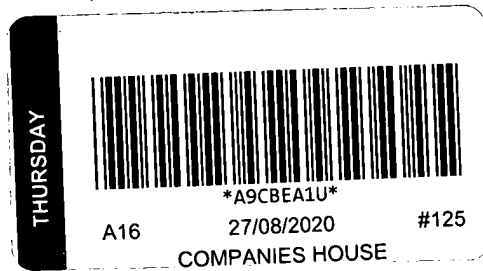




Annual Report and Accounts for the year ended 30 April 2020



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FOR THE YEAR ENDED 30 APRIL 2020

Non- Executive Directors

Michael Baker

Andrew Bloom (appointed 1 May 2020)

Annie Günther

Elena Lieskovska

Ashley Machin

Natalie Gammon (appointed 7 June 2019)

Simon Glass (appointed 29 July 2020)

Malcolm McCaig (appointed 29 April 2020)

Peter Harrison (resigned 25 January 2020)

Executive Directors

Leigh Bartlett (appointed as Chief Executive Officer 1 May 2020 and as an Executive Director 7 July 2020)

Jon Hall (Chief Commercial Officer & Deputy CEO)

Andrew Bloom (Chief Executive Officer resigned 30 April 2020)

Secretary and Registered Office

Claire Morris

90 Long Acre

London

WC2E 9RA

Independent Auditor

KPMG LLP

15 Canada Square

London

E14 5GL

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Strategic Report

Chairman's Overview

I am delighted to present the Annual Report & Accounts for Masthaven Bank ("the Bank" or "Masthaven") for the year ended 30 April 2020, which encompasses the fourth year of trading for the Bank following its launch in November 2016.

Masthaven is an award-winning UK lending and savings bank with a focus on secured residential property lending and digital retail savings products. We apply our specialist lending knowledge to the needs of quality, under-served borrowers and their intermediaries, enabling us to give excellent and responsive customer service, combined with technology for speed and accessibility. Masthaven's focus for its savings customers is to build trust by offering a first-class service, ease of access and consistently good rates. The whole ethos of the Bank is designed to treat customers fairly and make sure that it delivers what it promises.

Based in Central London, the Bank offers an extensive range of lending and savings products. During the year, the Bank continued to leverage its knowledge of specialist lending markets and grew its presence in the first and second charge market. The Bank originated £0.8 billion (2019: £1.2 billion) of lending applications in the year to April 2020. At year-end the Bank had 4,341 mortgage customers. In addition, the Bank's digital savings offerings continued to grow and expand including, for example, with SME customers. The Bank had 19,228 savings customers at the year-end.

The Chief Executive's Report and Directors' Report will provide further detail on the trading performance of Masthaven. As a Board, we manage the Bank against a balanced set of measures which considers a range of performance criteria including customer, colleague, control and commercial growth. Against each of these measures I am pleased by the development of the Bank during the year, including continued growth in customer numbers, our high customer Net Promoter Score and the excellent engagement of our staff.

From a governance perspective, the Board has continued to focus on ensuring that the Bank's governance and risk management practices, capital strength and infrastructure ensure the safety and sustainability of the Bank and meet the standards of our regulators. These are covered in detail in the Risk Management and Governance section. However, I recognise that we must always challenge ourselves to continue to improve our governance capability and, with that in mind, the Board has split the Board Risk, Audit and Compliance Committee ("RACC") into the Board Risk and Conduct Committee ("BRCC") and Board Audit Committee ("BAC") focussed specifically on Risk and Audit matters. The Bank will be appointing separate Chairs for each of these committees.

As previously reported, in April 2019 the Bank received a significant cash injection, in the form of an equity investment, by Varde Partners Inc ('Varde'). This demonstrated confidence in the Bank's future and helps to enable the delivery of the Bank's growth agenda.

Prior to leaving the Board in January 2020, Peter Harrison stood down as Chairman in September 2019, at which point I took on the role of Interim Chairman, having been a non-Executive Director since 2016. It is vitally important that the Bank's Board has the right balance of skills and experience to meet the opportunities ahead. I am therefore very pleased to report the appointment of Malcolm McCaig as a non-Executive Director in April 2020. Malcolm brings with him a wealth of experience in risk management and corporate governance and will further strengthen the Bank's focus on maintaining a leading control environment - for the benefit of the Bank and its customers. The intention, subject to regulatory approval, is for Malcolm to Chair the Board Risk and Conduct Committee. As previously reported, Natalie Gammon joined the Board as a non-Executive Director in June 2019. In addition to these appointments, since the financial year end, I'm very pleased to report that Simon Glass has also joined the Board as a Non-Executive Director in July. The intention is for Simon to Chair our Board Audit

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Committee once approved by our regulators, ensuring we maintain appropriate independence and oversight of the Bank's financial systems and controls. Also in July, Leigh Bartlett joined the Board as an Executive Director.

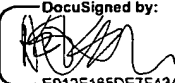
There continues to be investment in the senior management team. In particular, Leigh Bartlett has been promoted from the role of Chief Financial Officer ("CFO") to Chief Executive Officer ("CEO") and Andrew Bloom transitioned from his role as CEO to become a non-Executive Director for the Bank. In addition, Kerry Tremble joined the Bank in May 2020 as Interim CFO and Wahid Ali joined the Bank as Chief Risk Officer ("CRO") in May 2019.

The COVID 19 pandemic has presented significant challenges to which the business has responded very well. In line with government and FCA guidelines, we have supported our customers during these difficult times with payment holidays and personalised support, to which our lending processes are well-suited. In addition, the Bank demonstrated good operational resilience in ensuring our employees were able to work effectively from home and still provide our customers with the service they expect.

The Bank has closely tracked the COVID 19 pandemic and, given the inherent material uncertainty and the evolving economic and political situation, a cautious but pragmatic approach has been adopted. Consideration is actively being given to the potential risks associated with economic and political developments, as they develop. We continue to focus on how savers and borrowers might be affected, and the consequent adjustments to our business model that this might require, and the financial impacts that these may entail.

In summary, the Board continues to work hard to ensure that Masthaven maintains its focus on building its capability for the long-term, to make the most of the significant opportunities available in the UK market.

Finally, I would like to thank all our people who have worked tirelessly during the year to deliver for Masthaven, and our customers, particularly in the context of the extreme challenges posed for us all by COVID 19. Their hard work, commitment, customer focus and professionalism have delivered sound results and they can be proud of what has been achieved so far.

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Ashley Machin

Chairman

7 August 2020

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FOR THE YEAR ENDED 30 APRIL 2020

Chief Executive's Report

I am pleased to report the continued growth of the business, supporting our vision to be one of the preferred specialist secured lenders in the residential prime market that is currently underserved by the banking community. Underpinning our plans has been significant investment in our management and control infrastructure as we move into our next phase of expansion. Strong governance, risk management and customer care are at the heart of everything that we do, as we deliver high quality, tailored products from an efficient and controlled business environment. This has been complemented by the introduction of a new performance scorecard that provides an effective balanced outcome incorporating our new six strategic pillars of: Enhancing Customer Outcomes; Optimising Product Proposition; Improving Operational Efficiency; Developing People and Inclusion; Managing Risk and Controls; and Delivering Sustainable Value.


Following the significant investment in the business by Varde Partners, the investments in our infrastructure have stood us in good stead in responding to the COVID 19 pandemic and the need to help customers through this difficult period. Where customers have requested payment holidays, we have focused on being supportive and have set up dedicated teams to assist those customers facing short-term financial issues caused by the lockdown. In many cases, customers will recover to pre-lockdown levels of financial stability, but where we have seen indications of longer-term financial distress, we have provided appropriately for this. Whilst lending has been impacted in the short-term, our personalised approach to customer management has enabled continued growth in key segments such as bridging finance. As we emerge from lockdown, we have seen a strong pickup in demand across our core product lines and look to the future with confidence.

Since the creation of Masthaven Bank we have been committed to meeting the individual needs of customers in our chosen lending and savings markets. This eschews the one-size-fits-all approach by giving customers a banking service they value, recognising that a modern bank needs to embrace the diversity of both the customers it serves and the people that work in the business. It's this very individual approach that means that Masthaven is very proud to have its own staff as the face of the Bank in its external communications and in portraying the message 'Masthaven is the bank putting the personal back into finance'. We strongly believe banking is about more than just money. It's about living up to your promises, understanding people's needs and challenges, and bringing a personalised approach to helping them achieve their financial ambitions. Whilst we embrace technology, one of the founding tenets of our philosophy is people; we like to treat people as individuals – both our customers and our staff – choosing to see the human being behind applications.

Today "different" most definitely doesn't mean "risky"; different just means human. All of us at Masthaven continue to be excited by the opportunity to redefine modern banking for our lending customers, their intermediaries and our savings customers.

The Bank has delivered a solid performance in the year to April 2020 and has come a long way in a relatively short space of time. The team have continued to build a highly recommended business across the range of lending and savings solutions for both retail and SME customers and I am delighted that during the year to the end of April we grew our numbers of customers to 23,569. (April 2019: 21,122). However, there remains much for us to work on. For instance, the Bank has yet to achieve annual profitability and has a high cost to income ratio which reflects the Bank's strategy of investing ahead of growth. With the uncertain macro-economic environment created by COVID 19, in the short-term, coupled with Brexit, the Bank will need to be measured by its growth in the coming year. However, by making the Bank fit for the long-term, I feel the Bank will be best positioned for the opportunities that will arise in the future.

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Leigh Bartlett
CEO

7 August 2020

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FOR THE YEAR ENDED 30 APRIL 2020

Key Highlights

Sustainable growth

- Lending assets growth from £589.9m to £716.5m
- Deposits growth from £659.7m to £788.1m
- Total customers grew to 19,228 savings customers (2019: 17,342) and 4,341 borrowers (2019: 3,780).
- Cost: income ratio of 118% (2019: 124%) reflecting the investment made in the Bank to strengthen risk and governance.

Valued Service Delivery

- High customer satisfaction (FEEFO ratings of 4.5/5 Service and 4.4/5 Product)
- Award-winning Lending & Savings Franchise

Asset Quality & Sustainable Funding

- Arréars maintained below industry averages
- Continued low weighted average LTV of 51.6% (2019: 50.2%) on bridging and development finance and 62.2% (2019: 62.8%) on mortgages
- Blended cost of funding at 30 April 2020: 2.03% (2019: 2.0%) reflecting the competitive fixed rate deposit market during the year

A Valued Partnership Model

- Staff engagement 87% (2019: 87%)

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Business Model

The business model of Masthaven is focussed on providing specialist lending into selected market segments which are typically underserved by the larger UK Banks and where the Bank can develop strong customer relationships, including repeat business. Key to the Bank's model is the application of a blend of technology automation and bespoke, human underwriting expertise. However, like all mortgage lenders in the UK, the Bank is observing material mortgage price competition. It's not the Bank's strategy to sacrifice long-term sustainable returns to achieve uneconomic growth in the short term. This philosophy is applied to all the lending sectors in which it chooses to operate.

Through a deposit model utilising a centralised in-house administration capability and a strong focus on digital savings with straightforward products, the Bank has a stable funding profile. Target customer segments are those offering sustainable growth and through-the-cycle earnings potential. This is supported by a commitment to long-term customer relationships backed by high quality service delivery.

Our promise to customers is to be 'here to help', provide 'honest expertise' and deliver 'attention to detail'. Through these commitments, we help our customers borrow and save money in ways that work for them.

Our model is underpinned by a commitment to strong disciplines of risk management, regulatory compliance and governance. Risk appetite and culture are set by the Board to ensure the appropriate tone from the top.

Business and Financial Review

The Bank's activities for the year to 30 April 2020 are the provision of residential and buy-to-let first charge and second charge mortgages, secured bridging lending, development finance and retail savings products within the single brand of 'Masthaven'.

The operating loss before tax of £5.4m in 2020 compares to £4.6m in 2019.

The loss after taxation for the year was £4.6m (2019: £6.3m), reflecting the continued investment in systems, governance and personnel required to position the Bank for growth in the specialist lending markets.

The revenue generated from interest and other income has increased in line with the growth in lending assets to £37.9m (2019: £28.3m). This has resulted in net interest income and operating income of £22.5m (2019: £17.2m), after adjusting for funding and treasury costs arising from retail funding activity.

The net assets of the Bank decreased from £68.3m to £63.7m as a result of further investment in the business and the associated loss after taxation.

The Bank's award-winning flexible term savings product aims to provide innovation to the savings market. This, along with a consistently strong position in best buy tables, provides new and existing customers with confidence in the Bank being consistently competitive, has contributed strongly to the increased balance of £788.1m in retail deposits from 19,228 customers (2019: £659.7m and 17,342 customers). The Bank uses technology as an enabler to work efficiently and deliver great customer service. Successfully blending digital with great human skills allows the Bank to deliver best-in-class service. This is reflected in the feedback from the Bank's satisfied customers. Over the period the Bank has assessed its Savings Customer Satisfaction Index through FEEFO ratings and it has received a rating of 4.5/5 for Service and 4.4/5 for Product (2019: 4.5/5 – Service & 4.6/5 – Product).

The Bank continues to see significant growth in the loan book to £716.5m (2019: 589.9m). Asset quality is strong, with low arrears and a weighted average LTV of 51.6% on bridging and development finance and 62.2% on mortgages (2019: bridging and development 50.2% and mortgages 62.8%).

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The Bank launched a new intermediary lending website in the year which also incorporated a digital portal for bridging lending which enables intermediaries to obtain a quick quote for their clients as well as to receive an online "decision in principle".

The Bank holds £788.1m (2019: £659.7m) in retail deposits and total liquidity of 17.3% (2019: 20.1%), when comparing cash and treasury assets to deposit balances. The Bank's Liquidity Coverage Ratio ("LCR") at 280% (2019: 478%) was comfortably above the regulatory minimum of 100%. The high level of liquidity is a result of the net £50m capital injection in April 2019, together with Bank fixed term deposit raising. It is anticipated that the Bank will maintain customer deposits as its primary source of liquidity, developing its range of savings products further in 2021, and diversifying into other forms of funding that complement its overall customer proposition.

COVID 19

The coronavirus pandemic spread quickly around the world and has had a significant impact, particularly in certain sectors, such as aviation, hospitality and retail. The scale of the pandemic is such that it is unlikely that many companies will emerge unscathed. Regulators and Central Banks have taken unprecedented steps to calm financial markets and support financial institutions.

The pandemic has tested the Bank's operational resilience. Steps have been taken to ensure that the Bank can comply with regulatory requirements and meet customers' needs in these uncertain times. The Bank currently has most of its workforce working remotely and no employees have been furloughed. Whilst the Bank does not have direct exposures to the sectors worst affected, it is impacted indirectly. The Bank has seen an increase in the number of payment holiday requests, a reduction in new lending, however, a very limited number of early deposit withdrawals.

As a result of the pandemic the Bank has seen a significant number of customers (approximately 25%) request payment holidays. In order to deal with the additional call volumes and operational activities related to this, the Bank launched a number of initiatives. Some of these initiatives included re-deploying resources, scaling up the collections department and seeking external advice. All of these activities were implemented to ensure the Bank is able to continue to deliver a high quality service to its customers in these unprecedented times. The pandemic has also allowed the Bank to reflect on its current office space strategy, its ability to respond flexibly and how it can support its employees in times of stress. These areas, in particular, provide valuable learnings for the Bank to consider, to further improve the Bank's operational resilience going forward.

Future Developments

The Bank will continue to explore opportunities to diversify its retail funding base, seeking out new products, markets and distribution opportunities, recognising that the Bank is well-positioned to serve the needs of savers for whom the savings market often does not work well, particularly those with long-standing accounts. We also aim to continue to introduce technology solutions which will improve the customer and broker experience and increase the efficiency of the Bank's processes, through ongoing website and portal development and enhancements to automated decisioning solutions from our platform direct to the broker's own systems.

Principal & Emerging Risks

The Bank's activities inherently result in a number of risks including: credit risk, liquidity and funding risk, market risk, strategic risk, conduct risk, operational risk, cyber risk and the risk of non-compliance with regulation. In addition, economic risk notably arises from current uncertainties arising from the COVID 19 pandemic and Brexit. The Bank's principal and emerging risks are identified through the risk processes defined within the Enterprise Risk Management Framework and are managed through the governance structure which is outlined in the Risk Management Report, along with details of the specifics of risks identified.

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The Bank is exposed to the UK housing market and the performance of borrowers which will be impacted by current economic uncertainty; in the light of current economic conditions, the Bank will operate a measured and cautious approach to lending growth. The Bank is working closely with customers to help them during the current pandemic and to help them to protect and preserve their financial stability.

Section 172(1) statement

This section of the Strategic Report describes how the Directors have had regard to the matters set out in section 172(1) (a) to (f), and forms the Directors' statement required under section 414CZA, of The Companies Act 2006.

The Directors consider that they have, in good faith, promoted the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

Long-term decisions

The Bank continually makes assessments of potential investment opportunities to deliver long-term commercial success. In doing so, the Bank appropriately balances the needs of customers, shareholders, employees and other parties. Long-term strategic decision-making is conducted in a transparent fashion, with the full engagement of the Board. All key decisions are subject to scrutiny in terms of investment costs, returns and associated risks. Investments are made in a considered and controlled fashion and the need to comply, at all times, with Prudential and Conduct Regulations.

Employees

We are a people business and we recognise the significant part that our people play in achieving the overall bank strategy. We provide a fulfilling workplace for our people where they can continuously learn and develop and we provide many opportunities for personal growth and progression. We value the diversity that our people bring to our business, which is fundamental in an increasingly multicultural society. We support employee wellbeing through a variety of different means and aim to provide competitive pay and benefit packages. We continuously engage with our people and are proud of our excellent employee engagement results.

Business relationships with suppliers, customers and others

As a retail focused financial services-provider we understand that long-term success is only possible with a customer-centric business model and therefore customer considerations and the resilience of our services is critical to Board decisions. With over 23,500 customers, we strive to ensure good customer outcomes, making it easy for customers to find, understand and access products that are right for them, whatever their circumstances. To ensure the Board truly understands the changing needs of customers and their views on the Bank, we conduct regular research and seek to deliver innovative customer propositions across all our channels.

We are reliant on external suppliers for a number of key services. As well as being important for future success, we believe that dealing with suppliers in the right way is the right thing to do.

To ensure we achieve the best value for customers in terms of price, quality and social impact, we aim to build strong, collaborative relationships with our suppliers to enable them to understand the environment in which we operate so that they can better meet our needs and our customers' needs. Engaging with a small number of key suppliers in meeting our requirements is a priority for the bank as is understanding the emerging need for fourth-party risk and operational resilience in the supply chain. It is important that we have the right framework to operate responsibly and our Third-Party Supplier Procurement and Performance Management Policy has been designed to assist in managing the inherent risk in outsourcing services and dealing with third party suppliers.

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Community and environment

As a small, specialist UK-based bank, we have a limited physical presence, operating digitally through a broker network or from our London-based office. This does not prevent the Bank from enthusiastically supporting causes that are close to our hearts. For 2020 we are working with 'Spread a Smile' who support children in hospitals and we have set goals to raise £20k across a series of individual and team goals. This direct investment goes beyond the support we provide for vulnerable customers to other areas of the community with the work done by charities to support those most in need. The Board believe we have a responsibility to help support those who may be excluded from mainstream finance to help progression towards a sustainable and resilient UK economy.

The Bank has taken a number of energy efficiency actions to reduce the impact it has on the environment, as set out in the Directors' Report.

