



Annual Report and Accounts for the year ended 30 April 2019



# ANNUAL REPORT & ACCOUNTS

FOR THE YEAR ENDED 30 APRIL 2019

Masthaven Bank Limited

Company number: 09660012

## **Non- Executive Directors**

Michael Baker

Anne Gunther

Peter Harrison

Ashley Machin

Elena Lieskovska (appointed 12 April 2019)

Natalie Gammon (appointed 7 June 2019)

## **Executive Directors**

Andrew Bloom (Chief Executive Officer)

Jon Hall (Managing Director)

## **Secretary and Registered Office**

Yewande Adewuya

90 Long Acre

London

WC2E 9RA

## **Independent Auditor**

KPMG LLP

15 Canada Square

London

E14 5GL

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## FOR THE YEAR ENDED 30 APRIL 2019

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# Strategic Report

## Chairman's Overview

I am honoured and proud to present the Annual Report & Accounts for Masthaven Bank ("the Bank") for the year ended 30 April 2019 which encompasses the third 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 simplicity. 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 saving and lending products. In the year, the Bank has continued to leverage off its knowledge of specialist lending markets and grown its presence in the first and second charge market. The Bank originated £1.2 billion (2018: £571 million) of lending applications in the year to April 2019.

In addition, the Bank's digital savings offerings continues to grow and expand, for example, with SME customers. The Bank had over 17,000 savings customers at the year end.

The Chief Executive's Report and Directors' Report will provide further detail on the trading performance of Masthaven. Just for me to note that as a Board we manage the Bank against a set of measures which are balanced to consider all aspects of performance; customer, colleague, commercial and control. Against each of these measures I am delighted by the development of the Bank during the year, whether its growth in customer numbers, the high Net Promotor Score our customers provide us or 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 Strategic Report and Risk Management Review. However, I recognise that we must always challenge ourselves to mature our governance capability and with that in mind the Board will be splitting Risk and Audit Committee into separate committees focussed specifically on the Risk and Audit matters. The Bank will be appointing separate Chairs for each of these committees.

I am especially pleased to report that in April 2019 the Bank received a significant cash injection, in the form of an equity investment by Varde Partners Inc ('Varde'). This demonstrates confidence in the Bank's future and helps to enable the delivery of the Bank's plans. This investment is covered in more detail in the Chief Executive's Report.

Its vitally important that the Bank's Board has the right balance of skills and experience to meet the opportunities ahead. Accordingly, I am pleased to welcome two additional Non-Executive Directors. In April 2019 Elena Lieskovska joined as the Varde representative and in June 2019 Natalie Gammon joined as an independent Non-Executive Director. Both appointments bring a wealth of relevant experience and support to the Board.

In addition, there continues to be an investment in the senior management team, with a number of changes, including the promotion of Simon Furnell to Chief Operating Officer, Paul McCan to Chief Technology Officer and the recent appointment of Wahid Ali as the new Chief Risk Officer. I'd like to express my thanks to Al Southall and Lisa Nowell who have served the bank

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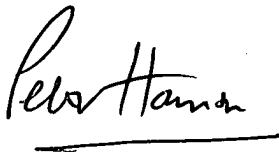
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tirelessly in the lead up to launch and over the past 2 years as Chief Technology Officer and Chief Risk Officer and wish them well for the future.

The political landscape especially around Brexit continues to present uncertainty in the economic environment which is unwelcome to all of us. However, the breadth of the property lending the Bank undertakes provides us with a solid foundation and provides opportunities to develop further its lending and savings businesses and to deliver the plans for increased diversification of funding. The Bank has closely tracked all Brexit related developments and, given the inherent material uncertainty and the evolving situation, a cautious but pragmatic approach has been adopted. Consideration is actively being given to the potential risks associated with developments as they occur in the context of how savers and borrowers might be affected, the economic environment, the business model and the financial impact.

In summary, the Board continues to work hard to ensure that Masthaven builds upon its early successes and maintains the focus on investment for the long term to make the most of the significant opportunities available in the UK market. As part of considering what is required from the Board in the next phase in the Bank's development I have taken the difficult decision to step down and will be leaving the Bank once my successor is appointed. I feel having been Masthaven Bank Chair from the inception of the Bank, through launch in 2016 to welcoming Varde as shareholders in 2019, it is the right time for me to hand over the Chair. I will remain fully engaged leading the Board until the new appointment is made.

Finally, I would like to thank all our people who have worked tirelessly during the year to deliver Masthaven Bank. Their hard work, commitment, customer focus and professionalism have delivered these results and they can be proud of what has been achieved so far.



**Peter Harrison**  
Chairman

22 August 2019

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## Chief Executive's Report

There are many positive results to present in this, the third annual report, for Masthaven Bank. However, the one that I would like to initially focus on is the investment by Varde Partners Inc ("Varde") in April 2019. This is a milestone moment for me personally and for Masthaven. To have such a strong partner as Varde, with over \$14 billion of assets under management positions Masthaven strongly for opportunities to grow and develop in the UK banking sector. I would like to welcome Varde as a new significant shareholder for Masthaven and look forward to working with the Varde team.

As part of preparing for the Varde investment the bank undertook a complete overhaul of its existing capital structure which was necessary to create a future proofed capital organisation. This was a very time-consuming exercise for the Bank's shareholders, Board and senior management and also involved a moderation of the Bank's lending activities in early 2019 whilst the re-organisation took place. The terms of the capital restructure stipulated that the existing MBL employee share option scheme was to be cancelled. At the point of cancellation, the Bank provided a clear statement of intent to those colleagues impacted would be awarded options in a new scheme. This is very important to me and the Board as we have always valued the share ownership provided to our employees.

Since the creation of Masthaven Bank we have been committed to meeting the real and 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 has to embrace the diversity of both the customers it serves and the people that work in the business. It's this very individual approach that means that Masthaven is very proud to have its own staff as the face of the Bank in its external communications and in portraying the message 'Masthaven is the bank putting the personal back into finance'. We strongly believe banking is about more than just money. It's about living up to your promises, understanding people's needs and challenges, and bringing a personalised approach to helping them achieve their financial ambitions.

Whilst we embrace technology, one of the founding tenets of our philosophy is people; we like to treat people as individuals – both our customers and our staff – choosing to see the human being behind applications. It is great therefore that 18% of our savings customers are using the flexible savings account, this allows savers, not their Bank, to choose when their account matures, and we've helped 4,311 borrowers with a range of diverse requirements through our flexible lending solutions.

Today different most definitely doesn't mean risky; different just means human. It's this ethos that helped the Bank to retain the award as the UK's 'Most Innovative Digital Retail Bank' (Capital Finance International CFI.co). All of us at Masthaven continue to be excited by the opportunity we have 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 2019 and has come a long way in a relatively short space of time, for instance the team have built a highly recommended business across the range of lending and savings solutions and for both retail and SME customers and I am delighted therefore that during the year to the end of April we had grown our numbers of customers to 21,122 (April 2018: 11,722). However, there remains much for us to work on. For instance, the Bank has yet to achieve annual profitability and has a high cost to income ratio which reflects the Bank's strategy of investing ahead of growth. With the uncertain macro-economic environment created by Brexit, the Bank will need to be measured in its growth in the coming year. However, by making the Bank fit for the long term I feel the Bank will be best positioned for the opportunities that will arise in the future.



**Andrew Bloom**  
Chief Executive  
22 August 2019

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### Key Highlights

#### Sustainable growth

- Lending assets growth from £318m to £590m
- Deposits growth from £377m to £660m
- Total customers growth to 17,342 savings customers (2018: 9,617) and 3,780 borrowers (2018: 2,155)
- Cost: income ratio falling to 124% (2018: 176%). This includes the amortisation cost of the premium paid on acquired loan books. The cost: income ratio excluding this amortisation is 105% (2018: 105%)

#### Valued Service Delivery

- Customer Satisfaction Index Score maintained at 92% (2018: 92%)
- Award-winning Lending & Savings Franchise

#### Asset Quality & Sustainable Funding

- Arrears maintained significantly below industry averages
- Continued low average LTV of 44.8% (2018: 44.9%) on bridging and development finance and 55.5% (2018: 55.3%) on mortgages
- Blended cost of funding at 30 April 2019: 2.06% (2018: 1.78%) reflecting the current competitive fixed rate deposit market
- Capital injection of £50m in April 2019 to support ongoing growth

#### A Valued Partnership Model

- Staff engagement 87% (2018: 83%)

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## Business Model

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

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

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

Our model is underpinned by a commitment to strong disciplines of risk management, regulatory compliance and governance. Risk appetite and culture are set by the Board to ensure the appropriate tone from the top. Ours is a people business and it is our people who ultimately differentiate our proposition.

## Business and Financial Review

The Bank activities for the year to 30 April 2019 are the provision of residential and buy to let first charge and second charge mortgages, secured bridging lending, development finance and retail savings products within the single brand of 'Masthaven'.

The operating loss before tax of £4.6m in 2019 compares to £7.3m in 2018.

The loss after taxation for the year was £6.3m (2018: £5.8m), reflecting the continued investment in systems and personnel required to position a new Bank for growth into the specialist lending markets. Also, the Bank moderated its lending plans at the start of 2019 in light of a potential hard BREXIT and in advance of the planned capital investment. This includes a £3.3m (2018: £5.8m) charge associated with amortising the fair value premium on loan books acquired in the prior year. The Bank has also taken within its tax charge a write off in the carrying value of its deferred tax asset of £2.6m which predominantly relates to deferred tax on losses. These losses will be available to offset against future taxable profits as they arise.

The revenue generated from interest and other income has increased in line with growth in lending assets to £31m (2018: £19.8m). This is prior to deduction of the amortisation cost of the premium paid on the acquired loan books of £3.3m (2018: £5.8m). This has resulted in net interest income of £17.2m (2018: £9.0m) and operating income of £17.2m (2018: £9.2m) after adjusting for funding and treasury costs arising from its retail funding activity.

The net assets of the Bank increased from £24.4m to £68.3m, via a combination of increased lending activity and further investment in the business funded by a capital injection of net £50.2m less a retained loss movement of £6.3m for the full year.

The Bank's award-winning flexible term savings product has helped deliver much needed freshness to a savings market which is lacking in innovation. This, along with a consistent position in best buy tables which provides new and existing customers with confidence in the Bank being consistently competitive, has contributed strongly to the increased balance of £659.7m in retail deposits from 17,342 customers (2018: £377m and 9,617 customers). The Bank uses technology as an enabler to work efficiently and deliver great customer service. Successfully blending digital with great human skills allows the Bank to deliver its own style of best in class service. This is reflected in the feedback from the Bank's satisfied customers. Over the period the

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Bank has assessed its Savings Customer Satisfaction Index through FEEFO Ratings and it has received a rating of 4.5/5 for Service and 4.6/5 for Product (2018: 4.6/5 – Service & 4.6/5 – Product).

During the previous year, the Bank launched into the first charge residential and buy to let mortgage market with a range of products developed to better meet the needs of today's borrowers, and this has been one of the key drivers for the increase in the loan book to £590m (2018: 317m). Asset quality is strong, with low arrears and an average LTV of 44.8% on bridging and development finance and 55.5% on mortgages (2018: bridging and development 44.9% and mortgages 55.3%).

The Bank holds £660m (2018: £377m) in retail deposits and total liquidity of 20.4% (2018: 22.4%), when comparing cash and treasury assets to deposit balances. The Bank's Liquidity Coverage Ratio at 478% (2018: 253%) was comfortably above the regulatory minimum of 100%. The high level of liquidity is a result of the net £50m capital injection in April 2019 and the increase in deposits raised by the Bank. It is anticipated that the Bank will maintain customer deposits as its primary source of liquidity, developing its range of savings products further in 2019, and diversifying into other forms of funding that complement its overall customer proposition.

## Future Developments

The Bank will continue to explore opportunities to diversify its retail funding base, seeking out new products, markets and distribution opportunities while recognising that the Bank is well positioned to serve the needs of savers for whom the savings market often does not work well, particularly those with long-standing accounts. During the year to April 2019 for instance we introduced SME fixed term deposits and in the next year we plan to deliver easy access savings solutions plus develop our deposit partnerships with other financial services businesses. We also aim to continue to introduce technology solutions which will improve the customer and broker experience and increase the efficiency of the Bank's processes, this will be through a new intermediary website, portal development and delivering automated decision solutions from our platform direct to broker's own systems through Automated Protocol Interfaces (API).

The Bank considers the economic and political risks of the UK leaving the EU as at a heightened risk level and as the Bank is exposed to the UK housing market and the performance of borrowers which may be impacted by current uncertainty or mechanism for UK withdrawal, the Bank will operate a measured and cautious approach to lending growth.

## Principal & Emerging Risks

The Bank's activities inherently result in a number of risks, primarily 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, political and economic risk notably arises from current uncertainties. The Bank's principal and emerging risks are identified through the risk process defined within the Enterprise Risk Management Framework and are managed through the governance structure which is outlined in the Risk Management Report, along with full details on specifics of risks identified.

