PILLAR 3 DISCLOSURES

Financial Year 2021/22

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1. INTRODUCTION

Cashplus Bank is the trading name of Advanced Payment Solutions Ltd. We received our banking licence from the UK Prudential Regulation Authority (PRA) on 3 February 2021. We are authorised by the PRA and is regulated by the PRA for prudential requirements and by the Financial Conduct Authority (FCA) for conduct of business matters.

Cashplus previously traded for over 15 years as an e-money institution (EMI) and credit provider via our subsidiary APS Financial (AFL) Limited. AFL customers were transferred to APS Ltd on the 3 February 2021 and the AFL legal entity is now dormant and in the course of being closed. Another subsidiary, APS Bonds plc, is also dormant following the repayment of its mini-bond liabilities in full prior to the bank licence and it was formally closed on 12 October 2021.

Purpose

This Pillar 3 report is the first published as an authorised bank and covers the period to 31 March 2022. It provides information on the Bank's risk management, capital, liquidity and remuneration in line with the public disclosure requirements set out Part VIII of the UK Capital Requirements Regulation (CRR). These requirements aim to encourage market discipline by enabling market participants to assess key pieces of information on the risk exposure of the Bank. Cashplus has not omitted any recommended disclosures on the grounds that the information may be proprietary or confidential.

The Pillar 3 report should be read in conjunction with the Cashplus Bank Annual Report & Accounts that is also available on the Cashplus Bank website. The information presented in this Pillar 3 Report is not required to be, and has not been, subject to an external audit.

Business Model and Strategy

Cashplus operates solely in the UK and provides a range of simple, smart digital banking services to Small and Medium Sized Enterprises (SMEs) and consumers who are often overlooked by traditional high street banks. We focus on SMEs who are typically in the first stages of life when they need the most support and other banks are either unwilling or unable to help.

The core products provided by Cashplus are current accounts, overdrafts and credit cards through our digital banking platform. We also specialise in providing digital banking solutions harnessing the power of data and provide enterprise solutions. These include tools to work with customers' apps and websites; and, for example, open banking bulk payments application interface (API) solutions to provide a simple and cost-effective product offering to customers.

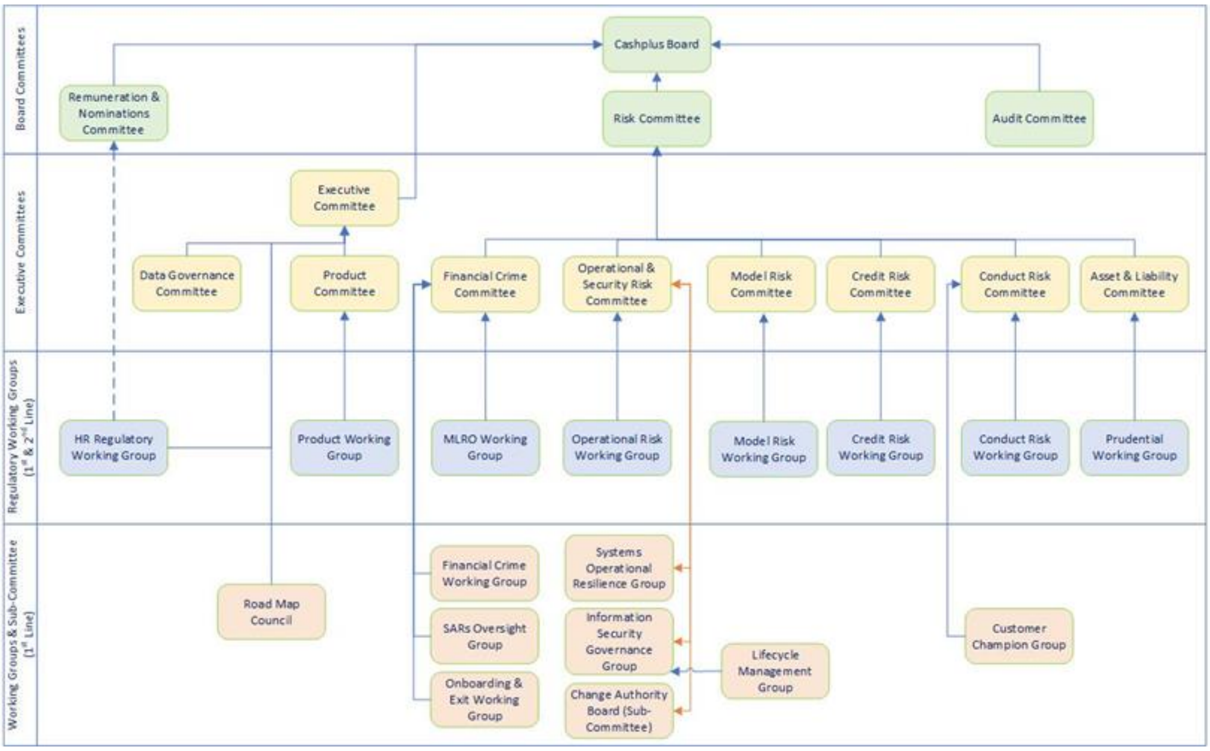
2. GOVERNANCE

Cashplus Bank has a well-established governance framework commensurate with its responsibilities under a banking regime, including the PRA's expectations of Boards, as outlined in the relevant supervisory statements and the SMCR. The Board has strong banking experience and an appropriate balance of individuals, including executive and Independent Non-Executive Directors (INEDS).

The Board assumes responsibility for strategy, as well as the overall governance structure and control framework of the Bank. The Executive Committee (ExCo) is responsible for implementing the Board's decisions. The most recent governance structure has been enhanced through the addition of a Data Governance Committee and a Road Map Council. The Data Governance Committee is responsible for defining and enforcing policies relating to the governance of data management throughout its lifecycle, focused on ensuring that the Bank has confidence in data, and reducing risks related to data. The Road Map Council facilitates the timely delivery and execution of initiatives within the Bank.

The governance framework ensures key decisions are made at the appropriate level, and that there is adequate oversight of the performance and management of the business, with reporting lines making it clear who is accountable for each area of business risk. Cashplus Bank has an experienced Executive team which has been supplemented with the recruitment of key individuals with additional plans to recruit more to strengthen the First, Second and Third Lines of Defence.

