ClearBank® Limited

PILLAR 3 DISCLOSURE 2016

Registration number: 09736376

Contents

Overview & Purpose

This disclosure document sets out the Pillar 3 disclosures on capital and risk management for ClearBank® Limited ("the Bank") as at 31 December 2016. This document fulfils the regulatory disclosure requirements of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD) referred to collectively as CRD IV.

The purpose of this document is to provide information relating to the Bank's principal risks, the approach to risk management and the resources held to protect the Bank's depositors and other stakeholders from unexpected events.

As the bank has an accounting reference date of 31 December, these disclosures are made as at that date. These disclosures are not subject to audit however, the disclosures were subject to internal review procedures broadly consistent with those undertaken for audited information published in the Bank's Annual Report.

They do not constitute any form of financial statement and must not be relied upon when making any judgement about the Bank and have been produced solely for the purposes of satisfying the Pillar 3 regulatory requirements.

Additional relevant information can be found in the Annual Report and Accounts which is available on the bank's corporate website (www.clear.bank).

The financial statements cover the period from 17 August 2015 to 31 December 2016. During 2016 however, a banking application was made and approved for the Bank to enter mobilisation. As authorisation was granted on 15 December 2016, the Pillar 3 disclosures cover the period from 15 December 2016 to 31 December 2016.

Summary capital position and requirements

The capital ratios are calculated as the relevant regulatory capital divided by the total risk exposure. Under CRD IV, institutions are required to meet the following own funds requirements: a common equity Tier 1 (CET1) capital ratio of 4.5%, a Tier 1 (T1) capital ratio of 6.0% and a total capital ratio of 8.0%. The Bank's total regulatory capital consists entirely of CET1 which is used to meet all three requirements.

The Bank's key regulatory metrics as at 31 December 2016 are shown below:	Period from 17 August 2015 to 31 December 2016 £000
Total regulatory capital	17,404
Total risk exposure	33,671
Capital ratios	51.7%
Leverage ratio	86.3%

Regulatory Framework

The Bank's regulatory capital is assessed under the Basel Committee's framework which comprises three pillars:

- **Pillar 1** - Minimum capital requirements: defines the minimum capital requirements for credit, market and operational risks.
- **Pillar 2** - Supervisory review process: a requirement for banks to undertake an Internal Capital Adequacy Assessment Process ('ICAAP'). The ICAAP represents the Bank's own assessment of capital resources needed to cover specific risks faced by the Bank that are not adequately covered by the minimum regulatory capital requirement as set out under Pillar 1. The amount of any additional capital requirement is also assessed by the PRA and is used to determine the overall capital required to be held by the Bank.
- **Pillar 3** - Disclosure: requires banks to publish information on their principal risks, capital structure and risk management to provide greater transparency to the market.

For the assessment of Pillar 1 Credit Risk, the Bank has adopted the Standardised Approach to calculate its minimum capital requirements. This approach uses prescribed risk weights and formulae for calculating the amount of capital to be held in respect of credit, operational and market risk exposures.

Pillar 1 Operational Risk is assessed using the Basic Indicator Approach which calculates a Bank's minimum capital requirements based upon the average of three years gross income.

ClearBank currently has no exposures to report under the Market Risk heading.

In accordance with Pillar 2, the Bank has performed an assessment of risks which it faces and has calculated the amount of capital that it considers necessary in order to cover these risks. The Bank then compares this to the capital calculated under Pillar 1 to determine the additional capital required to be held.

This is then compared against the available capital resources to ensure the Bank has sufficient capital over its planning horizon. This process includes detailed stress tests relevant to the Bank's business model and external trading environment, including a reverse stress test which determines the events which may cause the Bank to enter Resolution or failure.

The process of determining the total capital requirements is called the Internal Capital Adequacy Assessment Process (ICAAP) and this is reviewed by the PRA.

This document covers the disclosures as required under Pillar 3. The basis of the values used for regulatory purposes are consistent with the statutory accounting report, with the required adjustments for eligible capital resources.

Risk Management Objectives & Policies

Risk-taking is an inherent part of banking, and the Bank aims to make a profit from taking risks in a controlled way. However, excessive and poorly managed risks can lead to losses and reputational damage increasing the risk to the Bank's customers, depositors and shareholders.

Risk in the context of this document means the possibility of an outcome or event which may have an adverse impact on the Bank's customers, capital, liquidity, profitability, reputation and ultimately its viability.

