ClearBank®

2018 Pillar 3 Disclosure

Registration number: 09736376

ClearBank®

Contents

Introduction

Our innovative and scalable Banking as a Service platform continues to attract key strategic partners, driving momentum into 2019 and beyond

ClearBank provides Banking as a Service solutions to regulated financial institution. This offering extends from simple agency banking, providing full connectivity to all payment schemes in the UK.

Our customers are free to select any combination of functionality to meet their strategic requirements or fit with their existing capabilities.

Delivering value

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

- A robust and secure banking platform backed by appropriate SLAs
- Streamlined and cost-effective setup
- Rapid sort code deployment
- Clear, transparent and competitive pricing
- Platform enabled product innovation, cost reduction and extended product reach
- Failover technology to minimise the impact of payment scheme failures
- Real-time data and analytics, providing greater liquidity control and business insight
- Non-compete neutrality

Customer promise

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

A compelling proposition

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

In 2018 we developed significant strategic partnerships with allpay, Modulr, Ecology Building Society and Tide. In February 2019, in conjunction with our strategic partner Tide, we were successfully granted £60m from the Banking Competition Remedies Limited ('BCR'). This was one of three Pool A grants of the Capability and Innovation Fund which formed part of the £775 million package backed by the UK Government. During the year we also advanced our application for a Republic of Ireland banking licence, ahead of expanding our services to include Euro currency capabilities.

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 CRD IV, which have been effective in the UK since 1 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 CRD IV and delegated legislation as at 31st December 2018.

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

Scope of consolidation

ClearBank has five wholly owned subsidiaries but these are deemed de minimus for regulatory purposes. ClearBank is the only regulated entity in the Group and as such these Pillar 3 disclosures are prepared for this entity only.

Verification and quality assurance

CRR requires that the Directors of ClearBank ensure 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 in line with 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 previous years disclosure.

ClearBank adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers for the first time in 2018. Although significant standards, they did not have a material impact. The majority of ClearBank's financial assets and liabilities continue to be measured at fair value through profit or loss ('FVTPL') after the implementation of IFRS 9. In relation to IFRS 15 ClearBank was already compliant in the way it recognises fee income.

Further details of the above accounting standards plus any impacts are included in ClearBank's 2018 Annual Report.

Summary Analysis

The following provides summary analysis of ClearBank's capital position, leverage ratio and risk weighted assets ('RWAs') as at 31 December 2018

Table 1: Capital and leverage ratios

	2018	2017
Common Equity Tier 1 (CET1)	**35%**	53%
Tier 1	**35%**	53%
Total Regulatory Capital	**35%**	53%
Leverage Ratio	**26%**	80%
UK Leverage Ratio	**74%**	84%

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

Table 2: Own funds

	2018	2017
	£'000	£'000
Paid up share capital and premiums	**78,125**	53,254
Other reserves	**3,301**	467
Retained losses	**(44,167)**	(20,143)
Total equity as per balance sheet	**37,259**	33,578
Regulatory Capital Adjustments		
Deferred tax	**(5,951)**	(3,652)
Intangible assets	**(13,418)**	(6,245)
Common Equity Tier 1	**17,890**	23,681
Total own funds	**17,890**	23,681

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.

As at 31 December 2018, ClearBank's capital includes deductions for intangible assets and deferred tax assets. ClearBank's capital after deductions represents own funds for capital adequacy purposes.

Table 3: Movement in Capital Resources

	£'000
As at 1st January 2018	**23,681**
Movement in share capital and premiums	24,871
Movement in retained earnings	(24,024)
Movement in other reserves	2,834
Movement in intangible assets	(7,173)
Movement in deferred tax assets	(2,299)
As at 31st December 2018	**17,890**

During the year we continued to grow our business, supported by a £25m capital raise. This additional investment allowed us to continue the IT development of further functionality and increase headcount to meet operational and regulatory requirements. Total capital resources decreased in the year driven mainly by increased operational costs as we continue to on-board and grow our existing pipeline.

Regulatory Capital Framework

CRD IV which came into effect on 1st January 2014, together with relevant EU delegated acts and PRA policies, 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, including deductions for intangible assets as per CRR article 37 and deferred tax assets that are not allowable for exemption from deduction as per article 48 of the CRR.

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 if the CET1 ratio falls 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.

CRD IV allows for a range of approaches to calculating the associated RWAs. As at 31st December 2018, ClearBank had negligible counterparty credit and market risks. ClearBank calculate 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 PRA's Supervisory Review and Evaluation Process ('SREP') 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 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 by the PRA and maintains capital resources above these requirements.