The Board have delegated powers to a series of Board committees. In turn, some of these powers have been delegated to sub and executive committees, as set out in the chart below:



3. RISK MANAGEMENT

Risk Strategy

The Cashplus Board aims to deliver the Bank's strategic and business objectives while managing identified risks through appropriate mitigation. The risk strategy is constructed to deliver a robust risk culture which ensures an effective risk management framework and maintains a responsible business. It has been designed to preserve financial and operational resilience and to ensure the business is operating safely providing confidence to customers, regulators and investors.

The Board is aware of the importance of having a sound risk culture and supports appropriate risk awareness, behaviours and judgments and ensuring individuals are well trained and informed to take risk in accordance with clear policies. Cashplus's business plans take account of a risk strategy that ensures it will grow in a structured and sustainable way.

The risk management strategy is reviewed annually by the Risk Committee, which subsequently seeks approval from the Board to ensure that it remains consistent with the Board's requirements.

The risk strategy objectives are to:

- embed risk and control into internal policies and procedures that provides consideration to risk management in all day to day activities;
- increase an understanding of risk and control across the business;
- continually develop leadership knowledge and skills for identifying, understanding and managing the business risks;
- set ownership and responsibilities so risk assessment is balanced and considers the level of risk versus reward;
- constantly improve and enhance risk and control governance to effectively deliver risk management; and
- to ensure that risk management is a key element of the corporate governance design.

Risk Management Framework

Cashplus faces a range of risks from both internal and external factors. To manage these effectively, we have developed and embedded a comprehensive Enterprise-wide Risk Management Framework (EMRF) with people and culture at its heart. This is subject to continuous improvement and is reflective of the increasing focus on strong risk management and governance.

The framework provides the tools to manage risk, organised around risk categories aligned to our governance structure: Conduct, Credit, Financial (including capital and liquidity), Financial Crime, Operational, and Governance & Strategic. These risks encapsulate all material financial and non-financial risks faced by Cashplus and are supported by sub-categories to support identification, assessment, mitigation and monitoring of specific risks. They provide a common language to be used across the business and enable us to embed our risk appetites and associated policies into day-today management activity. The framework is designed to allocate risk ownership and accountability throughout the business. Each component forms part of a larger continuum, providing a holistic view of our risk profile across all risk categories.

The Chief Risk Officer (CRO) is responsible for oversight and implementation of the framework and reports independently to the Board Risk Committee in relation to these matters, reporting directly to the CEO on a day to day basis. Our approach is based around the following principles:

Simplicity in our framework	Sustainable in times of stress	Embedded in process, mindset & behaviour
• Easy to use toolkit that makes risk management simple to understand and execute. • Provides insightful Management Information (MI) to the right people at the right time. • Risk resource aligned to business growth.	• Customer service and profitability protected even in time of severe stress. • Understanding of the external environment that we operate in. • Proactive consideration of risk and compliance in everything we do. • Adequate and proportionate resources devoted to financial risks from climate change.	• Trained colleagues who understand risk management. • Motivated, talented and empowered people take on risks intelligently and embrace the framework. • Time to manage risk and compliance is built into the job. • Collaborative and positive culture exists to support SMCR responsibilities. • Risk is 'baked in' to the strategy.

Risk Operating Model

Cashplus has adopted the industry standard three lines of defence model to articulate the accountabilities for risk management. The roles of key personnel are set out below:

Senior Management (First Line)	• Responsible for day to day management of risk within Cashplus, as per the Management Responsibilities Map and Senior Managers and Certification Regime (SMCR) • Ensures the implementation of appropriate and effective internal controls to manage the Cashplus exposure to risks • Ensures controls are evaluated and operating as intended to manage risk within appetite • Ensures appropriate resources are in place to achieve risk management objectives • Ensures that all policy documents become part of the corporate culture of Cashplus through established limits to manage quantitative risks; and through policies to manage qualitative risks.
Risk Function (Second Line)	• Responsible for the Risk and Compliance functions and reports to the CEO for day to day activities, but independently to the Board Risk Committee to ensure oversight and adherence to the risk framework • Establish the framework within which risk controls can be achieved to ensure that the inherent risks associated with Cashplus undertakings can be quantified and mitigated
Internal Audit (Third Line)	• Providing independent third line assurance and assessment of risk processes and controls across Cashplus. • The Internal Audit Director reports directly to the Chair of the Audit Committee to ensure independence, and to the CEO for day to day activities. An external firm is also used to supplement internal resource

All colleagues are responsible for adhering to all rules and regulation including Conduct Rules as well as processes and procedures which are designed to manage the risks associated with the work they perform. They are also required to alert management to any risk incidents or potential risk incidents that they become aware of in the course of their work. Colleagues should also discuss with their management any potential gaps in, or improvements to, the control framework that they identify

Risk appetite

Risk appetite is set and owned by the Board and is key in setting the parameters within which the business can operate. Qualitative and, in some cases, quantitative risk appetite statements have been developed for each of the risk categories. These set the overall tone for risk taking and influence the metrics (Board Risk Measures and Key Risk Indicators) used to measure the performance of each risk and ensure appropriate intervention when required. Risk appetite is supported by a robust set of principles, policies and procedures and is set on an annual basis. Amendments to risk appetite may be proposed proactively outside of the annual refresh cycle to ensure it remains appropriate to the current risk environment.

Risk Identification and Assessment – the Risk Register

A Risk Register is used to standardise and enhance the monitoring of the risks by the Risk and Compliance Function. The Risk and Compliance Function help the relevant SMF and Functional owners operationalise their Risk Registers through meetings and relevant training. Further, Risk and Compliance monitor the various Risk Categories through: attendance at the sub Risk Committee Groups/Committees; ExCo; the Risk Committee; and relevant thematic risk assessments. In addition, Risk and Compliance perform a second line review of the ILAAP, ICAAP and RRP.

Emerging and horizon risks are expected to be captured in the Risk Register commentary by the SMF and functional owners. In addition second line led Regulatory Working Groups support each of the executive level committees. This also brings together horizon scanning across legal, regulatory, macro economy and other such matters. The output helps inform the CRO’s reporting to the Executive Committee and the Risk Committee.

Risk governance & reporting

The Board is responsible for ensuring that Cashplus Bank operates in a principle led manner and maintains an organisational structure to provide adequate support in discharging this duty. In addition, the Board ensures that the risk management processes are aligned with the corporate strategy, and that there is regular reporting of the risk profile and the results of the risk assessment process.

