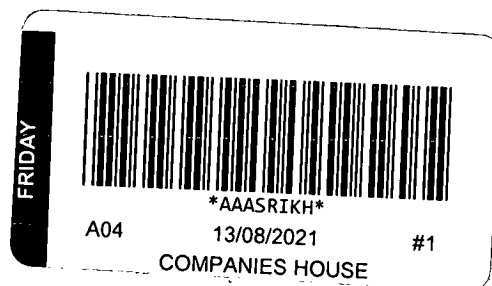


FOR THE YEAR ENDED 30 APRIL 2021



**Annual Report and Accounts for the year ended 30 April 2021**

Masthaven Bank Limited  
Company number: 09660012



# ANNUAL REPORT & ACCOUNTS

## FOR THE YEAR ENDED 30 APRIL 2021

### **Non- Executive Directors**

Michael Baker

Andrew Bloom (resigned as Chief Executive Officer 30 April 2020 and appointed as Non-Executive 1 May 2020)

Anne Gunther

Elena Lieskovska

Ashley Machin (Chairman)

Natalie Gammon

Simon Glass (appointed 29 July 2020)

Malcolm McCaig

### **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) (resigned 26 February 2021)

### **Secretary and Registered Office**

Claire Morris

15 – 18 Rathbone Place

London

W1T 1HU

### **Independent Auditor**

KPMG LLP

15 Canada Square

London

E14 5GL

# ANNUAL REPORT & ACCOUNTS

## FOR THE YEAR ENDED 30 APRIL 2021

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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 2021, which encompasses the fifth 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.

The COVID 19 pandemic presented significant challenges to which the business responded very well. In line with government and Financial Conduct Authority ("FCA") guidelines, we have and continue to support our customers during these difficult times with payment holidays and personalised support, to which our tailored lending processes are well-suited. In addition, the Bank continues to demonstrate good operational resilience in ensuring our employees are 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 significant inherent uncertainty and the evolving economic and political situation, a cautious but pragmatic approach has been adopted. Consideration is still 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.

The Bank originated £0.5 billion (2020: £0.8 billion) of lending applications in the year to April 2021. At year-end the Bank had 4,094 (2020: 4,341) mortgage customers and 18,452 (2020: 19,228) savings customers.

The Chief Executive Officer's ("CEO") 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 strategic pillars, details of which are set out in the CEO's report. Against each of these measures I am pleased by the development of the Bank during the year, 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. In the prior year the Board 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. These changes have made improvements to our governance processes and ensured the appropriate committee is considering the matters that are related to its specialism.

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## FOR THE YEAR ENDED 30 APRIL 2021

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.

DocuSigned by:  
  
E912E165DE7F434...

**Ashley Machin**  
Chairman

August 2021 05-Aug-2021

# ANNUAL REPORT & ACCOUNTS

## FOR THE YEAR ENDED 30 APRIL 2021

### Chief Executive's Report

I am pleased to report the continued strong performance of the business in light of the COVID 19 pandemic. During the year, existing shareholders continued to show their support for the Bank, injecting a further £6m to support the Bank during the pandemic and position it well to benefit from the expected post-pandemic recovery.

Our vision is to be the preferred specialist secured lender in the residential prime market that is currently underserved by the banking community. Underpinning our plans has been continued investment in our management and control infrastructure as we look to continue to grow as the impact of the pandemic dissipates. 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 continued development of the Bank's 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.

Where customers requested payment holidays, we focused on being supportive and set up dedicated teams to assist those customers facing short-term financial issues caused by the pandemic. In the vast majority of cases, customers recovered 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, we continue our personalised approach to customer management aiming for continued growth of the business. During 2020/2021 we have re-introduced certain bridging products to meet the changing demand of the market and we 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 product 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 2021 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 Small and Medium Enterprise ("SME") customers and I am delighted that we have been able to continue to support our 22,546 (2020: 23,569) customers through the pandemic. However, there remains much for us to work on. For instance, the Bank has yet to achieve annual profitability, which reflects the Bank's strategy of investing ahead of growth. With the uncertain macro-economic environment created by COVID 19 the Bank has been measured in its growth in the current 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.

DocuSigned by:



957E607D2C9D49F...

**Leigh Bartlett**

CEO

August 2021 05-Aug-2021

# ANNUAL REPORT & ACCOUNTS

## FOR THE YEAR ENDED 30 APRIL 2021

### Key Highlights

#### Sustainable growth

- Lending assets stable during these unprecedented times at £721.4m (2020: £716.5m)
- Deposits stable at £772.7m (2020: £788.1m)
- Total customers marginally down due to the pandemic to 18,452 savings customers (2020: 19,228) and 4,094 borrowers (2020: 4,341)
- Cost: income ratio of 105% (2020: 118%) reflecting the ongoing investment made in the Bank to strengthen risk and governance.

#### Valued Service Delivery

- High customer satisfaction (FEEFO ratings of 4.6/5 Service and 4.4/5 Product)
- Award-winning Lending & Savings Franchise

#### Asset Quality & Sustainable Funding

- Arrears maintained at sustainable levels and below risk appetite
- Continued low weighted average Loan to Value ("LTV") of 53.2% (2020: 51.6%) on bridging and development finance and 62.7% (2020: 62.2%) on mortgages
- Blended cost of funding at 30 April 2021: 1.8% (2020: 2.0%) reflecting reduced rates experienced in the deposit market in the latter part of the year

#### A Valued Partnership Model

- Staff engagement 88% (2020: 87%)

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## FOR THE YEAR ENDED 30 APRIL 2021

### Business Model

Masthaven was awarded a banking licence in 2016 but has been around much longer than that. Masthaven has been providing a flexible and personalised approach to bridging loans and secured lending since 2004, and with the Banking licence expanded into retail savings. The Bank's London headquarters is home to our teams of knowledgeable and experienced specialists in savings and lending. We're committed to providing flexible and fixed term savings accounts, bridging loans, development finance and mortgages.

Masthaven knows that these days there's no such thing as the typical borrower or saver. Masthaven has built lending products that reflect the world around us, and crafted savings accounts that put savers in control.

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 2021 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'.

Given the inherent uncertainty arising from the pandemic and the evolving economic and political situation, the Bank adopted a cautious but pragmatic approach to lending. As such, the Bank maintained a stable lending portfolio throughout the pandemic which will position the Bank to benefit from the expected post-pandemic recovery.

The operating loss before tax of £2.5m in 2021 compares to £5.4m in 2020. The loss after taxation for the year was £2.0m (2020: £4.6m), reflecting the ongoing 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 monthly average lending assets to £42.8m (2020: £37.9m). This has resulted in net interest income and operating income of £28.7m (2020: £22.5m), after adjusting for retail funding and treasury costs. This income includes a one-off effective interest rate credit of £0.9m due to the Bank aligning its expectation of cashflows from acquired and organically originated loans with customer behaviour.

The net assets of the Bank increased from £63.7m to £67.6m as a result of a further investment of £6m from shareholders to support the Bank during the pandemic, less the 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, and has contributed to the balance of £772.7m in retail deposits from 18,452 customers (2020: £788.1m and 19,228 customers). Successfully blending digital with appropriate 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 4.6/5 for Service and 4.4/5 for Product (2020: 4.5/5 – Service & 4.4/5 – Product).

The Bank's loan book has stayed steady at £721.4m (2020: £716.5m). Asset quality is strong, with low arrears and a weighted average LTV of 53.2% on bridging and development finance and 62.7% on mortgages (2020: bridging and development 51.6% and mortgages 62.2%). The temporary reduction of stamp duty rates introduced in July 2020 and continuing until September 2021 has increased market transactions and resulted in increases in property values due to unprecedented demand.

The Bank holds £772.7m (2020: £788.1m) in retail deposits and total liquidity of 16.0% (2020: 17.3%), when comparing cash and treasury assets to deposit balances. The Bank's Liquidity Coverage Ratio ("LCR") at 533% (2020: 280%) is comfortably above

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the regulatory minimum of 100%. It is anticipated that the Bank will maintain customer deposits as its primary source of liquidity, developing its range of savings products further in 2021/2022, 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 still too early to measure the true impact it has had. Regulators and Central Banks took unprecedented steps to calm financial markets and support financial institutions. The Banking sector felt the secondary impact of people losing their incomes and over the coming year will see the medium-term impact of the pandemic on customers and their businesses.

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's workforce worked remotely and has continued to do so since March 20 and no employees were furloughed. Whilst the Bank does not have direct exposures to the sectors worst affected, it is impacted indirectly. At the peak of the pandemic the Bank saw c32% of customers requesting a payment holiday; it also saw a reduction in new lending, but only a very limited number of early deposit withdrawals. Many of the payment holiday customers have now returned to normal repayments and only a very small number, c1%, of customers continue with some form of support at the date of writing this report.

In order to deal with the additional call volumes and operational activities related to the pandemic, the Bank launched a number of initiatives. Some of these initiatives included re-deploying existing resources and scaling up the customer services departments. All these activities were implemented to ensure the Bank was 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 premises and office strategy, its ability to respond flexibly to external market changes and how it can support its employees in times of stress. For example, the Bank plans to reduce its office footprint to support a mix of continued home working and office attendance. During the year, the Bank opened an office in Reading and subsequent to year-end has moved to a smaller premises in London. We continue to reflect on lessons learned from the pandemic and consider ways to further improve the Bank's operational resilience going forward.

## Future Developments

The Bank will continue to explore inorganic and organic growth opportunities. Inorganic growth opportunities are particularly attractive to the Bank in the current market to assist the Bank in achieving further economies of scale. In addition the Bank will consider how to diversify its retail funding base and seek 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. The Bank continues to seek to make improvements to technology with a view to further improve the customer and broker experience and increase the efficiency of the Bank's processes.

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## 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 the current uncertainties arising from the COVID 19 pandemic. 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, together with details of the specific risks identified.

The Bank is exposed to the UK housing market and the performance of borrowers in that market will be impacted by the 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 Board must act in accordance with the duties set out in the Companies Act 2006. Under section 172, the Board has a duty to promote the success of the Bank for the benefit of its members as a whole. When making decisions, the Board ensures that it acts in the way it considers, in good faith, would most likely promote the Bank's success for the benefit of its members as a whole, and in doing so have regard (among other matters) to:

- (a) the likely consequences of any decision in the long term;
- (b) the interests of the Bank's employees;
- (c) the need to foster the Bank's business relationships with suppliers, customers and others;
- (d) the impact of the Bank's operations on the community and the environment;
- (e) the desirability of the Bank maintaining a reputation for high standards of business conduct; and
- (f) the need to act fairly between members of the Bank.

This duty is at the heart of the Board's decision-making process. The Board recognises that the long-term success of the Bank depends upon the interests of all our stakeholders and this view is intrinsic in our decision-making. The Board's role is to ensure that, in approving any strategic decisions, it has the relevant management information to fully consider the potential impact on the relevant stakeholders. The Directors consider that they have, in good faith, promoted the success of the Bank for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

### Long-term decisions

The Board delegates day to day business management to the Executive Committee, but oversees performance, strategy and approves significant business transactions. The Board approved a number of items during the year in line with the duties set out under S.172, in particular:

- The COVID 19 outbreak has affected business practices, the economy and society as a whole. In March 2020, a Project Steering Group was formed to monitor the Bank's resilience and to propose and implement changes to address the impact of the pandemic. The Board had oversight of the related issues facing the Bank through regular updates from the CEO.
- The Board spent a considerable amount of time reviewing its strategy and five-year plan, considering the impact of the challenging conditions as a result of COVID 19 together with the impact on any transformation work. New strategic objectives were developed with supporting Key Risk Indicators ("KRIs"). The Board is confident that the revised strategy and 5-year plan will deliver acceptable outcomes for all stakeholders and will ensure that in the long-term the Bank remains compliant with the relevant rules and regulations set out by the Regulators.

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- Following the COVID 19 pandemic, the majority of colleagues formerly located in Long Acre have been working remotely. Therefore, as part of the Bank's long-term strategy and further to the feedback from colleagues as to their preferred patterns, the Board decided to exit Long Acre. In making this decision the Board took into consideration the needs of all stakeholders including colleagues and their working preferences.

### Employees

The Board takes account of its colleagues in all decision-making. The Board monitors colleague engagement on an on-going basis by receiving updates in the CEO's Board report and from the Chief People Officer ("CPO") and by reviewing the results of the annual engagement survey. The Bank is pleased to announce the appointment of Natalie Gammon, an independent non-executive ("INED") director, as the Board's People Representative.

The Board recognises the significant hard work that colleagues have put in to continue to deliver unparalleled levels of service to customers during the pandemic. The Board has also had oversight of how the Bank has been supporting colleagues through this time.

We are a people business and we recognise the significant part that our people play in achieving the overall Bank strategy. We aim to 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 are critical to Board decisions. With over 22,000 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.

### Community and environment

Our investment in the community goes beyond the support we provide for vulnerable customers to other areas of the community. Despite being a small, specialist UK-based bank, this does not prevent the Bank from enthusiastically supporting causes that are close to our hearts. In 2021 we worked with 'Spread a Smile' who support children in hospitals, and we raised £12,000 across a series of individual and team goals. As we were unable to have a Christmas Party, employees voted to donate

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to Spread a Smile instead. We aim to continue working with them in 2022. The Board believe we have a responsibility to help support those who may be excluded from mainstream finance to help the 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 recognises 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 considers 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.

When Directors join the Board they are provided with a detailed and bespoke induction, which includes a comprehensive introduction and training programme on director duties and responsibilities. Following feedback received as part of the Board Evaluation, plans are in place to develop the corresponding induction process for committee members and Chairs.

The Board discharges its duty to maintain a reputation for high standards of business conduct by having oversight of the Bank's policies and procedures. We have incorporated comprehensive systems, approved policies and procedures which promote good corporate governance and responsibility, as well as setting high standards of business conduct. The Board approved various policies and procedures during the year, including Modern Slavery. More information on these policies can be found in the Corporate Governance Statement.

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;
- Ensuring appropriate Executive leadership is in place;
- The performance of the Bank against the 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; and
- 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 that promulgate 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 and stakeholder engagement**

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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| Customers                               |   |
|---|---|
| <b>Why We Engage</b>                    | The Bank's vision and business model depends upon attracting and retaining customers whether borrowers, savers or intermediaries. Being Customer-Centric is a Masthaven key value.  |
| <b>How We Engage</b>                    | <p>The Bank conducts regular colleague and customer surveys and in February 2021 published research as to how COVID 19 has re-shaped borrower demand following a survey of 265 intermediaries.</p> <p>With an increasing proportion of its mortgage book reverting from initial product rates in the second half of 2020, the Bank initiated a proactive retention strategy in March 2020.</p>  |
| <b>How We Are Responding</b>            | In 2020 revised Vulnerable Customer Management and Conduct Risk Management policies were approved by the Board, defining customer outcomes whilst clarifying accountabilities across the Bank. A proactive contact strategy for all potential vulnerable customers was commenced in the year with outbound calling to gain customer insight from over 300 customers.  |
| <b>COVID 19 Specific Considerations</b> | <p>The Bank's response to COVID 19 has demonstrated a strong focus on customer outcomes; for example offering short-term borrowers the equivalent of payment holidays offered to long-term borrowers. In terms of the introduction of the Government's mandated payment holiday scheme:</p> <ul style="list-style-type: none"> <li>• New processes and procedures were designed and implemented with staff training in a timely fashion;</li> <li>• A new portal was successfully built and deployed to enable customers to self-serve in respect of both rolling-on and rolling-off payment holidays; and</li> <li>• All requests to date have been handled in a timely manner, with the Bank receiving a customer satisfaction score of 96%.</li> </ul> |

| Colleagues                              |   |
|---|---|
| <b>Why We Engage</b>                    | Masthaven is a people business and the Bank's colleagues are at the heart of everything we do.  |
| <b>How We Engage</b>                    | <p>During the year, the Bank continued to promote colleague communication to ensure colleagues feel informed and are best placed to help customers. This was done through the annual engagement survey which in 2020 was expanded upon by the inclusion of two Pulse Surveys completed in April and June 2020 in relation to the Bank's response to COVID 19. In addition, an independent Culture Assessment was commissioned which was broadly positive and did not highlight any systemic cultural issues.</p> <p>To address feedback received in terms of the Culture Assessment and engagement survey, a Diversity and Inclusion Forum was established in the year in response to colleagues' views on matters such as Black Lives Matter and to better engage with them.</p> <p>Regular online 'Afternoon Tea with ExCo' meetings are held, where colleagues meet virtually and to catch-up with members of the Executive Committee.</p> |
| <b>How We Are Responding</b>            | <p>The Bank understands that colleagues want access to the most up to date information about our business. Colleagues have access to "The Hub", an online intranet site providing Bank news, benefit details, a resource centre and toolkits.</p> <p>As a result of the Culture Assessment, a Culture Charter was published supported by Culture MI (through the conduct dashboard), together with a Code of Conduct and an update of the of the Bank's Vision and Purpose and the introduction of the '6 Pillars'.</p> <p>Currently, women make up nearly half (47%) of employees at Masthaven, holding a third (33%) of all senior management positions. In addition to the Women in Finance programme, the Bank launched in March 2021 the 'Emerging Leaders' programme to support women in the business.</p>  |
| <b>COVID 19 Specific Considerations</b> | Masthaven's first priority continues to be the health and safety of the Bank's colleagues and their families. Since early March 2020 colleagues have been working productively from home or from offices which have been adapted to meet social distancing requirements. A COVID 19 Resource Hub was created and is accessible for all colleagues working from home, self-isolating or on voluntary leave to ensure they were supported during the lockdowns.   |

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|  |  |
|--|--|
|  | The results of the Pulse Surveys carried out in response to COVID 19 showed very positive scores including an engagement score of 88%. |
|--|--|

| Shareholders                            |   |
|---|---|
| <b>Why We Engage</b>                    | The Bank engages openly and transparently with its shareholders, who are helping us to grow for the future. In a year of uncertainty, it has been more important than ever to engage with our shareholders and to share our vision for the future and understand their priorities for the future.   |
| <b>How We Engage</b>                    | <p>The Board of Masthaven includes three non-executive Directors (“NEDs”) who represent the shareholders. Since the non-executive directors are also members of the Board’s committees they are consulted on and are party to decisions such as Remuneration Policy changes.</p> <p>At the same time, the Board acknowledges the need to demonstrate a more mature, market aligned and regulatory driven approach to governance. Accordingly, during the year, the Bank introduced a number of governance changes including clearly defining both the executive and non-executive roles, removing certain conflicts of interest and strengthening the directors training.</p> |
| <b>How We Are Responding</b>            | <p>It is important that our shareholders understand the Bank’s strategy and the extent to which that could be impacted by the regulatory environment.</p> <p>Our shareholders are focused on:</p> <ul style="list-style-type: none"> <li>• Implementation of the strategic plan, progress made against it and the impact of COVID 19;</li> <li>• Path to profitability; factors influencing timing and shape of the recovery;</li> <li>• Future capital requirements and the progress of major transformation projects; and</li> <li>• Credit losses; payment deferrals granted; default trends and the impact of government measures.</li> </ul>                             |
| <b>COVID 19 Specific Considerations</b> | Detailed and specific updates on the impacts of COVID 19 were included in all the Board and committee papers.   |

| Regulators                              |   |
|---|---|
| <b>Why We Engage</b>                    | The Bank is subject to financial services regulations and approvals in the markets in which we operate.   |
| <b>How We Engage</b>                    | The Bank maintains open and constructive relationships with its regulators and directors and senior employees have regular meetings with both the FCA and PRA. Masthaven aims to maintain its positive relationships with regulators through an approach of early and regular engagement, particular on areas of critical importance.   |
| <b>How We Are Responding</b>            | <p>We engage with our regulators to ensure regulatory compliance including key pieces of governance such as the Senior Managers and Certification Regime (“SMCR”). The Bank always seeks to comply with all relevant regulations. During the year, a project was commenced to address management and governance processes following a separate review undertaken by PricewaterhouseCoopers.</p> <p>We have engaged constructively with our regulators during 2020/2021 with respect to key initiatives and will continue this engagement for upcoming changes to the regulatory landscape in 2021 and beyond.</p> |
| <b>COVID 19 Specific Considerations</b> | <p>The Bank has been fully engaged with regulators since the beginning of the pandemic.</p> <p>Masthaven has been appreciative of the regulators’ pragmatic approach to regulatory developments, supervision and requirements through the course of the pandemic, which has allowed the Bank to comprehensively support customers and other stakeholders during this period of uncertainty.</p>   |

