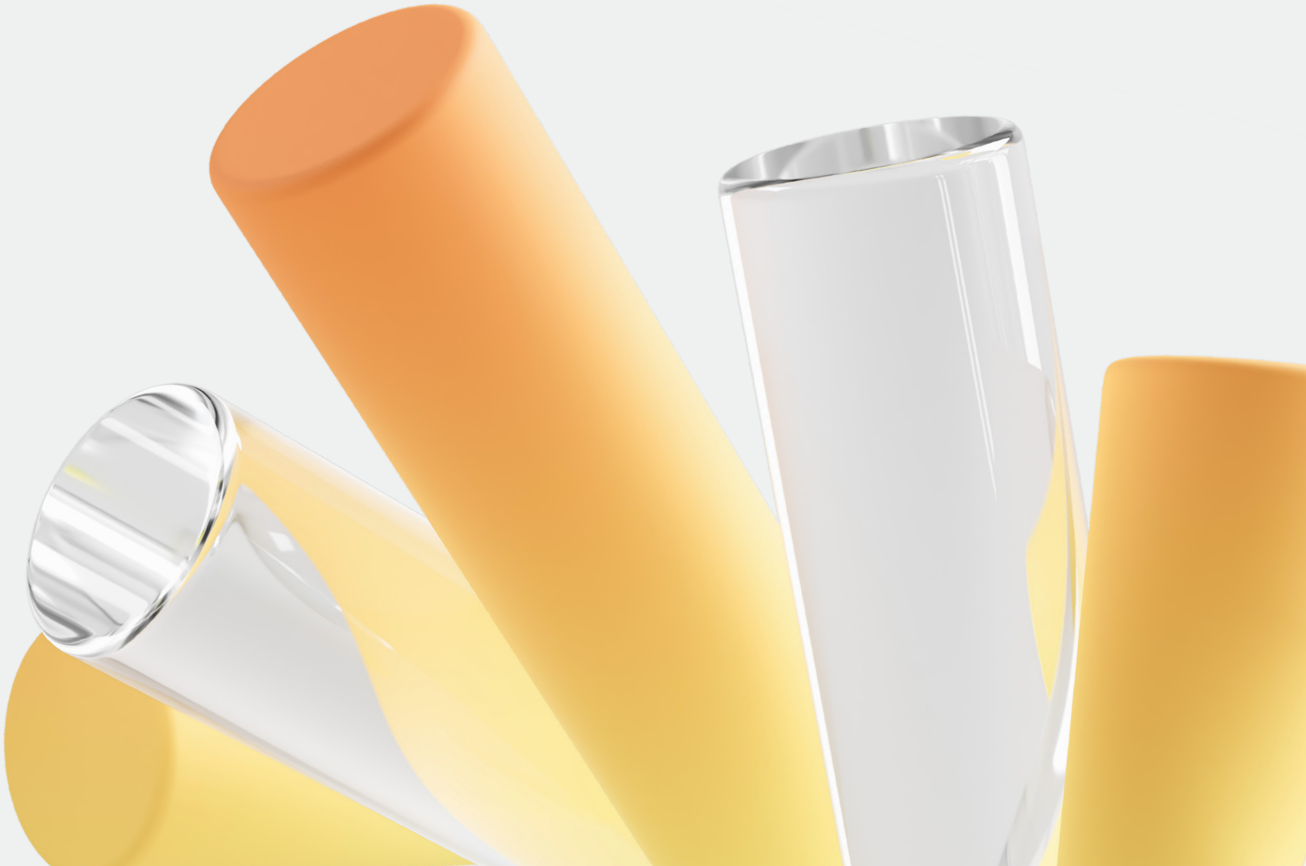
Clear.Bank

Pillar 3 Disclosure

2023



Contents

This report was approved by the Board on 2 May 2024.

Mark Fairless
Chief Financial Officer

Innovate. Differentiate. Grow.

Our purpose

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

Our vision

We're committed to being a responsible business, driving forward the transformation of payment services. Our technology platform and banking licence enable our clients to thrive by providing access to next generation financial solutions.