The Risk Committee is responsible for the oversight and assessment of the Cashplus ERMF providing advice and guidance to ensure alignment with the approved company policies. The Risk and Compliance function is under the remit of the CRO who reports directly to the CEO on day to day basis with independent reporting to the Risk Committee, Audit Committee and Board and, occasionally, to the Remuneration & Nominations Committee, as appropriate.

Principal Risks and Uncertainties

A description of Principal Risks and Uncertainties, and the controls in place to mitigate them, have been detailed in the table below:

Risk	Description	Sub-Risks	Mitigating Action and Committee Oversight	Overarching Processes
Conduct	The risk that any products, services, behaviour, systems and/or controls may cause detriment to a customer, and negatively impact the integrity of the market.	Customer Comms Customer Servicing Product & Service Design FCA Compliance & Regulatory Affairs Vulnerable Customers	Cashplus conduct framework focuses on the fair treatment of customers as well as ensuring appropriate conduct in line with the FCA's Conduct Rules. It is managed and monitored by the Conduct Committee which meets monthly and reports to the Risk Committee. The Product Committee also assesses new products to ensure they are appropriate. It meets monthly and reports to ExCo.	Enterprise Risk Management Framework Metrics and Monitoring to Risk Committee Regulatory Working Groups Supporting Each Executive Committee
Credit	The risk associated with material financial disruption as a result of: • borrowers failing to meet obligations in accordance with agreed terms; • lending exposures grouped in such a manner that a correlated performance of the individual loans can be anticipated; • not acting in a customer's best interests, such that lending is not affordable, T&Cs are not transparent and borrowers are not supported if they experience repayment difficulties.	Credit Risk Credit Concentration Risk Responsible Lending	The credit framework focuses on ensuring appropriate and affordable lending is provided to customers. Credit is managed to a defined risk appetite and associated measures and monitored by the Credit Committee which meets monthly and reports to the Risk Committee. The framework includes use of underwriting models which are regularly reviewed, performance monitoring and key policies include the Credit Policy and Collections policies.	
Financial Crime	Financial crime is the risk of loss associated with criminal activities of customer and non-customer entities.	Money Laundering External Fraud Customer Due Diligence Financial Crime Reporting Internal Fraud	The financial crime framework focuses on minimising the loss associated with criminal activity. These risks are managed and monitored by the Financial Crime Committee, which has been recently formed and which will meet monthly and report to the Risk Committee.	
Financial	The risk associated with material financial disruption as a result of: • lack of financial control including internal daily controls, reconciliation of payment processing and regulatory returns; • the business not holding adequate capital; • inability to meet minimum liquidity requirements and payment of liabilities as they fall due, both in normal and stress conditions; • inability to raise sufficient funds; • volatility in the level of market prices and rates; • non-customer counterparties failing to meet obligations in accordance with agreed terms.	Capital Adequacy Liquidity Adequacy Funding Concentration Risk Market Risk (IRRBB) Recovery & Resolution Planning Financial Controls, Accounting & Tax PRA Compliance & Regulatory Affairs	The financial risk framework focuses on minimising financial risks and adhering to the rules of the banking regime set out by the PRA. These risks are managed and monitored by the Asset and Liability Management Committee (ALCO) which meets monthly and reports to the Risk Committee. Capital risk management is focused around the annual Internal Capital Adequacy Process (ICAAP) which sets the level of capital required to meet forward looking requirements and stress scenarios. Liquidity risk management is set out in the Internal Liquidity Adequacy Assessment process (ILAAP). Cashplus also documents its Recovery Plan (RP), which includes the Liquidity Contingency Plan (LCP), and its Solvent Wind Down Plan (SWDP) to ensure that it effectively plans for all outcomes to minimise any potential disruption to customers and all stakeholders.	

<table>
<tr><th>Risk</th><th>Description</th><th>Sub-Risks</th><th>Mitigating Action and Committee Oversight</th><th colspan="2">Overarching Processes</th></tr>
<tr><td>Operational</td><td>Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events.</td><td>Project Management
Key Supplier Mgt
Execution, Delivery & Process Management
Cyber risk & Info Security
Service Delivery and Payment Processing
Operational Resilience
Software Development & Testing
Data Protection (GDPR)
Legal Risk</td><td>Operational risks are managed by the Operational and Security Risk Committee which meets monthly and reports to the Risk Committee. Key polices are the Business Continuity and Disaster Recovery plans that set out actions in the event of material IT disruption. Cashplus employs a suite of tools, software, and controls to minimise the potential impact of malicious cyber risk attacks. Dedicated functions are in place to monitor and manage information security risk. Regular penetration testing is also undertaken to assess perimeter and internal security.</td><td rowspan="2">Enterprise Risk Management Framework Metrics and Monitoring to Risk Committee</td><td rowspan="2">Regulatory Working Groups Supporting Each Executive Committee</td></tr>
<tr><td>Governance & Strategic</td><td>The risk that Cashplus' Governance Framework, culture, resources, capability and relationships with key stakeholders do not support the delivery of its stated strategic goals.</td><td>Financial Risk from Climate Change
People & Resources
Reputational Risk
Governance & Culture
Model Risk</td><td>The Board is primarily responsible for the management of strategy and governance. It delegates some of these responsibilities to the Executive Committee which meets twice a month. Processes to manage risk in this area include the documentation of a strategic five-year plan, which occurs at least twice a year, and the execution of an annual one year budget and milestones. Monthly reporting of progress to these targets is provided by the Executive at Board meetings and in a Monthly Reporting Pack. Regulatory affairs are managed by the Risk and Compliance function with regular communication and meetings with regulators in place and reporting to the Board. Reputational risk is managed by dedicated internal resource using external agencies as appropriate. Model risk is managed to defined standards and ongoing monitoring and review. Key polices include the Management Responsibility Map and the Corporate Governance Manual.</td></tr>
</table>

Emerging Risks

In addition to the principal risks and uncertainties, we consider medium and long-term emerging risks and evolving threats that could affect our ability to meet strategic goals and objectives. External information, including emerging regulatory changes, upstream risks and macro-economic factors are monitored to support a better understanding of threats and uncertainties.

- **Macroeconomic environment**: The impact of COVID-19, compounded by ongoing global conflict is creating an economic shock of uncertain duration and magnitude. This is expected to hinder GDP growth and further increase the rate of inflation (i.e. increasing the risk of 'stagflation'); as well as creating a 'risk off' sentiment in the market. This environment increases the risk of delays in equity investment, balanced by the relatively small amount of equity sought and the Bank's diversified income stream. From a credit perspective, the affordability assessment calculation is being recalibrated to take account of the increased cost of living.

