ClearBank Limited

2017 Pillar 3 Disclosure

Registration number: 09736376

Contents

Introduction

Conceived more than four years ago, ClearBank is the UK's first new clearing bank in over 250 years.

The ClearBank team believe that a banking market revolution can only be truly unlocked with the introduction of a new clearing bank – one without the challenges associated with legacy architecture or reliance on other banks. With the launch of ClearBank in February 2017, we have started to achieve that goal, driving new levels of operational efficiency, new standards of service and radically changing the competitive market dynamic for our FCA-regulated businesses and Fintech customers.

Many financial services businesses have historically been unable to provide a full financially inclusive offering to their customers, as a current account service can be both complex and expensive. Even the provision of transaction payment services has traditionally been limited by the complexity of varying payment scheme requirements and infrastructure investment. ClearBank is designed specifically to address these issues. Our unique approach has enabled us to build a state of the art platform free from legacy constraints and specifically designed to deliver leading services.

Following PRA and FCA approval of a banking licence in December 2016, the focus for ClearBank in 2017 was to move through mobilisation, become a direct member of FasterPayments, CHAPS and BACS and open for business. This was achieved in October 2017, with regulatory approval to exit mobilisation granted and ClearBank officially added to the PRA register. Shortly after, in November, we launched our Banking as a Service Platform and started to onboard customers and process live transactions.

This is ClearBank's second Pillar 3 disclosure, containing disclosure as at 31st December 2017.

Disclosure Policy

Basis of preparation

Pillar 3 disclosure requirements are set out under The Capital Requirements Regulation (CRR) [EU Regulation 575/2013] and the fourth Capital Requirements Directive (CRD)[EU Directive 2013/36], together known as CRDIV, which were effective in the UK on the 1st January 2014.

The requirements are designed to promote market discipline through the disclosure of key information relating to capital, risk exposures and risk management.

This Pillar 3 disclosure complies with CRDIV and delegated legislation as at 31st December 2017.

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

Scope of consolidation

ClearBank has four wholly owned subsidiaries but these are deemed de minimus for regulatory purposes. The Group is regulated on a solo basis and as such this Pillar 3 disclosure is prepared on the same basis.

Verification and quality assurance

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

Pillar 3 disclosures are not subject to external audit. However, in line with ClearBank policy, this Pillar 3 disclosure has been reviewed as per the internal governance procedures applicable to all ClearBank external reporting, including review and approval by the Board Risk Committee and Board.

Frequency, media and location

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

Current developments

This Pillar 3 disclosure broadly follows the format of the prior year disclosure.

In December 2016 the European Banking Authority (EBA) published final guidelines for Pillar 3 disclosures which included 2015 recommendations from The Basel Committee. These final guidelines became effective in 2017, however, only apply to Global and Other Systemically Important Institutions (G-SIIs and O-SII's).

Also in 2017, the EBA published final guidelines relating to LCR disclosure and the PRA issued a supervisory statement on remuneration disclosures required, dependent on total asset size.

This Pillar 3 disclosure complies with all of the above guidelines and supervisory statements where applicable.

The new IFRS 9 accounting standard will become effective from 1st January 2018. Further details of IFRS 9 requirements and impacts are included in ClearBank's 2017 Annual Report.

In October 2017, ClearBank successfully exited mobilisation and began offering services to customers, including taking Financial Institution deposits.

Summary Analysis

The following provides summary analysis of the bank's capital position, leverage ratio and risk weighted assets (RWA's) as at 31st December 2017.

Table 1: Capital and leverage ratios

	2017	2016
Common Equity Tier 1 (CET1)	53%	52%
Tier 1	53%	52%
Total Regulatory Capital	53%	52%
Leverage Ratio	80%	87%
UK Leverage Ratio	84%	87%

The bank's capital and leverage ratios significantly exceed the minimum requirements of CRDIV.