Business conduct

The Board recognise the value of maintaining a reputation for high business standards which is particularly pertinent in the highly regulated business environment in which the Bank operates. The Board consider this a business conduct issue and discharges oversight of this principally through the governance structures and delegation of authority to the executive management of the Bank. There are clear limits to delegated authority levels and adherence to these limits is monitored by the Board. The Board retains ultimate authority through this delegation. Under the corporate governance framework of the Bank, business conduct matters are addressed through a number of activities. These include:

- The development of the Bank's strategy and business plan
- The monitoring of executive action (or inaction)
- The performance of the Bank against business plan including product and customer impacts
- Satisfying itself that emerging and principal risks are identified and understood; and that systems of risk management including conduct, compliance and controls are in place to detect, prevent and mitigate key risks from the Bank's business activities
- The oversight of key frameworks and structures which promote high business standards, including culture and conduct risk management

Additionally, the Bank has a series of values to which staff are expected to adhere, and which drive behaviours, promulgating high standards of business conduct. The Board has commissioned activity to review and, where appropriate, refresh the values, recognising that the Bank has grown significantly in size and activity since launch.

For further detail on the Bank's corporate governance structures, refer to the Corporate Governance Report within the Annual Report.

Interaction between members

The Board acts, at all times, to deliver fair outcomes that are balanced between all shareholders. The Bank has appropriate membership from key shareholders on the Board allowing for a greater depth of experience and insight.

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Key Performance Indicators

The Bank measures its performance against a balanced set of indicators covering Customer, Colleague, Commercial and Control.

Customer	Year Ended 30 April 2020	Year Ended 30 April 2019	Commentary
Number of Savings Customers	19,928	17,342	Higher funding requirements in support of the growth plans set out in the business plan
Number of Lending Customers	4,341	3,780	Growth in lending customers from establishing long-term lending proposition and leveraging existing markets
FEEFO Customer Satisfaction	4.5/5 Service and Product	4.5/5 Service and 4.6/5 Product	Continued high service levels maintained over the period
Number of Complaints	232 (6 complaints per 1,000 customers)	147 (7 complaints per 1,000 customers)	Complaints per 1000 customers is broadly consistent year on year. The bank views improvements in its complaints' performance as a measure of success and will challenge the business to enhance its service commitment to our customers
Referred to FOS / Upheld	10/1	18/2	Even though the number of customers has increased significantly, FOS referral levels remain low and this reflects the high standards set by the Board and Senior Management in treating customers fairly
Colleague	Year Ended 30 April 2020	Year Ended 30 April 2019	Commentary
Turnover of People	1.63%	2.11%	Staff turnover is low, reflecting the positive working culture maintained at the Bank
Colleague Engagement	87%	87%	Engagement scores continue at high levels reflecting the Board's desire to cultivate a positive working environment and focus on staff motivation
Commercial	Year Ended 30 April 2020	Year Ended 30 April 2019	Commentary
Value of Lending Portfolio	£717m	£590m	The lending portfolio, although showing a solid increase, also included a moderation of lending at the start of 2019 in light of a potential hard Brexit and in advance of the planned capital raise. It has also been impacted by the COVID 19 pandemic.
Deposits Held	£788m	£660m	Funding levels are achieved by providing customers with competitive products in support of the Bank's growth aspirations
Net Interest Margin	2.9%	3.1%	NIM is reducing in line with expectations, with a change in mix following the establishment of the first charge and buy to let lending division (excluding amortisation of acquisition premium).


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Commercial (continued)	Year Ended 30 April 2020	Year Ended 30 April 2019	Commentary
Cost: Income ratio	118 %	124%	The increase in income and relatively fixed cost base has driven the reduction in the Cost: Income ratio.
Loss after Tax	(£4.6m)	(£6.3m)	The loss after tax reflects the amortisation of the purchased loan book premium, and the continued costs of developing the Bank's systems, operational functions and control.
Liquidity LCR	17.3 % 280 %	20.1% 478%	Liquidity levels reduced to more efficient levels while being maintained above regulatory and Board minima throughout the period. LCR remains comfortably in excess of the regulatory minimum requirement of 100%
CET1 Ratio	18.13 %	23.31%	A capital injection in April 2019 was used to support business growth in the year.
Control	Year Ended 30 April 2020	Year Ended 30 April 2019	Commentary
Mortgage Arrears as a % of loan book Bridging Arrears as a % of loan book	0.9% (66 cases) 5.6 % (90 cases)	0.5% (31 cases) 6.7% (35 cases)	Arrears continue well below risk limits and business expectations. These arrears exclude customers who are currently in a payment holiday in line with regulatory guidance.
Lending weighted average LTV	Bridging 51.6% Mortgages 62.2%	Bridging 50.2% Mortgages 62.8%	Continued conservative lending practices, aligned to business plans, are reflected in low LTVs

Approval

This report was approved by the Board of Directors and signed on its behalf by:

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Leigh Bartlett

CEO

7 August 2020

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FOR THE YEAR ENDED 30 APRIL 2020

Risk Management Report

Risk Management Review

Our goal at Masthaven is to embed a comprehensive approach to risk management that supports the Bank to deliver the business strategy in a manner that ensures sound risk management and control in line with the Board's Strategic Risk Objectives and Risk Appetite.

The current year has seen significant investment in the Bank to facilitate a 3-year risk roadmap that supports the Bank's ambition to continually mature and enhance the Board-approved Enterprise Risk Management Framework. This has included significant investment in risk management throughout the Bank, including credit risk management.

As part of this journey, the Bank has separated the combined RACC into the BRCC and the BAC. The Management Committee structure has also been enhanced, reducing the risk of conflicts of interest in line with good practice and industry standards.

The Bank is one year into its 3-year risk maturity roadmap which demonstrates the Board's commitment to ensure that the Bank is well positioned to ensure risk management remains appropriate for the Bank's size, nature and complexity as well as the future business strategy. As a result of the investment in risk management and the progress against the 3-year risk roadmap, the Bank has seen enhanced risk management in the Bank, which has positioned the Bank better to deal with and respond to emerging risks such as the COVID 19 pandemic, as well as address the feedback set out by the Prudential Regulation Authority relating to their 'fast growing firms' thematic review findings published in June 2019.

Risk Framework

The Bank has implemented an enhanced Board-approved Enterprise Risk Management Framework and continues to develop the three lines of defence model in line with business growth. The Enterprise Risk Management Framework is the Bank's approach to integrated end-to-end management of the Bank's risk universe and includes risk appetite, policy, standards and requirements for the management of all significant risks across the Bank.

Risk Appetite

The Board Risk Appetite Statements establish a framework for business decisions and enable Masthaven to identify and define the type and levels of risks it is willing to accept in both qualitative and quantitative terms in pursuit of its strategic goals. Risk appetite has continued to develop during 2019 and 2020, with discussion and agreement on the strategic risk objectives, supported by risk appetite pillars and limits around Financial Soundness, Operational Resilience and Regulatory confidence. The Bank's Risk Appetite is subject to ongoing and formal annual review and refresh.

The risk appetite measures form part of the reporting to BRCC, the BAC, the Executive Risk Committee ("ERC"), the Asset and Liability Committee ("ALCO"), the Credit Committee ("CC") and the Executive Committee ("ExCO").

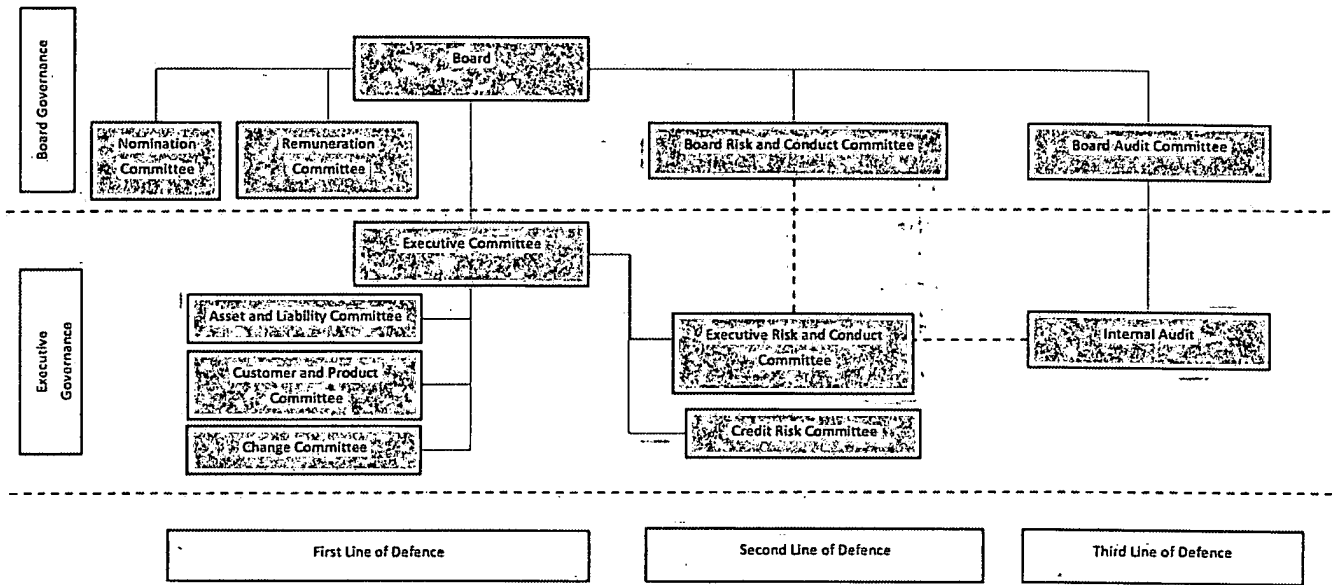
Risk Governance

Ultimate accountability for risk sits with the Board, with oversight delegated to the BRCC.

Responsibility for ensuring and overseeing that the Bank has implemented the Risk Framework is delegated to the CRO through the CEO. This includes credit, prudential, compliance, operational and financial crime risk. Responsibility for the day-to-day management of risk rests with all employees within the Bank and in particular the 1st Line of Defence (the business). Collective oversight of these areas is provided through both 1st Line and 2nd Line Committees such as the Customer and Product Committee, Credit Committee, ALCO, Executive Risk and Conduct Committee and the Executive Committee. The Credit Committee, as well as the Executive Risk Committee, is Chaired by the CRO. The CRO also retains an independent reporting line to the Chair of the BRCC.

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Three Lines of Defence

The Bank applies the “three lines of defence” model of risk management. This informs the governance structure and the allocation of individual responsibilities as shown below.

First Line of Defence – Risk Control

The first line of defence is responsible for undertaking the day-to-day business of the Bank. Operational controls are designed into systems and processes to ensure that all key risks within the business operations are identified, mitigated and controlled within risk appetite.

Second Line of Defence – Risk Oversight

The second line of defence is the independent risk function led by the CRO. They provide oversight of the management of risk and the effective operation of the internal control framework.

Third Line of Defence – Audit

The third line of defence entails independent challenge through the Internal Audit function that provides assurance across both the first and second line of defence. Masthaven has outsourced its Internal Audit function to a “big four” professional services firm.

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Principal Risks

The Bank's activities may inherently result in a number of risks and these include the following key risks, which are managed through the Enterprise Risk Management Framework.

Risk Management	Description	Mitigation
Strategic Risk	The risk that income/ returns fluctuate adversely due to changes in economic conditions or other factors or the risk associated with future business plans and strategies.	<p>The Board is actively engaged in reviewing and approving the 5-year Business and Regulatory Plan, the Internal Capital Adequacy Assessment Process ("ICAAP"), the Individual Liquidity Adequacy Assessment ("ILAAP") and the annual review of risk appetite measures across the Bank.</p> <p>The Bank monitors the business and financial performance against the Strategic Plan and risk appetite monthly, through the Executive Committee, the Executive Risk and Conduct Committee (ERC) as well as the Board Committees.</p>
Prudential (Capital) Risk	The risk that Masthaven is unable to maintain capital adequacy and absorb losses in normal and stress conditions.	<p>The Bank has in place controls to monitor and manage its capital plan on an ongoing basis and respond to emerging risks such as COVID 19, using robust analysis including scenario development and assessment.</p> <p>The Bank also performs comprehensive annual business planning processes, periodic reforecasts and the formal annual ICAAP assessment to ensure capital resources meet minimum Board risk appetite and regulatory requirements on an ongoing basis.</p> <p>Masthaven's capital requirements and resources are at the centre of decision-making in the 5-year business plan.</p>
Liquidity and Funding Risk	The risk that Masthaven is unable to maintain its liquidity at a sufficient level to meet its Business Plan and regulatory requirements or is unable to make available sufficient resources to meet its current and future financial obligations as they fall due.	<p>The Bank maintains a simple funding strategy, which forms an important pillar of the strategic plan and identifies the expected sources of funding to support the Bank's growth ambitions. The principal source of funding is in the form of fixed term products offered to retail and SME customers.</p> <p>In addition to the above, the Bank performs a comprehensive annual ILAAP assessment to ensure resources meet minimum Board and regulatory requirements on an ongoing basis.</p> <p>The Bank maintains a sufficient portfolio of cash and high-quality liquid assets (HQLA) to absorb liquidity shocks.</p>
Market Risk	The risk arising from changes in the value of positions held on and off-balance sheet caused by adverse movement in market prices, interest rates, market volatility, and credit spreads. Masthaven Bank does not have a trading book.	<p>The CFO and Treasurer are responsible for managing current and emerging market risk on a day-to-day basis in accordance with the Bank's risk appetite. The Bank's primary objective is to manage risk to earnings and value over the strategic planning horizon by managing its risk exposures within prudent limits and matching assets and liabilities. Market risk exposures are overseen by the ALCO and ultimately the Board.</p> <p>The Bank operates within a series of Board-approved limits which mitigate the impact of changes in interest rates on both net interest income and the present value of the balance sheet.</p>

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Risk Management	Description	Mitigation
Credit & Concentration Risk	The risk that a customer or counterparty is unable to honour its financial obligations as they fall due, resulting in an actual or potential loss exposure for the Bank. These are split between Retail and Treasury categories. Credit risk includes the risk of an unexpected increase in credit-related losses as a result of a lack of diversification of the credit portfolio.	<p>The Bank undertakes secured lending to customers for first and second charge mortgages and bridging and development finance. The Bank operates a wide range of limits and criteria to limit credit and concentration risk, supported by detailed manual underwriting and approvals processes.</p> <p>Specific Committee and Shareholder approval is required across a range of lending criteria, including maximum exposure amounts. This information, together with portfolio trends, incidents and customers' vulnerability, is reported regularly to the Credit Committee, the ERC, and the BRCC.</p> <p>In addition to the above, the Bank has made significant investment to develop a Second Line Risk team and credit risk stress testing models to oversee risks in the Bank's balance sheet and forward-looking business plan.</p>
Operational Risks	The risk of incurring losses, or other significant impact, resulting from inadequate or failed internal processes, people or systems or from external events and fraud.	<p>The Bank maintains a Risk and Control Self-Assessment (RCSA) process to ensure controls remain appropriate and robust to prevent, detect and mitigate operational risk. The outcome of the RCSA, as well as material incidents, are reported to senior committees including the Board Committees.</p> <p>The Bank has focused on actions arising from its people engagement surveys and regularly reviews succession and talent management plans.</p> <p>A series of tools designed to identify and prevent network/system intrusions are deployed across the Bank. The effectiveness of the controls is overseen by the Change Committee, with specialist IT security staff employed by the Bank.</p> <p>The Bank undertakes periodic scenario analysis to allow the Bank to assess risks and then develop and deploy controls that mitigate those risks outside its risk appetite.</p>
Conduct/Regulatory Risks	The risk that the Bank acts in a way that delivers adverse outcomes for customers and therefore not in accordance with the requirements/principles of "Treating Customers Fairly". Masthaven has no tolerance for customers suffering detriment as a result of non-compliance with laws, regulations or regulatory principles.	<p>The Bank is committed to avoiding adverse conduct outcomes to customers that are not in accordance with the principles of "Treating Customers Fairly". Through the Customer and Product Committee, the Bank ensures that it only offers products that clearly align to the relevant product literature provided to the customer and that are fully aligned with the requirements of the Bank's risk appetite. This is supported by both quantitative and qualitative measures that are reported to the Board, the ERC and the BRCC to ensure the bank is operating within its risk appetite.</p> <p>As part of the Second Line Risk function, the Bank develops and delivers oversight and assurance activities to ensure the Bank's controls remain appropriate to manage any conduct, regulatory or financial crime risks faced by the Bank. The outcome of these activities is monitored through both management and Board committees.</p>

Significant Existing and Emerging Risks

The Bank has adopted an integrated approach to the identification and measurement of risk exposures across all risk categories. Significant risks are those risks that the Bank pays particular attention to and form an integral part of the risk information presented to the Board and its committees to ensure Masthaven manages its risk exposures in line with its risk appetite. We also look at emerging risks which, whilst mainly unknown in terms of how they will materialise, could significantly impact the Bank's ability to meet its strategic objectives. Our significant and emerging risks are outlined below.

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Risk	Description	Mitigation
COVID 19	<p>The full implications of COVID 19 are not yet clear but the impact on the UK economy will be severe with reduced GDP due to lower consumer spending and investment, and increasing unemployment.</p>	<p>Masthaven has complied with guidance to apply payment holidays for customers who request these. The Bank has carried out stress testing to understand the implications of COVID 19 and this will continue to be refined as the situation evolves. Masthaven has also implemented a "work from home" policy where the majority of staff are working off-site.</p>
Cyber Risk	<p>The financial services industry remains a primary target for cyber criminals. Security needs to go beyond systems, software or IT departments and procedures and into protocols for governance, oversight, culture, risk identification, protection, detection, response and recovery.</p>	<p>Masthaven has invested a significant amount of time and effort in ensuring that we understand and mitigate the cyber risk inherent in our business. We continue to invest in our IT infrastructure, resilience and security, as well as focusing on our people and the security of our physical environment to counter the ever-increasing level of threat.</p>
Brexit	<p>The uncertainty around the precise timing and terms of the UK exiting the European Union continues to create market uncertainty until such time as the future trading relationship with the EU becomes clear.</p>	<p>Masthaven does not have operations or products outside the UK and remains committed to operating within the UK. However, we continue to pro-actively assess the impact of the potential consequences of Brexit for savers and borrowers. We note also the wider concerns including the legal and regulatory impact and the potential loss of key skills and resources.</p>
Regulatory Activity	<p>As the Challenger Bank market continues to grow and evolve, the PRA and FCA are pro-actively looking to ensure that the activities of the financial crisis and mis-selling scandals do not occur again.</p>	<p>Masthaven remains committed to building trust in the banking industry and pro-actively engages with the regulators to drive better standards within the industry. Activities during the period included engagement on cyber security, operational resilience, capital, responsible lending in the second charge market and regulatory reporting. We see the level of regulatory engagement across the industry only increasing with time and aim to engage with regulators through industry bodies and directly where possible, to encourage the regulators to adopt an appropriate and proportionate approach for non-systemically important banks such as Masthaven.</p>
Outsourcing	<p>The Bank works extensively with the broker and intermediary network across the UK, as well as a select number of firms who assist in the delivery of our IT platform, and upon whom we are reliant to meet customer needs. Failure to monitor and control the Bank's third-party relationships could lead to customer information or critical IT services not being adequately protected or available.</p>	<p>During the last year the Bank has invested time and resources in understanding the scale and robustness of our critical suppliers and putting in place controls to effectively manage the risk of outsourcing, including a focus on service resilience. This is an area that will continue to receive management and Board focus due to our high dependency on third parties.</p>



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Transformation



As we continue to grow as a Bank, there continues to be the risk that changes across technology, payments, product and people may result in operational inefficiencies, customer service failures or an inability to achieve our strategic objectives.

Masthaven recognises that, to be successful in a growing and competitive market, it is essential that we can execute change well. The Bank continues to incrementally invest in resourcing its change team to respond to the growing needs as the Bank expands. This will remain an area of focus for the foreseeable future.

Competitive Pressures



The Banking sector is a dynamic market which continues to attract new entrants across all the products and services offered by Masthaven. Whilst this drives innovation and customer choice, it also has the potential risk of driving down the Bank's financial performance due to pressure on margins and lower customer demand.