- **Economic Crime Risk:** We note increasing risks faced by our customers, generated by social engineering, which are consistent with trends across the wider industry, particularly in

Authorised Push Payment (APP) Fraud. Further, there is growing sophistication in organised money laundering rings trying to operate below detection levels. This means that continued investment, both at company and industry level, is required to address emerging Economic Crime activity. We further note political and regulatory views that consumers should not be made liable for socially engineered fraud losses; increasing previously expected firm liability for APP related losses. We are setting up an Economic Crime Unit to maximise our capabilities in this area, combining the experience of our expanded Fraud and Financial Crime teams.

- **Resourcing capability and capacity:** There are resource attrition and talent attraction headwinds compounded by a buoyant job market and HR department capacity constraints in the short term. Interest rate rise(s) conserve capital such that key hiring and tactical spending – in line with SMF consultations/agreement – can take place even in the case of a 'no investment budget' in the 2022-23 financial year.

- **Climate Change Risk.** Cashplus is a small, SME-focused bank with no secured lending portfolio and no significant concentration in high carbon-intensive industries. Nevertheless, we recognise that climate change is a key issue from a customer, employee, regulatory and reputational aspect. We monitor our exposure on an ongoing basis to consider how we can respond and adapt to longer-term changes that may expose key sensitivities or key opportunities in our business plans. Further details on our approach to climate change risk is discussed in section 10 of this report.

4. CAPITAL MANAGEMENT AND RESOURCES

Risk appetite

Our capital risk appetite seeks to ensure we maintain sufficient regulatory capital to meet minimum regulatory requirements and additional capital as required to absorb a series of extreme but plausible stress events. It is managed as follows:

- There is a zero tolerance for regulatory capital breaches
- We maintain an Overall Internal Target Capital Ratio that is the higher of our TCR plus buffers or our own internal capital assessment.
- Pillar 2A add-ons are reviewed regularly and adjusted upwards should an internal assessment identify an aggregate of risks not reflected by the minimum regulatory requirements.
- We hold a buffer on top of the Overall Internal Target Capital Ratio to ensure time to enact management actions as part of the firm's recovery planning and trigger framework.

Board-level metrics monitor key capital and leverage ratios and the large exposures limit. They are supplemented by Key Risk Indicators (KRIs) that are monitored and reviewed at ALCO and escalated if trends are moving in a significantly adverse direction.

Regulatory Capital Requirements

The regulatory capital requirements as they apply to Cashplus Bank are:

- **Pillar 1**. We adopt the Basel Standardised Approach for the calculation of our Pillar 1 Risk-weighted assets (RWAs) for credit and market risk and the Basic Indicator Approach (BIA) for the calculation of Pillar 1 operational risk RWAs (see section 5). Pillar 1 capital requirements are 8% of RWAs, of which at least 4.5% of RWAs must be met by Common Equity Tier 1 (CET1) capital, 6% of RWAs by Tier 1 (T1) capital and 8% of RWAs by Total capital.

- **Pillar 2A**. Designed to capture the risks that are not covered or are not adequately covered under Pillar 1. Our Pillar 2A requirement prescribed by the PRA is 2.64% of RWAs plus a fixed add-on of £0.5m. When added to Pillar 1 this equates to a firm-specific Total Capital Requirement (TCR) of 10.64% of RWAs plus £0.5m. At least 56.25% of the Pillar 2A requirement must be met by CET1 capital and at least 75% by T1 capital.

- **Capital Buffers**. We hold the prevailing industry-wide Capital Conservation Buffer (CCB) and Counter-cyclical Buffer (CCyB). As at 31 March 2022 the CCB was 2.5% of RWAs and the CCyB was 0% of RWAs. The CCyB will rise to 1% in December 2022, with further rises possible in 2023 towards its 2% target level in a normal environment. We are not classified as a systemically important bank and are not required to hold any systemic buffers. The PRA can also apply a firm-specific PRA buffer which is set on a confidential basis. All capital buffers must be met by CET1 capital.

Pillar 1 Risk-weighted Assets (RWAs)

Pillar 1 requirements set out the rules used to determine the minimum capital requirement for credit, Market and operational risk. Our Pillar 1 RWAs and minimum capital requirements are set out in the table below. It aligns with template OV1 as set out in the Disclosure (CRR) part of the PRA rulebook, with any blank cells removed.

Table 1: Overview of Risk Weighted Exposure Amounts (OV1)

		Risk Weighted Assets		Capital requirement	
		31 Mar 21 £'000	31 Mar 22 £'000	31 Mar 21 £'000	31 Mar 22 £'000
1	Credit risk	36,792	36,075	2,943	2,886
2	of which the standardised approach	36,792	36,075	2,943	2,886
20	Market Risk	765	353	61	28
21	of which the standardised approach	765	353	61	28
23	Operational Risk	71,444	72,554	5,716	5,804
23a	of which the basic indicator approach	71,444	72,554	5,716	5,804
29	**Total Risk-weighted Assets**	**109,001**	**108,982**	**8,720**	**8,718**

Available Capital

Our CET1 capital ratio was 14.34% as at 31 March 2022 and our Total Capital ratio (including eligible Tier 2 capital) was 16.38%. We do not hold any Additional Tier 1 (AT1) capital.

Table 2: Capital Ratios

	31 March 2021	31 March 2022
CET1 ratio	16.46%	14.34%
T1 ratio	16.46%	14.34%
Total capital ratio	19.05%	16.38%

CET1 capital is the strongest form of capital, consisting of ordinary share capital, associated share premiums and allowable reserves, subject to appropriate regulatory deductions. Our available CET1 capital is stated after adjustments for the IFRS9 transitional arrangements. Tier 2 capital consists of subordinated debt instruments that are amortised over their lifetime.

Table 3: Available Capital by Type

	31 March 2021 £'000	31 March 2022 £'000
Common Equity Tier 1		
Paid up share capital	9	9
Share premium	41,060	43,321
Other reserves	1,673	2,349
Retained losses	(24,851)	(28,411)
Total equity per balance sheet	**17,891**	**17,268**
Regulatory capital adjustments		
Intangible assets	(1,753)	(3,728)
IFRS 9 transitional adjustments	2,529	2,529
Deferred tax assets	(725)	(410)
Additional coverage for non-performing exposures	-	(30)
Common Equity Tier 1	**17,942**	**15,628**
Tier 2 capital		
Issued Tier 2 capital instruments	2,827	2,228
Total Tier 2 capital	**2,827**	**2,228**
Total own funds	**20,769**	**17,856**

Minimum Requirements for Eligible Liabilities (MREL)

MREL is set annually by the Bank of England on a case-by-case basis. In line with its preferred resolution strategy for Cashplus, the Bank of England does not currently require any additional MREL to be held by the bank over and above its minimum Pillar 1 and Pillar 2A requirements.

