Clear.Bank®

# Pillar 3 Disclosure 2021

Registration number
09736376

# UNLOCKING POTENTI

### OUR PURPOSE

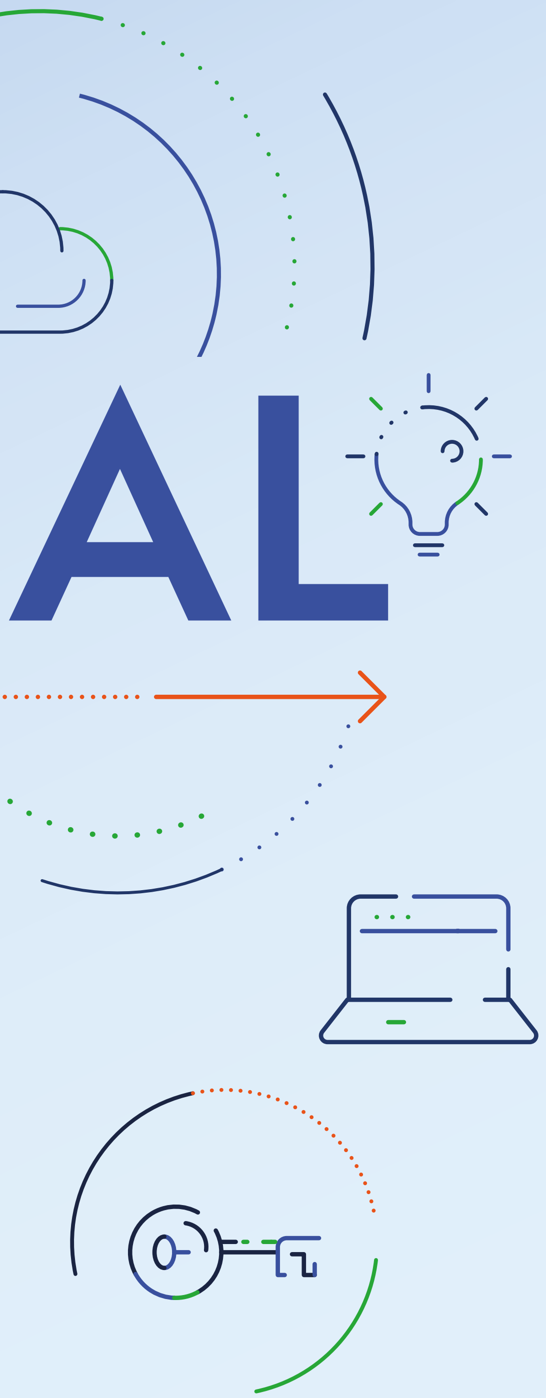
At ClearBank, our purpose is to provide great technology that unlocks our partners' potential, ensuring everyone has the freedom to choose the financial services they need.

### OUR VISION

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

### WHY

For decades, the clearing of financial transactions remained unchanged and unchallenged. We asked: "What if there was a better way? What if we could make those transactions faster, safer, more reliable and accessible to all?"




## OUR BUSINESS AT A GLANCE

Using our next generation financial solutions to transform the UK clearing and payment services landscape, and beyond. Enabling partners to unlock their potential.

## WHO WE ARE

ClearBank's technology platform and banking licence enable our partners to thrive by providing access to next generation financial solutions. We are a specialist technology-enabled clearing bank with a clear focus on innovating in the UK clearing and agency banking landscape with our transformational banking platform.

## WHAT WE DO

ClearBank focuses on clearing, agency banking, embedded banking, and our multi-currency and foreign exchange solutions. We are committed to being a responsible business, driving forward the transformation of payment services.

We provide access to all UK payment schemes (Bacs, CHAPS, cheque clearing and Faster Payments) and other banking services such as Financial Services Compensation Scheme ('FSCS') protected deposits and virtual account solutions, to financial institutions and small and medium-sized enterprises ('SMEs') across all industries throughout the UK.

## WHO OUR PARTNERS ARE

Our partners make up a variety of financial institutions – from fintechs, banks, and building societies to credit unions, insurance companies and investment funds. By partnering with us, businesses can offer their customers innovative and secure real-time payment and banking solutions that are flexible and easy to use.

## CONTENTS

# SUSTAINABLE GROWTH

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

**James Hopkinson**
Chief Financial Officer

## BASIS OF PREPARATION

These Pillar 3 disclosures are prepared according to the requirements of part 8 of EU 575/2013 (the 'CRR') and the PRA Rules in existence as at 31 December 2021.

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 Limited 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, as per the 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 Audit 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.

## 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 the 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.

## ROBUST CAPITAL, LIQUIDITY, AND BALANCE SHEET

In line with our risk appetite ,we maintained a robust capital position throughout the year, with a CET1 of 140% (2020: 114%) at the year end, maintaining headroom in excess of our total capital requirements. The Bank's CET1 ratio has been strengthened by a further investment of £35 million during the year, taking total share capital invested in the Group to £192 million. This demonstrates the strong ongoing support and commitment to the Bank from our investors, as we seek to build our business and challenge the existing clearing market.

In addition to our strong regulatory capital position, we remained significantly above all our regulatory minimum requirements throughout the year, with a Liquidity Coverage Ratio as at year end of 186% (2020: 186%) and our Net Stable Funding Ratio of 11,701% (2020: 3,298%). This demonstrates a strong liquidity position for the Bank with High Quality Liquid Assets of £2,719 million (2020: £1,012 million) all held in cash at the Bank of England. Cash balances represent 98.2% (2020: 96.1%) of the Bank's total assets of which £2,643 million (2020: £926 million) are partner balances.

## REGULATORY DEVELOPMENTS

All EU regulations, such as the CRR, that were directly applicable to UK firms have now been transposed into UK law whilst the PRA rulebook still refers to the CRR articles where no changes have taken place. The PRA have issued their policy statement on the interpretation of Basel Standards – final rules including disclosure requirements.

Since March 2020, in response to the COVID-19 pandemic, the Financial Policy Committee reduced the UK countercyclical buffer rate ('CCyB') to 0%, however in December 2021 it was announced that the UK CCyB will increase to 1% from 13 December 2022.