Masthaven continues to monitor the market carefully to identify segments where customer needs are not being met. However, as the market becomes more crowded safe and sustainable opportunities become harder to find, we remain vigilant to market pressures and competition.

Information Protection



The Bank holds and processes large volumes of customer data and the work undertaken last year in relation to GDPR has improved our ability to manage the risk to customers of loss and misuse of data.

The Bank has identification and reporting processes in place to manage data incidents and has invested in further technology solutions in this area. We remain committed to ensuring that the Bank minimises the risk of customer and reputational impacts and that management ensure that adequate Information Security controls are in place – and effectively and regularly tested.

Climate Change



The Bank lends to UK borrowers where the funds advanced are secured on property. Climate change risks arise through physical risk which may impact the quality of the property as adequate security and / or the transition to a low carbon economy may impact on the ability of borrowers to meet their obligations under individual loans.

The Bank has commenced its engagement, both with regulators and its advisors, to align its awareness of risks with emerging research. The Bank will continue to develop its governance, risk management, scenario analysis and disclosures relating to climate change.

Risk Testing & Planning

It is rare for a financial institution to fail under normal operating circumstances and during times of economic stability. Stress testing therefore seeks to determine the circumstances where failure might arise under abnormal conditions or as a consequence of the occurrence of extreme, but plausible, events, as seen through the recent financial crisis. Stress testing also seeks to determine strategies for management action that can be applied to eliminate or mitigate the impact on the Bank in the event that the conditions of a stress test become a reality.

The Bank uses Stress Testing to inform future strategic direction, capital and liquidity planning and Recovery and Resolution Plans. The results from stress testing are subject to review and challenge through the Bank's committee structure, and from Executive and Non-Executive Directors.

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Corporate Governance Report

The Board of Directors considers that effective corporate governance is a key factor underlying the strategies and operations of Msthaven. During 2019 the Bank has focused on enhancing Governance with a significant number of new appointments to the Board of Directors and Executive Management team including a CEO, interim CFO and CRO. Additionally, searches were initiated under the Chair Succession plan for two additional Independent Non-Executive Directors ("INEDS") and a General Counsel. An external review was undertaken, and a programme of development implemented to strengthen and enhance the Governance structures, Committee composition/remit and the support provided to the Bank by the Governance function. Although the Bank does not have any listed debt or equity, the Bank has regard to the principles of the UK Corporate Governance Code (the "Code"), adopting a proportionate approach, reflective of the size and maturity of the Bank.

The Board of Directors

The Bank is governed by its Board of Directors whose duties, codified in the UK Companies Act 2006, are to:

- Act in good faith and within the powers conferred by the Bank's constitution;
- Promote the success of the Bank for the benefit of stakeholders;
- Exercise independent judgment when making decisions;
- Exercise reasonable care, skill and diligence;
- Avoid conflicts of interest;
- Declare interests in proposed transactions or arrangements; and
- Not accept benefits from third parties.

In addition, the Board has ultimate responsibility for ensuring that the Bank has systems of corporate governance and internal control appropriate to the business environment in which it operates. The Board regularly evaluates all risks affecting the business and the processes put in place to control them.

As at year end the Board consisted of seven non-executive Directors ("NEDs") which included the Chairman, three INEDs and three shareholder NEDs, together with one Executive Director. Subsequent to year end an additional INED and an Executive Director were appointed. The Board meets at least ten times a year. Standing invitations are extended to the CEO, CFO and CRO. The quorum for Board meetings is two Directors, which must include one INED, or such higher number as may be fixed from time to time by a decision of the Directors, but if the total number of Directors in office falls below that higher number, the quorum will be reduced to the number of Directors remaining in office. The Bank intends to appoint a Senior Independent Director.

The Board is responsible for the appropriate constitution of the Committees of the Board and reviews the activities of these committees and their terms of reference as part of an annual review of corporate governance. Given the significant number of changes within and post year end, the Board noted and has attempted to address any shortfall in the numbers of appropriate Directors on the Board and its Committees. Within the financial and overall objectives for the Bank, there is a clear division of responsibilities between the running of the Board, which is the role of the Chair, and the executive responsibility for the running of the Bank, which is overseen by the CEO. The Chair is responsible for the leadership of the Board and ensuring that it remains effective, whilst the CEO is responsible for the management of the Bank.

Non-Executive Directors

The NEDs fulfil key roles in corporate and regulatory accountability. Upon appointment, each NED is provided with a comprehensive induction and a letter setting out the terms of his or her appointment, the fees to be paid and the time commitment expected from the Director. The letter also covers such matters as the confidentiality of information and reference to the Bank's Directors and Officers Liability Insurance.

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INEDS

The Board considered the Chair to be independent on appointment and considers three of its seven current NEDs to be independent because they have no material business relationship with the Bank (either directly or as a partner, shareholder or officer of an organisation that has a relationship with the Bank) and they neither represent the shareholders nor have any involvement in the day-to-day management of the Bank.

As a result, they bring objectivity and independent judgement to the Board, which complements the Executive Directors' skills, experience and detailed knowledge of the business. Moreover, they play a vital role in the governance of the Bank through their membership of the BRCC, the BAC, the Remuneration Committee and the Nomination Committee.

The Board notes the requirement within the UK Corporate Governance Code that "At least half the board, excluding the chair, should be non-executive directors whom the board considers to be independent", but considers that, given the size of the Bank, its shareholding structure as well as its lack of listed equity and debt and private limited incorporation, the balance of skills and experience is appropriate for the requirements of the Bank's business at this stage of its growth and development and that the balance between Non-Executive and Executive Directors allows the Board to exercise challenge and effective decision making. The Board (and more specifically the Nomination Committee) will review its composition periodically and, if necessary, seek to appoint further INEDs if the Bank's circumstances change. Additionally, due to changes in Board composition during the year as well as the shareholding structure, there have also been impacts on the level of INED representation on each of the Board's sub-committees as well as the sub-committees' ongoing composition given the shareholder representation.

Each of the INEDS is appointed to the BRCC, BAC, the Remuneration Committee and the Nomination Committee.

The role of all the INEDs is to:

- Constructively challenge and help develop proposals on the Bank's strategy;
- Scrutinise the performance of management in meeting agreed targets of performance and monitor the reporting of performance;
- Review and give an objective opinion on the Bank's financial reporting including relevant best practice;
- Maintain effective working relationships with the FCA, the PRA, and the Bank's auditor;
- Provide an objective insight into the strategic direction of the Bank and an advisory role on intended strategic actions and potential implications for the business;
- Review the application of financial reporting and understand the Bank's financial position and constructively challenge its effective management; and
- Provide other Board members with different perspectives on strategic and other issues facing the Bank.

Selection of Directors

Led by the Nomination Committee, specialist executive recruitment agencies may be employed to find suitable NEDs. In addition, direct appointments are made where specific skills and experience are needed, and the Bank may consult other professional advisers on appropriate candidates when specialist financial skills are required. Formal interviews are held with senior Bank management before a preferred candidate meets other members of the Board.

Appointment and Re-Election

The Board notes the requirement within the UK Corporate Governance Code that "All directors should be subject to annual re-election" but has determined, given the private limited incorporation and shareholding structure, that annual re-election of all Directors is not proportionate to the size or stage of development of the Bank.

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The appointment of Executive Directors is a matter for the Nomination Committee with Executive Directors being appointed under service contracts. The performance and number of Executive Directors will be monitored on an ongoing basis by the Board, through the Boards Committees, and any recommendations made as to the composition.

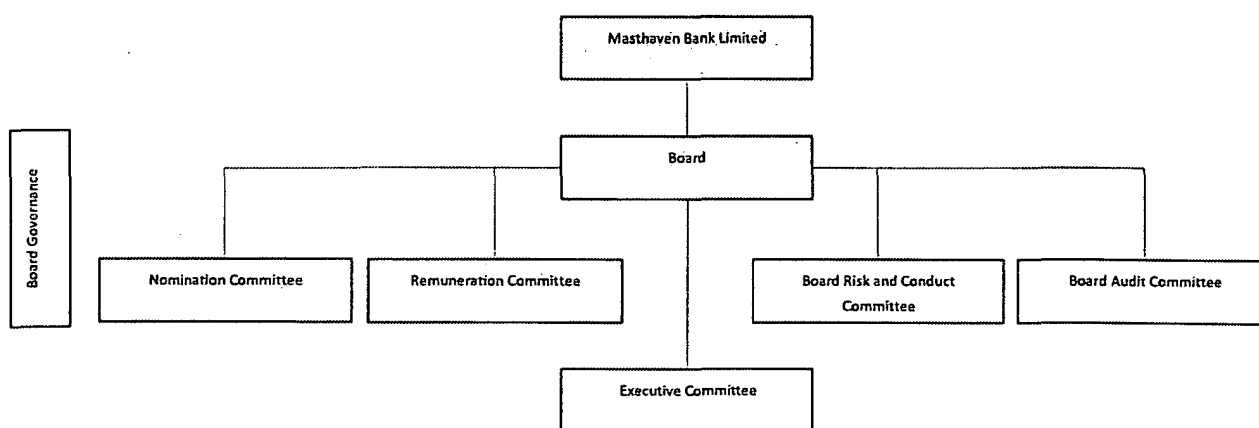
The Nomination Committee will consider the appointment of INEDs, whose initial term will be for a period of three years, renewable for a second term of up to three years on mutual agreement. In certain circumstances, a further term of up to three years may be agreed. The Bank is in the process of making a number of new appointments to the Board and its Committees and, once those are completed, a review of any further INEDs, as well as current INED's terms for any who have passed their initial three-year period, will be undertaken.

Controlling shareholders retain the right to appoint a representative to the Board as a NED; such directors are not considered to be independent in accordance with the Code.

Performance Evaluation

The Board aims to undertake an evaluation of its performance and that of its Committees and individual Directors annually. In 2019, a wider Governance review was undertaken and as part of that internal review a number of changes to the Board composition were agreed and implemented. It was concluded that succession planning should focus on the desirability of retail banking experience which resulted in the appointment of a further INED with substantial experience in retail banking, financial management regulatory matters and risk to Chair the BRCC. The Bank is in the process of recruiting a Chair of the BAC and once both Chairs are in place (subject to regulatory approval) and embedded, the Bank intends, at an appropriate time in the future, to undertake an external Board evaluation. The Board concluded that the current Directors have an appropriate range of knowledge and experience giving rise to open and effective challenge, scrutiny and debate and the structure of the governance arrangements works well. The relationship between the Board and senior management is open and transparent and is reflected in Board discussions. The Board was satisfied that no individual dominated the discussions or had undue influence in the decision-making process.

Committees of the Board



Five Committees report directly into the Board. Each of the Committees has specific delegated authority and this is detailed in the Committees' terms of reference which are intended to be reviewed annually. The Board reviews the composition of the Committees regularly to ensure that there is an appropriate balance and mix of skills and experience. The Bank has an integrated approach to risk governance and the terms of reference for each of the Committees shown below include details of the risks covered.

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Split of the Board Risk, Audit, Conduct and Compliance Committee ("RACC")

As the Bank grows and matures, the Board continues to review the governance process and procedures and as a result decided to split the RACC into a separate "Board Risk and Conduct Committee" and "Board Audit Committee" in 2019. In the year ended 30 April 2020 there were nine meetings of the combined RACC held, reflecting the workload of the Committee during the year.

Board Risk and Conduct Committee

The BRCC is chaired by Annè Gunther and is a delegated committee of the Board and is responsible for oversight and advice to the Board on the current risk exposures and future risk strategy of the Bank, including the strategy for capital and liquidity management and the embedding and maintenance of a supportive culture in relation to the management of risk across the Bank.

The BRCC advises the Board on the Bank's overall risk appetite, tolerance and strategy, taking account of the current and prospective macroeconomic and financial environment and drawing on financial stability assessments such as those published by relevant industry and regulatory authorities including the Bank of England, the Prudential Regulation Authority, the Financial Conduct Authority and other authoritative sources that may be relevant for the Bank's risk policies.

The Committee convenes at least every quarter and comprises three INEDs and three shareholder NEDS - with three NEDs, of whom two should be INEDS, constituting a quorum. Additional meetings are held as required. Only members of the Committee have the right to attend meetings. However, standing invitations are extended to the Bank's Chairman and the Executive Directors, CEO, CFO and CRO, all of whom attend meetings as a matter of course. Other non-members may be invited to attend all or part of any meeting as and when appropriate. The Company Secretary acts as Secretary to the Committees.

Role

The primary roles of the Committee are to assist the Board in discharging its risk oversight and governance responsibilities. In particular, the Committee enables the Board to:

- Set a clear "tone from the top" in relation to a risk-based culture which fosters individual and collective accountability for risk management;
- Continuously review, challenge and recommend enhancements to the Bank's risk management framework;
- Ensure adequacy of how the Bank organises and resources its risk management and oversight functions across first and second-line functions;
- Actively assess performance against risk appetite and challenge management to ensure that the Board's strategic, business and regulatory objectives are not put at unacceptable levels of risk; and
- Oversee the effectiveness of the internal control systems. The Committee's specific responsibilities are set out in its terms of reference, which are reviewed at least annually.

Key Responsibilities

- Provide adequate oversight and ensure it has an overall view of all risks facing the Bank, including market, credit, conduct & compliance, liquidity, regulatory, capital and solvency, model, financial crime, cyber and operational risk.
- Oversee the implementation of risk management policies including anti-money laundering and other compliance policies, operational and conduct risk policies, covering the retail banking businesses;
- Provide oversight and challenge of the design and execution of stress and scenario testing;
- Receive and review appropriate reports from the CRO, Data protection officer and others;
- Receive copies of all regulatory audit reports, significant findings and all letters received from the Regulator of a significant regulatory compliance nature, together with management's responses;

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- Have regard to any relevant advice from the Board Audit Committee or Internal Audit concerning the effectiveness of the current control framework;
- Facilitate the effective contribution and involvement of Non-Executive Directors and aid their understanding of risk issues, regulatory developments and the Bank's risk management framework; and
- Review the Bank's resilience in dealing with cyber-attack.

Risk Management

- Oversee the development and maintenance of a comprehensive risk management framework;
- Oversee the implementation of the Bank's risk appetite as set out by the Board;
- Identify and assess the types and level of risk in new products or services being developed;
- Review the Bank's risk register and escalate risks outside appetite to the Board;
- Review the risk impact of material short-term tactical and long-term strategic decisions; and
- Provide advice, oversight and challenge on the embedding and maintenance of an appropriate risk culture throughout the Bank.

Compliance and Conduct

- Review and approve the Bank's annual compliance monitoring plan and review the results of the monitoring, where appropriate escalating to the Board any material exceptional items;
- Review the conduct risks inherent in the Bank's business model and strategy, and the extent to which these risks are identified, mitigated and monitored;
- Review the controls in place for any necessary regulatory filings and receive assurances that such filings have been submitted in accordance with regulatory deadlines;
- Monitor customer complaints and significant complaint trends;
- Oversee the implementation of new compliance procedures and processes in response to regulatory and legal change;
- Keep under review the adequacy and effectiveness of the Bank's compliance function; and
- Monitor the identification and notification of significant conduct breaches, and any resulting remediation programmes.

Regulatory Matters

- Recommend to the Board the appointment and/or removal of the CRO;
- Review and recommend to the Board the Bank's ILAAP;
- Review and recommend to the Board the Bank's ICAAP documents; and
- Review and recommend to the Board the Bank's Recovery Plan and Resolution Plan.

Compliance, whistleblowing and fraud

- Review the adequacy and security of whistleblowing arrangements;
- Review procedures for detecting fraud and preventing bribery;
- Review regular reports from the Money Laundering Reporting Officer and the adequacy and effectiveness of anti-money laundering systems and controls; and
- Review the adequacy and effectiveness of the Conduct Risk Framework.

Activity during the year ended April 2020

The principal activities undertaken by the Committee during the year are described below.

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The Committee paid particular attention to the development of the Risk Roadmap, outlining the three-year programme to enhance the Bank's Risk and Compliance Framework in line with the maturity of the Bank. The Committee reviewed and challenged the Enterprise Wide Risk Management Framework ("EWRMF") and constituent parts, along with the associated Risk Appetites.

The Committee monitored and challenged the capital position, in particular the forward view of capital consumption, and associated Risk Weighted Asset capital allocations.

The Committee monitored progress with a range of key executive-led projects, including, inter alia, reviews of interest rate charging, regulatory reporting, data retention, 3rd party supplier management, development of Management Information across the Bank and the planning to respond to climate change risks. The scale and management stretch contained within the programme was debated and priorities approved and revisited regularly as the Bank responded to emerging risks, particularly those associated with COVID-19.

The Committee reviewed and challenged the Executive assumptions on the risks in expanding savings account delivery via the Flagstone Investment Management cash management platform, including those linked to developing an easy access proposition to complement the fixed term deposits and diversify the Bank's funding base.

The Committee carried out annual reviews of primary risk-related policies and oversaw and challenged the risks and stress tests within the ICAAP and ILAAP assessments.

The Committee also reviewed the risks identified and mitigating actions taken as the Bank responded to the developing COVID-19 situation and ensured oversight of the new range of risks associated with running a completely virtual Bank, with nearly all colleagues working from home.

Systems of internal control and risk management

Details of the risk management framework are provided on page 11 onwards. The BRCC receives reports and information covering matters from the ALCO, CRO, CEO, CFO and other executive management, its engagement with executive management and from internal and external auditors and consultants.

Board Audit Committee

The BAC is chaired by Anne Gunther and is a delegated committee of the Board. The Committee provides oversight of the integrity of the Bank's financial reporting, systems of internal controls regarding finance and accounting and oversight of the risks facing the bank including financial risks and monitoring the effectiveness of internal and external audits. The Committee receives reports and information from the Executive Risk Committee and other Management Committees.

The Committee convenes at least every quarter and comprises three INEDs and three shareholder NEDs, with two NEDs constituting a quorum. Additional meetings are held as required. Only members of the Committee have the right to attend meetings. However, standing invitations are extended to the Bank's Chairman and the Executive Directors, CEO, CFO and CRO, all of whom attend meetings as a matter of course. Other non-members may be invited to attend all or part of any meeting as and when appropriate. The Company Secretary acts as Secretary to the Committees. The Committee is considered to have an appropriate balance of skills, including recent and relevant financial experience. The internal and external auditors are invited to attend all meetings and also meet in private with the Committees when required.

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Role

The primary roles of the Committee are to assist the Board in discharging its risk oversight and governance responsibilities. In particular, the Committee enables the Board to

- Oversee the effectiveness of the internal control systems and the work of the internal and external Auditors and review the integrity of the financial reporting for the Bank. The Committee's specific responsibilities are set out in its terms of reference, which are reviewed at least annually.

Systems of internal control

In considering the effectiveness of internal controls, the Audit Committee received and discussed reports from Internal Audit and the external Auditors. In addition, executive management were invited to discuss the more significant issues raised by Internal Audit. Management action plans to resolve the issues raised are monitored by the Audit Committee.

The Committee reviewed and approved a number of policies following their annual refresh. The Committee considered changes to financial reporting requirements that are not yet effective, but that are likely to affect the financial position of the Bank in the future.

Key Responsibilities

External Audit

- Recommend the appointment, reappointment or removal of the external auditor;
- Oversee the relationship, approve terms of engagement and review independence and objectivity;
- Assess the performance and effectiveness of the external auditor;
- Meet regularly without management present;
- Approve policy on the supply of non-audit services; and
- Ensure the audit contract is tendered at least every ten years.

Internal Audit

- Approve the appointment or termination of the Internal Audit function;
- Monitor and review the effectiveness and performance of the internal auditor;
- Review and approve the Internal Audit charter;
- Review and assess the Internal Audit plan;
- Ensure access to the Board and Committee Chairs; and
- Review management's responsiveness to findings.