Leverage Ratio

Our Tier 1 Leverage ratio is our T1 capital resources expressed as a proportion of total exposure. As at 31 March 2022 our T1 leverage ratio under the UK definition was 8.81%

Table 4: Summary reconciliation of accounting assets and leverage ratio exposures (LR1)

		31 March 2021 £'000	31 March 2022 £'000
1	Total assets per published financial statements	496,103	494,757
4	Adjustment for exemption of exposures to central banks	-	(318,094)
10	Adjustments for off balance sheet items	2,000	2,395
12	Other adjustments	3,079	(1,639)
13	**Leverage Ratio total exposure amount**	**501,182**	**177,419**

Table 5: Leverage ratio common disclosure (LR2)

		31 March 2021 £'000	31 March 2022 £'000
On-balance sheet exposures			
1	Total assets per published financial statements	496,103	494,757
6	Asset amounts deducted in determining Tier 1 capital	3,079	(1,639)
7	**Total on-balance sheet exposures**	**499,182**	**493,118**
Off balance sheet items			
19	Off-balance sheet exposures at gross nominal amount	20,004	23,947
20	Adjustments for conversion to credit equivalent amounts	(18,004)	(21,552)
22	**Total off-balance sheet exposures**	**2,000**	**2,395**
Capital Ratios and Buffers			
23	Tier 1 capital	17,942	15,628
24	Total exposure measure including claims on central banks	501,182	495,513
24a	Claims on central banks excluded	-	(318,094)
24b	Total exposure measure excluding claims on central banks	501,182	177,419
25	Leverage ratio excluding claims on central banks	3.58%	8.81%
25a	IFRS9 Fully loaded leverage ratio exc. claims on central banks	3.08%	7.49%
25c	Leverage Ratio including claims on central banks	3.58%	3.15%

Table 6: Split of on-balance sheet exposures (LR3)

		31 March 2021 £'000	31 March 2022 £'000
1	Total on-balance sheet exposures	499,182	494,757
3	Banking book exposures, of which:	499,182	494,757
5	Exposures treated as sovereigns	431,483	443,290
7	Institutions	32,675	10,216
9	Retail exposures	14,388	18,962
11	Exposures in default	2,569	2,737
12	Other exposures	18,066	19,552

IFRS9 transitional arrangements

IFRS9 transitional arrangements were agreed within the CRR to allow firms to phase-in the Day 1 capital impact of the change from IAS39 to IFRS9 over a five year period. Cashplus applies the transitional arrangements in line with Article 473a (6a) of the UK CRR.

Table 7: IFRS9 transitional arrangements

		31 March 2021 £'000	31 March 2022 £'000
Available Capital (amounts)			
1	Common Equity Tier 1 (CET1) capital	17,942	15,628
2	CET1 capital without IFRS9 transitional arrangements	15,413	13,099
3	Tier 1 capital	17,942	15,628
4	Tier 1 capital without IFRS9 transitional arrangements	15,413	13,099
5	Total capital	20,770	17,856
6	Total capital without IFRS9 transitional arrangements	18,241	15,327
Risk-weighted assets (amounts)			
7	Total Risk-weighted assets (RWAs)	109,002	108,982
8	Total RWAs without IFRS9 transitional arrangements	106,473	106,453
Capital Ratios			
9	CET1 ratio (as a % of risk exposure amount)	16.46%	14.34%
10	CET1 ratio without IFRS9 transitional arrangements	14.48%	12.31%
11	Tier 1 ratio (as a % of risk exposure amount)	16.46%	14.34%
12	Tier 1 ratio without IFRS9 transitional arrangements	14.48%	12.31%
13	Total capital ratio (as a % of risk exposure amount)	19.05%	16.38%
14	Total capital without IFRS9 transitional arrangements	17.13%	14.40%
Leverage Ratio			
15	Leverage ratio total exposure	501,182	177,419
16	Leverage ratio	3.58%	8.81%
17	Leverage ratio without IFRS9 transitional arrangements	3.08%	7.49%

5. LIQUIDITY AND FUNDING

Liquidity Risk

Liquidity risk is the risk that the Bank is unable to meet its obligations as they fall due or can only do so at an excessive cost. It is assessed in relation to potential losses arising from the liquidation of assets and increases in the cost of funding during periods of stress.

Our risk appetite for liquidity risk is low and we hold sufficient liquid assets to cover liquidity needs under normal and stressed conditions. This is articulated through the following:

- Our internal risk appetite is to survive up to a minimum period of 90 days under extreme but plausible stressed conditions
- Maintain a Net Stable Funding Ratio (NSFR) at a level of at least 150%

The risk appetite is reviewed by ALCO and RiskCo and approved by the Board as part of the annual review and approval of the Internal Liquidity Adequacy Assessment Process (ILAAP). Adherence to the risk appetite is monitored daily by the Finance department. As part of the risk appetite monitoring and reporting, key metrics are in place to help identify any adverse movements at an early stage and take necessary actions before the risk appetite limits are breached.

We currently have a strong liquidity position with a customer deposit base that is significantly higher than our current lending portfolio. As at 31 March 2022, our Liquidity Coverage Ratio was 980%.

Table 8: Liquidity Coverage Ratio

	31 March 2021 £'000	31 March 2022 £'000s
High quality liquid assets	430,883	443,570
Cash outflows	53,833	57,316
Cash inflows	33,319	12,041
Net cash outflows	20,514	45,275
Liquidity coverage ratio	**2100%**	**980%**

Our assets our primarily High-Quality Liquid Assets (HQLA), for which we adopt a conservative approach focused on UK gilts or cash held in the Bank of England reserve account. We assess our exposure to liquidity stresses through our annual ILAAP that concluded that our liquidity position is sufficient to withstand extreme but plausible liquidity stress events.

Funding Risk

Funding risk is the risk that the Bank does not have access to stable sources of funding to enable it to meet its financial obligations as they fall due. Funding concentration risk arises where funding is primarily from a single source and Cashplus is unable to raise sufficient funds.

