Pillar 3 Disclosures

As at : 30 September 2022

1. Contents

2. Introduction

2.1 Overview

This document provides the Pillar 3 disclosures of Masthaven Bank Limited (referred to in this document as 'the Bank' or 'Masthaven') as at 30 September 2022. The Bank is authorised by the Prudential Regulation Authority ('PRA') and regulated by the PRA and the Financial Conduct Authority ('FCA').

The purpose of this document is:

- To provide information on the capital and risk profile of Masthaven; and
- To meet the regulatory disclosure requirements under the Capital Requirements Regulation (EU) No 575/2013 (''CRR''), Part 8 – Disclosure by institutions and the rules of the PRA set out in the Public Disclosure section of the PRA Rulebook and as the PRA has otherwise directed.

Pillar 3 reporting aims to promote market discipline through regulatory disclosure requirements as set out in the CRR. These requirements enable market participants to access key information relating to a bank's regulatory capital and risk exposures in order to increase transparency and confidence about a bank's exposure to risk and the overall adequacy of its regulatory capital.

The disclosures have been prepared in accordance with the Disclosure Part of the PRA Rulebook which includes revised disclosure requirements applicable from 1 January 2022 following the UK implementation of the remaining provisions of Capital Requirements Regulation II.

The disclosures in this report should be read in conjunction with the Annual Report and Accounts ('the Annual Report and Accounts'), approved by the Board on 20 December 2022.

2.2 Background

The Basel III framework, which was implemented in Europe through the Capital Requirements Regulation and Capital Requirements Directive IV ('CRD IV package'), came into effect on 1 January 2014. The CRD IV package defines the level of capital that banks must hold, having regard to the risk profile of each bank. CRD IV also made changes on corporate governance, including remuneration, and introduced standardised regulatory reporting within the EU. The UK has 'onshored' this EU legislative package since its departure from the EU.

The Basel framework consists of three 'pillars':

- **Pillar 1:** defines the minimum capital requirements that banks are required to hold for credit, market and operational risks.

- **Pillar 2:** this builds on Pillar 1 and requires each bank to perform an 'Internal Capital Adequacy Assessment Process' ('ICAAP') to assess its own risk profile and determine the level of additional capital required over and above Pillar 1 requirements, having regard to those risks. The amount of any additional capital requirement is also assessed by the PRA during its Supervisory Review and Evaluation Process ('SREP') and is used to determine the overall capital resources required by the Bank.

- **Pillar 3:** aims to improve market discipline by requiring banks to publish information on their principal risks, capital structure and risk management.

2.3 Capital Requirements

The following table provides a summary of the capital requirements applicable to the Bank, and brief details of the calculation method applied for each element of the requirements. Further details of each element can be found later in this document as indicated below. The data contained within the Bank's Pillar 3 disclosures is calculated in accordance with CRD IV regulatory capital requirements.

<table>
<tr><th>Requirement</th><th>Calculation Method</th><th>Description</th><th>Requirement</th><th>Further information</th></tr>
<tr><td colspan="5">Pillar 1</td></tr>
<tr><td>Credit Risk</td><td rowspan="2">Standardised Approach</td><td rowspan="2">The Bank applies the standardised method (in accordance with Part three, title II, chapter 2 of the CRR) to the entire loan book and other assets. The standardised approach applies a standardised set of risk weightings to the credit risk exposures. The Bank does not engage in any trading operations so carries no Pillar 1 risk weightings in relation to market risk.</td><td rowspan="3">Pillar 1 requirements (as per Article 92 of the CRR);
- 4.5% of Risk Weighted Assets ('RWAs') met by CET1 capital
- 6% of RWAs met by Tier 1 capital
- 8% of RWAs met by Total Capital</td><td>Section 5</td></tr>
<tr><td>Market Risk</td><td>Section 7</td></tr>
<tr><td>Operational Risk</td><td>Basic Indicator Approach</td><td>The Bank applies the Basic Indicator Approach for operational risk capital requirements in accordance with CRR Article 315.</td><td>Section 6</td></tr>
<tr><td colspan="5">Firm-specific Pillar 2</td></tr>
<tr><td>Pillar 2a (encompassing credit risk, operational risk, interest rate risk in the banking book, and any other risks not captured by Pillar 1)</td><td>Calculated by the PRA based on the ICAAP submission</td><td>A portion is applied as a percentage of Risk Weighted Assets P2A requirements can be a % of risk-weighted assets, a fixed amount, or a combination.</td><td>Set by the PRA and individual components are not disclosed.</td><td>n/a</td></tr>
<tr><td>PRA buffer</td><td>Calculated by the PRA based on the ICAAP submission</td><td>Based on PRA buffer assessment and PRA buffer requirements.</td><td>Set by the PRA and not disclosed.</td><td>n/a</td></tr>
<tr><td colspan="5">Non-firm specific buffers</td></tr>
<tr><td>Capital Conservation buffer (CCB)</td><td>Expressed as a % of RWAs</td><td rowspan="2">The capital conservation buffer is part of the CRD IV combined buffer. It is held in combination with the counter-cyclical buffer and the PRA buffer to ensure the Bank can withstand an adverse market stress. The PRA buffer, the CCB and the CCyB are all to be met by CET1 capital.</td><td>2.5%</td><td>n/a</td></tr>
<tr><td>Counter Cyclical buffer (CCyB)</td><td>Expressed as a % of RWAs</td><td>Set by the Financial Policy Committee ("FPC"). This fell to 0% on 11 March 2020 and remained at 0% throughout the period to 30 September 2022.</td><td>n/a</td></tr>
</table>