Financial and narrative reporting

- Monitor the integrity of the financial statements;
- Review and report to the Board on significant financial issues and judgements;
- Review and challenge accounting policies, methods used to account for significant or unusual transactions, clarity and completeness of disclosure;
- Where requested by the Board, advise whether the Annual Report is fair, balanced and understandable; and

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- Review and approval of Pillar 3 disclosures.

Activity during the year ended April 2020

The principal activities undertaken by the Committee during the year are described below.

- Review of Internal Audit Reports;
- Review of Accounting Policies;
- 2019 External Audit Report;
- 2019 Annual Report and Financial Statements;
- Split of the RACC into Board Audit Committee and Board Risk and Conduct Committee;
- Internal Audit Effectiveness review;
- Consideration of proposal to amend the Bank's Statutory Year End;
- Collective Impairment Provision Assessment Update;
- Update on IFRS Transitioning Plan; and
- External Audit Strategy.

Significant issues and areas of judgement considered by the Committee

In respect of financial reporting, the Audit Committee considered a number of significant issues and areas of accounting judgement in relation to the 2020 Annual Report and Accounts.

Loan book impairments

The Bank conducts individual impairment assessments on all loans which are more than one month in arrears, estimating future cash flows, including the cost of obtaining and selling collateral and likely sale proceeds. All loans without an individual impairment assessment are assessed under a modelled collective impairment approach. In the current year the Bank engaged a specialist third party credit risk firm to build a collective impairment model for the Bank. The model is a probability of default-based model using the Bank's historical default rates. The model discriminates based on certain risk characteristics of individual mortgages that include: Loan to Value, arrears status, product, maturity and other risk factors such as whether or not the mortgage is in forbearance. In the current period, an input into that model was the effect of COVID 19.

The Committee received and challenged reports from management, explaining the approach taken to provisioning and the resulting changes to provisioning levels during the period. The Committee reviewed additional information by loan book during the year to help with its assessment of the reasonableness of provisions. The Committee is satisfied that the approach taken and judgements made were reasonable.

Effective interest rate

The EIR method of accounting for income recognition requires management to make a number of assumptions. In particular, management must make a significant judgement around the estimation of the expected life of loan assets across the Bank's portfolios. The Bank uses historical experience in its assessment of its acquired loan books. For both the Bank's originated and acquired loan books, estimates are also used in assessing whether and for how long mortgages that reach the end of their product term stay on the administered variable rate (AVR). The Bank assumes no early redemption charges within the EIR calculation as a reliable estimate cannot be derived as the Bank waits for a stable trend to emerge. The Committee reviewed and challenged the assumptions used in EIR calculations, and in particular the period over which net fee income is spread. Based on this work, the Committee is satisfied that the approach taken and judgements made were reasonable.

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Deferred tax asset

The recoverability of the deferred tax asset requires consideration of the future levels of taxable profit in the Bank and the timeframe over which these profits will arise. The Committee considered the recognition of the deferred tax asset, including the period over which the taxable profits will be available for the deferred tax asset to be realised. The Committee agrees with the management judgement that whilst it considers that sufficient taxable profits will be available in the future to utilise the tax losses carried forward in full, given that the Bank is not yet profitable and with the current UK macro-economic situation, it was considered that the asset did not meet the probable threshold for recognition. The Bank has therefore written-off its deferred tax assets. These deferred tax assets will be available to be offset against future taxable profits as they arise.

Going concern

The going concern basis is dependent on maintaining enough capital and funding in the balance sheet. The Directors considered a number of factors, including the financial projections for the Bank and its capital and funding position. Existing investors have shown their continued support of the Bank's growth plans and in April 2019 the Bank received a significant cash injection in the form of an equity investment by Varde Partners Inc.

The Bank's business activities and objectives, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report. The Bank has disclosed a loss before tax for the year of £5.4m (2019: £4.6m). The Bank continues to be in compliance with its regulatory capital requirement and forecasts this to continue to be the case.

The current Business Plan was put together at a time of economic stress where the COVID 19 pandemic had resulted in a global "lockdown" that has significantly impacted the UK economy and the UK housing market. The eventual economic outcome is highly dependent on government intervention, in the UK and elsewhere. The Bank's base plan assumes a rapid, post-lockdown economic recovery in the UK, with interest rates beginning to rise in mid-2021. The Board and Executive continue to monitor economic activity closely and stand ready to adjust the Bank's go-to-market strategy if economic conditions require. In particular, the Bank continues to monitor closely the impact of payment holidays. Whilst the impact of the COVID 19 pandemic has been factored into lending growth, the impact on impairment and risk weighted assets (for capital purposes) may require adjustment as more information comes to light. The plan assumes steady organic growth; whilst it is possible that the Bank might assess inorganic growth opportunities, these have not been factored into the current plan.

In May 2020, the Bank undertook several scenario analyses to assess the impact of COVID-19 on capital and the base financial plan for 2020/2021. The scenarios considered assumptions comprising HPI reduction, increase in unemployment, decrease in borrower income (affordability), forbearance outcomes, cure rates from defaults and borrower attrition.

Based on the Bank's forecasts and objectives and having taken into account the plausible actions the Bank could initiate in response to the severe stress, the Bank concluded that it has adequate resources to continue for the foreseeable future. Consequently, the financial statements have been prepared on a going concern basis.

While Brexit and the coronavirus uncertainty remain at the time of writing, with significant downside risks to the economy for 2020, the Bank's contingency planning and ongoing regular Board monitoring of events, as they unfold, will ensure effective management of strategy and economic risks through 2020 and beyond.

Further details of the above significant areas of judgment can be found in Note 2 to the financial statements.

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Fair, balanced and understandable

The Committee considered on behalf of the Board whether the 2020 Annual Report and financial statements, taken as a whole, are fair, balanced and understandable, and whether the disclosures are appropriate. The Committee reviewed the Bank's procedures around the preparation, review and challenge of the Report and the consistency of the narrative sections with the financial statements and the use of alternative performance measures and associated disclosures. Following its review, the Committee is satisfied that the Annual Report is fair, balanced and understandable, and provides the information necessary for shareholders and other stakeholders to assess the Bank's position and performance, business model and strategy, and has advised the Board accordingly.

Internal Audit

The Bank continued to use an external accountancy firm for the provision of expert Internal Audit resource. The Audit Committee approved the updated Internal Audit Plan in December 2019 and considered the results of its work.

The primary role of Internal Audit is to help the Board and executive management to protect the Bank's assets, reputation and sustainability. It assists the Bank in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the risk management, control and governance processes.

The Internal Audit Charter, which formally defines Internal Audit's purpose, authority and responsibility, was approved by the Committee in December 2019. The Committee also approved the annual Internal Audit Plan, which was developed based on a prioritisation of the "audit universe" using a risk-based methodology, including input from senior management and the Committee. A written report is prepared following the conclusion of each Internal Audit engagement and distributed to the Committee and senior management. Responsibility for ensuring appropriate corrective action is taken lies with management. Internal Audit will follow-up on engagement findings and recommendations until remedial action is completed.

Systems of internal control and risk management

The Committee reviewed and approved a number of policies following their annual refresh. The Committee considered changes to financial reporting requirements that are not yet effective but that are likely to affect the financial position of the Bank in the future. The Committee also received regular updates on data governance and controls.

External auditor

The Committee is responsible for overseeing the Bank's relationship with its external auditor, KPMG LLP ('KPMG'). This includes the ongoing assessment of the auditor's independence and the effectiveness of the external audit process, the results of which inform the Committee's recommendation to the Board as to the auditor's appointment (subject to shareholder approval) or otherwise.

Appointment and Tenure

KPMG was appointed as the first external auditor of the Bank for the period ended 30 April 2016.

New EU legislation adopted by the UK in 2016 sets a maximum audit tenure of 20 years and also requires a tender at least every ten years. The new legislation is effective for financial periods commencing on or after 17 June 2016. The Bank therefore intends to put the external audit contract out for tender no later than for the 2026 financial year.

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Effectiveness

The Committee assesses the effectiveness of the external audit function on an annual basis through a number of steps including:

- Agreement of their engagement letter and fees;
- A review of the external audit plan, including the experience of the audit team assigned;
- An evaluation of the reports issued following inspections of KPMG by the Financial Reporting Council's Audit Quality Review team;
- A review of the clarity and thoroughness of KPMG's written reports and contribution to Audit Committee discussions; and
- A review of non-audit fees to confirm compliance with the Non-Audit Services Policy.

The Committee, having considered the Report presented by KPMG during the meeting on 28 July 2020, in respect of the Audit of the Financial statements for the year ended 30 April 2020 (the "Accounts") and such other matters as were pertinent to the Audit of the Accounts by KPMG, hereby conclude that the external audit process was effective.

Non-audit services

The engagement of the external auditor to provide non-audit services to the Bank could impact the assessment of its independence and objectivity. The Bank has therefore established a policy governing the use of the external auditor for non-audit services. The policy specifies prohibited and permitted services and sets the framework within which permitted non-audit services may be provided. Prohibited services comprise activities that are generally perceived to involve the auditor making judgements or decisions that are the responsibility of management.

The Bank maintains active relationships with several other large firms and any decision to appoint the external auditor is taken in the context of whether their understanding of the Bank places them in a better position than other firms to undertake the work and includes an assessment of the cost effectiveness and practicality of using an alternative firm.

The new EU statutory audit market reform legislation adopted in the UK includes restrictions on the nature and extent of non-audit services provided by the statutory auditor. Restrictions on the nature of permissible non-audit services are effective for financial periods commencing on or after 17 June 2016. The new legislation also applies a cap on permissible non-audit services of 70% of the preceding three-year average of audit fees. This is applicable for financial periods commencing on or after 17 June 2019. In addition, the Financial Reporting Council's revised Ethical Standard 2019 is also adhered to when determining the appropriateness of the audit firm providing non-audit services. The Committee reviews a schedule of year to date non-audit services at each meeting. There were no non-audit services during the current or prior year.

The Committee's assessment of the external auditor's independence in 2020 took into account the non-audit services provided during the year, and confirmations given by KPMG as to its continued independence at various stages in the year.

Remuneration Committee

The Remuneration Committee is chaired by Anne Gunther and is a delegated committee of the Board responsible for exercising appropriate oversight of the Bank's remuneration matters, including remuneration policy, employee benefits and performance related pay structures for the Bank. The Committee convenes twice a year and as and when needed. The Committee comprises solely NEDs with two INEDs constituting a quorum.

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Role

The Committee shall set and evaluate remuneration for executive Board members, senior management, employees who are designated as Code Staff under the Prudential Regulation Authority ("PRA") Remuneration Code, or any other employee as determined by the Committee from time to time in accordance with the requirements of the Bank's regulators. This includes ensuring there is a balance between the needs of the Bank and the needs of the Customer.

Key responsibilities

Setting, reviewing and recommending to the Board for approval the Bank's overall remuneration policy and strategy

- Approving the design of performance related pay schemes and total annual payments made under such schemes (including salary increase, bonus etc.);
- Seeking advice from the BRCC, BAC and CRO on the risks arising from the remuneration policies for the purpose of the ICAAP and other UK and European regulatory matters;
- Considering all factors which it deems necessary to ensure that the executive Directors and senior management of the Bank are provided with performance-related incentive arrangements designed to align their interests with those of shareholders and establish a clear link between sustained and individual corporate performance to align the interests of all stakeholders and a particular focus on good conduct outcomes for customers;
- Reviewing annually, and having regard to, the remuneration trends across the Bank and amongst the Bank's peer group of companies;
- Periodically reviewing the general principles and operation of the remuneration policy and its implementation, including compliance with the PRA's Remuneration Code, EBA guidance, the provisions and recommendations of the UK Corporate Governance Code and associated guidance;
- Ensuring the Bank's remuneration system motivates staff for both long and short-term performance and considering any malus and claw-back provisions;
- Ensure that the Bank's remuneration systems adequately mitigate the risks associated with bribery; and
- Consider Non-Executive Director fee levels (these are set by the Board from recommendations made by the executive); in regards to NED fees.

Remuneration Policy for year ended April 2020

The Remuneration Committee sets and evaluates remuneration for executive Board members, Senior Managers, employees who are designated as Code Staff under the Remuneration Code and any other employees as determined by the Committee from time to time, in accordance with the requirements of the Bank's regulators. No Director or senior executive shall be involved in any decision as to their own remuneration and shall absent themselves from any such discussion.

Activity in year ended April 2020

- Continued voluntary application of the bonus cap;
- Mid-Year and End of year (performance year) salary review and discretionary bonus allocation;
- Remuneration Policy Statement;
- Material Risk Taker ("MRT") Framework Policy;
- Sales Incentive Scheme;
- Oversight of the gender pay analysis (albeit there is no legal requirement at this stage given the current size of the bank); and
- Unapproved Share Option Plan.

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Nominations Committee

The Nominations Committee, chaired by the Chairman of the Board, is a delegated committee of the Board responsible for considering all senior appointments, both at Board and executive levels, and is also responsible for the succession planning of key roles in the Bank. The Committee convenes twice a year and as and when needed. The Nominations Committee consists solely of NEDs with two INEDs constituting a quorum.

Role

The Committee makes recommendations to the Board in respect of appointments to the Committees and the Board.

The Bank has a Board Diversity Policy and a Bank-wide Diversity Policy. The Nominations Committee will review both on an ongoing basis and will take the Board Diversity into account when considering succession planning. The Board composition as at 30th April 2019 was 37.5% female and 62.5% male; Exco composition was 14.3% female and 85.7% male.

The proportion of females to males in leadership roles (Exco +1) is measured as part of the Bank's KRIs and the bar has been set at a minimum 30%. Since the introduction of this KRI (March 2019) the Bank has continued to report green.

Key responsibilities

Regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and make recommendations to the Board with regard to any changes:

- Ensure plans are in place for orderly succession to Board and Senior Management positions and oversee the development of a diverse pipeline for succession, taking into account the challenges and opportunities facing the Bank, and the skills and expertise needed on the Board in the future;
- Keep under review the leadership needs of the company, both executive and non-executive, with a view to ensuring the continued ability of the company to compete effectively in the market in which it operates;
- Be responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise;
- Be responsible for reviewing and recommending to the Board for approval, the appointment of MRTs and Senior Manager Function holders;
- Evaluate the balance of skills, knowledge, experience and diversity on the Board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment. In identifying suitable candidates the Committee should:
 - Use open advertising or the services of external advisers to facilitate the search;
 - Consider candidates from a wide range of backgrounds; and
 - Consider candidates on merit and against objective criteria and with regard to the benefits of diversity including gender.
- Review the results of the Board performance evaluation processes that relate to the composition of the Board and succession planning; and
- Review the re-appointment of any Non-Executive Director at the conclusion of their specified term of office, having given due regard to their performance and ability to continue to contribute to the Board in light of knowledge, skills and experience required.

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Activity in year ended April 2020

Succession planning for critical roles:

- Board succession plan;
- CFO Appointment;
- CEO appointment; and
- Two INED appointments.

The Nomination Committee played a key role during the year in ensuring adequate succession planning to help contribute to the delivery of the Bank's strategy by ensuring the desired mix of skills and experience of Board members and Executive team members. The Committee oversaw the appointment of senior roles including the CFO and the CEO.

Management Committees

Executive Committee ("ExCo")

The ExCo, chaired by the Bank's CEO, is a delegated committee of the Board responsible for providing direction, monitoring performance and ensuring the Bank has the capabilities, resources and effective controls to deliver its Business Plan. The ExCo has seven members, two of whom are Executive Directors. The ExCo consists of individuals responsible for the key components of the business; Finance, Operations, Savings, Lending, People, Marketing, Compliance and Risk Management. Either the CEO or the Chief Commercial Officer and Deputy CEO is required in attendance as one of four members needed to constitute a quorum.

Sub Committees

Several sub-committees have been established which report into the ExCo.

The Credit Committee was chaired by the Bank's CEO; however, as at October 2019, the CRO assumed the position of chair of the committee. The committee oversees loan performance, large exposures, and adequacy of provisions. Its role is to ensure that credit policy is prudent, taking into account changing market trends. The Credit Committee consists of individuals responsible for key components of the business and functions such as risk management and finance.

The Asset and Liability Management Committee is chaired by the Bank's CFO and manages the assets and liabilities of the Bank and sets out the Bank's policies in respect of capital, interest rate risk and liquidity risk. It is responsible for determining the Bank's strategy in respect of its balance sheet assets, capital, and funding and liquidity profiles. It is also responsible for reviewing and challenging the ILAAP.

The Customer and Product Committee is chaired by the Chief Commercial Officer and Deputy CEO and oversees the product portfolio in line with the Bank's conduct risk appetite and Business Plan.

The IT Steering Committee was chaired by the Chief Technology Officer and was responsible for IT enabled investment, ensured oversight of IT plans and expenditure, agreed IT standards to be adopted, monitored detailed performance metrics and reviewed IT incidents and associated actions.

The Transformation Committee was chaired by the Chief Commercial Officer and Deputy CEO and managed the definition and prioritisation of organisation-wide change strategies.

Change Committee: As at November 2019, the IT Steering Committee and Transformation Committee were combined to form the Change Committee which is chaired by the Chief Operating Officer.

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The Executive Risk Committee is chaired by the CRO and has overall responsibility for the risk management framework, operational risks, compliance risks and reputational risks. It is also responsible for reviewing, discussing and challenging the ICAAP.

Attendance at Board and Committee Meetings from 1st May 2019 to 30th April 2020

	Board of Directors	Board Risk, Audit and Conduct Committee	Board Audit Committee	Board Risk and Conduct Committee	Remuneration Committee	Nomination Committee
Meetings held	25	4	2	3	8	4
Attendance:						
A Bloom	25/25	3/4	2/2	3/3	4/4 ¹	1/1 ¹
A Gunther	24/25	4/4	2/2	3/3	7/8	4/4
A Machin	25/25	4/4	2/2	3/3	7/8	4/4
J Hall	24/25	3/4	2/2	3/3	n/a ²	n/a ²
E Lieskovska	24/25	3/4	2/2	3/3	6/8	3/4
M Baker	25/25	4/4	2/2	3/3	8/8	4/4
P Harrison	15/15 ⁵	4/4	1/1	1/1	5/6	2/4
N Gammon	23/25	3/4	1/2	1/3	7/8	3/4
M McCaig	1/1 ³	n/a	n/a	n/a	1/1 ³	1/1 ³

¹ Attended at the request of the committee

² Not required to attend

³ Appointed to the Board on 29 April 2020

⁴ Ashley Machin was no longer a member of the BRCC and BAC as at September 2019 as he assumed the position of interim Chairman

⁵ Peter Harrison resigned in January 2019

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Directors' Report

The Directors present their report and financial statements for the year ended 30 April 2020.

PRINCIPAL ACTIVITIES

Masthaven Bank Limited is a UK Bank, authorised by the Prudential Regulation Authority (PRA) and regulated by the PRA and the Financial Conduct Authority (FCA). The Bank provides short to medium-term property loans for both the development of residential dwellings and the bridging of completed properties and property portfolios, as well as regulated first charge and second charge mortgage products. All the lending activities are funded by the Bank's capital base and the provision of a range of fixed period deposit products.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

Information regarding the business review and future developments, key performance indicators and principal risks is contained in the Strategic Report.

BOARD COMPOSITION

The Directors who held office during the period to the approval of the financial statements were as follows:

Ashley Machin	Independent Non-Executive Director. Chairman of the Board and Chairman of the Nomination Committee
Peter Harrison (resigned 25 January 2020)	Independent Non-Executive Director. Chairman of the Board and Chairman of the Nomination Committee
Anne Gunther	Independent Non-Executive Director. Chairman of the Board Risk and Conduct Committee and Board Audit Committee. Chairman of the Remuneration Committee
Natalie Gammon (appointed 7 June 2019)	Independent Non-Executive Director
Malcolm McCaig (appointed 29 April 2020)	Independent Non-Executive Director
Simon Glass (appointed 29 July 2020)	Independent Non-Executive Director
Michael Baker	Non-Executive Director
Elena Lieskovska	Non-Executive Director
Andrew Bloom	Non-Executive Director (CEO until 30 April 2020)
Leigh Bartlett (appointed 7 July 2020)	CEO
Jon Hall	Chief Commercial Officer & Deputy CEO

The Bank maintains liability insurance cover for Directors and Officers as permitted by the Companies Act 2006.