Table 2: Own funds

	2017 £'000	2016 £'000
Paid up share capital and premiums	53,254	25,254
Other reserves	467	0
Retained losses	(20,143)	(5,775)
Total equity as per balance sheet	**33,578**	**19,479**
Regulatory Capital Adjustments		
Intangible assets	(6,245)	(1,548)
Deferred tax	(3,652)	
Goodwill		(292)
Direct, indirect and synthetic holdings of own CET1 capital		(235)
Common Equity Tier 1	**23,681**	**17,404**
Total own funds	**23,681**	**17,404**

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. In 2017 ClearBank's capital deductions include deductions for intangible assets and deferred tax assets. The bank's capital after deductions represents the own funds for capital adequacy purposes.

Table 3: Movement in Capital Resources

	2017 £'000
As at 1st January 2017	**17,404**
Movement in share capital and premiums	28,000
Movement in retained earnings	(14,368)
Movement in other reserves	467
Movement in intangible assets	(4,697)
Movement in deferred tax assets	(3,652)
Movement in goodwill	292
Movement in subsidiary investments	235
As at 31st December 2017	**23,681**

Total capital resources increased in the year driven by increases in share capital and associated premiums, partially offset by a reduction in retained earnings, increases in intangible assets and deferred tax asset deductions as the bank continued its infrastructure build ahead of exiting mobilisation and opening for business.

Regulatory Capital Framework

CRDIV came into effect on 1st January 2014. This was implemented in the UK by the PRA policy statement PS7/13. Together, they define the regulatory capital framework applicable to ClearBank.

Regulatory capital resources

Common Equity Tier 1 (CET1)

This is the strongest form of capital and consists of ordinary shares, associated share premium and allowable reserves. CET1 capital available to a bank is calculated after deducting certain regulatory adjustments, which for ClearBank in 2017 included intangible assets, deferred tax and additionally in 2016 included goodwill and direct, indirect and synthetic holdings of own CET1 capital.

ClearBank's total capital resources are made up entirely of CET1 capital.

Additional Tier 1 Capital (AT1)

AT1 capital instruments consist of non-cumulative perpetual securities that have a specific write down or can be converted to equity upon the CET1 ratio falling below a specific trigger threshold. ClearBank holds no AT1 capital.

Tier 2 capital

Tier 2 capital will typically consist of other subordinated debt that does not meet the criteria for inclusion as AT1 capital. ClearBank holds no Tier 2 capital.

Regulatory capital requirements

Pillar 1 capital requirements

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

CRDIV allows for a range of approaches to calculating the associated RWAs. As at 31st December 2017, ClearBank had no counterparty credit or market risks. ClearBank calculated credit risk RWAs using the Standardised Approach and the operational risk RWAs using the Basic Indicator Approach.

Pillar 2 capital requirements

Pillar 2 capital requirements are those subject to the supervisory review process where additional capital is required to cover specific risks not covered by the minimum regulatory requirements of Pillar 1. As such, Pillar 2 requirements play an important role in ensuring that the bank holds appropriate levels of capital for the risks to which it is exposed.

The PRA sets additional Pillar 2 capital requirements through the issuance of bank specific Individual Capital Guidance (ICG). Key to the PRA's ICG setting approach is the Internal Capital Adequacy Assessment Process (ICAAP). ClearBank has been advised of its ICG requirements from the PRA and maintains capital resources above these requirements.

Pillar 2a

Pillar 2a requirements are designed to capture the firm specific risks that are not addressed or not fully captured by the minimum capital requirements under Pillar 1. The PRA will inform banks of their Pillar 2a requirements by setting firm specific Individual Capital Guidance (ICG).

ClearBank's prescribed ICG is 18% of RWAs. This means that in order to meet its ICG requirements, ClearBank must hold capital equal to 10% of RWAs in addition to the 8% minimum requirement under Pillar 1.

At least 56.25% of the Pillar 1 and Pillar 2a requirement must be met by holding CET1 capital. ClearBank currently meets all its Pillar 1 and Pillar 2 capital requirement with CET1 capital.