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## Key Performance Indicators

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

Customer	Year Ended 30 April 2019	Year Ended 30 April 2018	Commentary
Number of Savings Customers	17,342	9,617	Higher funding requirements in support of the growth plans set out in the business plan
Number of Lending Customers	3,780	2,155	Growth in lending customers from establishing long-term lending proposition and leveraging existing markets
FEEFO Customer Satisfaction	4.5/5 Service and 4.6/5 Product	4.6/5 Service and 4.6/5 Product	Continued high service levels maintained over the period
Number of Complaints	147 (7 complaints per 1,000 customers)	75 (6 complaints per 1,000 customers)	Complaints per 1000 customers is broadly consistent year on year. The bank views improvements in its complaints' performance as a measure of success and will challenge the business to enhance its service commitment to our customers
Referred to FOS / Upheld	18/2	4/0	Even though the number of customers has increased significantly, FOS referral levels remain low and this reflects the high standards set by the Board and Senior Management in treating customers fairly
Colleague	Year Ended 30 April 2019	Year Ended 30 April 2018	Commentary
Turnover of People	2.11%	1.0%	Staff turnover considerably below expectations and industry levels reflecting the positive work culture maintained at the Bank
Colleague Engagement	87%	83%	Engagement scores continue at high levels – survey conducted in October 2018 – reflecting the Boards' desire to cultivate a positive working environment and focus on staff motivation
Commercial	Year Ended 30 April 2019	Year Ended 30 April 2018	Commentary
Value of Lending Portfolio	£590m	£317m	Lending portfolio although showing a solid increase, also included a moderation of lending at the start of 2019 in light of a potential hard BREXIT and in advance of the planned capital raise
Deposits Held	£660m	£377m	Funding levels achieved by providing customers with competitive products in support of the Bank's growth aspirations
Net Interest Margin	3.37%	4.72%	Reducing in line with expectations with a change in mix following the establishment of the first charge and buy to let lending division (excluding amortisation of acquisition premium). There has been a tightening of margins with increase in the Bank of England Bank Base Rate of 0.25% not reflected in lending markets at this point
Cost: Income ratio	124%	176%	Fixed cost base diluted in line with business expectations as a result of higher net interest income from growth in overall lending assets

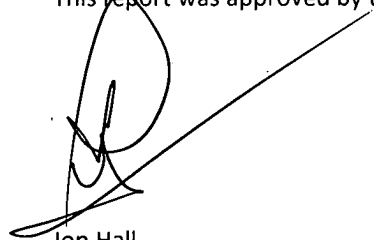
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Loss after Tax	(£6.3m)	(£5.8m)	Loss after tax reflects amortisation of purchased loan book premium, write of off Deferred Tax Asset and continued costs of developing the Bank systems, operational functions and control. This is offset by increasing revenue.
<b>Commercial (continued)</b>	<b>Year Ended 30 April 2019</b>	<b>Year Ended 30 April 2018</b>	<b>Commentary</b>
Liquidity Liquidity Coverage Ratio (LCR)	20.4% 478%	22.4% 253%	Liquidity levels reduced to more efficient levels while being maintained above regulatory and Board minimums throughout the period. LCR remains comfortably in excess of the regulatory minimum requirement of 100%
CET1 Ratio	23.31%	11.5%	Capital injection in the year to support the business plan.
<b>Control</b>	<b>Year Ended 30 April 2019</b>	<b>Year Ended 30 April 2018</b>	<b>Commentary</b>
Mortgage Arrears as a % of loan book Bridging Arrears as a % of loan book	0.54% (31 cases) 6.72% (35 cases)	1.04% (17 cases) 4.27% (21 cases)	Arrears continue well below risk metrics and business expectations
Lending LTV	Bridging 44.8% Mortgages 55.5%	Bridging 44.9% Mortgages 55.3%	Continued conservative lending practices aligned to business plans reflected in low LTVs

## Approval

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



Jon Hall

Managing Director

22 August 2019

## Risk Management Report

### Risk Management Review

Our goal at Masthaven is to embed a comprehensive approach to risk management that supports the business to execute their risk and compliance accountabilities successfully. Core to this is creating a culture that has risk and compliance as an integral part of the “way we do things around here”, ensuring at all times that we act in the best interests of our customers.

Since the start-up phase of the Bank, Masthaven invested in people, processes and training to build the foundations for a strong, integrated Enterprise Risk Management Framework that supported the Board and the business in achieving the Bank’s strategic objectives. We plan to accelerate our risk and credit management capabilities over the coming year to support growth and maturity of the Bank. In addition, the Bank will be acting on the feedback issued by the Prudential Regulation Authority in their ‘fast growing firms’ thematic review published in June 2019 which provided a number of areas for sector wide improvement in the management of interlinking facets of risk appetite and stress testing.

### Risk Framework

The Bank has implemented an Enterprise Risk Management Framework, supported through the three lines of defence, which sets out the appetite, policy, standards and requirements for the management of all risks across the Bank.

### Risk Appetite

The Board risk appetite statements establish a framework for business decisions and enable Masthaven to identify and define the type and levels of risks it is willing to accept in both qualitative and quantitative terms, and to articulate the risks the Bank is willing to take and those it will not in pursuit of its strategic goals. Risk appetite has continued to develop during 2018 and remains subject to annual review and refresh.

The risk appetite measures form part of the reporting to the Board Risk Audit, Conduct and Compliance Committee, the Executive Risk Committee, ALCO, Credit Committee and the Management and Operations Committee.

### Risk Governance & Control

Ultimate accountability for risk sits with the Board, with oversight delegated to the Board Risk, Audit, Conduct and Compliance Committee.

Responsibility for ensuring and overseeing that the Bank has implemented an overall Risk Framework is delegated to the Chief Risk Officer. This includes compliance, legal, corporate governance and financial crime. Responsibility for the day to day management of risk rests with all employees within the Bank. Collective oversight of these areas is provided through both 1st Line and 2nd Line Committees such as Product Committee, Credit Committee, Asset and Liability Committee, Executive Risk, Conduct & Compliance Committee and the Executive Committee.

### Three Lines of Defence

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

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## 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 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 Chief Risk Officer. They provide oversight of the management of risk and the effective operation of the internal control framework.

## Third Line of Defence – Audit

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

## Principal Risks

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

Risk Management	Description	Mitigation
<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 ICAAP, the ILAAP and the annual review of risk appetite across the Bank measures.</p> <p>The Bank monitors the business and financial performance against Strategic Plan and risk appetite monthly, through the Board and Executive Risk, Conduct and Compliance Committee (ERCC).</p>
<b>Capital and Funding Risk</b>	The risk that Masthaven is unable to maintain its capital and liquidity at a sufficient level to meet its Business Plan and regulatory requirement or is unable to make available sufficient resources to meet its current and future financial obligations as they fall due.	<p>The Bank performs a comprehensive annual ICAAP and ILAAP assessment to ensure resources meet minimum Board and regulatory requirement on an ongoing basis.</p> <p>The Bank maintains a simple funding strategy, which forms an important pillar of the strategic plan and identifies the expected sources of funding to support the Bank's growth ambitions. The principal source of funding is in the form of fixed term products offered to retail and SME customers.</p> <p>The Bank maintains a sufficient portfolio of cash and high-quality liquid assets (HQLA) to absorb liquidity shocks.</p>

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<p><b>Market Risk</b></p>	<p>Risk arising from changes in value of positions held on and off-balance sheet caused by adverse movement in market prices, interest rates, market volatility, and credit spreads. Masthaven Bank does not have a trading book.</p>	<p>The Chief Financial Officer 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 risks exposures within prudent limits and matching assets and liabilities. Market risk exposures is overseen by the Asset and Liability committee (ALCO) and ultimately the Board.</p> <p>The Bank operates within a series of Board approved limits which mitigate the impact of change in interest rates on both net interest income and the present value of the balance sheet.</p>
<p><b>Credit &amp; Concentration Risk</b></p>	<p>The risk that a customer or counterparty is unable to honour its financial obligation as they fall due, resulting in an actual or potential loss exposure for the Bank. These are split between Retail and Treasury categories or the risk of an unexpected increase in credit related losses as a result of a lack of diversification of a credit portfolio.</p>	<p>The Bank undertakes secured lending to customers for first and second charge mortgages and bridging and development finance. The Bank operates a wide range of limits and criteria to limit credit and concentration risk supported by detailed manual underwriting process and approval.</p> <p>Specific Committee and Shareholder approval is required across a range of lending criteria, including exposures over £3m. This information, together with trends, incidents and customer's vulnerability is reported regularly to the Credit Committee and the ERCC.</p>
<p><b>Operational Risks</b></p>	<p>The risk of incurring losses, or other significant impact, resulting from inadequate or failed internal process, people or systems or from external events and fraud.</p> <p>The Bank relies upon the capability and capacity of colleagues to deliver its objectives. Failure to add the required capacity and capability may lead to a disruption in the delivery of its objectives.</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 risk. Outcome of the RCSA as well as material incidents is reported to senior committees including the Board Risk, Audit and compliance Committee.</p> <p>The Bank has focused on the actions arising from its people engagement surveys and regularly reviews of the succession and talent management plans.</p>

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	<p>The Bank is also exposed to cyber/data security risk. This is the risk of loss of customer or proprietary data as a result of malicious activities or through ineffective data management.</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 IT Steering Committee, with specialist IT security staff employed by the Bank.</p>
<p><b>Conduct/Regulatory Risks</b></p>	<p>The risk that Masthaven Bank acts in a way that delivers adverse outcomes for customers and therefore not in accordance with the requirements/ principles of treating Customers Fairly. Masthaven has no tolerance for customers suffering detriment as a result of non-compliance with laws, regulations or regulatory principles.</p> <p>The regulatory and economic environment are important factors impacting the Bank's risk profile. In particular, the new regulatory underwriting standards and tax changes impacting the Buy-to-Let sector and changes in the standardised approach to capital rules.</p> <p>The potential for emerging regulatory requirements to increase the demands on the Group's operational capacity and increase the cost of compliance.</p>	<p>The Bank is committed to operating to avoid the delivery of adverse market conduct or outcomes to customers and therefore not in accordance with the principles of Treating Customers Fairly. Through the Product Committee the Bank has ensured that it only offers products that clearly align to the relevant product literature provided to the customer and are fully aligned with the requirements of the Banks appetite. This is supported by both quantitative and qualitative measures that are reported to the Board, the ERCC and the RACC to ensure the bank is operating within its risk appetite.</p> <p>The Bank's robust underwriting standards have helped mitigate the impact of the regulatory changes. The Bank has an effective horizon scanning process to identify regulatory change.</p> <p>A structured approach to change management and fully leveraging internal and external expertise allow the Bank to respond effectively to regulatory change.</p>

### Significant Existing and Emerging Risks

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

#### Cyber Risk



The financial services industry remains a primary target for cyber criminals. Security needs to go beyond systems, software or IT departments and procedures and into protocols for governance oversight, culture, risk identification, protection, detection, response and recovery.

Masthaven has invested a significant amount of time and effort in ensuring that we both 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.

#### Brexit



The uncertainty around the timing and terms of the UK exiting the European Union continues to create market uncertainty until such time as the future trading relationship with the EU becomes clear.

Masthaven does not have operations or products outside the UK and remains committed to operating within the UK. However, we continue to pro-actively assess the impact of potential consequences of Brexit to savers, borrowers. We note also the wider industry concerns including the legal and regulatory impact and the potential loss of key skills and resources.

#### Regulatory Activity



As the Challenger Bank market continues to grow and evolve, the PRA and FCA are pro-actively looking to ensure that the activities of the financial crisis and mis-selling scandals do not occur again.

The scale and pace of regulatory change is an ever present but is increasing resulting in significant effort and investment required to keep pace with regulatory demand and change.

Masthaven remains committed to building trust in the industry and pro-actively engages with the regulators to drive better standards within the industry. Activities during the period included engagement on financial crime, cyber security, capital, responsible lending in the second charge market and regulatory reporting. We see the level of regulatory engagement across the industry only increasing with time and aim to engage with regulators through industry bodies and directly where possible to encourage the regulators to the adopt proportionate approach, where appropriate, for non- systemically important bank such as Masthaven.

#### Outsourcing



The Bank works extensively with the broker and intermediary network across the UK, as well as a select number of firms who assist in the delivery of our IT platform, and whom we are reliant upon 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 of our critical suppliers and putting in place controls to effectively manage the risk of outsourcing, including a focus on service resilience. This is an area that will continue to receive management and Board focus due to our high dependency on third parties.

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### Transformation



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

Masthaven recognises that to be successful in a growing and competitive market it is essential that we can execute change well. During 2018 the Bank has invested in resourcing its change team to respond to the growing needs and the Bank expands. This will remain a area of focus for the foreseeable future.

### Competitive Pressures



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

Masthaven continues to monitor the market carefully to identify segments where customer needs are not being met. In September 2018 the Bank launched a Business Savings Product and in entered in an arrangement for accepting deposits from the Wealth Management Company Flagstone. However, as the market becomes more crowded safe and sustainable opportunities become harder to find. We remain vigilant to market pressures and competition.

### Information Protection



The Bank holds and processes large volumes of customer data and the work undertaken last year in relation to GDPR has helped improve our control to manage the risk to customers of loss and mis-use of data.

The Bank has a robust 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 maintains minimal risk of severe customer and reputational impact and that management ensure that adequate Information Security controls are in place, effective and regularly tested.

### Climate Change



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

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

## Risk Testing & Planning

It is rare for a financial institution to fail under normal operating circumstances and during times of economic stability. Stress testing therefore seeks to determine the circumstances where failure might arise under abnormal conditions or as a consequence of the occurrence of extreme, but plausible, events, as seen through the recent financial crisis. Stress testing also seeks to determine strategies for management action 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.