Our funding is primarily sourced from customer deposits. We regularly analyse transactional usage in our customer deposit accounts to understand the stickiness of these accounts and review our strategic product offering at least annually. We also apply limits across our deposit portfolio to ensure we identify and manage any exposure to geographic, sector or single-name concentrations.

As at 31 March 2022, our Net Stable Funding Ratio was 1143%.

Table 9: Net Stable Funding Ratio

	31 March 2021 £'000	31 March 2022 £'000s
Available Stable Funding	444,391	435,465
Required Stable Funding	40,413	38,105
Net Stable Funding Ratio	**1100%**	**1143%**

6. CREDIT RISK

Credit risk is defined as the potential risk that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. We are willing to accept a moderate level of credit risk subject to associated pricing commensurate with our target markets, maintaining effective measurement and controls and ensuring that credit is being provided and used on a responsible basis and in accordance with applicable regulatory and legal obligations and standards.

Credit Risk Management

Our credit framework focuses on ensuring that appropriate and affordable lending is provided to customers. Credit is managed to a defined risk appetite and associated measures and monitored by the Credit Committee which meets monthly and reports to the Board Risk Committee. The framework includes the use of underwriting models which are regularly reviewed, performance monitoring and key policies including the Credit Policy and Collections policies.

Credit Risk RWAs

Cashplus adopts the Basel Standardised Approach to determine its Pillar 1 credit RWAs, applying the risk weights set out in Chapter 2, Section 2 of the CRR. Standardised risk weights are applied by type of asset class to each net exposure (gross exposure minus provisions and undrawn elements).

In calculating Pillar 1 credit RWAs, the following approach is used:

- The treatment of exposure to natural person or persons, or to small or medium-sized enterprises (SME) complies with the criteria listed in CRR Article 123.
- Eligibility of SMEs for application of the scaling factor is assessed against CRR Article 501.
- The treatment of exposure to rated institutions with a residual maturity of more than three months complies with the criteria for exposure to CQS1 institutions in CRR Article 120. For Cashplus Bank, this is with BBB or A rated banking institutions.
- In line with CRR article 166 annex 1 undrawn credit commitments, which can be withdrawn unconditionally, receive a 0% weighting as a low-risk item.

Further information on our credit risk exposures and provisioning is detailed in note 28 to the 2021/22 Annual Report & Accounts.

7. MARKET RISK

Market risk is defined as the potential for changes in the market value of a firm's trading and investment positions. We do not operate a Trading Book and our Banking Book operates primarily in the UK and in £ sterling. However, we do have some small-scale Foreign Exchange exposures against which we hold a small amount of Pillar 1 capital (see section 4). We do not hold any LIBOR linked products and are not materially impacted by other market risks such as currency exchange.

Interest Rate Risk in the Banking Book (IRRBB)

IRRBB is the risk of losses arising from volatility in interest rates associated with the mismatch between assets and liabilities in the banking book. These losses can arise from financial assets or liabilities being adversely affected by the movement in market prices, interest rates or exchange rates. It can be reflected in near term earnings or in the longer term capital because of changes in the economic value of future cashflows.

IRRBB is a material risk for the bank, with an exposure in our lending book and the assets held for liquidity purposes, against deposit liabilities. We have a policy to manage this risk within set parameters using a combination of repricing of liabilities, hedging instruments, and managing maturity mismatches using Gilts at fixed rates. We measure and assess interest rate risk primarily through variances on two methods, the economic value of equity (EVE) and net interest income (NII), against a range of different interest rate shock scenarios, in line with the guidance set out in the ICAAP part of the PRA rulebook. None of these scenarios would result in a decline in EVE of more than 15% of our Tier 1 capital.

Our Treasury Management function calculates and reviews our IRRBB exposure daily, monitoring movements and trends as the business grows and ensuring that we remain within risk appetite through hedging of net-liability maturity mismatches. The IRRRBB policy and calculation methodology is reviewed annually or when there is a significant change in business strategy or balance sheet composition.

8. OPERATIONAL RISK

Operational Risk is defined as the risk of loss resulting from failed or inadequate internal processes, people and systems or external events. Our risk appetite seeks to optimise Operational Risk to ensure an appropriate balance between customer outcomes, financial sustainability and operational stability in line with our strategic objectives.

Operational Risk Management

Operational risks are managed by the Operational and Security Risk Committee which meets monthly and reports to the Risk Committee. Key polices are the Business Continuity and Disaster Recovery plans that set out actions in the event of material IT disruption. Cashplus employs a suite of tools, software and controls to minimise the potential impact of malicious cyber risk attacks. Dedicated functions are in place to monitor and manage information security risk. Regular penetration testing is also undertaken to assess perimeter and internal security.

Operational Risk RWAs

Cashplus adopts the Basel Basic Indicator Approach (BIA) to determine its Pillar 1 operational risk RWAs. This is based on 15% of the average relevant income over the previous three years.

Table 10: Operational risk own funds requirements and risk-weighted exposure amounts (OR1)

	Relevant Indicator (£’000)			Pillar 1 Capital	RWAs
	19/20	20/21	21/22	£'000	£’000s
Banking activities subject to Basic Indicator Approach (BIA)	43,125	33,000	39,962	5,804	72,554

9. REMUNERATION

Approach to remuneration

Our remuneration strategy is designed to reward competitively the achievement by our people of long-term sustainable performance while performing their role in support of the long-term interests of our customers, shareholders, colleagues and other key stakeholders. It aims to attract, motivate and retain the best people, regardless of gender, ethnicity, age, disability or any other factor unrelated to performance or experience within the Company.

Our approach to remuneration is applied consistently for all colleagues at all levels in the organisation and is designed to be inclusive for all. It is acknowledged that remuneration and reward can influence behaviours and we wish to ensure that this supports the right behaviours from our colleagues. The focus is on simplicity, rewarding the behaviours which produce the right outcomes for customers and the business, focusing on long term sustainable growth, while ensuring that a risk based approach and good conduct remain core to our remuneration policy and practices.

Remuneration Framework

Under our remuneration framework, remuneration decisions are made based on a combination of:

1. Business results, including performance against strategic objectives and metrics from our Enterprise Risk Management Framework.
2. Performance against company strategic objectives as set out in a personal performance scorecards.
3. Adherence to the company values, business principles, risk-related policies and procedures and global standards of the banking and financial services industry.