Pillar 2b

The PRA approach for new banks exiting mobilisation is to set the initial Pillar 2b capital requirement equal to a bank's expected wind-down costs over a 12-month period. The PRA requires all banks to preserve confidentiality with respect to their specific PRA Buffer Pillar 2b requirements.

Regulatory capital buffers

Countercyclical Capital Buffer (CCyB)

A bank must calculate a countercyclical capital buffer of common equity tier 1 capital equal to its total risk exposure multiplied by the weighted average of the countercyclical buffer rates that apply to exposures in the jurisdictions where the bank's relevant credit exposures are located. ClearBank operates only in the UK and so the weighted average countercyclical buffer rate is equal to the UK buffer rate of 0.5%.

Summary of capital requirements

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

Table 4: CRDIV capital requirements

Requirement / capital buffer	Calculation	Capital required to meet requirement	Impact on ClearBank
Pillar 1	Fixed percentage of RWAs as prescribed in CRR article 92	4.5% of RWA met by CET1; 6% of RWAs met by T1 and; 8% of RWAs met by Total capital	ClearBank met this requirement with CET1 capital
Pillar 2a	Expressed as a percentage of RWAs	56.25% to be met with CET1; 75% to be met with T1 and; 100% to be met by Total capital	ClearBank met this requirement with CET1 capital
Countercyclical buffer	Expressed as a percentage of RWAs	CET1 capital	Currently no requirement. Capital requirement effective 27 June 2018
PRA buffer (Pillar 2b)	Expressed as a percentage of RWAs	At least 100% of CET1 by 2019	This buffer is set by the PRA and is confidential

Leverage ratio framework

ClearBank is currently not in scope of the UK leverage framework as it does not have retail deposits equal to or greater than £50bn. However, ClearBank monitors its leverage ratio on both an EBA and UK leverage framework basis, as disclosed on Page 6.

Minimum requirements for own funds and eligible liabilities

Minimum requirements for own funds and eligible liabilities (MREL) became applicable from 1 January 2016 and will be fully phased in by 1 January 2022.

Risk Management

The Board is ultimately responsible for setting the bank's risk strategy and risk appetite, including the development and maintenance of the bank's Risk Management Framework (RMF).

The bank has a documented RMF which explains how risks are identified and managed within a defined risk appetite. The RMF is supported by having appropriate policies, procedures, governance, systems and controls to enable effective risk management of the bank. The risk team regularly reviews these policies and controls to verify compliance and ensure alignment to business objectives.

The risks that the bank faces are identified and recorded in the bank's Risk Registers. A detailed assessment of these risks and their materiality is undertaken on a regular basis and the conclusions are documented and reported upwards to the Board. This risk assessment helps to define controls and control enhancements to ensure the bank operates within its formally stated risk appetite.

The RMF has three core components:

1. **Risk strategy:** This articulates the strategic risks the bank faces and sets how much risk the bank should take in achieving its commercial objectives responsibly (Risk Appetite). It also includes risk culture embedded across the bank.

2. **Risk governance:** This outlines the communication, escalation and decision-making approach the bank takes to ensure that it is operating within the Risk Appetite. The 'Three Lines of Defence' approach is key to this risk governance.

3. **Risk management policies and processes:** These are the protocols which define the risk management activities undertaken by the business and include the assessment and measurement of risk.

The RMF is reviewed and approved by the Board annually following a recommendation by the BRC. The CEO and the CRCO ensure that the RMF is fully aligned with business objectives. The senior executive and managers of the bank ensure that the RMF is embedded in its day-to-day management and control activities.

Management of principal risks

The bank's RMF is designed to mitigate and control the following principal risks:

Strategic & business risks

Strategic and business risks are the risks that can affect the bank's ability to achieve its corporate and strategic objectives, both short or long term.

Given the broad nature of these risks, they will include and be influenced by the other principal risks noted below. Considering risks at this level is important as it provides a holistic perspective on risk and includes external factors to the bank. Such risks will include changes to the external operating environment, competition and the regulatory landscape.