## Corporate Governance Report

The Board of Directors considers that effective corporate governance is a key factor underlying the strategies and operations of Masthaven. Although the Bank does not have any listed debt or equity, the Bank has regard to the principles of the UK Corporate Governance Code (the "Code").

### The Board of Directors

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

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

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

The Board consists of five non-executive Directors and two Executive Directors and meets at least ten times a year. Standing invitations are extended to the Chief Financial Officer and the Chief Risk Officer. The quorum for Board meetings is two directors, which must include one independent non-executive director, or such higher number as may be fixed from time to time by a decision of the directors but if the total number of directors in office falls below that higher number, the quorum will be reduced to the number of directors remaining in office.

The Board is responsible for the appropriate constitution of Committees of the Board and reviews the activities of these committees and their terms of reference as part of an annual review of corporate governance. Within the financial and overall objectives for the Bank, there is a clear division of responsibilities between the running of the Board, which is the role of the Chair, and the executive responsibility for the running of the Bank, which is overseen by the CEO. The Chair is responsible for the leadership of the Board and ensuring that it remains effective whilst the CEO is responsible for the management of the Bank.

### Non-Executive Directors (NEDs)

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

As a result, they bring objectivity and independent judgement to the Board, which complements the Executive Directors' skills, experience and detailed knowledge of the business. Moreover, they play a vital role in the governance of the Bank through their membership of the Risk, Audit, Conduct and Compliance Committee, the Remuneration and the Nomination Committee. The Board considers that the balance of skills and experience is appropriate for the requirements of the Bank's business and that the balance between Non-Executive and Executive Directors allows the Board to exercise challenge and effective decision making.

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

Several independent NEDs are appointed to the Risk, Audit, Conduct and Compliance Committee, the Remuneration and the Nomination Committee.

The appointment of a NED is for an initial term of three years, renewable for a second term of up to three years on mutual agreement. In certain circumstances a further term of up to three years may be agreed. The Board reviews the number of Executive Directors and NEDs to maintain an appropriate balance for effective control and direction of the business.

The role of all the NEDs is to:

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

## **Selection of Directors**

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

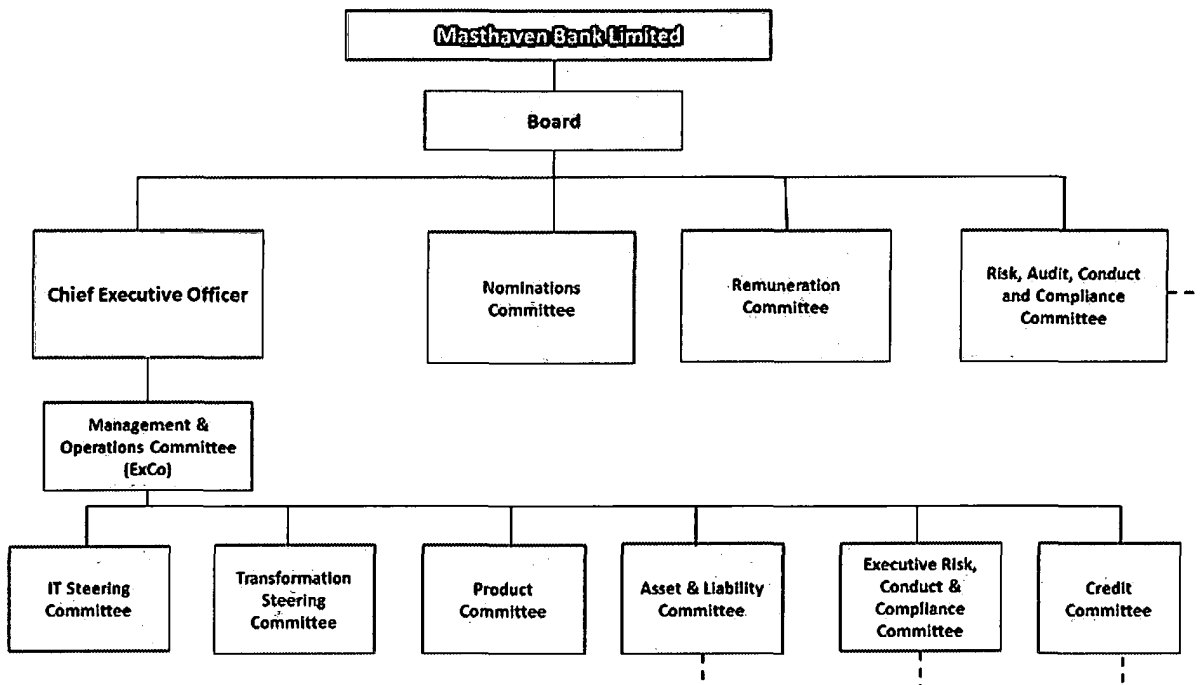
## **Performance Evaluation**

The Board undertakes an evaluation of its performance and that of its Committees and individual Directors annually with an external review planned for the Bank's third year. In 2018, the internal review of the Directors concluded that the current Directors have an appropriate range of knowledge and experience giving rise to open and effective challenge, scrutiny and debate and the structure of the governance arrangements works well. The relationship between the Board and senior management is open and transparent and is reflected in Board discussions. The Board was satisfied that no individual dominated the discussions or had undue influence in the decision-making process.

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### Committees of the Board



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

#### Risk, Audit, Conduct & Compliance Committee ("RACC")

The RACC, chaired by Anne Gunther, is a delegated committee of the Board providing oversight of the development of a comprehensive risk management strategy and framework and ensures adequate oversight of the Bank's systems and controls and risks facing the Bank, including market, credit, liquidity, regulatory, financial crime and conduct risk, financial reporting and monitoring the effectiveness of internal and external audits. The Committee receives reports and information covering Credit Committee, Asset & Liability Committee and Executive Risk, Conduct & Compliance Committee. The Committee convenes at least every quarter and is composed of three NEDs with two NEDs constituting a quorum. Additional meetings are held as required. In the year ended 30 April 2019 there were six meetings held, reflecting the workload of the Committee during the year.

The RACC currently comprises the following three Non-Executive Directors:

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Members	Number of meetings attended
Anne Gunther (Chair)	6/6
Ashley Machin	6/6
Michael Baker	5/6

Only members of the Committee have the right to attend meetings. However, standing invitations are extended to the Bank's Chairman and the Executive Directors, Chief Financial Officer, Chief Risk Officer and Head of Compliance & Financial Crime, all of whom attend meetings as a matter of practice. Other non-members may be invited to attend all or part of any meeting as and when appropriate. The Company Secretary acts as Secretary to the Committee. The internal and external auditors attend all meetings and also meet in private with the Committee when required. Taken as a whole, the Committee is considered to have an appropriate balance of skills, including recent and relevant financial experience.

## Role

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

- Set a clear tone from the top in relation to a risk-based culture which fosters individual and collective accountability for risk management
- Continuously review, challenge and recommend enhancements to the Bank's risk management framework
- Ensure adequacy of how the Bank organises and resources its risk management and oversight functions across first and second line functions
- Actively assess performance against risk appetite and challenge management to ensure that the Board's strategic, business and regulatory objectives are not put at unacceptable levels of risk

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

## Key Responsibilities

### External Audit

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

### Internal Audit

- Approve appointment or termination of the Internal Audit function
- Monitor and review effectiveness and performance of the internal auditor
- Review and approve the Internal Audit charter
- Review and assess the Internal Audit plan

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- Ensure access to the Board and Committee Chairs
- Review management's responsiveness to findings

## **Financial and narrative reporting**

- Monitor the integrity of the financial statements
- Review and report to the Board on significant financial issues and judgements
- Review and challenge accounting policies, methods used to account for significant or unusual transactions, clarity and completeness of disclosure
- Where requested by the Board, advise whether the Annual Report is fair, balanced and understandable
- Review and approval of Pillar 3 disclosures

## **Compliance, whistleblowing and fraud**

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

## **Internal controls and risk management**

- Monitor and review the adequacy and effectiveness of the Bank's internal financial controls and risk management systems
- Review and approve the statements in the Annual Report concerning internal controls and risk management

## **Activity during 2018-2019**

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

### **Split of the RACC**

As the Bank grows and matures, the Committee continues to review the governance process and procedures and as a result has plans to split the RACC into a separate Risk Committee and Audit Committee.

### **Significant issues and areas of judgement considered by the Committee**

In respect of financial reporting, the Audit Committee considered a number of significant issues and areas of accounting judgement in relation to the 2019 Annual Report and Accounts.

### **Loan book impairments**

The Bank conducts individual impairment assessments on all loans which are more than three months in arrears, estimating future cash flows, including the cost of obtaining and selling collateral and likely sale proceeds. All assets without an individual impairment assessment are assessed under a modelled expected credit loss (ECL) approach. The Bank has little empirical evidence to support the calculation of a collective provision. As a result, the Bank has assessed a collective provision on an average emergence period of a loss to crystallise from a credit event such as arrears or forbearance. This emergence period is based upon management judgement.

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

## **Effective interest rate**

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

## **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 didn't meet the probable threshold for recognition so has written-off its deferred tax assets. These deferred tax assets will be available to be offset against future taxable profits as they arise.

## **Going concern**

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

The Bank's business activities and objectives, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The Bank has disclosed a loss before tax for the year of £4.6m (2018: £7.3m). Despite these annual losses, the Bank continues to be in compliance with its regulatory capital requirement and forecasts this to be the case. The Bank has prepared detailed forecasts for a period of not less than 18 months from the date of approval of these financial statements. As part of those forecasts, the Bank has applied a severe stress test impact based on the Bank of England's Annual Cyclical Scenario which is aligned to a hard BREXIT. Based on the Bank's forecasts and objectives and having taken into account the plausible actions the Bank could initiate in response to the severe stress under the Annual Cyclical Scenario (ACS), the Committee concluded that the Company has adequate resources to continue for the foreseeable future. Consequently, the financial statements have been prepared on a going concern basis.

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

## **Fair, balanced and understandable**

The Committee considered on behalf of the Board whether the 2019 Annual Report and financial statements taken as a whole are fair, balanced and understandable, and whether the disclosures are appropriate. The Committee reviewed the Bank's procedures around the preparation, review and challenge of the Report and the consistency of the narrative sections with the financial statements and the use of alternative performance measures and associated disclosures. Following its review, the Committee is satisfied that the Annual Report is fair, balanced and understandable, and provides the information necessary for shareholders and other stakeholders to assess the Bank's position and performance, business model and strategy, and has advised the Board accordingly.

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## Internal Audit

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

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

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

## Systems of internal control and risk management

Details of the risk management framework are provided on pages 9 to 14 of the financial statements. In considering the effectiveness of internal controls, the Audit Committee received and discussed reports from Internal Audit and the external Auditors. In addition, executive management were invited to discuss the more significant issues raised by Internal Audit. Management action plans to resolve the issues raised are monitored by the Audit Committee.

Recommendations for improvements to internal controls by the external auditor are monitored by Internal Audit and progress reported to the Audit Committee.

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

## External auditor

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

## Appointment and Tenure

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

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

## Effectiveness

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

- Agreement of their engagement letter and fees;

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

Following its review of the 2019 external audit process, the Audit Committee concluded that it was effective.

## Non-audit services

Prohibited Services	Permitted Services
Book-keeping or other services related to the accounting records or financial statements	General accounting advice on the application of FRS 102 and training support
Financial information systems design and implementation	Tax compliance and advice
Appraisal or valuation services, fairness opinions or contribution-in-kind reports	Transaction related services, including acquisition due diligence and tax and accounting advice
Actuarial services	Other audit-related services; interim profit verification; half year review, comfort letters
Management functions or human resources	Such other activities as may be agreed by the Committee from time to time
Broker, dealer, investment adviser or investment banking services	
Legal services and expert services unrelated to the audit	
Executive selection and recruitment	
Seconding employees to key management positions	
Tax advisory services	

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

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

The new EU statutory audit market reform legislation adopted in the UK includes restrictions on the nature and extent of non-audit services provided by the statutory auditor. Restrictions on the nature of permissible non-audit services are effective for financial periods commencing on or after 17 June 2016. The new legislation also applies a cap on permissible non-audit services of 70% of the preceding three-year average of audit fees. This is applicable for financial periods commencing on or after 17

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June 2019. The Committee reviews a schedule of year to date non-audit services at each meeting. There were no non-audit services during the year.

The Committee's assessment of the external auditor's independence in 2019 took into account the non-audit services provided during the year, and confirmations given by KPMG as to its continued independence at various stages in the year.

Nature of service	2019 £000	2018 £000
Accounting opinion on proposed capital issuance	-	18
Regulatory advice and support	-	7
Total non-audit services	-	25

## Remuneration Committee

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

### Remuneration Policy for year ended April 2019

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

### Activity in year ended April 2019

- Annual review of the Remuneration policy and Framework, Performance management Policy, Recruitment Policy
- Senior Manager & Certification Regime Policy
- Introduction of Malus and Clawback provisions for all staff (effective 01 January 2018)
- Continued voluntary application of the bonus cap
- Oversight and approval of an Organisational design
- End of year salary review and discretionary bonus allocation with particular focus on the HR Governance Report and independent Chief Risk Officer report
- Remuneration Policy Statement
- Oversight of the gender pay analysis (albeit there is no legal requirement at this stage given the current size of the bank)

## Nominations Committee

The Nominations Committee, chaired by Peter Harrison, is a delegated committee of the Board responsible for considering all senior appointments, both at Board and executive levels, and is also responsible for the succession planning of key roles in the Bank. The Committee convenes twice a year and as when needed.