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DIRECTORS' INTEREST IN SHARES

None of the Directors have a direct share interest in the Bank. Andrew Bloom and Michael Baker are shareholders of the Bank's parent company, Masthaven Investment Limited, with Andrew Bloom being the controlling shareholder.

RESULTS FOR THE YEAR

The Bank reported a loss after tax of £4.6m (2019: loss £6.3m) for the year. This reflects the operating losses from the Bank originating savings and loans, the ongoing investment in the risk and control infrastructure and continuing to build a strong team of 188 people. The Bank moderated its lending plans during 2019 in light of a potential hard Brexit and in advance of the planned capital investment by Varde. These losses will be available to offset against future taxable profits as they arise.

PROPOSED DIVIDEND

The Directors do not recommend the payment of a dividend (2019: £nil).

POLITICAL DONATIONS

The Bank did not make any political donations or incur any political expenditure during the year (2019: £nil).

RESEARCH AND DEVELOPMENT ACTIVITIES

New products and services are developed in each of the business lines in the ordinary course of business in accordance with the Bank's product and pricing governance framework. Under this framework, all new products, campaigns and business initiatives are reviewed and approved by the Bank's Customer and Product Committee. In addition to new products and services, the Bank also invests in internally generated intangible assets, including technology platforms.

SUBSEQUENT EVENTS

With the uncertain macro-economic environment created by COVID 19 in the short-term, further information is coming to light on a weekly basis that sheds light on the potential long-term impact of the pandemic. The Bank has reflected new information, particularly relating to customers that may have repayment difficulties, up to the date of this report, in the year end results.

REMUNERATION MATTERS

The Bank adheres to the requirements of the Remuneration Code as defined by the Regulator. The non-executive Directors do not receive variable remuneration. Information on the Bank's Remuneration Code is set out in the Pillar 3 disclosures and will be published on the Bank's website www.masthaven.co.uk.

GOING CONCERN

The going concern basis is dependent on maintaining sufficient capital and balance sheet funding. The Directors considered a number of factors including the financial projections for the Bank, including its capital and funding position.

The Bank's business activities and objectives, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The Bank has disclosed a loss before tax for the year of £5.4m (2019: £4.6m). The Bank continues to be in compliance with its regulatory capital requirement and forecasts this to continue to be the case. The Bank has prepared detailed forecasts for a period of not less than 18 months from the date of approval of these financial statements. As part of those forecasts, the Bank has applied a severe stress test based on the Bank of England's Annual Cyclical Scenario ('ACS'). Based on the Bank's forecasts and objectives and having taken into account the plausible actions the Bank could initiate in response to the severe stress under the ACS, the Board concluded that the Company has adequate resources to continue for the foreseeable future. Consequently, the financial statements have been prepared on a going concern basis.

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While Brexit and COVID 19 uncertainty remains at the time of writing, with high downside risks to the economy for 2020 and beyond, the Bank's contingency planning and ongoing regular Board monitoring of events, as they unfold, will ensure a firm management of strategy and economic risks, through 2020 and thereafter.

FINANCIAL RISK MANAGEMENT

Details of how the Bank manages financial risk are set out in note 5 of these financial statements. The Bank uses interest rate swaps in portfolio fair value hedge accounting to manage the Bank's exposure to interest rate risk.

GREENHOUSE GAS EMISSION

Masthaven is a low energy user and, as such, has not disclosed emission data in line with the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

ENGAGEMENT WITH SUPPLIERS, CUSTOMER AND OTHERS IN A BUSINESS RELATIONSHIP WITH THE BANK

A core part of the Bank's business is dependent on how the Directors foster the Bank's business relationships with suppliers, customers and others, and the effect the Bank's actions have on those relationships. During the current year, the Bank has implemented the following to further support business relationships:

- A new supplier management system has been implemented to support supplier engagement and to ensure robust due diligence across all suppliers;
- A dedicated Supplier Compliance Manager has been recruited to oversee supplier management in line with regulatory requirements; and
- There is regular engagement with all material and high-risk suppliers with appropriate reporting and feedback provided to the Board.

DISCLOSURE OF INFORMATION TO AUDITOR

The Directors who held office at the date of approval of this Directors' report confirm that, so far as each of the Directors are aware, there is no relevant audit information of which the Bank's auditor is unaware and the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Bank's auditor is aware of that information.

DocuSigned by:

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Leigh Bartlett
CEO

By order of the Board
7 August 2020

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Statement of Directors' Responsibilities in respect of the annual report and financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of its profit or loss for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



Independent auditor's report

to the members of Masthaven Bank Limited

1. Our opinion is unmodified

We have audited the financial statements of Masthaven Bank Limited ("the Bank") for the year ended 30 April 2020 which comprise the Statement of Total Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Bank's affairs as at 30 April 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were first appointed as auditor by the Directors on 15 November 2016. The period of total uninterrupted engagement is for the four financial years ended 30 April 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Bank in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: £387,000 (2019:£350,000)
financial statements as a whole 1% (2019: 1%) of total revenues

Key audit matters vs 2019

Event Driven Going Concern ◀▶

Recurring Risks Loan loss provisioning ▲

Revenue recognition effective interest rate ▶▶

New Risks IT environment ▲

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

We summarise below the key audit matters in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures.

These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

In the prior year, we reported a key audit matter in respect of the impact of **Brexit** - uncertainties due to the UK exiting the European Union. As a result of developments since the prior year report, including the Bank's own preparation, the relative significance of this matter on our audit work has reduced. Accordingly, we no longer consider this as a key audit matter.

In the prior year, we reported a key audit matter on judgement made in relation to recognition of **Deferred tax asset**. The deferred tax asset was fully written off in the prior period and the balance in the current year is nil. Accordingly, we no longer consider this as a key audit matter.

	The risk	Our response
<p>Going concern</p> <p><i>Refer to page 25 (Corporate Governance Report), page 33 (Directors' Report) and note 1.3 (Notes to the Financial Statements)</i></p>	<p>Disclosure quality:</p> <p>The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Bank.</p> <p>That judgement is based on an evaluation of the inherent risks to the Bank's business model and how those risks might affect the Bank's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements.</p> <p>The risk most likely to adversely affect the Bank's available financial resources over this period is insufficient regulatory capital to meet minimum regulatory capital levels over the course of the next 12 months.</p> <p>There are also less predictable but realistic impacts, such as the impact of Coronavirus COVID-19, which could result in a rapid increase in the level of impairment in loans and advances to customers.</p> <p>The risk of our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.</p>	<p>Our procedures included:</p> <p>Our COVID-19 knowledge: We considered the Directors' assessment of COVID-19 related sources of risks for the Bank's business and financial resources compared with our own understanding of the risks. We considered the Directors' plan to take actions to mitigate the risks.</p> <p>Sensitivity analysis: We considered sensitivities over the level of available financial resources indicated by the Bank's financial forecasts taking account of severe plausible downside effects that could arise from these risks individually and collectively. We challenged the assumptions underpinning the stress testing undertaken by the Directors of the identified critical factors in their financial forecasts.</p> <p>Assessing transparency: We assessed the completeness and accuracy of the matters covered in the going concern disclosures by reference to the key matters considered by our procedures set out above.</p> <p>Our results: We found the going concern disclosure without any material uncertainty to be acceptable (2019: acceptable).</p>

Loan provisioning **Loss** **Complex provision with heightened level of subjectivity:**

Provision (£ 1,994 thousand; 2019: £994 thousand)
 Charge (£ 1,416 thousand; 2019: £431 thousand)

Refer to page 24 (Corporate Governance Report), note 1.6.4 (Accounting policies) and note 3.10 (Notes to the Financial Statements).

The loan loss provision covers loans specifically identified as impaired, a collective provision for impairments incurred but not recognised and a COVID-19 management overlay.

Specific impairment provision

The Director's assess individual impairments by reference to loans that have current arrears. The individual impairment is derived from a model that uses a combination of the Bank's historical experience and management judgement due to the Bank's limited loss experience. In particular, judgement is required on the key assumptions of Probability of Possession, Forced Sale Discounts against collateral and Time to Sell following possession.

Collective impairment provision

The collective impairment provision is derived from a model that uses a combination of the Bank's historical experience and external data due to the Bank's limited loss experience. In particular, judgement is required on the key assumptions of Emergence Period (used for Probability of Default), Forced Sale Discount and Probability of Default to Possession (used for Loss Given Default).

During the year the Bank implemented a new collective impairment provision model. New model implementation inherently heightens the audit risk in the year.

COVID-19 management overlay

Adjustments to the model driven collective impairment provision results are made by management to address known impairment model limitations or emerging trends. They represent approximately 7% of the collective impairment provision. Management judgement is involved in estimating these amounts especially in relation to the impact of COVID-19 economic uncertainty.

The effect of these matters is that, as part of our risk assessment, we determined that the impairment of loans and advances to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount. The financial statements Note 2.2 discloses the sensitivities estimated by the Bank.

Our procedures included:

Methodology implementation: we compared the model's methodology with the requirements of the relevant accounting standard.

Sector experience: We involved KPMG credit risk assurance specialists to critically assess and challenge the key assumptions of the *collective impairment provision* model based on our industry experience.

Benchmarking assumptions: We compared the key assumptions used in the *specific impairment provision* model, including probability of possession, forced sale discounts against collateral, time to sell and costs to sell with KPMG's bank and building society database;

We also compared the loan portfolio key metrics, including provision coverage, with those of comparable lenders.

Tests of detail: We assessed whether the model performs the impairment calculations as designed, by performing a recalculation of the specific and collective impairment provision. We also tested the completeness and accuracy of the relevant data elements which feed into the impairment provision calculations.

COVID-19 management overlay: We evaluated the judgements made by management to assess the impact of the COVID-19 uncertainty and sensitised the scenarios considered by management.

Assessing transparency: We evaluated whether the disclosures appropriately reflect and address the level of subjective estimation that exists when determining the loan loss provision. In addition, we challenged whether the disclosure of the key estimates and assumptions made was sufficiently clear;

Our results

We found the loan loss provision recognised and the related disclosures to be acceptable (2019: acceptable)

The risk**Our response****Revenue Recognition: effective interest rate**

Net interest income (£ 37,937 thousand; 2019: £28,301 thousand)

Refer to page 24 (Corporate Governance Report), note 1.11 (Accounting policies) and note 3.1 (Notes to the Financial Statements).

Subjective estimate:

Using models, interest and fees earned and incurred on loans are recognised using the effective interest rate ('EIR') method that spreads directly attributable income over the expected lifetime of the loans.

The Bank has a portfolio of *loans acquired* in the past with a premium which is spread over the expected lifetime of the loans. A separate EIR calculation is performed for *loans originated* through the regular lending business of the Bank.

The Directors apply judgement in deciding which fee income represents an integral part of the EIR for *loans originated*. Another critical element of judgement is in assessing the expected repayment profiles used to determine the EIR period for *loans acquired* and *loans originated*. This is informed by product mix and a combination of management judgement and past loan repayment history of the Bank.

The effect of these matters is that, as part of our risk assessment, we determined that EIR income has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements Note 2.2 discloses the sensitivities estimated by the Bank.

Our procedures included:

Our sector experience: We critically evaluated the key assumptions behind the behavioural life of significant loan products against our own knowledge of industry experience and trends, including benchmarking with comparable lenders. We also challenged judgments made in relation to assessment of fees integral to the undertaking of the loans.

Sensitivity analysis: We assessed the models for their sensitivity to changes in the key assumptions by considering different repayment profiles to help us assess the reasonableness of the assumptions used and identify areas of potential additional focus.

Historical comparison: We assessed the Bank's expected repayment profiles by comparing them to current and past performance of the Bank's portfolios, including recent cash collections.

Tests of detail: We performed a risk assessment and determined the EIR revenue streams on *loans originated* which contain a higher risk of material misstatement. For the identified EIR revenue streams we independently developed a model to calculate the EIR income adjustment. For the full population of *loans acquired*, we independently developed a model to calculate the EIR income adjustment of the premium amortisation.

We tested the completeness, existence and accuracy of loan fee income and expense data which feed into the EIR models on a sample basis.

Assessing transparency: We evaluated whether the disclosures appropriately reflect and address the level of subjective estimation that exists when determining revenue recognition on the Bank's loan portfolios. In addition, we challenged whether the disclosure of the key estimates and assumptions made was sufficiently clear;

Our results: We found the estimate, resulted disclosures and calculation of interest income to be acceptable (2019: acceptable)

IT user access management**Control performance:**

IT underpins many activities within the Bank including the generation of financial statements. User access management controls are an important component of the general IT control environment assuring that automated controls enabled by the financial reporting systems operate in a consistent and effective manner, preventing and detecting material misstatements to the Bank's financial statements.

Appropriate user access management controls contribute to mitigating the risk of potential fraud or errors in the Bank's financial statements as a result of changes to applications and data.

If the controls for user access management are deficient and are not remediated or adequately mitigated, the pervasive nature of these controls may undermine our ability to place reliance on automated and IT dependent controls in our audit.

With the assistance of our own IT specialists, our procedures included:

Controls design and observation: We tested user access management controls for applications we have planned to rely on to support the generation of the financial statements. Our procedures included tests of the design and operating effectiveness of user access management controls, both at the application and supporting infrastructure levels. Where the general IT controls we have chosen to test are not operating effectively, we addressed the increased risk of financial statement misstatement by extending the scope of our work.

Extended scope: Where general IT controls and compensating manual controls did not operate to mitigate a risk, we performed additional substantive testing, such as extended sample sizes over impacted accounts and comparing the selected data from the bank's systems to external sources such as third party bank statements where possible, to test the integrity of the transactional level data that is flowing into the Bank's financial statements.

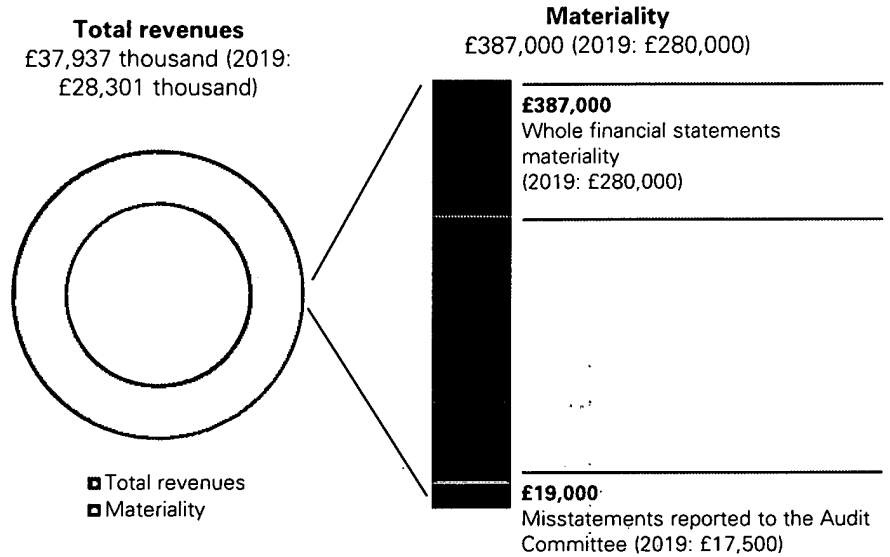
Our results: Where we tested user access management general IT controls, we identified deficiencies in the design and operation of these controls. In response we expanded the extent of our detailed testing over and above that originally planned and this work was completed satisfactorily.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £387,000 (2019: £350,000), determined with reference to a benchmark of total revenues, of which it represents 1% (2019: 1%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £19,000 (2019: £17,500), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Bank was undertaken to the materiality level specified above and was performed remotely, contacting the Bank's London based head office staff.



4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Bank or to cease its operations, and as they have concluded that the Bank's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Bank will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to this key audit matter, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects.

5. We have nothing to report on the Strategic report and the Directors' report

The Directors are responsible for the Strategic report and the Directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the Directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the Strategic report and the Directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Bank, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 35, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the Directors (as required by auditing standards), and from inspection of the Bank's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Bank is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, prudential regulation and taxation legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Bank is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Bank's licence to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity and certain aspects of Bank legislation, recognising the financial and regulated nature of the Bank's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Bank's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Simon Ryder

(Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London

7 August 2020

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FOR THE YEAR ENDED 30 APRIL 2020

Statement of Total Comprehensive Income

	Note	2020 £000	2019 £000
Interest receivable and similar income	3.1	37,937	28,301
Interest payable and similar charges	3.1	(15,412)	(11,068)
Net Interest Income		22,525	17,233
Other income	3.2	16	-
Operating income		22,541	17,233
Administrative expenses	3.3	(26,563)	(21,419)
Net impairment loss on financial assets	3.10	(1,416)	(431)
Operating loss before tax		(5,438)	(4,617)
Tax	3.9	879	(1,649)
Loss post tax for the year		(4,559)	(6,266)
Other Comprehensive Income			
Items that are or may be reclassified to profit or loss			
Net change in fair value of Investment Securities – Available for Sale		(1)	1
Total Other Comprehensive income for the year, attributable to the owners		(1)	1
Total Comprehensive Loss for the year, net of tax		(4,560)	(6,265)

The above results are derived wholly from continuing operations.

The notes 1 to 5.6 are an integral part of these financial statements.

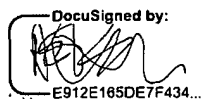
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FOR THE YEAR ENDED 30 APRIL 2020

Statement of Financial Position

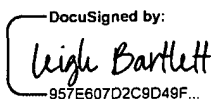
	Note	2020 £000	2019 £000
Assets			
Cash and Balances at central banks	4.1	131,294	124,998
Loans and Advances to banks	4.2	5,229	7,452
Loans and Advances to Customers	4.3	716,534	589,888
Fair value hedge asset	4.14.4	1,555	-
Available for sale debt securities	4.4	-	9,989
Deferred Tax Assets	4.5	-	-
Tangible Fixed Assets	4.6	663	170
Intangible Assets	4.7	5,188	4,814
Other Assets	4.8	2,096	1,162
Total Assets		862,559	738,473
Liabilities			
Customer Deposits	4.9	788,109	659,709
Other Liabilities	4.10	3,139	4,307
Derivative liabilities	4.14.4	1,539	-
Provisions for Liabilities	4.11	-	160
Long-term subordinated debt	4.12	6,025	6,000
Total Liabilities		798,812	670,176
Equity			
Share Capital	4.13	79,311	79,311
Share Premium		7,861	7,861
Retained Earnings		(23,425)	(18,876)
Other Reserves		0	1
Total Equity		63,747	68,297
Total Equity and Liabilities		862,559	738,473

These financial statements were approved by the Board of Directors on 7 August 2020 and were signed on its behalf by:

DocuSigned by:

 E912E165DE7F434...

Ashley Machin
 Chairman

Company Number: 09660012.

DocuSigned by:

 957E607D2C9D49F...

Leigh Bartlett
 CEO

The notes 1 to 5.6 are an integral part of these financial statements.

