to the cloud. BaaS is the deconstruction of banking services into features that institutions can subscribe to and leverage.

Our proposition includes a modular service offering, giving the customer optimal flexibility to choose which products and services they want to use at any given time. It enables our customers to offer banking services through our technology without them needing to become a bank themselves.

At ClearBank, our BaaS proposition focusses on the most important needs, such as holding funds at the Bank of England, making and receiving payments across all the UK payment systems and providing regulatory type capabilities and products such as FSCS deposit accounts. We continue to invest in developing an increasingly secure and resilient platform, in line with the market's demands for ever greater cyber security, data safety and privacy.

All these capabilities are provided in real-time on a subscription-based model via a cloud-based API first approach. For example, to avoid the upfront investment and lead time required to develop a proprietary payments solution and become a direct member of the UK payment schemes, our customers can quickly integrate to our platform through our advanced ISO accredited and developer-friendly APIs, which frees our customers to focus more time, energy, and resources on what they do best.

Our market

Within the BaaS market we are focussing on the three segments outlined below:

1. **Small to large banks and foreign branches** (with an estimated 350 in the UK)
2. **FinTechs including authorised e-money institutions (EMIs) and non EMI's** (with an estimated 1,600 in the UK)
3. **Other financial institutions including authorised general insurance companies, investment funds and unit trusts** (with an estimated 3,000 in the UK)

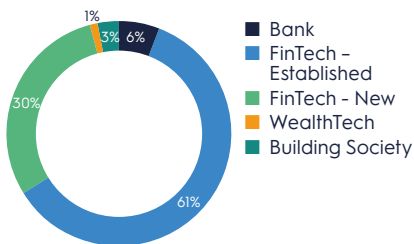
Our proposition has evolved over time in response to the demands of the market. Initially we provided agency banking services to financial institutions who wanted a UK clearing partner to hold their funds at the Bank of England and provide real-time payment capabilities across all the UK payment schemes. As our target markets have grown, this core proposition has evolved where partners are looking for more multi-faceted solutions, including multi-currency services, that are currently under development.



16 Market overview continued



Who are our customers Existing Customer Base



ClearBank currently has 71 financial institution customers, spread across a variety of financial service participants, demonstrating the broad appeal of our proposition. In 2020, our strategy is to continue to expand our foothold within this marketplace with a number of significant customers due to be announced in the first half of the year.

In addition, to support the requirements of our customers, we are looking to form a strategic partnership with a global multi-currency and FX provider as we continue to plan for a European banking licence, which will enable us to provide Euro self-clearing and customer agency banking services.

SME market

Following the successful £60 million award of the BCR grant, we have further expanded into the SME marketplace.

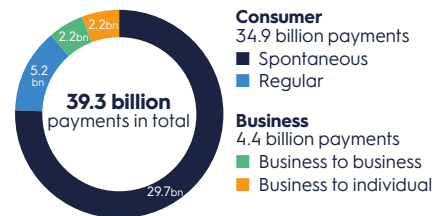
In 2019, the total UK SME market consisted of 5.86 million businesses, rising from 5.66 million in the previous year. This comprised 5.82 million SME's with less than 50 employees and 36,000 businesses with between 50 and 250 employees. Total turnover in the SME market is £2.2 trillion, being the cornerstone of the UK economy. Through our partnership with Tide we provide FSCS protected deposit accounts to our customers and Tide's wider range of services to support the SME market. In 2019, as reported by the BCR the current SME market share, through our partnership with Tide, is 2.25%. Going into 2020, we look to continue to build our coverage of the SME market with Tide and other SME partners including OakNorth.

Trends impacting the business

Our market drivers continue to be favourable. There has been increasing growth in instant payments through the Faster Payments Scheme and increasing demand for advanced ISO accredited and developer-friendly APIs to better serve a growing number of FinTechs.

Payment services

Payments markets have historically tended to evolve slowly over time. However, in recent years we have seen a rapid rate of technological development and innovative payments methods being made available in a fast and efficient way through state-of-the-art technology.



Source: UK Finance – UK Payments Market Report 2019

In 2019, 39.3 billion payments were made by consumers and businesses in the UK. This comprised 34.9 billion consumer payments and 4.4 billion business payments, split evenly between business to business (2.2 billion) and business to individual (2.2 billion).

Faster Payments

Current annual volumes of Faster Payments in 2019 saw 2.4 billion payments being made which is a 19% increase from the prior year. Payments through this method are expected to continue to rise with estimated volumes in 2028 at 3.2 billion.



Bankers' Automated Clearing System (Bacs)

2019 volumes of Bacs transfers were 6.5 billion, comprising 4.5 billion of Direct Debits and 2.0 billion of Direct Credits. These volumes remained broadly static to 2018 with a marginal increase of 0.3%. The overall value of Direct Debits in 2019 was £1,327 billion with consumers far more likely than businesses to use Direct Debit as companies tend to prefer to retain more control over timing and amount of their outgoing payments.

Clearing House Automated Payments System (CHAPS)

CHAPS volumes are significantly lower than Faster Payments and Bacs with 48 million processed in 2019, broadly in line with prior year with an increase of only 0.3%. It is expected that over the next 10 years to 2028 the forecast volume of CHAPS payments will increase to 51.7 million.

As we continue to build momentum into 2020, we will see a significant increase in our payment volumes. This is due to a combination of our strategy of further developing our BaaS proposition, to the successful onboarding of a number of significant customers and the continuing growth in market share within the SME marketplace through our partnership with Tide.

Looking forward

The UK payments schemes are changing. Over the next decade further market developments will bring extensive changes and opportunities to the UK's payments landscape such as:

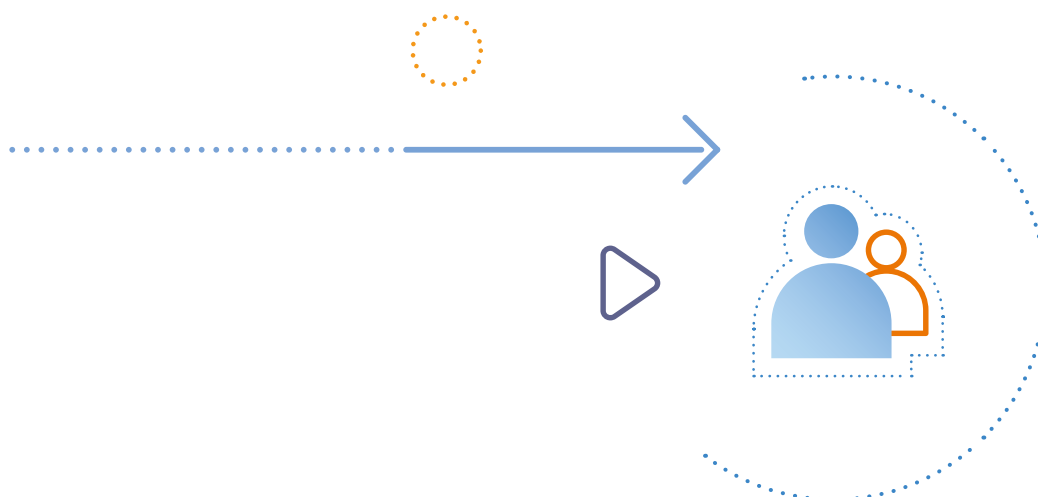
▪ New payments architecture (NPA)

The new payments architecture is the biggest change to the way payments are processed in the UK since the 1960's. Ensuring payments are safe while also encouraging competitive innovation and unlocking the new business opportunities in everything from smarter use of banking and payment data through to new transactional services. With Pay.UK building this new infrastructure in the cloud by 2023 this will complement the current ClearBank architecture and ensure an effective customer payments journey in a secure and resilient manner.

▪ Real-Time Gross Settlement Renewal Programme (RTGS2)

RTGS2 will deliver the next generation of real-time settlement of CHAPS payments. The current RTGS service is the backbone of every payment in the UK as described by the Governor of the Bank of England. The upgrade will provide this infrastructure in the cloud, replicating the functionality provided today as well as delivering a range of new features and capabilities for payments and settlement between financial institutions. This infrastructure has a target implementation date of 2023 and reflects the way payments have changed dramatically in recent years in response to the change in needs of consumers and companies, changes in technology and the evolving regulatory landscape.

This will crystallise the need for banks and financial institutions with legacy systems to upgrade and will provide a significant opportunity for us.



18 Our business model



Key resources and relationships

We actively engage with all our stakeholders, building strong collaborative relationships to create long-term sustainable value.

People

We employ over 250 highly skilled people, with a deep understanding of the payment needs of our customers.

We have a strong commitment to development and we use initiatives such as the employee engagement survey to understand what is working well and what can be improved.

Customers

We understand the complex and ever-changing needs of our customers. Maintaining close relationships ensures that our customers' experience is at the forefront of everything we do.

Investors

Supportive shareholders have provided the capital required to invest in technology and innovation to enable us to disrupt the payments market.

Regulators

We maintain a regular dialogue with our regulators to ensure they are up-to-date with our strategic goals to enable us to adapt to the changing regulatory landscape.

Technology

Our secure modern technology platform has high levels of scalability and operational resilience.

How we differentiate

We are in a unique position to have a competitive advantage within the legacy clearing market, due to our innovative cloud based technology.

Large incumbent clearing banks

Our cloud-based technology enabled by APIs provides a resilient and scalable solution free from legacy issues.

Clearing attackers

A BaaS offering specialising in payments processing and core banking services, which is completed by a non-compete commitment providing greater focus and flexibility.

BaaS players and payment specialists

A greater level of regulatory oversight associated with our UK banking license and standards of governance provide confidence and credibility to our customers.

stakeholders

Delivering our proposition



Our model clearing technology enables our customers to accept and make payments by accessing all the UK payment schemes in real time. This is facilitated by our state-of-the-art API or portal access.

Our platform supports a variety of account structures, including real, virtual and FSCS accounts, tailored specifically for our customers.

Customers can access our proposition directly or through our partners.

Direct

Our people devote time to establish strong relationships based on a full understanding of each customer's capabilities in order to connect them directly to our platform via our API or portal.

This enables us to deliver banking solutions that include our current account and FSCS protected deposit account services.

Partnerships

We are open to creating partnerships to expand our consumer reach and transform the UK payments and business banking landscape.

Our specialist expertise and next-generation infrastructure have enabled our strategic partners (Tide and OakNorth, amongst others) to better serve their end consumers by delivering real-time payment clearing and account solutions.

Delivered through BaaS

Our core services are delivered via our BaaS model, where banking services are deconstructed into features that customers can subscribe to and leverage. This gives customers optimal flexibility to choose which products and services they want to use at any given time.

Outcomes



The value we create generates additional capacity for us to invest further in our business to deliver long-term growth.

Capital investment

Capital is invested in both technology development and premises to support the Group's growth strategy. Investment priorities are determined in line with strategic plans and goals.

People development

We invest in our people to create the next generation of leaders who find innovative and practical solutions for our customers and partners. This enables ClearBank to offer rewarding careers to our people and continue to attract high-calibre employees.

Capital retention

Capital is retained for both regulatory requirements and investment needs.

Returns with stakeholders

For our shareholders, we have a clear strategy for sustainable value creation using our core capabilities to generate growth and strong cash flows from our target markets.

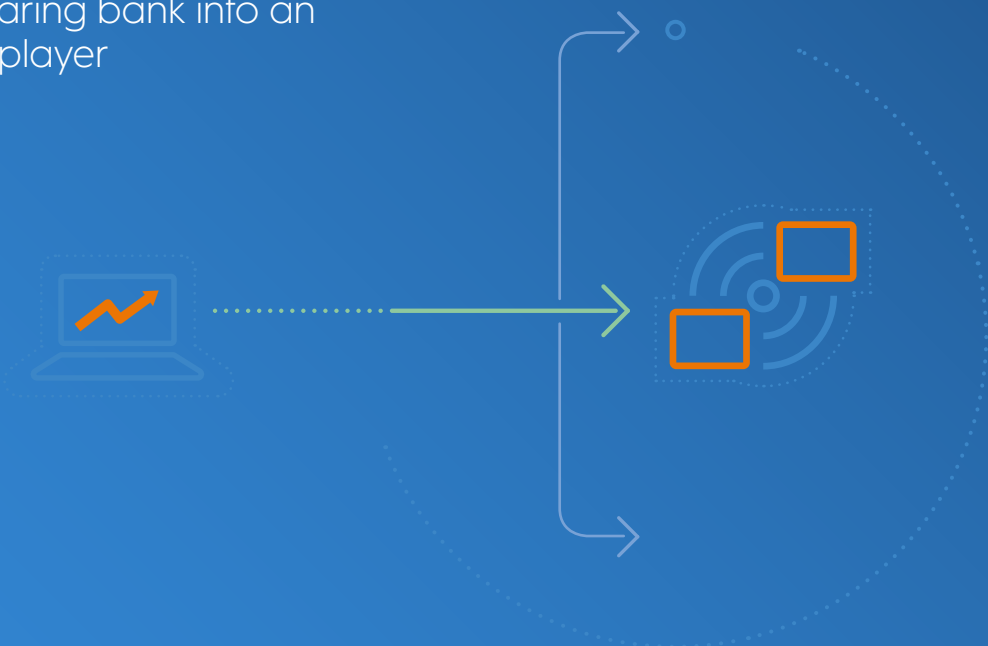
20 Our strategy

Transforming clearing services



ClearBank has quickly evolved from a challenger clearing bank into an emerging BaaS player

John Risley
Investor



Strategic priorities	2019 progress	Future outlook
<h2>1 Customers</h2> <p>Expand customer base for GBP clearing in our current and adjacent markets</p>	<p>Identified target adjacent markets and prospective financial services participants. From emerging e-Money institutions (EMIs), through mid-market players to established FinTechs, banks and mature financial services providers.</p>	<p>In addition to expanding on existing markets, there have been recent strides in entering new markets, such as becoming Insurtech's first banking services partner.</p> <p>We have a strong pipeline of prospective customers and will work with them to deliver our services.</p>
<h2>2 Technology and products</h2> <p>Expand BaaS product offering in the UK</p>	<p>Developed the ability to offer FSCS protected deposit accounts on our platform.</p> <p>Continued to invest in operational resilience and cyber capabilities.</p>	<p>We continue to invest in our customer propositions and technology over the medium term to develop additional functionality and broaden our clearing capabilities, such as cheque clearing.</p> <p>This will enable us to better serve the needs of our customers and to compete for greater market share.</p>
<h2>3 Currencies</h2> <p>Provide overseas clearing services to our customers</p>	<p>Designing and building our multi-currency clearing capabilities, complementing our existing objective of continuing to plan to apply for a banking licence in Ireland.</p>	<p>We will tailor our existing product capabilities for overseas clearing services to meet the demands of our customers.</p> <p>Monitor customer needs, preferences and trends in technology through research and responding to customer feedback.</p>

As we enter the next stage of our development, we continue to obtain customer feedback to provide innovative solutions and streamlined processes that are attractive in our market. We look to deliver our strategic priorities over the medium term and broaden our product capabilities.

We are confident in our business model and delivering on our strategy.



22 Strategy in action

Ready for increasing demand





Strategic partner case study

Company description

Tide is an electronic money institution that provides business current accounts and smart financial solutions to over 130,000 small-business owners through its mobile-first platform.

Business challenge

ClearBank and Tide were awarded £60 million from the BCR in February 2019. As the fastest growing business banking service provider in the UK, Tide's partnership with ClearBank has accelerated its target to capture a significant share of the UK SME market. Currently Tide is opening 10% of Business Current accounts in the UK, meaning they are well on their way to their target of having 8% market share by 2023. To achieve their market share objective, Tide needed a banking partner which could deliver state-of-the-art technologies and innovative services so that they can focus on driving brand awareness, removing

friction to switching and developing several additional attractor propositions to entice customers to move from the Big 4 banks.

Solutions provided

ClearBank are enabling Tide to provide an FSCS backed Business Bank Account to their customers. These accounts offer Tide's customers real-time connection to all of the UK payment schemes. We are working closely together to migrate their entire member base during 2020.

Partner benefit

By upgrading their current offering to an FSCS protected account, Tide Accounts have the same protection as a high street bank. Combined with the access to ClearBank's robust and scalable infrastructure, Tide are well positioned to break up the current oligopoly of the Big 4 and bring genuine competition to business banking for UK SMEs.



We are delighted to have formed this partnership with ClearBank. The ClearBank and Tide Business Banking proposition unites the UK's leading challengers in business banking and banking infrastructure

Oliver Prill

Tide, Chief Executive Officer

24 People and Culture



→ Our values and behaviours

261

people support our customers



40

nationalities

30

different languages



We strive to challenge the norm and break through legacy financial infrastructure in order to simplify the movement of money. We couldn't do this without the expertise and talent of our people, who are at the heart of every success we have achieved so far. Their commitment to innovation, working together and ambition to provide a better banking experience for our customers is what makes us truly unique.

Nadine Adams
Head of Human Resources

Our values

Encouraging everybody

"Our department conversations are about improvement, not about who's right or wrong."

Active collaboration and listening

"Most teams rely on the help and work of other teams, which helps create the dynamic that we are one big team"

Looking after and respecting each other

"People across the whole organisation care and I know I can ask for help outside of my department"

Driving innovation wherever it creates value for our customers and business

"I share ClearBank's vision and it is what drives me to come into work every day. I often feel excited explaining that we enable financial institutions. We are changing the whole industry"

Demonstrating integrity by being transparent, honest and fair

"Clear and direct communication – I know exactly what is required of me"

Being accountable to our stakeholders for delivering these values

"Weekly stand-ups help to communicate the goals and strategies set by senior leadership"

Our culture

Our culture is built on an environment where everyone, regardless of position, can grow and flourish whilst playing an active part in executing our strategy.

We continue to promote and develop our internal talent and 2019 saw 15% of our employees being promoted or moving into different roles in order to leverage their skill set and career aspirations.

This demonstrates our ongoing commitment to grow from within and also reflects the abundance of opportunities ClearBank has to enhance careers and experiences.

Developing our community

We are proud of the progress we have made to continue to enhance our physical working environment. This creates a workplace where everyone can come to work and be their true selves in a space that enables collaboration, innovation and fun – principles that are core to our ongoing success.

We announced our growth plan to develop our strategic footprint in Bristol which will not only be beneficial for our existing team, but to also develop ClearBank as an employer of choice in the South West.

This is in line with our move to new offices in Central London taking feedback from our community and ensuring those principles are embedded at both locations. Our new offices provide a vibrant workspace for us to nurture our people and their ideas and provides quality space to grow our business.