ClearBank at a glance

Driven by technology, powered by people

Who we are

ClearBank Group Holdings Limited (the 'Company') and its subsidiaries (together, the 'Group', or 'ClearBank') consist of a purpose built, technology enabled clearing bank offering market-differentiating banking products to financial institutions, through a single Application Programming Interface ('API').

ClearBank was built on the belief that banking and payments infrastructure would no longer slow down progress. Instead, it would be the catalyst that unlocks the potential to innovate. It would adapt to cater to different needs so a new era in financial services could begin.

What we do

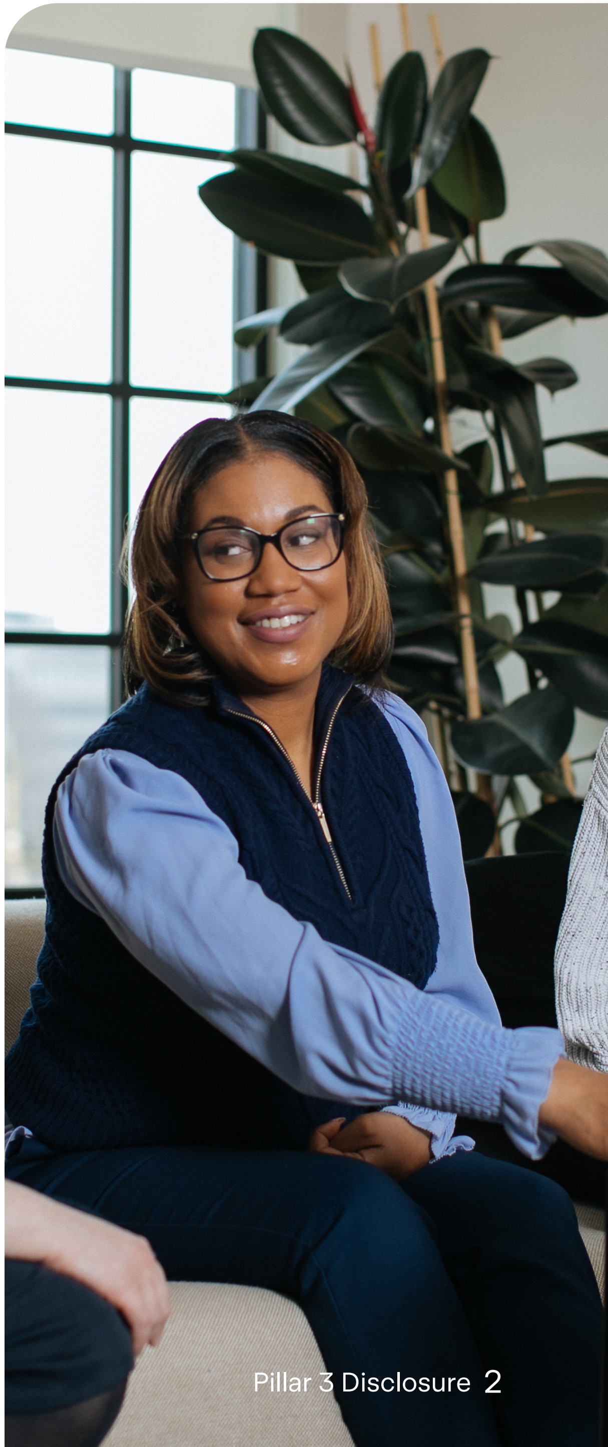
Through our UK banking licence and innovative financial technology, the Group enables financial institutions to offer secure accounts, clear payments in real-time and enhance their banking propositions for their customers.

We're committed to being a responsible business, driving forward the transformation of payment services.

Our clients

Financial institutions — from fintech and digital asset platforms, to banks and credit unions — use our API to offer their customers fully regulated banking infrastructure and real-time clearing access.