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FOR THE YEAR ENDED 30 APRIL 2020

Statement of Changes in Equity

	Share Capital £000	Share Premium £000	Retained Earnings £000	Other reserves £000	Total Equity £000
Balance at 1 May 2018	36,962	-	(12,610)	-	24,352
Loss for the year	-	-	(6,266)	-	(6,266)
Other Comprehensive Income	-	-	-	1	1
Total Comprehensive Income for the year	-	-	(6,266)	1	(6,265)
Issue of Share Capital	42,349	11,903	-	-	54,252
Expenses of capital issue	-	(4,042)	-	-	(4,042)
Total contributions by and distributions to owners	42,349	7,861	-	-	50,210
Balance at 30 April 2019	79,311	7,861	(18,876)	1	68,297
Balance at 1 May 2019	79,311	7,861	(18,876)	1	68,297
Loss for the year	-	-	(4,559)	-	(4,559)
Other Comprehensive Income	-	-	-	(1)	(1)
Total Comprehensive Income for the year	-	-	(4,559)	(1)	(4,560)
Issue of share options	-	-	10	-	10
Total contributions by and distributions to owners	-	-	10	-	10
Balance at 30 April 2020	79,311	7,861	(23,425)	-	63,747

The notes 1 to 5.6 are an integral part of these financial statements.

FOR THE YEAR ENDED 30 APRIL 2020

Statement of Cashflows

	Note	2020 £000	2019 £000
Cashflows from operating activities			
(Loss) before tax for the year		(5,438)	(4,617)
Adjustments for:			
Depreciation and amortisation		2,033	2,216
Increase in provisions		(160)	142
Share based payments		10	-
Corporation Tax Credited		879	586
Other		9	(2)
Changes in:			
(Increase) in Loans and Advances to Customers		(126,646)	(272,409)
(Increase) in Other Assets		(934)	(185)
Increase in Customer Deposits		128,400	282,494
Increase in Other Liabilities		(1,168)	2,430
Net cash flow from operating activities		(3,015)	10,655
Cash flows from Investing Activities			
Purchase of Property, Plant and Equipment		(820)	(39)
Purchase of Intangible Assets		(2,056)	(2,698)
Net cash flow from Investing Activities		(2,876)	(2,737)
Cash flows from Financing Activities			
Net proceeds from the issue of share capital		-	50,210
Increase in borrowing		(25)	-
Net cash flow from Financing Activities		(25)	50,210
Net increase in Cash and Cash Equivalents		(5,916)	58,128
Cash and cash equivalents at 1 May		142,439	84,311
Cash and Cash Equivalents at 30 April	4.1, 4.2, 4.4	136,523	142,439

The notes 1 to 5.6 are an integral part of these financial statements.

FOR THE YEAR ENDED 30 APRIL 2020

Notes to the Financial Statements

1. Accounting Policies

1.1 REPORTING ENTITY

Masthaven Bank Limited (the 'Bank') is a company incorporated in the United Kingdom under the Companies Act 2006. The Bank is a private company limited by shares. The address of the registered office is 90 Long Acre, London WC2E 9RA. The nature of the Bank's operations and principal activities are set out in the Strategic Report on page 1.

1.2 BASIS OF PREPARATION

These financial statements were prepared under the historical cost convention, modified using IAS39 to include financial instruments at fair value in accordance with Financial Reporting Standard 102 ("FRS 102") as issued in August 2014. The presentational and functional currency of these financial statements is British Pound Sterling. The accounting policies are consistent with the prior year.

1.3 GOING CONCERN

The going concern basis is dependent on maintaining sufficient levels of capital and funding in the balance sheet. The Directors considered a number of factors including the projections for the Bank and its capital and funding position.

The Bank's business activities and objectives, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The Bank remains in an early growth phase and therefore forecasting performance is inherently uncertain with risks exacerbated by the uncertainty in the future macro-economic outlook. The Bank has prepared detailed forecasts for a period of not less than 18 months from the date of approval of these financial statements. The Bank has disclosed a loss before tax for the year of £5.4m (2019: £4.6m). Despite these annual losses and expected performance during the forecast period, the Bank continues to be in compliance with its regulatory capital requirement and forecasts this to be the case throughout the forecast period. As part of its forecasts, the Bank has applied a severe stress test based on the Bank of England's Annual Cyclical Scenario ('ACS'). Having taken into account the plausible actions (for example the curtailing of customer lending and a cost reduction strategy) that the Bank could initiate in response to the severe stress under the ACS, the Directors are confident that the company will have sufficient regulatory capital throughout the 18 month forecast period and therefore have prepared the financial statements on a going concern basis.

1.4 FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the instrument. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Bank after deducting all its liabilities.

Financial assets and liabilities

All the Bank's financial assets and liabilities are initially measured at transaction price (including transaction costs). Financial assets and liabilities are only offset in the statement of financial position where there exists a legally enforceable right to set off the recognised amounts and the Bank intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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Financial assets are derecognised when:

- the contractual rights to the cash flows from the financial asset expire or are settled;
- the Bank transfers to another party substantially all the risks and rewards of ownership of the financial asset; or
- the Bank, despite having retained some, but not all, of the significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the contractual obligations are discharged, cancelled or expire.

1.5 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged. The Bank makes use of derivative instruments to manage exposures to interest rate risk. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in the income statement (even if those gains would normally be recognised directly in reserves). The Bank applies fair value hedge accounting for transactions which meet specified criteria.

At inception of the hedge relationship, the Bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship, at inception and on an ongoing basis.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, both at inception and at each month-end on an ongoing basis.

A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. Hedge ineffectiveness is recognised in the income statement in 'other income and expense'.

For designated and qualifying fair value hedges the cumulative change in the fair value of a hedging derivative is recognised in the income statement in 'other income and expense'. Meanwhile, as the hedged items relate to the portion of a portfolio of financial assets, the cumulative change in the fair value of the hedged item attributable to the risk hedged is recorded as a separate asset/liability in the statement of financial position and is recognised in the income statement in 'other income and expense'.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is discontinued prospectively.

The fair value hedge adjustment is amortised on a straight-line basis until the point at which the hedged item is derecognised or, if earlier, the expiry of the relevant repricing time period. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the income statement

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1.6 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Bank initially recognises loans and receivables on the date that they are originated and customer deposits when cash is received from the depositors. All other financial assets and liabilities are recognised initially on the settlement date, which is the date that the Bank becomes a party to the contractual provisions of the instrument.

The Bank classifies its financial assets in the following categories: loans and receivables, available for sale financial assets or fair value through profit and loss. The Bank's financial liabilities are financial liabilities measured at amortised cost. A financial asset is measured initially at fair value plus the transaction costs that are directly attributable to its acquisition. A financial liability is measured initially at fair value less the transaction costs that are directly attributable to its issue.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal payments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount recognised and the maturity amount, less any reduction for impairment.

Fair value is the amount for which an asset could be exchanged, a liability settled, or an equity instrument granted, between knowledgeable, willing parties in an arm's length transaction.

1.6.1 LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Subsequently, these are measured at amortised cost using the effective interest rate method, less any impairment losses. Loans and receivables comprise Loans and Advances to Banks and Loans and Advances to Customers.

1.6.2 AVAILABLE FOR SALE FINANCIAL ASSETS

Available for sale financial assets are non-derivative financial assets that are designated as available for sale and that are not classified in any of the previous categories of financial assets. Subsequent to initial recognition they are measured at fair value and changes therein, other than impairment losses, are recognised within other comprehensive income and presented within equity in the available for sale reserve. On disposal, gains and losses recognised previously in equity are transferred to the income statement.

1.6.3 OTHER FINANCIAL LIABILITIES

Customer deposits are non-derivative financial liabilities with fixed or determinable payments. Deposits are carried at amortised cost using the effective interest rate method.

1.6.4 IMPAIRMENT OF FINANCIAL ASSETS

On an ongoing basis, the Bank assesses whether there is objective evidence that a loan and receivable or available for sale financial asset, or group of loans and receivables and available for sale financial assets, is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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The criteria that the Bank uses to determine whether there is objective evidence of impairment loss include, but are not limited to, the following:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Initiation of Bankruptcy/administration proceedings; and
- Deterioration in the value of collateral.

If there is objective evidence that an impairment loss on a financial asset has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

A range of forbearance options is available to support customers who are in financial difficulty. The purpose of forbearance is to support customers who have temporary financial difficulties and help them get "back on their feet".

The main options offered by the Bank include:

- reduced monthly payment;
- an arrangement to clear outstanding arrears;
- capitalisation of arrears; and
- extension of term.

As a result of COVID 19, the PRA have also requested that Banks provide customers with Payment Holidays where requested by the customer to support them through the COVID 19 pandemic.

Loans that have renegotiated or deferred terms, resulting in a substantial modification to the cash flows, are no longer considered to be past due but are treated as new loans recognised at fair value, provided the customers comply with the renegotiated or deferred terms.

Repossession of property pledged as collateral

The Bank's policy is to sell repossessed assets rather than use them for its internal operations. In its normal course of business, the Bank does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the balance sheet.

1.6.5. LOAN COMMITMENTS

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans. The Bank is theoretically exposed to loss in an amount equal to the total of unused commitments. However, the likely amount of loss is

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expected to be significantly less; most commitments to extend credit are contingent upon customers maintaining specific credit standards.

1.7 IMPAIRMENT OF NON-FINANCIAL ASSETS

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

1.8 CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents comprise loans and advances to banks and building societies and short term highly liquid debt securities with less than 3 months to maturity. Loans to banks and building societies comprise cash balances and call deposits.

1.9 INTANGIBLE ASSETS

Purchased software and costs directly associated with the internal development of computer software are capitalised as intangible assets where the software is an identifiable asset controlled by the Bank which will generate future economic benefits and where costs can be reliably measured.

Amortisation begins when the asset becomes available for operational use and is charged to the income statement on a straight-line basis over the estimated useful life of the software, which is generally between 3 to 5 years. The amortisation periods used are reviewed annually. Assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Brands acquired by the Bank are measured at cost less accumulated amortisation and any accumulated impairment losses. The carrying amount of brands is reviewed at least annually to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Where impairment exists, the amount is recognised in the income statement and cannot be subsequently reversed.

Website development costs are capitalised as intangible assets where costs can be reliably measured. These costs are amortised on a straight-line basis over the estimated useful life, which is 3 years. The website is an identifiable asset controlled by the Bank which will generate future economic benefits.

Intangible assets are stated at cost less accumulated amortisation and impairment losses.

1.10 PROPERTY, PLANT AND EQUIPMENT

Tangible fixed assets are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of plant and equipment at the following rates:

- Office equipment hardware 3 to 5 years
- Leasehold improvements 3 years
- Furniture 5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

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1.11 INTEREST INCOME AND EXPENSE

Interest income and expense are recognised in the Statement of Comprehensive Income for all instruments measured at amortised cost using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank takes into account all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

1.12 FEES AND COMMISSION INCOME AND EXPENSE

Fees and commissions which are not considered integral to the effective interest rate are recognised on an accruals basis when the service has been provided or incurred.

1.13 OPERATING LEASES

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

1.14 TAXATION

Tax in the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided in full using the liability method on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1.15 PENSION COSTS

The Bank maintains a policy of supporting the defined contribution pension schemes of its employees. The amount charged to the profit and loss account in respect of pension costs is the value of contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are included within accruals or prepayments in the balance sheet.

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1.16 EMPLOYEE SHARE-BASED PAYMENT TRANSACTIONS

The Bank issues equity-settled share options to certain employees of the Bank. Equity-settled share option payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Bank's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions. The grant date fair value of a share-based payment transaction is recognised as an employee expense, with a corresponding increase in equity over the period that the employees become unconditionally entitled to the awards. In the absence of market prices, the fair value of the equity at the date of the acquisition is assessed based on the net asset value of the Bank and the option price and is calculated using the Black Scholes pricing model.

The expected life used in the model is based on management's best estimate, which considers non-transferability, exercise restrictions and behavioural factors. The volatility measure is also based on management's best estimate, as the shares are unlisted and there is no trading.

The amount recognised as an expense in the Income Statement is based on amortising the grant date fair value at a constant rate to the vesting date.

1.17 PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised when; the Bank has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of economic resources will be required from the Bank; and amounts can be reliably measured. Onerous contract provisions are recognised for losses on contracts where the forecast costs of fulfilling the contract throughout the contract period exceed the forecast income receivable. In assessing the amount of the loss to provide on any contract, account is taken of the Bank's forecast results which the contract is servicing. The provision is calculated based on discounted cash flows to the end of the contract.

Contingent liabilities are disclosed when the Bank has a present obligation as a result of a past event, but the probability that it will be required to settle that obligation is more than remote, but not probable.

1.18 CAPITAL AND SUBORDINATED DEBT RAISING EXPENSES

Qualifying costs attributable to the issuance of capital, convertible loan notes and subordinated debt are netted against issue proceeds. They include any incremental costs that are directly attributable to issuing the instruments, such as advisory and underwriting fees.

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2. Critical Accounting Estimates and Judgements in applying Accounting Policies

The Bank makes estimates and judgements that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key estimates, assumptions and judgements are set out below:

2.1 EFFECTIVE INTEREST RATE

During the year, the premium arising on the acquisition of the loan portfolios has been amortised through the Statement of Comprehensive Income to an amount of £1.4m (2019: £3.3m). In determining the expected life of loans and receivables assets for the acquired loan portfolios, the Bank now has a good track record of cash flows from its acquired book. Therefore, a forecast profile based upon behavioural life is used and the assumption is that future behaviour will reflect historical experience. If the estimated future cash flows are revised, the gross carrying value of the financial asset is recalculated as the present value of the estimated future contractual cash flows discounted at the effective interest rate, and compared with the carrying value of the loan book. In determining the expected life of loans and receivables assets for the originated loan portfolio, the Bank uses likely behavioural profiles that are determined by the number of customers that remain on the product after the end of the incentive period. However, as the Bank has limited experience of customer behaviour of long-term lending products reaching the end of their incentive period, it has used management's experience and peer group comparisons. Any variation in the expected life of these assets will change the carrying value in the statement of financial position and the timing of the recognition of interest income.

Long term loans are amortised over their expected behavioural life which management has determined to be the fixed rate period plus an additional three months on the Bank's administered variable rate.

At the end of the financial year, the EIR interest adjustment was £2.0m. If the expected average lives of the loans were increased by 2 months the adjustment would be £0.5k. Management has chosen to adopt the approach of using fixed rate period plus an additional three months as the expected behavioural life until the evidence of actual behavioural life can be obtained.

Short term loans are amortised over the actual life of the loan. Management recognises a catch-up adjustment to ensure that there is no residual prepayment or accrued income on the balance sheet relating to a loan that has been repaid.

2.2 IMPAIRMENT LOSSES ON LOANS AND ADVANCES

The Bank regularly reviews its loan portfolio to assess the level of impairment. Impairments are assessed on an individual and on a collective basis. The Bank has limited loss experience which thereby makes it more difficult to assess loan losses than other banks on a collective basis. As a result, the Bank exercises more judgement than usual in determining whether there is a measurable decrease in the estimated future cash flows from loan portfolios.

In determining whether an individual impairment loss should be recorded in the statement of comprehensive income, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

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Specific impairments

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The recoverable amount is typically dependent on the sale of the collateral. The amount recoverable is determined with reference to:

- The property valuation haircut;
- The time taken to realise the sale proceeds;
- The property marketing costs; and
- The legal costs of sale.

A sensitivity analysis was carried out on the following key assumptions used to calculate the recoverable amount and therefore the impairments required for specific impairment:

- If property valuation haircuts increased/decreased by 5%, impairments increase/decrease by £87k (2019: £24k);
- If the time to realise sale proceeds is increased by one month, impairments would increase by £36k (2019: £9k);
- If the property marketing costs increased by 0.25%, impairments would increase by £14k (2019: £5k);
- If the legal costs of sale increased by 0.25%, impairments would increase by £ 14k (2019: £5k); and
- If the probability of possession is increased by 5%, impairment would increase by £18k (2019: £27k).

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Collective impairment provision

In the current year the Bank engaged a specialist third party credit risk firm to build a collective impairment model for the Bank. The model is a probability of default-based model using the Bank's historical default rates. The model discriminates based on certain risk characteristics of individual mortgages, that include: Loan to Value, arrears status, product, maturity and other risk factors such as whether or not the mortgage is in forbearance. In the current period, an input into that model was the effect of COVID 19. The main assumptions included in the model relate to the:

- Emergence period;
- Probability of possession given default ("PPD");
- Probability of loans in forbearance defaulting; and
- Property valuation haircut.

A sensitivity analysis was carried out on these main assumptions and therefore the impairments required for collective impairments:

- If the emergence period was increased by 3 months for long term lending, impairments would increase by £41k;
- If the PPD was increased/decreased relatively by 10%, impairments would increase/decrease by £78k;
- If the probability of loans in forbearance defaulting increased/decreased relatively by 10%, impairments would increase/decrease by £8k; and
- If the input property valuation haircuts increased/decreased absolutely by 5%, impairments would increase/decrease by £0.4m.

2.3 DEFERRED TAX ASSET RECOGNITION

The Bank has considered the carrying value of deferred tax assets in the current year and has concluded that, given the losses over prior years, along with the uncertainty created with the current UK macro-economic situation, doubt exists over the viability of future taxable profits in an appropriate timeframe. The Bank therefore wrote off its deferred tax asset of 2019: £2.6m in the prior year. These losses will be available against future taxable profits as they arise.

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3. Statement of Comprehensive Income Analyses

3.1 INTEREST INCOME AND EXPENSE

	2020	2019
	£000	£000
Interest and similar income on Loans and Advances to Customers	37,497	30,509
Interest on impaired assets	1,137	414
Interest on Investment Securities – Available for Sale	44	55
Interest on bank balances	707	625
Amortisation of fair value premium on loan book acquisition	(1,431)	(3,302)
Net interest receivable/(payable) on interest rate swaps in hedging relationships	(17)	-
Total Interest receivable and similar income	37,937	28,301
Interest on Deposits from customers	(14,690)	(10,348)
Interest on long-term borrowings	(722)	(720)
Total Interest payable and similar charges	(15,412)	(11,068)
Net Interest Income	22,525	17,233

Amortisation of the premium on loan book acquisition relates to the amortisation in the period of the difference on acquisition between book value and fair value determined on an arm's length basis by the Bank for the portfolios acquired from Masthaven Group Limited and Masthaven Secured Loans Group Limited. This amortisation is being carried out on an EIR basis.

3.2 OTHER INCOME

	2020	2019
	£000	£000
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	1,555	-
Changes in the fair value of derivatives in hedging relationships	(1,539)	-
Other Income	16	-

3.3 ADMINISTRATION EXPENSES

		2020	2019
	Note	£000	£000
Staff costs	3.5	15,770	12,739
Depreciation and amortisation	4.6/4.7	2,033	2,216
Operating lease rentals	3.8	610	504
FSCS levy		(6)	(82)
Other administrative expenses		8,156	6,042
Administrative expenses		26,563	21,419

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3.4 AUDITOR'S REMUNERATION	2020	2019
	£000	£000
Fees payable to the Bank's auditor for the audit of the Bank's annual accounts	255	140
Fees payable to the Bank's auditor and its associates for other services:		
- Audit related assurance services	-	-
- Other non-audit services	-	-
Auditor's remuneration	255	140

3.5 STAFF NUMBERS AND COSTS

The average number of persons employed by the Bank (including executive Directors) is set out below.

	2020	2019
Risk, governance, finance and compliance	45	34
Business operations and other	141	123
Total	186	157

The analysis includes both full-time and part-time staff but does not include non-executive Directors.

The aggregate payroll costs of these people were as follows:

	2020	2019
	£000	£000
Wages, salaries and performance related pay	12,975	10,606
Social Security costs	1,705	1,361
Pension costs	637	465
Share based payments	10	(3)
Other staff costs	443	311
	15,770	12,739

3.6 EMPLOYEE SHARE-BASED PAYMENT TRANSACTIONS

On 27 March 2019, the Masthaven Bank Limited Company Share Option Plan (CSOP) ceased and all share options in issue at that date were surrendered. No share options were granted to employees under the Masthaven Bank Limited Company Share Option Plan (CSOP) during this financial period. Share options that were granted in previous financial periods were granted in accordance with Schedule 4 of the Income Tax (Earnings and Pensions) Act 2003.