2.4 Basis of disclosure

The purpose of these disclosures is to provide information on the management of risks faced by the Bank and the basis of calculating capital requirements under the onshored CRD IV package.

The Bank's Pillar 3 disclosures are approved by the Board. The disclosures have not been, and are not required to be, subject to independent external audit and do not constitute any part of the Bank's financial statements.

The disclosures are published on the Bank's website. The Bank's policy is to publish the Pillar 3 disclosures on a periodic basis in line with the financial statements.

2.5 Business overview

The Bank's primary activity is the provision of credit on a secured basis in niche markets within the United Kingdom. The Bank's activities for the period to 30 September 2022 included 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'.

On 1 February 2022, the Bank announced the intention to withdraw from the UK Banking Market. At that point all lending products were withdrawn but the Bank continued to honour mortgage offers made before the announcement date. Deposit products were largely withdrawn at the same time, with the minor exception of an immaterial volume of short-term deposits. During the period the Bank sold its long term-loan book. The Bank's loan book has fallen significantly to £47.2m as at 30 September 2022.

The Bank is now focused on: a controlled, solvent withdrawal from the UK Banking Market; treating customers fairly; doing its best to ensure positive customer outcomes; and ensuring that the Bank repays depositors in full no later than their maturity date. A number of workstreams have been mobilised to ensure the Bank's plans are achieved and regular contact is maintained with its regulators to ensure the Bank's plans are well constructed and understood, to support an orderly withdrawal and the repayment of all depositors.

This document outlines the capital required under Pillar 1 and, in accordance with Pillar 2, details specific risks which the Bank faces and how these risks are managed.

The monitoring and control of risk are a fundamental part of the management process. All senior management are involved in the development of risk management policies and in monitoring their application.

The Board considered that, as at 30 September 2022, it had in place an appropriate control environment to manage the risk profile and strategy of the Bank.

2.6 Key Metrics

The table below provides a summary of the main prudential regulatory ratios and measures.

		30 September 2022 £'000	30 April 2021** £'000
	Available own funds (amounts)		
1	Common Equity Tier 1 (CET1) capital	56,438	65,820
2	Tier 1 capital	56,438	65,820
3	Total capital	63,122	72,609
	Risk-weighted exposure amounts		
4	Total risk-weighted exposure amount	75,886	338,688
	Capital ratios (as a percentage of risk-weighted exposure amount)		
5	Common Equity Tier 1 ratio (%)	74.4%	19.4%
6	Tier 1 ratio (%)	74.4%	19.4%
7	Total capital ratio (%)*	83.2%	21.4%
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)		
UK 7a	Additional CET1 SREP requirements (%)	2.0%	2.0%
UK 7b	Additional AT1 SREP requirements (%)	0.7%	0.7%
UK 7c	Additional T2 SREP requirements (%)	0.9%	0.9%
UK 7d	Total SREP own funds requirements (%)	11.6%	11.6%
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)		
8	Capital conservation buffer (%)	2.5%	2.5%
11	Combined buffer requirement (%)	2.5%	2.5%
UK 11a	Overall capital requirements (%)	14.1%	14.1%
12	CET1 available after meeting the total SREP own funds requirements (%)	51.9%	9.0%
	Leverage ratio		
13	Total exposure measure excluding claims on central banks	61,371	N/A
14	Leverage ratio excluding claims on central banks (%)	92.0%	N/A
	Liquidity Coverage Ratio		
15	Total high-quality liquid assets (HQLA) (Weighted value)	555,696	112,894
UK 16a	Cash outflows - Total weighted value	44,244	15,942
UK 16b	Cash inflows - Total weighted value	16,300	37,027
16	Total net cash outflows (adjusted value)	27,944	21,085
17	Liquidity coverage ratio (%)	1989%	533%
	Net Stable Funding Ratio		
18	Total available stable funding	557,390	N/A
19	Total required stable funding	39,232	N/A
20	NSFR ratio (%)	1,421%	N/A

