ClearBank®

2019 Pillar 3 Disclosure

Registration number
09736376

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

Our purpose is to enable an open and competitive banking marketplace.

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

Summary of key metrics

The capital disclosures included in this report are on a Capital Requirements Directive IV ('CRD IV') end-point basis, unless otherwise stated. This assumes that all CRD IV requirements are in force during the period, and we have not applied any CRD IV transitional provisions.

Our capital position has strengthened during the period with our Common Equity Tier 1 ('CET1') ratio increasing to 88% (2018: 35%).

Our UK leverage ratio weakened to 21% (2018: 74%) however whilst we monitor this ratio, it is not formally applicable to ClearBank as we do not hold retail deposits of at least £50 billion.

CET1 capital resources have decreased over the year by £1m. There was £34.9 million of capital raised during the year plus, a £2.4 million increase in other capital reserves; however, the further IT development and increased headcount was mainly responsible for the increased costs during the year leading to a £32.8 million increase in retained losses.

Risk Weighted Assets ('RWAs') increased by £6.5 million to £15.7 million during the year mainly due to the requirements of IFRS 16 which changed the treatment of leased assets by bringing them onto the balance sheet and risk-weighting them at 100%.

Contents

Why ClearBank

Safe and secure

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

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

Through our banking licence customers can have greater confidence due to the level of regulatory oversight compared to other Banking-as-a-Service ('BaaS') providers.

Operational resilience

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

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

Non compete

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

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

Scalable

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

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

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

Technology platform

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

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

Introduction

Our innovative and scalable BaaS platform continues to attract customers and partners, driving business into 2020 and beyond.

ClearBank provides BaaS solutions to regulated financial institutions. This offering extends from agency banking, providing full connectivity to all payment schemes in the UK to providing Financial Services Compensation Scheme ('FSCS') protected deposit accounts, alongside our BaaS proposition.

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 BaaS proposition, ClearBank continues to deliver the following key value:

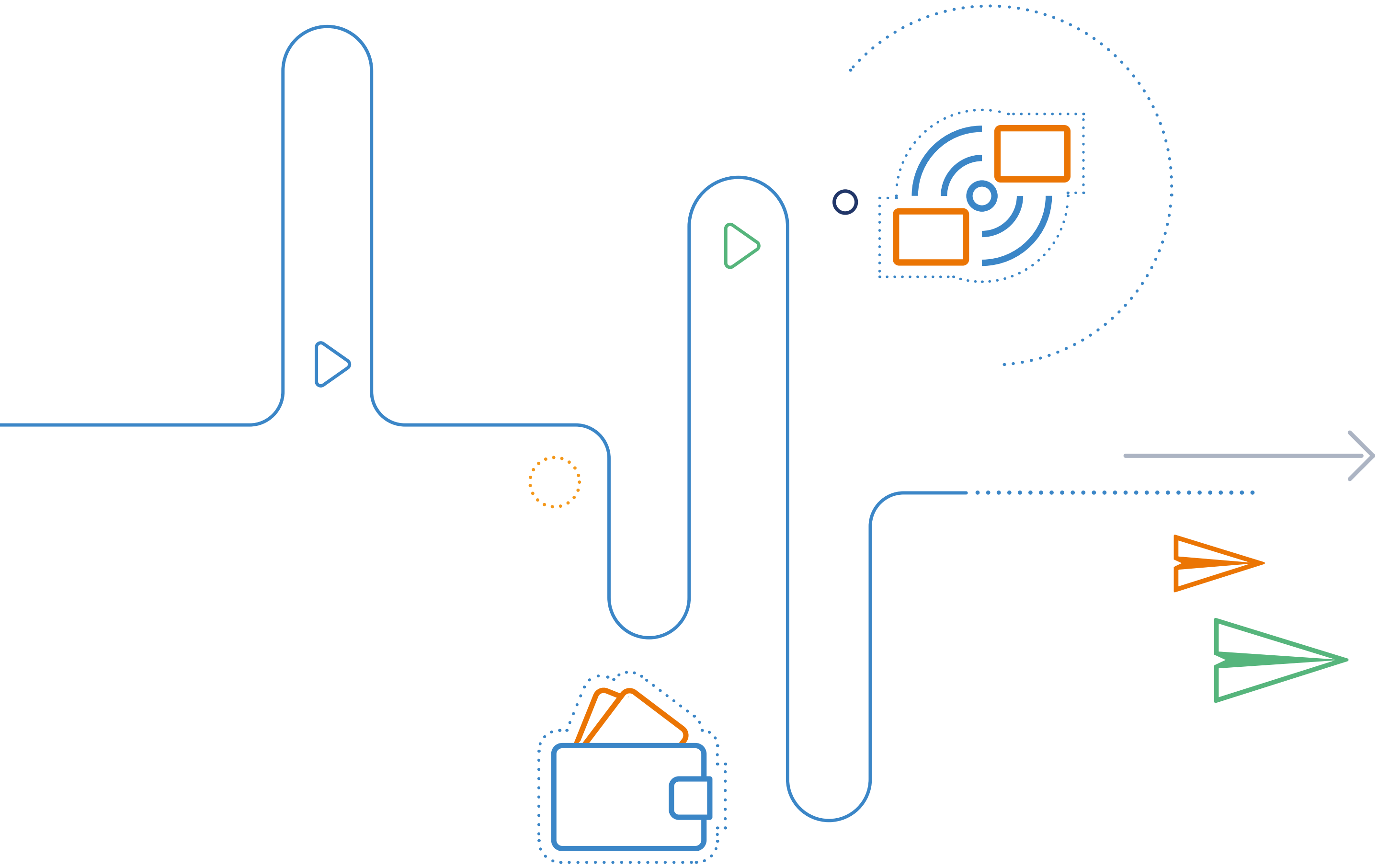
- Market leading proprietary ISO 20022 API
- Direct connectivity into all the UK payment schemes
- Streamlined and cost-effective setup
- Platform enabled product innovation, cost reduction and extended product reach
- Failover technology to minimise the impact of payment scheme failures
- Our non-compete promise means that we never compete with our clients for customers
- A robust and secure banking platform
- Provide security by holding every pound of our customers balances at the Bank of England

A compelling proposition

We believe the combination of customer focus, technologically advances products, clear strategy and security of funds delivering customer value and our promise regarding use of customer funds, together creates a compelling proposition. This belief is confirmed by the market response to date. As we build momentum into 2020, we have a healthy and growing pipeline and our existing customers continue to migrate their business and increase volume across our platform.