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In the current financial year, an unapproved share option scheme was implemented where share options were granted with an exercise price of £1, being the nominal value of the related shares. The share options ordinarily become exercisable following admission of the Bank's shares on a stock exchange or in the event of a takeover or winding up. The share options may lapse in full or in part if a participant ceases employment with the Bank prior to exercise.

The movements in the number of share options outstanding and their weighted average exercise prices are as follows:

	2020	2020	2019	2019
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at beginning of the period	-	-	100,261	6.8p
Granted during the period	3,920,549	£1.00	-	-
Surrendered during the period	-	-	(100,261)	6.8p
Exercised during the period	-	-	-	-
Expired during the period	-	-	-	-
Outstanding at end of the period	3,920,549	£1.00	-	-
Exercisable at end of the period	-	-	-	-

No options were exercised during the period. The outstanding share options at the end of the previous period had exercise prices of £1.

The weighted average remaining contractual life of the outstanding share options at the end of the previous period was 4.8 years.

The fair values of the share options granted during the period were determined using the Black-Scholes valuation model. The significant inputs to the model were as follows:

	2020	2019
Share price at date of grant	£0.46	-
Exercise price	£1.00	-
Dividend yield	-	-
Expected volatility	43%	-
Risk free interest rate	0.3%	-
Expected life	5 years	-
Fair value at date of grant	£0.07	-

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome. The expected volatility has been determined taking into account the historical volatility of comparator companies listed on the London Stock Exchange.

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3.7 DIRECTORS' REMUNERATION

	2020	2019
	£000	£000
Salaries and performance related pay	976	723
Payments for loss of office	475	-
Social security costs	179	90
Pension costs	59	44
	<u>1,689</u>	<u>857</u>

There were no Directors to whom retirement benefits were accruing in respect of qualifying services during the year (2019: nil).

During the year to 30 April 2020, the Bank did not issue any (2019: nil) options over its shares to the Directors of the Bank.

The aggregate of remuneration of the highest paid Director was £ 794k (2019: £396k). Pension costs attributable to the highest paid Director were £30k (2019: £20k). The Director received nil share options in respect of qualifying services under the Masthaven Bank Limited Company Share Option Plan (2019: nil).

3.8 OPERATING LEASES

Non-cancellable operating lease rentals are payable as follows:

	2020	2019
	£000	£000
Less than 1 year	550	138
Between 1 and 5 years	10	17
Over 5 years	-	-
	<u>560</u>	<u>155</u>

On 1st May 2019 the Bank entered into an agreement to lease the third floor of 90 Long Acre, London, on a 5 year lease (up to 1st May 2024) with a rolling mutual break option after 31 December 2020.

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3.9 TAX

3.9.1 RECOGNISED IN THE STATEMENT OF COMPREHENSIVE INCOME

	2020	2019
	£000	£000
Current tax:		
Current tax on loss for the year	-	-
Adjustments in respect of prior periods	(879)	(586)
Total current tax	(879)	(586)
Deferred tax:		
Origination and reversal of temporary differences	-	1,937
Adjustments in respect of prior periods	-	298
Total deferred tax charge / (credit)	-	2,235
Total tax charge / (credit)	(879)	1,649

3.9.2 TAX RECONCILIATION

	2020	2019
	£000	£000
Loss for the year	(5,438)	(4,617)
Tax using the UK corporation tax rate of 19% (2019: 19%)	(1,033)	(877)
Fixed asset differences	22	153
Permanent non-deductible expenses	17	21
Income not taxable	-	(1)
Other permanent differences	2	1
Adjustments in respect of prior periods – Research & Development tax credit	(879)	(586)
Adjustment to tax charge in respect to prior periods – deferred tax	(249)	387
Deferred tax not recognised (note 2.3)	1,241	2,551
	(879)	1,649

The government announced, in the Spring Budget 2020, that the previously enacted decrease in the corporate tax rate from 19% to 17% from 1 April 2020 would no longer happen and that rates would remain at 19% for the foreseeable future.

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3.10 PROVISION FOR IMPAIRMENT LOSSES ON FINANCIAL ASSETS

Impairment losses taken to income statement

	2020	2019
	£000	£000
Individual impairments	906	184
Collective impairment	510	247
	1,416	431

	2020	2019
	£000	£000
Individual impairments provision		
Balance brought forward	747	348
Other	-	370
Increase recognised in income statement	906	184
Utilised during the year	(416)	(155)
As at 30 April 2020	1,237	747

	2020	2019
	£000	£000
Collective impairment provision		
Balance brought forward	247	-
Increase recognised in income statement	510	247
As at 30 April 2020	757	247

	2020	2019
	£000	£000
Total impairment provisions		
Individual impairments provision	1,237	747
Collective impairment provision	757	247
As at 30 April 2020	1,994	994

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4. Statement of Financial Position Analyses

4.1. CASH AND BALANCES AT CENTRAL BANKS

	2020 £000	2019 £000
Cash and balances at central banks	131,294	124,998

Surplus funds are held in the Bank of England reserve account. The rating agency designation as at 30 April 2020, based on Moody's long-term ratings is Aa2 (2019: Aa2).

4.2 LOANS AND ADVANCES TO BANKS

	2020 £000	2019 £000
Placements with other banks included in cash and cash equivalents	5,229	7,452

All amounts are due on demand.

The table below presents an analysis of loans and advances to banks by rating agency designation as at 30 April, based on Moody's long-term ratings:

	2020 £000	2019 £000
A2	4,975	7,199
Baa2	254	253
	5,229	7,452

None of the loans and advances to banks are either past due or impaired. For the purpose of the Statement of Cashflows, cash and cash equivalents include the balance above, cash at central banks and Treasury bills (in 2019 of £9,989k) available for sale as per note 4.4. Loans and advances to banks are due on demand.

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4.3 LOANS AND ADVANCES TO CUSTOMERS

	2020 £000	2019 £000
Gross loan and advances	718,528	590,882
Less: allowances for impairment on loans and advances (Note 3.10)	(1,994)	(994)
	716,534	589,888
Amounts falling due:		
- not more than three months	86,281	78,469
- more than three months but not more than one year	115,636	96,476
- more than one year but less not more than five years	7,413	8,223
- more than five years	507,204	406,720

The above analysis is based on contractual maturity and may not reflect actual experience of repayments, since loans can be repaid early.

4.4 AVAILABLE FOR SALE DEBT SECURITIES

	2020 £000	2019 £000
UK Government gilts	-	9,989

None of the available for sale debt securities are either past due or impaired. Moody's long term rating for UK Government gilts is Aa2.

4.5 DEFERRED TAX ASSET

Deferred tax assets are attributable to the following:

	2020 £000	2019 £000
Accelerated capital allowances	-	-
Fixed asset timing differences	-	-
Tax losses carried forward and other deductions	-	-
Deferred tax asset	-	-

The movement in deferred tax during the year is as follows:

	2020 £000	2019 £000
Balance brought forward	-	2,236
Credit to the income statement	-	-
Deferred tax charge to the income statement (note 2.3)	-	(2,236)
Deferred tax asset	-	-

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4.6 PROPERTY, PLANT AND EQUIPMENT

	Computer equipment £000	Leasehold improvements £000	Furniture £000	Total £000
Cost				
At 1 May 2018	550	172	119	841
Additions	13	16	10	39
At 30 April 2019	563	188	129	880
Additions	139	557	161	857
Disposals	-	(38)	-	(38)
At 30 April 2020	702	707	290	1,699
Depreciation				
At 1 May 2018	291	107	39	437
Charge for year	186	62	25	273
At 30 April 2019	477	169	64	710
Charge for year	84	215	52	351
Disposals	-	(25)	-	(25)
At 30 April 2020	561	359	116	1,036
Net book value				
At 30 April 2020	141	348	174	663
At 30 April 2019	86	19	65	170

4.7 INTANGIBLE ASSETS

	Software £000	Website development £000	Brand £000	Total £000
Cost				
At 1 May 2018	3,773	407	900	5,080
Additions	2,592	109	-	2,701
At 30 April 2019	6,365	516	900	7,781
Additions	1,858	198	-	2,056
Write off	-	-	(900)	(900)
At 30 April 2020	8,223	714	-	8,937
Amortisation				
At 1 May 2018	735	162	128	1,025
Charge for the year	1,021	149	90	1,260
Impairment	-	-	682	682
At 30 April 2019	1,756	311	900	2,967
Charge for the year	1,503	179	-	1,682
Write off	-	-	(900)	(900)
At 30 April 2020	3,259	490	-	3,749
Net book value				
At 30 April 2020	4,964	224	-	5,188
At 30 April 2019	4,609	205	-	4,814

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The Bank considered the carrying value of the Brand Intangible Asset in the prior year and concluded that, given the annual loss in 2018 and 2019, along with the uncertainty created with the UK macro-economic situation at that time, doubt existed over establishing the fair value of the asset over the remaining period of its life. The Bank therefore wrote off the net book value of the Brand Intangible asset totalling £0.7m in the prior year.

4.8 OTHER ASSETS

	2020	2019
	£000	£000
Prepayments	858	617
Amounts due from HMRC	879	-
Other debtors	359	545
	2,096	1,162

4.9 CUSTOMER DEPOSITS

	2020	2019
	£000	£000
With agreed maturity dates or periods of notice by remaining maturity:		
Not more than three months	83,961	91,849
More than three months but not more than one year	286,453	257,121
More than one year but not more than five years	417,695	310,739
	788,109	659,709

4.10 OTHER LIABILITIES

	2020	2019
	£000	£000
Other taxation and social security	737	614
Other creditors	187	519
FSCS Levy	-	5
Accruals	2,215	3,169
	3,139	4,307

4.11 PROVISIONS

	2020	2019
	£000	£000
Other provisions	-	160
	-	160

Other provision relates to the dilapidation costs of the Bank's registered office at 11 Soho Street, London as well as additional serviced offices occupied during the prior year.

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4.12 LONG-TERM SUBORDINATED DEBT

	2020	2019
	£000	£000
Subordinated loan notes	6,025	6,000

The subordinated loan notes were issued on 17 October 2017. The principal amount outstanding at 30 April 2020 is £6.0m. The notes carry interest of 12% and are repayable at par in October 2027 with an option to repay early at the fifth anniversary of the issue date.

Given the fact that the Bank has never been subject to a published credit rating by any of the relevant agencies and the notes in issue are not quoted, the carrying value and fair value of these notes is assessed to be materially the same.

4.13 SHARE CAPITAL

Authorised, issued and fully paid

	2020	2019
	£	£
79,348,892 Ordinary shares of £1 each	79,311,093	79,311,093
In issue at 30 April	79,311,093	79,311,093

Share capital is stated net of transaction costs.

During the prior year, the Bank issued 17,000,000 C shares of £1 each for cash at par value, net of expenses. On 27 March 2019, the A Ordinary shares were redesignated as 100 Ordinary shares of £1 each, the B Ordinary shares were redesignated as 1 Ordinary share of £1 each and the C Ordinary shares were redesignated as 54,000,000 Ordinary shares of £1 each. On 12 April 2019, the Bank issued 25,348,791 Ordinary shares of £1 each for a total aggregate amount of £33,171,908 (net of transaction costs). The premium arising is reflected in Reserves (see Statement of Changes in Equity).

Ordinary shares are non-redeemable and have attached to them full voting rights, dividend rights and capital distribution (including on winding up) rights.

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4.14 FINANCIAL INSTRUMENTS

Fair values of financial assets and financial liabilities are based on quoted market prices. If the market is not active, the Bank establishes a fair value by using appropriate valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same for which market observable prices exist, net present value and discounted cash flow analysis. The objective of valuation techniques is to determine the fair value of the financial instrument at the reporting date as the price that would have been agreed between active market participants in an arm's length transaction.

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

4.14.1 DEBT SECURITIES AVAILABLE FOR SALE

Debt Securities Available for Sale are measured at fair value. The fair value of Debt Securities Available for Sale is determined by reference to their quoted bid price at the reporting date. These have been measured according to level 1 inputs.

4.14.2 LOANS AND ADVANCES

Loans and Advances are measured at amortised cost. The fair value of these is provided for information purposes. Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date, adjusted for future credit losses if considered material. These have been presented according to level 3 inputs. For loans due on demand the fair value is approximated by their carrying value and are presented as level 2.

4.14.3 DEPOSITS

Deposits are measured at amortised cost. The fair value of these is provided for information purposes. Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. These have been presented according to level 3 inputs.

4.14.4 DERIVATIVES AND HEDGE ACCOUNTING

Derivatives are measured at fair value through profit or loss. Fair value is calculated based on the present value of future interest cash flows, discounted at the market rate of interest at the reporting date. These have been presented according to level 2 inputs.

The Bank applies portfolio fair value hedge accounting using interest rate swaps to hedge the Bank's exposure to movements in interest rates arising from the Bank's fixed interest long term mortgages.

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4.14.5 VALUATION OF FINANCIAL INSTRUMENTS

The fair values of all financial assets and financial liabilities by class together with their carrying amounts shown in the statement of financial position are set out in the following table.

At 30 April 2020	Level 1	Level 2	Level 3	Total fair value	Carrying value
	£000	£000	£000	£000	£000
Assets					
Cash and balances with central banks	-	131,294	-	131,294	131,294
Loans and advances to banks	-	5,229	-	5,229	5,229
Loans and advances to customers	-	-	720,010	720,010	716,534
Fair value hedge asset	-	1,555	-	1,555	1,555
Available for sale debt securities	-	-	-	-	-
Total Assets	-	138,078	720,010	858,088	854,612
Liabilities					
Customer deposits	-	788,109	-	788,109	788,109
Derivative liabilities	-	1,539	-	1,539	1,539
Long term subordinated debt	-	6,025	-	6,025	6,025
Total Liabilities	-	795,673	-	796,673	795,673
At 30 April 2019					
Assets					
Cash and balances with central banks	-	7,452	-	7,452	7,452
Loans and advances to banks	-	124,998	-	124,998	124,998
Available for sale debt securities	9,989	-	-	9,989	9,989
Loans and advances to customers	-	-	589,888	530,181	589,888
Total Assets	9,989	132,450	589,888	672,620	732,327
Liabilities					
Customer deposits	-	659,709	-	625,736	659,709
Long term subordinated debt	-	6,000	-	6,000	6,000
Total Liabilities	-	665,709	-	631,736	665,709

There were no transfers between level 1, level 2 or level 3 during the year.

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5. Other Analyses

5.1 RISK MANAGEMENT

The main areas of financial risk that the business is exposed to are:

- Credit risk;
- Liquidity risk;
- Market risk; and
- Capital risk and management;

5.1.1 CREDIT RISK

Credit risk is the risk of financial loss arising as a result of a borrower or counterparty failing to meet its financial obligations or as a result of a deterioration in the credit quality of the borrower or counterparty. In the event of a default, the Bank generally incurs a loss equal to the amount owed by the debtor, less any recoveries from foreclosure, liquidation of collateral, the restructuring of the debtor or other recovery proceeds from the debtor. Impairment provisions are provided for losses that have been incurred at the date of the statement of financial position.

Credit Risk Management

The Bank manages credit risk through manual underwriting in its two lending divisions covering short term (bridging and development finance) and long term (mortgages and buy to let) under the leadership of the Chief Commercial Officer and Deputy CEO.

Credit risk is overseen by the Bank's Credit Committee, and ultimately the Board via the Committee hierarchy as set out previously. To assist the Credit Committee in this activity, the Credit Risk Department, reporting to the CRO, monitors exposure to credit risk and provides information to the Credit Committee on a regular basis.

Prudent risk limits, within the context of the Bank's overall risk appetite, are set by the Board and are reflected in the Bank's lending policy. Credit Committee oversight ensures appropriate controls are put in the 1st line of defence to maintain the quality of lending within these limits. It reviews credit management information, industry benchmarking data and publicly available information to aid its understanding of the quality of the portfolio.

The Bank applies detailed policy rules which assess each application against lending policy criteria. These policy rule assessments ensure consistent decision-making and are supported by detailed manual underwriting of each case.

Prudent loan-to-value limits are applied to all lending:

- On owner-occupier mortgages, ensuring a borrower has sufficient income net of expenses to pay the mortgage, both at the time of application and in a future higher interest rate environment, is a cornerstone of the Bank's approach to responsible lending;
- For buy-to-let, loan applications are assessed using a stressed interest rate to ensure minimum income coverage levels are met, even if interest rates rise significantly from current levels; and
- For short-term bridging and development loans, detailed manual assessments of current and predicted values of each case are undertaken, along with a credible exit route, to ensure that the security is sufficient to support the final expected loan exposures, including fees and interest.

The Bank has a natural concentration in the UK market, as it only lends on properties within the UK. It regularly monitors the geographical distribution of lending and any potential over-exposures in specific areas.

The Bank acknowledges that recent levels of growth mean that a relatively large proportion of the mortgage book is new and therefore may not have had sufficient time for its performance to be established. However, low loan-to-value limits protect the Bank from losses. Stress testing is undertaken on the mortgage and short-term lending portfolios to establish the level of

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loss that may emerge under a range of macroeconomic and specific stress scenarios, and to ensure that the Bank continues to remain within its credit risk appetite.

Despite the Bank's prudent lending approach, customers may sometimes find themselves in financial difficulty. In such cases, the Bank places great emphasis on working with each borrower individually, to understand the borrower's situation and to reach a realistic and fair arrangement to allow the borrower to regularise their account over a reasonable and sustainable timeframe.

The Bank's maximum exposure to credit risk is as follows:

	2020	2019
	£000	£000
Cash and balances with central banks	131,294	124,998
Loans and advances to banks	5,229	7,452
Loans and advances to customers	716,534	589,888
Available for sale debt securities	-	9,989
Other Assets	2,096	1,161
	855,153	733,488
Contractual loan commitments	3,755	15,716
Total Credit Risk	858,908	749,204

Contractual loan commitments represent lending approvals subject to conditional performance undertakings by customers. These can be cancelled if the customer is in breach of the terms and conditions of their facilities. Property Development facilities may only be drawn subject to certification of construction work by independent parties.

Market value of security against Loans and Advances to Customers is in the form of land, residential and commercial property. In addition to this collateral, the Bank also holds other types of collateral and credit enhancements such as personal guarantees and second charges. Property valuations used are those from the loan origination date or updated 3rd party valuations where applicable.

The table below represents an analysis of the loan to values of the exposures secured by property for the Bank:

	30 April 2020		30 April 2019	
	Loan Balance £000	Collateral £000	Loan Balance £000	Collateral £000
Less than 60% ¹	322,745	1,195,630	284,801	1,082,994
60% - 80%	391,455	918,782	301,320	770,025
80% - 100%	2,334	3,261	3,767	5,690
Greater than 100%	-	-	-	-
Total	716,534	2,117,673	589,888	1,858,709

Loans and advances to customers are reviewed regularly to determine whether there is any objective evidence of impairment:

- Individual impairment is assessed where specific circumstances indicate that a loss is likely to be incurred; and

¹ LTVs are calculated by including the first charge mortgage amount where the Bank is a second charge holder, however, the Bank's gross collateral is disclosed in the table.

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- Collective impairment allowances are calculated at a loan level in order to be reflective of the incurred but not reported losses for the loan portfolio at the balance sheet date.

Specific impairment provisions have been made against 13 short term and 5 long term lending accounts, totalling £1,237k. Loans and advances typically fall into this category when there is a delay in either the sale of the underlying collateral or the completion of formalities to extend the credit facilities for a further period.

Distribution of loans and advances by credit quality	At 30 April 2020		At 30 April 2019	
	Loans and advances to customers £000	Loans and advances to banks £000	Loans and advances to customers £000	Loans and advances to banks £000
Neither past due nor impaired	678,979	136,523	532,898	132,450
Past due but not impaired:				
Loans and receivables at amortised cost:				
- Less than 1 month	6,923	-	6,799	-
- 1 to 2 months	3,581	-	10,393	-
- 2 to 3 months	3,458	-	8,658	-
- Over 3 months	15,409	-	29,431	-
Impaired	10,178	-	2,703	-
Less: provision	(1,994)	-	(994)	-
	716,534	136,523	589,888	132,450

The past due but not impaired loans are subject to close oversight. They include transactions that have reached maturity, although the loan-to-value remains such that no impairment provision is required.