Diversity

Diversity of opinion and a collaborative culture is the core to our ongoing success as it drives better employee morale, creativity and productivity. We foster this by valuing diversity of gender, sexual orientation, race and age; striving to create an environment and working practices which supports everyone in reaching their full potential.

We are also proud of the diversity of background, education and breadth of experiences of our people and the diversity of outlooks this brings. We currently represent 40 nationalities speaking 30 languages which brings diversity of thought to our day-to-day working practices and is reflected in our growing customer base.

We feel strongly that building an inclusive organisation is imperative to our future success. We are confident that men and women are paid equally for performing equivalent roles across our business and are committed to taking measurable steps to reduce our gender pay gap; however we also appreciate we have more work to do to ensure diversity is prevalent at all levels across the business.

Our gender pay gap is wider than we would like with the median gender pay gap of 32%. There are several reasons for this however, largely driven by a higher proportion of men in senior positions. We are committed to providing equal opportunities and to continue to ensure that we provide equal pay to women and men for equivalent work.

Listening and engaging

We are committed to engaging with our people and communicating essential information on the future growth of our business to all our stakeholders. We have launched multiple new communications channels designed to inform, engage and inspire employees.

We regularly see large numbers of our staff engaging in many of our regular events, including weekly lunch and learns, weekly Clear People Meetups, Group updates, weekly customer success announcements and podcasts from our executive team.

These sessions are designed to promote open and effective communication of information and ideas throughout ClearBank to help motivate and inspire our people to feel part of our purpose.

26 People and Culture continued



We are committed to the responsible operation of our business. We aim to make a positive contribution to our people, the communities in which we operate and society in general by promoting a high-performance culture based on opportunity, equality and diversity

James Hopkinson
Acting Chief Financial Officer

Achievements in 2019

I am delighted to announce that we launched our All Staff Employee Options programme in recognition of the amazing work our employees do in delivering a better banking experience for our customers and driving our business forward. This allows everyone to participate directly in our success as we set out to realise our ambition to be the future standard of banking services.

We have continued to run and implement key initiatives across ClearBank throughout 2019 that supports the ongoing development of our people, encouraging excellent performance whilst also giving back to our external community. These include the launch of Bigger Than ClearBank – our Corporate and Social Responsibility (CSR) programme where our employees can donate their time to support causes close to their heart. A structured career framework for our technologists was launched and a Speak Up Policy endorsed by the executive team to encourage our people to raise concerns.

The employee option programme enables employees to provide feedback to ensure the value that has been created through the journey continues – a philosophy that the board and executive team are passionate about.

Moving forward

As we move into 2020 we have launched the Midas Cup, a dynamic social and charitable initiative for employees to raise money for worthy causes close to home, through entrepreneurship and creativity. Members of our community work cross-functionally and collaboratively in small teams, sponsored by one of our management team with the task to grow a 'business' through innovative ideas from an initial seed investment, raising money from their chosen charity.

We have seen excellent engagement with this scheme with 22% of our employees participating in one of the teams, supported by the wider community who have contributed in a range of challenges, business initiatives and events. This has allowed employees to share their passion for charitable giving in an entrepreneurial way. This is aligned to the values ClearBank was built on.

A new addition to our CSR programme is the launch of Mental Health Awareness training. 10% of our employees will undertake this training, continuing to recognise the importance of everyone's health and wellbeing and importantly being able to identify when support is needed.

As we embark on the next stage of our development and aligned to our branding strategy we will be refreshing our Values and Behaviours ensuring we maintain our FinTech ethos.

Environmental, Social and Governance (ESG)

Enabling responsible behaviour by playing a positive role in the communities in which we live and work.

We are committed to:

- managing our business in an ethical and responsible way
- delivering positive outcomes for customers, employees, investors and society
- supporting our stakeholders to embrace our culture

Here at ClearBank we understand the importance of community and our impact, both positive and negative, on our environment. ESG matters to us. James Hopkinson, acting Chief Financial Officer is now responsible, along with the Board, for developing and embedding our ESG over the medium term.

Adapting to change

Reporting requirements for companies continue to grow for the better, from the Task Force for Climate Related Financial Disclosures (TCFD) and Energy and Carbon Report Regulations (ECRR) to the Gender Pay Gap reporting (GPG) and Payment Practices and Performance Reporting (PPPR). We expect to report more information in the future as we recognise we are part of something larger than ourselves and have a responsibility to make positive change through our citizenship and business activities.

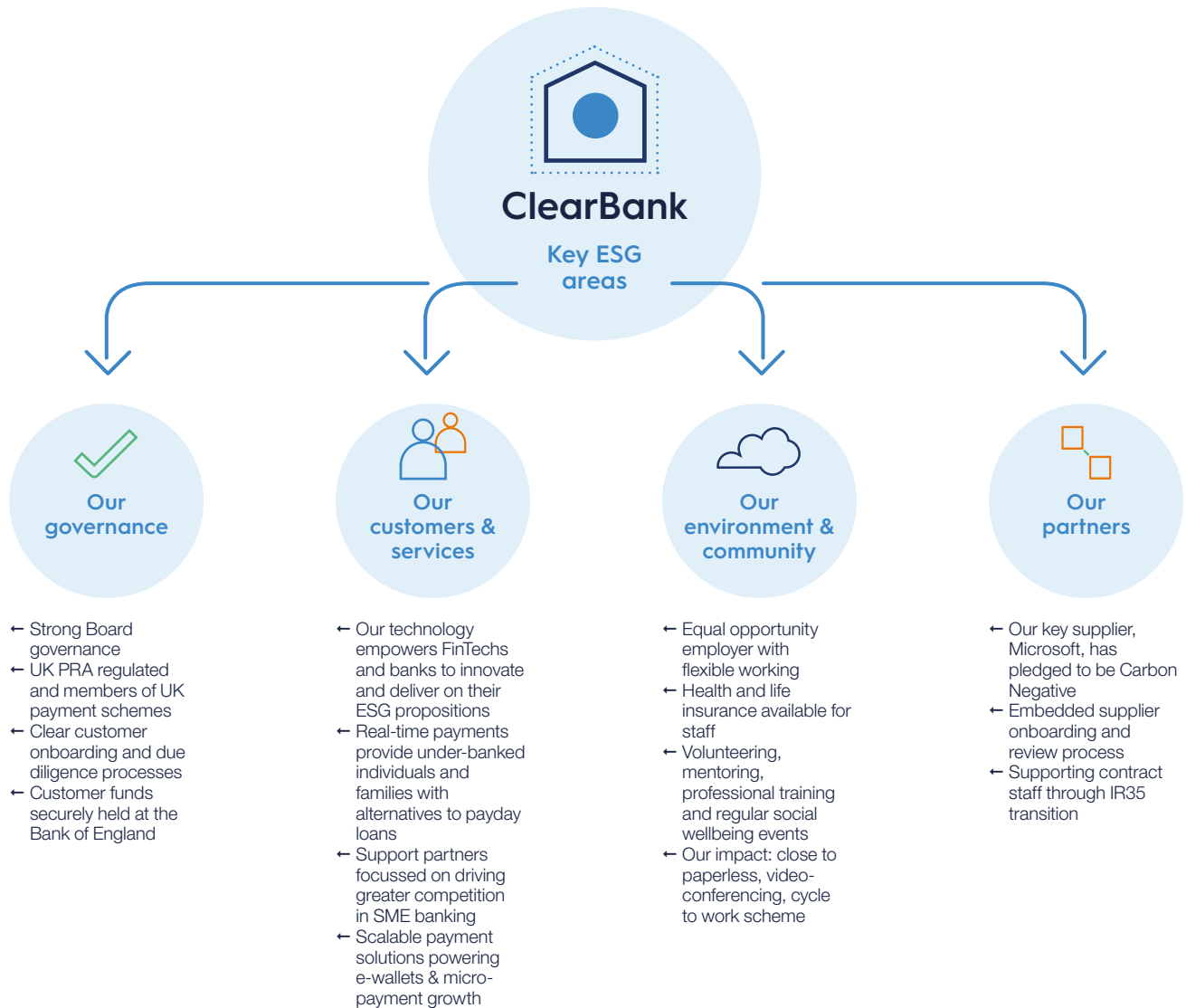
Impactful partnerships

As we develop and embed ESG in how we operate, we also need to be thoughtful about the impact of our partners and suppliers and ensure that they share our socially responsible approach. We partner with our customers who promote responsible lending, provide business banking services to underserved end consumers and are innovating to develop new products built on micro-payments. We also partner with suppliers who actively promote the best in class anti-money laundering practices or who have made commitments towards being carbon neutral.

Meaningful proposition

Our BaaS proposition promotes better outcomes for end consumers. Delivering payment and innovative banking services means that consumer transactions, from employee salary payments to paying rent, are cleared in real-time.

How we are thinking about ESG



What we are proud of



>90%

Reduction in transaction costs promotes affordable banking for all



71

Live Financial Institutional customers



3.2m

Serving 3.2 million real and virtual accounts



Launched

CSR and volunteering program



261

Employees, 34% women & 40 nationalities

28 Financial review

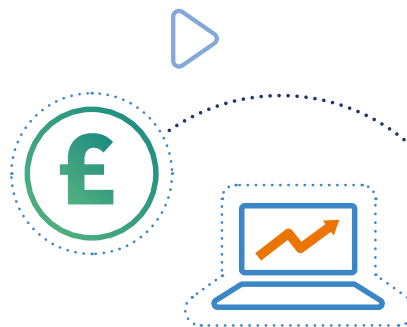


Supporting strength

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2019 was a significant year with strong growth in customers signing onto our platform and material increases in both our transaction volumes and our balance sheet

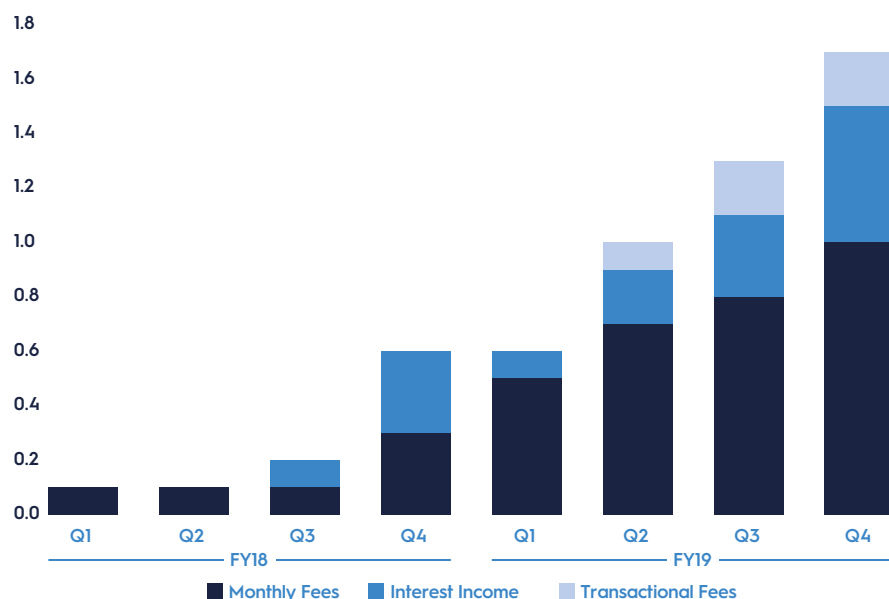
James Hopkinson
Acting Chief Financial Officer



Performance summary

2019 was a foundational year for proving the quality and attractiveness of our platform and service to the market. During 2019, the Group grew income by 535% to £5.3 million as a result of disciplined customer origination and controlled ramp up of activities with existing customers. By the end of the year we were serving 71 active customers across both our agency banking and BaaS offerings. During the year, the monthly run rate in income increased 3.5 times between December and January ensuring we enter 2020 with strong momentum.

Quarterly revenue mix (£'m)



Financial performance summary

	2019 £'000	2018 £'000
Non-transactional fee income	2,852	717
Net transactional fee income	589	(57)
Net interest income	1,097	178
Other income	780	-
Total income	5,318	838
Staff costs	(16,573)	(14,439)
Depreciation	(2,891)	(620)
Amortisation and impairment of intangibles	(3,946)	(1,745)
Other operating expenses	(15,682)	(13,567)
Operating loss	(33,774)	(29,533)

Income

The total number of accounts, both real and virtual, increased to 3.2 million by the year end demonstrating our customers' confidence in our business model and continued support in assisting our customers in their growth plans. Monthly fees increased to £3.0 million up from £0.6 million in the prior year, this represents 65% of our net income for the year and was the main driver of revenue accretion for the year.

Income is generated from a mixture of customers including: banks, building societies, EMI's and SME businesses.

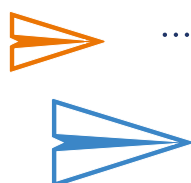
Interest income increased to £1.7 million (2018: £0.3 million) as a result of our growing cash balances, and made up 24% of our net income for the year. The Group's banking deposits are subject to variable interest rates, as a result, changes in interest rates could have an impact on the net interest income recognised in the year. A 25 basis point increase or decrease in the Bank of England base rate would have had a £0.6 million annualised impact on 2019 performance.

Other income includes non-recurring R&D tax credit income from HMRC of £0.8m.

Costs

Total operating expenses increased by 28.6% to £39.1 million in the year (2018: £30.4 million), due to investment in both growing our headcount to support the growth of the business and delivering the highest standards of operational resilience and security of our platform. Staff costs increased by 15.3% to £16.6 million (2018: £14.4 million). This investment in our people will enable us to expand our customer base and be the future standard of banking services. To further reinforce this, we have expanded our share option scheme for employees.

Depreciation has increased by £2.3 million in the year primarily due to the first-year application of IFRS 16. The standard requires that previously off-balance sheet operating leases are now accounted for as finance leases, resulting in a change in the expense profile charged to the Statement of Comprehensive Income associated with leased assets.



30 Financial review continued



Included in the 2019 costs was a one-off non-recurring impairment of software developed internally to support an earlier strategy of providing card products to our customers which is no longer required. The Group has refined its strategic focus, concentrating on building our leading agency banking and BaaS products.

Continued investment

We continue to demonstrate our commitment to investing in our state-of-the-art banking platform and to ensure our system environment is robust and resilient to meet the demands of our customers and our regulators. As a result intangible assets have increased in the year by £4.8 million to £18.8 million, representing a cash investment of £8.6 million (2018: £8.6 million).

This investment has seen a significant number of enhancements to our platform and new product development including the launch of our FSCS protected current account product, which in conjunction with our strategic partner Tide has seen us expand our services into the SME market place. This partnership was supported by a £60 million grant from the BCR. As a result, our partner Tide has achieved a 2.25% market share in the SME market as at 31 December 2019.

Robust capital, liquidity and balance sheet

In line with our risk appetite, ClearBank maintained a robust capital position throughout the year, with a CET1 of 88% at the year end, maintaining headroom in excess of our total capital requirements. The Group's CET1 ratio has been strengthened by a further investment of £34.9 million during the year, taking total share capital invested in the Group to £113.2 million. This demonstrates the strong ongoing support and commitment to the Group from our investors with a further £5 million capital injection received in January 2020 and a further £19 million in March 2020, as we seek to build our business and challenge the existing clearing market.

Key performance indicators (KPIs)

	As at 31 Dec 2019	As at 31 Dec 2018
Capital		
Common equity tier 1 ratio	88%	35%
UK leverage ratio	21%	74%
Liquidity		
Liquidity coverage ratio	127%	237%
Net stable funding ratio	324%	432%
High quality liquid assets as a % of total gross assets	93%	71%

We remained significantly above our regulatory minimum requirements throughout the year, with a Liquidity Coverage Ratio as at year end of 127% (2018: 237%) and our Net Stable Funding Ratio of 324% (2018: 432%). This demonstrates a strong liquidity position for the Group with High Quality Liquid Assets of £526.3 million (2018: £62.5 million) all held in cash at the Bank of England.

These balances represent 93.4% of the Group's assets of which £458 million (2018: £44.1 million) are customer balances.

Our model is unique and is proving powerful for customers as their funds are not used to fund commercial assets or non-sovereign investments. As a result, all of our financial institution customer deposits are placed at the Bank of England which enables our customers to facilitate payments with immediately accessible funds.

Outlook

The Group enters 2020 with increasing income momentum and a strong pipeline of customers looking to access our platform. The market remains supportive with an increasing proportion of non-cash transactions in the UK, continuing growth in faster payment scheme volumes, and increasing acceptance rates amongst UK consumers for FinTech services.

Emerging issues

We continue to monitor the development of COVID-19 and we have responded to this by implementing a dedicated incident response team to ensure our business is insulated from the effects of the virus. We are confident that our business continuity processes are sufficiently robust to mitigate the principal risks of the outbreak,

as demonstrated by the recent action for the entire Company to work remotely. This ensures that we are protecting the health and wellbeing of our people, whilst minimising the impacts on our customers. This process has been implemented seamlessly and is testament to the operational resilience inherent in our systems and processes.

The global spread of COVID-19 has significantly affected financial markets, however the impact on ClearBank's financial position at year end is minimal. The carrying values of our assets and liabilities have not been materially impacted by COVID-19. In addition, the credit risk of our counterparties, assessed under the expected credit loss model provided in IFRS 9, has increased only slightly. This means that no financial assets move to stage 2 provisioning and there is no impact on our expected credit loss provisions. The effect of COVID-19 on the Group is limited because we do not offer lending and hold all customers' balances at the Bank of England. This provides a compelling benefit to our customers as it ensures that their monies continue to be available on demand.

The full impact of COVID-19 at this early stage is difficult to fully quantify. The effect of the reduction in BoE interest rates to a historic low of 10bps as a result of the COVID-19 outbreak will have a material impact of £3.2 million on the expected interest revenue over the next 12 months. However, an increase in transaction volumes through our platform since the outbreak, in addition to a healthy client pipeline and our continued ability to onboard customers whilst we work remotely, indicate the demand for our services and resilience of our operations.

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.

Overview of risk management process

As ClearBank has been built, we have 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, strategy and promotes a strong risk culture, expecting every employee within ClearBank to adhere to these high standards. The Board delegates this responsibility through the Board Risk Committee (BRC) which in turn receives recommendations from the Enterprise Risk Management Committee (ERMC) for approval. 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 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. Graeme Smith, an independent non-executive director, chaired the BRC and is to be replaced by Catherine Doran in 2020. The Chief Risk and Compliance Officer (CRCO) is a permanent attendee and is also the Chairman of the ERMC. Further details about the role of these committees are detailed in Our Governance section.