To achieve this objective, we believe that effective governance of our remuneration practices is a key requirement. The design and implementation of remuneration policies are overseen by the Remuneration and Nomination Committee to ensure what we pay our people is aligned to our business performance and strategy. Performance is judged not only on what is achieved over the period but more importantly on how it is achieved. Our remuneration policy is also set in the context of the regulations set out in the Remuneration Code issued by the FCA.

Total compensation (fixed pay and variable pay) is the key focus of our remuneration framework, with variable pay (bonus and our Long Term Incentive Plan, "LTIP") differentiated by performance and adherence to the Company behaviours and values. This approach ensures that all are remunerated broadly in a consistent structure that apply across the wider colleague population.

Our annual budget for salary increases and our annual variable remuneration budget are determined by company performance and affordability. This will also be informed by external benchmark data to inform the Remuneration and Nomination Committee about competitiveness. During the year, the Remuneration and Nomination Committee will also receive updates on overall pay and conditions for colleagues across the Company, ahead of the annual reward review process.

Governance

The Remuneration and Nomination Committee oversees the reward policy and its application to the businesses and functional areas. All members of the committee are Independent Non-Executive Directors of the Company. The Committee is responsible for:

- Reviewing and approving the principles, parameters and governance framework of the company's remuneration framework applicable to all employees.
- Setting the Remuneration Policy and remuneration for non-executive and executive directors and approving the remuneration for Senior Managers and other identified Material Risk Takers.
- Reviewing and satisfying itself that the remuneration structure is in accordance with prevailing regulatory requirements.

The Chief Risk Officer provides input to inform the Committee of risk-related issues across the company so they are considered in applying the remuneration framework and making remuneration decisions. The Internal Audit Director will also provide input on issues that are material that have been raised via the Audit Committee, including communication of relevant internal audit findings on remuneration matters and the timeliness of clearing outstanding audit matters.

Fixed Remuneration

We seek to attract and retain employees by paying market competitive pay for the role, skills, experience, and qualifications required for the business. This may include salary, fixed pay allowance, cash in lieu of pension and other cash allowances in accordance with market practices and contractually agreed. These payments are fixed and do not vary with performance. When reviewing adjustments of base salary levels for roles, we consider a range of factors, including company performance across a balanced set of KPI measures; individual behaviours and delivery; relevant external market data and economic factors; and an individual's skills, expertise and experience and ability to grow with the role and organisation.

Variable remuneration

The purpose of the Annual Bonus is to recognise and reward performance. It is focussed on the delivery of financial and strategic objectives of the Company, coupled with individual behaviours and performance which contribute towards the delivery of our longer term Vision and Purpose of the company. Eligibility for the annual bonus across the workforce (including Executives) is determined by an assessment of both a corporate scorecard and performance against personal objectives.

Bonuses are entirely discretionary, and payment of any bonuses may be determined by the achievement of minimum levels of Company performance against budgeted/plan levels. The annual bonus is a company-wide scheme but is designed to reward high performance and appropriate behaviours within the employees of the company. This is to ensure any annual bonus is not deemed by any colleague as a form of entitlement. Bonus awards are in the form of cash. A portion (up to 40%) of the annual incentive award may be deferred and/or vests over a period of two years. Bonus awards granted to colleagues identified as SMFs and or voting members of the Executive Committee may be subject to malus and clawback. This is covered in individual contracts of employment.

Long-term incentive payments (LTIPs)

The purpose of the LTIP is to incentivise sustainable long-term performance using both pre- and post-grant performance measures. The LTIP exists to deliver consistent year on year improvements to performance. Colleagues who have a long-term vested interest in the success and performance of the company will be more motivated.

Any LTIP awards are subject to malus and clawback and the Company has the discretion to assess the extent to which performance has been achieved. Awards are currently in the form of share options but can in the future be given in cash over a defined vesting schedule of no less than 3 years. All LTIP awards are subject to a retention period of up to one-year after vesting.

Remuneration for Material Risk Takers

Material Risk Takers (MRTs) are defined as individuals whose professional activities can have a material impact on the bank's risk profile. Remuneration for MRTs in financial year 2021/22 is set out in the table below.

Table 11: Remuneration awarded for the financial year 2021/22 (REM1)

	Senior Management £'000	Other MRTs £'000	Total £'000s
Number of identified staff	**6**	**14**	**20**
Fixed Remuneration			
Cash-based	1,277	1,840	3,117
Total Fixed Remuneration	**1,277**	**1,840**	**3,117**
Variable Remuneration			
Share-linked instruments	10	25	35
Total Variable Remuneration	**10**	**25**	**35**

10. FINANCIAL RISKS FROM CLIMATE CHANGE

Financial risks from climate change arise through two primary channels:

- Physical risks arise from several factors and relate to specific weather events and longer-term shifts in the climate.
- Transitional risks arise from the process of adjustment towards a low or net-zero carbon economy. A range of factors influence this adjustment including policy and regulation, the emergence of disruptive technology or business models, shifting societal preferences, and evolving legal frameworks.

Cashplus is a small, SME-focused bank with no secured lending portfolio and no significant concentration in high carbon-intensive industries. Nevertheless, we recognise that climate change is a key issue from a customer, employee, regulatory and reputational aspect. We monitor our exposure on an ongoing basis to consider how we can respond and adapt to longer-term changes that may expose key sensitivities or key opportunities in our business plans.

Strategy and Risk appetite

Cashplus will play its part in supporting the UK's transition to a 'net zero' economy. We will ensure that adequate and proportionate resources are devoted to identifying and managing the financial risks from climate change within our business model. The financial risk of climate change will be incorporated in our Environmental, Social and Governance (ESG) strategy as a key area of focus. It will be driven by a Climate Change Working Group, with regular reports to the Board on proposed initiatives (identifying opportunities as well as mitigating risks). The ESG strategy will also consider how our approach can be incorporated into the bank's vision and values and the 'tone from the top'.

Governance

A specific risk register for climate change risks has been added to our ERMF, with the Chief Risk Officer holding responsibility for the development and regular reporting of the register to ExCo and the Board. The register reports on the embedding of controls and includes initial qualitative measures to monitor progress. These will be supplemented by further quantitative metrics over time as they are developed. We will include a consideration of climate change risks as part of its change management governance, covering any new products, marketing to new customer segments and new geographic expansion.