PayPoint
tide
chip
BCB GROUP
eToro
raisin
coinbase



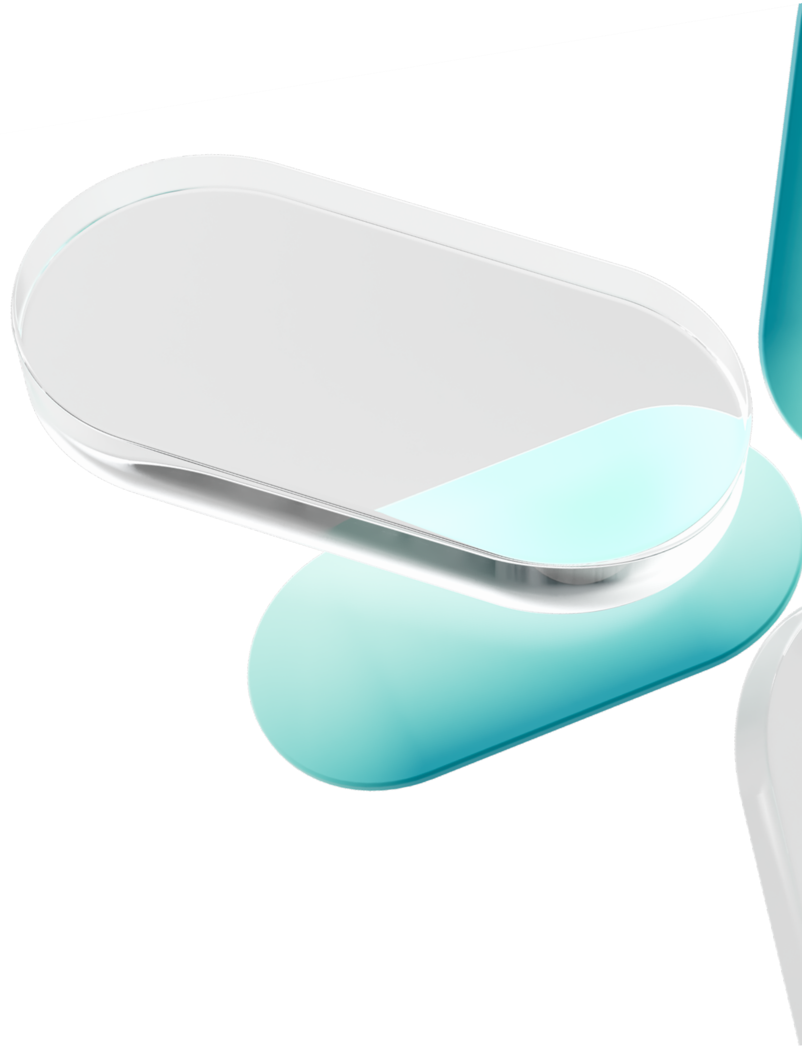
Disclosures

Basis of preparation

These Pillar 3 disclosures are prepared according to the requirements of the Disclosures Capital Requirements Regulation ('CRR') part of the PRA Rulebook as applicable to non-listed firms meeting the definition of small and non-complex institutions, as set out in the PRA Rulebook Disclosures (CRR) section, Article 433b.

Scope of consolidation

These disclosures set out the consolidated Pillar 3 disclosures for the Group as at 31 December 2023. The Group comprises of ClearBank Group Holdings Limited, a regulated financial holding company, and its 100% owned and controlled subsidiaries, ClearBank Limited (the 'UK Bank', a fully regulated UK bank) and ClearBank Europe N.V. ClearBank Limited is currently the only material subsidiary within the Group. The Company received formal PRA approval for regulation as a bank holding company in Q4 2023, comparative metrics for the prior year are not available. Any reference to comparative metrics are for the required disclosures relating to the material subsidiary, ClearBank Limited only.



Verification and quality assurance

Pillar 3 disclosures are not subject to external audit and have been produced solely for the purposes of satisfying Pillar 3 regulatory requirements. However, these Pillar 3 disclosures have been reviewed in line with the internal governance procedures applicable to all ClearBank external reporting, including review and approval by the Board.

The Directors have considered the adequacy of this Pillar 3 disclosure and are satisfied that the disclosures are both accurate and comprehensive.

Frequency, media and location

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

Key metrics

Robust capital, liquidity and balance sheet

The Group's capital and liquidity positions are very strong, thanks to our unique business model coupled with our profitability. In line with our risk appetite, we maintained a robust capital position, with a CET1 of 77% at the year end, maintaining headroom in excess of our total capital requirements.