Pillar 2a

Pillar 2a requirements are designed to capture the 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 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 requirements 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 is to set the initial Pillar 2b capital requirement equal to a bank's expected wind-down costs over a 12-month period. The Pillar 2b requirement is recalculated by firms and agreed with the PRA as part of the SREP; however, 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 1.0%.

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	At least 4.5% of RWA met by CET1; At least 6% of RWAs met by T1 and; At least 8% of RWAs met by total capital	ClearBank met this requirement with CET1 capital
Pillar 2a	Expressed as a percentage of RWAs	At least 56.25% to be met with CET1; At least 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	ClearBank met this requirement with CET1 capital
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 monitors its leverage ratio on both an EBA and UK leverage framework basis, as disclosed on Page 7.

Minimum requirements for own funds and eligible liabilities

Minimum Requirements for own funds and Eligible Liabilities ('MREL') became applicable to UK firms from 1 January 2020 and will be fully phased in by 1 January 2022. ClearBank has been informed by the PRA that we are not currently required to hold any additional capital in respect of MREL.

Risk Management

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

ClearBank 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 in place to enable effective risk management. Risk management refers to the process of identification, assessment, measurement, control and monitoring of risks to which ClearBank is exposed. The risk team regularly reviews these policies and controls to verify compliance and ensure alignment to business objectives.

The risks that the bank face are identified and recorded in ClearBank'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 to the Board. The risk assessments help to define residual risks, controls and control enhancements, to ensure it operates within its formally stated risk appetite.

The RMF has three core components:

1. **Risk management strategy:** This articulates the strategic risks ClearBank faces and sets-out how the strategy will be matched and managed by its risk approach - e.g. via the risk appetites. It also considers how risk culture is embedded

2. **Risk governance:** This outlines the communication, escalation and decision-making approach that ClearBank takes to ensure that it operates within risk appetite tolerances and limits. The 'three lines of defence' structure sits at the core of risk governance

3. **Risk management policies and processes:** These are the policies and processes which define the risk management activities, and are undertaken by the business (including the assessment and measurement of risk)

Risk Culture

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

The RMF is reviewed and approved by the Board at least annually following a recommendation by BRC. The CEO and the CRCO ensure that business objectives and practices are fully aligned to the RMF. The executives and managers ensure that the RMF is embedded in ClearBank's 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.

Management of principal risks

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

Strategic and business risks

Strategic and business risks are the risks that can affect ClearBank's ability to achieve its corporate and strategic objectives, both short and 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 and systems.

ClearBank 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.

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

Capital risk

Capital risk is the risk that ClearBank 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 ClearBank 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. 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 ClearBank in accordance with agreed terms.

As at 31 December 2018, ClearBank had not commenced lending to customers and hence had no direct credit exposure; the only counterparty exposure being collateral lodged with card and other schemes.

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

Regulatory and compliance risk

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

To ensure that ClearBank is aware of both current and upcoming legal or regulatory changes, ClearBank 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

ClearBank has designed and adopted policies and procedures to detect and prevent the use of its banking facilities being used for money laundering, terrorist financing, bribery, fraud, and activities prohibited by legal and regulatory sanctions. ClearBank regularly reviews and assesses these policies to keep them current, effective, and consistent. As well as compliance with all relevant Financial Crime legislation and regulation, specific attention has been applied to the 4th EU Money Laundering Directive and the Money Laundering Regulations 2017. ClearBank continues to ensure that industry guidance including from the Joint Money Lending Steering Group, HM Treasury, and the Financial Action Task Force are reviewed and actioned. ClearBank 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 ClearBank's structure and products currently offered, ClearBank has negligible exposure to these risks.

Emerging risks

Apart from the principal risks (stated above), the Board has identified emerging risks that have the potential to adversely impact ClearBank'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 ClearBank'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 ClearBank. 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 ClearBank fails to comply with applicable regulations or legal requirements.

ClearBank 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 independent financial services firms.

Risk Governance and Control

Corporate governance

The Board recognises that exemplary standards of corporate governance throughout ClearBank are essential for the delivery of ClearBank's strategic objectives, regulatory compliance and stakeholder value.

It is recognised that good governance should emanate from the Board and 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 ClearBank. In formulating, reviewing and approving ClearBank'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.