## ANNUAL REPORT &amp; ACCOUNTS

FOR THE YEAR ENDED 30 APRIL 2021

| Communities and the environment         |   |
|---|---|
| <b>Why We Engage</b>                    | Our communities bring Masthaven to life as we provide vital services to people and businesses.  |
| <b>How We Engage</b>                    | <p>As a small specialist bank, we have a limited physical presence, operating digitally through a broker network or from our London and Reading offices. This does not prevent the Bank from enthusiastically supporting community causes.</p> <p>The Bank has hosted a number virtual round tables and webinars around the Bank's products as well as supporting Debt Awareness Week, the annual campaign from debt charity Step Change which aims to open up conversation around debt and encourage people who need help or advice to seek it out.</p>  |
| <b>How We Are Responding</b>            | <p>Digital advances have brought flexibility and customisation to banking, providing solutions, products and financing options open to all qualifying customers, which is not restricted by geography. Masthaven has harnessed those advances to deliver a suite of solutions marked by speed, convenience and security without sacrificing the human connection and a personal touch. The Bank was therefore delighted to be recognised as being named the Most Innovative Digital Retail Bank UK 2020 by Capital Finance International ("CFI").</p> <p>The Bank has been working with a Spread a Smile, a charity bringing happiness and laughter to seriously and terminally ill children and their families during intensive treatment and extended hospital and hospice stays for a number of years. This year, the Bank switched its Christmas party in Covent Garden to an online affair and instead donated £10,000 to Spread a Smile contributing to the £12,000 raised this year.</p> <p>While the Bank is a low greenhouse gas emitter, Masthaven remains fully aware of the effect it has on the environment in relation to the emission of greenhouse gases.</p> |
| <b>COVID 19 Specific Considerations</b> | <p>During 2020 it was business as usual during the COVID 19 pandemic. The Bank is proud to have stayed open for business, supporting partners and communities. During the 6 month period from March 2020 to September 2020 the Bank paid £1.4m in commission to its intermediary partners, providing vital financial support to these individuals and businesses.</p> <p>The changes to our working model in response to COVID 19 have also helped us to decrease our energy footprint. As we build our future working model, we plan to harness the positive environmental impacts from COVID 19 and will strive to minimise personal and corporate energy consumption through reduced corporate travel and commuting, supported by ongoing energy efficiency initiatives.</p>   |

| Suppliers            |  |
|----------------------|--|
| <b>Why We Engage</b> | <p>The Bank's supply chain helps deliver banking products and services to all our customers and stakeholders. The Bank strives to achieve mutually advantageous supplier relationships built on common values and expectations. It is the Bank's commitment to conduct business in a responsible and sustainable manner that underpins our engagement with third party suppliers and that resonates with our core values.</p> <p>The Bank published its first Modern Slavery statement in 2020. Masthaven has rolled out online training to all colleagues and embedded a modern slavery process to assess the risks in its supply chain. The Bank has been in regular contact with all its suppliers and has been liaising with them in relation to the pandemic and gaining assurances of service continuity in addition to ensuring the well-being of their employees as part of the Bank's broader supply chain.</p> |
| <b>How We Engage</b> | The Bank is committed to introducing responsible practices to business. As part of the process, the Bank uses a Financial Supplier Qualification System ("FSQS") which is designed to standardise and manage requests for compliance and assurance data. The Bank has conducted assessments to enable us to categorise our suppliers based on materiality and has regular governance meetings with our material suppliers to enable effective oversight.   |

## ANNUAL REPORT & ACCOUNTS

### FOR THE YEAR ENDED 30 APRIL 2021

|  |   |
|--|---|
| <p><b>How We Are Responding</b></p>            | <p>The introduction of the FSQS provides a standard and simple mechanism for collecting and managing information to ensure that the Bank is working responsibly with its suppliers to minimise risk and protect customers. This, together with regular governance meetings, ensures that we are able to address or mitigate risks as they arise, and enables us to closely monitor any impacts to suppliers during the pandemic.</p>  |
| <p><b>COVID 19 Specific Considerations</b></p> | <p>During the year there was regular engagement with all material suppliers with appropriate reporting and feedback. A Senior Management Function (“SMF”) chairs an internal supplier forum to enable any issues to be addressed and has oversight of all our material suppliers, escalating key supplier and contractual issues to The Board in line with Regulatory requirements.</p> <p>In addition, the Bank has contacted its top 22 suppliers to gain assurance over their service continuity in relation to the escalating COVID 19 in various parts of the world.</p> |

# ANNUAL REPORT & ACCOUNTS

## FOR THE YEAR ENDED 30 APRIL 2021

### Key Performance Indicators

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

| Customer   | Year Ended<br>30 April 2021             | Year Ended<br>30 April 2020             | Commentary   |
|--|---|---|--|
| Number of Savings Customers                              | 18,452                                  | 19,228                                  | The pandemic resulted in the Bank moderating its lending as a result of reduced market activity and the cautious approach the Bank took during the pandemic  |
| Number of Lending Customers                              | 4,094                                   | 4,341                                   |  |
| FEEFO Customer Satisfaction                              | 4.6/5 Service and<br>4.4/5 Product      | 4.5/5 Service and<br>4.4/5 Product      | Continued high service levels maintained over the year   |
| Net Promoter Score ("NPS")                               | 58                                      | 51                                      |  |
| Number of Complaints                                     | 238 (11 complaints per 1,000 customers) | 232 (10 complaints per 1,000 customers) | Complaints per 1,000 customers is broadly consistent year on year. The Bank views its complaints' performance as a measure of success and continually challenges the business to enhance its service commitment to our customers |
| Referred to Financial Ombudsman Service ("FOS") / Upheld | 10/1                                    | 10/1                                    | 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<br>30 April 2021             | Year Ended<br>30 April 2020             | Commentary   |
| Turnover of People                                       | 1.29%                                   | 1.63%                                   | Staff turnover is low, reflecting the positive working culture maintained at the Bank  |
| Colleague Engagement                                     | 88%                                     | 87%                                     | Engagement scores continue at high levels reflecting the Board's desire to cultivate a positive working environment and focus on staff motivation  |

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## FOR THE YEAR ENDED 30 APRIL 2021

| Commercial                                    | Year Ended<br>30 April 2021         | Year Ended<br>30 April 2020       | Commentary  |
|---|-------------------------------------|-----------------------------------|---|
| Value of Lending Portfolio                    | £721m                               | £717m                             | The Bank has maintained a stable lending portfolio throughout the pandemic in order to position itself to benefit from the expected post-pandemic recovery  |
| Deposits Held                                 | £773m                               | £788m                             | Funding levels are achieved by providing customers with competitive products in support of the Bank's growth aspirations  |
| Net Interest Margin ("NIM")                   | 3.4%                                | 2.9%                              | NIM is improving as a result of the low interest rate environment.  |
| Cost: Income ratio                            | 105%                                | 118%                              | The increase in average lending balances and associated income, together with the management of funding costs in a lower interest rate environment, and the effective management of surplus liquidity, have driven the reduction in the Cost: Income ratio. |
| Loss after Tax                                | (£2.0m)                             | (£4.6m)                           | The loss after tax reflects the ongoing investment in the development of the Bank's operational processes and controls.   |
| Liquidity<br>LCR                              | 16.0%<br>533%                       | 17.3%<br>280%                     | LCR remains comfortably in excess of the regulatory minimum requirement of 100%   |
| CET1 Ratio                                    | 18.87%                              | 18.13%                            | A £6m capital injection in January 2021 was used to maintain appropriate regulatory capital levels.   |
| Control                                       | Year Ended<br>30 April 2021         | Year Ended<br>30 April 2020       | Commentary  |
| Mortgage Arrears as a % of relevant loan book | 2.4% (88 Cases)                     | 1.7% (66 cases)                   | Arrears continue below risk limits and business expectations, given the wider economic environment. These arrears exclude customers who are currently in a payment holiday.   |
| Bridging Arrears as a % of relevant loan book | 19.4% (89 cases)                    | 16.8% (90 cases)                  |   |
| Lending weighted average LTV                  | Bridging 53.2 %<br>Mortgages 62.7 % | Bridging 51.6%<br>Mortgages 62.2% | 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:

DocuSigned by:  
  
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 Leigh Bartlett

CEO

August 2021 05-Aug-2021

# ANNUAL REPORT & ACCOUNTS

## FOR THE YEAR ENDED 30 APRIL 2021

### Risk Management Report

#### Risk Management Review

The Bank's goal is to embed a comprehensive approach to risk management that supports the delivery of its 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 Bank has made good progress with its 3-year risk maturity plan, which demonstrates the Board's commitment to support the Bank's ambition to continually mature and enhance the Board-approved Enterprise Risk Management Framework and ensure it remains appropriate for the Bank's size, nature and complexity as well as the future business strategy. This has positioned the Bank well to cope with the challenges of the COVID 19 pandemic.

#### Risk Framework

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

#### Risk Appetite

Board Risk Appetite Statements establish a framework for business decisions and enable the Bank to identify and define the types 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 2020 and 2021, 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 the Board Risk and Conduct Committee ("BRCC"), the Board Audit Committee ("BAC"), the Executive Risk Committee ("ERC"), the Asset and Liability Committee ("ALCO"), the Credit Committee ("CC") and the Executive Committee ("ExCo").

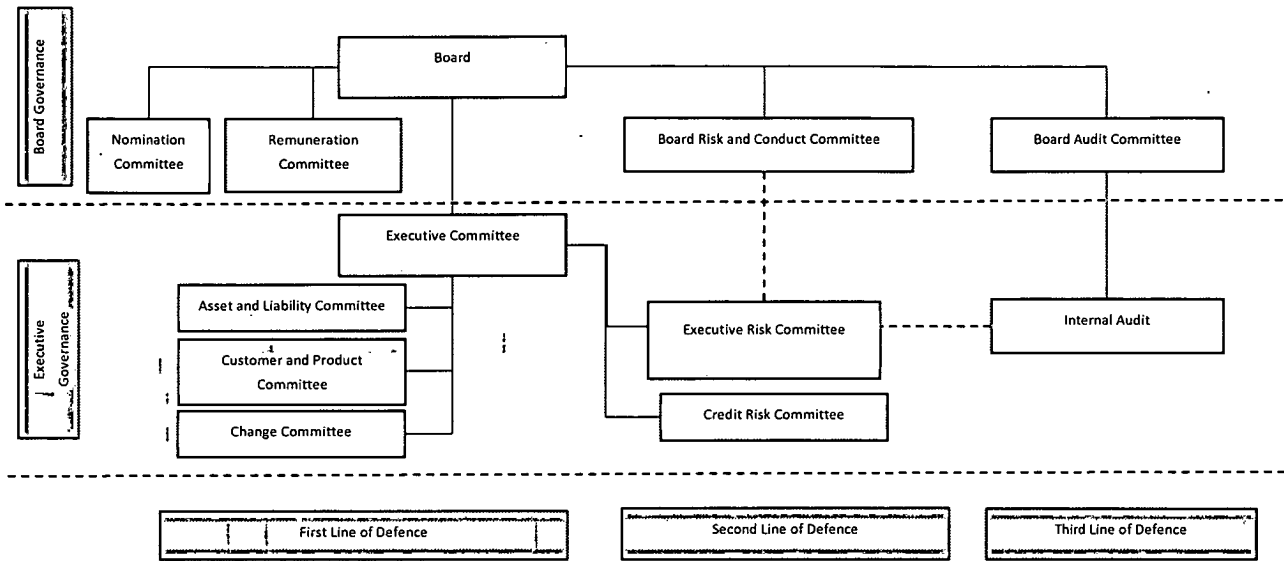
#### Risk Governance

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 Chief Risk Officer ("CRO") through the CEO. This includes Strategy, Conduct and Compliance, Prudential, Liquidity and Funding, Market, Credit and Concentration and Operational risks. Responsibility for the day-to-day management of risk rests with all employees within the Bank and in particular the 1<sup>st</sup> 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 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. It provides 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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## FOR THE YEAR ENDED 30 APRIL 2021

### Principal Risks

The Bank's activities have a number of inherent risks and these include the following principal risks, which are managed through the Enterprise Risk Management Framework.

| Risk Management                   | Description  | Mitigation   |
|-----------------------------------|--|--|
| <b>Strategic Risk</b>             | 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 Committee as well as the Board Committees. In particular, focus continues on managing the current low interest rate environment and the repercussions of the COVID 19 pandemic.</p> <p>Masthaven continues to monitor the market carefully to identify segments where customer needs are not being met.</p> |
| <b>Prudential (Capital) Risk</b>  | The risk that Masthaven is unable to maintain capital adequacy and absorb losses in normal and stressed conditions.  | <p>The Bank has in place controls to monitor and manage its capital plan on an ongoing basis and respond to emerging risks, 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>   |
| <b>Liquidity and Funding Risk</b> | 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. 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>   |
| <b>Market Risk</b>                | 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.  | <p>Masthaven Bank does not have a trading book and holds no positions so its market risk profile is relatively small.</p> <p>The Chief Financial Officer ("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</p>  |

# ANNUAL REPORT & ACCOUNTS

## FOR THE YEAR ENDED 30 APRIL 2021



| Risk Management                      | Description  | Mitigation  |
|--------------------------------------|--|---|
|                                      |  | <p>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>   |
| <b>Credit and Concentration Risk</b> | <p>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> | <p>The Bank undertakes secured lending to customers for first and second charge mortgages and bridging and development finance. 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. This is supported by detailed manual underwriting and approval processes.</p> <p>Credit risk is overseen by the Bank's Credit Committee (chaired by the CRO), and ultimately the Board. To assist the Credit Committee in this activity, the Credit Risk Department, reporting to the CRO, monitors exposure to credit risk and provides management information to the Credit Committee, the Executive Risk Committee and the Board Risk &amp; Conduct Committee on a regular basis.</p>  |
| <b>Operational Risks</b>             | <p>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>   | <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>   |
| <b>Conduct and Compliance Risks</b>  | <p>The risk that the Bank acts in a manner which through act or omission delivers an unfair outcome for our customers, distorts the markets in which we operate or inhibits effective competition, through the execution of our business strategy or the practices we undertake.</p>   | <p>The Bank is committed to avoiding adverse conduct outcomes for customers and seeks to embed a culture of care towards our customers and their interests. The Bank's culture emphasises the customer and, through the risk management frameworks implemented, ensures that our activities fully consider customer needs and risks of harm, allowing action to be taken should it be required. 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. Other management committees such as Customer and Product, Executive Change and Credit all have a remit to manage the risk of customer harm in any proposals, activity or products which are developed or amended.</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> |

# ANNUAL REPORT & ACCOUNTS

## FOR THE YEAR ENDED 30 APRIL 2021

### 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. The Bank also looks 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. Significant and emerging risks are outlined below.

| Risk  | Description  | Mitigation  |
|---|--|---|
| <b>COVID 19</b>   | <p>The full implications of COVID 19 are not yet clear but the impact on the UK economy has been severe with reduced GDP due to lower consumer spending and investment, and increasing unemployment.</p>   | <p>Masthaven has complied with guidance to apply payment deferrals 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 remotely.</p>  |
| <b>Cyber Risk</b><br>          | <p>The financial services industry remains a primary target for cyber criminals. The Bank holds and processes large volumes of customer data and 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> <p>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 that operate effectively and are regularly tested.</p> |
| <b>Regulatory Activity</b><br> | <p>The PRA and FCA have consolidated their approach to new Banks and clarified expectations which has provided a clearer environment in which the Bank can evolve. The Regulators have also taken significant action across financial markets to mitigate the risks to customers from COVID 19, particularly around Mortgage Payment Deferrals. These changes have resulted in other regulatory initiatives being placed on temporary hold and consequently the scale and pace of regulatory change across 2021 and beyond is likely to result in significant effort and investment greater than the Bank has seen before.</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, financial crime and regulatory reporting. We see the level of regulatory engagement across the industry 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>  |

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## 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 continues to develop its mitigation of climate change risk within its overall Enterprise Risk Management Framework. A cross-functional working group is active in risk identification, scenario analysis, proposal development and the fulfilment of opportunities.

## Outsourcing and Third Parties



The Bank works extensively with broker and intermediary networks 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.

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, including via brokers and intermediaries. This is an area that will continue to receive management and Board focus due to our high dependency on third parties and new regulatory requirements.

## 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 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 investment has included the creation of a new Chief Information Officer ("CIO") role. This will remain an area of focus for the foreseeable future.

## Stress 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 most recent financial crisis. Stress testing also seeks to determine strategies for actions under management's control 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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## Board of Directors



**Ashley Machin**  
**Chairman**

Appointed 16 October 2016

Chairman of the Nomination Committee  
Member of the Remuneration committee

Ashley joined Masthaven following a successful career in Retail Banking. Most recently, Ashley was Chief Digital Officer of TSB bank and a member of the Bank Executive Committee. He previously worked at Lloyds Bank in a diverse set of leadership roles, ranging from lending through to operations and was a member of the Retail Executive Committee. Ashley is currently a non-executive committee member at the Department for Work and Pensions sitting on the Departmental Audit and Risk Committee and Chairing the Digital Advisory Committee.

Ashley was appointed as an independent non-executive director on 16 October 2016. On 17 December 2020 Ashley was appointed as the permanent Chairman after acting as the interim Chairman since 11 September 2019.



**Leigh Bartlett**  
**Chief Executive Officer**

Appointed 7 July 2020

Leigh joined Masthaven as CFO in October 2019 and was subsequently promoted to the role of CEO in April 2020. Leigh joins with a strong understanding and experience of the retail banking sector having held senior executive roles in both the UK and overseas for the last 15 years. His previous roles include Finance Director of the Retail Banking Division of Alliance and Leicester, CFO of RBS UK Retail Banking Division, CFO of RBS Insurance Division (now Direct Line Group plc), CFO of Westpac New Zealand Limited (a subsidiary of Westpac Banking Corporation) and more recently, CFO of Williams and Glyn.



**Andrew Bloom**  
**Non-executive Director**

Appointed 26 June 2015

Member of the Board Audit, Board Risk and  
Conduct, Remuneration and Nomination  
committees

Andrew is a chartered accountant, qualifying in 2000 with KPMG. He then moved to KPMG's transaction services before working in the investment division of Strand Hanson. He became Managing Director of Montague Knight, a property investment company, before launching Masthaven in 2004. Andrew also has a wealth of personal experience in property development and property investment.

Andrew is the founder of Masthaven, building the Bank from a specialist lender to its current position of operating in the retail banking, mortgage, development and bridging finance markets. Andrew was appointed as an Executive Director on 26 June 2015 and continued in this role until 1 May 2020 when he became a non-executive director.

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FOR THE YEAR ENDED 30 APRIL 2021



**Elena Lieskovska**  
**Non-executive Director**

Appointed 12 April 2019

Member of the Board Audit, Board Risk and  
Conduct, Remuneration and Nomination  
committees

Elena is a Partner and Head of Insurance globally and previously was Head of European Financial Services at Värde Partners with responsibility for leading Värde's private equity investments in the financial services sector across Europe. Prior to joining Värde, Elena served as executive director at Lehman Brothers, and has also worked for Alvarez and Marsal, and in the Investment Banking Division at Goldman Sachs and Co. Elena received a B.S. in Finance from Louisiana State University and an M.B.A. from Harvard Business School.



**Michael Baker**  
**Non-executive Director**

Appointed 18 April 2016

Member of the Board Audit, Board Risk and  
Conduct, Remuneration and Nomination  
committees

Michael is an FCA, having qualified as a Chartered Accountant in 1987 with KPMG. Michael has over 30 years of experience in finance gained with KPMG, BDO Stoy Hayward and in senior management roles. He has been working for The William Pears Group since 1999. Michael holds numerous Board appointments of companies involved with the Pears family and is Managing Director of Joint Ventures at Pears.



**Anne Gunther**  
**Independent Non-executive Director**

Appointed 18 April 2016

Chair of the Remuneration Committee  
Member of the Board Audit, Board Risk and  
Conduct and Nomination committees

Anne has over 40 years' executive experience across all financial services sectors, from lending to wealth management and direct channel delivery. Anne was Managing Director of Direct Channels at Lloyds TSB, she then moved to be Chief Executive of both Standard Life Bank and Standard Life Healthcare and was a founding Director of Standard Life Wealth. She then became CEO of Norwich and Peterborough Building Society. In her non-executive career Anne has 10 years' experience in both the public and private sectors.

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Natalie Gammon  
**Independent Non-executive Director**

Appointed 7 June 2019

Member of the Board Audit, Board Risk and  
Conduct, Remuneration and Nomination  
committees

Natalie is an independent non-executive director and chair of the Remuneration and Environmental, Social and Governance (“ESG”) committees at GB Group plc where she is also a member of the Risk and Nomination committees. Natalie is also an independent member of the National Trust’s Audit Committee. Natalie has 20 years of global technology, commercial and operational experience across a range of sectors, with a focus on financial services and private equity-backed businesses. Throughout her executive career Natalie has a demonstrable track record of leading successful digital, strategic and transformational change programmes. Most recently Natalie was Chief Cloud Officer at Finastra where she oversaw the company’s cloud, data centre operations and information security groups.

In April 2021 Natalie was appointed as the non-executive director responsible for workforce engagement.



Simon Glass  
**Independent Non-executive Director**

Appointed 29 July 2020

Chair of the Board Audit Committee  
Member of the Board Risk and Conduct,  
Nomination and Remuneration committees

Simon is Chair of Masthaven's Audit Committee. He qualified as a Chartered Accountant with KPMG and has a wealth of international experience, holding roles in Hong Kong and New York during his time at HSBC. Prior to joining the Masthaven Board he was Deputy Group Financial Director of Standard Chartered and RBS/NatWest Group, and formerly he was CFO of Asia Pacific for HSBC. Simon’s most recent role was Group CFO of Dubai Aerospace Enterprise, based in Dublin.



Malcolm McCaig  
**Senior Independent Director**

Appointed 29 April 2020

Chair of the Board Risk and Conduct,  
Member of the Board Audit, Remuneration  
and Nomination committees

Malcolm is an independent non-executive director who has served on the boards of OneSavings Bank, Ageas (UK), Unum UK, Crest Nicholson plc, QBE Insurance (Europe), Tradition (UK), Barbon Insurance Group, Punjab National Bank (International), CMC Markets plc, 4Most Group, Renaissance Capital and The House of Lords. Prior to that, he was a partner at both Deloitte and Ernst and Young, and in addition has held senior executive positions at Cigna Corporation, Prudential UK and Clydesdale Bank. Malcolm has worked with a number of charities, and he is currently the Chairman of United Response. He is also on the Court of the Worshipful Company of Management Consultants.