### Activity in year ended April 2019

Succession plan review

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The Nomination Committee played a key role during the year in ensuring adequate succession planning to help contribute to the delivery of the Bank's strategy by ensuring the desired mix of skills and experience of Board members and Executive team members. The Committee oversaw the appointment of Natalie Gammon. The recruitment processes, involved the engagement of an external recruitment consultant and was overseen by the Committee to ensure the required skill sets, knowledge and experience whilst complementing the existing Board of the Bank. Natalie Gammon was appointed after a thorough recruitment process involving external candidates. In addition to this, the Committee also recommended the appointment of a number of senior management positions.

## Management & Operations ("ExCo")

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

## Sub Committees

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

**The Credit Committee** is chaired by the Bank's CEO and determines, on behalf of the Board, the general credit policy of the Bank. It oversees loan performance, large exposures, and adequacy of provisions. Its role is to ensure that credit policy is prudent, taking into account changing market trends. The Credit Committee consists of individuals responsible for the key components of the business, and functions such as risk management and finance.

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

**The Customer Product Committee** is chaired by the Bank's Managing Director and oversees the product portfolio in line with the Bank's conduct risk appetite and Business Plan.

**The IT Steering Committee** is chaired by the Chief Technology Officer and is responsible for IT enabled investment, ensures oversight of IT plans and expenditure, agrees IT standards to be adopted, monitors detailed performance metrics and reviews IT incidents and associated actions.

**The Transformation Committee** is chaired by the Bank's Managing Director and manages the definition and the prioritisation of organisation wide change strategies.

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

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## Attendance at Board and Committee Meetings from 1st May 2018 to 30th April 2019

	Board of Directors	Risk, Audit, Conduct & Compliance Committee	Remuneration Committee	Nomination Committee
<b>Meetings held</b>	<b>23<sup>4</sup></b>	<b>6</b>	<b>7</b>	<b>4</b>
<b>Attendance</b>				
<b>A Bloom</b>	21/23 <sup>1</sup>	5/6	3/7	1/4
<b>A Gunther</b>	22/23	6/6	7/7	4/4
<b>A Machin</b>	23/23	6/6	7/7	4/4
<b>J Hall</b>	21/23	6/6	1/7	1/4
<b>E Lieskovska</b>	1/23 <sup>3</sup>	n/a	n/a	n/a
<b>M Baker</b>	22/23 <sup>2</sup>	5/6	7/7	4/4
<b>P Harrison</b>	23/23	6/6	7/7	4/4

<sup>1</sup> Did not attend one meeting due to potential conflict of interest

<sup>2</sup> Did not attend due to potential conflict of interest

<sup>3</sup> Appointed to the Board on 12 April 2019

<sup>4</sup> Increased number of Board meetings held during the year leading up to the Varde capital investment

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## FOR THE YEAR ENDED 30 APRIL 2019

### Directors' Report

The Directors present their report and financial statements for the year ended 30 April 2019.

#### PRINCIPAL ACTIVITIES

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

#### 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 year were as follows:

<b>Peter Harrison</b>	Independent Non-Executive Director. Chairman of the Board and Chairman of the Nomination element of the Remuneration and Nomination Committee
<b>Anne Gunther</b>	Independent Non-Executive Director. Chairman of the Board Risk Audit Conduct and Compliance Committee. Chairman of the Remuneration element of the Remuneration and Nomination Committee
<b>Michael Baker</b>	Non-Executive Director
<b>Ashley Machin</b>	Independent Non-Executive Director
<b>Elena Lieskovska</b> (appointed 12/4/2019)	Non-Executive Director
<b>Natalie Gammon</b> (appointed 7/6/2019)	Independent Non-Executive Director
<b>Andrew Bloom</b>	Chief Executive Officer
<b>Jon Hall</b>	Managing Director

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

#### DIRECTORS' INTEREST IN SHARES

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

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FOR THE YEAR ENDED 30 APRIL 2019

## RESULTS FOR THE YEAR

The Bank reported a loss after tax of £6.3m (2018: loss £5.8m) for the year. This reflects the operating losses from the Bank originating savings and loans, enhancing its technology platform and products offered to customers and continuing to build a strong team of 162 people. Also, the Bank moderated its lending plans at the start of 2019 in light of a potential hard BREXIT and in advance of the planned capital investment. The Bank has also taken within its tax charge a write off in the carrying value of its deferred tax asset of £2.6m which predominantly relates to deferred tax on losses. 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 final dividend (2018: £nil).

## POLITICAL DONATIONS

The Bank did not make any political donations or incur any political expenditure during the year (2018: £nil).

## RESEARCH AND DEVELOPMENT ACTIVITIES

The Bank does not undertake formal research and development activities. However, 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 Product and Pricing Committee. In addition to new products and services, the Bank also invests in internally generated intangible assets including computer systems.

## SUBSEQUENT EVENTS

On 1st May 2019 the Bank entered into an agreement to lease the third floor of 90 Long Acre, London, on a 5-year lease (up to 1st May 2024) with a rolling mutual break option after 31 December 2020. The initial rent is £0.5m per annum. This became the Bank's registered office post year-end.

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

## GOING CONCERN

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

The Bank's business activities and objectives, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The Bank has disclosed a loss before tax for the year of £4.6m (2018: £7.3m). Despite these annual losses, the Bank continues to be in compliance with its regulatory capital requirement and forecasts this to be the case. The Bank has prepared detailed forecasts for a period of not less than 18 months from the date of approval of these financial statements. As part of those forecasts, the Bank has applied a severe stress test impact based on the Bank of England's Annual Cyclical Scenario ('ACS') which is aligned to a hard BREXIT. Based on the Bank's forecasts and objectives and having taken into account the plausible actions the Bank could initiate in response to the severe stress under the ACS, the Committee concluded that the Company has adequate resources to continue for the foreseeable future. Consequently, the financial statements have been prepared on a going concern basis.

# ANNUAL REPORT & ACCOUNTS

FOR THE YEAR ENDED 30 APRIL 2019

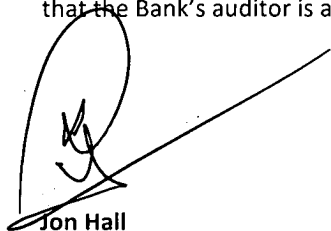
While Brexit uncertainty remains at the time of writing, with high downside risks to the economy for 2020, the Bank's contingency planning and ongoing regular Board monitoring of events as they unfold will ensure a firm management of strategy and economic risks through 2020.

## FINANCIAL RISK MANAGEMENT

Details of how the Bank manages financial risk are set out in note 5 of these financial statements.

## DISCLOSURE OF INFORMATION TO AUDITOR

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



Jon Hall

Managing Director

By order of the board

22 August 2019

# ANNUAL REPORT & ACCOUNTS

FOR THE YEAR ENDED 30 APRIL 2019

## 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 2019 which comprise the Statement of Total Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cashflows, 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 2019 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 shareholders on 15 November 2016. The period of total uninterrupted engagement is for the 4 financial years ended 30 April 2019. 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

<b>Materiality:</b>	£280,000 (2018: £290,000)
financial statements as a whole	1% of total revenues (2018: 5% of loss before tax)

#### Key audit matters

vs 2018

Event driven	New:	
	Brexit uncertainty	▲
New risks	Going concern	▲
Recurring risks	Loan loss provisioning	▲
	Revenue recognition effective interest rate	▲
	Recognition of deferred tax asset	▲

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

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

### Brexit uncertainty

Refer to page 13 (Strategic Report)

The risk	Our response
<p><b>Unprecedented levels of uncertainty</b></p> <p>All audits assess and challenge the reasonableness of estimates, in particular as described in <b>going concern, loan loss provisioning, revenue recognition: effective interest rate and recognition of deferred tax asset</b> and related disclosures and the appropriateness of the going concern basis of preparation of the annual accounts. All of these depend on assessments of the future economic environment and the Bank's future prospects and performance.</p> <p>In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and to consider the directors' statement that the annual report and financial statements 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.</p> <p>Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.</p>	<p>We have developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included:</p> <ul style="list-style-type: none"> <li>— <b>Our Brexit knowledge</b> – We considered the directors' assessment of Brexit-related sources of risk for the Bank's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks.</li> <li>— <b>Sensitivity analysis</b> – When addressing <b>going concern, loan loss provisioning, revenue recognition: effective interest rate, recognition of deferred tax</b> and other areas that depend on forecasts, we compared the directors' sensitivity analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted at a rate other than the original effective interest rate, considered adjustments to discount rates for the level of remaining uncertainty.</li> <li>— <b>Assessing transparency</b> – As well as assessing individual disclosures as part of our procedures on <b>going concern, loan loss provisioning, revenue recognition: effective interest rate and recognition of deferred tax asset</b> and other areas that depend on forecasts, we considered all the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks.</li> </ul> <p><b>Our results</b></p> <p>As reported under loan loss provisioning, revenue recognition: effective interest rate and recognition of deferred tax asset, we found the resulting estimates and related disclosures of loan loss provisioning, revenue recognition: effective interest rate and recognition of deferred tax asset and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.</p>

Refer to page 20 (Audit Committee Report), page 27 (Director's Report) and note 1.3 (basis of preparation)

**The risk**

**Disclosure quality**

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.

That judgement is based on an evaluation of the inherent risks to the Bank's business model and how those risks might affect the Bank's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements.

The Board's assessment is based on future projections of the level of excess regulatory capital over requirements, which includes judgements over the impact of regulatory requirements (whether known or subject to change), future economic conditions and future management actions.

There is a risk that the judgements included in the assessment are inappropriate and do not include appropriate allowances for adverse scenarios or the execution risk associated with future plans or do not take account of the potential actions of third parties, including the Prudential Regulation Authority ("PRA").

Such risks are inherently raised for a Bank in start-up or growth stage and the risks is exacerbated by the uncertainty in the future macro-economic outlook.

There are also less predictable but realistic second order impacts, such as the impact of Brexit, which could result in a rapid reduction of available financial resources.

The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.

Clear and full disclosure of the assessment undertaken by the Board and the rationale for using the going concern assumption, represents a key financial statement disclosure requirement.

There is a risk that insufficient details are disclosed to allow a full understanding of the assessment undertaken by the Board.

**Our response**

Our procedures included:

- **Capital assessment:** We assessed the Bank's capital forecasts. We also reviewed PRA correspondence and met with the PRA to assess their view as to the amount of regulatory capital that is likely to be required by the Bank. We assessed whether the capital forecast has been constructed in accordance with the capital requirements.
- **Our sector experience:** We challenged the forecast assumptions adopted by the directors using our knowledge and experience of this industry.
- **Sensitivity analysis:** We challenged the Bank's downside stress forecasts by taking into account how these may be affected by the achievability of the Board's plans, including increased regulatory capital requirements, potential capital raising, general economic conditions, and the potential effects of Brexit. In particular we considered the capital position of the Bank under stress and without any capital issuances.
- **Regulatory assessment:** We met the PRA to hear their views on the Bank's regulatory capital forecasts, including its powers to require actions of the Bank.
- **Assessing transparency:** We assessed the completeness and accuracy of the matters covered in the going concern disclosures by reference to the key matters considered by our procedures set out above.

**Our results**

We found the going concern disclosure without any material uncertainty to be acceptable.

## Loan loss provisioning

Bank - £624,000 (2018: £348,000)

Refer to page 20 (Audit Committee Report), note 1.5.4 (accounting policy) and note 3.10 (financial disclosures).

### The risk

#### **Subjective estimate**

Impairments cover loans specifically identified as impaired and a collective impairment of all other loans for those impairments incurred but not yet specifically identified.

The directors judge individual impairments by reference to loans that have current arrears. The individual impairment is derived from a model that uses a combination of the Bank's historical experience and, due to the Bank's limited loss experience, external data, adjusted for current conditions. In particular, judgement is required on the key assumptions of probability of possession, forced sale discounts against collateral and time to sell following possession.

The individual impairment model is most sensitive to movements in the forced sale discounts against collateral and time to sell assumptions.

The collective impairment is derived from a model that uses a combination of the Bank's historical experience and, due to the Bank's limited loss experience, external data, adjusted for current conditions. In particular, judgement is required on the key assumption of time taken for defaults to be identified.

The individual impairment model uses a combination of static (for example original collateral valuation) and dynamic data (e.g. current balance/interest rates) about the Bank's loans as well as external sources (for example house price index tables to derive indexed valuations).

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

### Our response

Our procedures included:

- **Methodology implementation:** We compared the model's methodology with the requirements of the relevant accounting standard.
- **Tests of detail:** We assessed whether the model performs the impairment calculation as designed, by applying the model to a sample of data.
- **Benchmarking assumptions:** We compared the key assumptions used in the individual impairment model, including probability of possession, forced sale discounts against collateral, time to sell and costs to sell with KPMG's bank and building society database.  
We compared the time taken for defaults to be identified with KPMG's bank and building society database for the collective provision.  
We also compared the loan portfolio key metrics, including provision coverage with those of comparable lenders.
- **Sensitivity analysis:** We assessed the collective model and specific individual impairments for their sensitivity to changes in the key assumptions (forced sale discounts against collateral, time to sell and time taken for defaults to be identified) by performing stress testing to help us assess the reasonableness of the assumptions.
- **Assessing transparency:** We evaluated whether the disclosures appropriately reflect and address the level of subjective estimation that exists when determining the loan loss provision. In addition, we challenged whether the disclosure of the key estimates and assumptions made was sufficiently clear.