Operational risk

Operational risk is the risk of financial or non-financial loss such as customer detriment or reputational damage resulting from inadequate or failed internal processes, people and systems.

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

Conduct risk

Conduct risk is 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. Customer detriment could also occur through an operational risk event.

The bank has procedures for proactively mitigating this risk, including a product approval governance process.

Capital risk

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

Since authorisation in December 2016, the bank has maintained regulatory capital in excess of the level set by the PRA as part of its total capital requirement. The capital position of the bank is continually monitored and reported monthly to the Asset and Liability Committee ('ALCO'), the Executive Risk Committee ('ERC') and Board Risk Committee ('BRC').

Liquidity risk and funding risks

Liquidity risk is 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.

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 the BRC. The Finance, Treasury and Risk departments monitor compliance with these limits.

Credit risk

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

As at 31 December 2017 the bank had not commenced lending to customers and hence had no direct credit exposure.

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

Regulatory & compliance risk

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

To ensure that the bank is aware of both current and upcoming legal or regulatory changes, the bank allocates the responsibility for monitoring changes to the Legal Counsel and Compliance functions. Reporting changes to regulation or law is routinely made to a number of management committees and to the Board.

Financial crime

The bank has designed and adopted policies and procedures to detect and prevent the use of its banking facilities being used for money laundering, terrorist financing, bribery, fraud, and activities prohibited by legal and regulatory sanctions. The bank regularly reviews and assesses these policies to keep them current, effective, and consistent. As well as compliance with all relevant Financial Crime legislation and regulation, specific attention has been applied to the 4th EU Money Laundering Directive and the Money Laundering Regulations 2017. The bank continues to ensure that industry guidance including from the Joint Money Lending Steering Group, HM Treasury, and the Financial Action Task Force are reviewed and actioned accordingly. The bank endeavours to be an industry leader in the use of technology designed to predict, prevent, and detect Financial Crime, including the use of machine learning and artificial intelligence.

Market and interest rate risk

Market risk is the risk of financial impact from movements in market prices on the value of assets and liabilities. 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.

Given the bank structure and products currently offered, the bank has negligible exposure to these risks.

Emerging risks

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

Cyber security risk

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

ClearBank addresses this risk in a number of ways through system design, world class partnerships, in-house expertise, policies, processes and controls.

IT resilience risk

IT resilience risk relates to the bank's customer service level falling below agreed standards.

ClearBank's IT infrastructure has been designed to mitigate this from the ground up, including real time monitoring of payment schemes availability and own system performance.

Financial crime risk

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

ClearBank has built strict and effective controls to mitigate against all facets of financial crime including a dedicated financial crime team who ensure the resilience of the controls embedded across the bank. ClearBank also partners with financial crime system providers to help build and design our detection and prevention infrastructure ensuring market leading technology and industry best practices.

Regulatory breach

Regulatory breach is the risk that the bank fails to comply with applicable regulations or legal requirements.

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

Risk Governance and Control

Corporate governance

The Board recognises that exemplary standards of corporate governance throughout the bank are essential for the delivery of the bank'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.