The Board, directors and senior management are expected to ensure that the risks the Bank takes are manageable. Risks are considered manageable when they are defined, understood, measurable, controllable and that the Bank's resources are capable of withstanding both expected and unexpected levels of risk performance.

Sound risk management practices enable the Bank to take risks knowingly, reduce risks where appropriate and to prepare strategic, operational and financial plans, which consider future uncertainties. Given the nature of the Bank's activities the most important risks relate to operational risks, specifically information security, and regulatory adherence.

The Bank's Risk Management Framework ("RMF") is based on the following principles:

- **Strong Risk Governance:** Risk is managed using the 'Three Lines of Defence' principle – separating risk ownership from risk oversight and risk assurance, with governance provided by formal committees, including the Executive Risk Committee (ERC) and the Board Risk Committee (BRC);
- **Defined Risk Appetite:** A clearly defined Risk Appetite is in place which is aligned to the business strategy and reflects the Board's prudent approach towards risk taking;
- **Independent Risk Oversight:** There is a separate risk oversight function which is independent of the business and central functions to provide effective oversight of risk management and controls. The risk department staff report to the Chief Risk and Compliance Officer (CRCO), and the CRCO reports directly to the Chief Executive Officer (CEO).
- **Risk Transparency and Control:** All risks are identified, managed, monitored and reported. All risks are subject to appropriate controls and governance. Primary responsibility for the identification, assessment, measurement, monitoring and management of risks rests with the First Line of Defence, overseen by the risk function;
- **Reputation:** The Bank's strategy is guided by the principle of putting the customer at the very core of what we do; and the Bank's reputation is built upon providing value and service to our customers. As the preservation of reputation is paramount, so this informs the business strategy, risk taking and the way in which we treat our customers.

The RMF is reviewed and approved by the Board annually following a recommendation by the Board Risk Committee ("BRC"). The Chief Executive Officer ("CEO") and the Chief Risk and Compliance Officer ("CRCO") ensure that business objectives and practices are fully aligned with the RMF.

The senior executive and managers of the Bank ensure that the RMF is embedded in its day-to-day management and control activities. The RMF is subject to assurance reviews undertaken by Internal Audit and these are made available to external stakeholders as and when required.

The RMF explains how the Bank, within its defined appetite for risk, identifies and manages risk. This is supported by having appropriate policies, procedures, governance, systems and tools in place to enable effective risk management at the Bank. Risk management refers to the process of identification, assessment, measurement, control and monitoring of risks to which the Bank is exposed.

The structure of the RMF is designed to support the business in managing the risks in a way which is consistent with the Risk Appetite, as set by the Board, and has three core components:

1. **The risk management strategy defines the bank's approach to risk management and how much risk the bank wants to take (risk appetite).**
2. **The risk governance and risk architecture outlines the communication, escalation and decision-making approach to managing risk.**
3. **The risk management process and protocols determine the risk management activities, policies and procedures undertaken by the business, and includes the assessment and measurement of risk.**

The RMF is supported by the Three Lines of Defence model, whereby the second line provides oversight on how risks are managed within the first line and ensuring the appropriate controls are in place. The third line assesses the effectiveness of the controls.

Risk Appetite

A core component of the Risk Management Framework is the Risk Appetite. The Bank accepts that a certain level of risk is inherent in the business model and the Risk Appetite defines the nature and amount of risk the Bank is willing to take in pursuit of its strategy and business objectives.

The Risk Appetite includes an overarching risk appetite statement, supported by specific risk appetite metrics. These provide a clear mandate for the Bank's management team and outlines acceptable risk limits within which the business must operate. These limits clarify where risk can be taken and to what level. The effective internal communication of the Bank's risk appetite limits enhances the awareness and the effectiveness of the Risk Management Framework.

To support the components of the overarching risk appetite statement, a series of metrics and limits have been established against each principal risk. These metrics reflect the types of risk faced by the Bank and the limits reflect the tolerance associated with these risks, and allows the Board and management to understand the actual risk profile compared to the maximum tolerable level.

The Bank needs to operate within the set limits, and adopts a targeted level of risk as reflected in the business plan. There should be a degree of tolerance in the targeted level, above which represents a threat to the risk appetite limit. This is where a risk trigger should be set. A risk trigger is designed to alert the Board and management of a potential breach of a risk appetite limit. In the event of a trigger breach, pre-emptive or proactive actions should be outlined to ensure risk appetite limits are not breached. The mechanism by which the Board ensures that the risk appetite has appropriate oversight and challenge is the three lines of defence model, including CRCO oversight and risk reporting to BRC and Board.