#### **Our results**

- We found the loan loss provision recognised and the related disclosures to be acceptable (2018: acceptable).

## Revenue recognition: effective interest rate

Bank - £28,301,000 (2018: £13,864,000)

Refer to page 20 (Audit Committee Report), note 1.10 (accounting policy) and note 3.1 (financial disclosures).

### The risk

#### Subjective estimate

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

The directors apply judgement in deciding and assessing the expected repayment profiles used to determine the EIR period. The most critical element of judgement in this area is the estimation of the future redemption profiles of the loans.

The effect of these matters is that, as part of our risk assessment, we determined that revenue recognition; effective interest rate 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. Note 2.1 discloses the sensitivities estimated by the Bank.

#### Calculation error

The EIR models are complex and so open to the possibility of arithmetical errors and that modelling principles are not in accordance with accounting requirements.

### Our response

Our procedures included:

- **Benchmarking assumptions:** We compared the future redemption profiles of the loans key assumptions used in the EIR model with KPMG's bank and building society database and other publically available audited financial statements.
- **Sensitivity analysis:** We assessed the models for their sensitivity to changes in the key assumptions by considering different profiles to help us assess the reasonableness of the assumptions used and identify areas of potential additional focus.
- **Historical comparison:** We critically assessed the Bank's expected repayment profiles by comparing them to current and past performance of the Bank's portfolios, including recent cash collections.
- **Assessing transparency:** We evaluated whether the disclosures appropriately reflect and address the level of subjective estimation that exists when determining revenue recognition on the Bank's loan portfolios. In addition, we challenged whether the disclosure of the key estimates and assumptions made was sufficiently clear.
- **Tests of detail:** Through sample testing we assessed whether the model performs the EIR calculation as designed.
- **Re-performance:** For the full population of acquired loans, we re-performed the EIR calculation and compared it with the Bank's results.

#### Our results

- We found the estimate, resulted disclosures and calculation of interest income to be acceptable (2018: acceptable).

## Recognition of deferred tax asset

Bank - £nil; (2018: £2,369,000)

Refer to page 20 (Audit Committee Report), note 1.13 (accounting policy) and note 4.5 (financial disclosures).

### The risk

#### Forecast based valuation

The recognition of the deferred tax asset requires significant judgment as to whether it is probable that the deferred tax asset relating to unrelieved losses will be recovered against future taxable profits.

The recognition of the deferred tax asset considers whether there is sufficient certainty regarding the future taxable profits, with ongoing regulatory capital requirements and the economic consequences of Brexit and other political developments being the key assumptions.

The effect of these matters is that, as part of our risk assessment, we determined that the carrying value of the deferred tax asset has a high degree of estimation uncertainty, with a potential range of reasonable outcomes being greater than our materiality for the financial statements as a whole. Note 2.3 discloses the Bank's judgment.

### Our response

Our procedures included:

- **Historical comparison:** We critically assessed the Bank's forecasts by comparing them to current and past performance of the Bank.
- **Challenge of management:** We critically evaluated the forecast assumptions adopted by the directors.
- **Sensitivity analysis:** We performed sensitivity analysis on certain inputs utilised in management's forecast on which the recoverability of the deferred tax asset is determined.
- **Assessing transparency:** We considered the adequacy of the Bank's disclosures in respect of the degree of estimation involved in the recognition of the deferred tax asset.

#### Our results

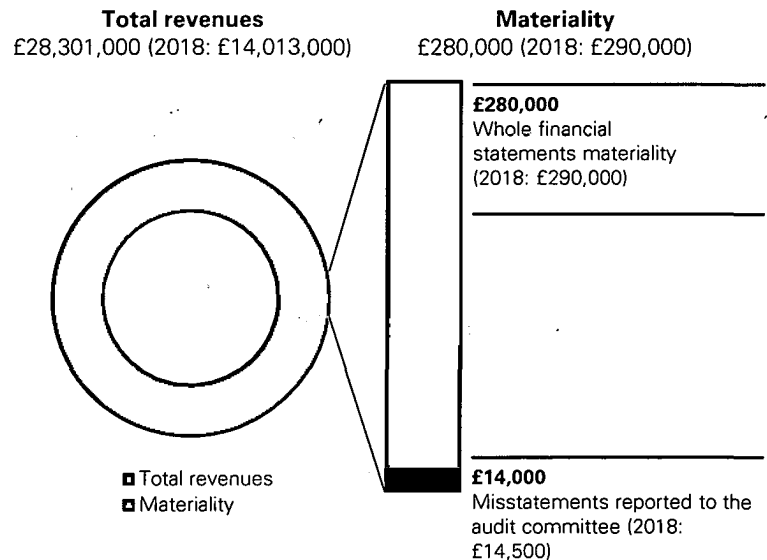
We found the resulting estimate of the deferred tax asset to be acceptable (2018: acceptable).

### 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 £280,000 (2018: £290,000), determined with reference to a benchmark of total revenues (2018: loss before tax), of which it represents 1% (2018: 5%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £14,000 (2018: £14,500), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Bank was undertaken to the materiality level specified above and was performed at the Bank's head office in London.



#### 4. We have nothing to report on going concern

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

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

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the Bank's use of that basis for a period of at least 12 months from the date of approval of the financial statements.

We have nothing to report in this respect.

#### 5. We have nothing to report on the strategic report and the directors' report

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

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

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

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

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

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

We have nothing to report in these respects.

#### 7. Respective responsibilities

##### *Directors' responsibilities*

As explained more fully in their statement set out on page 29, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

##### *Auditor's responsibilities*

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

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### *Irregularities – ability to detect*

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

Firstly, the Bank is subject to laws and regulations that directly affect the annual accounts 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 annual accounts, for instance through the imposition of fines or litigation or the loss of the Bank's licence to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity, conduct, financial crime including money laundering 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. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

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

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

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



**Simon Ryder**  
**(Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
15 Canada Square  
London  
22 August 2019

# ANNUAL REPORT & ACCOUNTS

FOR THE YEAR ENDED 30 APRIL 2019

## Statement of Total Comprehensive Income

	Note	2019 £000	Restated 2018 £000
Interest receivable and similar income	3.1	28,301	13,864
Interest payable and similar charges	3.1	(11,068)	(4,830)
<b>Net Interest Income</b>		<b>17,233</b>	<b>9,034</b>
Other income	3.2	-	149
<b>Operating income</b>		<b>17,233</b>	<b>9,183</b>
Administrative expenses	3.3	(21,419)	(16,177)
Net impairment loss on financial assets	3.10	(431)	(348)
<b>Operating loss before tax</b>		<b>(4,617)</b>	<b>(7,342)</b>
Tax	3.9	(1,649)	1,542
<b>Loss post tax for the year</b>		<b>(6,266)</b>	<b>(5,800)</b>
<b>Other Comprehensive Income</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	3
Total Other Comprehensive Income for the year, attributable to the owners		1	3
<b>Total Comprehensive Loss for the year, net of tax</b>		<b>(6,265)</b>	<b>(5,797)</b>

The above results are derived wholly from continuing operations.

The statement of total comprehensive income for the period ended April 2018 was restated due to a research and development tax credit of £0.6m received from HMRC in respect of the 30 April 2018 tax year being reclassified from Administrative expenses to Tax (note 2.4).

*The notes on pages 42 to 73 are an integral part of these financial statements.*

# ANNUAL REPORT & ACCOUNTS

FOR THE YEAR ENDED 30 APRIL 2019

## Statement of Financial Position

	Note	2019 £000	2018 £000
<b>Assets</b>			
Cash and Balances at central banks	4.1	124,998	65,172
Loans and Advances to banks	4.2	7,452	9,145
Loans and Advances to Customers	4.3	589,888	317,479
Available for sale debt securities	4.4	9,989	9,994
Deferred Tax Assets	4.5	-	2,236
Tangible Fixed Assets	4.6	170	404
Intangible Assets	4.7	4,814	4,055
Other Assets	4.8	1,162	976
<b>Total Assets</b>		<b>738,473</b>	<b>409,461</b>
<b>Liabilities</b>			
Customer Deposits	4.9	659,709	377,214
Other Liabilities	4.10	4,307	1,877
Provisions for Liabilities	4.11	160	18
Long-term subordinated debt	4.12	6,000	6,000
<b>Total Liabilities</b>		<b>670,176</b>	<b>385,109</b>
<b>Equity</b>			
Share Capital	4.13	79,311	36,962
Share Premium		7,861	-
Retained Earnings		(18,876)	(12,610)
Other Reserves		1	-
<b>Total Equity</b>		<b>68,297</b>	<b>24,352</b>
<b>Total Equity and Liabilities</b>		<b>738,473</b>	<b>409,461</b>

These financial statements were approved by the Board of Directors on 22 August 2019 and were signed on its behalf by:



**Andrew Bloom**  
**Director**

Company Number: 09660012



**Jon Hall**  
**Director**

*The notes on pages 42 to 73 are an integral part of these financial statements*

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## Statement of Changes in Equity

	Share Capital £000	Share Premium £000	Retained Earnings £000	Available for Sale Reserve £000	Total Equity £000
<b>Balance at 1 May 2017</b>	<b>26,000</b>	-	<b>(6,810)</b>	<b>(3)</b>	<b>19,187</b>
Loss for the year	-	-	(5,800)	-	(5,800)
Other Comprehensive Income	-	-		3	3
<b>Total Comprehensive Income for the year</b>	-	-	<b>(5,800)</b>	<b>3</b>	<b>(5,797)</b>
Issue of shares	10,962	-	-	-	10,962
<b>Total contributions by owners</b>	<b>10,962</b>	-	-	-	<b>10,962</b>
<b>Balance at 30 April 2018</b>	<b>36,962</b>	-	<b>(12,610)</b>	-	<b>24,352</b>
<b>Balance at 1 May 2018</b>	<b>36,962</b>	-	<b>(12,610)</b>	-	<b>24,352</b>
Loss for the year	-	-	(6,266)	-	(6,266)
Other Comprehensive Income	-	-	-	1	1
<b>Total Comprehensive Income for the year</b>	-	-	<b>(6,266)</b>	<b>1</b>	<b>(6,265)</b>
Issue of Share Capital	42,349	11,903	-	-	54,252
Expenses of capital issue	-	(4,042)	-	-	(4,042)
<b>Total contributions by and distributions to owners</b>	<b>42,349</b>	<b>7,861</b>	-	-	<b>50,210</b>
<b>Balance at 30 April 2019</b>	<b>79,311</b>	<b>7,861</b>	<b>(18,876)</b>	<b>1</b>	<b>68,297</b>

*The notes on pages 42 to 73 are an integral part of these financial statements*

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## Statement of Cashflows

	Note	2019 £000	Restated 2018 £000
<b>Cashflows from operating activities</b>			
(Loss) before tax for the year		(4,617)	(7,342)
<b>Adjustments for:</b>			
Depreciation and amortisation		2,216	1,060
Increase in provisions		142	18
Share based payments		(2)	1
Gain on sale of securities		-	2
Corporation Tax Credited		586	643
<b>Changes in:</b>			
(Increase) in Loans and Advances to Customers		(272,409)	(161,623)
(Increase) in Other Assets		(185)	(139)
Increase in Customer Deposits		282,494	179,051
Increase in Other Liabilities		2,430	732
<b>Net cash flow from operating activities</b>		<b>10,655</b>	<b>12,403</b>
<b>Cash flows from Investing Activities</b>			
Purchase of Property, Plant and Equipment		(39)	(68)
Purchase of Intangible Assets		(2,698)	(1,520)
<b>Net cash flow from Investing Activities</b>		<b>(2,737)</b>	<b>(1,588)</b>
<b>Cash flows from Financing Activities</b>			
Net proceeds from the issue of share capital		50,210	10,962
Increase in borrowing		-	6,000
<b>Net cash flow from Financing Activities</b>		<b>50,210</b>	<b>16,962</b>
<b>Net increase in Cash and Cash Equivalents</b>		<b>58,128</b>	<b>27,777</b>
Cash and cash equivalents at 1 May		84,311	56,534
<b>Cash and Cash Equivalents at 30 April</b>	4.1, 4.2, 4.4	<b>142,439</b>	<b>84,311</b>

*The notes on pages 42 to 73 are an integral part of these financial statements*

# Notes to the Financial Statements

## 1. Accounting Policies

### 1.1 REPORTING ENTITY

Masthaven Bank Limited (the 'Bank') is a company incorporated in the United Kingdom under the Companies Act 2006. The Bank is a private company limited by shares. The address of the registered office is 90 Long Acre, London WC2E 9RA. The nature of the Bank's operations and principal activities are set out in the Strategic Report on pages 1 to 8.