## SUMMARY ANALYSIS

The following provides summary analysis of ClearBank's key regulatory metrics as at 31 December 2021.

**TABLE 1: CAPITAL AND LEVERAGE RATIOS**

| | **2021** | 2020 |
|---|---|---|
| CET1 | **140%** | 114% |
| Tier 1 | **140%** | 114% |
| Total regulatory capital | **140%** | 114% |
| CRD leverage ratio | **1%** | 3% |
| UK leverage ratio | **39%** | 30% |

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**

| | **2021 £'000** | 2020 £'000 |
|---|---|---|
| Paid up share capital and premiums | **191,612** | 157,112 |
| Other reserves | **17,190** | 9,519 |
| Retained losses | **(137,022)** | (108,788) |
| **Total equity as per balance sheet** | **71,780** | 57,843 |
| **Regulatory capital adjustments** | | |
| Deferred tax | **(8,047)** | (5,899) |
| Intangible assets | **(26,994)** | (21,992) |
| **CET1** | **36,739** | 29,952 |
| **Total own funds** | **36,739** | 29,952 |

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 2021, 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 2021** | **29,952** |
| Movement in share capital and premiums | 34,500 |
| Movement in retained earnings | (28,234) |
| Movement in other reserves | 7,671 |
| Movement in intangible assets | (5,002) |
| Movement in deferred tax assets | (2,148) |
| **As at 31st December 2021** | **36,739** |

During the year we continued to grow our business, supported by a £34.5m 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 increased in the year driven mainly by additional capital injected and other reserves.

**TABLE 4: MOVEMENT IN RISK-WEIGHTED ASSETS**

| | £'000 |
|---|---|
| **As at 1st January 2021** | **16,920** |
| Movement in assets risk-weighted at 20% | (164) |
| Movement in assets risk-weighted at 50% | 0 |
| Movement in assets risk-weighted at 100% | (2,258) |
| Movement in assets risk-weighted at 250% | 2,233 |
| **As at 31st December 2021** | **16,731** |

# REGULATORY CAPITAL FRAMEWORK

Clearbank is supervised by the Prudential Regulation Authority ('PRA') which sets capital requirements for the bank and monitors our capital adequacy on an ongoing basis.

Our regulatory capital is assessed under the Basel framework, as implemented in the Capital Requirements Directive ('CRD')/Capital Requirements Regulation ('CRR') package and the PRA's rulebook.

The Basel framework consists of three pillars:
**Pillar 1 which sets the rule based minimum standards;**

**Pillar 2 which establishes the approach to supervisory review and the setting of individual capital requirements, taking into account the firm's own assessment of its capital requirements to support the business; and**

**Pillar 3 which sets disclosure requirements for firms that are made to the market in order to promote market discipline.**

### 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 2021, 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.

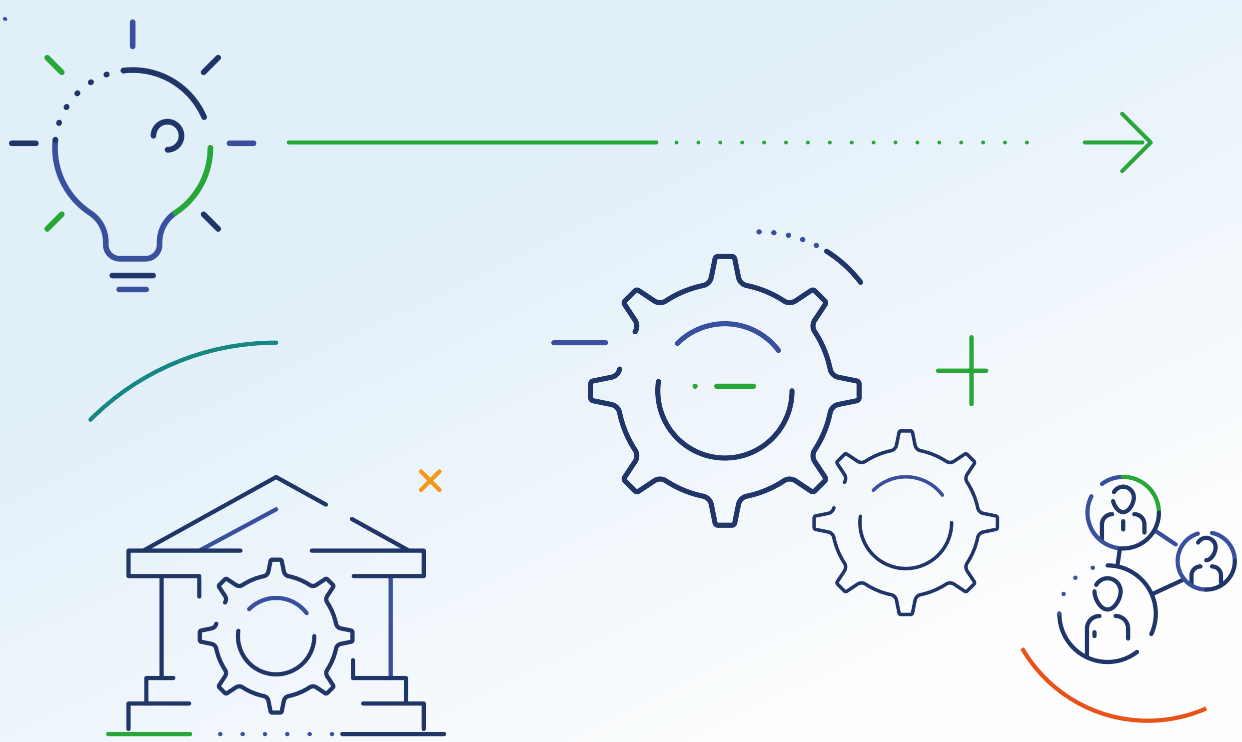
### PILLAR 2 CAPITAL REQUIREMENTS

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 ICAAP is presented to ALCO and BRC, for challenge and approval. The Board ratifies the ICAAP following its approval by BRC. The PRA assesses ClearBank's ICAAP and sets the Total Capital Requirement ('TCR').