In 2019 we developed significant customer relationships including with Tide and Contis Financial Services.

02 Disclosure Policy



Transforming
clearing
services

Basis of preparation

The European Union Capital Requirements Directive came into effect on 1 January 2007. This introduced consistent capital adequacy standards and an associated supervisory framework in the EU based on the Basel II accord. Following publication of the Basel III accord, this was replaced by the Capital Requirements Regulation ('CRR') and the Capital Requirements Directive (together referred to as 'CRD IV') which came into force on 1 January 2014 and is enforced in the UK, together with local implementing rules and guidance, by the PRA. The rules include disclosure requirements known as 'Pillar 3' which apply to banks and building societies. These are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes.

This Pillar 3 disclosure complies with CRD IV and delegated legislation as at 31 December 2019.

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 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, these Pillar 3 disclosures have been reviewed in line with the internal governance procedures applicable to all ClearBank external reporting, including review and approval by the Board Risk Committee and Board.

The Pillar 3 Disclosure Standard requires that

- Appropriate reconciliations are performed on the disclosures to ensure alignment with financial results;
- Narrative content is subject to appropriate senior review and approval;
- Compliance with regulatory requirements, as set out in Part 8 of the CRR, is documented and met;
- Risk-based review activities are performed across the three lines of defence, to provide assurance over the disclosures; and
- The BRC reviews and approves the disclosures.

> We attest that, to the best of our knowledge, these Pillar 3 disclosures have been prepared in accordance with ClearBank's Pillar 3 disclosure standards and the internal controls framework described within it

Marc Jenkins
Chief Financial Officer

Reporting

Key aspects of ClearBank's capital position are reported monthly to the Board in ClearBank's Financial Business Performance Pack. More detailed reports of capital, risk and liquidity are considered monthly by Asset and Liability Committee ('ALCO'). A range of Key Risk Indicators and Key Performance Indicators are routinely monitored (in both actual and forecast terms) by management, and by the Board, Board Risk Committee ('BRC') and its sub-committees, to ensure that appropriate actions can be taken should triggers be breached.

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 previous years disclosure.

While the effects of leaving the European Union on 31 January will continue to bring some continuing uncertainty to the UK market, as a UK-focused Sterling clearing bank the impact on ClearBank will likely be minimal and will not impact the services we provide to customers. Neither do we expect any changes to the UK's regulatory landscape arising from Brexit to have a material effect on the Bank.

The UK's payments and agency banking market opportunity will continue to grow, and ClearBank's next-generation infrastructure uniquely positions us to succeed. We will continue to build and develop key strategic partnerships to enable us to penetrate our target market sectors and grow our business.

For example, our partnership with Tide has developed throughout 2019 and will enable ClearBank to make significant inroads into the market for SME agency banking and payment services. We expect 2020 to provide further similar opportunities as clients seeking to develop new services and more resilient operational capabilities turn to ClearBank as the most attractive and effective partner in these sectors. A key driver of market change will be the increased focus by the Prudential Regulation Authority ('PRA') and Financial Conduct Authority ('FCA') who are putting in place a stronger regulatory framework to promote operational resilience and ensuring that major operational and security incidents are reported under the Payment Services Regulations. This focus aligns with ClearBank's capabilities, placing us in a strong position to leverage our leading proposition as a provider of resilient, next generation, cloud-native infrastructure to our clients.

04 Summary Analysis

The following provides summary analysis of ClearBank's key regulatory metrics as at 31 December 2019.

Table 1: Capital and leverage ratios

	2019	2018
CET1	**88%**	35%
Tier 1	**88%**	35%
Total regulatory capital	**88%**	35%
CRD leverage ratio	**3%**	26%
UK leverage ratio	**21%**	74%

The Bank's capital ratios exceed the minimum requirements of CRD IV. Neither leverage ratio is currently applicable to ClearBank; with the UK leverage ratio only being applicable to UK Banks with retail deposits of at least £50 billion.

Table 2: Own funds

	2019 £'000	2018 £'000
Paid up share capital and premiums	**112,999**	78,125
Other reserves	**5,723**	3,301
Retained losses	**(76,950)**	(44,167)
Total equity as per balance sheet	**41,772**	37,259
Regulatory capital adjustments		
Deferred tax	**(6,047)**	(5,951)
Intangible assets	**(18,265)**	(13,418)
CET1	**17,460**	17,890
Total own funds	**17,460**	17,890

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 2019, 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 2019	**17,890**
Movement in share capital and premiums	34,874
Movement in retained earnings	(32,783)
Movement in other reserves	2,422
Movement in intangible assets	(4,847)
Movement in deferred tax assets	(96)
As at 31st December 2019	**17,460**

During the year we continued to grow our business, supported by a £35m 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 operational costs involved in on-boarding and serving our customers.

Table 4: Movement in Risk-Weighted Assets

	£'000
As at 1st January 2019	**9,184**
Movement in assets risk-weighted at 20%	49
Movement in assets risk-weighted at 50%	-
Movement in assets risk-weighted at 100%	6,656
Movement in assets risk-weighted at 250%	(225)
As at 31st December 2019	**15,664**

From 1 January 2019, the Bank adopted IFRS 16 'Lease Accounting' which had the effect of bringing leased assets onto the balance sheet which resulted in a material increase in assets risk-weighted at 100%.

Further details on the above accounting standard plus any impacts are included in ClearBank's 2019 Annual Report and Accounts.

06 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

Throughout the financial year, ClearBank complied with the capital requirements that were in force as set out by European and national legislation. All disclosures are on an end-point basis unless otherwise stated.

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 continue to be made up entirely of CET1 capital.