The CRCO leads the risk function of ClearBank and is independent from ClearBank's operational and commercial functions. They are 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. They are responsible for providing assurance to the Board that the principal risks are appropriately managed and that ClearBank is operating within its risk appetite.

Changes implemented during the year

As our business matures we continue to review our risk management in line with our strategy. The importance of fully understanding and managing the risks inherent to our vision of an independent, neutral and transparent clearing bank with market leading service levels, resilience and expansion capabilities, has never been more important.

“

Successfully identifying and addressing risks are an integral part of ClearBank's culture, and an important foundation for our long-term success. We empower our people to manage risks in everything they do, in accordance with set guidelines and principles. This helps to improve processes and compliance, uncover opportunities, and ultimately allows ClearBank to respond to change with greater agility

Stefan Ward
Chief Risk and Compliance Officer

There is ever increasing demand for controls and processes that deliver the highest levels of operational resilience, information and financial crime security, we considered the key risks associated with these and describe them further below.

ClearBank have defined a comprehensive, common and stable set of risk categories and risk taxonomy that is used to ensure all types of risks that could affect ClearBank's objectives are identified, assessed, mitigated, monitored and reported. Furthermore, all risks have been mapped to the renewed process hierarchy; this has facilitated a 'bottom-up' review of how risk events could compromise our strategic objectives leading to a strengthening of our risk management processes and controls. This enhancement in our risk taxonomy aligns our risk management processes closer to those employed in FTSE 350 companies.

We have fully revised and embedded Enterprise Risk Management Framework (ERMF) within ClearBank, which entails monthly risk review, reporting and control testing. Our controls have been subject to the first-line control testing, on a regular basis, under one consistent methodology across ClearBank.

The principal risks and trends relating to them are set out in the Risk Overview table on page 35.

Looking ahead

As we continue to grow as a business, the risks we face continue to evolve and we carefully manage these risks with a robust risk management process.

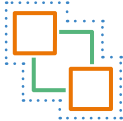
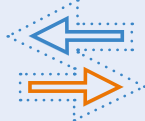



32 Risk management continued

Area	FY20 actions
Risk culture	Embed Senior Managers and Certification Regime (SMCR) enhancements, including reporting management information (MI) to BAC and ensure compliance with training requirements.
Risk appetite framework	Roll out an improved 'full suite' risk appetite, embed risk appetite reporting and deliver annual risk appetite review.
Risk taxonomy	Refresh all key risk processes and policies to reflect the recently implemented risk taxonomy and review the controls landscape in light of this.
Risk policies & framework	Policy working group established to ensure risk procedures are incorporated through the business and update the policy framework.
Risk management process	Completion of the ERMF, Risk Control Self-Assessments (RCSA) and regular control testing.
Risk governance & reporting	Implement a set of IT security cyber key risk indicators (KRIs), KPIs and enhance the quality of risk MI reported to ERMF.
Operational resilience	Identify and define policies, frameworks, associated risks and controls and training. Map recovery processes to the refreshed risk taxonomy.
Conduct risk	Perform a business review to identify potential risks, map key customer journeys and develop first-line MI to report on them.

Risk management process

Our approach to risk

Our risk management process involves the identification and assessment of specific risks within these risk groups, mitigation and management of these risks, and monitoring and reporting against these risks, which provides the foundation to enable us to deliver against our strategic objectives.

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

Risk management framework (RMF)

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

ClearBank's RMF is designed to manage, minimise and control all our business risks, as documented on the individual risk pages later in this report.



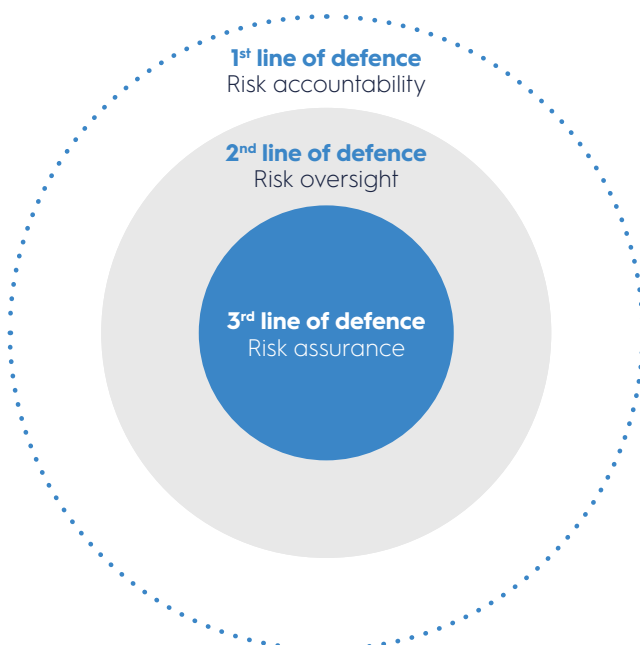
Risk operating model

This articulates the risks ClearBank faces and sets out how our strategy will be delivered by matching an appropriate risk approach, for instance, by setting and managing our risk appetites. It also considers how risk culture is embedded.

Three lines of defence

Our risk management strategy incorporates 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.

Definitions / Principles



1st line of defence Risk accountability

Business Operations & Support Functions: Individuals who engage in activities that generate revenue, reduce expenses and enable or support risk taking (e.g. 'front line' business units, Operations and IT). Owners of risk throughout the organisation.

2nd line of defence Risk oversight

Risk and Compliance Function: Individuals who are independent of the risk takers and enablers with responsibilities for overseeing all risk taking activities in aggregate and escalating excessive risk taking (e.g. by risk type and line of business). Advisors to the first line in executing their responsibilities to manage their risk taking activities.

3rd line of defence Risk assurance

Internal Audit: Individuals independent of the first and second line functions who possess appropriate skillsets in order to objectively assess fundamental, technical and emerging risk governance matters (e.g. culture, validation, capital adequacy). Tasked with providing assurance to management, the board and stakeholders on the effectiveness of the internal control framework.

34 Risk management continued

Risk appetite framework (RAF)

We have a defined risk appetite which enables us to effectively manage the potential upside and downside risks of our business strategy. Risk appetites articulate the acceptable levels of risk which are inherent in the business model across various risk types and 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 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 ERM and BRC at least monthly, to ensure adherence to the limits which have been set.

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 ERM and BRC. The risk assessments help to define residual risks, controls and control enhancements, to ensure it operates within its formally stated risk appetite.

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

Risk culture

Risk culture is at the heart of our RMF. Without a strong risk culture centred around risk awareness, openness, continuous improvement and incentivising correct behaviours we cannot be certain of ensuring the appropriate outcome for both ourselves and our customers.

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 ensures 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.

Risk overview

How each of our level 2 risks map to our four principal (level 1) risk categories is summarised in the table below. Further details on material risks can be found on the individual risk pages later in this report.

Risk committee responsible	Level 1 risks	Level 2 risks	2019 movement*	2020 outlook*
Enterprise Risk Management Committee	1. Strategic and business	1. Business risk		
		2. Political, economic and social	↔	↔
		3. Technological		
		4. Competition		
Assets and Liability Committee	2. Financial	5. Capital		
		6. Interest rate		
		7. Market	↑	↔
		8. Credit		
		9. Liquidity and funding		
Enterprise Risk Management Committee	3. Conduct	10. Conflicts of interest		
		11. Complaints handling		
		12. Vulnerable customers		
		13. Sales process	↔	↑
		14. Reward and incentives		
		15. Product		
		16. Post sale servicing		
Enterprise Risk Management Committee	4. Operational	17. Regulatory/Compliance		
		18. People		
		19. Financial crime		
		20. Fraud (internal and external)		
		21. Information risk		
		22. Technology risk		
		23. Financial reporting	↔	↔
		24. Third party supplier management		
		25. Legal risk		
		26. Transformation risk		
		27. Model risk		
		28. Physical security		
		29. Business continuity		

*Relative changes in control environment and processes over the period

↑ Improvement ↔ No change ↓ Worsening

36 Risk management continued

Risks

Principal risks and uncertainties

The tables below detail the principal risks and uncertainties we have identified and the material risks have been further expanded in the accompanying pages. We have a process to regularly report key risk indicators and identify changes in the profile of these principal risks. In addition to the principal risks identified, we also consider emerging risks and we monitor the external environment and model the potential impact of different potential geopolitical scenarios as part of our stress testing programme.

Level 1 risk	Level 2 risks	Description	Example risks	Risk owners
1. Strategic and business	1. Business risk 2. Political, economic and social 3. Technological 4. Competition	These are the risks that we do not set the right strategy, a material business decision fails, or external market factors impact the viability of the business. This could include an inability to develop or introduce new business lines effectively, to expand organically, or to enhance the effectiveness of our operational infrastructure.	Lower sales and/or profit hindering future plans Risk of loss arising due to changes or developments in technology	CEO

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.

Geopolitical risk/Brexit

Although the UK's exit from the European Union itself is outside ClearBank's control, we remain vigilant to mitigate against any effects. Brexit is not expected to have a significant operational impact and given our corporate structure it is not considered 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.

Level 1 risk	Level 2 risks	Description	Example risks	Risk owners
2. Financial	5. Capital 6. Interest rate 7. Market 8. Credit 9. Liquidity and funding	These are the risks facing our business in terms of inadequate or failed management of finances and the risk introduced by external factors that could have a detrimental impact on our cash flow, capital and liquidity.	Not holding enough capital to meet business or regulatory requirements Having insufficient liquid funds to meet current /future liabilities Not have sufficiently stable and diverse sources of funding	CFO

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 PRA as part of our Total Capital Requirements (TCR). The capital position is monitored monthly by Asset and Liability Committee (ALCO) and reported monthly to the ERM and BRC.

Composition of regulatory capital of the Company

	31 Dec 2019 £'000	31 Dec 2018 £'000
Share capital	–	–
Share premium	112,999	78,125
Share-based payments reserve	5,723	3,301
Retained losses	(76,949)	(44,167)
Total shareholders' funds	41,773	37,259
Deductions:		
Deferred tax	(6,047)	(5,951)
Intangible assets	(18,265)	(13,418)
Total	(24,312)	(19,369)
Common equity tier 1 (CET) capital	17,461	17,890
CET capital ratio	88%	35%

Funding and liquidity risk

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

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

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

Credit risk

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

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

		Exposures		Risk weighted assets	
Asset class	Exposure class	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Cash and cash equivalents					
Cash	Central Banks	526,454	62,526	–	–
	Central				
Cash	Governments	–	–	–	–
Other assets					
Collateral	Other Items	364	364	205	205
Other assets	Other Items	12,848	5,399	15,459	8,979
Total		539,666	68,289	15,664	9,184

Market and interest rate risk

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

Foreign exchange exposure arises from ClearBank's investment 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.

Level 1 risk	Level 2 risks	Description	Example risks	Risk owners
3. Conduct	10. Conflicts of interest 11. Complaints handling 12. Vulnerable customers 13. Sales process 14. Reward and incentives 15. Product 16. Post sale servicing	This is the risk of not delivering fair outcomes caused by the poor judgment of managers and employees. This could create a financial impact for both customers and the firm.	Loss, regulatory action and reputational damage from: 1. inadequate complaints handling processes; 2. not identifying and treating vulnerable customers fairly; or 3. substandard sales process	COO CCO

Conduct risk

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

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

38 Risk management continued

Level 1 risk	Level 2 risks	Description	Example risks	Risk owners
4. Operational	17. Regulatory/Compliance 18. People 19. Financial crime 20. Fraud (internal & external) 21. Information risk 22. Technology risk 23. Financial reporting 24. Third party supplier management 25. Legal risk 26. Transformation risk 27. Model risk 28. Physical security 29. Business continuity	This is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.	Loss due to non-compliance with or changes to regulations Loss due to insufficient capacity, capability or performance Loss attributed to non-compliance with or changes to Financial Crime regulations, legislation and/or guidance Risk of loss and reputational damage due to the failure of IT systems infrastructure and/or applications	Head of HR COO CFO CGLO

Operational risk

Operational risk can result in financial or non-financial losses such as customer detriment or reputational damage resulting from inadequate or failed internal processes, people and systems. Given the nature of ClearBank's focus on transactional banking services, maintaining secure and reliable systems connectivity to the various payment schemes is essential. ClearBank continues to develop and invest in systems and controls to mitigate all operational risks, supported by the oversight of experienced staff.

Regulatory and compliance risk

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

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

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

Operational resiliency

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

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

Information security risk

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

Financial crime risk

ClearBank has designed and adopted policies and procedures to detect and prevent the use of its banking facilities for money laundering, terrorist financing, bribery, fraud, and activities prohibited by legal and regulatory sanctions. ClearBank regularly reviews and assesses these policies to keep them current, effective, and consistent. ClearBank continues to ensure that industry guidance including from the Joint Money Lending Steering Group (JMLSG), HM Treasury, and the Financial Action Task Force (FATF) are reviewed and actioned accordingly.

Section 172 statement

Statement by the directors in performance of their statutory duties in accordance with s172(1) Companies Act 2006 – ‘Duty to promote the success of the company’.

As a Board of Directors we consider, both collectively and individually, that we have acted in the way we consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1)(a-f) of the Act) in the decisions taken during the year ended 31 December 2019. In particular, by reference to the approval of our multi-year strategy, which is set out on page 21, our consideration of this and other principal decisions is detailed below.

As a Board of Directors we have always taken decisions for the long term, our aim is always to uphold the highest standards of conduct and to behave responsibly to ensure that Management also operate the business in a responsible manner. We understand that our business can only grow and prosper over the long term if we understand and respect the views and needs of our key stakeholders: our regulators, customers, colleagues and the communities in which we operate, as well as our suppliers, the environment and the shareholders to whom we are accountable. This is reflected in our values and behaviours, and our People section sets out more detail on how we manage our relationships with some stakeholders. A values-based code of ethical business conduct takes account of all of ClearBank’s stakeholders, and the need to foster constructive and respectful relationships with them.

ClearBank aims to be a Group in which people want to invest, from which people want to procure services, with which people want to partner and for which people want to work. This requires the Board, Executive Committee, senior managers and other employees to maintain an approach to strategic, financial and operational decision-making that is values-based and sustainable in approach, and therefore aligned to the requirements and expectations of Section 172.

Sustainable success and delivery of our strategy is dependent on the skills, talent and values of employees. ClearBank is committed to being a responsible employer in our approach to the pay and benefits our employees receive. The health, safety and well-being of our employees is one of our primary considerations in the way we do business.

Decision-making requires a long-term perspective, and this is typified by our continued investment in building the Group’s IT infrastructure to drive long-term value for the Group, whilst minimising the impact of our business operations on the environment. We aspire to be responsible members of our community as it reflects our principle to do the right thing. Our strategy takes into account the impact of the Group’s operations on the community and environment and our wider social responsibilities, and in particular how we operate in the payment infrastructure landscape. For instance establishing a strategic partnership with Tide after successfully being awarded £60 million from the BCR, with the aim of facilitating the development of more advanced business current account offerings and ancillary products for SMEs in the UK.

As the Board of Directors, our intention is to behave responsibly toward our shareholders and treat them fairly and equally, so they too may benefit from the successful delivery of our strategy.

Continued access to capital is important for our business. We work to ensure that our shareholders, potential shareholders and their representatives have a good understanding of our strategy, business model, opportunity and culture. We achieve this by regular and active engagement through the Company Secretary, the AGM, the Annual Report and Accounts, the Corporate website and quarterly results and direct communication between some shareholders and Management.

Principal decisions

We define principal decisions as both those that are material to the Group, but also those that are significant to any of our key stakeholder groups. In making the following principal decisions the Board considered the outcome from its stakeholder engagement as well as the need to maintain a reputation for high standards of business conduct and the need to act fairly between the members of the Group:

Principal decision 1 - approving our strategy

We identified that a refresh of our strategy was a material event that impacts all of our Stakeholders. We have due regard to all of the following areas and have set out why we think this strategy is optimum for the Group.

Brief summary of the decision

We set out to develop a clear strategic path for ClearBank, having regard to our strengths, weakness, opportunities and threats in order to maximise our potential to drive long term sustainable value for our stakeholders.

Impacts on the long-term sustainable success of the Group, include:

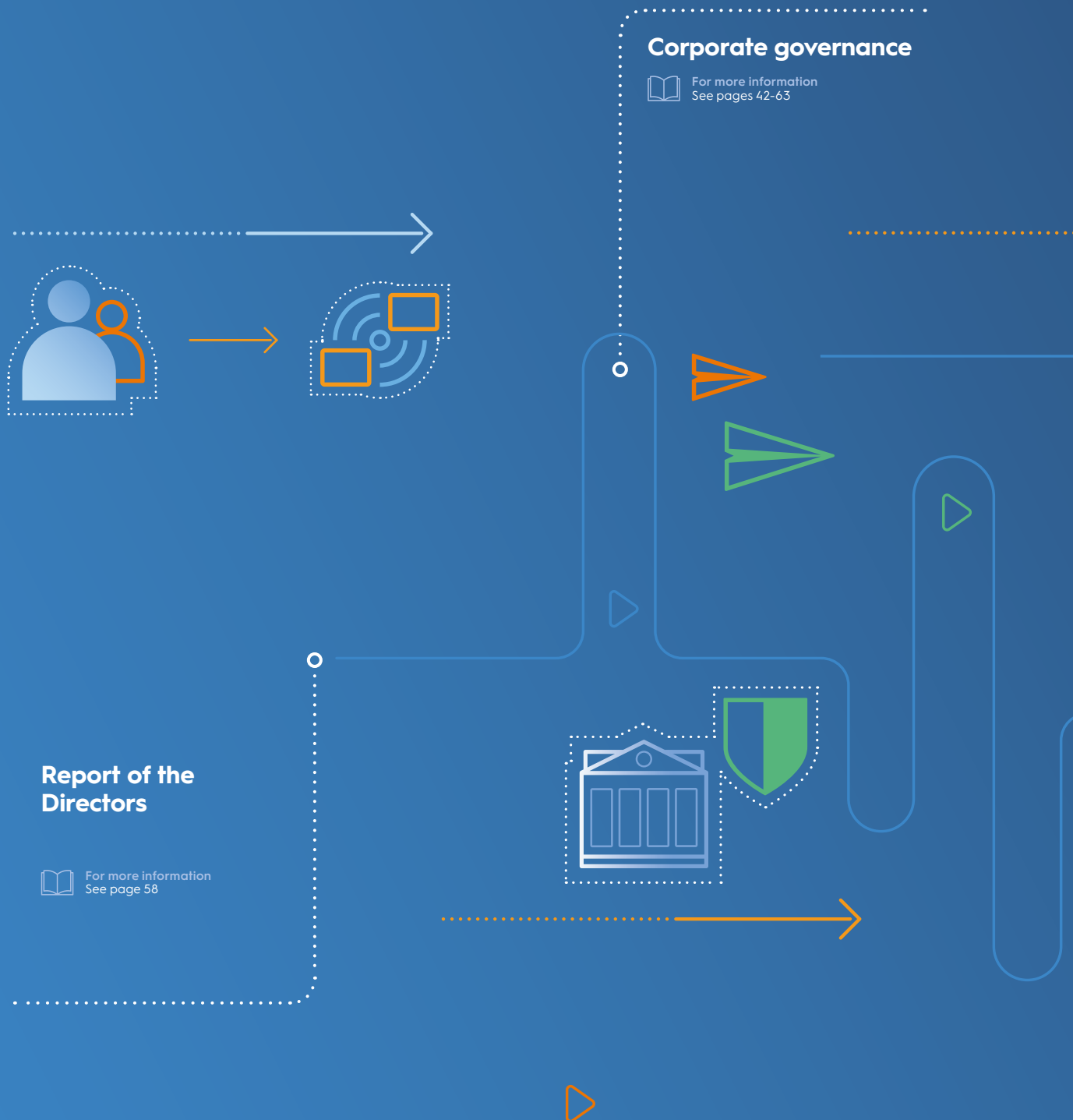
- I. Changes to the business model;
- II. Impact on risk management processes and principal and/or emerging risks (including climate change);
- III. Impact on the Group’s reputation for high standards of business conduct;
- IV. Impact on the actual culture of the Group.