**PILLAR 2A**

ClearBank's latest TCR and Buffer requirements were received in April 2021. 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 21.77% of RWAs. This means that in order to meet its TCR requirements, ClearBank must hold capital equal to 13.77% 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**

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, institutions are required to hold certain capital buffers, such as the capital conservation buffer and the countercyclical buffer as outlined below.

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 has been 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. This buffer is deployed in jurisdictions when excess credit growth is associated with an increase in system-wide risk. ClearBank operates only in the UK and so the weighted average countercyclical buffer rate is equal to the UK buffer rate of 0.0%.

**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-SIIs') 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

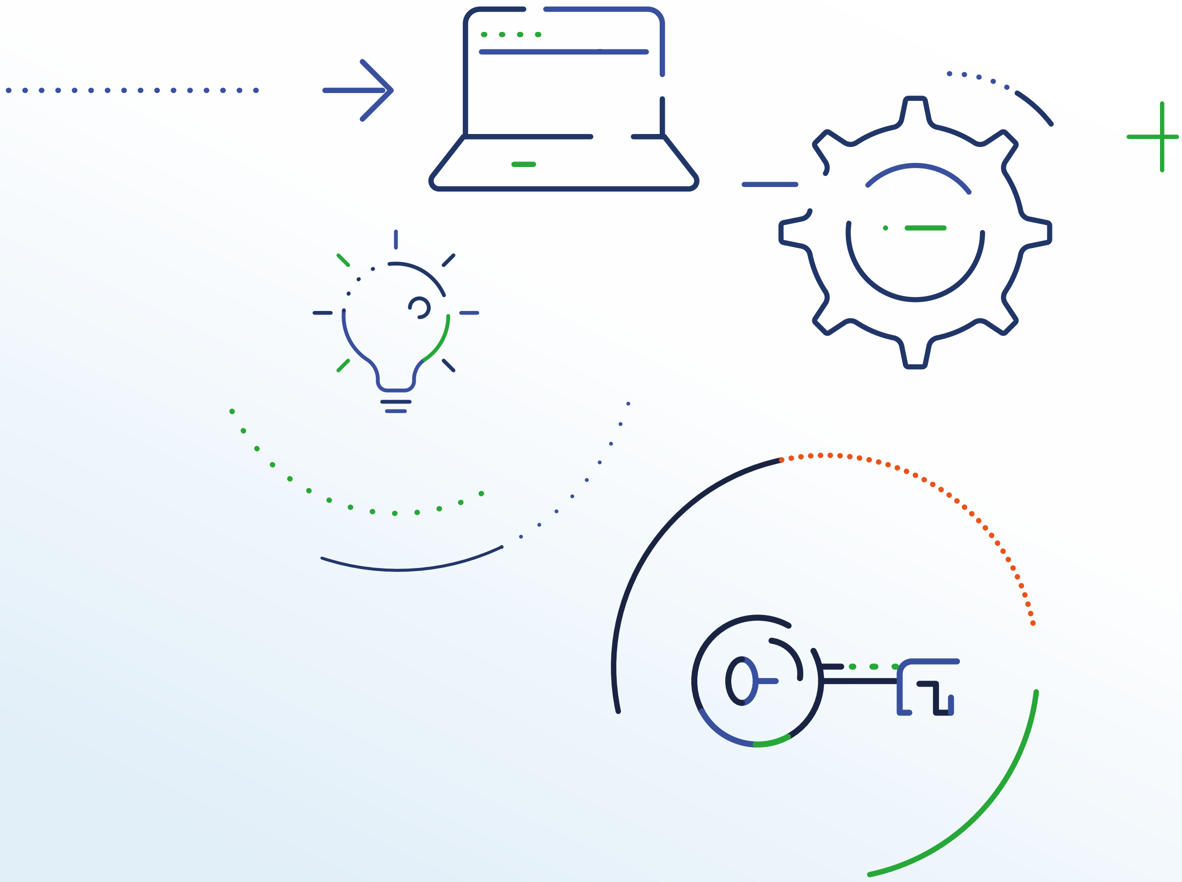
The table below summarises the current CRD IV capital requirements and how they apply to ClearBank.

**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;<br>▪ At least 6% of RWAs met by T1 and;<br>▪ 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;<br>▪ At least 75% to be met with T1 and;<br>▪ 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 fixed amount | ▪ 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 currently 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 was applicable to UK firms from 1 January 2020 and fully phased in by 1 January 2022. Currently, ClearBank is not required to hold any additional capital in respect of MREL.



# PROTECTING AND ADDING

### KEY HIGHLIGHTS OF 2021

In 2021, we have experienced strong growth and further development of our product and service offering, which the enhancements to our risk management approach have supported, and where continued improvements are expected to ensure that our risk management remains proportionate and fit for purpose.

Safely and scalability have been the key areas of focus whilst developing the controls, processes and procedures to manage our risk profile. With the increase in transaction numbers and values and the onboarding of new partners, one key focus area has been financial crime, where we have made further enhancements to the control environment and the overall framework across due diligence, screening and transaction monitoring. This is allowing us to grow whilst staying in line with, or ahead of, an ever-changing external environment.

We have further strengthened our risk management function through a dedicated formal testing team, which throughout 2021 has carried out thematic reviews and overseen the effectiveness of control testing in support of our enterprise risk management framework ('ERMF').

Improvements have also been made to our approach to policies where the governance of the Bank's policies is now more closely aligned to the materiality of the policy. This has enabled us to be more efficient and agile through both our governance structure and across the business more broadly.

All of these activities have helped us in delivering against the strategic objectives for 2021, ensuring that our control environment and our risk management framework remain commensurate with the growth and strategic initiatives of the Bank.

### AREAS OF FOCUS FOR 2022

Key areas of focus for 2022 will be:

- The continued embedding of the ERMF to support the Bank's business strategy.
- Further maturing of the risk and control-based culture through the Risk and Control Self-Assessment ('RCSA') and control testing programme.
- Continued strengthening of the systems and controls relating to financial crime.
- Supporting new initiatives, product and services in line with our risk management approach.
- Engaging on industry consultations to provide input given our unique market position.
- Delivering on regulatory changes being implemented, for example around outsourcing and operational resilience.