Principal Risks and Mitigants

Strategic and Business Risks

The risks that can affect the Bank's ability to achieve its corporate and strategic objectives. Given the broad nature of these risks, these will include and be influenced by the other principal risks below. Notwithstanding, considering risks at this level is important as it provides a more holistic and external perspective on risk.

Operational Risk

The Bank's approach to operational risk management is set out on page 17 of these disclosures.

Conduct Risk

Conduct risk is defined as the risk of detriment caused to the Bank's customers due to inappropriate execution of its business activities and processes, including the sale of unsuitable products and the failure of its IT systems.

The bank has solid procedures for proactively dealing with any customer issues. This involves an approved product governance structure, an escalation process, appropriate actions and clear communication with our customers. The culture runs through the bank of protecting the brand from any market driven exposures and problems. The Board instils the right cultural drivers meaning we do the right thing for our customers and take prompt management action to reduce the likely impact of any such events.

Capital Risk

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

This is mitigated by the Board Risk Committee reviewing, at least annually, the ICAAP (Internal Capital Adequacy Assessment Process) provided by the risk, treasury and finance departments. This is used to determine the Bank's capital adequacy ensuring that the levels of capital required to support the current and future risks of the Bank are met. This review addresses all the material risks and includes stress scenarios to ensure that all minimum requirements are met. The capital position of the Bank is monitored daily by the treasury and finance departments, monthly by the ERC and reported to the Asset & Liability Committee (ALCO), the Board and BRC monthly. Any issues are reported immediately. It is the intention that the Bank operates always at levels that are sufficiently above regulatory minima.

Liquidity Risk

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

We maintain adequate levels of liquidity and will ensure that we continue to maintain sufficient levels of liquidity to meet foreseeable and unexpected needs. Policies and procedures are in place to manage liquidity risk. The treasury department is responsible for ensuring sufficient liquid assets are maintained to be able to meet all financial obligations. Limits for the level, type and maturity of liquidity and deposit funding balances are set by the Board Risk Committee. Independently, the finance and risk departments monitor compliance with these limits.

Interest Rate Risk

Interest rate risk is defined as the risk of financial loss through un-hedged or mismatched asset and liability positions which are sensitive to interest rate changes.

This risk is mitigated by seeking to create a natural hedge through matching the interest rate structure of assets and liabilities, or by entering into derivative arrangements if necessary. Policies and procedures are in place to manage interest rate risk. Internal limits are set by the ALCO under the direction of the ERC and BRC, who also provide oversight.

Market Risk

The Bank's approach to market risk management is set out on page 17 of these disclosures

Credit Risk

The Bank's approach to credit risk management is set out on page 16 of these disclosures.

Regulatory and Compliance Risk

Regulatory and compliance risk exists as regulatory and legislative changes may significantly impact the Bank's business model or that the Bank fails to comply with existing requirements.

The Bank operates within the context of the UK Legal and Regulatory environment (also to European law adopted and supported by UK regulators).