Regulatory capital requirements

ClearBank manages its capital structure to ensure that it continues to exceed minimum regulatory requirements, as well as providing capacity for further business development.

As part of the risk appetite framework, strong capital ratios relative to regulatory requirements are targeted and any material changes to the balance sheet, and potential regulatory developments are considered in advance. The capital structure is managed to ensure that minimum regulatory requirements are always met, based on actual and forecast stressed performance.

A number of tools are employed to support the management of capital. The Board is responsible for setting risk appetite which is articulated through its risk appetite statements and these are translated into specific risk metrics, which are monitored by BRC, ERMC and ALCO.

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 Risk-Weighted Assets (RWAs).

CRD IV allows for a range of approaches to calculating the associated RWAs. As at 31 December 2019, 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.

Internal Capital Adequacy Assessment Process (ICAAP)

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

The Internal Capital Assessment ('ICA') is presented to ALCO and BRC, for challenge and approval. The Board ratifies the ICA following its approval by BRC. The PRA assesses ClearBank's ICA and sets the Individual Capital Requirement ('ICR') which ClearBank, must always retain capital in excess of the ICR.

Pillar 2A

ClearBank's latest Pillar 2A Individual Capital Requirement ('ICR') and Total Capital Requirements ('TCR') were received in September 2018. The ICR and TCR replace the former Individual Capital Guidance ('ICG'). The TCR is a point in time estimate by the PRA, of the amount of capital required to be held to meet risks not fully covered by Pillar 1 such as credit concentration and operational risk, and those risks outside the scope of Pillar 1 such as pensions and interest rate risk.

ClearBank's current prescribed TCR is 18% of RWAs. This means that in order to meet its TCR 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 100% of 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

Under CRD IV, institutions are required to meet the following own funds requirements: A CET1 capital ratio of 4.5%, a Tier 1 capital ratio of 6% and a total capital ratio of 8%. These form the institution's Pillar 1 requirements. Pillar 2A covers firm specific risks and those that are not fully addressed by Pillar 1. In addition to the minimum capital requirements, CRD IV requires institutions to hold capital buffers, together the combined capital buffer, that can be utilised to absorb losses in stressed conditions.

Under the PRA's Pillar 2 framework it may also set a Pillar 2B PRA buffer defining a firm specific capital buffer over and above the combined buffer that should be maintained in non-stressed conditions as a mitigation against future possible stress periods. The PRA requires that the level of this buffer is not publicly disclosed.

The PRA buffer is assessed alongside other capital buffers, as described below. All buffers must be met with CET1 resources.

Capital Conservation Buffer ('CCoB')

The CCoB is designed to ensure that institutions build up capital buffers outside times of stress that can be drawn upon if required. From January 2019, the capital conservation buffer requirement was 2.5% of risk-weighted assets.

Countercyclical Capital Buffer ('CCyB')

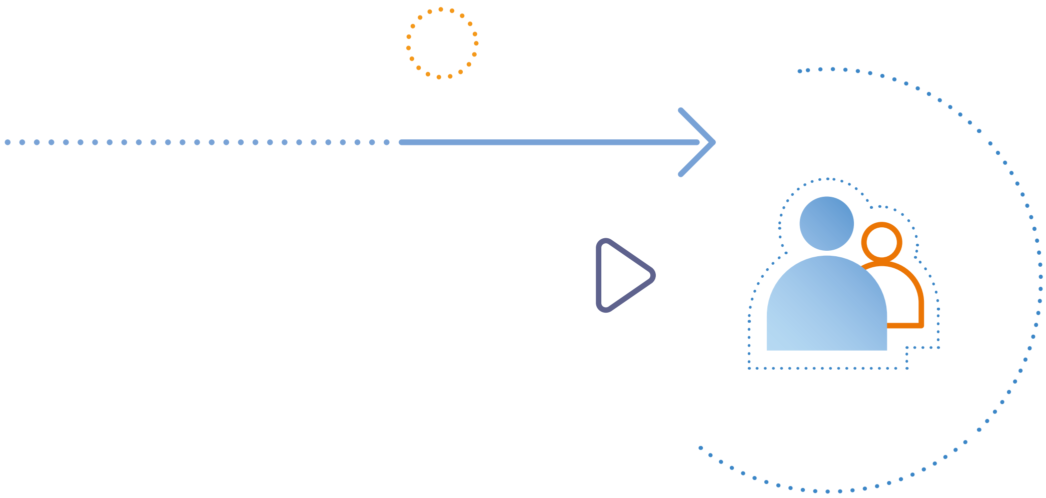
A bank must calculate a countercyclical capital buffer of CET1 capital equal to its total risk exposure multiplied by the weighted average of the countercyclical buffer rates that apply to exposures in the jurisdictions where the bank's relevant credit exposures are located. ClearBank operates only in the UK and so the weighted average countercyclical buffer rate is equal to the UK buffer rate of 1.0%*.

On 11 March 2020, the Bank of England reduced the CCyB for the UK to 0% in response to their measures to counter the economic shock from Covid-19.

Other Capital Buffers

Financial institutions that are considered to represent a higher risk to either the global or domestic financial system are defined as either globally systemically important institutions ('G-SIIIs') or domestically systemically important institutions ('D-SIIs'). In addition, there is a systemic risk buffer introduced by the PRA, that is applicable to both ring-fenced banks and large building societies. These additional buffer requirements range from 1% to 2.5% of RWAs.

None of the other capital buffers are currently applicable to ClearBank.



Summary of capital requirements

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

Table 4: CRD IV 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	This buffer is set by the PRA and is confidential and is met with CET1 capital

Leverage ratio framework
ClearBank monitors its leverage ratio on both an EBA and UK leverage framework basis, however in the UK the leverage ratio framework is only applicable to those financial institutions that hold retail deposits of at least £50bn.