Board function

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

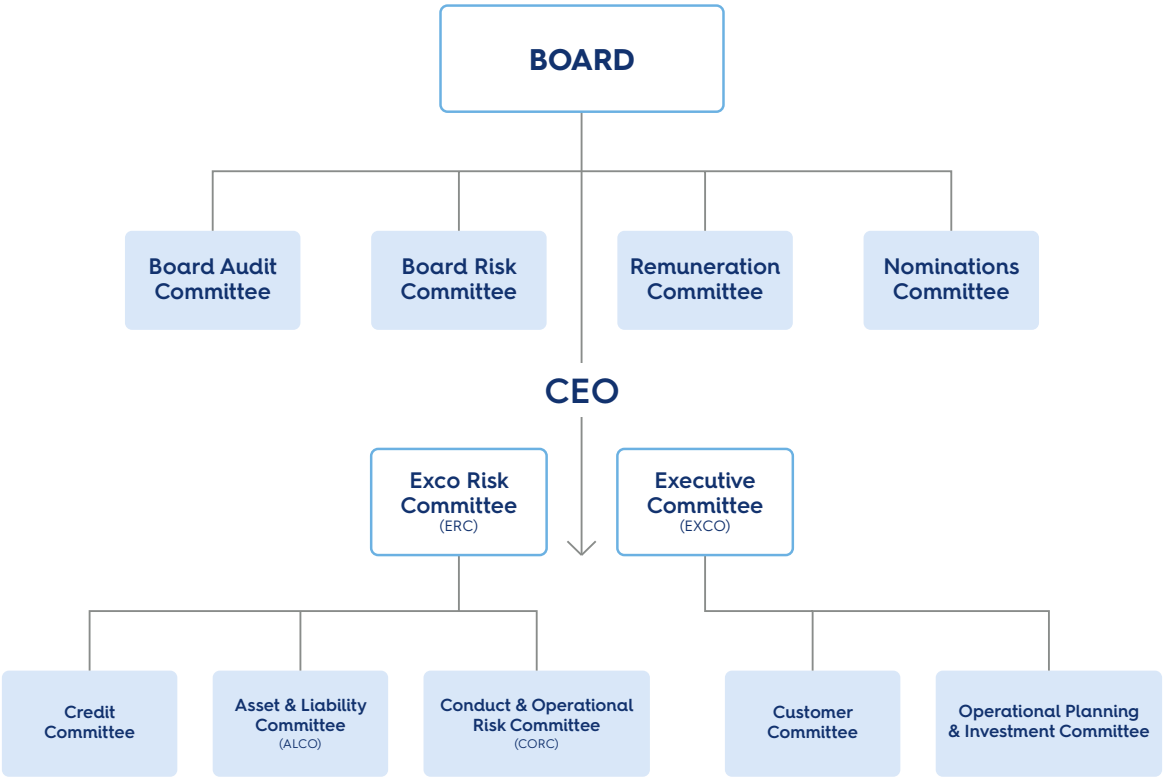
The Board has responsibility to maintain a system of internal controls, which provide assurance of effective and efficient operations, internal financial controls and compliance with all applicable laws and regulations. Additionally, the Board is responsible for ensuring that the executive maintain an 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.

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 & committee structure

Board committees

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



Board Audit Committee ('BAC')

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

Board Risk Committee ('BRC')

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

Remuneration Committee ('RemCo')

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

Nominations Committee ('NomCo')

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

Executive Committees

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

Executive Committee ('ExCo')

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

Executive Risk Committee ('ERC')

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

ERC sub-committees

Asset & Liability Committee ('ALCO')

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

Internal Capital Adequacy Assessment Process ('ICAAP')

The ICAAP is an assessment of the bank's capital requirements based on its risk profile under normal and stressed operating conditions. The ICAAP is led by the CFO in conjunction with business and risk functions. 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 The ILAAP is led by the CFO in conjunction with business and risk functions. 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) and the potential management actions available to mitigate the effect of any adverse events.

Conduct and Operational Risk Committee ('CORC')

The purpose of the CORC is to maintain and monitor the RMF commensurate with Risk Appetite and 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 reviews credit reports covering the quality of new lending, credit performance on the portfolio, defaults and non-performing agreements, as well as considering appropriate provisioning requirements for impaired facilities.

Credit Risk

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.

Overview

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

The bank carries 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 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 and exposure class. Each exposure class is defined in article 112 of the CRR.

Asset Class	Exposure Class	Exposures		RWAs	
		2017 £'000	2016 £'000	2017 £'000	2016 £'000
Cash and Cash Equivalents	Institutions	27,005	18,452	0	3,690
Financial Assets	Central Banks and Governments	0	255	0	0
Other Assets	Other Items	2,756	1,457	2,366	1,457
		29,761	**20,164**	**2,366**	**5,147**

Operational Risk

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

The bank continues to develop systems and controls to mitigate and minimise costs and potential losses associated with operational risks. Policies and procedures are in place to address and mitigate operational risks.