Actions the Group plans to / has implemented to mitigate any potential negative impact on the long-term success of the company

Implementation of our strategy has commenced with our attention on our three main strategic priorities found on page 21. Our renewed strategy has focussed our efforts on product development and positioning the Group to deliver a scale play.

How impacts on that stakeholder group have been considered

Our strategy looks to deliver a compelling customer proposition, rewarding careers and sustainable shareholder returns, whilst being a responsible member of the communities that we operate in.



Our governance

Governance

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42 Meet the Board of Directors

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 July 2018) (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.



David Gagie
Chairman

Appointed

September 2018

Background

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 Gagie was appointed as Chairman on 10 January 2019.

Committees

Board
Nomination Committee
Board Risk Committee



Charles McManus
CEO and Executive Director

Appointed

December 2015

Background

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.

Committees

Board



Shonaid Jemmett-Page
Senior Independent Director, Chairman of Audit and Remuneration Committees

Appointed

July 2016

Background

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

Committees

Board
Board Audit Committee
Board Risk Committee
Nomination Committee
Remuneration Committee



Phil Kenworthy
Independent Non-Executive Director

Appointed

June 2017

Background

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.

Committees

Board
Board Audit Committee
Board Risk Committee
Nomination Committee
Remuneration Committee

Full biographies of each Director can be found on the ClearBank website.

*John Risley is an alternate Investor Director for Stan Spavold



Marc Jenkins
CFO and Executive Director

Appointed

January 2017

Background

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.

Committees

Board



Nick Ogden
Founder and Investor Director

Appointed

August 2015

Background

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

Committees

Board



Stan Spavold*
Investor Director

Appointed

April 2016

Background

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

Committees

Board



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

Appointed

July 2016

Background

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

Committees

Board
Board Audit Committee
Board Risk Committee
Nomination Committee
Remuneration Committee



Mel Carvill
Investor Director

Appointed

April 2016

Background

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

Committees

Board

44 Board and committee structure

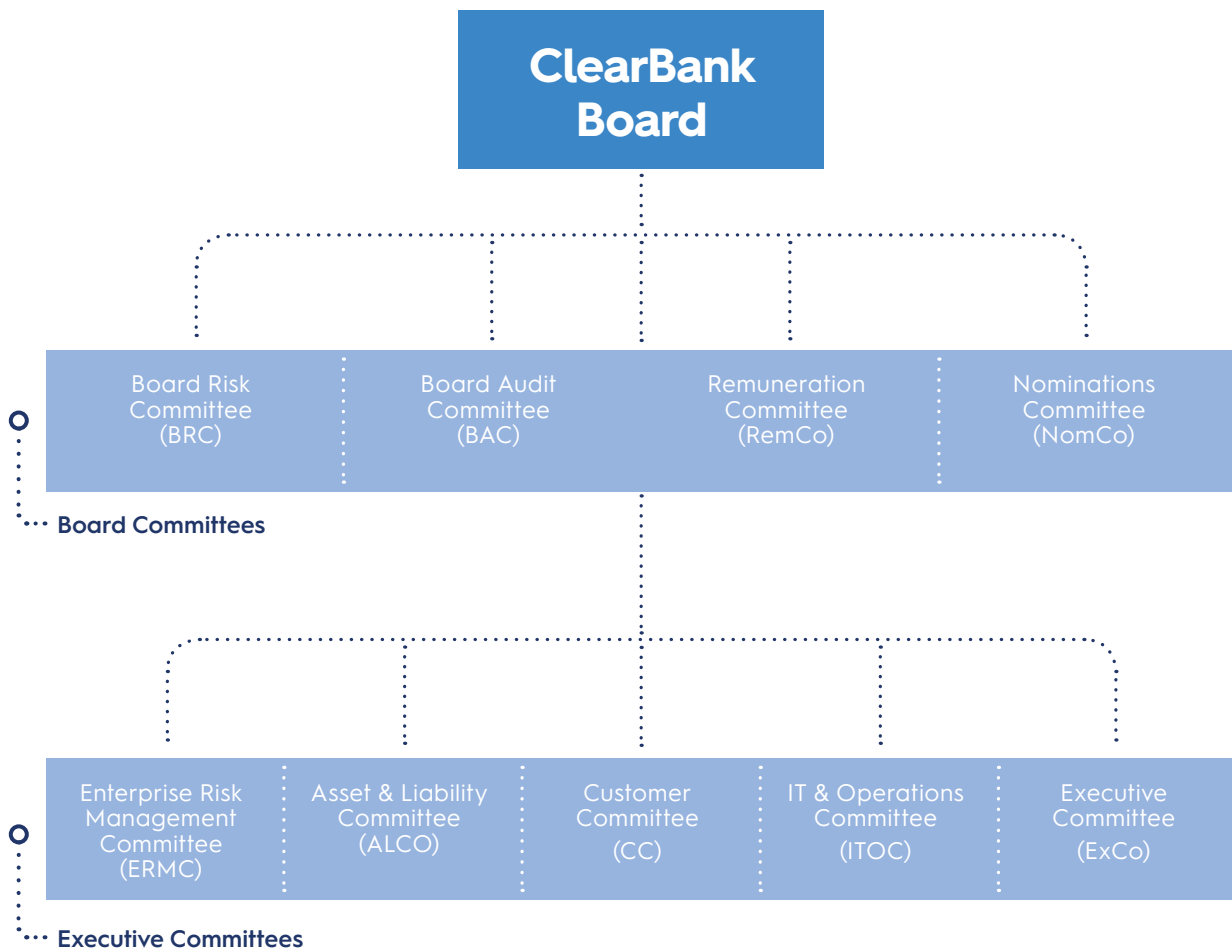
Board function

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 committees

As further detailed and as illustrated in the diagram on page 44, 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 Chairmen as standing agenda items at each of its meetings and all Directors can access and review the respective Committee meeting minutes.

Board Audit Committee

The BAC'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 all 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

The BRC's responsibilities include the development and maintenance of the 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

The RemCo'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 linked to clear and transparent objectives and participation incentive and benefit plans available to employees. The RemCo is chaired by Shonaid Jemmett-Page.

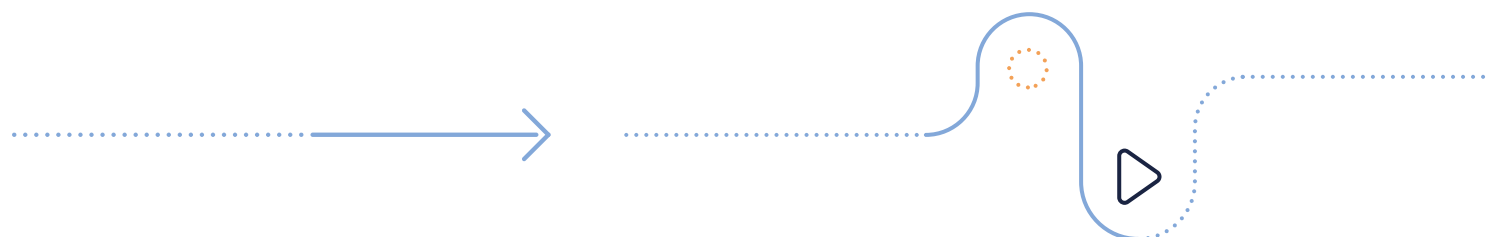
Nomination Committee

NomCo'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 NomCo 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 NomCo 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 NomCo is chaired by David Gage.

Executive Committees

The Board is supported by the ExCo. The Executive sub-committees include the ERM, ALCO, CC and ITOC.

Each Committee meets on at least a monthly basis and then reports up to the Board where appropriate, with each executive also responsible for compiling departmental reports to the Board Committees.



46 Directors roles & processes

Directors

During this reporting period ClearBank strengthened its Board of Directors with the appointment of existing Non-Executive Director, David Gagie, as Chairman of the Board on 10 January 2019

Nick Ogden 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. Twenty Board meetings were held during 2019 (2018: 17).

Board and committee attendance

The table below shows each Directors' attendance at scheduled Board and Board Committee meetings, and ad-hoc meetings when these are required, held in the year.

Attendance	Board ¹	Board Audit Committee	Board Risk Committee	Remuneration Committee	Nomination Committee
David Gagie	20/20	9/9	12/15	–	4/4
Charles McManus	19/20	–	–	–	–
Marc Jenkins	20/20	–	–	–	–
Nick Ogden	16/20	–	–	–	–
Shonaid Jemmett-Page	17/20	9/9	13/15	4/4	4/4
Phil Kenworthy	20/20	9/9	15/15	4/4	4/4
Graeme Smith	20/20	9/9	15/15	4/4	4/4
Stan Spavold	19/20	–	–	–	–
Mel Carvill	17/20	–	–	–	–

¹ This includes seven ad-hoc Board meetings.

Approved by the Board of Directors and signed on behalf of the Board on 8 April 2020.

Philip House

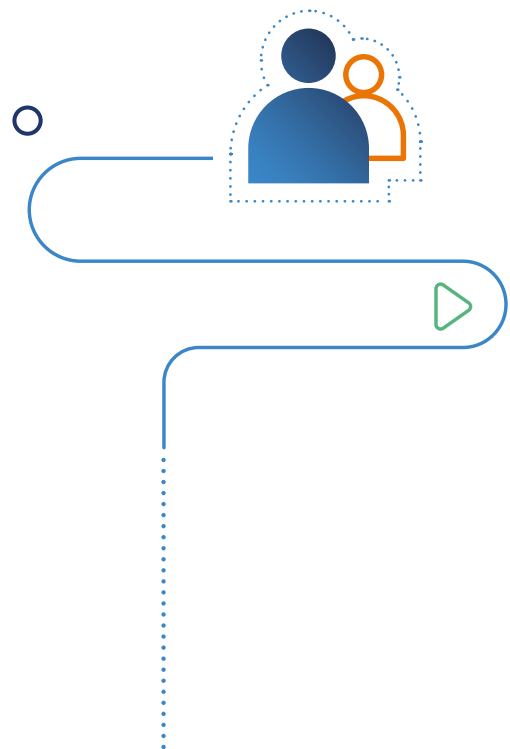
Chief Governance and Legal Officer

Board Audit Committee Report

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Maintaining integrity



Strategic Report

Governance

Financial Statements

48 Board Audit Committee Report continued

The BAC represents a key element of the Group's corporate governance, monitoring the integrity of the financial statements, effectiveness of internal controls and internal and external audit.

Chairman's overview

Our focus has been on developing and implementing a robust internal control framework and risk management systems to keep pace with the development of ClearBank and future proof us against the changing external environment. One of our goals has been to initiate a multi-year development programme which will see continuous enhancement of our systems, controls and processes, readying us as we become increasingly important for our customers and become systemically important in the UK payments market.

We remain firmly committed to the quality of our financial reporting. The audit committee has been closely involved in the oversight of the year end reporting process, particularly with respect to the messaging and developments in our financial statements as well as the key judgements which underpin them.

With Marc Jenkins having stepped down as our Chief Financial Officer in early 2020, we have sought to provide support to both Charles McManus, our Chief Executive, James Hopkinson, our new acting Chief Financial Officer, and our other finance professionals, whilst retaining our role as an independent challenge.

BDO LLP, were appointed as our auditor for the financial period ending 31 December 2016 and will have completed four statutory audits with the conclusion of this Annual Report and Accounts. We have decided that it is time to start the process of considering our external audit arrangements for the forthcoming financial years, considering the risks and opportunities of appointing a new auditor and are applying the codes of best practice to deliver a successful audit tender process.

Committee's roles and responsibilities

The principal roles and responsibilities of the committee continue to be:

- Assessing the integrity of the Group's financial reporting
- Reviewing the effectiveness of its internal controls, RMF and Speak up process
- Monitoring and reviewing the activities and performance of the internal and external auditors
- Advising on the appointment of the external auditors

The committee reports to the Board on its activities and makes recommendations, all of which have been accepted during the year.

Membership and meetings

The 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.

The committee held nine 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, Chief Internal Auditor, Chief Risk and Compliance Officer and the external auditor 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. Committee members attend training and seminars to maintain a comprehensive knowledge in order to discharge their duties.

Detailed information on the experience, skills and qualifications of all BAC members can be found in the Corporate Governance section.

Key topics discussed by the Committee in 2019

Financial reporting

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

- To assess the integrity of the annual financial statements, with a focus on key accounting policies and judgements of the Group and its subsidiaries
- External annual planning and delivery timetables
- To review, assess and advise the Board on whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable
- 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 the Board and management's approach to, and assessment of, the ability to remain as a going concern
- To review monthly finance and performance review reports
- To review the annual budget, five-year business plan, internal capital adequacy assessment process (ICAAP) and internal liquidity adequacy assessment process (ILAAP)
- To review the effectiveness of the BAC and its terms of reference

In addition, the Committee undertook the following non-core activities, which were considered and approved during the year:

- Commencement of external audit review and tender process

Internal audit

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

- To review internal annual audit programmes and timetables and to ensure that resources are adequate
- Internal controls and risk management processes
- To monitor and assess the role, effectiveness and independence of the internal audit function
- To review the Chief Internal Auditor's monthly internal audit report on the results of their work and to review management's responsiveness to findings
- To meet regularly with the Chief Internal Auditor and ensure access to the Board

In addition, the Committee undertook the following non-core activities, which were considered and approved during the year:

- Successful trial and adoption of an agile approach within the internal audit team
- Operational resilience Board management information presented to the Board
- Gap analysis of the internal audit practice against the International Professional Practices Framework

External audit

The committee undertook the following activities in relation to the external audit: during the year:

- To review and assess the effectiveness of the external audit and to recommend the appointment, re-appointment 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 review and approve 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
- The fees for the 2019 audit for the Group are £135,000 with no fees spent on non-audit fees in the period

Speak up, whistleblowing and fraud

The committee undertook the following activities in relation to whistleblowing and fraud during the year:

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

The Group continues to place a high priority on employees' understanding of the process to enable them to speak up with confidence when appropriate.

Key sources of estimation uncertainty and critical accounting judgements related to the Financial Statements

We reviewed the significant issues set out below in relation to the Group's Financial Statements for the year ended 31 December 2019. We discussed these issues at various stages with management during the financial year and during the preparation and approval of the Financial Statements.

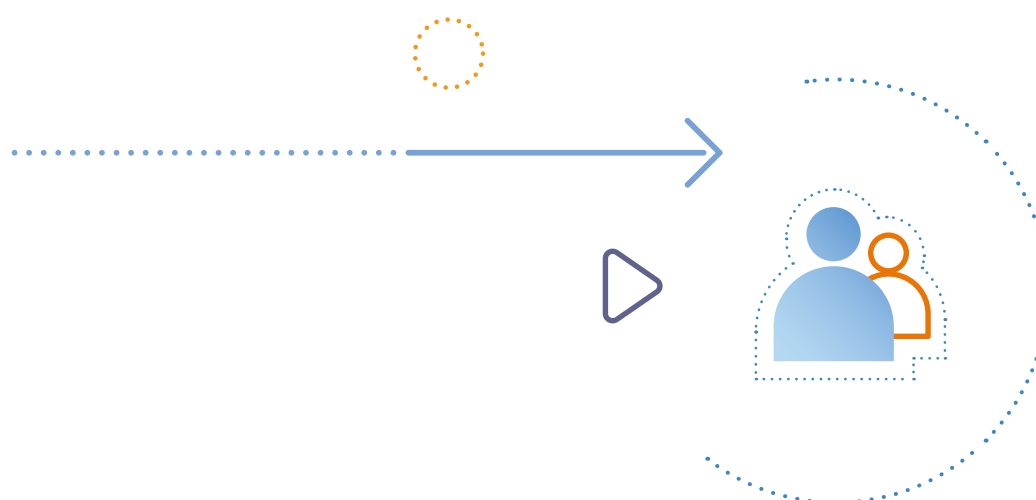
We are satisfied that the Financial Statements appropriately address the critical judgements and key estimates, in respect both of the amounts reported and the disclosures made, following review and consideration of the presentations and reports presented by management.

We also reviewed these issues with the auditors during the audit-planning process and at the conclusion of the year-end audit.



50 Board Audit Committee Report continued

Key audit matter	KSEU and/or CAJ*	Issue	Key considerations	Role of the committee	Conclusion
Yes	CAJ	IAS12: Deferred tax asset	Determining the likelihood of meeting the necessary future performance in order to recognise a deferred tax asset on our taxable trading losses.	We considered Management's paper explaining the assumptions for the recognition of a deferred tax asset; reviewed and challenged Management's forecasts and assessed the likelihood of meeting future performance conditions.	We concluded that the assumptions and judgements used in determining the future utilisation of the deferred tax asset were appropriate.
Yes		IAS20: BCR grant	Determining the correct IFRS treatment and ensuring the appropriate application of the standard. Assessing the accuracy of the timing of grant income per IAS 20 and in accordance with the grant criteria, for example the income approach requires application of the accruals concept by recognising BCR grants income on a systematic basis against the related costs.	We considered Management's paper explaining the assumptions for the useful economic life and compared the reasonableness of these estimates to industry best practice.	We concluded that the assumptions and judgements used in determining the useful economic life and associated expense were appropriate.
Yes	CAJ	IAS38: Capitalisation of intangible assets	Appropriate application of the recognition criteria including assessing whether future economic benefits derived from the asset are sufficient to recover the costs capitalised. Assessing controls and processes governing the estimates used in determining the amount of time spent directly on development.	We considered Management's capitalisation policy and we satisfied ourselves that the procedures performed by Management to apply the recognition requirements for internally developed intangibles were robust and comprehensive.	We concluded that the capitalised assets were appropriate and accurate at the year end, and the procedures in place were sufficiently robust to ensure the correct application of the IFRS.