Minimum requirements for own funds and eligible liabilities
As part of the Bank Recovery and Resolution Directive ('BRRD'), the Bank of England, in its capacity as the UK resolution authority, has published its policy for setting the minimum requirement for own funds and Eligible Liabilities ('MREL') and have provided firms with indicative MREL which is applicable to UK firms from 1 January 2020 and 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

Effective risk management is strategically important to ClearBank. A robust approach to risk management enables us to identify, assess and manage the principal risks whilst maximising the potential upside of our business strategy

Overview of risk management process

As ClearBank has been built, we have made sure that the controls are proportionate and suitable for us as well as for our customers. Risk-taking is an inherent part of banking and sound risk management practices enable ClearBank to take risks knowingly, to reduce risks where appropriate and to prepare strategic, operational and financial plans which consider inherent and residual risks, uncertainties and our control responses.

The Board is ultimately responsible for setting the risk appetite and strategy and promotes a strong risk culture and expects every employee within ClearBank to adhere to these high standards. The Board delegates this responsibility through the Board Risk Committee ('BRC') which in turn receives recommendations from the Enterprise Risk Management Committee ('ERMC') for approval. The BRC's responsibilities include the development and maintenance of the Risk Management Framework ('RMF'), ensuring that its strategy, principles, policies and resources are aligned to the risk appetite, as well as to regulatory and industry best practices.

The BRC monitors and reviews the formal arrangements established by the Board in respect of internal controls, and reviews the effectiveness of ClearBank's systems for risk management and compliance with financial services legislation and regulatory requirements. The BRC is chaired by Graeme Smith, an independent non-executive director, and the Chief Risk and Compliance Officer ('CRCO') is a permanent attendee. The CRCO is also the chair of the Credit Committee, Conduct & Operational Risk Committee and the ERMC. Further details about the role of these committees are detailed in the Corporate Governance section.

The CRCO leads the Risk function of ClearBank and is independent from ClearBank's operational and commercial functions. The CRCO is accountable for appropriate risk management processes, policies and controls in place which are proportionate and sufficiently robust. The CRCO's role is also to ensure that key risks are identified, assessed, monitored and mitigated effectively and swiftly. The CRCO is responsible for providing assurance to the Board that the principal risks are appropriately managed and that ClearBank is operating within its risk appetite.

Changes implemented during the year

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

There is ever increasing demand for controls and processes that deliver the highest levels of operational resilience and Information and Financial crime security.

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

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

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

Risk Management continued

Looking Ahead

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

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

Risk management process

Our approach to risk

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

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

Risk Management Framework (RMF)

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

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

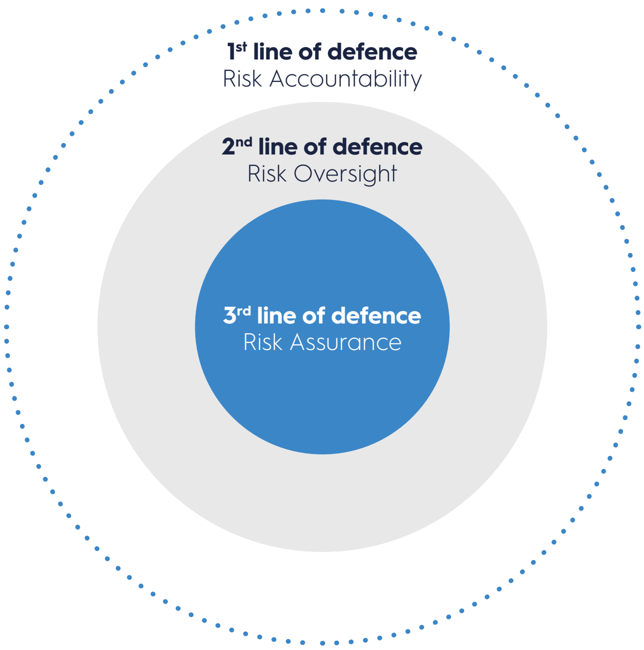
Risk operating model

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

The three lines of defence

Our risk management strategy incorporates the 'three lines of defence' model at its core. This model minimises conflict of interest as far as possible and aims to drive the right behaviours by clear delineation of responsibilities.

Definitions / principles



1st line of defence Risk Accountability

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

2nd line of defence Risk Oversight

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

3rd line of defence Risk Assurance

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

Risk Management continued

Risk Appetite Framework ('RAF')

We have a defined risk appetite which enables us to effectively manage the potential upside and downside risks of our business strategy. Risk appetites articulate the acceptable levels of risk which are inherent in the business model across various risk types and defines the amount and nature of risk that ClearBank is willing to take (or the loss it is prepared to accept) in pursuit of its strategy and business objectives. The effective communication of the risk appetite statements throughout ClearBank's community acts to enhance the awareness and the effectiveness of the RMF and develop our Risk Culture. Risk appetites are reviewed at ERMC and BRC at least monthly, to ensure adherence to the limits which have been set.

The risks that ClearBank face are identified and recorded in risk control self-assessments and risk registers. A detailed assessment of these risks and their materiality is undertaken on a regular basis and the conclusions are documented and reported to the Board via CORC, ERMC and BRC. The risk assessments help to define residual risks, controls and control enhancements, to ensure it operates within its formally stated risk appetite.

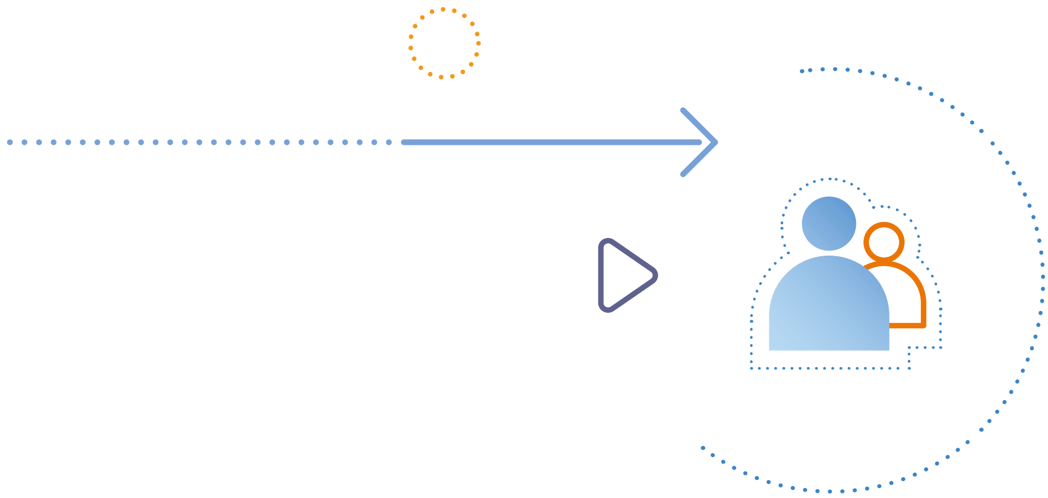
ClearBank's strategic vision	ClearBank's vision is to build an independent, neutral and transparent clearing bank with market leading service levels, resilience and expansion capabilities
ClearBank's risk appetite	To maintain a financially secure and operationally resilient bank that operates in a compliant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