**Total Capital Ratio has been updated to include immaterial year-end audit adjustments following the conclusion of the audit of the September 2022 financial statements (83.1% reported previously).*

***For the year ended 30 April 2021 the deduction of intangible assets has been calculated in accordance with article 36(1)(b) of the CRR, the treatment of which was updated during the 2021 financial year to reduce the deduction of intangible assets where they are assessed as recoverable. The annual report and accounts reported a deduction of £4.359m on the basis that the Bank makes a full deduction when managing capital (following notification from the PRA that this amendment would be reversed). As a result, total CET1 and total regulatory capital were presented as lower by £2.535m in the annual report and accounts.*

2.7 Regulatory Developments

Basel 3.1

In July 2020, the Basel Committee on Banking Supervision ('Basel') completed the reforms to Basel III ('Basel 3.1') when it published the final revisions to the credit valuation adjustment ('CVA') framework. The UK will use a two-stage approach to implement these changes. The amendments to the UK's Capital Requirements Regulation ('UK CRR II') represented the first set of changes to implement Basel 3.1. These include the changes to the market risk RWA rules under the standardised approach for measuring counterparty risk, the amendments to the large exposures rules, the new leverage ratio rules and the implementation of the net stable funding ratio. Except for the changes to the market risk framework, the UK CRR II was implemented on 1 January 2022. The remaining elements of Basel 3.1 will be implemented as a second tranche of changes. This includes the changes to the RWA rules on credit risk, operational risk and CVA and the implementation of the output floor. In November 2022 the PRA issued a consultation paper CP16/22, open to feedback until 31 March 2023, with an estimated proposed implementation date of 1 January 2025.

IFRS 9

The Bank applies FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ('FRS102'). On initial application of FRS 102 the Bank elected to apply IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU) ('IAS 39') as its accounting policy for financial instruments.

FRS 102 is reviewed by the Financial Reporting Council ('FRC') every three years. The first triennial review of FRS 102 was concluded with the publication of the final amendments in December 2017 and a revised edition of FRS 102 in March 2018. The FRC retained IAS 39 as an accounting policy choice in the amendments and hence the Bank has not been required to adopt IFRS 9 Financial Instruments.

3. Risk Management

3.1 Overview

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

The material change in the Bank's business strategy drives ongoing change to the focus and scale of activities as the wind down programme proceeds. Whilst this does not influence the overall risk management objective, the manner of delivery requires flexibility in order to ensure that risk management activity remains effective and proportionate at all times.

3.2 Risk Framework

The Bank continues to operate an embedded Board-approved Enterprise Risk Management Framework predicated upon the "three lines of defence" model. The Enterprise Risk Management Framework embodies the Bank's approach to integrated end-to-end management of the risk universe and includes risk appetite, policy, standards and requirements for the management of all significant risks across the Bank.

3.3 Risk Appetite

Board Risk Appetite Statements establish a framework for business decisions and enable the Bank to identify and define the types and levels of risks it is willing to accept in both qualitative and quantitative terms in pursuit of its strategic goals. Risk appetite was refined at the beginning of 2022 to ensure alignment with the change in business strategy. The governance underpinning this revision was consistent with prior years, with discussion and agreement on the strategic risk objectives, supported by risk appetite pillars and limits around Financial Soundness, Operational Resilience and Regulatory confidence.