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## FOR THE YEAR ENDED 30 APRIL 2021

### Corporate Governance Report

#### Introduction

The Board of Directors is committed to maintaining a strong governance framework to support the Bank's mission statement "putting the personal back into finance". Following the external review undertaken in 2019 the Bank continues to make progress in strengthening and enhancing governance and the supporting structures required to support the strategic and operational direction of the Bank, as it matures.

Since 2019 the Board and Nomination Committee have worked to improve the levels of independence, gender, skills and experience on the Board and this is reflected in its make-up today. Half the directors serving on the Board are now considered "independent" as defined in the 2018 UK Corporate Governance Code (the "Code") and consist of 30% women. The Bank was also pleased to announce the appointment of Malcolm McCaig as the Senior Independent Director and Natalie Gammon as the designated non-executive director for the workforce.

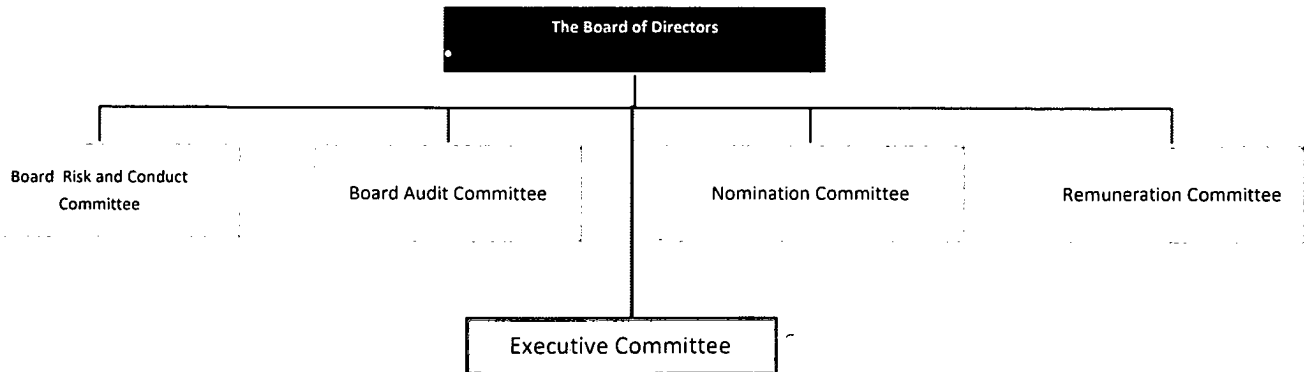
A key area of focus for the Board during the year has been overseeing the Bank's response to the COVID 19 pandemic. The Board will continue to monitor the evolving nature of the pandemic including the macroeconomic challenges and how this impacts the Bank and its stakeholders into 2021 and beyond.

Although the Bank does not have any listed debt or equity, the Bank has regard to the principles of the Code, adopting a proportionate approach, reflective of the size and maturity of the Bank.

#### Governance Framework and Structure

The Board has a robust and coherent governance structure with clearly defined responsibilities and accountabilities. These have been designed to provide prudent oversight of the strategic and operational direction of Bank.

The Bank's Board and committee structure is detailed below and biographies of Board and Committee members are included on page 24. The roles and responsibilities of each of the committees, and the activities carried out during the year, are set out in the committee reports.



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### Board Leadership and Company Purpose

#### The role of the Board

The Board has responsibility for promoting the long-term strategy and success of the Bank by providing leadership and shaping the Bank's culture. Further, the Board:

- Ensures that the Bank's financial structure, resources, talent and culture will support long term growth;
- Must have regard to and engage with the interests of a wider range of stakeholders, including employees, customers, suppliers and broader communities in order to support the long-term sustainability of the business;
- Determines and reviews the Bank's risk appetite;
- Monitors management performance in delivering the Bank's strategy; and
- Ensures that risk management measures and internal controls are appropriate and effective.

The Board is also ultimately responsible for the management, governance, controls, risk management, direction and performance of the Bank. The importance the Bank places on the interests of its wider stakeholders, and the commitment of the Bank to put the personal back into finance, means its customers are at the heart of everything the Bank does and at the forefront of the Board's agenda.

#### The composition of the Board

As at the date of this report, the Board consists of the independent non-executive Chairman, one executive director, three shareholder non-executive directors and four independent non-executive directors. The Board considered the Chairman to be independent on appointment and considers four 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.

The Board is satisfied that, as at 30 April 2021, at least half of the Board were independent and that the Directors, both individually and collectively, have the range of skills, knowledge, diversity of experience and dedication necessary to lead the Bank and have the requisite strategic and commercial experience to contribute to the leadership of the Bank.

#### Matters reserved to the Board

The Board is responsible for setting and managing strategic direction. The operation of the Board is documented in a formal schedule of matters reserved for its approval. These include matters relating to the decisions concerning strategic aims and long-term objectives, the structure and capital of the Bank, financial reporting and controls, risk management and various statutory and regulatory matters. The Board is also responsible for effective communication with shareholders, recommending any changes to Board or committee membership or structure and has authority to recommend the Bank's Remuneration Policy.

The Board delegates responsibility for day-to-day management of the business to the CEO who is assisted by the Executive Committee.

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## Board Committees

The Board has delegated specific responsibilities to each of the Board Audit, Board Risk and Conduct, Remuneration and Nomination committees and the reports for each are set out on the following pages. Each Board committee has written terms of reference defining its role and responsibilities which are reviewed and updated as necessary as part of an annual review. Further details regarding the role and activities of each of the Board Committees can be found in the Committee reports.

The Terms of Reference of each committee are reviewed annually to ensure they remain appropriate and reflect any changes in legislation, regulation or best practice. Proposed changes to a committee's terms of reference are approved by the Board. The composition of each of the committees can be found at the beginning of each committee's individual report. Any changes to a committee's membership are made by recommendation of the Nomination Committee.

## Effectiveness

The time commitment of each independent non-executive director is reviewed annually by the Nomination Committee and the Board is satisfied that the Chair and each of the non-executive directors is able to devote sufficient time to the Bank's business. Each director has committed to dedicate as much time as is necessary to the Company and the independent non-executive directors' contract for services sets out that they should be prepared to dedicate a minimum number of days per year to the Bank.

Directors are expected to attend all meetings of the Board and the committees on which they sit, and to devote sufficient time to the Bank's affairs to enable them to fulfil their duties. If Directors are unable to attend a meeting, their comments on papers to be considered at the meeting will be discussed in advance with the Chair or Company Secretary so that their contribution can be included in the wider Board discussion.

## Board skills and development

As part of how the Board plans for succession, it reviews and maintains a clear record of the skillset that each director provides. The directors' skills and experience span a wide range of sectors and specialisms. The experience and knowledge of each of the directors gives them the ability to constructively challenge strategy and to scrutinise performance.

The Company Secretary ensures that all directors are kept abreast of changes in relevant legislation and regulations. In the year, the Board received a range of online training sessions on whistleblowing, compliance, information security and data protection in addition to presentations on the Bank's strategy, cyber security and climate change. Non-executive directors may attend seminars and briefings in areas considered to be appropriate for their own professional development, including governance and issues relevant to the committees on which they sit.

## Induction of new Directors

During 2020 Simon Glass and Malcolm McCaig joined the Board. Upon appointment, each non-executive director was 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.

Non-executive directors met the Chairman and the CEO as part of the selection process and then again on appointment for a thorough briefing on all relevant aspects of the Bank. They also met the Company Secretary, senior management and the Bank's advisers for a wide range of briefings, including their responsibilities as directors and on Masthaven's business, finances, risks, strategy, procedures and the markets where the Bank operates. Directors also receive an induction pack upon

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their appointment which includes relevant Bank policies and corporate and financial information. Directors also have access to an online library and resources.

## Board Roles and Responsibilities

The Board has formally documented the separate roles and responsibilities of the Chair and CEO and these responsibilities as well as the roles of the other members of the Board are set out below:

| Role                                     | Names  | Responsibilities   |
|--|--|--|
| <b>Chairman</b>                          | Ashley Machin  | The Chairman leads the Board and is responsible for its effectiveness and governance. He sets the tone for the Bank, including overseeing the development of the Bank's business culture and standards in relation to the conduct of business and the behaviour of colleagues. He sets the Board agenda and ensures that sufficient time is allocated to important matters, in particular those relating to our strategic direction. He is responsible for the leadership and overall effectiveness of the Board, including responsibility for fostering a positive Board culture that reflects the values of the business   |
| <b>Chief Executive Officer (CEO)</b>     | Leigh Bartlett   | The CEO is responsible for the day-to-day management of our operations, for recommending strategic direction to the Board and for implementing the strategic direction agreed by the Board. He is supported in decision-making by the Executive Committee. The CEO reports to the Chairman and to the Board directly and is responsible for all executive management matters of the Bank.  |
| <b>Senior Independent Director (SID)</b> | Malcom McCaig  | The SID's role is to act as a sounding board for the Chairman and to serve as an intermediary for directors when necessary. The SID is also available to shareholders if they have concerns that have not been resolved through the normal channels of Chair, CEO or CFO. The SID also acts as the conduit, as required, for the views of other non-executive directors on the performance of the Chairman and will conduct the Chairman's annual performance evaluation.  |
| <b>Non-executive Directors</b>           | Andrew Bloom<br>Michael Baker<br>Elena Lieskovska<br>Natalie Gammon<br>Simon Glass<br>Anne Gunther | The role of the non-executive director is to constructively challenge proposals on strategic direction. Each non-executive brings specific experience and knowledge to the Board and its Committees. The non-executive as a whole have a broad and complementary set of technical skills, educational and professional experience, personalities, cultures and perspectives. Their contributions provide independent views on matters of strategy, performance, risk, conduct and culture.<br><br>The independent non-executive directors are appointed for an initial three-year term but may be renewed for further three-year periods subject to a maximum nine year term. The shareholder non-executives are nominated by the respective shareholders. |

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**Company Secretary**

Claire Morris

The Company Secretary is responsible for advising and supporting the Chairman and the Board on good corporate governance and best boardroom practice. She leads the Bank's Company Secretarial function.

## The Board's Year in Review

### Major board decisions

Consideration of our stakeholders and promoting the long-term sustainable success of the Company are at the centre of our Board's decision making. Further information on the Board's s172 duties can be found on page 9. A summary of the major decisions taken in the year is set out below:

- Approving the Bank's strategy, long term plan and budget and reviewing and updating these in the light of market developments as a result of COVID 19;
- Agreed an injection of capital with existing shareholders to support the Bank through the pandemic and ensure the sustainable growth of the business;
- Monitoring and responding to changes in the capital position of the Bank;
- Oversight of the Bank's responses to COVID 19 including the wellbeing of colleagues and the various initiatives to support customers;
- Exiting the contractual lease of the Long Acre office, as part of the return to work strategy for colleagues;
- Oversight of the consequences of Brexit in terms of the Bank's business and the wider UK economy;
- Approval of updated matters reserved to the Board and the terms of reference of the Board committees;
- Board composition and succession planning including the appointment of the new Senior Independent Director, the new independent non-executive directors, as well as new Executive Committee appointments and the non-executive director responsible for workforce engagement;
- The conclusion of a partnership with PRIMIS Mortgage Network, one of the largest mortgage and protection networks in the UK. The partnership will enable over 2,200 brokers who are part of PRIMIS to offer their customers greater flexibility and product choice from Masthaven's range of specialist lending solutions; and
- The launch of a new fee-free re-mortgage range on first charge residential two-year and five-year fixed re-mortgage products. The limited-edition products were in response to continued demand for re-mortgages, particularly for fees-free ranges, during COVID 19.

### Board succession

Key priorities for the Board in the year were Board succession planning and continuing to strengthen the skills, experience and independence of the Board. Changes to the Board in the year included the appointment of Ashley Machin as the permanent Chairman and Leigh Bartlett as CEO. The Board also welcomed Simon Glass as an independent non-executive director. Subsequent to his appointment, Simon Glass was appointed Chair of the Board Audit Committee and Malcolm McCaig was appointed as Chair of the Board Risk and Conduct Committee and Senior Independent Director. In addition, Jon Hall stepped down from his position as Chief Commercial Officer and Deputy CEO on 26 February 2021.

### Governance enhancements

The Board continued to improve and develop the governance arrangements to reflect the maturity of the Bank. During the year, the Board committees' terms of reference were updated together with a refresh of the board committee chairs. In addition, an internal Board evaluation was completed, more details of which can be found below.

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### Board activities

The Board's activities throughout the year are underpinned by the external reporting calendar and internal business planning processes. A rolling annual agenda ensures that all important topics receive sufficient attention. Standing items provide an anchor to the strategy and provide the Board with a consistent view of progress during the year, whilst sessions on priority topics allow deeper insight. A summary of the Board's key activities during 2020/2021 is set out above. In addition, some examples of decisions taken by the Board in the year are set out in its Section 172 statement.

Reports from the CEO, CFO and CRO are standing items on every agenda. The Company Secretary reports on governance matters and updates the Board on any changes to their statutory duties or the regulatory environment which are pertinent to their role. The Chair of each committee reports on the proceedings of the previous committee meeting at the next Board meeting.

The Executive Committee, senior management team and advisers are invited to attend Board and committee meetings, to present, contribute to the discussion and advise members of the Board or its committees on particular matters. The involvement of the Executive Committee and senior management at Board and Committee discussions strengthens the relationship between the Board and senior management and helps to provide the Board with a greater understanding of operations and strategic direction. Further, it also enables the Board to scrutinise and challenge management on the delivery of strategic objectives.

The Chairman, assisted by the Company Secretary, is responsible for ensuring that the directors receive accurate and timely information. The Company Secretary compiles the Board and Committee papers, which are circulated to Directors in advance of meetings. The Company Secretary also ensures that any feedback or suggestions for improvement on Board papers is fed back to management. The Company Secretary provides minutes of each meeting and is responsible for following up on any action items. Should directors have concerns, they are recorded in the board minutes.

### Board meeting attendance as at 30 April 2021

The following is a list of the Board attendance in 2021 for Board meetings. The Board convened additional meetings, due to the impact of COVID 19 on the Bank. This enabled the Board to make timely decisions.

|  | Meetings Attended 2020/21 |  |
|--|---------------------------|--|
|  | Attended                  | Meetings held during director's tenure |
| Ashley Machin (INED Chairman)              | 30                        | 30                                     |
| Leigh Bartlett (CEO) <sup>1</sup>          | 17                        | 21                                     |
| Jon Hall (COO and Deputy CEO) <sup>2</sup> | 25                        | 25                                     |
| Andrew Bloom (NED)                         | 28                        | 30                                     |
| Michael Baker (NED)                        | 30                        | 30                                     |
| Elena Lieskovska (NED)                     | 29                        | 30                                     |
| Natalie Gammon (INED)                      | 29                        | 30                                     |
| Simon Glass (INED) <sup>3</sup>            | 19                        | 19                                     |
| Anne Gunther (INED)                        | 30                        | 30                                     |
| Malcolm McCaig (INED)                      | 30                        | 30                                     |

<sup>1</sup> Leigh was appointed as an executive director on 7 July 2020.

<sup>2</sup> Jon retired as an executive director on 26 February 2021.

<sup>3</sup> Simon was appointed as non-executive director on 29 July 2020.

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## Annual Board and Committee Evaluation

During the year an internal evaluation was undertaken to ensure the Board's effectiveness. This was completed by circulating questionnaires to the members of the Board for completion. The results were then discussed in one-to-one sessions between the Chairman and each Board member. To widen the process a 360 degree evaluation of each director was completed with follow up interviews being held. The themes explored during the process included leadership, communication, stakeholder engagement, risk management, governance and conduct and director duties. The evaluations were overseen by the Chairman and the Company Secretary.

The results of the evaluation were then presented to the Board and the directors discussed the key finds and proposed actions to address them. The conclusions and recommendations arising from the review were recorded in an action plan addressing these recommendations, with planned regular progress reviews against the plan, and include the following:

| Area of Assessment              | Agreed Actions  |
|---------------------------------|---|
| Board Logistics                 | <ul style="list-style-type: none"> <li>Timeliness of papers: A project to consider and tighten the current reporting timelines has commenced. This will include introducing a tracker which will help to identify submission dates and committee/board flow as well as rolling out diarised reminders for paper producers and submitters</li> </ul>   |
| The Role and focus of the Board | <ul style="list-style-type: none"> <li>Horizon Scanning: Expanding the process by which the Board and Committees are kept abreast of legal and regulatory change. A project is to be launched to produce monthly internal bulletins</li> <li>The current Board development and training plan is to be expanded</li> </ul>   |
| The Committees                  | <ul style="list-style-type: none"> <li>Succession Planning: Should address committee composition and key skills. The skills matrix will be updated. Succession planning across the committees will be undertaken by the Nomination Committee as part of its ongoing Succession Planning reviews</li> <li>Committee Inductions: Expand the current induction process in terms of the committee and the members individual responsibilities and activities</li> </ul> |

Executive directors take part in the Bank's appraisal procedure. This sets tangible targets against which performance is measured. Each of the Board committees also carried out reviews of their performance, as set out in their individual reports.

## Systems of internal control and risk management

The Board believes that effective risk management is crucial to the Bank's strategic objectives and long-term success. The Board has overall responsibility for ensuring risk is effectively managed. As a result of the independent review of the governance process and procedures during 2020 it was decided to split the Risk, Audit and Conduct Committee into the Board Risk and Conduct Committee and Board Audit Committee.

The Bank's approach to risk is detailed in the Risk Management Report. The Board Risk and Conduct Committee reviews the effectiveness of the risk management process on the Board's behalf, and its approach to this can be found in the committee report on page 42. The Board confirms that there is an on-going process for identifying, evaluating and managing the emerging and principal risks faced by the Bank.

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The Board has delegated responsibility to the Board Audit Committee for the review of the effectiveness of internal control systems. More detail can be found in the Board Audit Committee report on page 35. The Board is ultimately responsible for the Bank's internal control and risk management systems, and in discharging this duty they regularly receive updates from the chairs of both committees as well as updates from the CRO. The Board also approves the Internal Audit plan on recommendation from the Board Audit Committee. The Board is satisfied that the internal control and risk management systems are operating effectively and that they have been in place for the year under review and up to the date of approval of the Annual Report.

## Conflicts of interest

At each meeting, the Board considers directors' conflicts of interest. The Bank's Conflicts Policy together with the Articles of Association provide for the Board to authorise any actual or potential conflicts of interest.

## Independent professional advice

Directors have access to independent professional advice at the Bank's expense. In addition, they have access to the advice and services of the Company Secretary and her team, who are responsible for providing advice on corporate governance matters to the Board.

## Directors' indemnities and insurance

Directors and officers of the Bank are provided with appropriate insurance during the course of their appointment, which is reviewed annually.

## Appointment and re-election

The Board notes the requirement within the 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.

## Board Audit Committee

### Composition

The Committee was chaired by Anne Gunther until 15 February 2021 when Simon Glass was appointed following regulatory approval. As at 30 April 2021 there are seven members: Natalie Gammon, Simon Glass, Anne Gunther and Malcolm McCaig, all of whom are independent non-executive directors, and Andrew Bloom, Michael Baker and Elena Lieskovska who are shareholder non-executive directors. All the non-executive directors have a range of relevant business experience. Anne, Michael, Malcolm and Simon have recent and relevant financial experience and the Committee as a whole has competence in the banking sector. For further details of their skills and experience, please refer to their biographies on page 24.

Regular attendees at the Audit Committee include the Chairman, CEO, CFO, CRO, Chief Operating Officer ("COO"), the internal auditor, Deloitte, the General Counsel and representatives from the external auditor, KPMG LLP. The Company Secretary and her team act as Secretary to the Committee.

### Reporting

Following each Committee meeting, the Chair provides a verbal update to the Board on key issues and, where necessary, outlines the actions being taken by management to address any issues raised. The Chair meets on a regular basis with the

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external and internal audit firms, and the Committee members have time as required with the external auditor at the end of each meeting, without the presence of management.

## Committee meeting attendance as at 30 April 2021

The following is a list of the Committee attendance in 2021.

|   | Meetings attended 2020/21 |  |
|---|---------------------------|--|
|   | Attended                  | Meetings held during director's tenure |
| Simon Glass (INED) <sup>1</sup> (Chair) | 3                         | 3                                      |
| Andrew Bloom (NED)                      | 4                         | 5                                      |
| Michael Baker (NED)                     | 4                         | 5                                      |
| Elena Lieskovska (NED)                  | 3                         | 5                                      |
| Natalie Gammon (INED)                   | 5                         | 5                                      |
| Anne Gunther (INED)                     | 5                         | 5                                      |
| Malcolm McCaig (INED)                   | 5                         | 5                                      |

<sup>1</sup> Simon was appointed a member on 29 July 2020 and became Committee Chair with effect from 15 February 2021.

## Committee evaluation

Throughout the year the Committee has evaluated its effectiveness and this included a full review of the terms of reference and an assessment to determine how it met its responsibilities during the year. There is a continued close collaboration with the Board Risk and Conduct Committee and both terms of reference were reviewed to ensure that each committee's distinct responsibilities, and where the committee's collaborate, are clearly articulated.