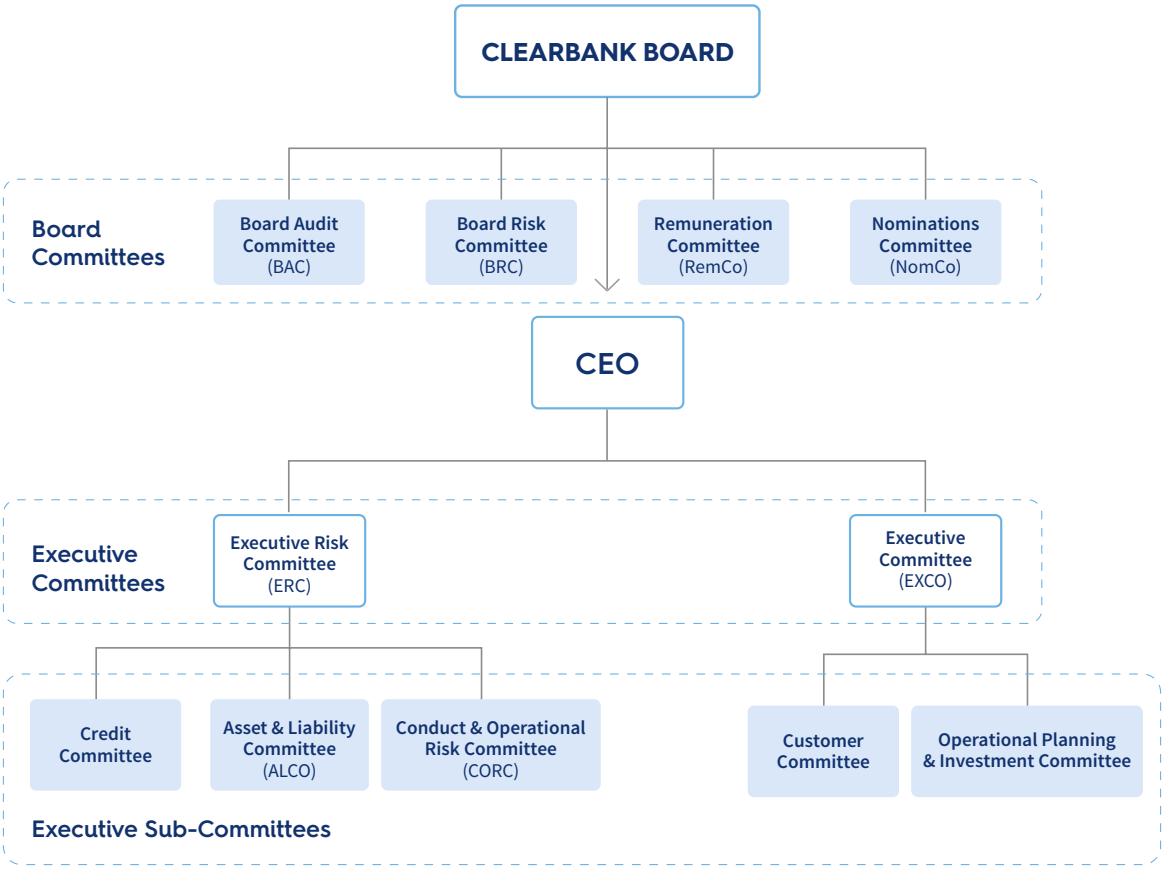
The Board has responsibility to maintain a system of internal controls, which provide assurance of effective and efficient operations, internal financial controls and compliance with all applicable laws and regulations. The Board is responsible for ensuring that the Executive maintains an effective risk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

The Board's terms of reference include a formal schedule of matters specifically reserved for the Board's decision, which is reviewed at least annually.

Board and committee structure

Board committees

As 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 monitoring of the integrity of ClearBank'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 RMF 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 reviewing 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 as the memberships of the Board committees.

Executive Committees

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

Executive Committee ('ExCo')

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

Executive Risk Committee ('ERC')

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

ERC sub-committees

Asset and 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.

The ICAAP is an assessment of ClearBank's capital requirements based on its risk profile under normal and stressed operating conditions, whereas the ILAAP is an assessment of ClearBank's liquidity position under normal and stressed conditions. These are the responsibility of the CFO in conjunction with business and risk functions. Both are 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 the 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 oversees the operational risk and conduct risk profile of ClearBank, the efficiency of controls and management actions, and reviews ClearBank'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

ClearBank uses the Standardised Approach ('SA') to calculate 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.