The Bank's Risk Appetite is subject to ongoing and formal annual review and interim refresh as the wind-down plan progresses. The risk appetite measures form part of the reporting to the Board Risk and Conduct Committee ("BRCC"), the Board Audit Committee ("BAC") and the Executive Committee ("ExCo")

3.4 Risk Governance

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

Responsibility for ensuring and overseeing that the Bank has implemented the Risk Framework is delegated to the Chief Risk Officer ('CRO') through the Chief Executive Officer ('CEO'). This includes Strategy, Conduct and Compliance, Credit and Concentration, Prudential, Liquidity and Funding, Market, and Operational risks. The CRO retained an independent reporting line to the Chair of the BRCC.

During the course of the year the functions of the two principal sub-committees of ExCo, the Assets and Liabilities Committee ("ALCo") and the Executive Risk Committee ("ERC") were, with BRCC consent, re-absorbed into ExCo. This was both to accommodate the changing risk profile of the Bank as its activities are rationalised and to ensure management awareness and control are maximised as human resources are scaled back.

Ownership and responsibility for the day-to-day management of risk rests with all employees within the Bank and in particular the First Line of Defence (the business). Collective oversight of these areas is provided through the Bank's ExCo which in turn is supported by underlying committees that provide First and Second line management level review, challenge and validation.

3.5 Three Lines of Defence

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

First Line of Defence – Risk Control

The first line of defence is responsible for undertaking the day-to-day business of the Bank. Operational controls are designed into systems and processes to ensure that 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 CRO. It provides oversight of the management of risk and the effective operation of the internal control framework.

Third Line of Defence – Internal Audit

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

3.6 Corporate Governance Structure

Full details of the Bank's corporate governance structure, including details of the names of the Directors and the number of times they attended Board and Committee meetings during the year can be found in the Annual

Report and Accounts. Additional disclosures required under CRD IV in relation to governance arrangements are presented in this section.

The number of external directorships held by the Executive and Non-Executive Directors who served on the Board in addition to their roles within the Bank as at 30 September 2022 were as follows:

Name	Role	Number
Ashley Machin	Non-Executive Chairman	0
Simon Furnell	Executive Director	0
Andrew Bloom	Non-Executive Director	9
Michael Baker	Non-Executive Director	8
Margaret Mills	Non-Executive Director	1
Krzysztof Drozd	Non-Executive Director	3
David Hopton	Non-Executive Director	1
Malcolm McCaig	Non-Executive Director	4
Simon Glass	Non-Executive Director	4

In line with SYSC 4.3A.7, the above numbers only consider commercial directorships, and do not include charities and trusts. Multiple directorships held within the same group are considered to count as a single directorship.

3.7 Risk Identification

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

(i) Strategic Risk

Strategic Risk is 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.

The Board is actively engaged in reviewing and approving the Winddown Plan, the Internal Capital Adequacy Assessment Process ("ICAAP"), the Individual Liquidity Adequacy Assessment ("ILAAP") and the regular review of risk appetite measures across the Bank.

The Bank monitors the business and financial performance against the Strategic Plan and risk appetite monthly, through both the Executive Committee and Board Committees. In particular, focus continues on managing the rising interest rate environment and the repercussions of the COVID-19 pandemic.

(ii) Credit and Concentration Risk

Credit risk is the risk that a customer or counterparty is unable to honour its obligations as they fall due, resulting in an actual or potential loss for the Bank. Concentration risk is the risk of an unexpected increase in credit related losses as a result of a lack of diversification of a credit portfolio. These are split between Retail and Treasury categories.

The loan book credit risk appetites are set based on expected levels of loss, credit risk concentration, portfolio composition and performance characteristics. The Bank has set an overall credit risk appetite for lending activities, supported by specific business line level appetites. Expected credit losses are factored into the budgeting and forecasting process and reflect the expected view of lending performance taking into account recent performance data and the prevailing economic environment. In light of the sale of the long-term lending portfolio in April 2022 and the run-off of the short-term lending portfolio, the significant reduction in lending assets means there are lower levels of credit and concentration risk.

Credit risk is overseen by ExCo and ultimately the Board. To assist ExCo in this activity, the Credit Risk Department, reporting to the CRO, monitors exposure to credit risk and provides management information to ExCo and the Board Risk & Conduct Committee on a regular basis.

Section 5 of this report provides a more detailed assessment of credit risk management.

(iii) Operational Risk

The risk of incurring losses, or other significant impact, resulting from inadequate or failed internal processes, people or systems or from external events and fraud. These risks rise to the fore as the Bank winds down, with greater propensity for control failure as staffing resources thin, either by plan or, more materially, should people choose to pursue their careers elsewhere.