The Bank maintains a forbearance policy for the servicing and management of customers who are in financial difficulty and require some form of concession to be granted, even if this concession entails a loss for the Bank. As at 30 April 2020, loans for which forbearance measures were undertaken totalled £158m (2019: £5.1m) and represented 957 (2019: 20) mortgage lending customers who are on payment holiday due to COVID-19 and 2 (2019: 8) bridging lending customers who were given "breathing space" to allow the repayment with no legal actions being taken.

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CONCENTRATION OF CREDIT RISK

The Bank monitors concentrations of credit risk by sector, size and by geographical location. An analysis of concentrations of credit risk from loans and advances, investment securities, financial guarantees and contractual commitments is shown below.

At 30 April 2020

	Carrying Value 2020 £000	Concentration by Sector:			
		Banks	Retail	Corporate	Government
		2020 £000	2020 £000	2020 £000	2020 £000
Cash and balances at central banks	131,294	131,294	-	-	-
Loans and advances to banks	5,229	5,229	-	-	-
Loans and advances to Customers	716,534	-	656,198	60,336	-
Available for Sale Debt Securities	-	-	-	-	-
Contractual Loan Commitments	3,755	-	2,890	865	-
Total	856,812	136,523	659,088	61,201	-

At 30 April 2019

	Carrying Value 2019 £000	Concentration by Sector:			
		Banks	Retail	Corporate	Government
		2019 £000	2019 £000	2019 £000	2019 £000
Cash and balances at central banks	124,998	124,998	-	-	-
Loans and advances to banks	7,452	7,452	-	-	-
Loans and advances to Customers	589,888	-	566,398	23,490	-
Available for Sale Debt Securities	9,989	-	-	-	9,989
Contractual Loan Commitments	15,716	-	8,672	7,044	-
Total	748,043	132,450	575,070	30,534	9,989

The concentration by location of loans and advances to customers is shown below.

Concentration by location of collateral

	Loans and advances to Customers	
	2020 £000	2019* £000
East Anglia	96,506	99,358
East Midlands	21,250	22,210
Greater London and South East	380,680	287,993
North East	10,749	7,553
North West	35,657	28,405
Scotland	27,401	20,346
South West	53,535	54,966
Wales	20,766	14,944
West Midlands	51,990	39,350
Yorkshire and Humberside	18,000	14,763
Total	716,534	589,888

*Concentration by location has been restated to agree to the Bank's Pillar III disclosures.

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5.1.2 LIQUIDITY RISK

Liquidity risk is the risk that the Bank will not be able to meet its short-term financial obligations as they fall due.

Liquidity risk management

The Bank's approach to liquidity risk management is to hold sufficient quality and quantity of liquidity to withstand a severe, yet plausible, stress and to ensure that it meets regulatory requirements set by the PRA.

The Bank's business inherently involves 'maturity transformation' as the Bank borrows for relatively short terms and lends on mortgages for much longer periods.

This mismatch generates liquidity risk which could manifest in an inability to raise new funding, replace existing funding as it matures or be unable to convert an asset into cash without giving up capital. This could be a result of a severe liquidity crisis in the capital markets, or a loss of customer confidence that causes a 'run' on retail funds.

Determining the appropriate mix and amount of liquidity to hold is a key decision for the Board. An annual ILAAP is completed to ensure that the Bank holds sufficient liquidity: this is complemented by reverse stress testing (which goes beyond standard tests by assessing extreme events that would make the Business Model 'unworkable', identifying potential vulnerabilities which might ordinarily be missed when using standardised risk assessments) and a Recovery and Resolution Plan which identifies actions that could be taken to manage liquidity risk in the event of an extreme stress event.

The Bank's appetite for liquidity risk is set out in its risk appetite statement within the ILAAP. This was last formally approved by the Board in March 2019 and contains the results of consolidated liquidity stress tests. The Bank carries out these tests on a regular basis against the current balance sheet and latest projections to ensure that both actual and forecast liquidity remain within appetite. The Bank is currently in the process of completing the 2020 ILAAP.

Liquidity risk is managed by the CFO and Treasurer. Day-to-day liquidity management is the responsibility of the Treasury Department and is overseen by the risk function. Liquidity positions are monitored daily by Executive Management, monthly by the ALCO and ultimately overseen by the Board. This is supplemented by a Liquidity Contingency Plan.

Liquidity resources comprise assets such as funds in cash accounts, High Quality Liquid Assets held within the Bank of England Reserve Account and other easily realisable liquid assets. Liquidity resources are managed across distinct categories reflecting different features, principally the time taken to convert the resource into cash.

The amount of liquidity resources is subject to regulatory requirements set by the PRA. The LCR is a 30 day short-term liquidity measure. The regulatory minimum LCR at 30 April 2020 was 100%. The Bank monitors compliance against this measure on a daily basis and, as at 30 April 2020, the Bank's LCR was 280% (2019: 478%).

Liquidity adequacy

The ILAAP is the Bank's assessment of its liquidity position and requirements, assessed against regulatory requirements and the Bank's internal risk appetite. It ensures compliance with regulatory minimum requirements such as the LCR and with the ILAA Rules, including the need to meet the Overall Liquidity Adequacy Rule.

An integral component of this assessment is stress testing, some of which is prescriptive using detailed rules and guidance issued within prudential regulations and reported within regulatory returns. In addition, the Bank undertakes its own stress tests against which it sets Board limits. The stress tests consider each of the principal drivers of liquidity risk with the main risks to the Bank being large unexpected withdrawals of retail deposits and franchise risk. The ILAAP considers management actions that may be taken in a stress.

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The stress tests in the ILAAP are complemented by reverse stress testing as detailed above.

The ILAAP is reviewed by the PRA. Following this, the PRA provides Individual Liquidity Guidance which sets out the eligible liquidity that the PRA requires the Bank to hold. Throughout the year the Bank has continued to meet all its internal and regulatory liquidity requirements.

The table below analyses remaining contractual maturity undiscounted cash flows.

At 30 April 2020	Carrying Value £000	Net inflow / (outflow)	Up to 1 month £000	1 to 3 months £000	3 to 12 months £000	Over 1 year £000
Assets						
Cash and balances at central banks	131,294	131,294	131,294	-	-	-
Loans and advances to banks	5,229	5,229	5,229	-	-	-
Loans and advances to customers	716,534	1,068,068	51,603	44,206	144,915	827,344
Available for sale debt securities	-	-	-	-	-	-
Total	853,057	1,204,591	188,126	44,206	144,915	827,344
Liabilities						
Customer deposits	(788,109)	(807,313)	(18,111)	(67,329)	(291,781)	(430,092)
Derivative liabilities	(1,539)	(1,544)	-	-	(179)	(1,365)
Long-term subordinated debt	(6,025)	(11,400)	-	-	(720)	(10,680)
Total	(795,673)	(820,257)	(18,111)	(67,329)	(292,680)	(442,137)
At 30 April 2019						
Assets						
Cash and balances at central banks	124,998	124,998	124,998	-	-	-
Loans and advances to banks	7,452	7,452	7,452	-	-	-
Loans and advances to customers	589,888	596,950	43,657	31,378	108,474	413,441
Available for sale debt securities	9,989	10,000	-	10,000	-	-
Total	732,327	739,400	176,107	41,378	108,474	413,441
Liabilities						
Customer deposits	(659,709)	(676,553)	(29,325)	(61,921)	(259,531)	(325,776)
Long-term subordinated debt	(6,000)	(8,523)	-	-	(722)	(7,801)
Total	(665,709)	(685,076)	(29,325)	(61,921)	(260,253)	(333,577)

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FINANCIAL ASSETS AND LIABILITIES

The tables below set out the Bank's financial assets and financial liabilities into their respective classifications:

At 30 April 2020

	Fair value through profit and loss £000	Held-to-maturity £000	Loans and receivables £000	Available-for-sale £000	Liabilities at amortised cost £000	Total carrying amount £000	Fair value £000
Assets							
Cash and balances at central banks	-	-	131,294	-	-	131,294	131,294
Loans and advances to banks	-	-	5,229	-	-	5,229	5,229
Loans and advances to customers	-	-	716,534	-	-	716,534	720,010
Fair value hedge asset	1,555	-	-	-	-	1,555	1,555
Available for sale debt securities	-	-	-	-	-	-	-
	1,555	-	853,057	-	-	854,612	858,088
Liabilities							
Customer deposits	-	-	-	-	788,109	788,109	788,109
Derivative liabilities	1,539	-	-	-	-	1,539	1,539
Long-term subordinated debt	-	-	-	-	6,025	6,025	6,025
	1,539	-	-	-	794,134	795,673	795,673

At 30 April 2019

	Fair value through profit and loss £000	Held-to-maturity £000	Loans and receivables £000	Available-for-sale £000	Liabilities at amortised cost £000	Total carrying amount £000	Fair value £000
Assets							
Cash and balances at central banks	-	-	124,998	-	-	124,998	124,998
Loans and advances to banks	-	-	7,452	-	-	7,452	7,452
Loans and advances to customers	-	-	589,888	-	-	589,888	530,181
Available for sale debt securities	-	-	-	9,989	-	9,989	9,989
	-	-	722,338	9,989	-	732,327	672,620
Liabilities							
Customer deposits	-	-	-	-	659,709	659,709	625,736
Long-term subordinated debt	-	-	-	-	6,000	6,000	6,000
	-	-	-	-	665,709	665,709	631,736

The Bank has no assets pledged as collateral or encumbered (2019: nil).

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5.1.3 MARKET RISK

Market risk is the risk that arises from changes in the values of positions held on and off-balance sheet, caused by adverse movements in market prices, interest rates, credit spreads and foreign exchange. This loss can be reflected in the near-term earnings by changing net interest income, or in the longer term because of changes in the economic value of future cash flows.

Management of market risk

The main sources of market risk within the Bank are mismatches between the repricing profiles of short and long term lending and savings products. Market risk only arises in the banking book as the Bank does not engage in any trading operations and does not have any foreign currency exposure.

The CFO and Treasurer are responsible for managing current and emerging market risks on a day-to-day basis in accordance with the Bank's risk appetite. The Bank's primary objective is to manage risk to earnings over the strategic planning horizon by managing its risk exposure within prudent limits. This is achieved by matching assets and liabilities and, during the year ended 30 April 2020, the use of derivative financial instruments such as interest rate swaps. Market risk exposure is overseen by the ALCO and ultimately the Board, via the Committee hierarchy set out above.

(a) Interest rate risk

Interest rate risk in the banking book (IRRBB) refers to the current or prospective risk to the bank's capital and earnings arising from adverse movements in interest rates which in turn affect the Bank's banking book positions. In particular, fixed rate products expose the Bank to the risk that a change in interest rates could cause either a reduction in interest income or an increase in interest expense relative to variable rate interest flows.

The Bank manages and controls interest rate risk through matched-term funding and its hedging strategy.

The Bank operates within a Board-approved limit which mitigates the impact of a change in interest rates on the net present value of the balance sheet. The limit reflects the maximum acceptable impact of a parallel shock to interest rates on the net present value of the Bank's assets and liabilities and net interest income throughout the reporting period.

The Bank considers a severe 200 basis points parallel shock in interest rates to be appropriate, given the current economic outlook and industry expectations. Within these calculations, assumptions on various aspects such as loan prepayments, non-maturing deposits and interest rate caps and floors are considered and approved. The Bank's assumptions are reviewed at least annually. Interest rate exposure is managed by the ALCO and is reviewed on a monthly basis.

(b) Interest rate sensitivity gap

Using the Bank's maximum acceptable limit for a 200 basis point parallel shock, the change in equity as a result would be as follows;

£000

NPV Sensitivity + 200 bps (669)

NPV Sensitivity – 200 bps 699

The table below gives an analysis of the re-pricing periods of assets and liabilities. Mismatches in the re-pricing timing of assets and liabilities creates interest rate risk. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the residual maturity date.

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At 30 April 2020	1 to 3 months £000	3 to 12 months £000	1 to 5 years £000	More than 5 years £000	Non-interest bearing £000	Total £000
Assets						
Cash and balances at central Banks	131,294	-	-	-	-	131,294
Loans and advances to Banks	-	-	-	-	5,229	5,229
Loans and advances to customers	118,217	293,703	304,704	-	-	716,534
Available for sale debt securities	-	-	-	-	-	-
Other Assets	-	-	-	-	9,502	9,502
Total Assets	249,421	293,703	304,704	-	14,731	862,559
Liabilities						
Customer deposits	170,807	286,505	330,797	-	-	788,109
Long-term subordinated debt	-	-	-	6,025	-	6,025
Other liabilities	-	-	-	-	4,678	4,678
Equity	-	-	-	-	63,747	63,747
Total Liabilities	170,807	286,505	330,797	6,025	68,425	862,559
Interest rate sensitivity gap	78,614	7,198	(26,093)	(6,025)	(53,694)	-
Cumulative gap	78,614	85,812	59,719	53,694	-	-

At 30 April 2019

Assets						
Cash and balances at central banks	124,998	-	-	-	-	124,998
Loans and advances to Banks	-	-	-	-	7,452	7,452
Available for sale debt securities	9,989	-	-	-	-	9,989
Loans and advances to customers	128,993	170,965	285,362	-	4,568	589,888
Other Assets	-	-	-	-	6,146	6,146
Total Assets	263,980	170,965	285,362	-	18,166	738,473
Liabilities						
Customer deposits	90,052	255,881	309,527	-	4,248	659,709
Long-term subordinated debt	-	-	-	6,000	-	6,000
Other liabilities	-	-	-	-	1,197	1,197
Equity	-	-	-	-	71,567	71,567
Total Liabilities	90,052	255,881	309,527	6,000	77,012	738,473
Interest rate sensitivity gap	173,928	(84,916)	(24,165)	(6,000)	(58,846)	-
Cumulative gap	173,928	89,011	64,846	58,846	-	-

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5.1.4 CAPITAL MANAGEMENT

The following shows the regulatory capital resources managed by the Bank:

	£000
Common Equity Tier 1 Capital	
Share Capital	79,311
Share Premium	7,861
Retained Earnings	(23,425)
Other reserves	0
Intangible Assets	<u>(5,188)</u>
Common Equity Tier 1 Capital	<u>58,559</u>
Tier 2 Capital	
Subordinated Debt	6,025
Collective Provisions	<u>757</u>
Total Tier 2 Capital	<u>6,782</u>
Total Regulatory Capital	<u>65,341</u>

The Bank complied with all externally imposed capital requirements during the year. The Bank has managed its capital against its forward-looking plans in line with its capital risk appetite which is reviewed regularly.

Capital is held to protect depositors, by ensuring that the Bank has sufficient capital resources to repay liabilities even in the face of unexpected losses. Day-to-day capital management is delegated to the CFO and Treasurer and overseen by the risk function, ALCO, BRCC, BAC and ultimately the Board.

The ICAAP is the Bank's Annual evaluation of its capital position and requirements. This is assessed under the Capital Requirements Regulation and Capital Requirements Directive IV (CRD IV) framework. The ICAAP provides details of the current approaches used to manage risk across the Bank. It assesses capital requirements both against the Bank's current and planned position and during severe but plausible stresses.

The Bank bases its capital stress tests on severe but plausible stressed scenarios specified by the regulator which reflect both low and high Bank of England Base Rates. These are overlaid with additional adverse effects to provide a Bank-specific stress. In addition, a range of more severe stresses are considered in support of the overall capital assessment.

Reverse stress testing is integrated into existing stress testing. It goes beyond standard stress tests by considering extreme events that have the capacity to 'break' the Bank. As such it complements the existing ICAAP processes, helping to identify risks and possible controls which might ordinarily be missed when using standardised risk assessments.

A key outcome from the process is to consider whether any of the scenarios are sufficiently plausible to necessitate a change to the Bank's strategy or underlying controls. The ICAAP and reverse stress test are reviewed by the Board.

The Bank monitors current and forecast levels of capital against the capital risk appetite approved by the Board and reports the capital position to ALCO, BRCC, BAC and the Board on a regular basis. The capital forecast forms an integral component of the annual budgeting process and is updated in line with changes to the business plan. The capital forecast incorporates the impact of known forthcoming regulatory changes to ensure we are well positioned to meet the new requirements when implemented.

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5.2 ANALYSIS OF CHANGES IN NET DEBT

The following shows the analysis of changes in net debt:

	At 1 May 2019	Cashflows	Other non- cash changes	At 30 April 2020
	£000	£000	£000	£000
Cash and cash equivalents				
Cash and balances at central banks	124,998	6,286	10	131,294
Loans and advances to banks	7,452	(2,223)	-	5,229
Available for sale debt securities	9,989	(9,989)	-	-
	142,439	(5,926)	10	136,523
Borrowings				
Customer deposits:				
Debt due within one year	348,304	98,248	10,444	456,996
Debt due after one year	314,211	12,655	4,247	331,113
Long term subordinated debt:				
Debt due after one year	6,000	(696)	721	6,025
	668,515	110,207	15,412	794,134
Net debt	(523,270)	(115,758)	(15,402)	(657,611)

5.3 RELATED PARTY TRANSACTIONS

Related parties of the Bank include Masthaven Investment Limited, Mariette Holdings Limited (and all entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by Varde Partners Inc. Varde Partners Inc is the ultimate controlling party of Mariette Holdings Limited), Key Management Personnel, close family members of Key Management Personnel and entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by Key Management Personnel or their close family members. Key Management Personnel are defined as the Directors, CFO and CRO. The aggregate remuneration for Key Management Personnel is £2,021k (2019: £1,283k).

The compensation of the Directors is provided in note 3.7. One director received no compensation from the Bank for services provided, the remuneration for which amounted to £50k.

One Director, a key management personnel and close family member of two key management personnel held deposits with the Bank as at 30 April 2020 amounting to £269k (2019: £72k – held by four Directors). Interest accrued on these in the year amounted to £1.3k (2019: £2.5k).

An entity that, indirectly, has significant influence over the Bank holds £0.3m of preference shares for which a coupon of 12% amounting to £36k was accrued during the year.

The Bank undertakes certain administrative services including but not limited to accounting, tax and corporate secretarial services for certain entities owned and controlled by certain individuals and entities who have control or significant influence over the Bank.

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5.4 CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities

The Bank is subject to extensive regulation in the conduct of its business. A failure to comply with applicable regulations could result in regulatory investigations, fines and restrictions on some of the Bank's business activities or other sanctions. The Bank seeks to minimise this risk through the adoption of compliance and other policies and procedures, continuing to refine controls over business practices and behaviour, employee training, the use of appropriate documentation, and the involvement of outside legal counsel where appropriate.

Credit commitments

Commitments to lend comprise lending approvals subject to conditional performance undertakings by customers. These can be cancelled if the customer is in breach of the terms and conditions of their facilities. Property development facilities may only be drawn subject to certification of construction work by independent parties.

	2020	2019
	£000	£000
Conditional commitments to lend	3,755	15,716

5.5 ULTIMATE CONTROLLING PARTY

The Company regards Masthaven Investment Limited, a company registered in England and Wales, as the ultimate parent company. Andrew Bloom, a Non-Executive Director of the Bank, has a beneficial interest in 59.67% of the issued share capital of Masthaven Investment Limited and is regarded by the Directors as the controlling entity. The registered office of Masthaven Investment Limited is 90 Long Acre, London, WC2E 9RA.

5.6 SUBSEQUENT EVENTS

With the uncertain macro-economic environment created by COVID 19 in the short-term, further information is coming to light on a weekly basis that sheds light on the potential long-term impact of the pandemic. The Bank has reflected new information, particularly relating to customers that may have repayment difficulties, up to the date of this report, in the year end results.