Resilience and Scenario Assessments

The risks from climate change form part of threat assessments to our resilience and the setting of tolerances. As this is further enhanced, it is likely to be a key part of the business case and or risk assessment for strategic changes. ExCo and Board have also undertaken a joint qualitative workshop on different future transitional paths. This session identified key issues arising from a range of scenarios to 2050 as set out by the Network for Greening the Financial System (NGFS).

APPENDIX 1 – KEY METRICS

The following table shows key metrics in the format prescribed by the Disclosure (CRR) part of the PRA rulebook. Any blank cells in the template have been removed.

Table 12: Key Metrics (KM1)

		31 Mar 21	31 Mar 22
Available Own Funds		**£'000**	**£'000**
1	Common Equity Tier 1 capital	17,942	15,628
2	Tier 1 Capital	17,942	15,628
3	Total Capital	20,770	17,856
Risk Weighted Assets (RWAs)			
4	Total Risk Weighted Assets	109,002	108,982
Capital ratios (as a % of RWAs)			
5	Common Equity Tier 1 ratio	16.46%	14.34%
6	Tier 1 ratio	16.46%	14.34%
7	Total capital ratio	19.05%	16.38%
Additional own funds requirements based on SREP (% of RWAs)			
7a	Additional CET1 SREP requirements	1.74%	1.74%
7b	Additional AT1 SREP requirements	0.58%	0.58%
7c	Additional T2 SREP requirements	0.78%	0.78%
7d	Total SREP own funds requirements	11.10%	11.10%
Combined buffer requirement (% of RWAs)			
8	Capital conservation buffer	2.50%	2.50%
9	Institution specific countercyclical capital buffer	0.00%	0.00%
11	Combined buffer requirement	2.50%	2.50%
11a	Overall capital requirements	13.60%	13.59%
12	CET1 available after meeting overall capital requirements	2.86%	0.75%
Leverage ratio			
13	Leverage ratio total exposure measure	501,182	177,419
14	Leverage ratio	3.58%	8.81%
Liquidity Coverage Ratio			
15	Total high-quality liquid assets (HQLA)	430,883	443,570
16a	Cash outflows	53,833	57,316
16b	Cash inflows	33,326	12,041
16	Total net cash outflows	20,514	45,275
17	Liquidity coverage ratio (%)	2100%	980%
Net Stable Funding Ratio			
18	Total available stable funding	444,391	435,465
19	Total required stable funding	40,413	38,105
20	NSFR ratio (%)	1100%	1143%

APPENDIX 2 – COMPOSITION OF REGULATORY OWN FUNDS

The following table shows the composition of own funds for the Bank in the format prescribed by the Disclosure (CRR) part of the PRA rulebook. Any blank cells in the template have been removed.

Table 13: Composition of regulatory own funds (CC1)

		31 Mar 21	31 Mar 22
Common Equity Tier 1 capital: instruments and reserves		**£'000**	**£'000**
1	Capital instruments and related share premium	41,068	43,330
2	Retained Earnings	(24,851)	(28,411)
3	Accumulated other comprehensive income (and other reserves)	1,673	2,349
6	**Common Equity Tier 1 before regulatory adjustments**	**17,891**	**17,268**
Common Equity Tier 1 capital: regulatory adjustments			
8	Intangible assets	(1,753)	(3,728)
10	Deferred tax assets	(725)	(410)
27a	Other adjustments	2,529	2,498
28	**Total Regulatory adjustments to CET1**	**51**	**(1,640)**
29	**Common Equity Tier 1**	**17,942**	**15,628**
45	**Tier 1 capital**	**17,942**	**15,628**
Tier 2 capital and provisions			
46	Tier 2 capital instruments and related share premium	2,827	2,228
51	**Tier 2 capital before regulatory adjustments**	**2,827**	**2,228**
58	**Tier 2 capital**	**2,827**	**2,228**
59	**Total Capital**	**20,770**	**17,856**
60	**Total Risk-weighted assets**	**109,002**	**108,982**
Capital Ratios and Buffers			
61	Common Equity Tier 1 (as a % of total risk exposure amount)	16.46%	14.34%
62	Tier 1 (as a % of total risk exposure amount)	16.46%	14.34%
63	Total capital (as a % of total risk exposure amount)	19.05%	16.38%
64	Institution CET1 overall capital requirement	9.30%	9.30%
65	Of which: capital conservation buffer requirement	2.50%	2.50%
66	Of which: counter-cyclical buffer requirement	0.00%	0.00%
68	Common Equity Tier 1 available to meet buffers	10.22%	8.10%
Amounts below the threshold for deduction (before risk weighting)			
75	Deferred tax assets arising from temporary differences	275	590
Applicable caps on the inclusion of provisions in Tier 2			
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	460	451

APPENDIX 3 – RECONCILIATION OF REGULATORY OWN FUNDS TO BALANCE SHEET

The following table shows the reconciliation of own funds to balance sheet for the Bank in the format prescribed by the Disclosure (CRR) part of the PRA rulebook. Any blank cells in the template have been removed.

Table 14: Reconciliation of regulatory own funds to balance sheet (CC2)

		31 Mar 2021	31 Mar 2022	
Assets		**£'000**	**£'000**	
1	Cash and balances at other banks	29,785	325,327	
2	Investment Securities	430,883	125,196	
3	Loans and Advances to Customers	16,802	21,474	
4	Other assets	15,353	15,028	
5	Deferred Tax Assets that rely on future profitability	725	410	CC1 (10)
6	Deferred Tax Assets arising from temporary differences	275	590	CC1 (75)
7	Plant, property and equipment	527	4,141	
8	Intangible Assets	1,753	2,591	
	Total Assets	**496,103**	**494,757**	
Liabilities				
1	Customer deposits	460,162	453,965	
2	Provisions for Liabilities and Charges	755	-	
3	Tier 2 debt	2,827	2,228	CC1 (46)
4	Tier 2 debt amortisation	173	772	
5	Loan Stock	18	-	
6	Other Liabilities and Accruals	14,125	16,364	
7	Deferred Income	152	4,160	
	Total Liabilities	**478,212**	**477,489**	
Shareholder's Equity				
1	Share Capital	9	9	CC1 (1)
2	Share Premium	41,060	43,321	CC1 (1)
3	Other Reserves	1,673	2,349	CC1 (3)
4	Retained Earnings	(24,851)	(28,411)	CC1 (2)
	Total Shareholder's Equity	**17,891**	**17,268**	