Key audit matter	KSEU and/or CAJ*	Issue	Key considerations	Role of the committee	Conclusion
No		IFRS16: Leases	Appropriate application of IFRS in the transition year; determination of suitable discount rates and assessment of the lease term used establish the quantum of the right of use assets, corresponding lease liabilities and the associated expense profiles.	We considered Management's paper on the application of the Standard, explaining the assumptions used in the calculation, understanding the resulting impact on the Statement of Financial Position and the Statement of Comprehensive Income.	We concluded that the assumptions and judgements used, relating to the discount rate and lease terms, were reasonable and we were satisfied that they were appropriate.
No	CAJ	IAS36: Impairment of internally developed intangible assets	Assessing the judgements on the obsolescence of the internally developed software and its ability to generate positive cash flows for the business.	We considered Management's paper considering the internal and external indicators of impairment and satisfied ourselves that the procedures performed by Management to identify these indicators was robust.	We concluded that the judgements used in determining the indicators of impairment were sufficient and appropriate.
No	CAJ	IAS1: Going concern	Assessing the appropriateness of the adoption of the Going Concern basis of preparing the financial statements.	We considered Management's assessment of the Group's going concern status; reviewed and challenged Management's forecasts and assessed the likelihood of meeting future performance, capital and liquidity conditions.	We concluded that the assumptions and judgements used in determining the future viability of the Group to be robust and appropriate.

* Key source of estimation uncertainty and critical accounting judgement

I would particularly like to thank the entire finance team for the outstanding work they have done over this year end. As we welcome James Hopkinson as our new acting Chief Financial Officer, I want to give special thanks to Marc Jenkins for his hard work, dedication and professionalism, which has been instrumental in ClearBank's success so far.

Shonaid Jemmett-Page

Chairman of the Board Audit Committee

52 Board Risk Committee Report



Providing
responsible
insight
and advice



Chairman's overview

On behalf of the committee I am pleased to present the Risk Committee Report for 2019.

The committee apportion its time between the planned periodic review of key risks and the close scrutiny of emerging and new business risks as they develop.

Scalability, operational resilience, financial crime and cyber security continue to remain at the top of our agenda as we continue to grow and ensure our state-of-the-art technology supports the requirements of our customers, the market and the regulators. The committee has spent a large proportion of time reviewing and monitoring the enhancements to our Risk Management Framework and a consistent and appropriate risk appetite.

Committee's roles and responsibilities

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 RMF.

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.

Membership and meetings

The 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.

The committee held nine scheduled meetings during the year, supplemented as and when required by additional ad-hoc meetings of the committee.

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 topics discussed by the committee in 2019

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

Risk strategy

- Annual review and recommendation to the Board regarding Risk Management Framework
- Reviewing the effectiveness of the risk monitoring and control framework
- Payment Systems Regulatory Annual Plan
- ClearBank and Tide Outsourcing Agreement and Banking Competition
- Approval for passporting services to Jersey and Gibraltar
- Business Continuity and Operational Resiliency policies and statements
- Brexit Capital and Liquidity Plan

Financial reporting

- Monthly updates on matters considered at the ALCO
- Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP)
- Liquidity Supervisory Review and Evaluation Process (L-SREP) and Capital Supervisory Review and Evaluation Process (C-SREP)

Operational risk and resilience

- Operational Risk Incidents
- Operational Resilience programme
- Business Continuity and Operational Resiliency policies and statements
- Brexit Capital and Liquidity Plan
- Insights and review of any major industry incidents

Information security and financial crime

- Regulatory developments including:
 - Financial Conduct Authority Cyber Report
 - Authorised push payments in respect of indirect fraud

- Payment sanctions screening regulations
- Information resiliency strategy
- Cryptocurrency risk appetite
- Review of sanctions screening against Wolfsberg guidance

Internal control and risk management

- 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
- 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 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, policies, authorities and limits across ClearBank.

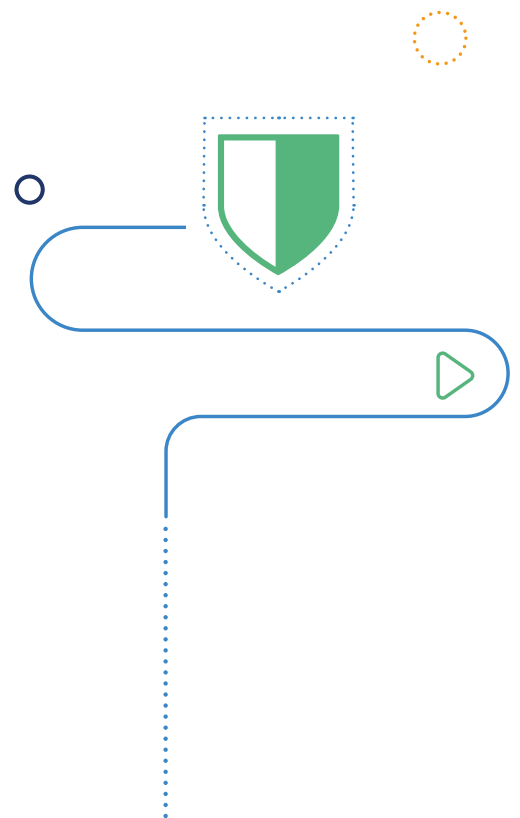
Graeme Smith

Chairman of Board Risk Committee

54 Remuneration Committee Report



Supporting our strategic aims



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.

Chairman's overview

On behalf of the Committee I am pleased to present the Remuneration Committee Report for 2019.

In the year the Committee has overseen the appointment of a new Head of Human Resources, a Chief Customer Officer and Chief Financial Officer, resulting in the appointments of Nadine Adams, Simon Jones and James Hopkinson.

In line with previous years our remuneration arrangements are designed to be clear and transparent, linked to performance and aligned to the business strategy, values and culture. This is to ensure that we continue to retain and attract motivated and talented individuals.

Committee's roles and responsibilities

- Agree the framework and policy for terms of employment and remuneration
- Seek periodic internal assurances that the remuneration processes and principles as set out in its remuneration policy are being implemented
- Work with and seek advice from the Board Audit Committee, Board Risk Committee and other relevant internal and external parties on the management of remuneration risk
- When setting remuneration packages for individuals subject to the FCA's SMCR, the Committee is authorised to obtain information about remuneration in other companies of comparable scale and complexity

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 the year, the Remuneration Committee met on five occasions.

The experience of Committee 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 topics discussed by the Committee in 2019

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

- Attract, motivate and retain high calibre employees
- Performance framework and recognising our top performers
- Promote the achievement of the annual plans, longer-term strategic objectives and ongoing incentivisation
- Support good risk management, conduct and culture
- Review risk incidents and consider the appropriateness of performance related bonus adjustments

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 judgment in the application of the remuneration policy so as to promote the long-term success
- Ensure management does not permit reward for failure or conduct that is not in line with our Values & Behaviours

Disclosure

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

Remuneration policy

- Remuneration policy and approach to remuneration are designed to support the delivery of our 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.

Shonaid Jemmett-Page

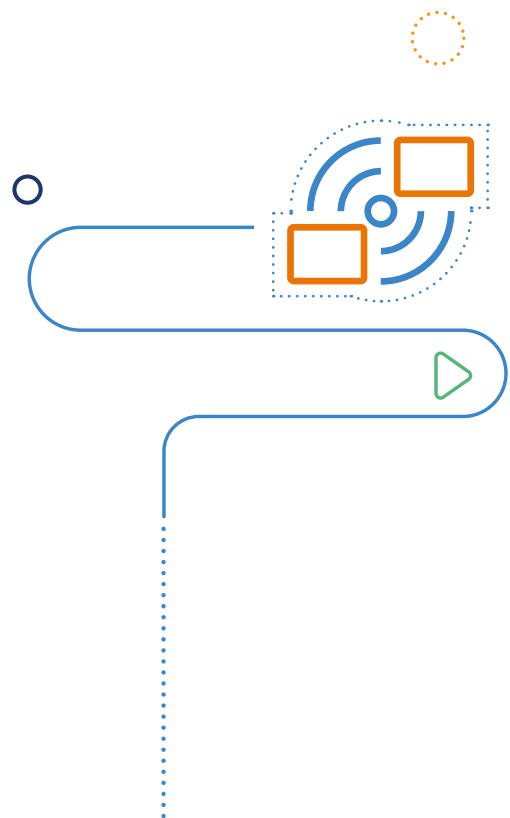
Chairman of the Remuneration Committee



56 Nomination Committee Report



Appropriate balance of skills



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

Chairman's overview

The Committee has been active across all areas of its responsibility during 2019, with a particular focus on further strengthening the composition and succession plans for the Board and its committees. Ensuring we have a truly diverse Board comprising a range of perspectives, experiences, knowledge and skills is key to the Board's continuing effectiveness.

Key topics discussed by the Committee in 2019

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

- Recruitment strategy
- Executive level appointments
- Board Effectiveness Review
- Diversity policy
- Independent Non-Executive appointments

Committee's roles and responsibilities

The Committee has responsibility for keeping the size, structure and composition of the Board and its committees under review. As part of the Committee's succession planning, it considers the Group's strategy and challenges and makes recommendations to the Board in respect to any adjustments to the Board's composition.

The Committee also keeps under review:

- the leadership needs, and succession plans, for the Group in relation to both executive directors and other senior executives;
- the skills and experience of the Board and its Committee members;
- oversight of the Board effectiveness and performance evaluation reviews by which the Board, its committees and individual directors assess their effectiveness;
- the diversity of the Board and progress towards achieving its objectives in this area;
- potential situational conflicts of interest declared by our Board members; and
- the impact of material changes to corporate governance regulation and legislation affecting the Group, and oversight of the Group's approach to subsidiary corporate governance.

The Committee reports to the Board on its activities and makes recommendations, all of which have been accepted during the year. The Group has in place succession plans for the Board and senior management to ensure there is an appropriate future mix of skills and experience.

Membership and meetings

The Nomination Committee's membership is made up of the Chairman and 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 Chief Executive Officer may be invited to attend meetings on an ad hoc basis. Throughout the course of 2019, the Nomination Committee met on four 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. Details of the appointment of new members are set out in the Report of Directors.

David Gagie

Chairman of the Nomination Committee



58 Report of the Directors

The Directors present their report and the consolidated financial statements for the year ended 31 December 2019

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 2019 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 68. No dividend was declared or paid during 2019 (2018: £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 21 to the financial statements on page 97.

Events after the reporting year end

In January 2020 and March 2020, an additional £5.1m and £19.0m capital injection were received from the existing shareholders respectively.

On 26 February 2020, the Company granted 7,678 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 £0.7m.

On 10 February 2020, the Company signed a 5 year lease for office premises at 4th floor, Prologue Works, 25 March Street, Bristol.

In March 2020 the Group received R&D tax credits from HMRC of £0.6m, see Note 11 for further details.

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.

In 2020 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 looking to expand our proposition by introducing Euro currency capabilities for our customers and applying for a banking licence to operate within the Republic of Ireland.

Directors

The directors holding office during the year ended 31 December 2019 were as follows:

David Gagie	Graeme Smith
Charles McManus	Nick Ogden
Marc Jenkins	Stan Spavold
Shonaid Jemmett-Page	Mel Carvill
Philip Kenworthy	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 8 April 2020.



Charles McManus
Chief Executive Officer

Statement of Directors' Responsibilities

59

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 8 April 2020.



Charles McManus
Chief Executive Officer

Strategic Report

Governance

Financial Statements



60 Independent Auditor's Report

to the members of ClearBank Limited

Opinion

We have audited the financial statements of ClearBank Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2019 which comprise the consolidated statement of comprehensive income, the consolidated and company statement of financial position, the consolidated and company statement of changes in equity, the consolidated statement of cash flows 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 2019 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with the IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 Auditor's 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.

Material uncertainty related to going concern

We draw attention to Note 1.5 of the financial statements, which states that the group continues to rely on the support of its principal shareholders who have provided non-contractually binding letters of intent to continue to support the Company. As stated in Note 1.5, the non-contractually binding principal shareholder letters of intent indicate that a material uncertainty exists that may cast significant doubt on the group and parent company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Given the conditions and uncertainties noted above, we considered going concern to be a key audit matter. We performed the following work as part of our audit:

- Obtained management's assessment of the going concern assumption applied in the financial statements. Assessed this in light of our understanding of the group's long-term strategy, forecasts, ICAAP and ILAAP submissions, and current assessment of the impact of Covid-19.
- We have assessed the forecast used to support the Going Concern assessment for arithmetical accuracy, consistency of the forecasts with our understanding of the business, and through independent sensitivity analysis.
- Obtained copies of the non-binding signed commitment letters from the principal shareholders where their intention to support the group is set out. We checked that these are in line with the required period of assessment to 31 December 2021.
- Traced the additional capital injections of £5.1m and £19m, referred to in Note 1.5 Going Concern, to the settlement accounts of the parent company.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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) that 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.

Key Audit Matter

Capitalisation of software development expenses – £11.4 million (2018: £9.0 million)

Same risk level as 2018

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 6.3 and in Note 2.1 respectively, of the consolidated financial statements. Further information on the balance is included in Note 14 to the financial statements.

How we addressed the matter in our audit

We obtained a breakdown of the software expenses capitalised and reviewed the Group's methodology and accounting policy for capitalisation of these expenses. We have assessed whether these were in line with the capitalisation requirement of the international accounting standards.

We have tested on a sample basis the software development expenses capitalised. For contractor costs we have agreed a sample of costs to invoices and traced these costs to bank statements. For staff costs we have audited the payroll process as well as obtained evidence that the percentage of costs capitalised are in line with the actual time spent on the projects. For the sample tested we assessed whether the costs capitalised met the capitalisation requirements of the international accounting standards.

We have assessed that future economic benefits attributable to the capitalised software development costs based on revenues generated to date and future forecasts.

We have assessed the disclosure pertaining to the intangible assets in the financial statements.

Key observations:

Based on the work performed, the capitalised software costs did not appear to be materially misstated.

Recoverability of deferred tax asset – £8.3 million (2018: £8.3 million)

Same risk level as 2018

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. Based on management's revised forecasts, no further deferred tax assets were recognised in the current year as it was not considered probable that there would be sufficient future profits in the short term against which the group can utilise this benefit.

The risk is that the deferred tax asset is not fully recoverable as these are based on management's assessed forecasts of performance, and that sufficient future taxable profit will be available to utilise the deferred tax asset. The accounting policy and the estimates and judgements, in respect of the recognition of the deferred tax asset, are disclosed in Note 6.2 and Note 2.3 respectively, of the consolidated financial statements. Further information on the balance is included in Note 18 to the financial statements.

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

We performed independent sensitivity analysis of the revised cash flow forecasts based on various scenarios to assess the impact of these on the future taxable profits supporting the deferred taxation asset recognised on the balance sheet.

We engaged our tax specialists to assess the underlying taxation calculations supporting the deferred tax asset.

We have assessed the disclosure pertaining to the deferred tax assets in the financial statements.

Key observation:

Based on the work performed, the deferred tax asset did not appear to be materially misstated.

Recognition of deferred income – £51.5 million (2018: £-)

New risk in 2019

During the year the Group was granted £60 million of funds, through the Capability and Innovation Fund, which has been accounted for in accordance with IAS 20 Government grant.

IAS 20 requires that a grant is recognised only when there is reasonable assurance that the entity will comply with any condition attached to the grant and that the grant will be received.

There is the risk that the deferred income is not recognised appropriately in accordance with the eligibility criteria of the grant agreement.

The accounting policy in respect of the recognition of the BCR grant liability is disclosed in Note 6.15 of the consolidated financial statements. Further information on the balance is included in Note 20 to the financial statements.

We obtained the grant related documents and assessed the terms and conditions of the grant.

We have assessed the group's accounting policy of recognition for the grant liability to ensure that it consistent with the conditions of the grant and the requirements of IAS 20.

We have traced the receipt of the grant funds to bank and cash.

We have obtained the breakdown of related costs incurred by the Group that have either been expensed or capitalised during the year. We have assessed that these costs are eligible costs in terms of the grant agreement criteria and tested on a sample basis that these agree to supporting documents.

We have assessed the disclosure pertaining to the deferred income in the financial statements.

Key observation:

Based on the work performed, the deferred income does not appear to be materially misstated.

62 Independent Auditor's Report continued

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	£584,000
Reporting threshold	£12,000

Materiality

We consider materiality to be the magnitude by which misstatements, individually or taken together, 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 as whole to be £584,000 (2018: £441,000), which was set at 1.5% of total expenses.

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 parent company 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 £568,000 (2018: £431,000) 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 for the financial statements as a whole £438,000 (2018: £331,000), being 75% (2018: 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.

Same as the Group, performance materiality for the parent company has been set at 75% (2018: 75%) of the above materiality, which is £426,000 (2018: £323,000).

Reporting threshold

We agreed with the Audit Committee that we would report all individual audit differences in excess of £12,000 (2018: £9,000) to the Audit Committee and any other differences that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

We tailored the scope of 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 company, 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.

All the insignificant components were deemed immaterial to the Group.