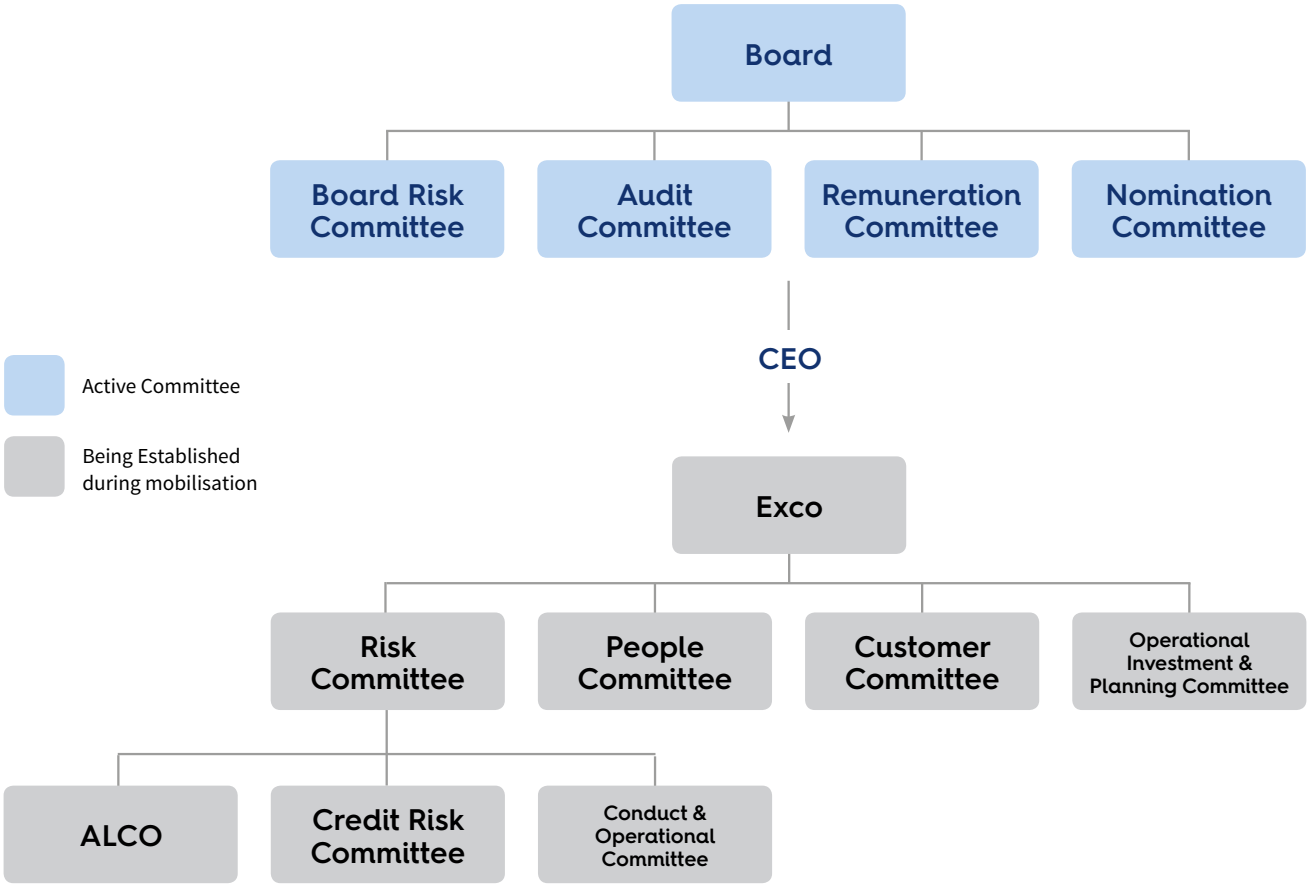
Whilst this context does not in itself create any specific risks for the Bank, non-adherence or breach of such laws (CCA, DPA, HMRC, FATCA) and regulations (through PSR, PRA, FCA and EBA) will have significant negative outcomes. To ensure that the Bank is aware of both current and upcoming legal or regulatory changes the Bank allocates the responsibility to specific areas to monitor such changes, those areas being within the Legal Counsel and Compliance functions.

The Compliance function is within the Second Line of Defence, reporting into the CRCO. Reporting of any forthcoming changes to Regulation or law is routinely made to the management committees and to the Board, for both communication and actioning.

Risk Governance & Committees

The interaction between the elements of the RMF and the Corporate Governance Framework make up the Risk Governance Framework of the Bank. The Corporate Governance structure is outlined below.

Corporate Governance Structure (as at 31 December 2016)



Although the committee structure is more fully detailed within the governance framework and associated Terms of Reference, the main risk responsibilities of the relevant risk committees are listed on the following page.

Board Committees

The Board

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

Board Audit Committee (BAC)

The Audit Committee's responsibilities include the monitoring of the integrity of the Group's financial statements and the involvement of the External Auditors in that process as well as reviewing the Bank's internal control and risk management systems. It focuses in particular on compliance with accounting policies and accounting estimates and ensuring that an effective system of internal financial control is maintained. The ultimate responsibility for reviewing and approving the annual report and accounts remains with the Board.

Board Risk Committee (BRC)

The BRC's responsibilities include the development and maintenance of the Bank's risk management framework, ensuring that its strategy, principles, policies and resources are aligned to the Bank's 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 risk management framework and reviews the effectiveness of the Bank's systems for risk management and compliance with financial services legislation and regulatory requirements.