### 1.2 BASIS OF PREPARATION

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

### 1.3 GOING CONCERN

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

The Bank's business activities and objectives, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The Bank remains in an early growth phase when forecasting performance is inherently uncertain with risks exacerbated by the uncertainty in the future macro-economic outlook. The Bank has disclosed a loss before tax for the year of £4.6m (2018: £7.3m). Despite these annual losses and expected performance during the forecast period, the Bank continues to be in compliance with its regulatory capital requirement and forecasts this to be the case throughout the forecast period. The Bank has prepared detailed forecasts for a period of not less than 18 months from the date of approval of these financial statements. As part of those forecasts, the Bank has applied a severe stress test impact based on the Bank of England's Annual Cyclical Scenario ('ACS') which is aligned to a hard BREXIT. Based on the Bank's forecasts and objectives and having taken into account the plausible actions (for example the curtailing of customer lending and a cost reduction strategy) the Bank could initiate in response to the severe stress under the ACS, the directors are confident that the company will have sufficient regulatory capital throughout the 18 month forecast period and therefore have prepared the financial statements on a going concern basis.

### 1.4 FINANCIAL INSTRUMENTS

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

Financial assets and liabilities.

All of the Bank's financial assets and liabilities are initially measured at transaction price (including transaction costs). Financial assets and liabilities are only offset in the statement of financial position when there exists a legally enforceable right to set off

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the recognised amounts and the Bank intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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 of the risks and rewards of ownership of the financial asset; or
- the Bank, despite having retained some, but not all, of the significant risks and rewards of ownership, has transferred control of the asset to another party.

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

## 1.5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

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

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

### 1.5.1 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.

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## 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.

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

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

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

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

The main options offered by the Bank include:

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

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

## 1.5.5. FINANCIAL GUARANTEES AND LOAN COMMITMENTS

Financial guarantees represent undertakings that the Bank will meet a customer's obligation to third parties if the customer fails to do so. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. The Bank is theoretically exposed to loss in an amount equal to the total guarantees or unused commitments. However, the likely amount of loss is expected to be significantly less; most commitments to extend credit are contingent upon customers maintaining specific credit standards. Liabilities under financial guarantee contracts are initially

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recorded at their fair value, and the initial fair value is amortised over the life of the financial guarantee. Subsequently, the financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure to settle obligations.

## 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.

## 1.7 CASH AND CASH EQUIVALENTS

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

## 1.8 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. Brands are amortised on the basis of the expected useful life which is ten years.

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 PROPERTY, PLANT AND EQUIPMENT

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

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

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

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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.

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

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

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

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

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

## 1.14 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.

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## 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 compared to 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. The existing share option scheme was cancelled in April 2019 and will be replaced by a new scheme.

## 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. The Bank has recognised a provision for dilapidations on its 11 Soho Street premises which was vacated in July 2019.

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.

## 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 £3.3m (2018: £5.8m). In determining the expected life of loans and receivables assets for the acquired loan portfolios, the Bank now has a strong track record of cash flows from its acquired book. Therefore, a forecast profile based upon behavioural life is used and the assumption is that the future is replicated by the past. If the estimated future cash flows are revised, the gross carrying value of the financial asset is recalculated as the present value of the estimated future contractual cash flows discounted at the effective interest rate, and compared with the carrying value of the loan book. In determining the expected life of loans and receivables assets for the originated loan portfolio, the Bank uses likely behavioural profiles that are determined by the number of customers that remain on the product after the end of the incentive period. However, as the Bank has limited experience of customer behaviour of long term lending products reaching the end of their incentive period, it has used management's experience and peer group comparisons. Any variation in the expected life of these assets will change the carrying value in the statement of financial position and the timing of the recognition of interest income.

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

At the end of the financial year the EIR interest adjustment was £214k. If the expected average life of the loans were increased by 2 months the adjustment would be £518k. Management chooses to adopt the above approach until the evidence of actual behavioural life can be obtained.

Short term loans are amortised over the actual life of the loan. Management recognises a catch-up adjustment to ensure that there is no residual prepayment or accrued income on the balance sheet relating to a loan that has since been repaid. The catch-up adjustment included in this financial year is £59k (2018: £63k).

### 2.2 IMPAIRMENT LOSSES ON LOANS AND ADVANCES

The Bank regularly reviews its loan portfolios 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. As a result, the Bank exercises more judgement than usual in determining whether there is a measurable decrease in the estimated future cash flows from loan portfolios.

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

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

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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.
- The time taken to realise the sale proceeds.
- The property marketing costs.
- The legal costs of sale.

A sensitivity analysis was done on these main assumptions used to calculate the recoverable amount and therefore the impairments required:

- If the property valuation haircuts increased or decreased by 1%, impairments would increase or decrease by £16k (2018: £42k).
- If the time taken to realise the sale proceeds is increased by one month, impairments would increase by £5k (2018: £20k).
- If the property marketing costs increased by 0.25%, impairments would increase by £5k (2018: £10k).
- If the legal costs of sale increased by 0.25%, impairments would increase by £5k (2018: £10k).

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. This assessment is based upon an average emergence period of a loss to crystallise from a credit event such as arrears or forbearance. The emergence period is estimated using management judgement with an overlay to consider additional impairment indicators such as debt consolidation, high LTVs and unemployment. Sensitivities to this emergence period and therefore the collective provision are: reducing the emergence period by 2 months would lower the collective provision by £51k, while increasing the emergence period by 2 months will increase the collective provision by £50k.

## 2.3 DEFERRED TAX ASSET RECOGNITION

The Bank has considered the carrying value of deferred tax assets in the current year and has concluded that given the annual loss in 2018 and 2019 along with the uncertainty created with the current UK macro-economic situation, doubt exists over the viability of future taxable profits in an appropriate timeframe. The Bank has therefore written off its deferred tax asset totalling £2.6m (2018: £nil). These losses will be available against future taxable profits as they arise.

## 2.4 RESTATEMENT OF ACCOUNTS

Following the tax computation review decision was made to reclassify the Research & Development tax credit (£643k) from administration expenses to tax therefore the statement of total comprehensive income, statement of cashflows, tax and administration expenses note (3.3) for the year ended April 2018 were restated. As a result, operating loss has increased from £6.6m to £7.3m but loss after tax remained unchanged.

	As previously reported	Adjustment	Restated
<b>Statement of Total Comprehensive Income</b>			
Administrative expenses	(15,534)	(643)	(16,177)
Tax	899	643	1,542
<b>Statement of Cashflows</b>			
(Loss) before tax for the year	(6,699)	(643)	(7,342)
Corporation Tax (Paid)/Credited	-	643	643
<b>Administration Expenses (Note 3.3)</b>			
Other administrative expenses	4,272	643	4,915
<b>Tax Reconciliation (Note 3.9)</b>			
Adjustments in respect of prior periods – Research & Development tax credit	-	(643)	(643)

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## 3. Statement of Comprehensive Income Analyses

### 3.1 INTEREST INCOME AND EXPENSE

	2019	2018
	£000	£000
Interest and similar income on Loans and Advances to Customers	30,509	18,893
Interest on impaired assets	414	575
Interest on Investment Securities – Available for Sale	55	12
Interest on bank balances	625	176
Amortisation of fair value premium on loan book acquisition	(3,302)	(5,792)
<b>Total Interest receivable and similar income</b>	<b>28,301</b>	<b>13,864</b>
Interest on Deposits from customers	(10,348)	(4,444)
Interest on long-term borrowings	(720)	(386)
<b>Total Interest payable and similar charges</b>	<b>(11,068)</b>	<b>(4,830)</b>
<b>Net Interest Income</b>	<b>17,233</b>	<b>9,034</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 Masthaven Group Limited and Masthaven Secured Loans Group Limited loan portfolios. This amortisation is being done on an EIR basis.

### 3.2 OTHER INCOME

	2019	2018
	£000	£000
Other fees receivable	-	149
<b>Other Income</b>	<b>-</b>	<b>149</b>

### 3.3 ADMINISTRATION EXPENSES

	Note	2019	Restated 2018
		£000	£000
Staff costs	3.5	12,742	9,684
Share based payments	3.6	(3)	1
Depreciation and amortisation	4.6/4.7	2,216	1,060
Operating lease rentals	3.8	504	470
FSCS levy		(82)	47
Other administrative expenses		6,042	4,915
<b>Administrative expenses</b>		<b>21,419</b>	<b>16,177</b>

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3.4 AUDITOR'S REMUNERATION	2019	2018
	£000	£000
Fees payable to the Bank's auditor for the audit of the Bank's annual accounts	140	77
Fees payable to the Bank's auditor and its associates for other services:		
- Audit related assurance services	-	18
- Other non-audit services	-	7
<b>Auditor's remuneration</b>	<b>140</b>	<b>102</b>

## 3.5 STAFF NUMBERS AND COSTS

The average number of persons employed by the Bank (including executive directors) during the year was 157 (2018: 112). At the end of the year the Bank employed 162 people (2018: 135).

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:

	2019	2018
	£000	£000
Wages, salaries and performance related pay	10,608	8,175
Social Security costs	1,361	1,019
Pension costs	465	287
Share based payments	(3)	1
Other staff costs	311	203
	<b>12,742</b>	<b>9,685</b>

## 3.6 EMPLOYEE SHARE-BASED PAYMENT TRANSACTIONS

On 27 March 2019, the Masthaven Bank Limited Company Share Option Plan (CSOP) ceased and all share options in issue at that date were surrendered. No share options were granted to employees under the Masthaven Bank Limited Company Share Option Plan (CSOP) during this financial period.

Share options that were granted in previous financial periods were granted in accordance with Schedule 4 of the Income Tax (Earnings and Pensions) Act 2003. In particular, share options were granted with an exercise price equal to the market value of the share price on the date of grant. 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:

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	2019	2019	2018	2018
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
<b>Outstanding at beginning of the period</b>	<b>100,261</b>	<b>6.8p</b>	<b>92,648</b>	<b>7.4p</b>
Granted during the period	-	-	10,392	1.82p
Surrendered during the period	(100,261)	6.8p	(2,779)	7.4p
Exercised during the period	-	-	-	-
Expired during the period	-	-	-	-
Outstanding at end of the period	-	-	100,261	6.8p
<b>Exercisable at end of the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

No options were exercised during the period. The outstanding share options at the end of the previous period had exercise prices of 1p and 20p.

The weighted average remaining contractual life of the outstanding share options at the end of the previous period was 8.56 years.

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

	2019	2018
Share price at date of grant	-	0.0001p to 67p
Exercise price	-	0.0001p to 20p
Dividend yield	-	0%
Expected volatility	-	40%
Risk free interest rate	-	0.19% to 0.54%
Expected life	-	3.16 years to 3.74 years
Fair value at date of grant	-	0.0001p to 48p

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

	2019	2018
	£000	£000
Salaries and performance related pay	723	687
Social security costs	90	92
Pension costs	44	45
	<b>857</b>	<b>824</b>

There were no directors to whom retirement benefits were accruing in respect of qualifying services during the year (2018: nil).

During the year to 30 April 2019, the Bank issued nil (2018: nil) options over its A shares to the directors of the Bank.

The aggregate of emoluments of the highest paid director was £396k (2018: £392k). Pension cost attributable to the highest paid director were £20k (2018: £20k). The director received nil share options in respect of qualifying services under the Masthaven Bank Limited Company Share Option Plan (2018: nil).

## 3.8 OPERATING LEASES

The Bank moved to its current office space in June 2016. A five-year lease with a break at three years was signed, generating an operating lease commitment which is reflected in the table below.

Non-cancellable operating lease rentals are payable as follows:

	2019	2018
	£000	£000
Less than 1 year	138	504
Between 1 and 5 years	17	25
Over 5 years	-	-
	<b>155</b>	<b>529</b>

On 1st May 2019 the Bank entered into an agreement to lease the third floor of 90 Long Acre, London, on a 5 year lease (up to 1st May 2024) with a rolling mutual break option after 31 December 2020. The initial rent is £0.5m per annum.

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### 3.9 TAX

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

	2019	Restated 2018
	£000	£000
<b>Current tax:</b>		
Current tax on loss for the year	-	-
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	(1,937)	1,369
Adjustments in respect of prior periods	288	318
Effect of tax rate change	-	(145)
<b>Total deferred tax (charge) / credit</b>	<b>(1,649)</b>	<b>1,542</b>
<b>Total tax (charge) / credit</b>	<b>1,649</b>	<b>1,542</b>

#### 3.9.2 TAX RECONCILIATION

	2019	2018
	£000	£000
<b>Loss for the year</b>	<b>(4,535)</b>	<b>(7,342)</b>
Tax using the UK corporation tax rate of 19% (2018: 19%)	(862)	(1,395)
Fixed asset differences	153	26
Permanent non-deductible expenses	21	28
Income not taxable	(1)	(28)
Other permanent differences	1	1
Adjustments in respect of prior periods – Research & Development tax credit	(586)	(643)
Adjustment to tax charge in respect to prior periods – deferred tax	372	469
Deferred tax not recognised (note 2.3)	2,551	-
	<b>1,649</b>	<b>1,542</b>

On 26 October 2015 the Government substantively enacted a reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017). An additional reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Bank's future current tax charge accordingly. The deferred tax asset at 30 April 2019 has been calculated based on the rate of 17%.

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The adjustment in respect of prior periods of relates to a research and development tax credit received from HMRC in respect of the 30 April 2018 tax year. The research and development claim was submitted to HMRC in November 2018 and the credit received in December 2018.