Operational risk measurement

The bank uses the Basic Indicator Approach for calculating operational risk capital requirements. Given the start-up nature of the bank, forward projections have been included as relevant indicators in our measurement.

Remuneration

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 2017. 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. 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 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 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. The committee agrees the framework and policy for remuneration, terms of employment and any changes to service contracts.

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.

Executive Directors' remuneration

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

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

Fixed pay

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

Variable pay

All variable pay is entirely discretionary. Currently, 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 Remuneration Committee and Board confirms that such payment will not undermine the bank's capital position in relation to its regulatory requirements or risk appetite. Any variable payments for members of the Executive Committee and any senior officers in the risk and control functions will also be subject to approval by the committee.

Pension and insurance schemes

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

Other benefits

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

Remuneration

The table below sets out the aggregate quantitative remuneration for Exco in relation to their services to the bank for the year ended 31 December 2017.

	Fixed Remuneration £'000	Variable Remuneration £'000	Total Remuneration £'000
2017	1,171	1,067	2,238
2016	1,251	303	1,554

Appendix 1: EBA own funds disclosure template

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

		2017 £m	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	53.7	25.2	26(1), 27, 28, 29
2	Retained earnings	(20.1)	(5.8)	26(1)(c)
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	33.6	19.4	
Common Equity Tier 1 (CET1) capital: Regulatory adjustments				
8	Intangible assets including Goodwill	(6.2)	(1.8)	36(1)(b)
10	Deferred tax assets that rely on future profitability	(3.7)	(0.0)	36(1)(c)
16	Direct, indirect and synthetic holdings of own CET1 instruments	(0.0)	(0.2)	36(1)(f)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(9.9)	(2.0)	
29	Common Equity Tier 1 Capital	23.7	17.4	
45	Tier 1 Capital	23.7	17.4	
59	Total Capital	23.7	17.4	
60	Total risk weighted assets	44.9	33.6	
Capital ratios and buffers				
61	Common equity Tier 1 (as a percentage of total risk exposure)	52.8%	51.7%	92(2)(a)
62	Tier 1 (as a percentage of total risk exposure amount)	52.8%	51.7%	92(2)(b)
63	Total capital (as a percentage of total risk exposure amount)	52.8%	51.7%	92(2)(c)

Appendix 2: Leverage Disclosure

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

Summary reconciliation of accounting assets and leverage ratio exposures

		2017 £m	2016 £m
1	Total assets as per published financial statements	39.7	21.9
7	Other adjustments	(9.9)	(1.8)
8	Leverage ratio total exposure measure	29.8	20.1

Leverage ratio common disclosure

		2017 £m	2016 £m
On-balance sheet exposures			
1	On-balance sheet items	39.7	21.9
2	(Asset amounts deducted in determining Tier 1 capital)	(9.9)	(1.8)
3	Total on-balance sheet exposures (sum of lines 1 and 2)	29.8	20.1
Capital and total exposure measure			
20	Tier 1 capital	23.7	17.4
21	Leverage ratio total exposure measure (sum of line 3 above)	29.8	20.1
Leverage ratio			
22	Leverage ratio	79.5%	86.6%

Split of on-balance sheet exposure

		2017 £m	2016 £m
EU-1	Total on-balance sheet exposures	29.8	20.1
EU-3	Banking book exposures, of which:	29.8	20.1
EU-5	Exposures treated as sovereigns	0.0	0.3
EU-7	Institutions	27.0	18.4
EU-12	Other exposures	2.8	1.4

Appendix 3 – Glossary of Terms

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 Office
CRCO	Chief Risk and Compliance Officer
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Individual Liquidity Adequacy Assessment Process
ISO	International Standards Organisation
NIST	National Institute of Standards and Technology

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For more information please visit our website:

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