The Bank maintains a Risk and Control Self-Assessment ("RCSA") process to ensure controls remain appropriate and robust to prevent, detect and mitigate operational risk. The outcome of the RCSA, as well as material incidents, are reported to senior committees including the Board Committees.

The Bank conducts regular critical process reviews to ensure that suitable resources are available and that contingency plans remain current at all times.

The Bank has focused on actions arising from its people engagement surveys and regularly reviews succession and talent management plans.

A series of tools designed to identify and prevent network/system intrusions are deployed across the Bank. The effectiveness of the controls is overseen by the Change Committee, with specialist IT security staff employed by the Bank.

The Bank undertakes periodic scenario analysis to allow the Bank to assess risks and then develop and deploy controls that mitigate those risks outside its risk appetite.

The Board and relevant committees receive regular reports on the full range of operational risks and incidents that have occurred in the business and any resulting losses.

Section 6 of this report provides a more detailed assessment of operational risk.

(iv) Market Risk

Market Risk is the risk of changes in the value of positions held, on and off-balance sheet, caused by adverse movements in market prices, interest rates, market volatility, foreign exchange rates and credit spreads.

Masthaven does not have a trading book and has no foreign currency exposure. The Board prohibits management from operating a trading book or to take propriety market positions.

The Chief Financial Officer ("CFO") and Treasurer are responsible for managing current and emerging market risk on a day-to-day basis in accordance with the Bank's risk appetite. The Bank's primary objective is to manage risk to earnings and value over the strategic planning horizon by managing its risk exposures within prudent limits and matching assets and liabilities. Market risk exposures are overseen by ExCo and ultimately the Board.

The Bank operates within a series of Board-approved limits which mitigate the impact of changes in interest rates on both net interest income and the present value of the balance sheet.

Section 7 of this report provides a more detailed assessment of market risk.

(v) Liquidity and Funding Risk

This is the risk that Masthaven is unable to maintain its liquidity levels at a sufficient level to meet its Business Plan and regulatory requirements or is unable to make available sufficient resources to meet its current and future financial obligations as they fall due.

Masthaven maintains a simple funding strategy, where the principal source of funding is in the deposits offered to retail and SME customers. Masthaven also holds a sufficient portfolio of cash and high-quality liquid assets ('HQLA') to absorb liquidity shocks.

The Bank's liquidity management strategy is documented through the ILAAP, supported by the Treasury Policy and the Liquidity Contingency Policy.

The Board has responsibility for setting and approving liquidity risk appetite and monitoring limits to ensure an appropriate liquid asset buffer is maintained under normal and stressed conditions. Daily monitoring is undertaken in the Treasury team to ensure the Bank remains within the approved limits.

Section 8 of this report provides a more detailed assessment of Liquidity Risk.

(vi) Prudential (Capital) Risk

Prudential (Capital) Risk is the risk that the Bank is unable to maintain regulatory capital adequacy and absorb losses in normal and stress conditions. As for liquidity, the Bank also regularly carries out stress testing to ensure it has sufficient capital resources in a range of severe but plausible scenarios.

There is a comprehensive capital management plan in place, driven through the ICAAP, which ensures appropriate capital ratios are maintained. Masthaven's capital requirements and resources are at the centre of decision-making in its business planning.

Section 3 of this report provides a more detailed assessment of Prudential Risk.

(vii) Conduct/Regulatory Risk

The risk that the Bank acts in a manner which through act or omission delivers an unfair outcome for our customers, distorts the markets in which it operates or inhibits effective competition, through the execution of our business strategy or the practices we undertake.

The Bank is committed to avoiding adverse conduct outcomes for customers and seeks to embed a culture of care towards its customers and their interests. The Bank's culture emphasises the customer and, through the risk management frameworks implemented, ensures that its activities fully consider customer needs and risks of harm, allowing action to be taken should it be required. This is supported by both quantitative and qualitative measures that are reported to the Board, ExCo and the BRCC to ensure the Bank is operating within its risk appetite. Other management committees such as Customer and Product, Executive Change and Credit have served during the period to manage the risk of customer harm in any proposals, activity or products which are developed or amended.

As part of the Second Line Risk function, the Bank develops and delivers oversight and assurance activities to ensure the Bank's controls remain appropriate to manage any conduct, regulatory or financial crime risks faced by the Bank. The outcome of these activities is monitored through both management and Board committees.