### ENTERPRISE RISK MANAGEMENT FRAMEWORK ('ERMF')

To support a consistent, coherent and clear approach to our risk management we have designed and embedded our ERMF.

The ERMF enables us to create and maintain a strong risk culture and further embed effective risk management practices allowing us to safely deliver against the Banks overall strategy and goals. The ERMF is supported by the 3 Lines Model focusing on the contribution our effective risk management makes to achieving our goals and creating value for the Bank as well as protecting it.

# VALUE

The structure of the ERMF comprises of eight key components:

**Risk Management Principle**

**Risk Governance, Oversight & Frameworks**

**Risk Appetite**

**Risk Taxonomy**

| Strategy | Financial | Conduct | Compliance | Operational |
|---|---|---|---|---|

**Risk Management Process**

Identify → Assess → Control → Monitor & Report → Identify

**Risk Data & Infrastructure**

**Talent & Operating Model**

**Training & Communication**

## RISK MANAGEMENT PRINCIPLES

Our risk management principles are aligned to the ISO Risk Management Principles.

## THE 3 LINES MODEL

Supporting our risk management and the ERMF we operate a 3 Lines Model to not only protect value but to create value and support us in achieving our strategic objectives.

This model emphasises collaboration between the first and second lines, drives greater accountability and ownership for delivering the right outcomes. It also supports efficiency and scalability as we grow and drives dynamic and proactive risk management. The model is aligned to industry practices and the CIIA model.

## RISK CULTURE

Our risk culture is a principal supporting factor of our risk management framework. It has been established and is maintained through a set of values, risk principles and the correct 'tone at the top' from our executive leadership, who provide clear and consistent messaging of our commitment to the management of risk through all levels of the Bank.

The Senior Managers and Certification Regime framework supports risk informed decisions to be made, with regular risk training and development provided to staff to ensure risk awareness is embedded and maintained within their daily roles.

To help our staff to understand the boundaries in which they are expected to operate we have our Code of Conduct. The Code of Conduct explains that our staff have to take personal responsibility for how they behave, the decisions they make and for speaking up when they see something which they believe falls short of our Code of Conduct or any other of our policies.

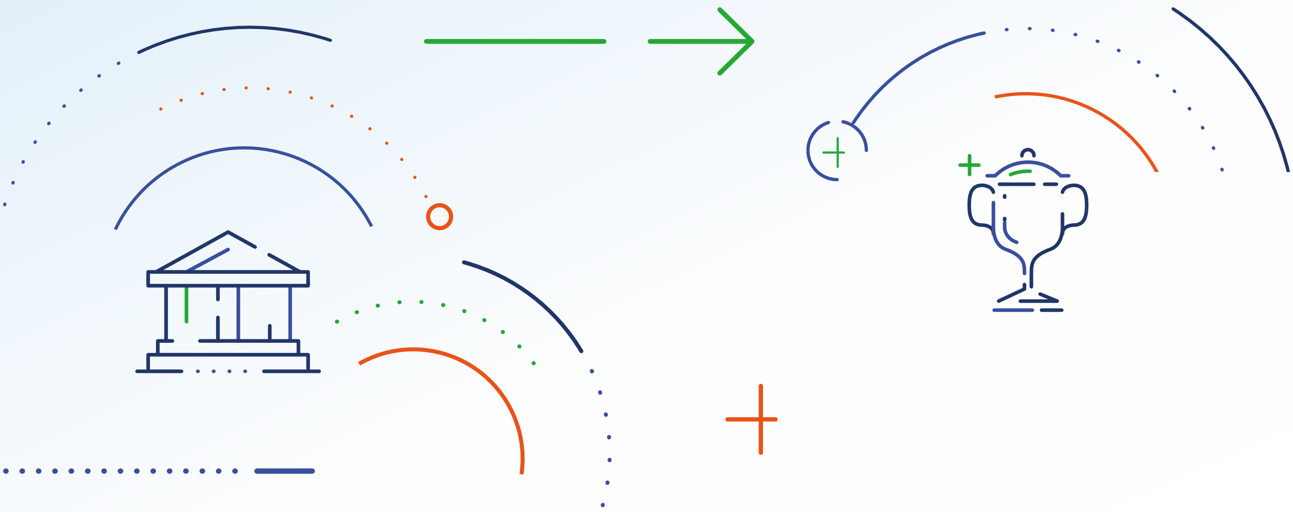
To further support us in achieving the risk culture we seek to achieve, we ensure that all staff understand and focus on the following key drivers of culture:

- **Purpose** – having a clear purpose of what success looks like in a way which strives for positive partner outcomes and ensures that all business activities, including products and services are consistent with that purpose.
- **Leadership** – having leadership which is competent, capable with clear accountabilities and areas of responsibility and that this leadership speaks and acts in a way which is consistent with our purpose, vision and values and expects the same of its people.
- **Approach to rewarding and management people** – ensuring that all people related processes, including recruitment, objectives setting, performance management and remuneration incentives are aligned with achieving our risk culture.
- **Governance arrangements** – having a clear and well-articulated framework of responsibility that oversees how we operate on a day-to-day basis, including the principle of effective challenge in our decision-making processes.

We also ensure we have an inclusive and diverse culture that supports our purpose, vision and values, which are underpinned by the commitment from the Board through the broader organisation as well as our risk culture and risk management framework.

## RISK REPORTING AND GOVERNANCE

In line with our governance structure we produce regular risk reporting aligned to our taxonomy covering the five key risks that ClearBank is exposed to. We establish our risk appetite, which is approved and annually reviewed by the Board and report our risks against our risk appetite status in line with our taxonomy.