Executive Committees

Executive Committee (ExCo)

The purpose of ExCo is to assist the Chief Executive Officer in the performance of his duties, including: the development and implementation of strategy, operational plans and budgets; monitoring of operating and financial performance; assessment and control of risk; prioritisation and allocation of resources; and monitoring the external trading environment.

Executive Risk Committee (ERC)

The purpose of ERC is to monitor the Bank's risk management framework and adherence to risk appetite metrics and statements; identification, assessment and control of principal risks and receiving reports from the risk sub-committees. The ERC acts as the point of escalation for the executive risk sub-committees.

Executive Risk Sub-Committees

Asset & Liability Committee (ALCO)

The purpose of ALCO is to oversee liquidity, funding and market risks, regulatory and economic capital requirements for on and off-balance sheet items within the risk appetite set by the Board. ALCO oversees, reviews and makes recommendations on the Bank's ICAAP and ILAAP documents which are then presented to ERC for review.

Internal Capital Adequacy Assessment Process (ICAAP)

The ICAAP is an assessment of the Bank's total capital requirements based on its risk profile under normal and stressed operating conditions. The preparation of the ICAAP incorporates all material risks and is based on active cooperation between finance, treasury, and business areas, led by the CFO and overseen by the CRCO and risk function. The ICAAP is prepared annually, although material changes in internal requirements or external factors may require more frequent revision.

Individual Liquidity Adequacy Assessment (ILAAP)

The ILAAP is an assessment of the Bank's liquidity position under normal and stressed conditions and is used to inform the Board of the ongoing assessment and quantification of liquidity risk and the way it is managed, monitored, controlled and mitigated. The CFO owns the Bank's ILAAP, with oversight from the CRCO and risk function. The ILAAP is prepared annually, although material changes in internal requirements or external factors may require more frequent revision

Stress Testing

Stress testing is an important risk management tool, with specific approaches documented for the major regulatory exercises of the ICAAP, ILAAP and Recovery and Resolution Plan (RRP). Stress testing assesses the adequacy of the Bank's financial resources (both capital and liquidity), the potential management actions available to mitigate the effect of any adverse events, and identifies any gaps in the Bank's Risk Management Framework (such as potential weaknesses in the controls operated by the Bank).

Conduct and Operational Risk Committee (CORC)

The purpose of the CORC is to maintain and monitor a risk and control framework commensurate with the Bank's agreed operational risk and conduct risk appetite, and in line with regulatory requirements. In addition, CORC oversee the operational risk and conduct risk profile of the Bank, oversee the efficiency of controls and management actions, and also review the Bank's compliance with financial crime and money laundering regulations.

Credit Committee (CC)

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

The Three Lines of Defence

The Risk Governance framework established at the Bank is commensurate with the size and nature of the Bank's operations and adheres to the 'Three Lines of Defence' model. This approach ensures a clear delineation of responsibilities between control over day-to-day operations, risk oversight and independent assurance of the Bank's activities.

The three lines of defence is an approach to managing risk which explains who is responsible for what, where the first line own and manage risks related to the business activity, the second line provides oversight on how risks are managed and ensures appropriate controls exist, and the third line (Internal Audit) provides independent assurance on the effectiveness of the controls.

First Line of Defence

The senior management team takes the lead role with respect to implementing appropriate controls for the business to maintain the quality standards expected by clients and regulators. Controls are designed into systems and processes, compliance with which should ensure a robust control environment. There are adequate managerial and supervisory controls in place to ensure compliance and to highlight control breakdown, inadequacy of processes and unexpected events.

Finance

Finance is responsible for ensuring that the financial records of the Bank are complete, accurate and valid. It provides management and the Board with information to enable it to run and oversee the business effectively and efficiently. Prudential Reporting, which is part of Finance, is responsible for regulatory reporting and liquidity monitoring. The Chief Financial Officer provides reports to the Board, the Board Risk Committee, ALCO and the Board Audit Committee monthly providing data on the balance sheet, income statement, regulatory capital and liquidity.

Second Line of Defence

The Bank's Executive Committee receives detailed, Company specific information on finance, compliance, operational and prudential risks and their potential impact on the business of the bank. Reports on the business risks are then provided to the Executive Risk Committee, the Board Risk Committee and the Board as appropriate.

Compliance

The Compliance function operate independently to monitor and assess the adequacy and effectiveness of the measures, policies and procedures put in place by the Bank in relation to its regulatory requirements and advices the Board in relation to those matters.

The Board and the Board Risk Committee receive detailed, Company specific information at each meeting, as well as information about regulatory developments and their likely impact on the business of the Bank.