	ClearBank Group
	31 Dec 2023
Available own funds (£m)	
Common Equity Tier 1 ('CET1') capital (£m)	126
Tier 1 capital (£m)	126
Total capital (£m)	126
Risk-weighted assets ('RWA') (£m)	
Total risk-weighted exposure amount (£m)	163
Capital ratios (% of RWA)	
Common Equity Tier 1 ratio (%)	77.45%
Tier 1 ratio (%)	77.45%
Total capital ratio (%)	77.45%
Additional own funds requirements based on SREP (% of RWA)	
Additional CET1 SREP requirements (%)	0.00%
Total SREP own funds requirements (%)	0.00%
Combined buffer requirement (% of RWA)	
Capital conservation buffer (%)	2.50%
Institution specific countercyclical capital buffer (%)	2.00%
Combined buffer requirement (%)	4.50%
Overall capital requirements (%)	22.11%
CET1 available after meeting the total SREP own funds requirements (%)	77.26%

Our Liquidity Coverage Ratio of 445% and our Net Stable Funding Ratio of 10,154% demonstrates a strong liquidity position for the Group.

The vast majority of our High Quality Liquid Assets of £6,187m are held as cash in sterling at the Bank of England.

Key metrics continued

	ClearBank Group
Leverage ratio	**31 Dec 2023**
Total exposure measure excluding claims on central banks (£m)	289
Leverage ratio excluding claims on central banks (%)	43.51%
Liquidity Coverage Ratio	
Total high-quality liquid assets ('HQLA') (Weighted value -average) (£m)	6,187
Cash outflows – Total weighted value (£m)	1,398
Cash inflows – Total weighted value (£m)	9
Total net cash outflows (adjusted value) (£m)	1,389
Liquidity coverage ratio (%)	445.36%
Net Stable Funding Ratio ('NSFR')	
Total available stable funding (£m)	5,032
Total required stable funding (£m)	50
NSFR ratio (%)	10,153.88%

Risk management

Enterprise Risk Management Framework ('ERMF')

With an evolving regulatory environment, challenging economic conditions and continued geopolitical instability, being features of 2023 likely to continue in 2024, the strength of the Group's risk management frameworks continue to be a critical part of our ongoing success to ensure that we are able to achieve our strategic objectives.

The Group Enterprise Risk Management Frameworks (ERMF) and Group risk strategy have been established and will be supported by key risk initiatives, which are to be set each year and against which progress will be tracked through the year. These initiatives will ensure that the Group maintains the effectiveness of risk management commensurate with growth and expansion. The Group ERMF is supported by the Local Addenda in relation to the Group's subsidiaries. We will continue to manage our risks using a Group ERMF that has been designed to provide a clear and consistent approach to the management of all risks and controls within the boundaries of the agreed UK and Europe Board risk appetite statements. The Group ERMF will be embedded in the day-to-day management of the business, with supporting standards and procedures that are applied to support the safe achievement of our strategic objectives.

Our risk management vision for the Group is as follows:

- Dynamic, real-time
- Insightful
- Multi-dimensional
- Automated
- Forward looking, proactive
- Integrated
- Tailored
- Data enabled

Risk reporting and governance

We produce regular risk reporting for our UK Bank and Europe Risk committees aligned to our UK and Europe risk taxonomies covering the five key risks to which the Group is exposed. The Group governs itself in accordance with Group and local policies as applicable. Local policies provide operational application details and are driven by regulatory requirements and other local considerations. Each committee has responsibility for the monitoring and oversight of our risk profile in line with our risk appetite, which is reviewed and approved annually by the respective UK and Europe Boards. For more on Group governance arrangements, please refer to the Governance and Risk Management section (page 15) in the 2023 Group ARA, which can be found on Companies House.