↑ Improving ↓ Worsening ↔ Stable

| KEY RISKS | 2021 – CHANGE IN RISK PROFILE | 2022 – RISK OUTLOOK | HOW KEY RISKS ARE MITIGATED | COMMENTARY |
| --- | --- | --- | --- | --- |
| **Compliance Risk –** includes financial crime compliance and regulatory compliance risks | ↔ | ↑ | Mitigated in a number of ways including horizon scanning for changes in regulatory and money laundering requirements, tracking actions to closure ensuring we are and do remain compliant and customers protected | Regulatory and financial crime compliance have remained fairly static during 2021, with a number of initiatives to be delivered in 2022, which will improve our overall compliance risk status |
| **Conduct Risk –** includes culture, behaviours and partner risks, as well as governance and product risks | ↔ | ↑ | Mitigated through regular communication to ensure consistent and appropriate "tone from the top", training to support staff in understanding what good conduct looks like, and effective and timely handling of complaints both in our agency portfolio and through oversight of our BaaS partners | Conduct risk has remained a key area of focus as we continue to grow and onboard more partners. As we continue to grow through 2022, providing excellent customer service will remain core to our values |
| **Financial Risk –** Includes capital, liquidity and funding risks, and also includes credit, interest rate and market risks | ↔ | ↔ | Mitigated by ensuring that we understand our sources of risk and place limits on specific types of risk taking to remain within tolerance levels and supported by our capital and liquidity planning processes which also stress test our assumptions. We also ensure we maintain sufficient levels of capital and liquidity above regulatory requirements. | Financial risk has remained stable with the main focus on capital and liquidity risks, the positions for which will be further consolidated in 2022 |
| **Operational Risk –** Includes information, technology, transaction processing and execution risks, as well as people, fraud, financial reporting and model risks. Also includes legal, outsourcing, physical security and business continuity risks | ↔ | ↔ | Mitigated through regular and comprehensive risk and control self assessments which ensure that we understand and take actions on risks where required to establish further risk mitigation. We also have robust frameworks in place across operational risk supported by other forms of testing such as business continuity tests. | Operational risk has remained stable with notable improvements across business continuity, technology and transaction processing and execution. These together with legal, people and outsourcing will form the key focus for operational risk into 2022 |
| **Strategic Risk –** Includes environmental and social, political and economic risks as well as business and competition risks | ↑ | ↔ | Mitigated through a regular and comprehensive review of our strategy and ensuring that our financial plans and yearly objectives are aligned to the achievement of this strategy. This includes tracking of our customer pipeline, adherence to budget and also includes our plans around diversity and inclusion and climate risk. | Good progress has been made in delivering the Bank's strategic objectives in 2021 which has led to an improvement in the strategic risk position. Going into 2022, gender and diversity in the workforce will remain a key focus |

## OUTLOOK AND EMERGING RISKS

The risk landscape has continued to shift significantly through 2021 and into 2022 given the changing nature of the pandemic and, in recent weeks, related to the geo-political changes and the risks created as a result of the conflict in Ukraine. We continue to operate a dynamic approach to risk to ensure that we are effectively prioritising our areas of heightened focus to address risks such as changes in sanctions, increased information security risk and operational resilience. During the year there has also been greater focus on climate change and environmental sustainability. This will be a longer term goal, aligned to others in the industry, where we will continue to make progress on our approach and targets over the years to come.

The UK economic situation remains unstable due to the exit from the EU and the effect and longer terms changes that COVID-19 is having on the global economy, such as the increased inflation rate and changes in base rates. Consequently we will remain vigilant of the effects these may have on us and our partners throughout 2022. The ever-changing landscape of cyber and data security will continue being a focus for us, identifying new and emerging risks in order to prevent data and digital disruption. We will also maintain and enhance our business continuity, crisis management and disaster response frameworks beyond the risks being faced.

This aligns to a number of key deliverables in 2022, including the successful delivery of:

- The operational resilience impact tolerances for important business services, per the PRA Supervisory Statement SS1/21
- The requirement for outsourcing and third party risk management processes to be compliant with the Supervisory Statement SS2/21

Another shift in our risk landscape is the human capital focus, including but not limited to ways of working, talent retention and diversity and inclusion. The Bank's new Ways of Working and the effect that it may be having on our members of staff, with productivity noted as being higher, and how sustainable this is, will continue to be closely monitored. With the employment market increase in open vacancies and uplift in salaries, we will ensure we are in the best position to keep our best people. Finally, diversity and inclusion within our workforce being facilitated and encouraged will continue to be a priority.

## COMPOSITION OF REGULATORY CAPITAL OF THE COMPANY

| | 31 Dec 2021 £'000 | 31 Dec 2020 £'000 |
|---|---|---|
| Share capital | – | – |
| Share premium | 191,612 | 157,112 |
| Share-based payments reserve | 17,190 | 9,519 |
| Retained losses | (137,022) | (108,788) |
| **Total shareholders' funds** | 71,780 | 57,843 |
| **Deductions:** | | |
| Deferred tax | (8,047) | (5,899) |
| Intangible assets | (26,994) | (21,992) |
| **Total** | (35,041) | (27,891) |
| **CET1 capital** | 36,739 | 29,952 |
| **CET1 ratio** | 140% | 114% |

## 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 partner 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 impact of the COVID-19 pandemic.

## 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 partners 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 | 2021 £'000 | 2020 £'000 | 2021 £'000 | 2020 £'000 |
| Cash and cash equivalents | Central Banks | 2,726,586 | 1,012,198 | – | – |
| Cash and cash equivalents | Institutions | 36 | – | 7 | |
| Collateral | Other items | 406 | 370 | 246 | 210 |
| Other assets | Other items | 10,053 | 12,018 | 16,478 | 16,710 |
| **Total** | | 2,737,081 | 1,024,586 | 16,731 | 16,920 |

### MARKET AND INTEREST RATE RISK

Market risk is the risk that changes in market prices, such as interest rates, will affect income or the value of the Group's assets and liabilities. The objective of our market risk management strategy is to manage and control market risk exposures within acceptable parameters to ensure solvency while optimising the return on risk.

Interest rate risk is the risk of financial loss through un-hedged or mismatched asset and liability positions that are sensitive to interest rate changes. The Group's banking deposits are subject to variable interest rates; as a result, changes in interest rates could have an impact on the net interest income recognised in the year.

### CONDUCT RISK

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 partners. This includes the fair treatment of partners being at the heart of the business strategy and having the ability to evidence good outcomes for partners.

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, 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 partner 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.