## Role

The Audit Committee's key role is to review the integrity of the financial reporting for the Bank and to oversee the effectiveness of the internal control systems and the work of the internal and external auditors. In these respects the Committee has the following responsibilities:

### External audit

- Recommend the appointment, reappointment or removal of the external auditors;
- Review independence and objectivity, as well as the quality of the audit work performed;
- Approve audit remuneration;
- Review the supply of non-audit services in line with the Bank's policy and professional independence requirements; and
- Ensure the audit contract is tendered at least every 10 years.

### Internal Audit

- Approve the appointment or removal of the current Internal Audit providers;
- Monitor and review the effectiveness of the function;
- Review and approve the Internal Audit Charter;
- Review and assess the Internal Audit Plan and ensure that resources are adequate;
- Meet regularly with the internal auditors and ensure access to the Board;

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- Review all reports on the Bank from the internal auditors; and
- Review management's responsiveness to findings.

## Financial and narrative reporting

- Monitor the integrity of the financial statements and formal announcements relating to the Bank's financial performance;
- Review and report to the Board on significant financial issues and material judgements;
- Review and challenge accounting policies, methods used to account for significant and unusual transactions, and the clarity and completeness of disclosure;
- Advise whether the Annual Report is fair, balanced and understandable; and
- Review and approval of Pillar 3 disclosures.

## Internal controls and risk management

- Consider the level of assurance the Committee is receiving on the risk management and internal control systems, including internal financial controls, and whether this is sufficient to enable the Board to satisfy itself that they are operating effectively; and
- In conjunction with the Risk and Conduct Committee, review and approve the statements in the Annual Report concerning internal controls and risk management.

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.

The Chair of the Board Audit Committee holds regular meetings with colleagues from the Bank, including the CRO, CFO and senior members of his team. The Committee Chair also sits on the Board Risk and Conduct Committee and works closely with its Chair. 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.

## Activity during the year ended April 2021

The principal areas of the business conducted by the Committee during year is set out below:

- Monitoring the going concern assumptions as the COVID 19 pandemic developed together with the Bank's financial reporting, including regulatory reporting, processes, procedures and roles;
- Approval of the 2021 External Audit Plan and recommendation of the engagement terms and fees;
- Review of the 2021 full-year results, Annual Report and Accounts, including assessment of the key judgements and estimates and going concern;
- Approval of the Internal Audit Charter and delivery of the 2020 Internal Audit Plan and review of Internal Audit reports and attestations;
- Review of the Audit Committee Terms of Reference and recommendation to the Board for approval; and
- Consideration of the future of corporate reporting following the publication of the Financial Reporting Council's discussion paper.

Key areas discussed by the Committee during the year are covered below.

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## Significant issues considered in relation to the Financial Statements

The Committee assessed the quality and appropriateness of, and adherence to, the Bank's accounting policies and principles. It reviewed whether the accounting estimates and judgements made by management were appropriate. The Committee is satisfied that the approach taken and judgements applied were reasonable. The significant issues and accounting judgements considered by the Committee in respect of the year ended 30 April 2021 are set out below:

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### Loan book impairments

The Bank conducts individual impairment assessments on all loans which are more than one month in arrears for long-term and post-expiry for short-term loans, 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. 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: LTV, arrears status, product, maturity and other risk factors such as whether or not the mortgage is in forbearance.

The Committee received and challenged reports from management, explaining the approach taken to provisioning and the resulting changes to provisioning levels during the year. The Committee is satisfied that the approach taken and judgements made were reasonable.

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### Effective interest rate ("EIR")

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 and organic 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" or "SVR"). The Bank assumes no early redemption charges within the EIR calculation 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 updates made in the current year that are set out in further detail in note 2.1. 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 threshold probability for recognition.

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## Going concern

The Committee reviewed the Bank's going concern assessment which incorporated a number of key analyses, such as the Bank of England 2021 Solvency stress test and a reverse stress test.

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 COVID 19 uncertainty continues to remain at the time of writing, 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 2021 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

In line with the Code, the Committee considered whether the 2021 Annual Report was fair, balanced and understandable and should provide the information necessary for shareholders to assess the Bank's position and performance, business model and strategy. The Committee was satisfied that the 2021 Annual Report meets this requirement and, in particular, that appropriate disclosure has been included for both positive and negative developments in the year.

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## Internal Audit

The Bank uses Deloitte LLP, which is accountable to the Committee, as its outsourced internal audit function. The Internal Audit function plays a key role in providing independent assessment and challenging governance, risk management and control.

The Internal Audit Plan was developed based on a prioritisation of the "audit universe" using a risk-based methodology, including input from senior management and the Committee. The Committee approved the Internal Audit Plan and reviewed the results of its work. It also:

- Monitored the objectivity and competence of the Internal Audit function;
- Monitored the delivery of the 2020 Internal Audit Plan; and
- Recommended to the Board for approval the Internal Audit Plan for 2021 together with the level of risk assurance contained within the Plan.

The Committee monitors the resource available to the Internal Audit function to ensure it has sufficient resource to fulfil its responsibilities.

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### Internal Control and Risk Management

Details of the Bank's risk management framework are provided on page 18 onwards. In considering the effectiveness of internal controls, the Committee received and discussed reports from Internal Audit and the external auditor. In addition, management was invited to discuss the more significant issues raised by Internal Audit. Management action plans to resolve the issues raised are monitored by the Committee. The Committee also challenges management where appropriate on the timeframe of the delivery of the actions. Financial risk management processes and controls are in place and there is assessment of the effectiveness of internal controls on an ongoing basis.

The internal controls framework encompasses all controls, including those relating to: financial reporting processes; preparation of accounts; risk management processes; formulation of the strategic plan, budgets and forecasts; and accounting policies and levels of delegated authority. Management regularly review key risks and the effectiveness of mitigating controls including finance governance. There is an ongoing process for identifying, evaluating and managing the principal and emerging risks faced by the Bank. The Committee is satisfied that adequate internal controls in relation to financial controls have been in place for the year under review and up to the date of approval of the Annual Report and Accounts.

### External Auditors

The Committee is responsible for overseeing the Bank's relationship with its external auditors, KPMG. This includes the ongoing assessment of their 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 re-appointment or otherwise.

The Committee reviews and makes recommendations to the Board with regard to the re-appointment of the external auditor KPMG, its remuneration and terms of engagement. The Committee is also responsible for the oversight of the relationship with the external auditor and the effectiveness of the audit process.

In relation to the effectiveness of the external audit, the Committee:

- reviewed the proposed Audit Plan in advance of the annual audit including the experience of the audit team assigned;
- assessed the implications of findings in reports issued following inspections of KPMG by the Financial Reporting Council's Audit Quality Review team;
- reviewed the clarity and thoroughness of KPMG's written reports and contribution to Audit Committee discussions;
- reviewed and approved the audit engagement terms and proposed audit fee; and
- considered the continued independence and objectivity of the external auditor.

The Audit Committee are satisfied that the auditors demonstrated an appropriate, professional approach and challenged the key focus of the financial statements, including material and judgemental areas. KPMG have effectively contributed to the financial assessment of the business throughout the year and their contributions have been appropriately investigative and valuable, and their expertise welcomed. Comments are invited from KPMG throughout the Committee meetings and the external auditor is regularly given and takes the opportunity to hold meetings without management present to maintain integrity and objectivity. The Audit Committee confirms that KPMG continues to be effective.

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## FOR THE YEAR ENDED 30 APRIL 2021

### Independence

KPMG has been appointed as the Bank's external auditor since 2016. The Bank is required by statute to put its audit out to tender at least every 10 years and to change its auditor at least every 20 years. The Bank therefore intends to put the external audit contract out for tender no later than for the 2026 financial year.

In addition, the audit Responsible Individual rotates every 5 years in accordance with the FRC's Revised Ethical Standard 2019. The Bank welcomed a new KPMG audit Responsible Individual, Alex Snook, at the start of the financial year ended 30 April 2021.

### Non-audit services

The Bank and KPMG have safeguards in place to protect the independence and objectivity of the external auditor. A policy for non-audit work for external auditors was approved by the Committee on 29 March 2021, which requires that all non-audit services provided to the Bank by KPMG must be approved by the Committee subject to the guidelines. Approval must be provided by the Committee and it cannot be delegated to a member of management. The Committee must be provided with a detailed explanation of each particular service to be provided to allow it to make an appropriate assessment of the impact of the service on the external auditor's independence. The Committee continues to carefully monitor the level of non-audit services provided by KPMG. No non-audit services were provided by KPMG in the current or prior year.

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## FOR THE YEAR ENDED 30 APRIL 2021

### Board Risk and Conduct Committee

#### Composition

The Committee was chaired by Anne Gunther until 29 October 2020 when Malcom McCaig was appointed following regulatory approval. As at 30 April 2021 there are eight members, Natalie Gammon, Simon Glass, Anne Gunther, Ashley Machin and Malcom McCaig all of whom are independent non-executive directors, and Andrew Bloom, Michael Baker and Elena Lieskovska, who are shareholder non-executive directors.

The CEO, CFO and CRO have standing invitations to attend as guests, unless the Chairman of the Committee asks them to excuse themselves from a particular meeting or discussion. Other executive management and colleagues attend as guests by invitation of the Chairman to present and report on relevant topics. The Company Secretary and her team act as Secretary to the Committee. The Committee receives regular management information and reports concerning the Bank's performance against risk appetite and the measures set by it and by the Board. Regular updates are received on regulatory developments and consideration is given to how these will affect plans, processes, systems and controls.

As a key part of the Bank's governance framework, the CRO has unfettered access to the Committee and its Chair.

#### Reporting

Following each Committee meeting, the Chair provides a verbal update to the Board on key issues and, where necessary, outlines the actions being taken by management to address any issues raised.

#### Committee meeting attendance as at 30 April 2021

In light of the unfolding challenges caused by COVID 19 in early 2020, additional meetings were convened for the Committee to devote the necessary focus on going concern assumptions, satisfying themselves that all relevant matters around the impact of the pandemic and any revisions to the Bank's long term plan were explored and taken into account.

#### Meetings attended 2020/21

|                                 | Attended | Meetings held during director's tenure |
|---------------------------------|----------|--|
| Malcolm McCaig (INED) (Chair)   | 10       | 10                                     |
| Andrew Bloom (NED)              | 8        | 10                                     |
| Michael Baker (NED)             | 9        | 10                                     |
| Elena Lieskovska (NED)          | 6        | 10                                     |
| Natalie Gammon (INED)           | 10       | 10                                     |
| Simon Glass (INED) <sup>1</sup> | 5        | 5                                      |
| Anne Gunther (INED)             | 10       | 10                                     |

<sup>1</sup> Simon was appointed a member on 29 July 2020.

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## Committee evaluation

Throughout the year the Committee has continually evaluated its effectiveness and this included a full review of the Terms of Reference and an in-depth self-assessment to determine how it met its responsibilities during the year. There is continued close collaboration with the Board Audit Committee and both terms of reference were reviewed to ensure that each committee's distinct responsibilities, and where the Committees collaborate, are clearly articulated.

## Role

The Board Risk and Conduct Committee is responsible for oversight over and providing 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 Committee 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 PRA, the FCA and other authoritative sources that may be relevant for the Bank's risk policies.

## Key Responsibilities

- Provide adequate oversight and ensure it has an overall view of all risks facing the Bank, including market, credit, conduct and 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 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;
- 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 a 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 its monitoring, where appropriate escalating to the Board any material exceptional items;

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- 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; and
- Review and recommend to the Board the 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 ("MLRO") and the adequacy and effectiveness of anti-money laundering systems and controls; and
- Review the adequacy and effectiveness of the Conduct Risk and Compliance Framework.

## Activity during the year ended April 2021

The principal areas of the business conducted by the Committee during year is set out below:

- Overview of the Bank's Risk Management and Data Protection frameworks;
- Oversight of the impact of COVID 19 on the Bank's risk appetite;
- Oversight of the financial crime control framework including the consideration of a financial crime assurance review and the annual MLRO report;
- Oversight of the Bank's risk appetite including the recommendation of Board's Risk Appetite Measures;
- Approval of the Risk Charter and the 2021 Compliance Assurance Plan and oversight of the delivery of the 2020 Compliance Assurance plans;
- Review of the Bank's Pillar 3 disclosure;
- Oversight of the Bank's capital and funding positions;
- Provided oversight of the preparation of the Bank's ICAAP and ILAAP and recommendation to the Board;
- 'Deep Dive' review sessions on Buy-To-Let, product reviews and transformation projects; and
- Risk review of the sections of the Annual Report and Accounts

The CRO report is a standing agenda item at each meeting of the Committee, which includes a summary from the CRO setting out items of note and assessing the Bank's performance against its risk appetite and risk metrics. In addition, the CRO report provides details of regulatory projects, credit risk, operational incidents and updates in terms of ICAAP, ILAAP and recovery plan. Further, the report provides updates in terms of the Bank's principal risks as detailed in the Risk Management Report.

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### Key policies considered by the Board Risk and Conduct Committee

Policies approved by the Committee in the year includes:

- Operational Risk Incident;
- Credit and Concentration;
- Data Retention;
- Vulnerable Customer;
- Conduct Risk Management;
- Responsible Lending; and
- Bad Debt.

Policies reviewed and recommended to the Board:

- Model Risk;
- Model Risk Taxonomy;
- Operational Risk;
- Long and Short-Term Lending;
- Whistleblowing; and
- Liquidity.

### Whistleblowing

The Board adopted a revised whistleblowing policy in May 2020, incorporating the Committee's recommendations. The Committee is responsible for reviewing the whistleblowing arrangements and receives whistleblowing updates (which include updates on steps taken to ensure employees' awareness of the whistleblowing policy), as well as reports on any concerns raised. After due challenge, along with some suggestions for further improvement, the Committee concluded that the policy and procedures remain effective.

## Remuneration Committee

### Composition

The Committee was chaired by Anne Gunther. As at 30 April 2021 there were eight members: Natalie Gammon, Simon Glass, Anne Gunther, Malcolm McCaig and Ashley Machin, all of whom are independent non-executive directors, and Andrew Bloom, Michael Baker and Elena Lieskovska, who are shareholder non-executive directors.

The CEO, CPO and CRO have standing invitations to attend to assist the Committee in its deliberations, although not in relation to their own remuneration. The Human Resources team provides support to the Committee Chair and Committee as needed. Other Directors and colleagues attend as guests by invitation of the Chair to present and report on relevant topics. The Company Secretary and her team act as Secretary to the Committee.

### Reporting

Following each Committee meeting, the Chair provides a verbal update to the Board on key issues and, where necessary, outlines the actions being taken by management to address any issues raised.

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## FOR THE YEAR ENDED 30 APRIL 2021

### Committee meeting attendance as at 30 April 2021

The Committee convened additional meetings, due to the impact of COVID 19 on the Bank. This enabled the Committee to make timely decisions in relation to relevant remuneration matters.

|  | Meetings attended 2020/21 |  |
|--|---------------------------|--|
|  | Attended                  | Meetings held during director's tenure |
| Anne Gunther (INED) (Chair) <sup>1</sup> | 12                        | 13                                     |
| Andrew Bloom (NED)                       | 13                        | 13                                     |
| Michael Baker (NED)                      | 13                        | 13                                     |
| Elena Lieskovska (NED)                   | 11                        | 13                                     |
| Natalie Gammon (INED)                    | 11                        | 13                                     |
| Simon Glass (INED) <sup>2</sup>          | 7                         | 7                                      |
| Ashley Machin (INED)                     | 13                        | 13                                     |
| Malcolm McCaig (INED)                    | 13                        | 13                                     |

<sup>1</sup> Anne was absent from one meeting for personal reasons and the relevant meeting was chaired by Malcolm McCaig in accordance with the Committee's terms of reference.

<sup>2</sup> Simon was appointed a member on 29 July 2020.

### Role

The Committee sets and evaluates remuneration for executive Board members, senior management, employees who are designated as Code Staff under the 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, including:

- 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 Board Risk and Conduct and Audit committees 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;
- Periodically reviewing the general principles and operation of the remuneration policy and its implementation, including compliance with the PRA's Remuneration Code, European Banking Authority guidance, the provisions and recommendations of the 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 independent non-executive director fee levels (these are set by the Board based upon recommendations made by the executive).

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## FOR THE YEAR ENDED 30 APRIL 2021

### Activity in year ended April 2021

#### Remuneration

- Reviewed the Remuneration Policy, having taken into account the changing regulatory landscape and the impact of COVID 19;
- Oversaw the key aspects of reward for all colleagues, including directors' remuneration, and the Bank's gender pay analysis;
- Reviewed the principles of the annual reward view, including salaries, and the granting of options pursuant to the Bank's Unapproved Share Option Plan; and
- Determined that remuneration outcomes for 2021 should reflect the Bank's performance in a challenging external environment, while recognising the substantial progress that has been made in delivering the Bank's transformation programme.

#### Policies

- Approval of the Remuneration Policy and Risk Adjustment Framework;
- Updating of the Bank's Malus and Clawback Policy and processes; and
- Considered the appropriateness of the Bank's list of colleagues who fall under the Senior Manager and Certification Regime; specifically, those deemed to be Material Risk Takers.

#### Other areas for review

- The granting of share options pursuant to the Bank's Unapproved Option Plan;
- Approval of Remuneration Committee report; and
- Annual review of the Remuneration Committee Terms of Reference.

#### Remuneration Policy for year ended April 2021

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 be absent themselves from any such discussion.

#### The Remuneration Framework in brief

Masthaven's remuneration framework promotes the interests of the Bank by reflecting its objectives in line with business strategy, objectives, values and the long-term interests of the Bank, including good corporate governance and balanced risk management.

The Bank's remuneration structure for Executive Directors and Material Risk Takers is designed to achieve the following objectives:

- Attract, motivate, reward and retain high quality people who can develop and build the Bank;
- Incentivise performance by having a competitive Variable Remuneration scheme which rewards Executive Directors and colleagues for meeting or exceeding objectives set by the Board;
- Encourage sound risk management practices by setting capital and liquidity hurdles that must be met before any variable payment can be made; and

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- Ensure that the senior management team are focused on achieving good outcomes for customers and avoid incentives that could encourage the unfair treatment of customers.

All pay and reward schemes must promote the interests of the Bank by reflecting its objectives in line with business strategy, objectives, values and long-term interests of the firm, including good corporate governance and balanced risk management. This is evidenced through the Bank's Balanced Scorecard which incorporates the Bank's Values and Behaviours.

## Executive Directors' and Material Risk Takers remuneration

The table below summarises the key components of the Remuneration Policy that are applied to all Material Risk Takers (excluding Non-Executive Directors, for whom a fixed fee is payable).

| Element of remuneration    | Key features   | Link to strategy/Performance measures  |
|----------------------------|--|--|
| Salary                     | Normally reviewed annually at the end of the performance year (December), with any adjustments taking effect from 1 January.   | Supports the attraction and retention of the best talent.<br><br>Salaries take account of the external market and the individual's experience, responsibilities and contribution.  |
| Allowances and benefits    | Employees also receive benefits including holiday allowance, private health cover and life insurance.  | N/A  |
| Pensions                   | Employees are entitled to receive employer contributions to the Bank's defined contribution pension plan. Contributions are paid as a percentage of base salary.<br><br>Material Risk Takers may receive a cash allowance in lieu of a pension contribution.                             | N/A  |
| Annual Discretionary Bonus | Subject to performance measures and Remuneration Committee approval, an annual discretionary bonus may be paid.<br><br>Annual bonus payments are subject to malus and clawback provisions.<br><br>Poor performance can result in the bonus being reduced, including potentially to zero. | Reward for the achievements of the Bank, business unit and individual objectives that are closely linked to the Bank's strategy.<br><br>Payments are considered on the basis of overall performance of the Bank against a Balanced Scorecard of financial and non-financial measures, business unit performance and individual performance against agreed objectives, including alignment with corporate values and behaviours, and the outcome of an independent risk adjustment process. |

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| Element of remuneration | Key features   | Link to strategy/Performance measures   |
|-------------------------|--|---|
| Share Options           | <p>Employees may from time to time be offered options to acquire shares in the Bank under an Unapproved Plan.</p> <p>Options to acquire ordinary shares in the plan shall carry during the current financial an exercise price of £1 per ordinary share.</p> <p>The Options shall become exercisable following admission of the Bank's shares on a stock exchange or in the event of a takeover or winding up. Options may lapse in full or in part if a participant ceases employment with the Bank prior to exercise.</p> <p>The Committee may adjust and amend awards in accordance with the Plan rules.</p> <p>For Code staff, whose variable remuneration is more than a third of total remuneration, these are subject to deferral provisions.</p> | <p>Rewards long-term sustainable performance, in line with the Bank's strategy.</p> <p>Focuses employees on delivering outstanding value creation for shareholders.</p> <p>Awards made during the applicable performance period are based on a combination of: (1) The Bank's overall performance during the year; (2) The performance of the colleague's business unit/ team; and (3) Personal performance of the colleague.</p> |

### Non-executive Directors' remuneration

The fees paid to the non-executive directors are determined by the Board as a whole. Additional fees are payable for acting as a senior independent director and for chairing the Board committees. The non-executive directors are not entitled to any compensation on termination of their appointment.

The non-executive directors are entitled to reimbursement of reasonable expenses inclusive of any tax due on these expenses.

### Employment Contracts and Contract for Services

Executive directors have employment contracts, the provisions of which include a notice period of six months. The independent non-executive directors are subject to contract for services. The independent non-executive directors are appointed for fixed terms not exceeding three years, which may be renewed.