Risk culture

The Group's risk culture is a principal supporting factor of our Group risk management frameworks. It has been established and is maintained through a set of values, risk principles and the correct 'tone from the top' from the Group's executive leadership and the respective Boards, who provide clear and consistent messaging of our commitment to the management of risk through all levels of the Group. The Group Operating Principles have been established to ensure effective decision making and involvement of all key stakeholders at Group level.

Risk management continued

Key Risks	2023 change in risk profile	2024 risk outlook	How key risks are mitigated	Commentary
Compliance Risk Includes financial crime compliance and regulatory compliance risks	Stable	Improving	Mitigated in a number of ways including horizon scanning for changes in regulatory and financial crime requirements, tracking regulatory change actions to closure ensuring we are and do remain compliant and customers continue to be protected. Also includes regular oversight and control testing activities to demonstrate compliance and identify any processes or controls that may require strengthening.	The introduction of the Consumer Duty has been a major piece of work in 2023. This has been implemented on time with significant collaboration with our embedded banking clients. Increased reporting and collaboration will continue as this further embeds in 2024. Financial Crime continues to be challenged by the volatility of geopolitical events around the world. However, a stable risk profile has been maintained throughout 2023. Enhancements to systems and tools are planned for 2024.
Conduct Risk Includes culture, behaviours, and partner risks, as well as governance and product risks	Stable	Improving	Mitigated through consistent and appropriate 'tone from the top', regular training to support staff in understanding what good conduct looks like and robust product life-cycle governance. Additionally, through ongoing improvements to our complaints monitoring and oversight, both in our clearing portfolio and embedded banking partnerships.	Throughout 2023 there has been an ongoing focus on enhancing understanding of conduct standards. This has centred on delivering further training and additional guidance in a number of key areas, ensuring that the Group continues to operate as a customer-focused organisation as it grows and expands.
Financial Risk Includes capital, liquidity, and funding risks, and also includes credit, interest rate and market risks	Stable	Stable	Mitigated by ensuring that we understand our sources of risk and place limits on specific types of risk-taking to remain within tolerance levels. This is supported by our capital and liquidity planning processes which also stress test our assumptions and drive mitigating actions to reduce any risk exposure. We also ensure we maintain sufficient levels of capital and liquidity above regulatory requirements.	With interest rates reaching a 15-year high of 5.25% in August 2023, our customers have benefited from competitive rate offerings through our embedded banking clients. This has also had a positive impact on the Group's balance sheet. The stable outlook over the course of 2024 is driven by the simple structure and composition of the Group's balance sheet. Whilst the overall volume will grow, we will continue to manage financial risks in a way that is conservative and consistent with 2023.

Risk management continued

Key Risks	2023 change in risk profile	2024 risk outlook	How key risks are mitigated	Commentary
Operational Risk Includes information, technology, transaction processing and execution risks, as well as people, fraud, financial reporting, and model risks. Also includes legal, outsourcing, physical security, and business continuity risks	Stable	Stable	Mitigated through a number of operational frameworks, models, and strategies, with regular and comprehensive risk and control self-assessments and control testing activities. These ensure we fully understand our risk exposure and take further risk mitigation actions where necessary to strengthen the control environment and remain within risk appetite.	This risk has remained stable throughout 2023 across operational risk sub types. The continued growth of our number of clearing clients and embedded banking clients will increase our inherent outsourcing risk exposure in 2024. Therefore, we will continue to focus on ensuring the oversight and control environment is strengthened commensurately to maintain outsourcing risks within tolerance. People risk will remain an area of close monitoring into 2024 given the high degree of change, growing organisational complexity and external economic factors. Planned implementation of additional risk management tools and other initiatives are designed to improve employee experience and reduce manual intervention in support of maintaining a stable risk profile in 2024.
Strategic Risk Includes environmental and social, political, and economic risks as well as business and competition risks	Improving	Improving	Mitigated through a regular and comprehensive review of our strategy ensuring that our financial plans and annual objectives are aligned to and supported by the strategy. This includes tracking of our client pipeline and attrition, controlling costs and adherence to budget, monitoring diversity and inclusion data – for example gender diversity at a senior leadership level. It also means keeping close to external factors, macroeconomic and geopolitical events that could impact our customers and our strategy.	Despite external uncertainties, it has been a strong year for the Group. Targets for new business closed, customer onboarding and transaction volumes have all been exceeded, whilst continuing to manage the Group's overall profile within risk appetite. As the Group continues to focus on scale and the development of more diverse product offerings, this momentum is anticipated to continue in 2024. With the regulator expecting more complex diversity reporting, existing capabilities will be a focal point as well as employee engagement to collect data that is often obtained at onboarding.