ClearBank 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

ClearBank uses the Standardised Approach ('SA') to calculate 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	
		2018	2017	**2018**	2017
		£'000	£'000	**£'000**	£'000
Cash and Cash Equivalents	Central Banks and Governments	**62,526**	27,005	**-**	-
Collateral placed with card and other schemes	Corporates	**364**	315	**205**	158
Other Assets	Other Items	**5,399**	2,441	**8,979**	2,208
		68,289	29,761	**9,184**	2,366

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

ClearBank 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

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

Remuneration

The Remuneration Committee ensures that remuneration arrangements support the strategic aims of the business and enable the recruitment, motivation and retention of all staff within the required regulatory framework

Remuneration policy and practices

This section provides details on the remuneration of the Board and employees of ClearBank including the approach for material risk takers for the year ending 31 December 2018. Material risk takers are those individuals whose actions may have a material impact on the risk profile of ClearBank. The policy and level of remuneration is determined by ClearBank'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, ClearBank's Responsibility Map and the Individual Statements of Responsibility are used as the core underlying metrics and accountabilities. ClearBank 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

ClearBank's Remuneration Policy ('the Policy') and approach to remuneration are designed to support the delivery of ClearBank's corporate strategy and align remuneration with the long-term interests of our shareholders; in a manner that is compliant with the requirements and frameworks of the FCA and PRA's rules on remuneration

Remuneration committee

Remuneration for ClearBank is overseen by the Remuneration Committee. The membership of the committee is made up of three independent Non-executive Directors who retain 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.

A standing invitation exists to either of the two Investor Directors to join the Committee or to attend at any time. In addition, the Non-Executive Chairman and the Chief Executive Officer may be invited to attend meetings on an ad hoc basis, although neither have the mandate to determine policy for any matter brought before the Committee for approval.

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. 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 include a company 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 key management personnel in relation to their services to the bank for the year ended 31 December 2018.

	Fixed Remuneration £'000	Variable Remuneration £'000	Total Remuneration £'000
2018	**3,450**	**283**	**3,733**
2017	1,804	822	2,626

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

		2018 £m	2017 £m	EU No 575/2013 Article
Common Equity Tier 1 (CET1) capital: Instruments and reserves				
1	Capital instruments and the related share premium accounts	**81.4**	53.7	26(1), 27, 28, 29
2	Retained earnings	**(44.1)**	(20.1)	26(1)(c)
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	**37.3**	33.6	
Common Equity Tier 1 (CET1) capital: Regulatory adjustments				
8	Intangible assets including Goodwill	**(13.4)**	(6.2)	36(1)(b)
10	Deferred tax assets that rely on future profitability	**(6.0)**	(3.7)	36(1)(c)
16	Direct, indirect and synthetic holdings of own CET1 instruments	**(0.0)**	(0.0)	36(1)(f)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(19.4)**	(9.9)	
29	Common Equity Tier 1 Capital	**17.9**	23.7	
45	Tier 1 Capital	**17.9**	23.7	
59	Total Capital	**17.9**	23.7	
60	Total risk weighted assets	**51.7**	44.9	
Capital ratios and buffers				
61	Common equity Tier 1 (as a percentage of total risk exposure)	**35.0%**	52.8%	92(2)(a)
62	Tier 1 (as a percentage of total risk exposure amount)	**35.0%**	52.8%	92(2)(b)
63	Total capital (as a percentage of total risk exposure amount)	**35.0%**	52.8%	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

		2018 £m	2017 £m
1	Total assets as per published financial statements	**87.7**	39.7
7	Other adjustments	**(19.4)**	(9.9)
8	Leverage ratio total exposure measure	**68.3**	29.8

Leverage ratio common disclosure

		2018 £m	2017 £m
On-balance sheet exposures			
1	On-balance sheet items	**87.7**	39.7
2	(Asset amounts deducted in determining Tier 1 capital)	**(19.4)**	(9.9)
3	Total on-balance sheet exposures (sum of lines 1 and 2)	**68.3**	29.8
Capital and total exposure measure			
20	Tier 1 capital	**17.9**	23.7
21	Leverage ratio total exposure measure (sum of line 3 above)	**68.3**	29.8
Leverage ratio			
22	Leverage ratio	**26.1%**	79.5%

Split of on-balance sheet exposure

		2018 £m	2017 £m
EU-1	Total on-balance sheet exposures	**68.3**	29.8
EU-3	Banking book exposures, of which:	**68.3**	29.8
EU-5	Exposures treated as sovereigns	**0.0**	0.0
EU-7	Institutions	**62.5**	27.0
EU-12	Other exposures	**5.8**	2.8

Appendix 3: Glossary of Terms

ALCO	Asset and Liability Committee
BRC	Board Risk Committee
CEO	Chief Executive Office
ClearBank	ClearBank Limited unless otherwise stated means the company in line with regulatory reporting requirements
CRCO	Chief Risk and Compliance Officer
EBA	European Banking Authority
FCA	Financial Conduct Authority
FI	Financial Institutions
FSCS	Financial Services Compensation Scheme
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Individual Liquidity Adequacy Assessment Process
PRA	Prudential Regulation Authority
RMF	Risk Management Framework
SREP	Supervisory Review and Evaluation Process

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