## 3.10 PROVISION FOR IMPAIRMENT LOSSES ON FINANCIAL ASSETS

### Impairment losses taken to income statement

	2019 £000	2018 £000
Individual impairments	184	348
Collective impairment	247	-
	<b>431</b>	<b>348</b>
	2019 £000	2018 £000
<b>Individual impairments provision</b>		
Balance brought forward	348	-
Increase recognised in income statement	184	348
Utilised during the year	(155)	-
As at 30 April 2019	<b>377</b>	<b>348</b>
	2019 £000	2018 £000
<b>Collective impairment provision</b>		
Balance brought forward	-	-
Increase recognised in income statement	247	-
As at 30 April 2019	<b>247</b>	-
	2019 £000	2018 £000
<b>Total impairment provisions</b>		
Individual impairments provision	377	348
Collective impairment provision	247	-
As at 30 April 2019	<b>624</b>	<b>348</b>

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## 4. Statement of Financial Position Analyses

### 4.1 CASH AND BALANCES AT CENTRAL BANKS

	2019 £000	2018 £000
Cash and balances at central banks	<b>124,998</b>	<b>65,172</b>

Surplus funds are held in the Bank of England reserve account. The rating agency designation as at 30 April 2019, based on Moody's long-term ratings is AA2.

### 4.2 LOANS AND ADVANCES TO BANKS

	2019 £000	2018 £000
Placements with other banks included in cash and cash equivalents	<b>7,452</b>	<b>9,145</b>

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:

	2019 £000	2018 £000
A1	-	-
A2	7,199	8,632
A3	-	-
BAA2	253	513
	<b>7,452</b>	<b>9,145</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 the Treasury bills of £9,989k (2018: £9,994k) available for sale as per note 4.4.

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## 4.3 LOANS AND ADVANCES TO CUSTOMERS

	2019 £000	2018 £000
Gross loan and advances	590,882	317,827
Less: allowances for impairment on loans and advances (Note 3.10)	(624)	(348)
	<b>590,258</b>	<b>317,479</b>
Amounts falling due:		
- within one year	176,694	159,542
- over one year but less than five years	12,414	9,575
- more than five years	401,150	148,362

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

	2019 £000	2018 £000
UK Government gilts	<b>9,989</b>	9,994

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

## 4.5 DEFERRED TAX ASSET

Deferred tax assets are attributable to the following:

	2019 £000	2018 £000
Accelerated capital allowances	-	-
Fixed asset timing differences	-	(133)
Tax losses carried forward and other deductions	-	2,369
<b>Deferred tax asset</b>	<b>-</b>	<b>2,236</b>

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

	2019 £000	2018 £000
Balance brought forward	2,236	1,337
Credit to the income statement	-	899
Deferred tax charge to the income statement (note 2.3)	(2,236)	-
<b>Deferred tax asset</b>	<b>-</b>	<b>2,236</b>

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### 4.6 PROPERTY, PLANT AND EQUIPMENT

	Computer equipment £000	Leasehold improvements £000	Furniture £000	Total £000
<b>Cost</b>				
At 1 May 2018	550	172	119	841
Additions	13	16	10	39
<b>At 30 April 2019</b>	<b>563</b>	<b>188</b>	<b>129</b>	<b>880</b>
<b>Depreciation</b>				
At 1 May 2018	291	107	39	437
Charge for year	186	62	25	273
<b>At 30 April 2019</b>	<b>477</b>	<b>169</b>	<b>64</b>	<b>710</b>
<b>Net book value</b>				
<b>At 30 April 2019</b>	<b>86</b>	<b>19</b>	<b>65</b>	<b>170</b>
At 30 April 2018	259	65	80	404

### 4.7 INTANGIBLE ASSETS

	Software £000	Website development £000	Brand £000	Total £000
<b>Cost</b>				
At 1 May 2018	3,773	407	900	5,080
Additions	2,592	109	-	2,701
<b>At April 2019</b>	<b>6,365</b>	<b>516</b>	<b>900</b>	<b>7,781</b>
<b>Amortisation</b>				
At 1 May 2018	735	162	128	1,025
Charge for the year	1,021	149	90	1,260
Impairment	-	-	682	682
<b>At 30 April 2019</b>	<b>1,756</b>	<b>311</b>	<b>900</b>	<b>2,967</b>
<b>Net book value</b>				
<b>At 30 April 2019</b>	<b>4,609</b>	<b>205</b>	<b>-</b>	<b>4,814</b>
At 30 April 2018	3,038	245	772	4,055

The Bank has considered the carrying value of the Brand Intangible Asset in the current year and has concluded that given the annual loss in 2018 and 2019 along with the uncertainty created with the current UK macro-economic situation, doubt exists over establishing the fair value of the asset over the remaining period until it is fully amortised. The Bank has therefore written off its Brand Intangible asset totalling £0.7m (2018: £nil).

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## 4.8 OTHER ASSETS

	2019	2018
	£000	£000
Prepayments	617	590
Other debtors	545	386
	<b>1,162</b>	<b>976</b>

## 4.9 CUSTOMER DEPOSITS

	2019	2018
	£000	£000
With agreed maturity dates or periods of notice by remaining maturity:		
Not more than three months	91,849	40,170
More than three months but not more than one year	257,121	158,745
More than one year but not more than five years	310,739	178,299
	<b>659,709</b>	<b>377,214</b>

## 4.10 OTHER LIABILITIES

	2019	2018
	£000	£000
Other taxation and social security	614	331
Other creditors	519	180
FSCS Levy	5	106
Accruals	3,169	1,260
<b>Other liabilities</b>	<b>4,307</b>	<b>1,877</b>

## 4.11 PROVISIONS

	2019	2018
	£000	£000
Other provision	160	18
	<b>160</b>	<b>18</b>

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

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### 4.12 LONG-TERM SUBORDINATED DEBT

	2019	2018
	£000	£000
Subordinated loan notes	<b>6,000</b>	<b>6,000</b>

The subordinated loan notes were issued on 17th October 2017. The principal amount outstanding at 30 April 2019 is £6,000,000. The notes carry interest of 12% and are repayable at par in October 2027 with an option to repay early at the fifth anniversary of the issue date.

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

### 4.13 SHARE CAPITAL

Authorised, issued and fully paid

	2019	2018
	£	£
79,348,892 Ordinary shares of £1 each	79,311,093	-
1,000,000 A Ordinary shares of £0.0001 each	-	100
100 B Ordinary shares of £0.01 each	-	1
37,000,000 C shares of £1 each	-	36,962,200
<b>On issue at 30 April</b>	<b>79,311,093</b>	<b>36,962,301</b>

The movement on share capital during the year is analysed below:

	Ordinary shares of £1 each	A Ordinary shares of £0.0001 each	B Ordinary shares of £0.01 each	C shares of £1 each	Total Equity
<b>Balance at 1 May 2018</b>	-	<b>100</b>	<b>1</b>	<b>36,962,200</b>	<b>36,962,301</b>
C shares issued in the year	-	-	-	17,000,000	17,000,000
Shares converted in the year	53,962,301	(100)	(1)	(53,962,200)	-
Ordinary shares issued in the year	25,348,792	-	-	-	25,348,792
<b>Balance at 30 April 2019</b>	<b>79,311,093</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>79,311,093</b>

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

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

## 4.14 FINANCIAL INSTRUMENTS

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

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

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

### 4.14.1 DEBT SECURITIES AVAILABLE FOR SALE

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

### 4.14.2 LOANS AND ADVANCES

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

### 4.14.3 DEPOSITS

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

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## 4.14.4 VALUATION OF FINANCIAL INSTRUMENTS

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

At 30 April 2019	Level 1	Level 2	Level 3	Total	Fair value
	£000	£000	£000	£000	£000
<b>Assets</b>					
Loans and advances to banks	-	132,450	-	132,450	132,450
Available for sale debt securities	9,989	-	-	9,989	9,989
Loans and advances to customers	-	-	589,888	589,888	530,181
<b>Total Assets</b>	<b>9,989</b>	<b>132,450</b>	<b>589,888</b>	<b>732,327</b>	<b>672,620</b>
<b>Liabilities</b>					
Customer deposits	-	659,709	-	659,709	625,736
<b>Total Liabilities</b>	<b>-</b>	<b>659,709</b>	<b>-</b>	<b>659,709</b>	<b>625,736</b>
At 30 April 2018					
<b>Assets</b>					
Loans and advances to banks	-	74,317	-	74,317	74,317
Available for sale debt securities	9,994	-	-	9,994	9,994
Loans and advances to customers	-	-	317,479	317,479	317,897
<b>Total Assets</b>	<b>9,994</b>	<b>74,317</b>	<b>317,479</b>	<b>401,790</b>	<b>402,208</b>
<b>Liabilities</b>					
Customer deposits	-	377,214	-	377,214	374,482
<b>Total Liabilities</b>	<b>-</b>	<b>377,214</b>	<b>-</b>	<b>377,214</b>	<b>374,482</b>

There were no transfers between level 1 and level 2 during the year.

## 5. Other Analyses

### 5.1 RISK MANAGEMENT

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

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

#### 5.1.1 CREDIT RISK

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Impairment provisions are provided for losses that have been incurred at the statement of financial position date.

#### Credit Risk Management

Credit risk in the Bank's lending portfolio only materialises if a borrower is unable to repay the mortgage or short term loan and as a result the property or land which forms the security for the loan has to be repossessed and sold. A loss will be incurred if the proceeds from the sale of a repossessed property or land, or other security, are insufficient to pay the loan balance in full.

Credit risk is overseen by the Bank Credit Risk Committee (CRC), and ultimately the Board via the Committee hierarchy set out previously. To assist CRC in this activity, the risk department reporting to the Chief Risk Officer monitors exposure to credit risk and provides information to CRC 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. CRC ensures appropriate controls are in place to maintain the quality of lending within these limits. It reviews comprehensive 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 key lending policy criteria. These policy rule assessments ensure consistent decision making and are supported by detailed manual underwriting of each case.

Assurance that new lending processes and lending decisions are robust and operate within the Bank's policy rules is provided through the three lines of defence model. Prudent loan to value limits are applied to all lending.

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

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

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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. Regular stress testing is undertaken on the mortgage portfolio to establish the level of 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:

	2019	2018
	£000	£000
Cash Balances at Central Banks	124,998	65,172
Loans and Advances to Banks	7,452	9,145
Loans and Advances to Customers	589,888	317,479
Available for Sale Debt Securities	9,989	9,994
Other Assets	1,161	976
	<b>733,488</b>	<b>402,766</b>
Contractual loan commitments	15,716	11,894
<b>Total Credit Risk</b>	<b>749,204</b>	<b>414,660</b>

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

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

	30 April 2019		30 April 2018	
	Loan Balance £000	Collateral £000	Loan Balance £000	Collateral £000
Less than 60%	284,801	1,082,994	174,890	729,418
60% - 80%	301,320	770,025	132,042	421,780
80% - 100%	3,767	5,690	10,547	12,814
Greater than 100%	-	-	-	-
<b>Total</b>	<b>589,888</b>	<b>1,858,709</b>	<b>317,479</b>	<b>1,164,012</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.

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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.
- Collective impairment allowances are calculated for each portfolio given the homogenous nature of the assets in the portfolio.

Specific impairment provisions have been made against 4 bridging lending accounts, totalling £747k. 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. Management have no material concerns regarding the quality of the collateral that secures the lending therefore no collective impairment provisions have been recognised.

Distribution of loans and advances by credit quality	At 30 April 2019		At 30 April 2018	
	Loans and advances to customers £000	Loans and advances to banks £000	Loans and advances to customers £000	Loans and advances to banks £000
Neither past due nor impaired	532,898	132,450	292,929	74,317
Past due but not impaired:				
Loans and receivables at amortised cost:				
- Less than 1 month	6,799	-	7,107	-
- 1 to 2 months	10,393	-	3,120	-
- 2 to 3 months	8,658	-	2,049	-
- Over 3 months	29,431	-	6,980	-
Impaired	2,703	-	5,642	-
Less: provision	(994)	-	(348)	-
	<b>589,888</b>	<b>132,450</b>	<b>317,479</b>	<b>74,317</b>

The past due loans are subject to close oversight. In the main they relate to transactions that have reached maturity and the Bank has decided not to extend, 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 2019, loans for which forbearance measures were undertaken totalled £5.1m (2018: £906k) and represented 20 (2018: 8) mortgage lending customers who had payment plans agreed to clear the arrears balance and 8 (2018: 3) bridging lending customers who were given breathing space to allow the repayment with no legal actions being taken.

## 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.

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At 30 April 2019

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

At 30 April 2018

	Carrying Value		Concentration by Sector:			
	2018	Banks	Retail	Corporate	Government	
	£000	2018 £000	2018 £000	2018 £000	2018 £000	
Cash and balances at central banks	65,172	65,172	-	-	-	
Loans and advances to banks	9,145	9,145	-	-	-	
Loans and advances to Customers	317,479	-	300,163	17,316	-	
Available for Sale Debt Securities	9,994	-	-	-	9,994	
Contractual Loan Commitments	11,894	-	11,894	-	-	
<b>Total</b>	<b>413,684</b>	<b>74,317</b>	<b>312,057</b>	<b>17,316</b>	<b>9,994</b>	

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

## Concentration by location of collateral

	Loans and advances to Customers	
	2019	2018
	£000	£000
East Anglia	85,040	43,248
East Midlands	19,525	7,979
Greater London and South East	202,082	174,189
North East	15,800	4,711
North West	30,234	18,534
Scotland	20,357	11,094
South West	109,006	24,092
Wales	50,822	6,534
West Midlands	15,793	19,859
Yorkshire and Humberside	41,229	7,239
<b>Total</b>	<b>589,888</b>	<b>317,479</b>

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## 5.1.2 LIQUIDITY RISK

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

### Liquidity risk management

The Bank's approach to liquidity risk management is to hold sufficient quality and quantity of liquidity to withstand a severe but 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 or replace existing funding as it matures. This could be as 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 Internal Liquidity Adequacy Assessment Process (ILAAP) is completed to ensure that the Bank holds sufficient liquidity; this is complemented by reverse stress testing and a Recovery and Resolution Plan which identify actions that could be taken to manage liquidity risk in the event of an extreme stress.