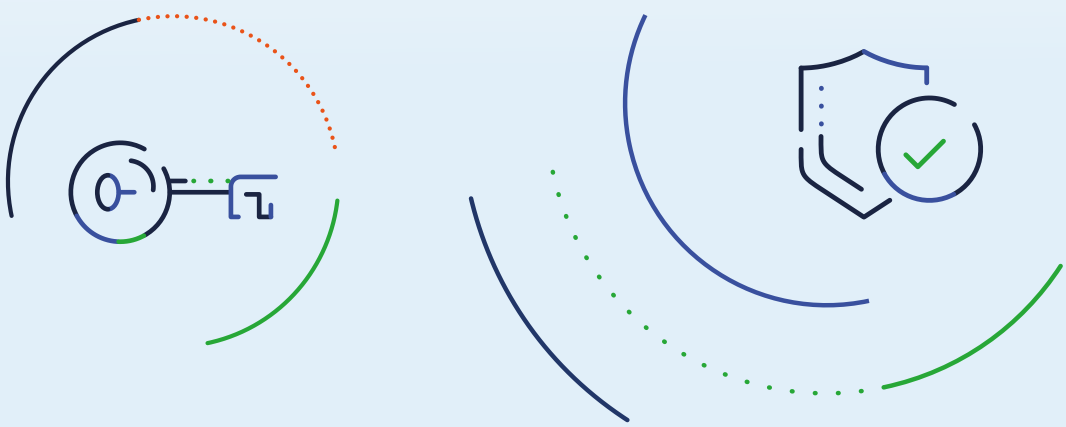
Legal Counsel and Compliance functions monitor changes to the legal or regulatory landscape and are responsible for reporting forthcoming changes to management committees and to the Board, and for determining what appropriate subsequent actions need to be taken by senior management in response.

### OPERATIONAL RESILIENCY

Whilst not a specific risk, operational resiliency relates to our ability to prevent, respond to, recover, and learn from operational disruptions. Our partners demand uninterrupted services, and our technology provides high levels of availability, reliability and resilience delivering optimal operational outcomes. We protect against operational risk events by mirroring our cloud native technology platform in separate zones within Microsoft Azure. This negates any service disruption to our partners. Further information on our operational resiliency and how such risks are managed can be found in the Annual Report and Accounts from page 44.

### ENVIRONMENTAL, SOCIAL AND GOVERNANCE ('ESG')

We strive to make a positive impact on our people, our partners, our suppliers and on the wider environment and the communities that we are part of. As a responsible business, we not only recognise the issues that face our industry, but we are also focused on making positive changes. Information on our ESG programme, 'Bigger than ClearBank' and our climate related goals can be found in the Annual Report and Accounts from page 22.



# RISK GOVERNANCE AND CONTROL

**BOARD FUNCTION**

The Board is responsible for the promotion of the long term sustainable success of ClearBank. In formulating, reviewing and approving the strategy and risk appetites, the Board is cognisant not only of the regulatory obligations but also of its obligations to all stakeholders, including partners, suppliers, employees and the wider community.

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

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

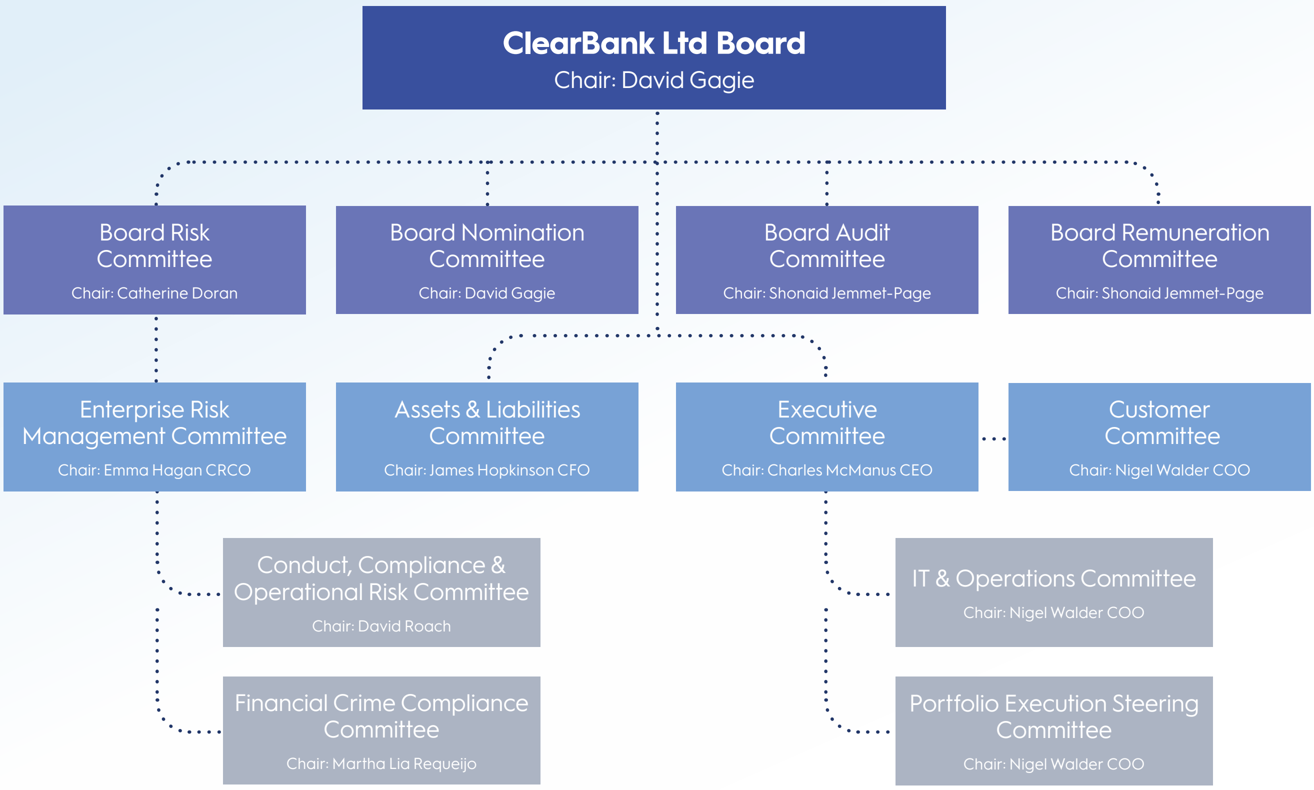
**BOARD COMMITTEES**

As further illustrated in the diagram below the Board has established a number of Board Committees and delegated responsibility for certain matters to its Committees, in order to provide effective oversight and leadership. The Committee structure is shown in the diagram below. Each Committee has written terms of reference which are reviewed annually. These terms of reference outline each Committee's role and responsibilities and the extent of the authority delegated by the Board.