(viii) Human Resource Risk

The risk that Masthaven is unable to recruit and retain individuals with the skillsets and outlook required to manage, operate and develop its activities whilst at all times maintaining and respecting the Bank's culture. Exposure to these risks is materially increased due to the decision to wind down the Bank's activities.

The Bank's HR function maintains ongoing oversight of the human resources available to the Bank at all times and adopts a variety of techniques, including the use of incentive payments, to ensure continuity of a suitably skilled and informed workforce. Department heads maintain and regularly update Critical Process Reviews to ensure that appropriate coverage is available at all times. The Critical Process Reviews are used, inter alia, to identify and mitigate against key person risk, single points of failure and the availability of suitable skills. Mitigation may include contingency planning, cross-training and salary/status enhancements. The maintenance of the Bank's culture and ongoing effectiveness of its control environment is monitored through the application of qualitative and quantitative management information, which is overseen both by ExCo and the Board.

Significant Existing and Emerging Risks

Significant risks are those risks that the Bank pays particular attention to and form an integral part of the risk information presented to the Board and its committees to ensure Masthaven manages its risk exposures in line with its risk appetite. The Bank also looks at emerging risks in terms of how they will materialise, and how they could significantly impact the Bank's ability to meet its strategic objectives. Significant and emerging risks are outlined below.

Risk	Description	Mitigation
Cyber Risk 	The financial services industry remains a primary target for cyber criminals. The Bank holds and processes large volumes of customer data and security needs to go beyond systems, software or IT departments and procedures and into protocols for governance, oversight, culture, risk identification, protection, detection, response and recovery.	Masthaven has invested a significant amount of time and effort in ensuring that we understand and mitigate the cyber risk inherent in our business. We continue to invest in our IT infrastructure, resilience and security, as well as focusing on our people and the security of our physical environment to counter the ever-increasing level of threat. The Bank has identification and reporting processes in place to manage data incidents and has invested in further technology solutions in this area. We remain committed to ensuring that the Bank minimises the risk of customer and reputational impacts and that management ensure that adequate Information Security controls are in place that operate effectively and are regularly tested.
Regulatory Activity 	The PRA and FCA have responsibility for ensuring that the Bank's exit from the marketplace is conducted in an orderly and complete manner. Their overarching aim is to promote the safety and soundness of the Bank and ensure that markets are honest, fair and effective so customers get a fair deal. At the same time the Bank is required to abide by all applicable prudential requirements.	Masthaven remains committed to building trust in the banking industry and pro-actively engages with the regulators to drive better standards within the industry. Activities during the period have been focused on ensuring that this commitment prevails during the Bank's wind down. This involves ongoing discussion of each of the principal steps required to achieve this and ensure that Bank's responsibilities to all of its stakeholders and the wider market are met fully.
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 risk where the switch to a low carbon economy may impact on the ability of borrowers to meet their obligations under individual loans.	The Bank continues to develop its mitigation of climate change risk within its overall Enterprise Risk Management Framework to the extent necessary to ensure its smooth exit from the marketplace.
Outsourcing and Third Parties 	The Bank works extensively with a select number of firms and advisers who, inter alia, assist in the ongoing delivery of our IT platform and safe management of the Bank's exit; upon whom we are reliant to meet customer needs. Failure to monitor and control the Bank's third-party relationships could lead to customer information or critical IT services not being adequately protected or available.	Last year the Bank invested time and resources in understanding the scale and robustness of its 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 the high dependency on third parties.
Transformation 	The Bank's decision to cease its activities generates a heightened 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 achieve a successful wind down, it is essential that we execute the associated change well. This means ensuring that the necessary steps are undertaken in an organised and controlled manner, ensuring that the right blend of skills and resources are consistently available to deliver against key milestones and ensuring that organisational change does not impair the effectiveness of its control environment. Management has taken pro-active steps to ensure that its staff remain focused and committed and is utilising the services of professional project managers to oversee and direct the transformation in an effective and complete fashion.

4. Capital Requirements and Resources

4.1 Prudential Risk Management

Prudential risk, as defined by Masthaven, is the risk that the Bank has insufficient capital to cover regulatory requirements and strategic plans.

The Bank aims to maintain a strong capital position in line with the prudential risk appetite established by the Board. The Bank's prudential risk appetite reflects the desire to optimise the capital structure of the Bank and utilise the capital resources efficiently. The prudential risk appetite is set to ensure that the Bank:

- Meets minimum regulatory capital requirements at all times;
- Is able to achieve its strategic objectives;
- Provides assurance of the Bank's resilience to depositors, customers, shareholders and other key stakeholders.