Risk culture

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

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

The RMF is reviewed and approved by the Board at least annually following a recommendation by BRC. The CEO 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 its day-to-day management and control activities. The RMF is subject to assurance reviews undertaken by Internal Audit and these are made available to external stakeholders as and when required.



Risk Overview

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

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

Relative changes in control environment and processes over the period.

↑ Improvement ⟷ No change ↓ Worsening

Risk Management continued

Risks

Principal risks and uncertainties

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

Strategic and business risks

Strategic and business risks can affect ClearBank's ability to achieve its corporate and strategic objectives both in the short or long-term. Considering risks at this wide level is important as it provides a holistic perspective on risk and includes external factors. Such risks will include changes to the external operating environment, competition and the regulatory landscape.

Geopolitical risk/Brexit

Although the UK's exit from the European Union itself is outside ClearBank's control, we remain vigilant to mitigate against any effects. Brexit is not expected to have a significant operational impact and given our corporate structure it is not considered a major risk. We are also reviewing our data arrangements to ensure that adequate measures are in place to allow continued uninterrupted flow of data. The Board have reviewed potential impacts which could be a combination of threats and opportunities and continue to monitor as part of ongoing tactical and strategic management.

Capital risk

Capital risk is the risk that ClearBank has insufficient capital to cover regulatory requirements, growth plans or stressed conditions. ClearBank has maintained regulatory capital in excess of the level set by the Prudential Regulation Authority ('PRA') as part of our Total Capital Requirements ('TCR'). The capital position is monitored monthly by Asset and Liability Committee ('ALCO') and reported monthly to the ERMC and BRC.

Composition of regulatory capital of the Company

	31 Dec 2019 £'000	31 Dec 2018 £'000
Share capital	**–**	–
Share premium	**112,999**	78,125
Share-based payments reserve	**5,723**	3,301
Retained losses	**(76,950)**	(44,167)
Total shareholders' funds	**41,772**	37,259
Deductions:		
Deferred tax	**(6,047)**	(5,951)
Intangible assets	**(18,265)**	(13,418)
Total	**(24,312)**	(19,369)
CET1 capital	**17,460**	17,890
CET1 ratio	**88%**	35%

Funding and liquidity risk

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

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

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

Credit risk

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

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

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

Market and interest rate risk

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

Foreign exchange exposure arises from ClearBank's investment in its overseas operations. In addition, ClearBank incurs foreign exchange risk through non-functional currency flows from services provided by customer facing operations. Given the structure and products currently offered, ClearBank has minimal exposure to these risks.

Risk Management continued

Conduct risk

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

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

Operational risk

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

Regulatory and compliance risk

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

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

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

Operational resiliency

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

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

Information security risk

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

Financial crime risk

ClearBank has designed and adopted policies and procedures to detect and prevent the use of its banking facilities 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. ClearBank continues to ensure that industry guidance including from the Joint Money Lending Steering Group ('JMLSG'), HM Treasury, and the Financial Action Task Force ('FATF') are reviewed and actioned accordingly.

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 committees

Board committees
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 five executive committees: The Executive Committee ('ExCo'), Enterprise Risk Management Committee ('ERMC')., Asset and Liability Committee ('ALCO'), Customer Committee ('CC') and IT and Operations Committee ('ITOC').

Each Committee meets at least monthly and then reports to the Board, where appropriate, with each executive responsible for compiling departmental reports to the Board Committee.

Executive committees

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.

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 ERMC 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.