Matters are considered in a more detailed fashion by appropriate members of senior leadership and, where appropriate, the Committee Chairs make recommendations to the Board for consideration and approval. The Board receives updates for each of its Committee meetings and all Directors can access and review the respective Committee meeting minutes. Reports for the Board's Committees are set out later in this report and they include further detail on each Committee's role and responsibilities, and the activities undertaken during the year.

**BOARD AUDIT COMMITTEE**

The BAC's responsibilities include the monitoring of the integrity of the financial statements and the involvement of the external auditors in that process, as well as review and assurance provision over the internal controls and risk management systems. In particular, external audit focuses on compliance with accounting policies and accounting estimates and ensuring that an effective system of internal financial control is maintained. Internal audit also provides assurance over financial systems and controls, in addition to completing a comprehensive review (via the audit universe) of all operating systems and controls, including but not limited to IT security, IT operations and partner onboarding. The ultimate responsibility for reviewing and approving the Annual Report and Accounts remains with the Board. The BAC is chaired by Shonaid Jemmett-Page.



**BOARD RISK COMMITTEE ('BRC')**

The BRC's responsibilities include the development and maintenance of the ERMF, 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 also monitors and reviews the formal arrangements established by the Board in respect of internal controls and the ERMF 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 Catherine Doran.

**REMUNERATION COMMITTEE ('REMCO')**

The RemCo's main responsibilities include agreeing the framework and policy for remuneration, terms of employment and any changes, including service contracts, remuneration, pension arrangements, bonus awards linked to clear and transparent objectives and participation in incentive and benefit plans available to employees. The RemCo is chaired by Shonaid Jemmett-Page.

**NOMINATION COMMITTEE ('NOMCO')**

NomCo's responsibilities include the review of the structure, size and composition (including the knowledge and experience) of the Board to ensure that it retains an appropriate balance of skills to support the strategic objectives of ClearBank and consideration of succession planning for Directors and senior executives. The NomCo is responsible for identifying and nominating for Board approval candidates to fill vacancies as and when they arise on the Board, as well the memberships of the Board Committee. The NomCo has recommended the reappointment of the existing executive and non-executive members to the appropriate Committees; in addition, details of the appointment of new members are set out in the Report of Directors. The NomCo is chaired by David Gagie.

**EXECUTIVE COMMITTEES**

The Board is supported by the executive sub-committees including the ExCo and ERMC, in turn supported by their own sub-committees including the Assets & Liabilities Committee ('ALCO'), Customer Committee ('CC') and IT & Operations Committee ('ITOC'). Each Committee meets on at least a monthly basis and then reports up to the Board where appropriate, with each executive also responsible for compiling departmental reports to the Board Committees.

**THE BOARD AGENDA IN 2021**

The Board uses it meetings to provide governance and oversight for business activities and as a mechanism for discharging its duties under s.172 of the Companies Act. Each Board meeting follows a carefully tailored agenda agreed in advance by the Chair, Chief Executive Officer and Company Secretary. Each Director may review the agenda and propose items for discussion, with the Chair's agreement. An annual calendar of scheduled Board meetings is structured to allow the Board to review cyclical and ad-hoc agenda items, which are scheduled to coincide with relevant key dates and events and ensures that all matters are given due consideration and are reviewed at the appropriate point in the financial and regulatory cycle.

The Directors receive detailed papers, including relevant updates on business performance and regulatory interactions, in advance of each Board meeting. Meetings are structured to ensure that there is sufficient time for consideration and debate of all matters. In addition to scheduled or routine items, the Board also considers key issues that impact the Group, as they arise. Details of individual Directors' attendance at the scheduled meetings that took place in the year can be found on page 38 of the Annual Report and Accounts.

**STANDING ITEMS**

At every meeting, the Board receives and discusses updates from the Chief Executive Officer and Chief Financial Officer on the results of the Bank. In addition, the Chief Operating Officer updates the Board on operational performance, operational resilience and strategic developments. The Chief Risk & Compliance Officer and Chief Governance & Legal Officer have a standing invitation and provide updates on their respective functions, including legal matters. The Board also receives regular reports from the Group's human resources, client management and internal audit functions.

## CREDIT RISK

ClearBank uses the Standardised Approach ('SA') to calculate credit risk. Under the SA, the bank applies a prescribed regulatory risk weight to each of its risk weighted exposures 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 14. 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. It includes legal, regulatory, technology, information security and fraud risks, and is inherent in all activities and processes.

ClearBank operates the 3 Lines 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 the second line. 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. This approach is outlined in the CRR articles 315 and 316.

ClearBank's capital requirement for operational risk as at 31 December 2021 was £0.7m (2020: £0.7m).