Risk

Risk operates independently to monitor and assess the risk framework put in place by the Bank and advises the Board in relation to those matters. These include but are not limited to risk control assessments and risk policies. In addition to receiving tailored reports from Finance, Internal Audit, Risk and Compliance, the ERC regularly reviews the Bank's key risks, recommends measures to mitigate those risks, sets policies designed to manage the Bank's risks with adherence to our risk appetite.

Third Line of Defence

Internal Audit

The Internal Audit function provides independent assurance to the Board via the Audit Committee, that controls are operating effectively. Internal Audit has an annual plan which reviews the business according to risk priorities. All three lines of defence are responsible for supporting and developing a culture of risk awareness and to support the Bank in creating the best outcome for the Bank and its customers.

Regulatory Own Funds

Regulatory capital is categorised as either tier 1 or tier 2 depending on the characteristics of the capital items.

Certain capital deductions and regulatory adjustments are made against these capital items reflecting the different regulatory treatment for capital adequacy purposes. Capital deductions include deductions for goodwill and other intangible assets. The Bank's capital after deductions represents the own funds for capital adequacy purposes.

The composition of the Bank's regulatory capital is shown on the following page, and the own funds disclosure template as required in the Commission Implementing Regulation (EU) No 1423/2013 in Appendix 1.

Tier 1 capital

Tier 1 capital is the going concern capital which allows a firm to continue its activities and helps to prevent insolvency. Tier 1 can be sub-divided into CET1 and Additional Tier 1, with CET1 being the highest form of capital as it is the most effective at absorbing losses. The Bank's regulatory capital consists entirely of CET1 capital and includes share premium and retained earnings.

Regulatory adjustments

As per CRR article 32, certain deductions are required to be made to capital in determining a firm's total regulatory capital. As at 31 December 2016, deductions include intangible assets of £1,840k, including £292k of goodwill.

Regulatory Own Funds (Cont.)

Composition of Regulatory Capital	2016 £
Share capital	0
Share premium	25,254
Retained earnings	(5,775)
TOTAL BALANCE SHEET EQUITY	**19,479**

Deductions:

Direct, indirect and synthetic holdings of own CET1 capital	235
Goodwill	292
Intangible assets	1,548
Total tier 1 capital	**17,404**
TOTAL REGULATORY CAPITAL RESOURCES	**17,404**

The following required regulatory adjustments were made against the Bank's tier 1 capital:

- Intangible Assets (including Goodwill)
- Indirect holdings, or loans advanced for the purchase of own Common Equity Tier 1 Capital
- Other Capital Instruments not qualifying as Common Equity Tier 1

Capital Resources Requirements

Since authorisation in December 2016, the Bank has maintained regulatory capital in excess of the level set by the PRA as part of ClearBank's Individual Capital Guidance (ICG).

Adequacy of Capital

The Bank's Pillar 1 capital requirement is calculated as the total of the credit risk, market risk and operational risk capital requirements as set out in CRD IV. In order to meet these requirements, the Bank needs to maintain a sufficient level of capital invested in the Bank which may be supported in the future by retained profits which are added to reserves.

As part of the Pillar 2 approach to capital adequacy, the Board is required to consider all material risks which the firm faces and to determine whether any additional capital is required to provide additional protection to depositors and borrowers, and to ensure that the bank is sufficiently well capitalized to withstand a severe economic downturn. These assessments are documented in the bank's ICAAP and reviewed by the PRA. The PRA will then set any capital planning buffer that the Bank should hold.

Leverage Ratio

CRD IV requires firms to calculate a non-risk based leverage ratio to supplement risk-based capital requirements. The leverage ratio measures the relationship between capital resources and total assets. The purpose of monitoring and managing this metric is to enable regulators to constrain the build-up of excessive leverage. The leverage ratio is calculated based on the Bank's capital divided by exposures which are defined as the total of the on and off-balance sheet exposures less any deductions applied to Tier 1 capital.

As at 31 December 2016, the Bank's leverage ratio was 86.3% against a Basel minimum of 3%. The leverage disclosure templates required by the Commission Implementing Regulation (EU) No 2016/200 are presented in Appendix II.

Credit Risk

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

The Bank has a risk appetite for credit risk which is aligned to the Bank being a working capital lender to small or medium-sized enterprises (SMEs).