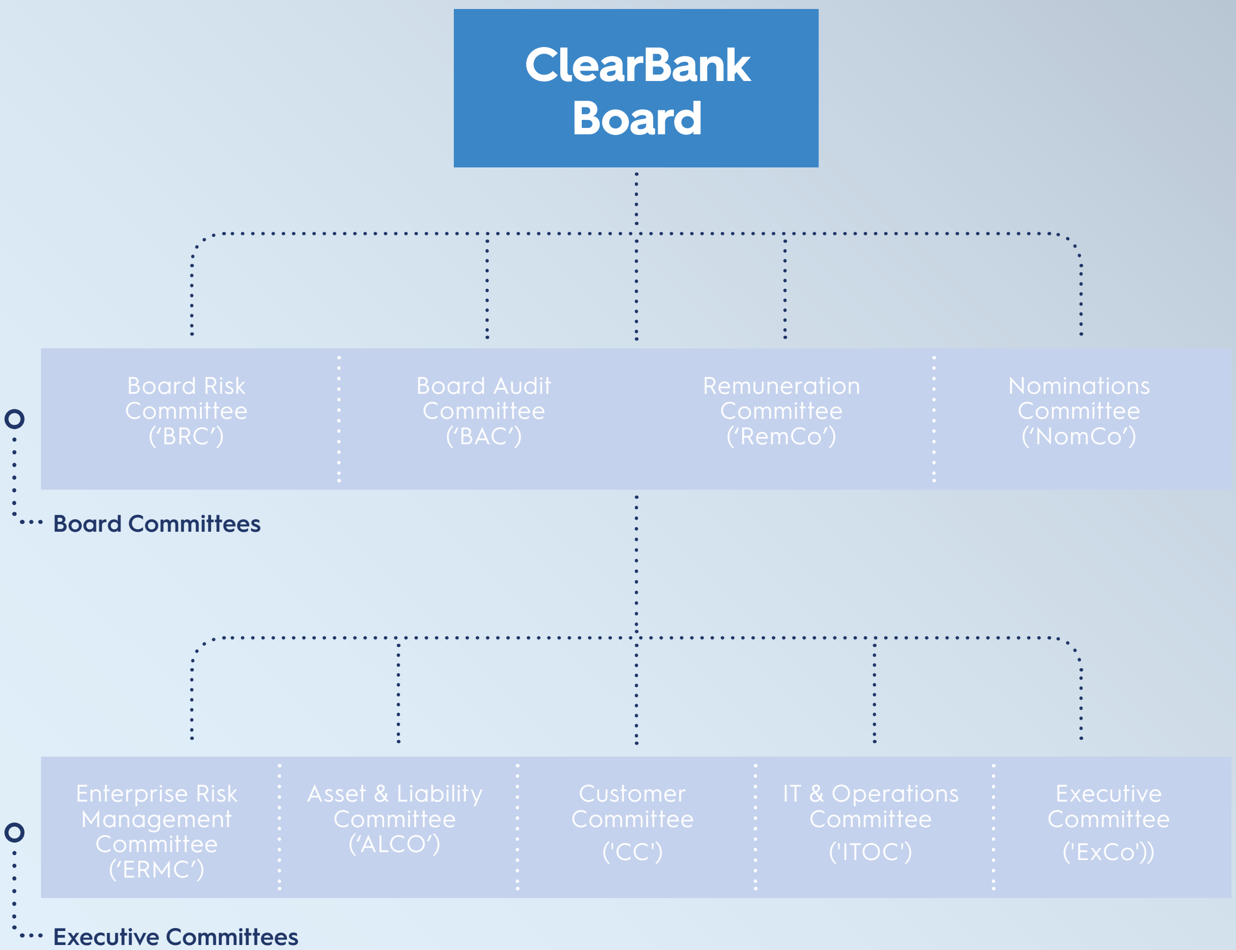
Enterprise Risk Management Committee ('ERMC')
The purpose of the ERMC is to maintain and monitor the RMF, commensurate with Risk Appetite and regulatory requirements. In addition, ERMC oversees the operational risk and conduct risk profile of ClearBank, the efficiency of controls and management actions.

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 ERMC. 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.

Board and committee structure

Board committees

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



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 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 will invest in government instruments as appropriate.

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.

For a summary of the bank's credit risk exposure by asset and exposure class, please see table on page 17. Each exposure class is defined in article 112 of the CRR.

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 operates a three lines of defence model to manage its operational risk. Details on this approach are set out below. The operational risk profile is informed by risk assessments from across the Bank, and by review and challenge by both management and the Risk Oversight function who operate as a second line of defence. Risk Oversight supports management in managing the risks it faces in its normal day-to-day activities and when implementing change programmes. ClearBank continues to enhance and embed its operational and conduct risk framework, expanding the use of techniques such as scenario analysis to support the understanding of current and future risks and to optimise risk-based decision making across ClearBank.

Line of defence	Departments	Description
1st	Business operations and support functions	Manages existing and emerging risks within agreed risk appetites, by applying the risk management process and escalating issues where required.
2nd	Risk and compliance function	Provides independent risk oversight, to monitor, assess and report to the board on the adequacy and effectiveness of the measures, policies and procedures for risk management. Considering regulatory developments and their likely impact on the business.
3rd	Internal audit	Provides independent assurance that controls are operating effectively and reports to the Audit Committee
All three lines of defence are responsible for supporting and developing a culture of risk awareness and risk management.		

Operational risk measurement
ClearBank uses the Basic Indicator Approach for calculating its Pillar 1 operational risk capital requirements. Given that the Bank have only been in operation for two years, forward projections have been included as relevant indicators in our measurement.

ClearBank's capital requirement for operational risk as at 31 December 2019 was £0.3m.

Liquidity and Funding Risk

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

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

As at 31 December 2019, ClearBank's LCR was 127% (and averaged 132% during Q4) which was well above the UK regulatory minimum of 100%. ClearBank continues to manage its liquidity against its internal risk appetite; such appetite being more prudent than the regulatory requirements.

ClearBank currently exceeds the expected 100% minimum future requirement for the Net Stable Funding Ratio (NSFR), with a ratio of 324% at 31 December 2019. These figures are based on current interpretations of European NSFR requirements.

The table below provides disclosure of ClearBank's LCR and presents an average of ClearBank's high-quality liquid assets, cash flows and the resulting LCR for the previous four quarters, as specified by the EBA disclosure guidelines. These values are calculated on a simple average basis using the average over each quarter-end LCR observations.

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

Liquidity coverage ratio for the year 2019

	Q4 Average	Q3 Average	Q2 Average	Q1 Average
High-quality liquid assets (HQLA)	473,254	317,903	156,582	72,764
Cash outflows (weighted value)	359,155	209,956	52,988	29,832
Operational deposits (unweighted value)	31,263	21,028	11,406	4,991
Non-operational and other deposits (unweighted value)	370,661	224,124	69,050	46,578
Total cash outflows (no qualifying inflows)	359,155	209,956	52,988	29,832
Total cash inflows	0	0	0	0
Net outflows (weighted value)	359,155	209,956	52,988	29,832
Liquidity buffer	473,254	317,903	156,582	72,764
Liquidity Coverage Ratio (%)	**132%**	**151%**	**296%**	**244%**

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 2019. 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) including bonus cash payments and Share options
- Pension and Insurance Schemes
- Other benefits

Remuneration continued

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 or share option awarded are 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 schemes.

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 2019.