### Remuneration Consultant

Given the size of the Bank, the Committee has decided not to appoint a dedicated remuneration consultant. Where appropriate, the Committee seeks specialist remuneration advice.

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### **Board Changes**

As announced in October 2020, Jon Hall stepped down from his position as Chief Commercial Officer and Deputy CEO of Masthaven and resigned on 26 February 2021. Jon Hall did not receive any payment linked to his loss of his office.

### **Remuneration across Masthaven**

The Committee believes an important part of its role is oversight of the remuneration and benefits across the Bank for all colleagues. For the wider colleague population, the Committee is keen to ensure the remuneration structure is as simple as possible, delivers variable reward that is valued by colleagues, and is aligned to market practice.

The Bank takes fairness and transparency very seriously and during the year an analysis was completed on 173 employees. The key area where there is disparity in terms of gender is in the top quartile where men disproportionately hold more senior positions, the remaining quartiles reflect an even split. Masthaven continues to focus on reducing the gap by supporting all colleagues to progress in their careers by offering development programmes and opportunities.

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### Nomination Committee

#### Composition

The Committee was chaired by Ashley Machin. As at 30 April 2021 there were eight members: Ashley Machin, Natalie Gammon, Anne Gunther, Simon Glass and Malcolm McCaig all of whom are independent non-executive directors, and Andrew Bloom, Michael Baker and Elena Lieskovska who are shareholder non-executive directors.

The CEO and CPO and CRO have standing invitations to attend to assist the Committee in its deliberations. The CPO provides support to the Committee Chair and Committee as needed. Other Directors and colleagues attend as guests by invitation of the Chairman to present and report on relevant topics. The Company Secretary and her team act as Secretary to the Committee.

#### Reporting

Following each Committee meeting, the Chair provides a verbal update to the Board on key issues and, where necessary, outlining the actions being taken by management to address any issues raised.

#### Committee meeting attendance as at 30 April 2021

The Committee convened additional meetings, due to the impact of COVID 19 on the Bank. This enabled the Committee to make timely decisions.

|                                 | Meetings attended 2020/21 |  |
|---------------------------------|---------------------------|--|
|                                 | Attended                  | Meetings held during director's tenure |
| Ashley Machin (INED) (Chair)    | 9                         | 11                                     |
| Andrew Bloom (NED) <sup>2</sup> | 9                         | 11                                     |
| Michael Baker (NED)             | 11                        | 11                                     |
| Elena Lieskovska (NED)          | 9                         | 11                                     |
| Natalie Gammon (INED)           | 10                        | 11                                     |
| Simon Glass (INED) <sup>3</sup> | 3                         | 3                                      |
| Anne Gunther (INED)             | 11                        | 11                                     |
| Malcolm McCaig (INED)           | 11                        | 11                                     |

<sup>1</sup> Two additional meeting were held to deal with the appointment of the permanent chairman. Ashley absented himself from these meetings and the meetings were chaired by Anne Gunther.

<sup>2</sup> Andrew absented himself from one meeting due to a conflict of interest.

<sup>3</sup> Simon was appointed a member on 29 July 2020.

#### Role

The Committee makes recommendations to the Board in respect of appointments to the Committees and the Board. Since 2019, the Board and the Nomination Committee have worked to improve the levels of independence, gender and skills and experience on the Board and this is reflected in the makeup of the Board today.

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## FOR THE YEAR ENDED 30 APRIL 2021

### Key responsibilities

The Committee reviews 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. Its duties include:

- regularly reviewing the structure, size and composition (including skills, knowledge, experience, independence and diversity) of the Board as a whole and making recommendations to the Board as required;
- considering succession planning for members of the Board and the Executive Committee, including the length of service of members and the need to regularly refresh Board membership, taking into account the Bank's strategic priorities and the main trends and factors affecting the long-term success and future viability of the Bank and the skills and expertise needed on the Board in the future;
- taking responsibility for identifying and nominating candidates to fill Board vacancies as and when they arise, for the approval of the Board;
- evaluating the balance of skills, knowledge and experience, diversity and length of service on the Board, and the range of critical skills of value to the Board relevant to the challenges and opportunities facing the Bank;
- considering Board candidates on merit and against objective criteria and with due regard to the benefits of diversity, taking care that appointees have time available to devote to the position;
- monitoring the Board Diversity Policy and a Bank-wide Diversity Policy; and
- reviewing the results of the Board performance evaluation process relating to Board composition.

### Activity in year ended April 2021

#### Board appointments

- The appointment of Ashley Machin as the permanent chairman. Ashley had acted as the interim Chairman from 11 September to his permanent appointment on 17 December 2020;
- The appointment of Leigh Bartlett as the CEO;
- The appointment of Simon Glass and Malcolm McCaig as new independent non-executive directors;
- Appointment of a senior independent director; and
- Reviewing and agreeing the candidate profiles for non-executive director searches.

#### Board succession

- The Board succession plan and progressively refreshing the Board with a view to promoting diversity of backgrounds, skills, experience, and personal and cognitive strengths;
- Succession planning for the Executive Committee and senior management;
- Reviewing the Board Skills Matrix;
- Reviewing and updating the Board Diversity Policy; and
- Agreement of committee memberships and committee chair roles.

#### Other areas for review

- Approval of Nomination Committee report;
- Annual review of the Nomination Committee Terms of Reference; and
- Board and Committee annual effectiveness review and oversight of the action plan arising.

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## FOR THE YEAR ENDED 30 APRIL 2021

### Appointment of chairman

Following the stepping down of Peter Harrison as chairman, Ashley Machin was appointed as interim Chairman. A separate committee of the non-executive directors, but excluding the interim Chairman, was established to oversee the search for a new permanent non-executive director chair working with Egon Zehnder. Following an extensive search Ashley Machin was appointed as the permanent Chairman on 17 December 2020.

### Board composition, independence and development

During the year the Committee reviewed the skills, experience, independence and knowledge of the Board to understand which areas to focus on when recruiting future Board members and the future composition of our Board and Committees. In addition, the Committee considered the Board Skills Matrix which was updated to introduce a broader and more appropriate range of technical based knowledge together with an assessment of soft skills.

In response to the identification of the areas of understanding that may be improved upon, the Board Training Plan will be expanded during 2021 addressing areas such as regulatory training, corporate governance developments, industry watch, insights into political and economic issues and the market perspective.

The changes to the Board during the year 2020 gave us the opportunity to refresh the membership of the Board committees, details of which are contained in their respective reports.

### Annual Board and committee evaluation

The Board carried out during the year an evaluation of their effectiveness. Details are provided on page 33.

### Diversity

The committees and Board of Masthaven recognise that the diversity of our Board drives effective decision-making and constructive challenge and scrutiny in the boardroom. This shapes the strategic and operational direction of the Bank. The Bank is therefore committed to building a strong Board which is diverse in many ways, including gender and ethnicity. In the year, the Bank worked with Egon Zehnder, a search firm, to provide support in sourcing candidates for non-executive director roles. Diversity is central to Egon Zehnder's approach and it is a signatory to the Women on Boards Voluntary Code of Conduct for Executive Search Firms. Egon Zehnder has no other connection with the Bank.

During the year a Board Diversity Policy was adopted and the Committee will further review it to ensure it remains in line with best practice and meets the expectations of the Bank's stakeholders. A copy of the Policy can be viewed on the Bank's website. During 2021 the Committee will measure the objectives of the Policy against the progress made.

### Modern Slavery

The Bank's policy was first approved by the Board in October 2020 and confirms that the Bank will conduct all business with integrity and that it has zero-tolerance towards Modern Slavery. The Bank published its first Modern Slavery Statement on its website on 28 October 2020.

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## FOR THE YEAR ENDED 30 APRIL 2021

### Directors' Report

The Directors present their report and financial statements for the year ended 30 April 2021. The Directors consider the Annual Report for the year ended 30 April 2021, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Bank's position and performance, business model and strategy.

#### PRINCIPAL ACTIVITIES

Masthaven Bank Limited is a UK Bank, authorised by the PRA and regulated by the PRA and the 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:

|  |   |
|--|---|
| <b>Ashley Machin</b>                             | Independent Non-Executive Director. Chairman of the Board and Chairman of the Nomination Committee                |
| <b>Anne Gunther</b>                              | Independent Non-Executive Director and Chair of the Remuneration Committee  |
| <b>Natalie Gammon</b>                            | Independent Non-Executive Director  |
| <b>Malcolm McCaig</b>                            | Independent Non-Executive Director, Chair of the Board Risk and Conduct Committee and Senior Independent Director |
| <b>Simon Glass</b><br>(appointed 29 July 2020)   | Independent Non-Executive Director and Chair of the Board Audit Committee   |
| <b>Michael Baker</b>                             | Non-Executive Director  |
| <b>Elena Lieskovska</b>                          | Non-Executive Director  |
| <b>Andrew Bloom</b>                              | Non-Executive Director (CEO and Executive Director until 30 April 2020)   |
| <b>Leigh Bartlett</b><br>(appointed 7 July 2020) | CEO   |
| <b>Jon Hall</b><br>(resigned 26 February 2021)   | 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 £2.0m (2020: loss £4.6m) 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. 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 (2020: £nil).

## POLITICAL DONATIONS

The Bank did not make any political donations or incur any political expenditure during the year (2020: £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

Subsequent to year-end, the Bank signed a lease for 15 Rathbone Place, London for 15 months.

## 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](http://www.masthaven.co.uk).

## 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 current business environment is one of economic stress as a result of COVID 19 that has significantly impacted the UK economy and the UK housing market. In addition, 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 12 months from the date of approval of these financial statements. The Bank has disclosed a loss after tax for the year of £2.0m (2020: £4.6m). Despite these annual losses and considering the expected performance during the forecast period, the Bank continues to be in compliance with its regulatory capital and liquidity requirements and forecasts this to be the case throughout the forecast period.

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 customers who had

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payment holidays. The impact of the COVID 19 pandemic has been considered in lending growth, impairment and risk weighted assets (for capital purposes); however this may require adjustment as more information comes to light.

The Bank undertook scenario analyses to assess the appropriateness of the going concern assumption, including a solvency stress test based on relevant assumptions included in the Bank of England's Annual Cyclical Scenario ('2021 Solvency Stress Test') and reverse stress test.

Based on the Bank's forecasts and objectives and having taken into account the plausible actions (for example cost reductions and a revised pricing strategy) the Bank could initiate in response to the severe stress, the Bank concluded that it has adequate resources and sufficient regulatory capital throughout the 12 month forecast period and foreseeable future. Consequently, the financial statements have been prepared on a going concern basis.

## 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:

- Published its first Modern Slavery statement;
- Rolled out online training to all colleagues on modern slavery to assist in assessing the risks in its supply chain;
- Implemented its Financial Supplier Qualification System to standardise and manage requests for compliance and assurance data; and
- Regularly engaged with all material suppliers with appropriate reporting and feedback. Escalation of key supplier issues to the Board in line with Regulatory requirements was done as appropriate.

## DIVERSITY AND INCLUSION

Masthaven's Diversity and Inclusion policy outlines the Bank's commitment to employment policies which follow best practice, based on equal opportunities for all colleagues. The Bank values people as individuals with diverse opinions, cultures, lifestyles and circumstances and understands that everyone is different and has something unique to offer. In order to help drive change in the sector, Masthaven has signed up to HM Treasury's Women in Finance Charter. Masthaven gives full and fair consideration to all applications for employment.

Masthaven believe that a diverse Board, appointed on merit, with a broad range of skills, backgrounds, knowledge and experience, will be a more effective and responsible Board. More information can be found in the Nomination Committee Report on page 50.

For all colleagues and candidates we always look to make reasonable adjustments to ensure equity. In the event of colleagues becoming disabled, the Bank makes every effort to ensure that their employment continues and that we provide appropriate training and support. Masthaven's approach is that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other colleagues.

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Masthaven encourages employee involvement in the Bank. Increasing colleague awareness of the financial and economic factors that affect us plays a major role in maintaining the businesses customer focus.

### DISCLOSURE OF INFORMATION TO THE 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.

### INDEPENDENT AUDITORS

The auditors, KPMG LLP, having indicated their willingness to continue in office and are deemed to be reappointed under Section 487(2) of the Companies Act 2006.

DocuSigned by:

*Leigh Bartlett*

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Leigh Bartlett

CEO

By order of the Board

August 2021 05-Aug-2021

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FOR THE YEAR ENDED 30 APRIL 2021

## 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 2021 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 Bank's affairs as at 30 April 2021 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 five financial years ended 30 April 2021. 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:** £410,000 (2020: £387,000)  
 financial statements as a whole 0.6% of Net assets (2020: 1% of total revenues)

| Key audit matters      |  | vs 2020 |
|------------------------|--|---------|
| <b>Recurring risks</b> | Loan loss provisioning                       | ◀▶      |
|                        | Revenue recognition: effective interest rate | ◀▶      |
|                        | IT user access management                    | ◀▶      |
|                        | Going Concern                                | ⬇       |

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

Key audit matters are those matters that, in our professional judgement, 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.

|   | The risk  | Our response   |
|---|---|--|
| <p><b>Loan Loss provisioning</b></p> <p>Provision<br/>(£ 2,991 thousand; 2020: £1,994 thousand)<br/>Charge<br/>(£ 1,130 thousand; 2020: £1,416 thousand)</p> <p>Refer to page 37 (Corporate Governance Report), note 1.5.4 (Accounting policies) and note 2.2 and 3.10 (Notes to the Financial Statements).</p> | <p><b>Complex provision with heightened level of subjectivity:</b></p> <p>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.</p> <p><i>Individual impairment provision</i><br/>The Director's assess individual impairments by reference to loans that have current arrears or other qualitative factors. The individual impairment is derived from a calculation 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 and Forced Sale Discounts against collateral.</p> <p><i>Collective impairment provision</i><br/>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).</p> <p><i>COVID-19 management overlay</i><br/>Adjustments to the model driven collective impairment provision results are made by management to address known impairment model limitations or emerging trends. Management judgement is involved in estimating these amounts especially in relation to the impact of COVID-19 economic uncertainty.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the loan loss provisioning 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.</p> | <p>Our procedures included:</p> <p><b>Control operations:</b></p> <p><b>Control design and implementation:</b></p> <p>We tested the design, implementation and operating effectiveness of key controls over the assessment of loan loss provision.</p> <p><b>Methodology implementation:</b> we compared the models' methodologies with the requirements of the relevant accounting standard.</p> <p><b>Test of detail:</b></p> <p><b>Sector experience:</b> We involved KPMG credit risk assurance specialists to critically assess and challenge the appropriateness of management's key assumptions and judgements of the <i>collective impairment provision</i> model based on our industry experience.</p> <p><b>Benchmarking assumptions:</b> We benchmarked the key assumptions used in the <i>individual impairment provision calculations</i>, including probability of possession, forced sale discounts against collateral, time to sell and costs to sell with comparable lenders.</p> <p>We also compared the loan portfolio key metrics, including provision coverage, with those of comparable lenders.</p> <p><b>Recalculation:</b> We assessed whether the model performs the impairment calculations as designed, by performing a recalculation of the individual and collective impairment provision. We also tested the completeness and accuracy of the relevant data elements which feed into the impairment provision calculations.</p> <p><b>COVID-19 management overlay:</b> We evaluated the judgements made by management to assess the impact of the COVID-19 uncertainty.</p> <p><b>Assessing transparency:</b> 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.</p> <p><b>Our results</b></p> <p>We found the loan loss provision and the related disclosures to be acceptable (2020: acceptable)</p> |

|  |  |   |
|--|--|---|
| <b>Revenue Recognition: effective interest rate</b>  | <b>Subjective estimate:</b><br>Using models, interest and fees earned and incurred on loans are recognised using the effective interest rate ('EIR') method that spreads directly attributable income and cost over the expected behavioural life of the loans.  | <b>Our procedures included:</b><br><br><b>Our sector experience:</b> We critically evaluated the key assumptions behind the behavioural life of significant loan products against our own knowledge of industry experience and trends. We also challenged judgments made in relation to assessment of fees integral to the undertaking of the loans.  |
| Deferred income (£ 4,531 thousand; 2020: £ 3,581 thousand)   | The Bank has a portfolio of loans acquired in the past with a premium which is spread over the expected lifetime of the loans. The risk is that the estimated behavioural lives are not reflective   | <b>Control testing:</b> We obtained a process understanding and tested the design and implementation of the key controls related to the EIR estimate made by management.  |
| Net gain/(charge): (£950 thousand. 2020: {£801} thousand)  | of the actual performance. Estimation of behavioural lives requires significant judgement to make assumptions about the value, probability and timing of the expected future cash flows.   | <b>Sensitivity analysis:</b> We assessed the models for their sensitivity to 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.  |
| Refer to page 37 (Corporate Governance Report), note 1.10 (Accounting policies) and note 2.1 (Notes to Financial Statements) | A separate EIR calculation is performed for loans originated through the regular lending business of the Bank.   | <b>Historical comparison:</b> We assessed the Bank's expected repayment profiles by comparing them to the current and past performance of the Bank's portfolios, including recent cash collections.   |
|  | The expected life assumptions utilise repayment profiles which represent how customers are expected to pay. These profiles extend significantly into the future which creates a high degree of estimation uncertainty and subjects the judgement to future market changes. Given the relative immaturity of the bank, there is limited historic loan portfolio data with which to determine the behavioural life curves. | <b>Tests of detail:</b> For a sample of originated loans, we independently recalculated the EIR adjustment and compared back to the EIR adjustment determined by the Bank.<br>For the full population of loans acquired, we independently developed a model to calculate the EIR adjustment of the amortised premium. We tested the completeness, existence and accuracy of loan fee income and cost data which feed into the EIR models on a sample basis. |
|  |  | <b>Assessing transparency:</b> 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 is sufficiently clear.   |
|  |  | <b>Our results:</b> We found the estimate, resulted disclosures and calculation of revenue effective interest rate to be acceptable (2020: acceptable)  |

|                                  |  |  |
|----------------------------------|--|--|
| <b>IT user access management</b> | <b>Control performance:</b><br>The IT control framework 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 in the Bank's financial statements. | <b>Our procedures included:</b><br><br><b>Control design and implementation:</b><br>In previous audit periods we identified a number of IT control deficiencies and based on management inquiries performed, we understand that the remediation of these is ongoing. As a result, and consistent with the prior year, we did not test or place reliance on the general IT controls as a part of our audit.   |
|                                  | 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.   | Where general IT controls and compensating manual controls did not appear operate to mitigate a risk, we either increased the level of substantive testing which we performed or sought to perform manual testing of application controls via reperformance and comparing Bank's data with external sources.   |
|                                  | 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.   | <b>Substantive procedures</b><br><br>For certain account balances we responded to the deficient GITCs by performing additional substantive testing, such as extended sample testing over certain account balance and comparing the selected data to the external sources (such as third party contracts and / or bank statements) to test the integrity of the transactional level data that is flowing into and contained within the Bank's financial statements. |
|                                  |  | <b>Our results:</b> Where we tested automated controls manually and extended our substantive samples, we found the results of our testing to be acceptable. (2020: identified deficiencies and expanded testing to conclude results to be acceptable)  |

|  | The risk  | Our response  |
|--|---|---|
| <p><b>Going concern</b></p> <p><i>Refer to page 38 (Corporate Governance Report), page 54 (Directors' Report) and note 1.3 (Notes to the Financial Statements)</i></p> | <p><b>Disclosure quality:</b></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 12 months from the date of approval of the financial statements.</p> <p>The risk most likely to adversely affect the Company's available financial resources over this period is an increase in the level of impairment of loans and advances to customers due to the impact of COVID-19. This impact could significantly reduce regulatory capital levels over the course of the next 12 months.</p> <p>There are also less predictable but realistic second order impacts, such as the impact of COVID-19 on liquidity.</p> <p>The focus 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 of the Bank to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.</p> | <p>We considered whether these risks could plausibly affect the capital and liquidity in the going concern period by assessing the directors' sensitivities over the level of available financial resources indicated by the Bank's financial forecasts taking account of severe, but plausible, adverse effects that could arise from these risks individually and collectively</p> <p>Our procedures also included:</p> <p><b>Our COVID-19 knowledge:</b> 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.</p> <p><b>Sensitivity analysis:</b> 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><b>Assessing transparency:</b> 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><b>Our results</b></p> <p>We found the going concern disclosure in note 1.3 without any material uncertainty to be acceptable (2020 result: acceptable)</p> |

**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 £410,000 (2020: £387,000), determined with reference to a benchmark of net asset, of which it represents 0.6% (2020: 1% of total revenues). We have changed the selected benchmark for calculating materiality to net assets from total revenues used in the prior year. While the materiality amount determined using net assets and revenue is similar, we have selected net assets on the basis that this is reflective of regulatory capital which is a key area of focus for the users of the financial statements. We consider net assets to be the most appropriate benchmark as it provides a more stable measure year on year than profit before tax.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 65% (2020: 65%)

of materiality for the financial statements as a whole, which equates to £267,000 (2020: £251,000). We applied this percentage in our determination of performance materiality based on the level of identified deficiencies in the general IT control environment during the prior periods.