Credit facilities will only be granted to creditworthy customers pursuant to the Bank's credit policy. As at the reporting date the Bank had no lending to clients, however, in the future there could be certain concentrations in specific product, sector or customer segments, but this is countered by enhanced controls, appropriate systems, sufficient expertise and risk management methods to enable such concentrations to be acceptable and consistent with the overarching risk appetite statement.

We carry counterparty credit risk through our cash and liquid asset placement activity. When managing surplus liquidity, the Bank only places funds with the Bank of England (BoE) or invests in government instruments. Credit Risk policies and protocols are in place to manage our SME credit risk.

Credit Risk Measurement

The Bank has elected to adopt the Standardised Approach (SA) to credit risk. Under the SA , the Bank applies a risk weighted asset value to each of its exposure classes and provides 8% of that risk weighted value as the minimum capital requirement for credit risk under Pillar 1.

The table below shows the Bank's credit risk exposure by asset class and by exposure class. Each exposure class as defined in article 112 of the CRR.

Asset class	Exposure class	Exposure £000s	Risk-weighted assets £000s
Cash and cash equivalents	Institutions	18,452	3,690
Financial assets	Central governments or central banks	255	0
Other assets	Other items	1,457	1,457

As at 31 December 2016, the above exposures were for a period of up to 3 months and were solely with UK counterparties.

Market Risk

Market risk is defined as the financial impact from movements in market prices on the value of assets and liabilities. Given the activities of the Bank, the main market risk driver arises through interest rate movements. As at the 31 December 2016, the Bank had no market risk capital requirement.

Operational Risk

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

The Bank continues to develop systems and controls to minimise costs and potential losses associated with operational risks. The risks are mitigated at present by the oversight of experienced staff and the involvement of senior management in any losses. Policies and procedures are in place to address and mitigate operational risks, the reporting of which will be enhanced on a continuous improvement basis. In addition, we manage the effects of both cyber risk and outsourcing risk.

Cyber Risk is the possibility of loss and interruption to the IT and data assets and infrastructure. This is mitigated by building IT and data infrastructure using current technology, so removing risks associated with legacy issues. This also helps ensure the infrastructure is resilient with the necessary security levels to meet business and regulatory requirements coordinated and built to today's standards. The Board Risk Committee provides oversight to ensure that the impact of any changes is minimised.

Operational Risk Measurement

The Bank uses the Basic Indicator Approach for operational risk capital, and calculates its average net income over a three-year period which provides 15% of that average net income as the minimum capital requirement for operational risk. Given the start-up nature of the Bank, a forward three-year period agreed with the PRA, has been used in our measurement.

Other Risks & Sensitivity Analysis

Non-trading Book Exposures in Equities

At 31 December 2016 the Bank did not hold any equity investments in the non-trading book.

Interest Rate Risk

The interest rate gap analysis quantifies any asset and liability interest rate mismatches. The analysis includes a sensitivity scenario showing the impact of a 2% parallel shift of interest rates on the net present value ('NPV') of the net gap between asset and liability cash flows. As at the reporting date the bank had not entered into any derivative contracts.

Remuneration Disclosures

Remuneration Policy and Practices

This section provides details on the remuneration of the Board and employees of the Bank including the approach for material risk takers for the year ending 31 December 2016. Material risk takers are those individuals whose actions may have a material impact on the risk profile of the Bank. The policy and level of remuneration is determined by the Bank's remuneration committee.

All employees who are subject to the Senior Managers Regime, either as a Senior Manager or as a Certified Individual, will be duly advised of their status on an annual basis, required to remain up to date with required regulatory training and will also be subject to a more detailed performance management and development planning process. Details of which are provided to the relevant employees. Additionally, for these employees, the Bank's Responsibility Map and the Individual Statements of Responsibility are used as the core underlying metrics and accountabilities. The Bank 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 and/or adjust remuneration awards.

Remuneration Committee

Remuneration for the Bank is overseen by the Remuneration Committee. The Committee retains ultimate discretion for those matters as outlined within its Terms of Reference.

As covered within the Terms of Reference, generally the Committee shall 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 Committee have the right to attend and vote at Committee meetings.

Non-Executive Directors' Remuneration

Remuneration paid to Non-Executive Directors is based on data from financial institutions of comparable size and complexity. Non-executive Directors are paid an annual fee which covers all their duties and responsibilities to ClearBank. Additionally, reasonable and properly documented expenses are reimbursed, and Non-Executive Directors are not entitled to participate in any employee benefits arrangement, or bonus arrangements.