	Fixed remuneration £'000	Variable remuneration £'000	Total remuneration £'000
2019	**4,368**	**256**	**4,624**
2018	3,450	283	3,733

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

		2019 £m	2018 £m	EU No 575/2013 Article
CET1 capital: Instruments and reserves				
1	Capital instruments and the related share premium accounts	**118.7**	81.4	26(1), 27, 28, 29
2	Retained earnings	**(77.0)**	(44.1)	26(1)(c)
6	CET1 capital before regulatory adjustments	**41.7**	37.3	
CET1 capital: Regulatory adjustments				
8	Intangible assets including goodwill	**(18.3)**	(13.4)	36(1)(b)
10	Deferred tax assets that rely on future profitability	**(6.0)**	(6.0)	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 CET1	(24.3)	(19.4)	
29	CET1 capital	17.4	17.9	
45	Tier 1 capital	17.4	17.9	
59	Total capital	17.4	17.9	
60	Total risk weighted assets	19.9	51.7	
Capital ratios and buffers				
61	CET1 (as a percentage of total risk exposure)	**87.8%**	35.0%	92(2)(a)
62	Tier 1 (as a percentage of total risk exposure amount)	**87.8%**	35.0%	92(2)(b)
63	Total capital (as a percentage of total risk exposure amount)	**87.8%**	35.0%	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

		2019 £m	2018 £m
1	Total assets as per published financial statements	**564.0**	87.7
7	Other adjustments	**(24.3)**	(19.4)
8	Leverage ratio total exposure measure	**539.7**	68.3

Leverage ratio common disclosure

		2019 £m	2018 £m
On-balance sheet exposures			
1	On-balance sheet items	**564.0**	87.7
2	(Asset amounts deducted in determining Tier 1 capital)	**(24.3)**	(19.4)
3	Total on-balance sheet exposures (sum of lines 1 and 2)	**539.7**	68.3
Capital and total exposure measure			
20	Tier 1 capital	**17.4**	17.9
21	Leverage ratio total exposure measure (sum of line 3 above)	**539.7**	68.3
Leverage ratio			
22	Leverage ratio	**3.2%**	26.1%

Split of on-balance sheet exposure

		2019 £m	2018 £m
EU-1	Total on-balance sheet exposures	**539.7**	68.3
EU-3	Banking book exposures, of which:	**539.7**	68.3
EU-5	Exposures treated as sovereigns	**0.0**	0.0
EU-7	Institutions	**526.4**	62.5
EU-12	Other exposures	**13.3**	5.8

Appendix 3: Glossary of Terms

ALCO	Asset and Liability Committee
Bacs	Bacs payments services limited
BRC	Board Risk Committee
CEO	Chief Executive Officer
CHAPS	Clearing house automated payment system
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
ICR	Individual Capital Requirement
ILAAP	Individual Liquidity Adequacy Assessment Process
LCR	Liquidity Coverage Ratio
PRA	Prudential Regulation Authority
RMF	Risk Management Framework
SREP	Supervisory Review and Evaluation Process
TCR	Total Capital Requirement

Appendix 4: Asset Encumbrance

Asset encumbrance arises where assets are pledged as collateral against secured funding and other collateralised obligations, and therefore cannot be used for other purposes.

ClearBank has placed collateral with the VISA credit card payment scheme and with SWIFT financial messaging service. The amounts placed of £319k and £46k respectively are treated as encumbered assets and are not used for any other purpose.

Appendix 5: Self-assessment of compliance with CRR disclosure requirements

CRR Reference	High-level summary	Disclosure reference
	Scope of disclosure requirements	
431(1)	Requirement to publish Pillar 3 disclosures	ClearBank published Pillar 3 disclosures
431(2)	Firms with permission to use specific operational risk methodologies must disclose operational risk information	Not applicable
431(3)	Institution must have a policy covering frequency of disclosures, their verification, comprehensiveness and appropriateness	ClearBank has a Pillar 3 disclosure policy which is the ClearBank Pillar 3 disclosure standard
431(4)	Explanation of ratings decision upon request	Not applicable
	Non-material, proprietary and confidential information	
432(1)	Institutions may omit information that is not material if certain conditions are respected	ClearBank's disclosures cover this
432(2)	Institutions may omit information that is proprietary or confidential if certain conditions are respected	ClearBank's disclosures cover this
432(3)	Where 432(2) applies this must be stated in the disclosures, and more general information must be disclosed	ClearBank's disclosures cover this
	Frequency of disclosures	
433	Disclosures must be published once a year at a minimum and more frequently if necessary	Disclosures are published at least annually
	Means of disclosure	
434(1)	To include all disclosures in one appropriate medium, or provide clear cross-references	ClearBank publishes all required disclosures on its website
434(2)	Disclosures made under other requirements (e.g. accounting) can be used to satisfy Pillar 3 if appropriate	Any cross-references to the annual accounts are mentioned
	Risk management objectives and policies	
435(1)(a)	The strategies and processes to manage risks	Page 12
435(1)(b)	Structure and organisation of risk management function	Page 13
435(1)(c)	Risk reporting and measurement systems	Page 12 onwards
435(1)(d)	Hedging and mitigating risk – policies and processes	Page 12 onwards
435(1)(e)	A declaration of adequacy of risk management arrangements approved by the Board	ClearBank Annual Report and Accounts
435(1)(f)	Concise risk statement approved by the Board	Risk appetite AR&A
435(2)(a)	Number of directorships held by Board members	Not applicable
435(2)(b)	Recruitment policy for selection of Board members, their actual knowledge, skills and expertise	ClearBank Annual Report and Accounts
435(2)(c)	Policy on diversity of Board membership and results against targets	ClearBank Annual Report and Accounts
435(2)(d)	Disclosure of whether a dedicated risk committee is in place and number of meetings in the year	Risk committee structure and number of meetings disclosed in Annual Report