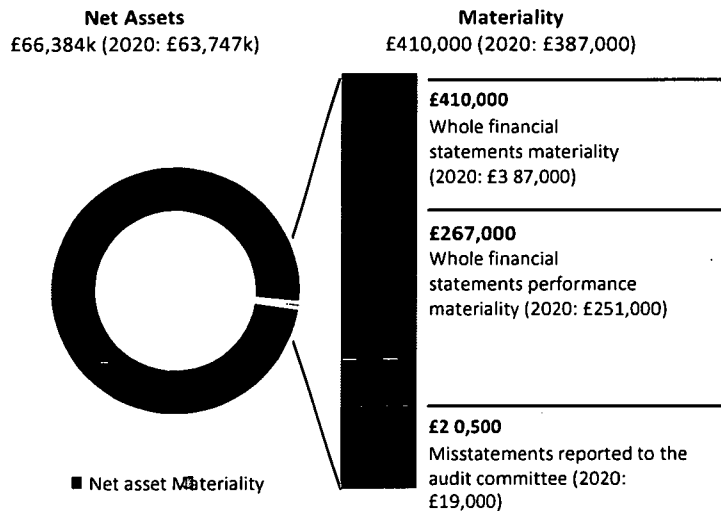
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £20,500 (2020: £19,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Bank was undertaken to the materiality and performance materiality levels specified above and was performed by a single audit team.

**4. 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").

An explanation of how we evaluated management's assessment of going concern is set out in the related key audit matter in section 2 of this report.



Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Bank's ability to continue as a going concern for the going concern period; and

However, as we cannot predict all future events or conditions as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Bank will continue in operation.

## 5. Fraud and breaches of laws and regulations – ability to detect

### *Identifying and responding to risks of material misstatement due to fraud*

To identify risks of material misstatement due to fraud (“fraud risks”) we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors, the Audit Committee, Internal audit team and inspection of policy documentation as to the Bank’s high-level policies and procedures to prevent and detect fraud, including the internal audit function, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board/ Audit Committee and Risk Committee meeting minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that Bank’s management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as loan loss provisions. On this audit we do not believe there is a fraud risk related to revenue recognition because the Bank has simple revenue streams with largely automated recognition process, and there is limited judgement and opportunities to influence the revenue recognition.

We identified a fraud risk related to loan loss provisioning.

Further details in respect of loan loss provisioning is set out in the key audit matters disclosures in section 2 of this report.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of some of the Bank-wide fraud risk management controls.

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation.
- Assessing significant accounting estimates for bias.

### *Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations*

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 correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Bank is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity’s procedures for complying with regulatory requirements.

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 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 Bank’s license to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity, conduct risk, money laundering, financial crime and certain aspects of company 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. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

### *Context of the ability of the audit to detect fraud or breaches of law or regulation*

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 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 fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

**6. 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.

**7. 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, 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.

**8. Respective responsibilities**

*Directors' responsibilities*

As explained more fully in their statement set out on page [A], 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 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 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](http://www.frc.org.uk/auditorsresponsibilities).

**9. 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.



**Alexander Snook**  
**(Senior Statutory Auditor)**  
for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants 15  
Canada Square London

**5** August 2021

# ANNUAL REPORT & ACCOUNTS

## FOR THE YEAR ENDED 30 APRIL 2021

### Statement of Total Comprehensive Income

|   | Note | 2021<br>£000   | 2020<br>£000   |
|---|------|----------------|----------------|
| Interest receivable and similar income                                  | 3.1  | 42,801         | 37,937         |
| Interest payable and similar charges                                    | 3.1  | (14,139)       | (15,412)       |
| <b>Net Interest Income</b>  |      | <b>28,662</b>  | <b>22,525</b>  |
| Other (expense)/income  | 3.2  | 2              | 16             |
| <b>Operating income</b>   |      | <b>28,664</b>  | <b>22,541</b>  |
| Administrative expenses   | 3.3  | (30,039)       | (26,563)       |
| Net impairment loss on financial assets                                 | 3.10 | (1,130)        | (1,416)        |
| <b>Operating loss before tax</b>  |      | <b>(2,505)</b> | <b>(5,438)</b> |
| Tax   | 3.9  | 467            | 879            |
| <b>Loss post tax for the year</b>                                       |      | <b>(2,038)</b> | <b>(4,559)</b> |
| <b>Other Comprehensive Income/(Loss)</b>                                |      |                |                |
| <b>Items that are or may be reclassified to profit or loss</b>          |      |                |                |
| Net change in fair value of Investment Securities – Available for Sale  |      | -              | (1)            |
| Total Other Comprehensive Loss for the year, attributable to the owners |      | -              | (1)            |
| <b>Total Comprehensive Loss for the year, net of tax</b>                |      | <b>(2,038)</b> | <b>(4,560)</b> |

The above results are derived wholly from continuing operations.

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


# ANNUAL REPORT & ACCOUNTS

## FOR THE YEAR ENDED 30 APRIL 2021

### Statement of Financial Position

|                                     | Note   | 2021<br>£000   | 2020<br>£000   |
|-------------------------------------|--------|----------------|----------------|
| <b>Assets</b>                       |        |                |                |
| Cash and Balances at central banks  | 4.1    | 112,894        | 131,294        |
| Loans and Advances to banks         | 4.2    | 10,355         | 5,229          |
| Loans and Advances to Customers     | 4.3    | 721,446        | 716,534        |
| Fair value hedge asset              | 4.12.4 | 724            | 1,555          |
| Tangible Fixed Assets               | 4.5    | 277            | 663            |
| Intangible Assets                   | 4.6    | 4,359          | 5,188          |
| Other Assets                        | 4.7    | 1,639          | 2,096          |
| <b>Total Assets</b>                 |        | <b>851,694</b> | <b>862,559</b> |
| <b>Liabilities</b>                  |        |                |                |
| Customer Deposits                   | 4.8    | 772,672        | 788,109        |
| Other Liabilities                   | 4.9    | 4,645          | 3,139          |
| Derivative liabilities              | 4.12.4 | 707            | 1,539          |
| Long-term subordinated debt         | 4.10   | 6,026          | 6,025          |
| <b>Total Liabilities</b>            |        | <b>784,050</b> | <b>798,812</b> |
| <b>Equity</b>                       |        |                |                |
| Share Capital                       | 4.11   | 85,214         | 79,311         |
| Share Premium                       |        | 7,861          | 7,861          |
| Retained Earnings                   |        | (25,431)       | (23,425)       |
| Other Reserves                      |        | -              | -              |
| <b>Total Equity</b>                 |        | <b>67,644</b>  | <b>63,747</b>  |
| <b>Total Equity and Liabilities</b> |        | <b>851,694</b> | <b>862,559</b> |

These financial statements were approved by the Board of Directors on<sup>5</sup> August 2021 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.*

# ANNUAL REPORT & ACCOUNTS

## FOR THE YEAR ENDED 30 APRIL 2021

### Statement of Changes in Equity

|   | Share<br>Capital<br>£000 | Share<br>Premium<br>£000 | Retained<br>Earnings<br>£000 | Other<br>reserves<br>£000 | Total<br>Equity<br>£000 |
|---|--------------------------|--------------------------|------------------------------|---------------------------|-------------------------|
| <b>Balance at 1 May 2019</b>                              | <b>79,311</b>            | <b>7,861</b>             | <b>(18,876)</b>              | <b>1</b>                  | <b>68,297</b>           |
| Loss for the year   | -                        | -                        | (4,559)                      | -                         | (4,559)                 |
| Other Comprehensive Income                                | -                        | -                        | -                            | (1)                       | (1)                     |
| <b>Total Comprehensive loss for the year</b>              | <b>-</b>                 | <b>-</b>                 | <b>(4,559)</b>               | <b>(1)</b>                | <b>(4,560)</b>          |
| Issue of share options                                    | -                        | -                        | 10                           | -                         | 10                      |
| <b>Total contributions by and distributions to owners</b> | <b>-</b>                 | <b>-</b>                 | <b>10</b>                    | <b>-</b>                  | <b>10</b>               |
| <b>Balance at 30 April 2020</b>                           | <b>79,311</b>            | <b>7,861</b>             | <b>(23,425)</b>              | <b>-</b>                  | <b>63,747</b>           |
| <b>Balance at 1 May 2020</b>                              | <b>79,311</b>            | <b>7,861</b>             | <b>(23,425)</b>              | <b>-</b>                  | <b>63,747</b>           |
| Loss for the year   | -                        | -                        | (2,038)                      | -                         | (2,038)                 |
| Other Comprehensive Income                                | -                        | -                        | -                            | -                         | -                       |
| <b>Total Comprehensive loss for the year</b>              | <b>-</b>                 | <b>-</b>                 | <b>(2,038)</b>               | <b>-</b>                  | <b>(2,038)</b>          |
| Issue of share capital                                    | 6,000                    | -                        | -                            | -                         | 6,000                   |
| Expenses of capital issue                                 | (97)                     | -                        | -                            | -                         | (97)                    |
| Issue of share options                                    | -                        | -                        | 32                           | -                         | 32                      |
| <b>Total contributions by and distributions to owners</b> | <b>5,903</b>             | <b>-</b>                 | <b>32</b>                    | <b>-</b>                  | <b>5,935</b>            |
| <b>Balance at 30 April 2021</b>                           | <b>85,214</b>            | <b>7,861</b>             | <b>(25,431)</b>              | <b>-</b>                  | <b>67,644</b>           |

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

FOR THE YEAR ENDED 30 APRIL 2021

## Statement of Cashflows

|  | Note          | 2021<br>£000    | 2020<br>£000   |
|--|---------------|-----------------|----------------|
| <b>Cashflows from operating activities</b>       |               |                 |                |
| (Loss) before tax for the year                   |               | (2,505)         | (5,438)        |
| <b>Adjustments for:</b>                          |               |                 |                |
| Depreciation and amortisation                    |               | 2,425           | 2,033          |
| Net interest income                              |               | (28,662)        | (22,525)       |
| Increase in provisions                           |               | -               | (160)          |
| Loss on Disposal                                 |               | 145             | 12             |
| Corporation Tax Credited                         |               | 467             | 879            |
| Share Option Reserve                             |               | 32              | 10             |
| Other  |               | 1               | -              |
| <b>Changes in:</b>                               |               |                 |                |
| (Increase) in Loans and Advances to Customers    |               | (4,912)         | (126,646)      |
| Decrease/(Increase) in Other Assets              |               | 457             | (934)          |
| (Decrease)/Increase in Customer Deposits         |               | (15,437)        | 128,400        |
| Increase/(Decrease) in Other Liabilities         |               | 1,506           | (1,168)        |
| Decrease/(Increase) in FV hedge asset            |               | 831             | (1,555)        |
| (Decrease)/Increase in FV hedge liability        |               | (832)           | 1,539          |
| Interest received                                |               | 42,801          | 37,937         |
| Interest paid                                    |               | (13,419)        | 16,134         |
| <b>Net cash flow from operating activities</b>   |               | <b>(17,102)</b> | <b>(2,306)</b> |
| <b>Cash flows from Investing Activities</b>      |               |                 |                |
| Purchase of Tangible Fixed Assets                |               | (40)            | (820)          |
| Disposal of Tangible Fixed Assets                |               | (145)           | (12)           |
| Purchase of Intangible Assets                    |               | (1,170)         | (2,056)        |
| <b>Net cash flow from Investing Activities</b>   |               | <b>(1,355)</b>  | <b>(2,888)</b> |
| <b>Cash flows from Financing Activities</b>      |               |                 |                |
| Net proceeds from the issue of share capital     |               | 5,903           | -              |
| Interest paid                                    |               | (720)           | (722)          |
| <b>Net cash flow from Financing Activities</b>   |               | <b>5,183</b>    | <b>(722)</b>   |
| <b>Net increase in Cash and Cash Equivalents</b> |               | <b>(13,274)</b> | <b>(5,916)</b> |
| Cash and cash equivalents at 1 May               |               | 136,523         | 142,439        |
| <b>Cash and Cash Equivalents at 30 April</b>     | 4.1, 4.2, 4.4 | <b>123,249</b>  | <b>136,523</b> |

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

FOR THE YEAR ENDED 30 APRIL 2021

# 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 15-18 Rathbone Place, London, W1T 1HU. The nature of the Bank's operations and principal activities are set out in the Strategic Report.

### 1.2 BASIS OF PREPARATION

These financial statements were prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") and, as per FRS 102.11(b), IAS 39 Financial Instruments: *Recognition and Measurement* ("IAS39") and applicable law. These financial statements were prepared under the historical cost convention, modified using IAS39 to include financial instruments at fair value in accordance with FRS 102. The presentational and functional currency of these financial statements is British Pound Sterling. The accounting policies are consistent with the prior year. The financial statements are presented in Great British Pounds ("GBP") and all values are rounded to the nearest thousand (£000) except when otherwise indicated.

### 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 has prepared detailed forecasts for a period of not less than 12 months from the date of approval of these financial statements. The Bank has disclosed a loss after tax for the year of £2.0m (2020: £4.6m). Despite these annual losses and considering expected performance during the forecast period, the Bank continues to be in compliance with its regulatory capital requirement and liquidity requirements and forecasts this to be the case throughout the forecast period.

As part of those forecasts, the Bank has applied a severe stress test based on relevant assumptions in the Bank of England's Annual Cyclical Scenario ('2021 Solvency Stress Test') and has performed reverse stressing testing. Having taken into account the plausible actions (for example cost reductions and a revised pricing strategy) that the Bank could initiate in response to the severe stress, the Directors are confident that the Bank will have sufficient regulatory capital and liquidity throughout the 12 month forecast period and therefore have prepared the financial statements on a going concern basis.

### 1.4 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

Derivative financial instruments are recognised at fair value, valued using a discounted cashflow methodology. 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

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method that will be used to assess the effectiveness of the hedging relationship, at inception and on an ongoing basis. Hedge effectiveness is determined using the "dollar offset" method and regression analysis.

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 for de-designated hedge relationships 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.

## 1.5 FINANCIAL INSTRUMENTS, FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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.

All the Bank's financial assets and liabilities are initially measured at fair value (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.

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 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 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 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

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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.

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;
- 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; or
- A substantial modification qualifying for derecognition.

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

## 1.5.1 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.

## 1.5.2 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.

## 1.5.3 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.

## 1.5.4 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.

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.

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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.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the impairment allowance. The amount of the reversal is recognised in profit or loss.

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 (such as business and legal sign off) 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
- short-term extension of loan repayment date
- agreeing to withhold legal action, in anticipation of property or asset sale
- payment holiday.

As a result of COVID 19, the PRA 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 (including in respect of COVID 19 payment holidays), resulting in a substantial modification (typically where the net present value of the revised cashflows are greater than 10% of the current carrying amount or qualitatively the modification is considered to be 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 (subsequently measured at amortised cost), 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.

## 1.5.5. 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.

## 1.6 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. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

## 1.7 CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash and balances at central banks, 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.

## 1.8 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.

## 1.9 TANGIBLE FIXED ASSETS

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.

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Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of tangible fixed assets 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.

### 1.10 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. For impaired financial assets the carrying amount after deducting the impairment allowance is the amount that is used when calculating interest income to be recognised.

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 incurred, fees received and all other premiums or discounts.

### 1.11 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.

### 1.12 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.

### 1.13 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.

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### 1.14 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.

### 1.15 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.

### 1.16 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.

### 1.17 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.

### 1.18 TERMINATION BENEFITS

Termination benefits are recognised in profit or loss immediately and measured as the best estimate of the expenditure to settle the obligation at the reporting date. Termination benefits are due within 12 months after the end of the reporting period.

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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 £0.3m (2020: £1.4m). A key estimate for the Bank for its acquired and organic portfolios is the determination of expected loan life.

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 cash flows discounted at the effective interest rate, and compared with the carrying value of the loan book.

In the current year the Bank has observed a lower level of prepayment for its acquired loan book than historically seen and as a result has made an adjustment to its expectations of cashflows over 2021 resulting in an adjustment of £0.7m. The adjustment was to reflect the slower prepayment rate expected during 2021. The current acquired loan book has an average residual behavioural maturity of 2.5 years compared to an average residual contractual maturity of 10.8 years.

In determining the expected life of loans 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. For 3 and 5 year fixed term products, the Bank has limited experience of customer behaviour of long-term lending products reaching the end of their incentive period, and has therefore 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.

In the current year the Bank has reviewed its historic observations for its 2 year fixed term products and made an adjustment to its forecast prepayment rates to more closely align the Bank's prepayment rates with its observed experience now that a sufficient amount of data are available. In addition, refinements were made to the calculation methodology. This resulted in an adjustment to increase income by £0.9m.

Long-term loans are amortised over their expected behavioural life which management has determined to be the fixed rate period plus an additional, an average, 5 months (2020: 3 months) on the Bank's administered variable rate.

At the end of the financial year, the EIR interest adjustment was £2.6m for organic loans and £2.3m for its acquired loans. The follow table summarises the impact of changing assumptions on interest income as at the date the assumptions were reviewed during 2021. The average number of months post reversion has also been included.

Whilst judgement is applied in determining the fees and costs to be included as part of the effective interest rate calculation, the Bank does not consider the type of fees, costs or products offered by the Bank result in significant judgement being applied.

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| £ m's                     | Base curve based on proxy data                | 25% reduction in prepayment rate compared to base | 35% reduction in prepayment rate compared to base |
|---------------------------|---|---|---|
| 2-year fixed term product | (1.0)<br>3 months post reversion              | Current assumption<br>8 months post reversion     | -0.7<br>12 months post reversion                  |
| 3-year fixed term product | Current assumption<br>3 months post reversion | 0.1<br>11 months post reversion                   | 0.1<br>12 months post reversion                   |
| 5-year fixed term product | Current assumption<br>3 months post reversion | 1.4<br>10 months post reversion                   | 2.2<br>14 months post reversion                   |
| <b>Total</b>              | <b>(1.0)</b>                                  | <b>1.5</b>  | <b>3.0</b>  |

Short-term loans are amortised over the contractual life of the loan as this best reflects their behavioural characteristics. 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 estimating 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. 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.

#### *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 estimates used to calculate the recoverable amount and therefore the impairments required for specific impairment:

- If property valuation haircuts increased by 5%, impairments increase by £154k (2020: £87k);
- If the time to realise sale proceeds is increased by one month, impairments would increase by £29k (2020: £36k);
- If the property marketing costs increased by 0.25%, impairments would increase by £12k (2020: £14k);

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- If the legal costs of sale increased by 0.25%, impairments would increase by £ 12k (2020: £14k); and
- If the probability of possession is increased by 5%, impairment would increase by £30k (2020: £18k).

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 previous 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: LTV, arrears status, product, maturity and other risk factors such as whether or not the mortgage is in forbearance. The Bank had to apply judgement in determining the appropriateness of segmenting the portfolio by these risk characteristics. In the current period, an input into that model was the effect of COVID 19. A further judgment applied by the Bank was in determining the appropriate emergence period to use to determine the period over which probability of defaults should be derived. In addition, the main estimates included in the model relate to the:

- Probability of possession given default ("PPD"); and
- Property valuation haircut.

A sensitivity analysis was carried out on these main estimates 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 £57k (2020: £41k);
- If the PPD was increased/decreased relatively by 10%, impairments would increase/decrease by £32k (2020: £78k);
- If the input property valuation haircuts increased/decreased absolutely by 5%, impairments would increase/decrease by 0.4m(2020: £0.4m).

Management reviews the results of the collective impairment model at each month end to assess its reasonableness. The unprecedented impact of COVID 19 and government intervention in the current year has resulted in three key matters that have been considered during this review: (1) arrears increased year on year after adjusting for payment holidays, which have now largely ended (2) the long term impact of the pandemic on borrowers who have benefited from payment holidays remains uncertain and (3) government intervention and indirectly, the pandemic, has materially affected the housing market and resulted in increases in property valuations due to unprecedented demand.

The quantification of these matters is inherently uncertain and the Bank's internal model may not be appropriately modelling them. During the course of the year, the modelled impairment reduced by c£0.1m as a result of the net impact of these factors. The Bank has retained this reduction as an overlay due to the significant uncertainty that remains.

### 2.3 DEFERRED TAX ASSET RECOGNITION

Judgement has been applied in considering whether or not a deferred tax asset should be recognised. The Bank 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 availability of future taxable profits in an appropriate timeframe. 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

|  | 2021            | 2020            |
|--|-----------------|-----------------|
|  | £000            | £000            |
| Interest and similar income on Loans and Advances to Customers       | 41,871          | 37,497          |
| Interest on impaired assets  | 1,561           | 1,137           |
| Interest on Investment Securities – Available for Sale               | 14              | 44              |
| Interest on bank balances  | 101             | 707             |
| Amortisation of fair value premium on loan book acquisition          | (339)           | (1,431)         |
| Net interest payable on interest rate swaps in hedging relationships | (407)           | (17)            |
| <b>Total Interest receivable and similar income</b>                  | <b>42,801</b>   | <b>37,937</b>   |
| Interest on Deposits from customers                                  | (13,418)        | (14,690)        |
| Interest on long-term borrowings                                     | (721)           | (722)           |
| <b>Total Interest payable and similar charges</b>                    | <b>(14,139)</b> | <b>(15,412)</b> |
| <b>Net Interest Income</b>   | <b>28,662</b>   | <b>22,525</b>   |

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

|   | 2021     | 2020      |
|---|----------|-----------|
|   | £000     | £000      |
| Changes in the fair value of hedged items in portfolio hedges of interest rate risk | (830)    | 1,555     |
| Changes in the fair value of derivatives in hedging relationships                   | 832      | (1,539)   |
| <b>Other Income</b>   | <b>2</b> | <b>16</b> |

#### 3.3 ADMINISTRATION EXPENSES

|                                    |         | 2021          | 2020          |
|------------------------------------|---------|---------------|---------------|
|                                    | Note    | £000          | £000          |
| Staff costs                        | 3.5     | 18,183        | 15,770        |
| Depreciation and amortisation      | 4.5/4.6 | 2,425         | 2,033         |
| Operating lease rentals            | 3.8     | 547           | 610           |
| FSCS levy                          |         | 9             | (6)           |
| Legal, professional and audit fees |         | 3,768         | 3,437         |
| IT Costs                           |         | 1,837         | 1,278         |
| Rent, Rates & Service Charges      |         | 1,332         | 1,403         |
| Other administrative expenses      |         | 1,938         | 2,038         |
| <b>Administrative expenses</b>     |         | <b>30,039</b> | <b>26,563</b> |

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| 3.4 AUDITOR'S REMUNERATION   | 2021       | 2020       |
|--|------------|------------|
|  | £000       | £000       |
| Fees payable to the Bank's auditor for the audit of the Bank's annual accounts | 380        | 255        |
| Fees payable to the Bank's auditor and its associates for other services:      |            |            |
| - Audit related assurance services   | -          | -          |
| - Other non-audit services   | -          | -          |
| <b>Auditor's remuneration</b>  | <b>380</b> | <b>255</b> |

In addition, an overrun of £105k was payable in 2021 related to the 2020 audit.