There is a comprehensive capital management plan in place, driven through the ICAAP which ensures that the appropriate capital requirement is identified. The ICAAP process importantly enables Masthaven to ensure that its business strategy is in line with capital requirements. The ICAAP is assessed under the PRA's Supervisory Statement SS31/15, the PRA's Statement of Policy on Pillar 2 capital, the European Banking Authority (EBA) guidelines on the SREP and the CRD IV framework. The ICAAP provides details of the current approaches used to manage capital adequacy risk across the Bank. It assesses capital requirements against the Bank's current position and during severe 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, as well the more recent solvency stress test. 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.

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 stress test are reviewed by the Board.

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

4.2 Capital Resources

As at 30 April 2021 and throughout the period to 30 September 2022, the Bank maintained its capital resources at a level above the minimum capital adequacy requirements and buffers. The Bank's capital resources as at 30 September 2022 are broken down as follows:

Capital Resources £'000	30 September 2022	30 April 2021*
Share Capital	85,214	85,214
Share Premium	7,861	7,861
Other Reserves	0	0
Retained Earnings	(36,637)	(25,431)
Total capital	**56,438**	**67,644**
Regulatory adjustments to CET1 - Intangible Assets	-	(1,824)
Total Common Equity Tier 1 (CET1) capital	**56,438**	**65,820**
Tier 2		
Subordinated Debt	6,327	6,026
Collective Provisions	357	763
Total regulatory capital	**63,122**	**72,609**

**For the year ending 30 April 2021 the deduction of Intangible assets has been calculated in accordance with article 36(1)(b) of the CRR, the treatment of which was updated during the 2021 financial year to reduce the deduction of intangible assets where they are assessed as recoverable. The annual report and accounts reported a deduction of £4.359m on the basis that the Bank makes a full deduction when managing capital (as advised by the PRA). As a result, total CET1 and total regulatory capital were lower by £2.535m in the annual report and accounts.*

Tier 2 capital contains subordinated loan notes. The subordinated loan notes were issued on 17 October 2017. The notes carry interest at 12% per annum and are callable at the Bank's option from 17 October 2022, with a final redemption date of 17 October 2027. The nominal value of the subordinated debt is £6m; the value above this relates to accrued interest as at 30 September 2022. These long-term subordinated loan notes were repaid in full in October 2022.

4.3 Minimum Capital Requirement

Pillar 1 Requirement

For the Pillar 1 assessment, the Bank uses the Standardised Approach for credit risk and the Basic Indicator Approach for Operational risk in determining the level of capital necessary for regulatory purposes. The Bank's Pillar 1 capital resources requirement is calculated by adding the capital resources requirements for credit risk, operational risk and credit valuation risk (in respect of derivative transactions with bank counterparties).

The following table shows the Bank's capital resources requirement and capital resources surplus under Pillar 1 as at 30 September 2022.

Capital resources requirement- Pillar 1 £'000	30 September 2022	30 April 2021
Credit risk minimum Pillar 1 capital requirement	2,649	24,622
Operational risk Pillar 1 capital requirement	3,422	2,448
Credit valuation risk Pillar 1 capital requirement	-	25
Capital resources Pillar 1 requirement	**6,071**	**27,095**
Capital resources (See table in 3.2)	63,122	72,609
Capital resources surplus over Pillar 1 requirement	**57,051**	**45,514**

The Bank has a surplus of capital resources over and above its Pillar 1 Requirement.

Credit Risk

Under the Standardised Approach for credit risk, the level of capital required against a given level of exposure to credit risk is calculated as:

Pillar 1 Credit risk capital requirement = Exposure value x Risk weighting x 8%

The risk weighting applied will vary depending on whether the asset is retail or wholesale. For retail assets, variables such as "loan-to-value" and security will impact the risk weighting. Wholesale assets are dependent on counterparty, duration and credit rating. The table below sets out the Pillar 1 capital requirements as at 30 September 2022 determined in accordance with CRD IV:

£'000	Exposures 2022	RWAs 2022	Pillar 1 Capital 2022
Secured by mortgages on immovable properties*	29,661	10,272	822
Items associated with particularly high risk**	2,308	3,462	277
Retail	-	-	-
Exposures in default	15,640	15,640	1,251
Central governments or central banks	555,696	-	-
Institutions	12,921	2,584	207
Other	1,154	1,154	92
Total	**617,380**	**33,112**	**2,649**