The Bank's appetite for liquidity risk is set out in its risk appetite statement within the ILAAP. This was last reviewed by the Board in March 2019 and contains the results of severe but plausible liquidity stress tests. The Bank carries out these tests on a regular basis against the current balance sheet and latest projections to ensure that actual and forecast liquidity, remains within appetite.

Liquidity risk is managed by the Chief Financial Officer 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 monthly by ALCO, CRC and ultimately overseen by the Board. This is supplemented by a Liquidity Contingency Plan.

Liquidity resources comprise assets such as funds in cash accounts and other easily realisable liquid assets. Liquidity resources are managed across distinct categories reflecting different features, principally the time taken to convert the resource into cash.

The amount of liquidity resources is subject to regulatory requirements set by the PRA. The Liquidity Coverage Ratio (LCR) is a 30 day short-term liquidity measure. The regulatory minimum LCR at 30 April 2019 was 100%. The Bank monitors compliance against this measure on a daily basis and as at 30 April 2019, the Bank's LCR was 478% (2018: 253%).

### Liquidity adequacy

The Internal Liquidity Adequacy Assessment Process (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 Liquidity Coverage Ratio (LCR) and with the ILAA Rules, including the need to meet the Overall Liquidity Adequacy Rule.

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

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The stress tests in the ILAAP are complemented by reverse stress testing, which goes beyond standard tests by considering very extreme events that have the capacity to 'break' the Bank. This helps to identify risks and possible controls which might ordinarily be missed when using standardised risk assessments.

The ILAAP is reviewed by the PRA. Following this, the PRA provides Individual Liquidity Guidance which sets out the eligible liquidity that the PRA requires the Bank to hold including any add-ons for liquidity risks that are not captured by the LCR.

No PRA add-ons are required at this time.

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 of non-derivative assets and liabilities.

At 30 April 2019	Carrying Value £000	Net inflow / (outflow)	Up to 1 month £000	1 to 3 months £000	3 to 12 months £000	1 to 5 years £000
<b>Assets</b>						
Cash and balances at central banks						
Loans and advances to banks	124,998	124,998	124,998	-	-	-
Loans and advances to customers	7,452	7,452	7,452	-	-	-
Available for sale debt securities	589,888	596,950	43,657	31,378	108,474	413,441
	9,989	10,000	-	10,000	-	-
<b>Total</b>	<b>732,327</b>	<b>739,400</b>	<b>176,107</b>	<b>41,378</b>	<b>108,474</b>	<b>413,441</b>
<b>Liabilities</b>						
Customer deposits	(659,709)	(676,553)	(29,325)	(61,921)	(259,531)	(325,776)
Long-term subordinated debt	(6,000)	(8,523)	-	-	(722)	(7,801)
<b>Total</b>	<b>(665,709)</b>	<b>(685,076)</b>	<b>(29,325)</b>	<b>(61,921)</b>	<b>(260,253)</b>	<b>(333,577)</b>
<b>At 30 April 2018</b>						
<b>Assets</b>						
Cash and balances at central banks						
Loans and advances to banks	65,172	65,172	65,172	-	-	-
Loans and advances to customers	9,145	9,145	9,145	-	-	-
Available for sale debt securities	317,479	324,321	38,363	22,185	105,372	158,401
	9,994	10,000	-	10,000	-	-
<b>Total</b>	<b>401,790</b>	<b>408,638</b>	<b>112,680</b>	<b>32,185</b>	<b>105,372</b>	<b>158,401</b>
<b>Liabilities</b>						
Customer deposits	(377,214)	(386,194)	(5,832)	(34,155)	(159,566)	(186,641)
Long-term subordinated debt	(6,000)	(9,243)	-	-	(720)	(8,523)
<b>Total</b>	<b>(383,214)</b>	<b>(395,437)</b>	<b>(5,832)</b>	<b>(34,155)</b>	<b>(160,286)</b>	<b>(195,164)</b>

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## FINANCIAL ASSETS AND LIABILITIES

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

### At 30 April 2019

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

### At 30 April 2018

	Fair value through profit and loss £000	Held-to-maturity £000	Loans and receivables £000	Available-for-sale £000	Liabilities at amortised cost £000	Total carrying amount £000	Fair value £000
<b>Assets</b>							
Cash and balances at central banks	-	-	-	-	-	-	-
Loans and advances to banks	-	-	65,172	-	-	65,172	65,172
Loans and advances to customers	-	-	9,145	-	-	9,145	9,145
Available for sale debt securities	-	-	317,479	-	-	317,479	317,479
	-	-	-	9,994	-	9,994	9,994
	-	-	<b>391,796</b>	<b>9,994</b>	<b>-</b>	<b>401,790</b>	<b>401,790</b>
<b>Liabilities</b>							
Customer deposits	-	-	-	-	377,214	377,214	377,214
Long-term subordinated debt	-	-	-	-	6,000	6,000	6,000
	-	-	-	-	<b>383,214</b>	<b>383,214</b>	<b>383,214</b>

The Bank has no assets pledged as collateral or encumbered (2018: nil)

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## 5.1.4 MARKET RISK

Market risk is the risk that changes in market prices will affect the Bank's income or the value of its holdings of financial instruments. 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, certain characteristics embedded within these products and basis risk. 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 Chief Financial Officer 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, matching assets and liabilities and during 2019 the use of derivative financial instruments such as interest rate swaps. Market risk exposure is overseen by the Asset and Liability Committee (ALCO) and ultimately the Board via the Committee hierarchy set out above.

### (a) Interest rate risk

Interest rate risk is the potential adverse impact on the Bank's future cash flows from changes in interest rates and arises from the differing interest rate risk characteristics of the Bank's assets and liabilities. In particular, fixed rate products expose the Bank to the risk that a change in interest rates could cause either a reduction in interest income or an increase in interest expense relative to variable rate interest flows.

The Bank manages and controls interest rate risk through match funding and its hedging strategy.

The Bank operates within a series of Board approved limits which mitigate the impact of a change in interest rates on both net interest income and the present value of the balance sheet. The limits reflect the maximum acceptable impact of a 200 basis point parallel shock to interest rates on the present value of the Bank's assets and liabilities and net interest income throughout the reporting period. Within these calculations, assumptions on loan prepayments and non-maturing deposits are based on historical prepayment profiles. These assumptions are reviewed at least annually. In these calculations interest yields are floored at zero and as a result the shock from a fall in rates is limited given current low interest rates. If this constraint was removed the impact of the falling rate shock would be similar but opposite to that of the rising rate shock. Interest rate exposure is managed by ALCO on a monthly basis.

### (b) Interest rate sensitivity gap

The Bank considers a parallel 200 basis points movement to be appropriate for scenario testing given the current economic outlook and industry expectations. The change in equity as a result would be as follows –

£000

NPV Sensitivity + 200 bps (3,256)

NPV Sensitivity – 200 bps 3,609

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

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At 30 April 2019

	1 to 3 months £000	3 to 12 months £000	1 to 5 years £000	More than 5 years £000	Non-interest bearing £000	Total £000
<b>Assets</b>						
Cash and balances at central Banks	124,998	-	-	-	-	124,998
Loans and advances to Banks	-	-	-	-	7,452	7,452
Available for sale debt securities	9,989	-	-	-	-	9,989
Loans and advances to customers	128,993	170,965	285,362	-	4,568	589,888
Other Assets	-	-	-	-	6,146	6,146
<b>Total Assets</b>	<b>263,980</b>	<b>170,965</b>	<b>285,362</b>	<b>-</b>	<b>18,166</b>	<b>738,473</b>
<b>Liabilities</b>						
Customer deposits	90,052	255,881	309,527	-	4,248	659,709
Long-term subordinated debt	-	-	-	6,000	-	6,000
Other liabilities	-	-	-	-	1,197	1,197
Equity	-	-	-	-	71,567	71,567
<b>Total Liabilities</b>	<b>90,052</b>	<b>255,881</b>	<b>309,527</b>	<b>6,000</b>	<b>77,012</b>	<b>738,473</b>
Interest rate sensitivity gap	173,928	(84,916)	(24,165)	(6,000)	(58,846)	
<b>Cumulative gap</b>	<b>173,928</b>	<b>89,011</b>	<b>64,846</b>	<b>58,846</b>	<b>-</b>	

At 30 April 2018

<b>Assets</b>						
Cash and balances at central banks	-	-	-	-	9,145	9,145
Loans and advances to Banks	65,172	-	-	-	-	65,172
Available for sale debt securities	9,994	-	-	-	-	9,994
Loans and advances to customers	101,523	108,064	89,424	-	18,468	317,479
Other Assets	-	-	-	-	7,671	7,671
<b>Total Assets</b>	<b>176,689</b>	<b>108,064</b>	<b>89,424</b>	<b>-</b>	<b>35,284</b>	<b>409,461</b>
<b>Liabilities</b>						
Customer deposits	39,477	157,858	179,879	-	-	377,214
Long-term subordinated debt	-	-	-	6,000	-	6,000
Other liabilities	-	-	-	-	1,895	1,895
Equity	-	-	-	-	24,352	24,352
<b>Total Liabilities</b>	<b>39,477</b>	<b>157,858</b>	<b>179,879</b>	<b>6,000</b>	<b>26,247</b>	<b>409,461</b>
Interest rate sensitivity gap	137,212	(49,794)	(90,455)	(6,000)	9,037	
<b>Cumulative gap</b>	<b>137,212</b>	<b>87,418</b>	<b>(3,037)</b>	<b>(9,037)</b>	<b>-</b>	

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## 5.1.5 CAPITAL MANAGEMENT

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

	£000
<b>Common Equity Tier 1 Capital</b>	
Share Capital	79,311
Share Premium	7,861
Retained Earnings	(18,876)
Other reserves	1
Intangible Assets	(4,814)
<b>Common Equity Tier 1 Capital</b>	<b>63,483</b>
<b>Tier 2 Capital</b>	
Subordinated Debt	6,000
Collective Provisions	247
<b>Total Tier 2 Capital</b>	<b>6,247</b>
<b>Total Regulatory Capital</b>	<b>69,730</b>

The Bank has managed its capital against its forward-looking plans in line with the capital risk appetite which is reviewed regularly, this was particularly the case in advance of the Varde investment.

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 Chief Financial Officer and Treasurer and overseen by the risk function, Asset and Liability Committee (ALCO), Risk, Audit and Compliance Committee (RACC) and ultimately the Board.

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

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

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

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

We monitor current and forecast levels of capital against the capital risk appetite approved by the Board and report the capital position to ALCO, RACC and the Board on a regular basis. The capital forecast forms integral component of the annual budgeting process and is updated in line with changes to our business plan. The capital forecast incorporates the impact of known forthcoming regulatory changes to ensure we are well positioned to meet when implemented.

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## 5.2 RELATED PARTY TRANSACTIONS

Related parties of the Bank include Masthaven Investment Limited, Mariette Holdings Limited (and all entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held by Varde Partners Inc. Varde Partners Inc is the ultimate controlling party of Mariette Holdings Limited), Key Management Personnel, close family members of Key Management Personnel and entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by Key Management Personnel or their close family members. Key Management Personnel are defined as the Directors, Chief Financial Officer and Chief Risk Officer. The aggregate remuneration for Key Management Personnel is £1,283k (2018: £1,085k).

The compensation of the directors is provided in note 3.7. Elena Lieskovska received no compensation from the Bank for her services.

Three directors held deposits with the Bank as at 30 April 2019 amounting to £72k (2018: £148k – held by four directors).

During the year, the Bank's shareholders exchanged their shares in Masthaven Bank Limited for shares in Masthaven Investment Limited. Masthaven Investment Limited is the parent company of Masthaven Bank Limited through the acquisition of 39,759,939 Ordinary shares of £1 each. During the year, Mariette Holdings Limited became a shareholder of Masthaven Bank Limited.

## 5.3 CONTINGENT LIABILITIES AND COMMITMENTS

### Contingent liabilities

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

### Credit commitments

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

	2019	2018
	£000	£000
Conditional commitments to lend	15,716	11,894

## 5.4 ULTIMATE CONTROLLING PARTY

The Company regards Masthaven Investment Limited, a company registered in England and Wales, as the ultimate parent company. Andrew Bloom, the Bank's Chief Executive Officer, has a beneficial interest in 59.67% of the issued share capital of Masthaven Investment Limited and is regarded by the Directors as the controlling entity.

## 5.5 SUBSEQUENT EVENTS

On 1st May 2019 the Bank entered into an agreement to lease the third floor of 90 Long Acre, London, on a 5-year lease (up to 1st May 2024) with a rolling mutual break option after 31 December 2020. The initial rent is £0.5m per annum.