Executive Directors' Remuneration

Executive Director remuneration is determined taking into account the specific role performed and is made up of individual remuneration components as follows, which when combined ensure an appropriate and reasonable remuneration package:

- Base Salary, including fixed allowances if any (Fixed Pay)
- Performance-based remuneration (Variable Pay)
- Pension and Insurance Schemes
- Other benefits

Remuneration Disclosures (Cont.)

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, if any, of the employee's Fixed Pay are currently reviewed on an as-needed basis, and the Committee has determined that this currently remains appropriate given the current stage of the Bank's growth and development.

Variable Pay

All Variable Pay is entirely discretionary. Currently, through the formative stages of the Bank's development, the Bank does not operate a formal annual bonus cycle, but may consider bonus payments from time to time, including in connection with the achievement of relevant performance events.

Any bonus payment is assessed at the time of delivery taking into account all relevant factors, including financial results, the achievement of personal milestones, adherence to standards of expected behaviour, and any risk events and mitigation. Prior to any variable payments being made the Bank will confirm that such payment will not undermine the Bank's capital position in relation to its regulatory requirements or capital risk appetite. Without limitation, any variable payments for members of the Executive Committee and any senior officers in the risk and control functions will be subject to approval by the Committee.

Pension and Insurance Schemes

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

Other Benefits

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

Remuneration

The table below sets out the aggregate quantitative remuneration for senior managers in relation to their services for the Bank for the year ended 31 December 2016.

	Fixed Remuneration £000	Variable Remuneration £000	Total Remuneration £000	Deferred Variable Remuneration £000
Total remuneration	371	100	471	0

Appendix I – Own Funds Template

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

		2016 £m	EU No 575/2013 Article
Common Equity Tier 1 (CET1) capital: Instruments and reserves			
1	Capital instruments and the related share premium accounts	25.2	26(1), 27, 28, 29
2	Retained earnings	(5.8)	26(1)(c)
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	19.4	
Common Equity Tier 1 (CET1) capital: Regulatory adjustments			
8	Intangible assets	(1.8)	36(1)(b)
16	Direct, indirect and synthetic holdings of own CET1 instruments	(0.2)	36(1)(f)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(2.0)	
29	Common Equity Tier 1 Capital	17.4	
45	Tier 1 Capital	17.4	
59	Total Capital	17.4	
60	Total risk weighted assets	33.6	
Capital ratios and buffers			
61	Common equity Tier 1 (as a percentage of total risk exposure)	51.7%	92(2)(a)
62	Tier 1 (as a percentage of total risk exposure amount)	51.7%	92(2)(b)
63	Total capital (as a percentage of total risk exposure amount)	51.7%	92(2)(c)

Appendix II – Leverage Disclosures

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

Summary Reconciliation of Accounting Assets and Leverage Ratio Exposures		2016 £m
1	Total assets as per published financial statements	21.9
7	Other adjustments	(1.8)
8	Leverage ratio total exposure measure	20.1

Leverage Ratio Common Disclosure		2016 £m
On-balance sheet exposures		
1	On-balance sheet items	21.9
2	(Asset amounts deducted in determining Tier 1 capital)	(1.8)
3	Total on-balance sheet exposures (sum of lines 1 and 2)	20.1
Capital and total exposure measure		
20	Tier 1 capital	17.4
21	Leverage ratio total exposure measure (sum of lines 3 above)	20.1
Leverage ratio		
22	Leverage ratio	86.6%

Split of On-Balance Sheet Exposure		2016 £m
EU-1	Total on-balance sheet exposures	20.1
EU-3	Banking book exposures, of which:	20.1
EU-5	Exposures treated as sovereigns	0.3
EU-7	Institutions	18.4
EU-12	Other exposures	1.4

Appendix III – Glossary of Terms

CCA	Consumer Credit Act
DPA	Data Protection Act
HMRC	Her Majesty's Revenue & Customs
FATCA	Foreign Account Tax Compliance Act
PSR	Payment Systems Regulator
PRA	Prudential Regulation Authority
FCA	Financial Conduct Authority
EBA	European Banking Authority
RMF	Risk Management Framework
ALCO	Asset and Liability Committee
BRC	Board Risk Committee
CEO	Chief Executive Officer
CRCO	Chief Risk and Compliance Officer
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Individual Liquidity Adequacy Assessment Process

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