CRR Reference	High-level summary	Disclosure reference
435(2)(e)	Description of information flow on risk to Board	Page 13 onwards
	Scope of application	
436(a)	Name of institution	Disclosed
436(b)	Differences in basis of consolidation for accounting and prudential purposes	Not applicable
436(c)	Impediments to transfer of own funds within the group	Not applicable
436(d)	Capital shortfalls in any subsidiaries not consolidated	Not applicable
436(e)	Use of derogation from prudential requirements for subsidiaries	Not applicable
	Own funds	
437(1)(a)	Reconciliation of Capital items and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution	Appendix 1 EBA own funds disclosure template
437(1)(b)	Description of the main features of the CET1 instruments issued by the institution	Not applicable. No capital instruments issued
437(1)(c)	The full terms and conditions of all CET1 instruments	Not applicable
437(1)(d)	Disclosure of the nature and amounts of prudential filters (articles 32 to 35) deductions (articles 36,56,66) and items not deducted (articles 47,48,56,66 and 79)	Appendix 1 EBA own funds disclosure template
437(1)(e)	Description of all restrictions applied to the calculation of own funds	Not applicable
437(1)(f)	Where institutions disclose capital ratios calculated using elements of own funds determined on a different basis	Not applicable
	Capital requirements	
438(a)	Summary of institution's approach to assessing adequacy of capital levels	Page 6
438(b)	Result of ICAAP on demand from authorities	Not requested
438(c)	Capital requirements for each Standardised approach credit risk exposure class	Page 17
438(d)	Capital requirements for each Internal Ratings Based approach credit risk exposure class	Not applicable
438(e)	Capital requirements for market risk or settlement risk	No market or settlement risk requirements
438(f)	Capital requirements for operational risk, separately for the Basic Indicator Approach, the Standardised Approach, and the Advanced Measurement Approaches as applicable	Page 21
	Exposure to counterparty credit risk ('CCR')	
439(a)	Description of process to assign internal capital and credit limits to CCR exposures	Not applicable
439(b)	Discussion of policies for securing collateral and establishing credit reserves	Not applicable

Appendix 5: Self-assessment of compliance with CRR disclosure requirements continued

CRR Reference	High-level summary	Disclosure reference
439(c)	Discussion of management of wrong-way risk exposures	Not applicable
439(d)	Disclosure of collateral to be provided (outflows) in the event of a ratings downgrade	Not applicable
439(e)	Derivation of net derivative credit exposure	Not applicable
439(f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods	Not applicable
439(g)	Notional value of credit derivative hedges and current credit exposure by type of exposure	Not applicable
439(h)	Notional amounts of credit derivative transactions	Not applicable. No derivatives
439(i)	Estimate of alpha, if applicable	Not applicable
	Capital buffers	
440(1)(a)	Geographical distribution of relevant credit exposure for calculation of countercyclical capital buffer	Not applicable as exposures are all UK
440(1)(b)	Amount of the institution specific countercyclical capital buffer	Page 7
	Indicators of global systemic importance	
441(1)	Disclosure of global systemic importance	Not applicable
	Credit risk adjustments	
442(a)	Disclosure of bank's definitions of past due and impaired	Annual Report & Accounts Glossary
442(b)	Approaches for calculating specific and general credit risk adjustments	No credit risk adjustments
442(c)	Disclosure of pre-CRM EAD by exposure class	No exposure at default
442(d)	Disclosure of pre-CRM EAD by geography and exposure class	No exposure at default
442(e)	Disclosure of pre-CRM EAD by industry and exposure class	No exposure at default
442(f)	Disclosure of pre-CRM EAD by residual maturity and exposure class	No exposure at default
442(g)	Breakdown of impaired, past due, specific and general credit risk adjustments, and impairment charges for the period	Not applicable
442(h)	Impaired, past due exposures, by geographical area, and amounts of specific and general impairment for each geography	Not applicable
442(i)	Reconciliation of changes in specific and general credit risk adjustments for impaired exposures	Not applicable
	Unencumbered assets	
443	Disclosures on unencumbered assets	Page 27 we disclosure encumbered assets all other assets are unencumbered
	Use of ECAIs	
444(a)	Names of the ECAIs used in the calculation of Standardised approach risk-weighted assets and reasons for any changes	Fitch Ratings

CRR Reference	High-level summary	Disclosure reference
444(b)	Exposure classes associated with each ECAI	Corporate only
444(c)	Description of the process used to transfer credit assessments to non-trading book items	Not applicable
444(d)	Mapping of external rating to CQS (if the institution does not comply with EBA standards)	Not applicable
444(e)	Exposure value pre- and post-credit risk mitigation, by CQS	Not applicable
	Exposure to market risk	
445	Disclosure of position risk, large exposures exceeding limits, FX settlement and commodities risk	Not applicable
	Operational risk	
446	Scope of approaches used to calculate operational risk	
	Exposure in equities not included in the trading book	
447	Value, price, type, nature, gains and losses on equity exposures	Not applicable
	Exposure to IRR on positions not included in the trading book	
448(a)	Nature of risk and key assumptions in measurement models	Not applicable
448(b)	Variation in earnings or economic value by the bank from upward and downward shocks to interest rates, by currency	Not applicable
	Exposure to securitisation positions	
449	Article 449(a) to 449(r) various requirements	No Securitisations
	Remuneration disclosures	
450	Remuneration	Page 23
	Leverage	
451(1) (a)-(c)	Leverage ratio, and breakdown of total exposure measure, including reconciliation to financial statements and derecognised fiduciary items	Appendix 2 – EBA disclosure template on leverage
451(1) (d)-(e)	Descriptions of the risk management approach to mitigate excessive leverage, and factors that impacted the leverage ratio during the years	Not applicable
451(2)	EBA to publish implementation standards for points above	Not applicable
	Use of the IRB approach to credit risk	
452(a)-(j)	Permissions, ratings, controls, exposure values, etc	ClearBank use the Standardised Approach
	Use of credit risk mitigation techniques	
453(a)	Use of on- and off- balance sheet netting	Not applicable
453(b)	How collateral valuation is managed	Not applicable
453(c)	Description of collateral types used by ClearBank	Not applicable

Appendix 5: Self-assessment of compliance with CRR disclosure requirements continued

CRR Reference	High-level summary	Disclosure reference
453(d)	Types of guarantor and credit derivative counterparty	Not applicable
453(e)	Disclosure of market or credit risk concentrations within risk mitigation	Not applicable
453(f) (g)	Exposures covered by eligible collateral, guarantees or derivatives	Not applicable
	Use of Advanced Measurement Approaches to operational risk	
454	Description of use of risk transfer mechanisms to mitigate risk	ClearBank use the Basic Indicator Approach
	Use of internal market risk models	
455(a)-(g)	Model characteristics, stress-testing, permissions etc	Not applicable

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