Risk management continued

Funding and 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 UK Bank's 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.

Credit risk

Credit risk is the risk of financial loss to the Group if a client 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 clients 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 clients' 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.

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 exposure 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 that 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.

Conduct risk

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

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

Operational risk

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

The Group 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 the Group fails to comply with existing requirements.

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

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

Operational Resilience

The business continues to embed the PRA's operational resilience, outsourcing and third party risk management requirements, which relates to our ability to prevent, respond to, recover, and learn from operational disruptions. Our clients demand uninterrupted services, and our technology provides high levels of availability, reliability and resilience delivering optimal operational outcomes.

We protect against operational risk events by mirroring our cloud-native technology platform in separate zones within Microsoft Azure. This mitigates any service disruption to our clients.

Environmental, Social and Governance ('ESG')

Our Environmental, Social and Governance (ESG) strategy is an increasingly significant area of focus for the Group. The UK Bank's Board Audit Committee provides oversight and assurance over the climate and sustainability disclosures which currently comprise the Streamlined Energy and Carbon Reporting (SECR) and the UK Climate Related Financial Disclosures, the latter being reported for the first time in 2023. We included sustainability in our guiding Group wide priorities throughout 2023 (including linking a proportion of executive remuneration based on achievement of its sustainability objectives as of 2023) and will continue to pursue meaningful outcomes in 2024 and beyond.

Whilst the UK Bank's Board Audit Committee continues to monitor the impact of climate change on the Group's financial statements, the impacts are not material at this time.

Risk management continued

Internal Capital Adequacy Assessment Process ('ICAAP')

The Group undertakes an ICAAP, which is an internal assessment of Pillar 2A and Pillar 2B capital requirements.

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

The Board reviews and approves the stress testing and ICAAP. During the periodic supervisory review and evaluation process ('SREP'), the PRA assesses ClearBank's ICAAP and sets the Total Capital Requirement ('TCR').

Overview of RWA

	Risk weighted exposure amounts (RWEAs)			Total own funds requirements	
	ClearBank Group	ClearBank Limited	ClearBank Limited	ClearBank Group	ClearBank Limited
	31 Dec 2023	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2023
Credit risk (excluding CCR) (£m)	**36**	**27**	16	3	2
Of which the standardised approach (£m)	**36**	**27**	16	3	2
Operational risk (£m)	**127**	**119**	55	10	9
Of which basic indicator approach (£m)	**127**	**119**	55	10	9
Total (£m)	**163**	**146**	71	13	11

Risk management continued

Credit risk

The Group uses the Standardised Approach ('SA') to calculate credit risk. Under the SA, the Group applies a risk weighted asset value to each of its exposure classes and provides 8% of that risk weighted value as the minimum capital requirement for credit risk under Pillar 1. As at 31 December 2023, the Group's Credit Risk RWA was £36m, which required own funds of £3m to be held.

Operational risk

The Group uses the Basic Indicator Approach for calculating its Pillar 1 operational risk capital requirements. Under this approach, the Group applies a risk weight to the average of the past 3 years' audited revenue of ClearBank Limited, and is required to hold 8% of that risk weighted value as the minimum capital requirement for operational risk under Pillar 1. As at 31 December 2023, the Group's Operational Risk RWA was £127m, which required own funds of £10m to be held.

Liquidity and funding risk

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

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

As at 31 December 2023, the Group's Liquidity Coverage Ratio ('LCR') was 445% which was well above the UK regulatory minimum of 100%. The Group continues to manage its liquidity against its internal risk appetite; such appetite being more prudent than the regulatory requirements.

The Group exceeds the PRA's expected 100% minimum future requirement for the Net Stable Funding Ratio ('NSFR'), with a ratio of 10,154% at 31 December 2023.