How the audit was considered capable of detecting irregularities, including fraud

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

The directors are responsible for the other information. The other information comprises the information included in the annual report and accounts 2019, other than the financial statements and our auditor's report thereon. 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 the 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 directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' 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 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 parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' 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 statement of directors' responsibilities set out on page 59, 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 group's and the parent company's 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 Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which 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 2019 by the Board of Directors on 18 April 2019. The period of total uninterrupted engagement is 4 years, covering the years ending 31 December 2016 to 31 December 2019.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Use of our report

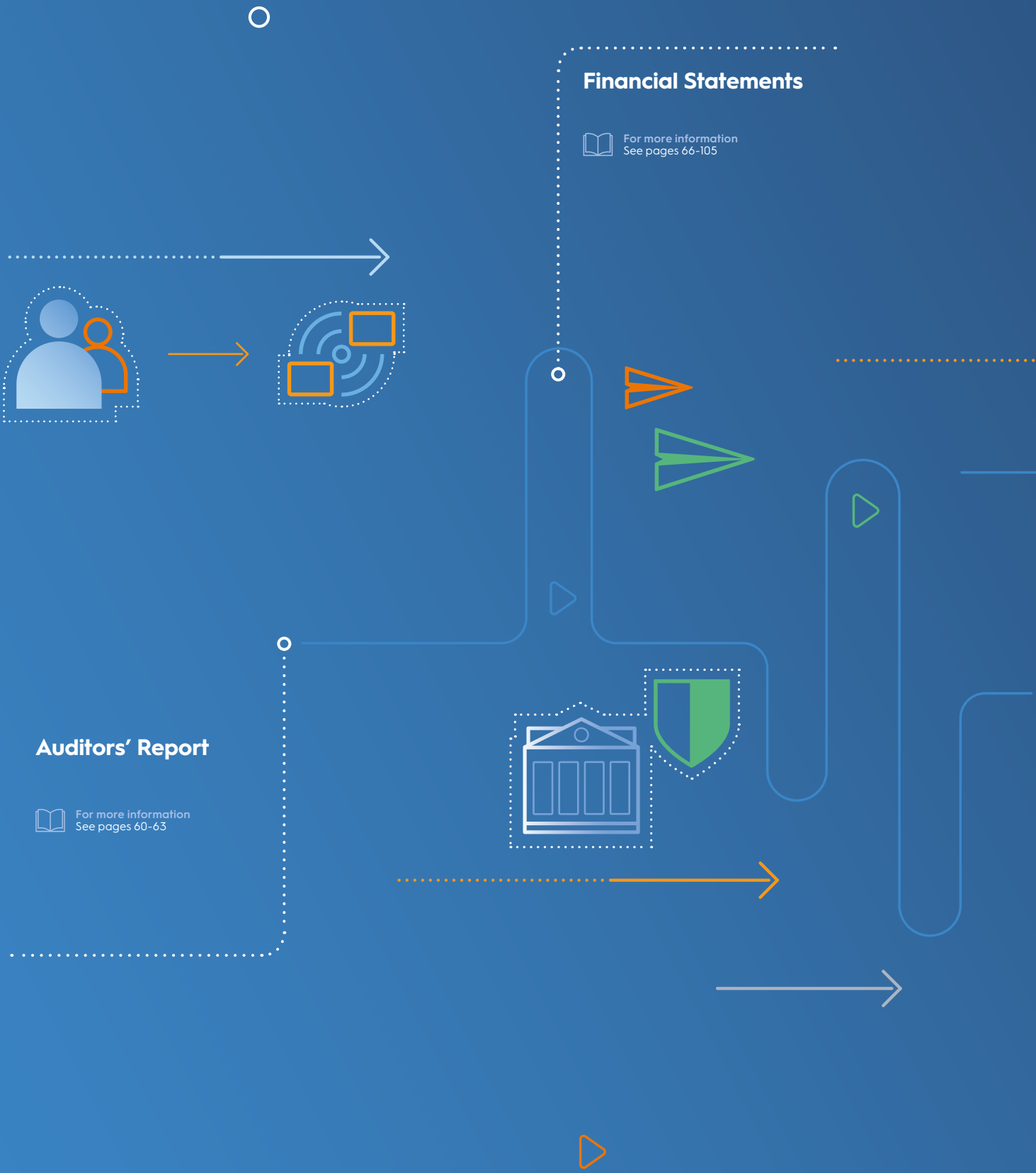
This report is made solely to the parent company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the parent company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the parent company and the parent 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
London, UK
8 April 2020

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



Our Financials

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66 Consolidated Statement of Comprehensive Income

	Notes	Year ended 31 Dec 2019 £'000	Year ended 31 Dec 2018 £'000
Interest income	7	1,664	277
Interest expense	7	(567)	(99)
Net interest income		1,097	178
Fee income	7	3,441	660
Other income	11	780	-
Total income		5,318	838
Staff costs	9	(16,573)	(14,439)
Depreciation	15, 16	(2,891)	(620)
Amortisation of intangibles	14	(2,914)	(1,745)
Impairments		(1,032)	-
Other operating expenses		(15,682)	(13,567)
Operating expenses		(39,092)	(30,371)
Operating loss		(33,774)	(29,533)
Other gains and losses		4	6
Finance costs		(73)	-
Loss for the year before taxation		(33,843)	(29,527)
Income tax (credit)/charge	11	(153)	4,683
Loss for the year after taxation		(33,996)	(24,844)
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Foreign currency translation differences		33	-
		33	-
Total comprehensive loss for the year		(33,963)	(24,844)

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

Consolidated Statement of Financial Position

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	Notes	As at 31 Dec 2019 £'000	As at 31 Dec 2018 £'000
Assets			
Cash and cash equivalents	12	526,594	62,527
Collateral placed with schemes	17	364	364
Financial investments		-	-
Intangible assets	14	18,751	13,924
Property, plant and equipment	15	351	819
Right-of-use assets ¹	16	4,530	-
Receivables	17	3,900	1,487
Deferred tax asset	18	8,335	8,335
Total assets		562,825	87,456
Liabilities			
Customer deposits		457,981	44,145
Obligations under finance leases ¹	16	4,520	-
Other payables	19	8,570	6,403
Deferred income	20	51,512	-
Total liabilities		522,583	50,548
Equity			
Called up share capital	21	-	-
Share premium	21	113,204	78,329
Treasury shares		(204)	(204)
Share-based payment reserve		5,723	3,301
Retained losses		(78,472)	(44,518)
Translation reserve		(9)	-
Total equity		40,242	36,908
Total equity and liabilities		562,825	87,456

1. On 1 January 2019 we adopted IFRS 16 which replaced IAS 17. As part of the transition a right-of-use assets and corresponding lease liability were recognised. Further details about our transition to IFRS 16 can be found in Note 3.1.

The accompanying notes form an integral part of these consolidated financial statements. The financial statements were approved by the Board on 8 April 2020.



Charles McManus
Chief Executive Officer
8 April 2020



Marc Jenkins
Chief Financial Officer
8 April 2020

68 Company Statement of Financial Position


ClearBank Limited Company Number: 09736376

	Notes	As at 31 Dec 2019 £'000	As at 31 Dec 2018 £'000
Assets			
Cash and cash equivalents	12	526,593	62,526
Collateral placed with schemes	17	364	364
Financial investments		-	-
Investment in subsidiary undertakings	13	-	-
Intangible assets	14	18,265	13,418
Property, plant and equipment	15	344	819
Right-of-use assets ¹	16	4,394	-
Receivables	17	5,683	2,194
Deferred tax asset	18	8,335	8,335
Total assets		563,978	87,656
Liabilities			
Customer deposits		457,981	44,145
Obligations under finance leases ¹	16	4,390	-
Other payables	19	8,322	6,252
Deferred income	20	51,512	-
Total liabilities		522,205	50,397
Equity			
Called up share capital	21	-	-
Share premium	21	112,999	78,125
Share-based payment reserve		5,723	3,301
Retained losses		(76,949)	(44,167)
Total equity		41,773	37,259
Total equity and liabilities		563,978	87,656

1. On 1 January 2019 we adopted IFRS 16 which replaced IAS 17. As part of the transition a right-of-use assets and corresponding lease liability were recognised. Further details about our transition to IFRS 16 can be found in Note 3.1.

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 8 April 2020.



Charles McManus
Chief Executive Officer
8 April 2020



Marc Jenkins
Chief Financial Officer
8 April 2020

Consolidated Statement of Changes in Equity

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	Share capital £'000	Share premium £'000	Treasury shares £'000	Share-based payments reserve £'000	Retained losses £'000	Translation reserve £'000	Total equity £'000
Balance at 1 January 2018	-	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
Loss for the year	-	-	-	-	(33,996)	-	(33,996)
Other comprehensive income for the year	-	-	-	-	-	33	33
Issue of share capital	-	34,875	-	-	-	-	34,875
Share-based payments	-	-	-	2,422	-	-	2,422
Other movements	-	-	-	-	42	(42)	-
Balance at 31 December 2019	-	113,204	(204)	5,723	(78,472)	(9)	40,242

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

70 Company Statement of Changes in Equity

	Share capital £'000	Share premium £'000	Share-based payments reserve £'000	Retained losses £'000	Total equity £'000
Balance at 1 January 2018	-	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
Loss for the year	-	-	-	(32,782)	(32,782)
Issue of share capital	-	34,874	-	-	34,874
Share-based payments	-	-	2,422	-	2,422
Balance at 31 December 2019	-	112,999	5,723	(76,949)	41,773

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

Consolidated Statement of Cash Flows

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	As at 31 Dec 2019 £'000	As at 31 Dec 2018 £'000
Cash flows from operating activities		
Loss for the year after tax	(33,996)	(24,844)
Adjustments for non-cash movements		
Depreciation of property, plant and equipment	651	620
Loss on disposals of property, plant and equipment	79	5
Depreciation of right-of-use assets	2,240	-
Amortisation of intangibles	2,939	1,745
Impairments of intangibles	1,032	-
Share-based payment expense	2,422	2,834
Recognition of right-of-use assets	(570)	-
Tax charge/(benefit)	153	(4,683)
Net interest income	(1,097)	-
Foreign currency differences	33	-
Operating cash flows before changes in working capital	(26,114)	(24,323)
Net changes in working capital		
Increase in collateral	-	(49)
Increase in receivables	(2,565)	(311)
Increase in payables	1,942	1,620
Increase in deferred income	51,512	-
Increase in amounts due to customers interest received	413,836	42,544
Cash generated by operations	438,611	19,481
Interest received	1,096	-
Net cash generated in operating activities	439,707	19,481
Cash flows used in investing activities		
Purchase of property, plant and equipment	(262)	(320)
Purchase of intangible assets	(8,573)	(8,567)
Net cash used in investing activities	(8,835)	(8,887)
Cash flows from financing activities		
Proceeds from issue of ordinary shares	34,875	24,871
Principal paid on lease liabilities	(1,607)	-
Interest paid on lease liabilities	(73)	-
Net cash from financing activities	33,195	24,871
Net increase in cash and cash equivalents	464,067	35,465
Cash and cash equivalents at beginning of the year	62,527	27,062
Cash and cash equivalents at end of the year	526,594	62,527

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

Strategic Report

Governance

Financial Statements

72 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 13) provide 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 4, 133 Houndsditch, London, England EC3A 7BX.

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 year 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 are 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

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 from principal shareholders. 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 Directors have also considered the current market uncertainty as a result of COVID-19 and as set out in Note 30 do not consider this will have a significant impact on the Group other than access to funding is likely to be more difficult.

The Group's business model remains unchanged and all customer funds continue to be held at the Bank of England. The effectiveness of the Group's remote operations have been demonstrated, ensuring the uninterrupted delivery of services to customers to date. In line with the previous year the Group continues to rely on the support of its principal shareholders who have provided non-contractually binding letters of intent to continue to support the Company. The principal shareholders have provided capital to the Group since inception and have reconfirmed that support during the current market uncertainty. This is reflected in Note 30 which highlights additional capital injections of £5.1m and £19m in January and March 2020.

The circumstance in relation to the non-contractual continued principal shareholder support represents a material uncertainty that may cast significant doubt on the ability of the Group and the Company to continue as a going concern. However, the Directors consider that the principal shareholders will provide the necessary financial support and accordingly have prepared the financial statements on a going concern basis. The financial statements do not include the adjustments that would result if the Group and the Company were unable to continue as a going concern.

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:

A. Judgements

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. Going concern

The directors have judged that sufficient funding and future profits will be obtained for at least 12 months from the date of signing of the financial statements. Consequently, the going concern basis of accounting has been used to prepare these financial statements. The Group's expectations as to the level of future profits and funding are based on the Group's long-term financial and strategic plans. See Director's report page 58 for further details on the going concern assessment.

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 18.

2.4. Impairment of internally developed intangible assets

Management make judgements on the obsolescence of the internally developed software and its ability to generate positive cash flows for the business. This assessment considers the internal and external indicators of impairment that could indicate in the carrying value of internally developed software intangibles is materially misstated.

B. Estimates

2.5. 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, the risk-free rate and estimates of meeting certain service conditions. The share-based payment recognised can be materially affected by these assumptions. The directors consider that Share-based awards are qualitatively material. The charge for the year was £2.4m (2018: £2.7m). If all of the performance conditions were assumed to be met the charge for the year would increase by £nil (2018: £nil); an absolute increase of 20% in the vesting assumptions would increase the charge for the year by £nil (2018: £nil). Further information on the key assumptions can be found in Note 25.

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2. Critical accounting estimates and judgements continued

2.6. Amortisation of internally developed software

The useful economic life over which internally developed software is amortised is determined by the expected duration of the internally developed software which is determined with reference to past experience, and our future expectation of developments in technology in the financial payments landscape. During the year, internally developed software was amortised over 5 years from going live. The amortisation for the year was £2.9m (2018: £1.7m). A reduction in the average amortisation period by one year would increase the amortisation expense for the year by £0.7m (2018: £0.2m).

3. New standards, amendments to standards and interpretations adopted in the 2019 financial statements

3.1. IFRS 16 Leases

The Group adopted IFRS 16 Leases for the first time from 1 January 2019. The Group applied the modified transition approach and has not restated comparative amounts for the year prior to first adoption. The impact of adopting this new standard is outlined in Note 5.1 and Note 27, *Changes in accounting policies*.

3.2. Other standards

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 has evaluated the impact of the adoption of this interpretation. This revised requirement has not had a material impact on the Group for the year commencing 1 January 2019.

Although there are other new standards, interpretations and amendments that have been issued by the International Accounting Standards Board (IASB) that become mandatory during 2019 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 2020. The Group has not early adopted these standards, amendments and interpretations. 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.

5.1. IFRS 16 Leases

The adoption of IFRS 16 has resulted in the material adjustment to the Group's statement of financial position on transition and changes the Group's practices and accounting policies for leases. The impact on the Group's financial position and results of transitioning to IFRS 16 Leases is presented in Note 27. The details of accounting policies under IAS 17 and IFRIC 4 which apply to the financial year ending 31 December 2018 are shown in Note 6.11. Disclosures relating to the financial year ending 31 December 2019 are set out in Note 16.

Transition

Effective 1 January 2019, the Group adopted IFRS 16 (as issued by the IASB in January 2016), which replaced IAS 17 Leases and IFRIC 4 Determining whether an Arrangement Contains a Lease. The Group has chosen not to restate comparatives on adoption of the standard, and therefore, the revised requirements are not reflected in the prior year financial statements. Rather, these changes have been processed at the date of initial application (i.e. 1 January 2019) and recognised in opening balances. Details of the impact the standard had is given below.

IFRS 16 introduces new definition of a lease and introduces a new comprehensive model for the identification of lease arrangements and accounting treatment for both lessors and lessees. This model distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer and replaces the IAS 17 model where leases were either recognised as a finance or operating lease. The single lessee accounting model requires the recognition of a right-of-use asset and corresponding lease liability in the statement of financial position for all leases, together with options to exclude leases where the lease term is 12 months or less, or where the underlying asset is of low value.

The rental expense previously recognised within other operating costs in the Group's statement of comprehensive income under IAS 17 will no longer be incurred, unless the underlying asset has a low value or the remaining lease term is less than twelve months at the date of transition. Instead depreciation expense on the Right-of-use asset and interest expense on the 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 unwinds and the lease liability reduces over time).

IFRS 16 substantially carries forward the lessor accounting in IAS 17, with the distinction between operating leases and finance leases being retained. The Group does not have any leasing activities acting as a lessor.

Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset through the period of use; and;
- the Group has the right to direct the use of the asset. This occurs when the Group has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

Right-of-use assets

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payment;
- Variable lease payments that depend on an index or a rate;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that the group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the income statement if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term and lease of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a term of 12 months or less and leases of low-value assets, including IT equipment. The Group recognised the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

5.2. Other standards

Other new and amended standards and Interpretations issued by the IASB did not impact the Group as they are either not relevant to the Group's activities or require accounting which is consistent with the Group's current accounting policies.

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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

Performance obligations and timing of revenue recognition

Revenue is recognised as the control of services are transferred to the customer, using the amount that the Group expects to be entitled to in exchange for the services. Depending on whether performance obligations expressed in the customer contracts are fulfilled, revenue is recognised either over time, in a manner that best reflects the entity's performance of those obligations, or at a point in time, when control of the services is transferred to the customer. The Group recognise revenue for fees on an 'over time' basis if any of the following criteria are met:

- The customer concurrently receives and consumes the benefits provided by the entity's performance as the entity performs its obligation;
- The entity's performance creates or enhances a customer-controlled asset; and
- The entity's performance does not create an asset with an alternative use, and the entity has a right to payment for performance completed to date

Otherwise revenue is recognised at a point in time (when control transfers) for performance obligations that do not meet the criteria for recognition of revenue over time.

Income streams

Revenue from customer contracts is split into three main income streams:

Transaction fee income (IFRS15)

Transactional fee income is recognised at the point in time when transactional banking services, i.e. in and out-bound transactions, are successfully completed, i.e. the point in time the service is transferred to the customer.

Non-transaction fee income (IFRS15)

Monthly fees

This includes a fixed monthly charge for the use of banking services provided by the Company such as actual and virtual account fees and access to online banking services and variable monthly charges for the number of active and virtual accounts added in the month. Monthly fee income is recognised as revenue over the period the customers' account services are provided, i.e. on an "over time" or a pro-rata basis.

Implementation fees

One-off 'implementation' fees are charged to customers for set up and on-boarding, based on transaction prices set out in the customers contract. On-boarding fees are recognised "over time" on a pro-rata basis.

Due diligence fees

'Due Diligence' services including risk assessments, Know-Your-Client, Anti-Money Laundering and Politically exposed person checks. These fees are charged to the customer at the point in time which the checks have been completed.

Interest income (IFRS9)

Interest income and expense are recognised in the statement of comprehensive income for all interest-bearing financial instruments using the effective interest method in accordance with IFRS 9, 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 premiums and discounts that are an integral part of the overall return.

Summary of revenue recognition and the applicable treatment under IFRS15

Fee Type	Point in time	Over time
Transaction fee income		
Transaction charge (inbound)	✓	
Transaction charge (outbound)	✓	
Non-transaction fee income		
Monthly fees (scheduled)		✓
Monthly fees (event)		✓
Implementation fees		✓
Due diligence Fees	✓	

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.

Determining the transaction price

Most of the Group's revenue is derived from contracts which specify fixed fees for services and therefore the amount of revenue to be earned from each contract is determined by reference to those fixed fees.