## 3.5 STAFF NUMBERS AND COSTS

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

|  | 2021       | 2020       |
|--|------------|------------|
| Risk, governance, finance and compliance | 51         | 45         |
| Business operations and other            | 141        | 141        |
| <b>Total</b>                             | <b>192</b> | <b>186</b> |

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:

|   | 2021          | 2020          |
|---|---------------|---------------|
|   | £000          | £000          |
| Wages, salaries and performance related pay | 14,925        | 12,975        |
| Social Security costs                       | 1,837         | 1,705         |
| Pension costs                               | 882           | 637           |
| Share based payments                        | 32            | 10            |
| Other staff costs                           | 507           | 443           |
|   | <b>18,183</b> | <b>15,770</b> |

To support employees during the pandemic, the Bank allowed employees to carry over more holiday than ordinarily allowed. This resulted in the holiday pay accrual becoming material in the current year, amounting to £402k of which £330k pertains to 2020.

## 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

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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.

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:

|   | 2021                    | 2021                            | 2020                    | 2020                            |
|---|-------------------------|---------------------------------|-------------------------|---------------------------------|
|   | Number of share options | Weighted average exercise price | Number of share options | Weighted average exercise price |
| <b>Outstanding at beginning of the period</b> | <b>3,920,549</b>        | <b>£1.00</b>                    | -                       | -                               |
| Granted during the period                     | 508,253                 | £1.00                           | 3,920,549               | £1.00                           |
| Surrendered during the period                 | -                       | -                               | -                       | -                               |
| Exercised during the period                   | -                       | -                               | -                       | -                               |
| Expired during the period                     | (58,120)                | £1.00                           | -                       | -                               |
| Outstanding at end of the period              | <b>4,370,682</b>        | <b>£1.00</b>                    | <b>3,920,549</b>        | <b>£1.00</b>                    |
| <b>Exercisable at end of the period</b>       | -                       | -                               | -                       | -                               |

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 period was 3.8 years (2020: 4.8 years).

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

|                              | 2021    | 2020    |
|------------------------------|---------|---------|
| Share price at date of grant | £0.34   | £0.46   |
| Exercise price               | £1.00   | £1.00   |
| Dividend yield               | -       | -       |
| Expected volatility          | 44%     | 43%     |
| Risk free interest rate      | 0.04%   | 0.3%    |
| Expected life at grant       | 4 years | 5 years |
| Fair value at date of grant  | £0.00   | £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

|                                      | 2021  | 2020  |
|--------------------------------------|-------|-------|
|                                      | £000  | £000  |
| Salaries and performance related pay | 1,510 | 976   |
| Payments for loss of office          | -     | 475   |
| Social security costs                | 204   | 179   |
| Pension costs                        | 62    | 59    |
|                                      | 1,776 | 1,689 |

There were no Directors to whom retirement benefits were accruing in respect of qualifying services during the year (2020: nil).

During the year to 30 April 2021, the Bank issued 188,589 (2020: nil) options over its shares to the Directors of the Bank.

The aggregate of remuneration of the highest paid Director was £461k (2020: £794k). Pension costs attributable to the highest paid Director were £38k (2020: £30k). The Director received 188,589 (2020: nil) share options in respect of qualifying services under the Share Option Plan.

#### 3.8 OPERATING LEASES

Non-cancellable operating lease rentals are payable as follows:

|                       | 2021 | 2020 |
|-----------------------|------|------|
|                       | £000 | £000 |
| Less than 1 year      | 80   | 550  |
| Between 1 and 5 years | 5    | 10   |
| Over 5 years          | -    | -    |
|                       | 85   | 560  |

On 1 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 1 May 2024) with a rolling mutual break option after 31 December 2020. The break clause was activated as at 31 December 2020 but due to the ongoing pandemic there was a mutual agreement for the break to be applied as at 30 June 2021.

Subsequent to the year-end, on 19 May 2021, the Bank signed a lease for 15 Rathbone Place, Fitzrovia, London for 15 months. The lease rental payment was a one-off of payment of £73k made in May 2021 and a payment of £2k due in August 2022.

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### 3.9 TAX

#### 3.9.1 RECOGNISED IN THE STATEMENT OF COMPREHENSIVE INCOME

|   | 2021<br>£000 | 2020<br>£000 |
|---|--------------|--------------|
| <b>Current tax:</b>                               |              |              |
| Current tax on loss for the year                  | -            | -            |
| Adjustments in respect of prior periods           | (467)        | (879)        |
| <b>Total current tax</b>                          | <b>(467)</b> | <b>(879)</b> |
| <b>Deferred tax:</b>                              |              |              |
| Origination and reversal of temporary differences | -            | -            |
| Adjustments in respect of prior periods           | -            | -            |
| <b>Total deferred tax charge / (credit)</b>       | <b>-</b>     | <b>-</b>     |
| <b>Total tax charge / (credit)</b>                | <b>(467)</b> | <b>(879)</b> |

#### 3.9.2 TAX RECONCILIATION

|   | 2021<br>£000   | 2020<br>£000   |
|---|----------------|----------------|
| <b>Loss for the year</b>  | <b>(2,505)</b> | <b>(5,438)</b> |
| Tax using the UK corporation tax rate of 19% (2019: 19%)                    | (476)          | (1,033)        |
| Fixed asset differences   | 26             | 22             |
| Permanent non-deductible expenses   | 223            | 17             |
| Income not taxable  | -              | -              |
| Other permanent differences   | 1              | 2              |
| Adjustments in respect of prior periods – Research & Development tax credit | (467)          | (879)          |
| Adjustment to tax charge in respect to prior periods – deferred tax         | -              | (249)          |
| Deferred tax not recognised (note 2.3)                                      | 226            | 1,241          |
|   | <b>(467)</b>   | <b>(879)</b>   |

The government announced, in the Spring Budget 2021, that there will be an increase in the corporate tax rate from 19% to 25% from 1 April 2023.

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### 3.10 PROVISION FOR IMPAIRMENT LOSSES ON FINANCIAL ASSETS

#### Impairment losses taken to income statement

|                        | 2021<br>£000 | 2020<br>£000 |
|------------------------|--------------|--------------|
| Individual impairments | 1,124        | 906          |
| Collective impairment  | 6            | 510          |
|                        | <b>1,130</b> | <b>1,416</b> |

|   | 2021<br>£000 | 2020<br>£000 |
|---|--------------|--------------|
| <b>Individual impairments provision</b> |              |              |
| Balance brought forward                 | 1,237        | 747          |
| Increase recognised in income statement | 1,124        | 906          |
| Utilised during the year                | (133)        | (416)        |
| As at 30 April                          | <b>2,228</b> | <b>1,237</b> |

|   | 2021<br>£000 | 2020<br>£000 |
|---|--------------|--------------|
| <b>Collective impairment provision</b>  |              |              |
| Balance brought forward                 | 757          | 247          |
| Increase recognised in income statement | 6            | 510          |
| As at 30 April                          | <b>763</b>   | <b>757</b>   |

|                                    | 2021<br>£000 | 2020<br>£000 |
|------------------------------------|--------------|--------------|
| <b>Total impairment provisions</b> |              |              |
| Individual impairments provision   | 2,228        | 1,237        |
| Collective impairment provision    | 763          | 757          |
| As at 30 April                     | <b>2,991</b> | <b>1,994</b> |

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## 4. Statement of Financial Position Analyses

### 4.1 CASH AND BALANCES AT CENTRAL BANKS

|                                    | 2021<br>£000 | 2020<br>£000 |
|------------------------------------|--------------|--------------|
| Cash and balances at central banks | 112,894      | 131,294      |

Surplus funds are held in the Bank of England reserve account. The rating agency designation as at 30 April 2021, based on Moody's long-term ratings is Aa2 (2020: Aa2).

### 4.2 LOANS AND ADVANCES TO BANKS

|   | 2021<br>£000 | 2020<br>£000 |
|---|--------------|--------------|
| Placements with other banks included in cash and cash equivalents | 10,355       | 5,229        |

All amounts are due on demand. Included in the above balances are collateral deposits of £1.0m (2020: £1.5m) related to variation margin calls on the Bank's Interest Rate Swaps.

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:

|      | 2021<br>£000  | 2020<br>£000 |
|------|---------------|--------------|
| A2   | 1,254         | 4,975        |
| A3   | 9,101         |              |
| Baa2 | -             | 254          |
|      | <b>10,355</b> | <b>5,229</b> |

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 available for sale as per note 4.4. Whilst there were no Treasury Bills held as at 30 April 2020 or 30 April 2021, Treasury Bills were held during the current and prior period. Loans and advances to banks are due on demand.

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## 4.3 LOANS AND ADVANCES TO CUSTOMERS

|   | 2021<br>£000   | 2020<br>£000   |
|---|----------------|----------------|
| Gross loan and advances   | 724,437        | 718,528        |
| Less: allowances for impairment on loans and advances (Note 3.10) | (2,991)        | (1,994)        |
|   | <b>721,446</b> | <b>716,534</b> |
| Amounts falling due:  |                |                |
| - not more than three months                                      | 105,638        | 86,281         |
| - more than three months but not more than one year               | 111,366        | 115,636        |
| - more than one year but less not more than five years            | 6,521          | 7,413          |
| - more than five years  | 497,921        | 507,204        |

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

| 2021<br>£000 | 2020<br>£000 |
|--------------|--------------|
|--------------|--------------|

UK Government gilts

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

## 4.5 TANGIBLE FIXED ASSETS

|                         | Computer<br>equipment<br>£000 | Leasehold<br>improvements<br>£000 | Furniture<br>£000 | Total<br>£000 |
|-------------------------|-------------------------------|-----------------------------------|-------------------|---------------|
| <b>Cost</b>             |                               |                                   |                   |               |
| At 1 May 2019           | 563                           | 188                               | 129               | 880           |
| Additions               | 139                           | 557                               | 161               | 857           |
| Disposals               | -                             | (38)                              | -                 | (38)          |
| <b>At 30 April 2020</b> | <b>702</b>                    | <b>707</b>                        | <b>290</b>        | <b>1,699</b>  |
| Additions               | 11                            | -                                 | 29                | 40            |
| Disposals               | -                             | -                                 | -                 | -             |
| <b>At 30 April 2021</b> | <b>713</b>                    | <b>707</b>                        | <b>319</b>        | <b>1,739</b>  |
| <b>Depreciation</b>     |                               |                                   |                   |               |
| At 1 May 2019           | 477                           | 169                               | 64                | 710           |
| Charge for year         | 84                            | 215                               | 52                | 351           |
| Disposals               | -                             | (25)                              | -                 | (25)          |
| <b>At 30 April 2020</b> | <b>561</b>                    | <b>359</b>                        | <b>116</b>        | <b>1,036</b>  |
| Charge for year         | 64                            | 300                               | 62                | 426           |
| Disposals               | -                             | -                                 | -                 | -             |
| <b>At 30 April 2021</b> | <b>625</b>                    | <b>659</b>                        | <b>178</b>        | <b>1,462</b>  |
| <b>Net book value</b>   |                               |                                   |                   |               |
| <b>At 30 April 2021</b> | <b>88</b>                     | <b>48</b>                         | <b>141</b>        | <b>277</b>    |
| At 30 April 2020        | 141                           | 348                               | 174               | 663           |

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#### 4.6 INTANGIBLE ASSETS

|                         | Software<br>£000 | Website<br>development<br>£000 | Brand<br>£000 | Total<br>£000 |
|-------------------------|------------------|--------------------------------|---------------|---------------|
| <b>Cost</b>             |                  |                                |               |               |
| At 1 May 2019           | 6,365            | 516                            | 900           | 7,781         |
| Additions               | 1,858            | 198                            | -             | 2,056         |
| Write off               | -                | -                              | (900)         | (900)         |
| <b>At 30 April 2020</b> | <b>8,223</b>     | <b>714</b>                     | <b>-</b>      | <b>8,937</b>  |
| Additions               | 1,261            | 54                             | -             | 1,315         |
| Write off               | (437)            | -                              | -             | (437)         |
| <b>At 30 April 2021</b> | <b>9,047</b>     | <b>768</b>                     | <b>-</b>      | <b>9,815</b>  |
| <b>Amortisation</b>     |                  |                                |               |               |
| At 1 May 2019           | 1,756            | 311                            | 900           | 2,967         |
| Charge for the year     | 1,503            | 179                            | -             | 1,682         |
| Write off               | -                | -                              | (900)         | (900)         |
| <b>At 30 April 2020</b> | <b>3,259</b>     | <b>490</b>                     | <b>-</b>      | <b>3,749</b>  |
| Charge for the year     | 1,874            | 125                            | -             | 1,999         |
| Write off               | (291)            | -                              | -             | (291)         |
| <b>At 30 April 2021</b> | <b>4,842</b>     | <b>615</b>                     | <b>-</b>      | <b>5,457</b>  |
| <b>Net book value</b>   |                  |                                |               |               |
| <b>At 30 April 2021</b> | <b>4,206</b>     | <b>153</b>                     | <b>-</b>      | <b>4,359</b>  |
| At 30 April 2020        | 4,964            | 224                            | -             | 5,188         |

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 value of the Brand Intangible asset in the prior year.

#### 4.7 OTHER ASSETS

|   | 2021<br>£000 | 2020<br>£000 |
|---|--------------|--------------|
| Prepayments                                       | 666          | 858          |
| Amounts due from HMRC relating to R&D tax credits | -            | 879          |
| Other debtors                                     | 973          | 359          |
|   | <b>1,639</b> | <b>2,096</b> |

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#### 4.8 CUSTOMER DEPOSITS

|  | 2021           | 2020           |
|--|----------------|----------------|
|  | £000           | £000           |
| With agreed maturity dates or periods of notice by remaining maturity: |                |                |
| Not more than three months   | 199,109        | 83,961         |
| More than three months but not more than one year                      | 343,612        | 286,453        |
| More than one year but not more than five years                        | 229,951        | 417,695        |
|  | <b>772,672</b> | <b>788,109</b> |

#### 4.9 OTHER LIABILITIES

|                                    | 2021         | 2020         |
|------------------------------------|--------------|--------------|
|                                    | £000         | £000         |
| Other taxation and social security | 552          | 737          |
| Other creditors                    | 169          | 187          |
| Accruals                           | 3,924        | 2,215        |
|                                    | <b>4,645</b> | <b>3,139</b> |

#### 4.10 LONG-TERM SUBORDINATED DEBT

|                         | 2021         | 2020         |
|-------------------------|--------------|--------------|
|                         | £000         | £000         |
| Subordinated loan notes | <b>6,026</b> | <b>6,025</b> |

The subordinated loan notes were issued on 17 October 2017. The principal amount outstanding at 30 April 2021 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.

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### 4.11 SHARE CAPITAL

Authorised, issued and fully paid

|  | 2021              | 2020              |
|--|-------------------|-------------------|
|  | £                 | £                 |
| 85,348,892 (2020: 79,348,892) Ordinary shares of £1 each | 85,213,962        | 79,311,093        |
| <b>In issue at 30 April</b>                              | <b>85,213,962</b> | <b>79,311,093</b> |

Share capital is stated net of transaction costs.

During the year, the Bank allotted 6,000,000 ordinary shares of £1 each for cash at par value, net of expenses amounting to £5.9m.

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

### 4.12 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 the 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.

#### 4.12.1 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.

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## 4.12.2 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.

## 4.12.3 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.

## 4.12.4 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. The maturity of the Bank's two swaps are September 2024 and November 2024.

|   | 2021   | 2020   |
|---|--------|--------|
|   | £000   | £000   |
| Notional value of SONIA swaps in designated hedging relationships                     | 75,000 | 75,000 |
| Carrying value of mortgages hedged by SONIA swaps in designated hedging relationships | 78,145 | 78,197 |
|   | 2021   | 2020   |
|   | £000   | £000   |
| Fair value of SONIA swaps in designated hedging relationships                         | 707    | 1,539  |

## 4.12.5 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. Where the carrying value is based on fair value, this has also been shown in the appropriate level of the hierarchy in the table below.

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| At 30 April 2021                     | Level<br>1<br>£000 | Level 2<br>£000 | Level 3<br>£000 | Total fair value<br>£000 | Carrying value<br>£000 |
|--------------------------------------|--------------------|-----------------|-----------------|--------------------------|------------------------|
| <b>Assets</b>                        |                    |                 |                 |                          |                        |
| Cash and balances with central banks | -                  | -               | -               | 112,894                  | 112,894                |
| Loans and advances to banks          | -                  | -               | -               | 10,355                   | 10,355                 |
| Loans and advances to customers      | -                  | -               | -               | 726,443                  | 721,446                |
| Fair value hedge asset               | -                  | 724             | -               | 724                      | 724                    |
| Available for sale debt securities   | -                  | -               | -               | -                        | -                      |
| <b>Total Assets</b>                  | -                  | <b>724</b>      | -               | <b>850,416</b>           | <b>845,419</b>         |
| <b>Liabilities</b>                   |                    |                 |                 |                          |                        |
| Customer deposits                    | -                  | -               | -               | 779,075                  | 772,672                |
| Derivative liabilities               | -                  | 707             | -               | 707                      | 707                    |
| Long term subordinated debt          | -                  | -               | -               | 6,026                    | 6,026                  |
| <b>Total Liabilities</b>             | -                  | <b>707</b>      | -               | <b>785,808</b>           | <b>779,405</b>         |
| <b>At 30 April 2020</b>              |                    |                 |                 |                          |                        |
|                                      | Level<br>1<br>£000 | Level 2<br>£000 | Level 3<br>£000 | Total fair value<br>£000 | Carrying value<br>£000 |
| <b>Assets</b>                        |                    |                 |                 |                          |                        |
| Cash and balances with central banks | -                  | -               | -               | 131,294                  | 131,294                |
| Loans and advances to banks          | -                  | -               | -               | 5,229                    | 5,229                  |
| Loans and advances to customers      | -                  | -               | -               | 720,010                  | 716,534                |
| Fair value hedge asset               | -                  | 1,555           | -               | 1,555                    | 1,555                  |
| Available for sale debt securities   | -                  | -               | -               | -                        | -                      |
| <b>Total Assets</b>                  | -                  | <b>1,555</b>    | -               | <b>858,088</b>           | <b>854,612</b>         |
| <b>Liabilities</b>                   |                    |                 |                 |                          |                        |
| Customer deposits                    | -                  | -               | -               | 788,109                  | 788,109                |
| Derivative liabilities               | -                  | 1,539           | -               | 1,539                    | 1,539                  |
| Long term subordinated debt          | -                  | -               | -               | 6,025                    | 6,025                  |
| <b>Total Liabilities</b>             | -                  | <b>1,539</b>    | -               | <b>795,673</b>           | <b>795,673</b>         |

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 regulatory capital adequacy.

##### 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 Lending Officer.

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 and, in addition:

- For owner-occupier mortgages, the Bank ensures that 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 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:

|                                      | 2021           | 2020           |
|--------------------------------------|----------------|----------------|
|                                      | £000           | £000           |
| Cash and balances with central banks | 112,894        | 131,294        |
| Loans and advances to banks          | 10,355         | 5,229          |
| Loans and advances to customers      | 721,446        | 716,534        |
| Available for sale debt securities   | -              | -              |
| Other Assets                         | 1,639          | 2,096          |
|                                      | <b>846,334</b> | <b>855,153</b> |
| Contractual loan commitments         | 16,989         | 3,755          |
| <b>Total Credit Risk</b>             | <b>863,323</b> | <b>858,908</b> |

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 LTVs of the exposures secured by property for the Bank:

|                            | 2021                 |                    | 2020                 |                    |
|----------------------------|----------------------|--------------------|----------------------|--------------------|
|                            | Loan Balance<br>£000 | Collateral<br>£000 | Loan Balance<br>£000 | Collateral<br>£000 |
| Less than 60% <sup>1</sup> | 306,375              | 1,083,140          | 322,745              | 1,195,630          |
| 60% - 80%                  | 407,523              | 874,437            | 391,455              | 918,782            |
| 80% - 100%                 | 7,548                | 9,341              | 2,334                | 3,261              |
| Greater than 100%          | -                    | -                  | -                    | -                  |
| <b>Total</b>               | <b>721,446</b>       | <b>1,966,918</b>   | <b>716,534</b>       | <b>2,117,673</b>   |

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
- 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.