## 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 2021, ClearBank's LCR was 186% (and averaged 185% 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 11,701% at 31 December 2021. 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 are 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 2021**

| | Q4 Average | Q3 Average | Q2 Average | Q1 Average |
|---|---|---|---|---|
| **High-quality liquid assets ('HQLA')** | 2,581,225 | 2,120,586 | 1,933,528 | 1,370,611 |
| **Cash outflows (weighted value)** | 1,392,825 | 1,086,609 | 1,072,967 | 783,701 |
| Operational deposits (unweighted value) | 77,646 | 75,325 | 71,707 | 69,317 |
| Non-operational and other deposits (unweighted value) | 2,396,530 | 1,969,600 | 1,780,192 | 1,227,688 |
| Total cash outflows (no qualifying inflows) | 1,392,825 | 1,086,609 | 1,072,967 | 783,701 |
| **Total cash inflows** | 36 | 4 | | |
| **Net outflows (weighted value)** | 1,392,789 | 1,086,605 | 1,072,967 | 783,701 |
| **Liquidity buffer** | 2,581,225 | 2,120,586 | 1,933,528 | 1,370,611 |
| **Liquidity coverage ratio (%)** | **185%** | **195%** | **180%** | **175%** |

# 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 2021. 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 Chair 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 Directors' remuneration is determined by taking into account the specific role performed and is made up of individual remuneration components which when combined ensure an appropriate and reasonable remuneration package. It includes:

- Base salary, including fixed allowances if any ('Fixed Pay')
- Performance-based remuneration ('Variable Pay') including share options
- 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 employees' 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 2021.

| | Fixed remuneration £'000 | Variable remuneration £'000 | Total remuneration £'000 |
|---|---|---|---|
| **2021** | **4,691** | **2,464** | **7,155** |
| 2020 | 4,027 | 97 | 4,124 |

# 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.

| | | 2021 £m | 2020 £m | EU No 575/2013 Article |
|---|---|---|---|---|
| **CET1 capital: Instruments and reserves** | | | | |
| **1** | Capital instruments and the related share premium accounts | **208.8** | 166.6 | 26(1), 27, 28, 29 |
| **2** | Retained earnings | **(137.0)** | (108.8) | 26(1)(c) |
| **6** | CET1 capital before regulatory adjustments | **71.8** | 57.8 | |
| **CET1 capital: Regulatory adjustments** | | | | |
| **8** | Intangible assets including goodwill | **(27.0)** | (21.9) | 36(1)(b) |
| **10** | Deferred tax assets that rely on future profitability | **(8.0)** | (5.8) | 36(1)(c) |
| **16** | Direct, indirect and synthetic holdings of own CET1 instruments | | | 36(1)(f) |
| **28** | Total regulatory adjustments to CET1 | **(35.0)** | (27.3) | |
| **29** | CET1 capital | **36.7** | 30.1 | |
| **45** | Tier 1 capital | **36.7** | 30.1 | |
| **59** | Total capital | **36.7** | 30.1 | |
| **60** | Total risk weighted assets | **26.3** | 26.2 | |
| **Capital ratios and buffers** | | | | |
| **61** | CET1 (as a percentage of total risk exposure) | **140.0** | 114.2 | 92(2)(a) |
| **62** | Tier 1 (as a percentage of total risk exposure amount) | **140.0** | 114.2 | 92(2)(b) |
| **63** | Total capital (as a percentage of total risk exposure amount) | **140.0** | 114.2 | 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

| | | **2021 £m** | 2020 £m |
|---|---|---|---|
| **1** | Total assets as per published financial statements | **2,772.1** | 1052.5 |
| **7** | Other adjustments | **(35.0)** | (27.9) |
| **8** | Leverage ratio total exposure measure | **2,737.1** | 1,024.6 |

### LEVERAGE RATIO COMMON DISCLOSURE

| | | **2021 £m** | 2020 £m |
|---|---|---|---|
| **On-balance sheet exposures** | | | |
| **1** | On-balance sheet items | **2,772.1** | 1,052.5 |
| **2** | Asset amounts deducted in determining Tier 1 capital | **(35.0)** | (27.9) |
| **3** | Total on-balance sheet exposures (sum of lines 1 and 2) | **2,737.1** | 1,024.6 |
| **Capital and total exposure measure** | | | |
| **20** | Tier 1 capital | **36.7** | 30.1 |
| **21** | Leverage ratio total exposure measure (sum of line 3 above) | **2,737.1** | 1.024.6 |
| **Leverage ratio** | | | |
| **22** | Leverage ratio | **1.3%** | 2.9% |

### SPLIT OF ON-BALANCE SHEET EXPOSURE

| | | **2021 £m** | 2020 £m |
|---|---|---|---|
| **EU-1** | Total on-balance sheet exposures | **2,737.1** | 1,024.6 |
| **EU-3** | Banking book exposures, of which: | **2,737.1** | 1,024.6 |
| **EU-5** | Exposures treated as sovereigns | | |
| **EU-7** | Institutions | **2,726.9** | 1,012.2 |
| **EU-12** | Other exposures | **10.2** | 12.4 |

## APPENDIX 3: 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. In addition, ClearBank places funds with the Bank of England under the Cash ratio Deposits Scheme.

The amounts placed of £319k, £87k and £5,962k respectively are treated as encumbered assets and are not used for any other purpose.

## APPENDIX 4: 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 |

| CRR Reference | High-level summary | Disclosure reference |
|---|---|---|
| | **Risk management objectives and policies** | |
| 435(1)(a) | The strategies and processes to manage risks | Page 9 onwards |
| 435(1)(b) | Structure and organisation of risk management function | Page 9 onwards |
| 435(1)(c) | Risk reporting and measurement systems | Page 9 onwards |
| 435(1)(d) | Hedging and mitigating risk – policies and processes | Page 9 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 Annual Report and Accounts |
| 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 |
| 435(2)(e) | Description of information flow on risk to Board | Page 18 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 |

# APPENDIX 4: SELF-ASSESSMENT OF COMPLIANCE WITH CRR DISCLOSURE REQUIREMENTS CONTINUED

| CRR Reference | High-level summary | Disclosure reference |
|---|---|---|
| 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 16 |
| 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 22 |
| | **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 |
| 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** | |

| CRR Reference | High-level summary | Disclosure reference |
|---|---|---|
| 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 | On page 24 we disclose 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 |
| 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 |

# APPENDIX 4: SELF-ASSESSMENT OF COMPLIANCE WITH CRR DISCLOSURE REQUIREMENTS CONTINUED

| CRR Reference | High-level summary | Disclosure reference |
|---|---|---|
| 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 21 |
| | **Leverage** | |
| 451(1) (a)-(c) | Leverage ratio, and breakdown of total exposure measure, including reconciliation to financial statements and derecognised fiduciary items | Appendix 4 – 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 |
| 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 |

## APPENDIX 5: 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 |
| **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 |

For more information please visit our website:

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