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

Remuneration

Remuneration Policy and practices
This section provides details on the respective remuneration of the Board and employees of the Group including the approach for material risk takers for the year ending 31 December 2023. Material risk takers are those individuals whose actions may have a material impact on the risk profile of the Group. The policy and level of remuneration is determined by the respective Remuneration Committees.

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

Remuneration Policy
Our Remuneration Policies and approach to remuneration are designed to support the delivery of the Group's long term corporate strategy in a manner that is compliant with the requirements and frameworks of the competent domestic authorities' respective rules on remuneration (the Codes) and related guidance as these apply to the Group's business. The Policies intend to ensure alignment of remuneration with the long-term interests of our shareholders. The Group considers that the Policies are consistent with and promotes sound and effective risk management and includes appropriate measures to avoid conflicts of interest.

Remuneration Committee
Remuneration is overseen by the local Policy and Remuneration Committees for the subsidiary entities. The membership of these Committees is made up of three to four independent Non- Executive Directors who retain ultimate discretion for those matters as outlined within its Terms of Reference.

The Committees agree the framework and policy for remuneration; terms of employment and any changes, including service contracts, remuneration, policy for and scope of pension arrangements; the basis of bonus and bonus awards and participation in and awards under share, incentive and benefit plans not available to all employees; and the targets for any performance related pay schemes.

Only members of the respective Committee have the right to attend and vote at Committee meetings. The Chief Human Resources Officer and Chief Executive Officer retain a standing invitation to attend meetings but are excluded from discussions relating to their own remuneration arrangements. Additionally, there remains a standing invitation for the named Investor Directors to attend meetings as and when required.

Non-Executive Directors' remuneration
The Group's independent Non-Executive Directors receive a fixed fee, and do not participate in the Group's Variable Pay arrangements. Non-executive directors do not receive pension or other benefits.

Executive Directors' remuneration
Executive Directors' remuneration is determined by taking into account the specific role performed and is made up of individual remuneration components which when combined ensure an appropriate and reasonable remuneration package.

It includes:

Fixed Pay:
- Base salary, including fixed allowances if any
- Pension and insurance schemes
- Other benefits

Variable Pay:
- Performance-based remuneration
- Service-based remuneration

Fixed pay
Fixed pay is determined on the basis of the role and the position of the individual employee, including professional experience, responsibility, job complexity and local market conditions.

Decisions on adjustments to employees' fixed pay are currently reviewed on a bi-annual basis.

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

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

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

For more information on Remuneration, please refer to notes 8, 25 & 26 of the 2023 Group ARA.

Self-assessment of compliance with the Disclosure (CRR) part of the PRA rulebook

CRR Reference	High-level summary	Disclosure reference
435(1)(a)	The strategies and processes to manage risks	Page 6 onwards
435(1)(e)	Declaration of adequacy of risk management arrangements	Page 6
435(1)(f)	Concise risk statement describing the overall risk profile	Page 6
438(d)	Total risk-weighted exposure amount and the corresponding total own funds requirement to be broken down by the different risk categories	Page 10
447	Disclosure of key metrics	Page 4-5
450(1)(a)	Information concerning the decision-making process used for determining the remuneration policy	Page 12
450(b)	Information about the link between pay of the staff and their performance	Page 12

Glossary

ALCO	Asset and Liability Committee
API	Application Programming Interface
BRC	Board Risk Committee
ClearBank	ClearBank Group Holdings Limited and its subsidiaries
FCA	Financial Conduct Authority
FI	Financial Institutions
FSCS	Financial Services Compensation Scheme
ICAAP	Internal Capital Adequacy Assessment Process
LCR	Liquidity Coverage Ratio
NSFR	Net Stable Funding Ratio
PRA	Prudential Regulation Authority
RMF	Risk Management Framework
SREP	Supervisory Review and Evaluation Process
TCR	Total Capital Requirement

Registered office address

ClearBank
Group Holdings Limited
Borough Yards
13 Dirty Lane
London
SE1 6PA

Legal Entity Identifier

213800CGCT411FDRUL56