Allocating amounts to performance obligations

For all customer contracts, each service type has a fee attached. Therefore, there is no judgement involved in allocating the contract price to each service provided in such contracts.

Practical exemptions

The Group has taken advantage of the practical exemptions:

- not to account for significant financing components where the time difference between receiving consideration and transferring control of services to its customer is one year or less; and
- to expense the incremental costs of obtaining a contract when the amortisation period of the asset otherwise recognised would have been one year or less.

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.

Research and Development (R&D) tax credits, are recognised as other income or against the R&D expense in line with the requirements of IAS 20: Government Grants in the period that there is reasonable assurance that the funds are received from the relevant tax authority.

Deferred tax

Deferred taxes are calculated according to the income statement method and is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if any.

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves. Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

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 11 includes further detail of circumstances in which the Group does not recognise temporary differences.

Deferred tax assets and liabilities are offset only if certain criteria are met.

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6. Significant accounting policies continued

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 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	Straight line over 5 years
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	Straight line over 3 years
Office equipment	Straight line over 3 years
Fixtures and fittings	Straight line over 5 years
Leasehold improvements	Straight line over the expected lease term

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. Financial instruments

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.

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6. Significant accounting policies continued

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 other comprehensive income (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.

Assessment whether contractual cash flows are solely payments of principal and interest

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 for 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 a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

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.

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.

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.

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.

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6. Significant accounting policies continued

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. 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 2019, there were no income streams projected to arise from any of the investment and as a result they remain fully impaired.

Impairment of financial assets

IFRS 9 requires the use of an 'Expected loss' accounting model for credit losses and results in earlier recognition of expected credit losses (ECL). 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.

Application of the 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; and
- 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.

6.7. 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.

6.8. 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.

6.9. 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'.

6.10. 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.

6.11. Leases

The following policy applies prior to the date of initial application of IFRS 16, 1 January 2019.

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.

See Note 5.1 IFRS 16 Leases for further information in relation to the application of the standard from 1 January 2019.

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6. Significant accounting policies continued

6.12. 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, its 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.

6.13. Segmental reporting

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

6.14. Employee benefits

Defined contribution pension

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.

6.15. Government grants

Recognition of the Capability and Innovation Fund grant income in the statement of comprehensive income is dependent on the Group satisfying certain criteria. Where the criteria hasn't been satisfied, the grant is initially recognised as deferred income on the statement of financial position. When the criteria for retention have been satisfied, the deferred income balance is released to the statement of comprehensive income and set against the relevant associated costs, or set against the internally developed software intangible asset purchased.

Capital approach

Capability and Innovation Fund grants received on capital expenditure are deducted in arriving at the carrying amount of eligible assets purchased. The benefit of the grant income is recognised in the statement of comprehensive income as the asset is amortised over its useful life.

Income approach

Grants for revenue expenditure are netted against the cost incurred by the Group and are included in Other operating expenses in the statement of comprehensive income.

7. Income

Net interest income

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Interest receivable on cash and cash equivalents	1,664	277
Interest payable on customer deposits	(567)	(99)
Total net interest income	1,097	178

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 December 2019 £'000	Year ended 31 December 2018 £'000
Transaction fee income	705	29
Non-transaction fee income	2,852	717
Total fee income	3,557	746
Fee expenses	(116)	(86)
Net fee income	3,441	660
Timing of revenue recognition		
Over time	3,003	719
At a point in time	554	27
Total	3,557	746

Other income

Other income represents R&D tax credits and the Group recognised £0.8m of R&D tax credit income during the period.

8. Loss for the year

Loss for the year has been arrived at after charging/(crediting):

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Staff costs	16,573	14,439
Professional fees	5,760	4,130
Depreciation	2,891	620
Amortisation of intangibles	2,914	1,745
Impairments of intangibles	1,032	-
Loss on foreign exchange	36	5
Irrecoverable VAT	2,737	2,173
Grant income ¹	(5,823)	-
Loss on disposal of property, plant and equipment	50	5

¹ For further details refer to Note 20.

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9. Staff costs

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

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Salaries and wages	11,616	9,579
Social security costs	1,485	1,223
Retirement obligations	1,094	891
Share-based payments	2,378	2,746
Total staff costs	16,573	14,439

Employee numbers

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

	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Executives ¹	13	12
Legal and Regulatory	9	7
Risk and Compliance	13	11
Programme management	6	12
Sales and Marketing	12	13
Finance and Treasury	19	12
Technology	73	47
Human resources and administration	8	7
Operations	35	24
Internal audit	3	3
Total average number of employees during the year	191	148

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 2019 £'000	Year ended 31 Dec 2018 £'000
Fees for audit services		
Fees for audit of the Group's financial statements	118	105
Fees for audit of the Company's subsidiary financial statements	14	14
Total audit fees	132	119
Fees for non-audit services		
Other non-audit services	-	5
Total Group auditors' remuneration	132	124

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 2019 £'000	Year ended 31 Dec 2018 £'000
Current tax		
Current tax on income for the year	-	-
Adjustments in respect of prior years	(153)	-
Total current tax	(153)	-
Deferred tax		
Origination and reversal of timing differences	(25)	5,257
Adjustments in respect of prior years	22	(21)
Effect on deferred tax of changes in tax rates	3	(553)
Total tax (charged)/credited to Statement of Comprehensive Income	(153)	4,683

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 2019 and 2018 is as follows:

	Year ended 31 Dec 2019 £'000	Year ended 31 Dec 2018 £'000
Loss on ordinary activities before tax	(33,843)	(29,527)
Tax at UK standard rate of 19% (2018: 19%)	6,430	5,610
Effects of:		
Adjustments in respect of prior years	(131)	(21)
Non-deductible expenses	(188)	(193)
Non-taxable income	148	-
Current year temporary differences for which no deferred tax was recognised	(412)	-
Current year losses for which no deferred tax was recognised	(5,924)	(106)
Effect of rate changes	3	(553)
Other timing differences on which deferred tax was not previously recognised	-	-
Effect of different tax rates of subsidiaries operating in other jurisdictions	(79)	(54)
Utilisation of losses on which no deferred tax was previously recognised	-	-
Total tax (charged)/credited to Statement of Comprehensive Income	(153)	4,683

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.

In December 2019 the Company made claims for R&D tax relief in respect of the accounting periods ended 31 December 2017 and 31 December 2018. The claims resulted in a net credit of £0.6 million being paid by HMRC to the Company. A gross R&D credit of £0.8 million is recognised as other income in the statement of comprehensive income in line with the requirements of IAS 20: Government Grants and £0.6 million remains outstanding at the year end.

12. Cash and cash equivalents

	Group As at 31 Dec 2019 £'000	Group As at 31 Dec 2018 £'000	Company As at 31 Dec 2019 £'000	Company As at 31 Dec 2018 £'000
Cash and cash equivalents	526,594	62,527	526,593	62,526

The relevant amount of High-Quality Liquid Assets (HQLA) at the balance sheet date, being £526.3m (2018: £62.5m) all of which was held at the Bank of England. Cash and cash equivalents exclude cash collateral pledged as part of access to schemes. These are included under Collateral placed with schemes. Included in cash and balances at central banks is £51.5m relating to restricted funds, see Note 20 for further details.

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13. Investment in subsidiary undertakings

Company

	Total £'000
Costs	
As at 1 January 2018	191
Additions	-
As at 31 December 2018	191
Additions	-
As at 31 December 2019	191
Provision for impairment	
As at 1 January 2018	191
Written off	-
As at 31 December 2018	191
Written off	-
As at 31 December 2019	191
Net book value	
As at 31 December 2019	-
As at 31 December 2018	-

The principal subsidiaries of the Company as at 31 December 2019 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 4, 133 Houndsditch, London, England EC3A 7BX.

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

The Employee Benefit Trust is consolidated within the Group. See Note 25 for further details.

14. Goodwill and intangible assets
Group

	Goodwill £'000	Software costs £'000	Other intangibles £'000	Total £'000
Costs				
As at 1 January 2018	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
Additions	-	11,435	28	11,463
Impairment	-	(1,032)	-	(1,032)
Other movements	-	(2,665)	-	(2,665)
Disposals	-	-	(15)	(15)
As at 31 December 2019	575	23,130	281	23,986
Accumulated impairments / amortisation				
As at 1 January 2018	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
Charge for the year	-	2,882	32	2,914
Other movements	-	25	-	25
Disposals	-	-	(15)	(15)
As at 31 December 2019	92	4,946	197	5,235
Net book value				
As at 31 December 2019	483	18,184	84	18,751
As at 31 December 2018	483	13,353	88	13,924

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 31 December 2019, 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 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.

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14. Goodwill and intangible assets continued Company

	Software costs £'000	Other intangibles £'000	Total £'000
Costs			
As at 1 January 2018	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
Additions	11,435	26	11,461
Impairment	(1,011)	-	(1,011)
Other movements	(2,665)	-	(2,665)
As at 31 December 2019	23,130	165	23,295
Accumulated amortisation			
As at 1 January 2018	328	19	347
Charge for the year	1,711	34	1,745
As at 31 December 2018	2,039	53	2,092
Charge for the year	2,882	31	2,913
Other movements	25	-	25
As at 31 December 2019	4,946	84	5,030
Net book value			
As at 31 December 2019	18,184	81	18,265
As at 31 December 2018	13,332	86	13,418

The following table splits out the significant intangible assets:

Name	Amortisation period remaining (months)	Cost £'000	Accumulated amortisation £'000	Carrying value £'000
Core banking infrastructure	39	5,814	(2,190)	3,624
Cloud infrastructure	59	769	(13)	756
Billing system	46	741	(157)	584
CRM functionality	60	671	-	671
Total		7,995	(2,360)	5,635

Grant Income

Included in the cost of internally developed software is £2.7m of grant income from the Capability and Innovation Fund. During the year £0.03m was released to the Statement of Comprehensive Income as amortisation on internally developed software. £2.67m is still to be amortised over the remaining useful lives of the relevant internally developed software assets. For further details see Note 20.

Impairment losses recognised in the year

During the year, an impairment review was performed over the existing IT infrastructure and software, and as a result of a re-prioritisation of the Group's development strategy some intangibles were identified as no longer having future economic benefit. The recoverable amounts were calculated as £nil based on their value in use and the fair value less costs of disposal. This review led to the recognition of an impairment charge of £1.0 million in the statement of comprehensive income..

15. Property, plant and equipment Group

	Computer equipment £'000	Office equipment £'000	Leasehold improvements £'000	Total £'000
Cost				
As at 1 January 2018	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
Additions	126	26	110	262
Transfer from intangible assets	-	-	-	-
Disposals	(2)	(21)	(99)	(122)
As at 31 December 2019	2,052	68	11	2,131
Accumulated depreciation				
As at 1 January 2018	542	11	-	553
Depreciation charge for the year	604	16	-	620
Disposals	(1)	-	-	(1)
As at 31 December 2018	1,145	27	-	1,172
Depreciation charge for the year	598	22	31	651
Disposals	(1)	(13)	(29)	(43)
As at 31 December 2019	1,742	36	2	1,780
Net book value				
As at 31 December 2019	310	32	9	351
As at 31 December 2018	783	36	-	819

Company

	Computer equipment £'000	Office equipment £'000	Leasehold improvements £'000	Total £'000
Cost				
As at 1 January 2018	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
Additions	125	26	101	252
Transfer from intangible assets	-	-	-	-
Disposals	(2)	(9)	(99)	(110)
As at 31 December 2019	2,056	69	2	2,127
Accumulated depreciation				
As at 1 January 2018	547	-	-	547
Depreciation charge for the year	604	16	-	620
Disposals	(1)	-	-	(1)
As at 31 December 2018	1,150	16	-	1,166
Depreciation charge for the year	598	21	29	648
Disposals	(1)	(1)	(29)	(31)
As at 31 December 2019	1,747	36	-	1,783
Net book value				
As at 31 December 2019	309	33	2	344
As at 31 December 2018	783	36	-	819

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16. Leases

Right-of-use assets

	Buildings Group £'000	Buildings Company £'000
At 1 January 2019	2,910	2,910
Additions	5,700	5,498
Depreciation charge	(2,240)	(2,174)
Derecognition of right-of-use assets	(1,840)	(1,840)
At 31 December 2019	4,530	4,394

Obligations under finance leases

	Buildings Group £'000	Buildings Company £'000
At 1 January 2019	2,458	2,458
Additions	5,509	5,321
Interest expense	73	70
Lease payments	(1,680)	(1,619)
Derecognition of finance leases	(1,840)	(1,840)
At 31 December 2019	4,520	4,390

	Buildings Group £'000	Buildings Company £'000
Lease liabilities:		
Not later than 1 year	2,497	2,399
Later than 1 year and not later than 5 years	2,023	1,991
Later than 5 years	–	–
	4,520	4,390
Analysed as:		
Amounts due for settlement within 12 months	2,497	2,399
Amounts due for settlement after 12 months	2,023	1,991
	4,520	4,390

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are managed by the Group finance functions. The Company's lease liabilities as of December 2019 comprise leases entered into for office premise. Leases typically run for a period between 1 and 3 years, with options to automatically renew the lease at the end of the relevant lease term. The average remaining lease term is 1.3 years. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options and reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control. Some leases of office premises contain extension options exercisable up to one year before the end of the non-cancellable contract period. The Group has estimated that the potential future lease payments, should it exercise the extension option, would result in an increase in lease liability of £2.0m. The Company's obligation under leases are secured by the lessor's rights over the leased premise.

The Group leases IT equipment with contract terms of less than one year to three years. These leases are short-term and/or leases of low-value items. The Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

Lease liabilities are calculated at the present value of the lease payments that are not paid at the commencement date. The present value of the Company's lease obligations as at 31 December 2019 is estimated to be £4.5m, using the incremental borrowing rate as the interest rate implicit in the lease is not readily determinable. The Company's incremental borrowing rate is 3 percent per annum, which reflects the fixed rate at which the Company could borrow an amount similar to the value of the right-of-use asset, in the same currency, for a similar term, and with similar collateral. The discount rate based on a quoted swap rate and adding a credit margin that reflects the secured nature of the lease obligation.

All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. Interest rates are fixed at the contract date, unless certain modifications or reassessment occur. Interest expense on lease liabilities amount to £0.1m in 2019 (2018: £nil). The total cash outflow for leases amount to £1.7m. The expense relating to short-term leases recognised in the statement of comprehensive income during the year was £41k. Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets recognised in the Statement of Comprehensive Income during the year was £17k. As at 31 December 2019 the Group had £nil lease commitments for short-term leases and £nil obligations relating to short-term leases.

17. Receivables and other assets

	Group Year ended 31 Dec 2019 £'000	Group Year ended 31 Dec 2018 £'000	Company Year ended 31 Dec 2019 £'000	Company Year ended 31 Dec 2018 £'000
Receivables				
Prepayments	2,019	897	2,019	897
Accrued income	173	126	173	126
Employee loans	42	64	42	64
Other receivables	1,039	400	1,022	400
Government grant receivable	627	-	627	-
Balance owed by subsidiaries	-	-	1,800	707
	3,900	1,487	5,683	2,194
Other assets				
Assets pledged as collateral	364	364	364	364
	364	364	364	364

Included in accrued income is £33k of income due from customers relating to clearing services following the satisfaction of our performance obligations. Services rendered are billed for monthly and payment is due and typically received from customers within 30 days of fulfilling the performance obligation.

The carrying amounts approximate fair value. Assets pledged as collateral relate to the cash collateral paid of £46k and £319k for use of the Swift financial messaging service and Visa card payment scheme respectively. These amounts are treated as encumbered assets that are not used for any other purpose.

18. 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 2019 £'000	Year ended 31 Dec 2018 £'000
Deferred tax asset	9,025	8,335
Deferred tax liability	(690)	-
Net deferred tax asset	8,335	8,335

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 £'000	Fixed assets £'000	Share-based payments £'000	Other temporary differences £'000	Total DTA £'000	s1308 CTA2009 Claim £'000	Total DTL £'000
At 1 January 2018	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	-	-
Credit to the Statement of Comprehensive Income	532	9	-	149	690	(690)	(690)
At 31 December 2019	8,293	207	359	166	9,025	(690)	(690)

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18. Deferred tax assets and liabilities continued

At 31 December 2019, the Group had temporary timing differences of £83.7m (2018: £50.8m) 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 has not been recognised in respect of some unused tax losses and temporary timing arising as it is not considered probable that there will be sufficient future profits available against which the Group can use the benefits therefrom. However, if profitability improves quicker than forecasted, then additional deferred tax assets and a related income tax benefit of up to £6.6m (2018: £0.3m) could be recognised. There is currently no expiration date of the Group's tax losses.

In £'000	31 Dec 2019		31 Dec 2018	
	Gross Amount	Tax Effect	Gross Amount	Tax Effect
Deductible temporary differences				
Company	2,168	412	-	-
UK subsidiary undertakings	9	2	9	2
Overseas subsidiary undertaking	(3)	-	-	-
Tax losses				
Company	30,365	5,769	-	-
UK subsidiaries undertakings	51	10	898	171
Overseas subsidiary undertaking	2,045	256	828	104
Unrecognised deferred tax asset	34,635	6,449	1,735	277

19. Other payables

	Group Year ended 31 Dec 2019 £'000	Group Year ended 31 Dec 2018 £'000	Company Year ended 31 Dec 2019 £'000	Company Year ended 31 Dec 2018 £'000
Other payables				
Taxes and social security costs	515	409	515	409
Accruals	3,959	3,405	3,824	3,253
VAT payable	359	162	276	162
Other payables	3,737	2,427	3,707	2,428
	8,570	6,403	8,322	6,252

The carrying amounts approximate fair value.

20. Deferred income

	Group Year ended 31 Dec 2019 £'000	Group Year ended 31 Dec 2018 £'000	Company Year ended 31 Dec 2019 £'000	Company Year ended 31 Dec 2018 £'000
Deferred income	51,512	-	51,512	-

In February 2019, in conjunction with our strategic partner Tide, the Company was successfully granted £60m from the Alternative Remedies Package. 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. Eligible costs include those that help develop and improve the Company's capability to compete with RBS in the provision of banking services to SMEs and help develop and improve the financial products and services which are available to SMEs.

During the year the company deducted £2.7m of grant income in arriving at the carrying amount of internally developed software intangible assets purchased (see Note 14 for further details).