<sup>1</sup> 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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Specific impairment provisions have been made against 27 short-term and 0 long-term lending accounts, totalling £2,228k. 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 2021                        |                                     | At 30 April 2020                        |                                     |
|---|---|-------------------------------------|---|-------------------------------------|
|   | Loans and advances to customers<br>£000 | Loans and advances to banks<br>£000 | Loans and advances to customers<br>£000 | Loans and advances to banks<br>£000 |
| Neither past due nor impaired                               | 673,268                                 | 123,249                             | 666,439                                 | 136,523                             |
| <i>Of which:</i>  |   |                                     |   |                                     |
| - <i>Forborne</i>   | 13,979                                  |                                     | 3,922                                   |                                     |
| - <i>Up to date with previous arrears in past 12 months</i> | 37,364                                  |                                     | 3,501                                   |                                     |
| - <i>Up to date</i>   | 621,925                                 |                                     | 659,016                                 |                                     |
| Past due but not impaired:                                  |   |                                     |   |                                     |
| Loans and receivables at amortised cost:                    |   |                                     |   |                                     |
| - Less than 1 month   | 7,440                                   | -                                   | 8,456                                   | -                                   |
| - 1 to 2 months   | 8,074                                   | -                                   | 9,677                                   | -                                   |
| - 2 to 3 months   | 4,304                                   | -                                   | 5,509                                   | -                                   |
| - Over 3 months   | 17,609                                  | -                                   | 16,454                                  | -                                   |
| Impaired  | 12,979                                  | -                                   | 11,993                                  | -                                   |
| Less: provision   | (2,228)                                 | -                                   | (1,994)                                 | -                                   |
|   | <b>721,446</b>                          | <b>123,249</b>                      | <b>716,534</b>                          | <b>136,523</b>                      |

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 2021, loans for which forbearance measures were undertaken totalled £16m (2020: £158m) and represented 50 (2020: 957) mortgage lending customers who are on a payment holiday due to COVID 19, and a further 43 mortgage customers and 13 (2020: 2) bridging customers who are in non-COVID 19 related forbearance. The total number of mortgages that had a payment holiday was 1,316 amounting to £194m.

In March 2020, in response to the COVID 19 pandemic, the business tightened its credit policy across multiple areas including maximum LTVs across multiple products, 2nd charge products, withdrawal of development finance and tightening acceptable income for long-term lending.

As a result of the pandemic, the Bank offered borrowers payment deferrals in Long-Term and Time Forbearance in Short-term in line with regulatory guidance. The operational focus has been on proactive customer contact throughout the pandemic including: regular vulnerable customer contact regardless of arrears status; the identification of and contact with customers

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who may experience a payment shock i.e. a significant increase in monthly payments post payment holidays; and regular communication with customers both in arrears or who have not needed the support available from Masthaven. In addition, the Bank undertook care calls/cohort analysis on customers who requested a payment holiday to better understand their circumstances, reasons for requesting a payment holiday, employment status and sectors, personal savings levels, and expected position at the end of the payment holiday term.

Past due arrears continue to be lower than expectations. Government policy intervention (including payment deferrals and the furlough scheme) contributed to lower observed arrears (against expectations). This lower position is supported by an increase in operational staff to support close management of customers in arrears, bespoke forbearance arrangements and regular contact with customers regarding the conditions of loans and/or ongoing arrangement monitoring. This additional resourcing remains in place to mitigate the risk of rising arrears after the withdrawal of government support schemes.

Credit Risk Management Information has been enhanced during the year and includes improvements such as more granular short-term and long-term analysis and monthly "deep-dives" (such as on payment deferrals and roll forward / cure rates). This is shared at the Credit Committee to ensure the visibility of emerging trends as the Bank navigates through the evolving pandemic.

## 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 2021

|                                    | Carrying Value |                | Concentration by Sector: |               |           |            |
|------------------------------------|----------------|----------------|--------------------------|---------------|-----------|------------|
|                                    |                |                | Banks                    | Retail        | Corporate | Government |
|                                    | 2021           | 2021           | 2021                     | 2021          | 2021      | 2021       |
|                                    | £000           | £000           | £000                     | £000          | £000      | £000       |
| Cash and balances at central banks | 112,894        | 112,894        | -                        | -             | -         | -          |
| Loans and advances to banks        | 10,355         | 10,355         | -                        | -             | -         | -          |
| Loans and advances to Customers    | 721,446        | -              | 656,071                  | 65,375        | -         | -          |
| Available for Sale Debt Securities | -              | -              | -                        | -             | -         | -          |
| Contractual Loan Commitments       | 16,989         | -              | 13,970                   | 3,019         | -         | -          |
| <b>Total</b>                       | <b>861,684</b> | <b>123,249</b> | <b>670,041</b>           | <b>68,394</b> |           | -          |

### At 30 April 2020

|                                    | Carrying Value |                | Concentration by Sector: |               |           |            |
|------------------------------------|----------------|----------------|--------------------------|---------------|-----------|------------|
|                                    |                |                | Banks                    | Retail        | Corporate | Government |
|                                    | 2020           | 2020           | 2020                     | 2020          | 2020      | 2020       |
|                                    | £000           | £000           | £000                     | £000          | £000      | £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           | -         | -          |
| <b>Total</b>                       | <b>856,812</b> | <b>136,523</b> | <b>659,088</b>           | <b>61,201</b> |           | -          |

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

## Concentration by location of collateral

|                               | Loans and advances to Customers |                |
|-------------------------------|---------------------------------|----------------|
|                               | 2021<br>£000                    | 2020<br>£000   |
| East Anglia                   | 91,250                          | 96,506         |
| East Midlands                 | 21,357                          | 21,250         |
| Greater London and South East | 374,711                         | 380,680        |
| North East                    | 6,924                           | 10,749         |
| North West                    | 38,658                          | 35,657         |
| Scotland                      | 29,427                          | 27,401         |
| South West                    | 60,627                          | 53,535         |
| Wales                         | 21,117                          | 20,766         |
| West Midlands                 | 49,425                          | 51,990         |
| Yorkshire and Humberside      | 27,950                          | 18,000         |
| <b>Total</b>                  | <b>721,446</b>                  | <b>716,534</b> |

## 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 liquid assets 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 financial projections to ensure that both actual and forecast liquidity remain within appetite. The Bank is currently in the process of completing the 2021 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.

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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 2021 was 100%. The Bank monitors compliance against this measure on a daily basis and, as at 30 April 2021, the Bank's LCR was 533% (unaudited) (2020: 280% (unaudited)).

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

The ILAAP is shared with the PRA. Following this, the PRA can provide 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 2021                   | Carrying Value<br>£000 | Net inflow /<br>(outflow) | Up to 1<br>month<br>£000 | 1 to 3<br>months<br>£000 | 3 to 12<br>months<br>£000 | Over 1<br>year<br>£000 |
|------------------------------------|------------------------|---------------------------|--------------------------|--------------------------|---------------------------|------------------------|
| <b>Assets</b>                      |                        |                           |                          |                          |                           |                        |
| Cash and balances at central banks | 112,894                | 112,894                   | 112,894                  | -                        | -                         | -                      |
| Loans and advances to banks        | 10,355                 | 10,355                    | 10,355                   | -                        | -                         | -                      |
| Loans and advances to customers    | 721,446                | 1,008,328                 | 27,646                   | 35,399                   | 132,514                   | 812,769                |
| Available for sale debt securities | -                      | -                         | -                        | -                        | -                         | -                      |
| <b>Total</b>                       | <b>844,695</b>         | <b>1,131,577</b>          | <b>150,895</b>           | <b>35,399</b>            | <b>132,514</b>            | <b>812,769</b>         |
| <b>Liabilities</b>                 |                        |                           |                          |                          |                           |                        |
| Customer deposits                  | 772,672                | (779,076)                 | (15,689)                 | (64,339)                 | (344,938)                 | (354,110)              |
| Derivative liabilities             | 707                    | (709)                     | -                        | -                        | (185)                     | (524)                  |
| Long-term subordinated debt        | 6,026                  | (10,680)                  | -                        | -                        | (720)                     | (9,960)                |
| <b>Total</b>                       | <b>779,405</b>         | <b>(790,465)</b>          | <b>(15,689)</b>          | <b>(64,339)</b>          | <b>(345,843)</b>          | <b>(364,594)</b>       |

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| At 30 April 2020                   | Carrying Value<br>£000 | Net inflow /<br>(outflow) | Up to 1<br>month<br>£000 | 1 to 3<br>months<br>£000 | 3 to 12<br>months<br>£000 | Over 1<br>year<br>£000 |
|------------------------------------|------------------------|---------------------------|--------------------------|--------------------------|---------------------------|------------------------|
| <b>Assets</b>                      |                        |                           |                          |                          |                           |                        |
| 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 | -                      | -                         | -                        | -                        | -                         | -                      |
| <b>Total</b>                       | <b>853,057</b>         | <b>1,204,591</b>          | <b>188,126</b>           | <b>44,206</b>            | <b>144,915</b>            | <b>827,344</b>         |
| <b>Liabilities</b>                 |                        |                           |                          |                          |                           |                        |
| 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)               |
| <b>Total</b>                       | <b>(795,673)</b>       | <b>(820,257)</b>          | <b>(18,111)</b>          | <b>(67,329)</b>          | <b>(292,680)</b>          | <b>(442,137)</b>       |

#### FINANCIAL ASSETS AND LIABILITIES

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

#### At 30 April 2021

|                                    | Fair value<br>through<br>profit<br>and loss<br>£000 | Held-to-<br>maturity<br>£000 | Loans and<br>receivables<br>£000 | Available<br>-for-sale<br>£000 | Liabilities<br>at<br>amortised<br>cost<br>£000 | Total<br>carrying<br>amount<br>£000 | Fair value<br>£000 |
|------------------------------------|---|------------------------------|----------------------------------|--------------------------------|--|-------------------------------------|--------------------|
| <b>Assets</b>                      |   |                              |                                  |                                |  |                                     |                    |
| Cash and balances at central banks | -   | -                            | 112,894                          | -                              | -  | 112,894                             | 112,894            |
| Loans and advances to banks        | -   | -                            | 10,355                           | -                              | -  | 10,355                              | 10,355             |
| Loans and advances to customers    | -   | -                            | 721,446                          | -                              | -  | 721,446                             | 726,443            |
| Fair value hedge asset             | 724   | -                            | -                                | -                              | -  | 724                                 | 724                |
| Available for sale debt securities | -   | -                            | -                                | -                              | -  | -                                   | -                  |
|                                    | <b>724</b>  | <b>-</b>                     | <b>844,695</b>                   | <b>-</b>                       | <b>-</b>                                       | <b>845,419</b>                      | <b>850,416</b>     |
| <b>Liabilities</b>                 |   |                              |                                  |                                |  |                                     |                    |
| Customer deposits                  | -   | -                            | -                                | -                              | 772,672  | 772,672                             | 779,075            |
| Derivative liabilities             | 707   | -                            | -                                | -                              | -  | 707                                 | 707                |
| Long-term subordinated debt        | -   | -                            | -                                | -                              | 6,026  | 6,026                               | 6,026              |
|                                    | <b>707</b>  | <b>-</b>                     | <b>-</b>                         | <b>-</b>                       | <b>778,698</b>                                 | <b>779,405</b>                      | <b>785,808</b>     |

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At 30 April 2020

|                                    | Fair<br>value<br>through<br>profit<br>and loss<br>£000 | Held-to-<br>maturity<br>£000 | Loans and<br>receivables<br>£000 | Available<br>-for-sale<br>£000 | Liabilities<br>at<br>amortised<br>cost<br>£000 | Total<br>carrying<br>amount<br>£000 | Fair value<br>£000 |
|------------------------------------|--|------------------------------|----------------------------------|--------------------------------|--|-------------------------------------|--------------------|
| <b>Assets</b>                      |  |                              |                                  |                                |  |                                     |                    |
| 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 | -  | -                            | -                                | -                              | -  | -                                   | -                  |
|                                    | <b>1,555</b>   | <b>-</b>                     | <b>853,057</b>                   | <b>-</b>                       | <b>-</b>                                       | <b>854,612</b>                      | <b>858,088</b>     |
| <b>Liabilities</b>                 |  |                              |                                  |                                |  |                                     |                    |
| 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              |
|                                    | <b>1,539</b>   | <b>-</b>                     | <b>-</b>                         | <b>-</b>                       | <b>794,134</b>                                 | <b>795,673</b>                      | <b>795,673</b>     |

The Bank has no assets pledged as collateral or encumbered other than collateral deposits of £1.0m (2020: £1.5m) related to variation margin calls on the Bank's Interest Rate Swaps as disclosed in note 4.2.

### 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 rates. 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 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

The primary market risk faced by the Bank is interest rate risk. Interest rate risk is the risk of loss from adverse movements in interest rates. It arises from mismatches in the timing of repricing of assets and liabilities, both on and off-balance sheet. The Bank does not run a trading book or take speculative interest rate positions and therefore all interest rate risk resides in the banking book (interest rate risk in the banking book (IRRBB)).

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The Bank manages and controls interest rate risk through matched-term funding and its hedging strategy. This is achieved by using SONIA swaps to hedge interest rate changes in the fixed rate mortgage book by hedging to pay fixed interest rates and receive floating based on SONIA.

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 and instant/easy access deposits 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 841 (2020: 669)

NPV Sensitivity – 200 bps (835) (2020: (669))

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.

| At 30 April 2021                   | 1 to 3 months  | 3 to 12 months  | 1 to 5 years   | More than 5 years | Non-interest bearing | Total          |
|------------------------------------|----------------|-----------------|----------------|-------------------|----------------------|----------------|
|                                    | £000           | £000            | £000           | £000              | £000                 | £000           |
| <b>Assets</b>                      |                |                 |                |                   |                      |                |
| Cash and balances at central Banks | 112,894        | -               | -              | -                 | -                    | 112,894        |
| Loans and advances to Banks        | -              | -               | -              | -                 | 10,355               | 10,355         |
| Loans and advances to customers    | 224,862        | 142,398         | 354,186        | -                 | -                    | 721,446        |
| Available for sale debt securities | -              | -               | -              | -                 | -                    | -              |
| Other Assets                       | -              | -               | -              | -                 | 6,999                | 6,999          |
| <b>Total Assets</b>                | <b>337,756</b> | <b>142,398</b>  | <b>354,186</b> | <b>-</b>          | <b>17,354</b>        | <b>851,694</b> |
| <b>Liabilities</b>                 |                |                 |                |                   |                      |                |
| Customer deposits                  | 199,108        | 343,612         | 229,952        | -                 | -                    | 772,672        |
| Long-term subordinated debt        | -              | -               | -              | 6,026             | -                    | 6,026          |
| Other liabilities                  | -              | -               | -              | -                 | 5,352                | 5,352          |
| Equity                             | -              | -               | -              | -                 | 67,644               | 67,644         |
| <b>Total Liabilities</b>           | <b>199,108</b> | <b>343,612</b>  | <b>229,952</b> | <b>6,026</b>      | <b>72,996</b>        | <b>851,694</b> |
| Interest rate sensitivity gap      | 138,648        | (201,214)       | 124,234        | (6,026)           | (55,642)             | -              |
| <b>Cumulative gap</b>              | <b>138,648</b> | <b>(62,566)</b> | <b>61,668</b>  | <b>55,642</b>     | <b>-</b>             | <b>-</b>       |

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| At 30 April 2020                   | 1 to 3 months  | 3 to 12 months | 1 to 5 years   | More than 5 years | Non-interest bearing | Total          |
|------------------------------------|----------------|----------------|----------------|-------------------|----------------------|----------------|
|                                    | £000           | £000           | £000           | £000              | £000                 | £000           |
| <b>Assets</b>                      |                |                |                |                   |                      |                |
| Cash and balances at central Banks | 131,294        | -              | -              | -                 | -                    | 131,294        |
| Loans and advances to Banks        | -              | -              | -              | -                 | 5,229                | 5,229          |
| Loans and advances to customers    | 118,127        | 293,703        | 304,704        | -                 | -                    | 716,534        |
| Available for sale debt securities | -              | -              | -              | -                 | -                    | -              |
| Other Assets                       | -              | -              | -              | -                 | 9,502                | 9,502          |
| <b>Total Assets</b>                | <b>249,421</b> | <b>293,703</b> | <b>304,704</b> | <b>-</b>          | <b>14,731</b>        | <b>862,559</b> |
| <b>Liabilities</b>                 |                |                |                |                   |                      |                |
| 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         |
| <b>Total Liabilities</b>           | <b>170,807</b> | <b>286,505</b> | <b>330,797</b> | <b>6,025</b>      | <b>68,425</b>        | <b>862,559</b> |
| Interest rate sensitivity gap      | 78,614         | 7,198          | (26,093)       | (6,025)           | (53,694)             | -              |
| <b>Cumulative gap</b>              | <b>78,614</b>  | <b>85,812</b>  | <b>59,719</b>  | <b>53,694</b>     | <b>-</b>             | <b>-</b>       |

#### 5.1.4 CAPITAL MANAGEMENT

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

|                                     | 2021          | 2020          |
|-------------------------------------|---------------|---------------|
|                                     | £000          | £000          |
| <b>Common Equity Tier 1 Capital</b> |               |               |
| Share Capital                       | 85,214        | 79,311        |
| Share Premium                       | 7,861         | 7,861         |
| Retained Earnings                   | (25,431)      | (23,425)      |
| Other reserves                      | -             | -             |
| Intangible Assets*                  | (4,359)       | (5,188)       |
| <b>Common Equity Tier 1 Capital</b> | <b>63,285</b> | <b>58,559</b> |
| <b>Tier 2 Capital</b>               |               |               |
| Subordinated Debt                   | 6,026         | 6,025         |
| Collective Provisions               | 763           | 757           |
| <b>Total Tier 2 Capital</b>         | <b>6,789</b>  | <b>6,782</b>  |
| <b>Total Regulatory Capital</b>     | <b>70,074</b> | <b>65,341</b> |

\*The Bank fully deducts intangible assets when managing capital

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.

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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 and ultimately the Board.

The ICAAP is the Bank's Annual evaluation of its capital position and requirements. This is assessed by reference to the relevant regulatory rules. 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 PRA. In addition, idiosyncratic and other 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 understand the point at which the severity of extreme market conditions could 'break' the Bank.

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 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.

## 5.2 ANALYSIS OF CHANGES IN NET DEBT

The following shows the analysis of changes in net debt:

|                                    | At 1 May<br>2021<br>£000 | Cashflows<br>£000 | Other non-cash<br>changes<br>£000 | At 30 April<br>2021<br>£000 |
|------------------------------------|--------------------------|-------------------|-----------------------------------|-----------------------------|
| <b>Cash and cash equivalents</b>   |                          |                   |                                   |                             |
| Cash and balances at central banks | 131,294                  | (18,409)          | 9                                 | 112,894                     |
| Loans and advances to banks        | 5,229                    | 5,126             | -                                 | 10,355                      |
| Available for sale debt securities |                          |                   |                                   |                             |
|                                    | <b>136,523</b>           | <b>(13,283)</b>   | <b>9</b>                          | <b>123,249</b>              |
| <b>Borrowings</b>                  |                          |                   |                                   |                             |
| Customer deposits:                 |                          |                   |                                   |                             |
| Debt due within one year           | 370,414                  | 172,030           | 277                               | 542,721                     |
| Debt due after one year            | 417,695                  | (186,464)         | (1,280)                           | 229,951                     |
| Long term subordinated debt:       |                          |                   |                                   |                             |
| Debt due after one year            | 6,025                    | (720)             | 721                               | 6,026                       |
|                                    | <b>794,134</b>           | <b>(15,154)</b>   | <b>(282)</b>                      | <b>778,698</b>              |
| <b>Net debt</b>                    | <b>(657,611)</b>         | <b>1,871</b>      | <b>291</b>                        | <b>(655,449)</b>            |

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## 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. which 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 and the executive team. The aggregate remuneration for Key Management Personnel is £3,544k (2020: £2,021k).

The compensation of the Directors is provided in note 3.7.

Two key management personnel, a close family member of one key management personnel and a close family member of one Non-Executive Director held deposits with the Bank as at 30 April 2021 amounting to £284k (2020: £269k – one director, one key management personnel and two close family members of key management personnel). Interest accrued on these in the year amounted to £1k (2020: £1.3k).

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. In addition, the Bank makes payments on behalf of Masthaven Investment Limited. The amount of payments in the year related to this was £94k (2020: £7k) plus a further £30k that was accrued.

## 5.4 CONTINGENT LIABILITIES AND COMMITMENTS

### Contingent liabilities

Whilst the Bank does not have any 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.

|                                 | 2021   | 2020  |
|---------------------------------|--------|-------|
|                                 | £000   | £000  |
| Conditional commitments to lend | 16,989 | 3,755 |

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### 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. Masthaven Investment Limited is the Bank's immediate parent company and is regarded by the Directors as the controlling entity. The registered office of Masthaven Investment Limited is Ground Floor, 30 City Road, London, England, EC1Y 2AB.

### 5.6 SUBSEQUENT EVENTS

Subsequent to year-end, the Bank signed a lease for 15 Rathbone Place, London for 15 months.