During the year the company offset £5.8m of grant income against £5.8m of eligible costs resulting in a net £nil impact in other operating expenses presented in the Statement of Comprehensive Income. There are unfulfilled conditions attached to government assistance, £51.5m, is included in cash and cash equivalents and recognised as deferred income in the Statement of Financial Position as at 31 December 2019. In accordance with the terms of the grant, the Company is prohibited from utilising the entire Grant until specific market share targets are met.

21. Share capital

Company

	2019 Number	2018 Number	2019 £	2018 £
Allotted, issued and fully paid				
Class A ordinary shares of £0.00001 each				
At 1 January	1,172,702	950,230	11.7	9.5
Issued during 2018 ¹	-	142,472	-	1.4
Re-designated from Class B ordinary shares ²	-	80,000	-	0.8
Issued during 2019 ³	205,309	-	2.1	-
At 31 December	1,378,011	1,172,702	13.8	11.7
Class B1 ordinary shares of £0.00001 each				
At 1 January	-	80,000	-	0.8
Re-designation to Class A ordinary shares ²	-	(80,000)	-	(0.8)
At 31 December	-	-	-	-
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	-	-
Total at 31 December			17.0	14.9

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

1 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.

2 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.

3 During January 2019, the Company issued 64,635 Class A ordinary shares of £0.00001 each for £10m. In May 2019, the Company issued 29,253 Class A ordinary shares of £0.00001 each for £5.2m. In June 2019, the Company issued 27,315 Class A ordinary shares of £0.00001 each for £4.8m. In September 2019, the Company issued 28,370 Class A ordinary shares of £0.00001 each for £5.0m. In October 2019, the Company issued 28,193 Class A ordinary shares of £0.00001 each for £5.0m. In December 2019, the Company issued 27,543 Class A ordinary shares of £0.00001 each for £4.9m.

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21. Share capital continued

Share premium account

Group

	2019 £'000	2018 £'000
Share premium account		
At 1 January	78,329	53,458
Issue of shares, net of costs	34,875	24,871
At 31 December	113,204	78,329

Company

Share premium account

At 1 January	78,125	53,254
Issue of shares, net of costs	34,874	24,871
At 31 December	112,999	78,125

22. 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 the Capital Requirements Directive IV (CRD IV) and the Total Capital Requirements (TCR) issued by the PRA.

At the year end, the Company's Common Equity Tier 1 (CET1) capital resources totalled £16.8m (2018: £17.9m). This CET1 capital number is comprised of the Company's net equity of £41.1m (2018: £37.3m), less certain capital deductions, including the intangible asset balance of £18.3m (2018: £13.4m).

Company

CET 1 capital resources

	As at 31 Dec 2019 £'000	As at 31 Dec 2018 £'000
Share capital	–	–
Retained losses	(76,949)	(44,167)
Share premium	112,999	78,125
Share based payment reserve	5,723	3,301
Less ineligible assets:		
Intangibles	(18,265)	(13,418)
Deferred tax	(6,047)	(5,951)
Total CET1	17,461	17,890
Net Equity	41,773	37,259

23. 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.

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

	Group			Company		
	Fair value mandatorily at FVTPL £'000	Amortised cost £'000	Total £'000	Fair value mandatorily at FVTPL £'000	Amortised cost £'000	Total £'000
At 31 December 2019						
Financial assets						
Financial investments	-	-	-	-	-	-
Contract assets	-	-	-	-	-	-
Receivables and other assets	46	1,572	1,618	46	3,355	3,401
Cash and cash equivalents	-	526,594	526,594	-	526,593	526,593
	46	528,166	528,212	46	529,948	529,994
Financial liabilities						
Deposits from customers	-	457,981	457,981	-	457,981	457,981
Payables	-	6,015	6,015	-	5,851	5,851
Obligations under finance leases	-	4,520	4,520	-	4,390	4,390
	-	468,516	468,516	-	468,222	468,222

	Group			Company		
	Fair value mandatorily at FVTPL £'000	Amortised cost £'000	Total £'000	Fair value mandatorily at FVTPL £'000	Amortised cost £'000	Total £'000
At 31 December 2018						
Financial assets						
Financial investments	-	-	-	-	-	-
Contract assets	-	-	-	-	-	-
Receivables and other assets	47	907	954	47	1,614	1,661
Cash and cash equivalents	-	62,527	62,527	-	62,526	62,526
Total financial liabilities	47	63,434	63,481	47	64,140	64,187
Financial liabilities						
Payables	-	4,152	4,152	-	4,001	4,001
Deposits from customers	-	44,145	44,145	-	44,145	44,145
	-	48,297	48,297	-	48,146	48,146

The Group adopted IFRS 9 Financial Instruments for the first time in 2018. IFRS 9 introduced 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.

24. 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 2019 or at 31 December 2018.

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.

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24. Financial risk management continued

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 2019	Repayable on demand £'000	Within 1 month £'000	1 to 3 months £'000	3 months to 1 year £'000	1-5 years £'000	5+ years £'000	Total financial assets/ liabilities £'000
Financial assets							
Financial investments	-	-	-	-	-	-	-
Collateral placed with schemes	-	-	-	-	-	364	364
Receivables and other assets	317	189	-	382	1,000	366	2,254
Cash and cash equivalents	506,162	1,500	6,300	12,632	-	-	526,594
Total financial assets	506,479	1,689	6,300	13,014	1,000	730	529,212
Financial liabilities							
Amounts due to customers	437,549	1,500	6,300	12,632	-	-	457,981
Payables	3	4,989	803	220	-	-	6,015
Obligations under finance leases	-	228	419	1,861	2,012	-	4,520
Deferred Income	-	-	-	-	-	-	-
Total financial liabilities	437,552	6,717	7,522	14,713	2,012	-	468,516
Net financial assets	68,927	(5,028)	(1,222)	(1,699)	(1,012)	730	60,696

31 December 2018	Repayable on demand £'000	Within 1 month £'000	1 to 3 months £'000	3 months to 1 year £'000	1-5 years £'000	5+ years £'000	Total financial assets/ liabilities £'000
Financial assets							
Financial investments	-	-	-	-	-	-	-
Collateral placed with schemes	-	-	-	-	-	364	364
Receivables and other assets	50	131	2	407	-	-	590
Cash and cash equivalents	51,677	1,000	9,300	550	-	-	62,527
Total financial assets	51,727	1,131	9,302	957	-	364	63,481
Financial liabilities							
Amounts due to customers	33,295	1,000	9,300	550	-	-	44,145
Payables	-	2,575	1,338	239	-	-	4,152
Total financial liabilities	33,295	3,575	10,638	789	-	-	48,297
Net financial assets	18,432	(2,444)	(1,336)	168	-	364	15,184

Company

	Repayable on demand £'000	Within 1 month £'000	1 to 3 months £'000	3 months to 1 year £'000	1-5 years £'000	5+ years £'000	Total financial assets/ liabilities £'000
31 December 2019							
Financial assets							
Financial investments	-	-	-	-	-	-	-
Collateral placed with schemes	-	-	-	-	-	364	364
Receivables and other assets	2,116	189	-	366	1,000	366	4,037
Cash and cash equivalents	506,161	1,500	6,300	12,632	-	-	526,593
Total financial assets	508,277	1,689	6,300	12,998	1,000	730	530,994
Financial liabilities							
Deposits from customers	437,549	1,500	6,300	12,632	-	-	457,981
Payables	-	4,870	762	219	-	-	5,851
Obligations under finance leases	-	220	403	1,787	1,980	-	4,390
Total financial liabilities	437,549	6,590	7,465	14,638	1,980	-	468,222
Net financial assets	70,728	(4,901)	(1,165)	(1,640)	(980)	730	62,772
31 December 2018							
Financial assets							
Financial investments	-	-	-	-	-	-	-
Collateral placed with schemes	-	-	-	-	-	364	364
Receivables and other assets	757	131	2	407	-	-	1,297
Cash and cash equivalents	51,676	1,000	9,300	550	-	-	62,526
Total financial assets	52,433	1,131	9,302	957	-	364	64,187
Financial liabilities							
Deposits from customers	33,295	1,000	9,300	550	-	-	44,145
Other liabilities	-	2,571	1,208	222	-	-	4,001
Total financial liabilities	33,295	3,571	10,508	772	-	-	48,146
Net financial assets	19,138	(2,440)	(1,206)	185	-	364	16,041

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.

100 **Notes to the Financial Statements** continued**24. Financial risk management** continued*Collateral*

As discussed in Note 6.8, 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 Group. 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 2019 £'000	At 31 Dec 2018 £'000
Deposit from customers		
Mandated minimum balance account	12,632	9,310
Other deposits from customers	445,349	34,835
Total deposits from customers	457,981	44,145

Impairment under IFRS 9

IFRS 9 applies an 'expected credit loss' (ECL) approach to calculating impairments of financial instruments meaning there no longer needs to be a triggering event or incurred loss 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, 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 a financial instrument (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 financial instrument 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 mismatched asset and liability positions which are sensitive to interest rate changes. The Group's banking deposits are subject to variable interest rates, as a result, changes in interest rates could have an impact on the net interest income recognised in the year. A 25 basis point increase or decrease in the Bank of England base rate would have had a £0.6 million annualised impact on 2019 performance.

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 2019 and 31 December 2018. Further information is provided in the Risk Management section of the Annual Report.

25. 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 2019, 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 2019 no options were cancelled or lapsed (2018: None).

The following options and awards have been granted and remain outstanding, in addition the principal assumptions used in the Black-Scholes model used in determining fair value were as follows:

Scheme	Grant date	Exercise date	Volatility	Risk free investment rate	Share price (£)	Exercise price (£)	2019 No.	2018 No.
Share option scheme:								
Tranche 1	December 2016	December 2021	36.99%	0.56%	714	3.74000	2,800	2,800
Tranche 2	December 2017	December 2021	33.48%	0.69%	209.52	34.00000	125	225
Tranche 2a	December 2017	October 2020	33.48%	0.69%	209.52	34.00000	438	457
Tranche 3	December 2017	October 2020	33.48%	0.69%	209.52	34.00000	3,528	3,528
Tranche 4	December 2017	October 2020	33.48%	0.69%	209.52	0.00001	13,558	24,224
Tranche 5	December 2018	September 2021	33.55%	0.84%	166.32	66.36000	2,034	2,034
Tranche 6	February 2019	December 2021	35.22%	0.49%	154.72	66.36000	7,046	-
Tranche 7	January 2019	December 2021	35.36%	0.80%	154.72	66.36000	452	-
Tranche 8	January 2019	December 2021	35.36%	0.80%	154.72	0.00001	12,474	-
Tranche 9	April 2019	December 2021	31.41%	0.74%	154.72	66.36000	582	-
Tranche 10	July 2019	December 2021	33.51%	0.55%	176.82	66.36000	452	-
Tranche 11	July 2019	December 2021	33.51%	0.55%	176.82	0.00001	10,858	-
							54,347	33,268

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25. Share-based payments continued

	Weighted average exercise price 2019 £	2019 No.	Weighted average exercise price 2018 £	2018 No.
Outstanding as at 1 January	8.67	33,268	5.72	33,684
Granted	18.45	32,316	66.36	2,034
Forfeited	(3.03)	(11,237)	(16.00)	(2,450)
Exercised	-	-	-	-
Lapsed	-	-	-	-
Outstanding as at 31 December	15.65	54,347	8.67	33,268

The exercise price of options outstanding at 31 December 2019 ranged between £0.00001 and £66.36 (2018: £0.00001 and £66.36) and their weighted average contractual life was 1.6 years (2018: 1.9 years).

The weighted average exercise price of options outstanding at the end of year was £15.65 (2018: £8.67).

The weighted average exercise price (at the date of issue) of options forfeited during the year was £3.03 (2018: £16.00).

The weighted average fair value of each option granted during the year was £18.45 (2018: £66.36).

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 to date is £11.0m (2018: £6.3m).

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 or market based conditions inherent to the options granted were incorporated into measurement of fair value.

During the year ended 31 December 2019, £2.1m (2018: £2.1m) 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 2019, £0.3m (2018: £0.6m) was charged to the Statement of Comprehensive Income in relation to these shares.

As at 31 December 2019, the EBT held 5.45% (2018: 6.2%) of the ordinary share capital of the Company.

26. Related party transactions

During 2019, the Group provided services to and incurred costs on behalf of RTGS Global Limited, a company with common ultimate beneficial owners, totalling £273,905. This amount is outstanding as at year end and the balances with this related party were not on an arm's length basis. A promissory note has been received and amounts are to be settled in cash within 1 year of the accounts signing date. None of the balance is secured. No expense has been recognised in the current year for bad or doubtful debts in respect of amounts owed by related parties.

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 2019 £'000	Year ended 31 Dec 2018 £'000
Salaries and wages	1,808	1,574
Social security costs	289	259
Retirement obligations	106	91
Share-based payments	2,421	1,809
Total key management costs	4,624	3,733

Aggregate Directors' remuneration

	Year ended 31 Dec 2019 £'000	Year ended 31 Dec 2018 £'000
Salaries and wages	1,169	1,009
Social security costs	153	122
Retirement obligations	87	41
Share-based payments	1	13
Total directors' remuneration	1,410	1,185

3 (2018: 3) Directors are members of the Group's defined contribution scheme.

Remuneration of the highest paid Director

	Year ended 31 Dec 2019 £'000	Year ended 31 Dec 2018 £'000
Salaries and wages	416	294
Social security costs	63	39
Retirement obligations	-	-
Total highest paid director	479	333

27. Effects of changes in accounting policies

Transition method and practical expedients utilised

The Group adopted IFRS 16 using the modified retrospective approach, with recognition of transitional adjustments on the date of initial application (1 January 2019), without restatement of comparative figures. The Group elected to apply the practical expedient to not reassess whether a contract is, or contains a lease at the date of initial application. Contracts entered into before the transition date that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. The definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

IFRS 16 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The Group applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- (a) Apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- (b) Exclude initial direct costs from the measurement of right-of-use assets at the date of initial application for leases where the right-of-use asset was determined as if IFRS 16 had been applied since the commencement date;
- (c) Reliance on previous assessments on whether leases are onerous as opposed to preparing an impairment review under IAS 36 as at the date of initial application; and
- (d) Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term remaining as of the date of initial application.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases. However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low value assets based on the value of the underlying asset when new or for short-term leases with a lease term of 12 months or less. See Note 5.1 IFRS 16 Leases for further information in relation to the application of the standard from 1 January 2019.

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27. Effects of changes in accounting policies continued

On adoption of IFRS 16, the Group recognised right-of-use assets and lease liabilities as follows:

Classification under IAS 17	Right-of-use assets	Lease liabilities
All operating leases (excluding operating leases that meet the definition of investment property in IAS 40)	All leases, including office space: Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments, subject to the practical expedients noted above.	Measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as at 1 January 2019. The Group's incremental borrowing rate is the rate at which a similar borrowing could be obtained from an independent creditor under comparable terms and conditions. The weighted-average rate applied was 3%.
Finance leases	Measured based on the carrying values for the lease assets and liabilities immediately before the date of initial application (i.e. carrying values brought forward, unadjusted).	

The following table presents the impact of adopting IFRS 16 on the Statement of Financial Position as at 1 January 2019:

	Notes	31 December 2018 As originally presented £'000	IFRS 16 adjustments £'000	1 January 2019 £'000
Assets				
Right-of-use assets	(a)	-	2,910	2,910
Prepayments	(b)	234	(234)	-
Liabilities				
Lease liabilities	(c)	-	2,458	2,458
Other payables	(b)	(218)	218	-
Equity				
Retained earnings	(d)	-	-	-

(a) Right-of-use assets were adjusted for operating type leases under IAS 17 that had not previously been accounted for 'on balance sheet'.

The adjustment to right-of-use assets is as follows:

	£'000
Operating type leases	2,910
Total right-of-use assets	2,910

(b) Prepaid rent, accrued purchases and rent free creditors disclosed in the Group's 31 December 2018 annual financial statements were adjusted against the right-of-use assets recognised on 1 January 2019:

(c) The following table reconciles the minimum lease commitments disclosed in the Group's 31 December 2018 annual financial statements to the amount of lease liabilities recognised on 1 January 2019:

	Notes	1 January 2019 £'000
Minimum operating lease commitment at 31 December 2018		2,581
Less: short-term leases not recognised under IFRS 16		-
Less: low value leases not recognised under IFRS 16		(2)
Less: other adjustments on initial application	(e)	(628)
Plus: effect of extension options reasonably certain to be exercised		604
Undiscounted lease payments		2,555
Less: effect of discounting using the incremental borrowing rate as at the date of initial application		(97)
Lease liabilities for leases classified as operating type under IAS 17		2,458
Plus: leases previously classified as finance type under IAS 17		-
Lease liability as at 1 January 2019		2,458

(d) As the right-of-use asset recognised at the date of initial application is equal to the lease liability, adjusted for any prepaid or accrued lease payments, there was no impact to retained earnings and no associated tax effects.

(e) Other adjustments on initial application include (i) VAT included in the undiscounted operating lease commitments and (ii) reduction in rent payments from those previously committed to.

28. 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 as staff costs in the consolidated Statement of Comprehensive Income. The pension cost charge for the year was £1.3m (2018: £0.9m).

29. Contingent liabilities and commitments

There are no contingent liabilities as at 31 December 2019 (2018: none).

30. Events after the reporting year end

In January and March 2020, an additional £5.1m and £19m capital injection was received from the existing shareholders respectively.

On 26 February 2020, the Company granted 3,783 share options and on 4 March 2020 the Company granted a further 18,383 share options to employees and management. The total estimated fair value of the options granted is £3.2m.

On 10 February 2020, the Company signed a 5 year lease for office premises at 4th floor, Prologue Works, 25 March Street, Bristol.

In March 2020 the Group received R&D tax credits from HMRC of £0.6m, see Note 11 for further details.

The global spread of COVID-19 has significantly affected financial markets, however the impact on ClearBank's financial position at year end is minimal and the full impact at this early stage is difficult to fully quantify. The effectiveness of the Group's remote operations have been demonstrated, ensuring the uninterrupted delivery of services to customers to date. See Note 1.5 for further information.

There have been no other significant events between 31 December 2019 and the date of approval of the financial statements which would require a change or additional disclosure in the financial statements.

31. Ultimate controlling party

There is no parent undertaking or ultimate controlling party.

106 Glossary

ALCO	Asset and Liability Committee
API	Application program interface
BaaS	Banking-as-a-Service
BAC	Board Audit Committee
BCP	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
ERMC	Enterprise Risk Management 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
IFRICs	IFRS Interpretations Committee
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IMF	Information management & security framework
ISO	International Standards Organisation
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
SPPI	Solely payments of principal and interest
VAT	Value added tax

Key Information

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