**This includes committed off-balance sheet exposures*

***Relates to items prescribed in article 128 of the CRR and assigned a risk weighting of 150%. For Masthaven this relates namely to development loans where the borrower intends to sell the developed property for profit.*

Reconciliation to total balance sheet assets:

£'000	2022
Total Exposures per Pillar 3 (above)	617,380
Less off-balance sheet items	(390)
Total assets per annual report and accounts	616,990

Operational Risk

Under the Basic Indicator Approach for operational risk, the Bank holds, as a minimum, capital equal to 15% of the audited historical three-year average net operating income (net interest income plus fees and commissions).

As at 30 September 2022, this was £3.42m additional capital in Pillar 1 which equates to an additional RWA of £42.8m.

Credit Valuation Risk (for derivative transactions)

The CRR Article 381 defines the Credit Valuation Adjustment ('CVA') for derivative transactions as 'an adjustment to the mid-market valuation of the portfolio of transactions with a counterparty. That adjustment reflects the current market value of the credit risk of the counterparty to the institution but does not reflect the current market value of the credit risk of the institution to the counterparty'. The Bank determines its own funds requirements for CVA by using the standardised methodology set out in the CRR Article 384. As at the end of September 2022 the Bank's exposure was nil.

Pillar 2A requirement

Under Pillar 1, risks common to all banks (credit, market and operational risks) were assessed using a formulaic calculation methodology given within the CRR. The objectives of the capital requirements under Pillar 2A are to assess whether additional capital should be assigned against the risks covered by Pillar 1, and to assess any capital required to be assigned against risks not covered by Pillar 1. These include credit concentration risk which is determined using the Herfindahl-Hirschman Index.

The Bank's Pillar 2A requirement is calculated by the PRA based on the annual ICAAP submission and this capital requirement is to be maintained at all times as part of its TCR. As at 30 September 2022, the total Pillar 2A requirement was 3.6% of RWA's.

At all times, the Bank's capital position must be aligned with the capital adequacy limits approved by the Board in the risk appetite statement, which is to maintain robust capital and liquidity management under "normal" and "stressed" conditions. Under normal conditions, this means meeting the TCR and buffer requirement set out by the PRA. Under stressed conditions, Masthaven will be able to use its buffers, as they are to be used in stress, but ensuring that the TCR is met at all times.

4.4 Capital Ratios

The Bank's capital ratios are in the table below:

Capital Ratios	30 September 2022	30 April 2021
Common Equity Tier 1 Ratio	74.4%	19.4%
Tier 1 Capital Ratio	74.4%	19.4%
Total Capital ratio	83.2%	21.4%
Leverage Ratio	92.0%	7.7%

The Bank is required, in addition to Pillar 1 and Pillar 2A capital, to hold additional capital to cover regulatory buffers (Pillar 2B). These regulatory buffers comprise a CCB and a CCyB as well as a firm-specific PRA buffer.

Pillar 1 and Pillar 2A must be met by a minimum of 56.25% of CET1 capital, 75% Tier 1 capital and no more than 25% Tier 2 capital. 100% of the Pillar 2B regulatory buffers must be met by CET1 Capital.

As for all banks, the CCB is 2.5% of RWAs. The CCyB is currently set at 0% of RWAs for the Bank's UK exposures as a result of the UK Financial Policy Committee decision in March 2020, due to the global Covid-19 pandemic, to reduce the requirement down to 0% from 1%. It remained at 0% at the reporting date, but has been increased to 1% in December 2022 and is expected to rise to 2% in July 2023.

The Bank's TCR, excluding regulatory buffers is 11.6% of RWAs (Pillar 1 and Pillar 2A). The Bank has a surplus of capital resources over and above its TCR and regulatory buffers.

The leverage ratio, introduced by the CRD IV package as a reporting and disclosure requirement, is a non-risk based measure that is designed to act as a supplement to risk based capital requirements. The ratio measures the relationship between the capital resources of the organisation and its total assets. The purpose of monitoring and managing this metric is to enable regulators to constrain the build-up of excessive leverage.

At the time of this disclosure, Masthaven does not have to meet a leverage ratio requirement, but the Bank's leverage ratio as at 30 September 2022 was 92.0%. The tables in Appendix 2 summarise the leverage ratio disclosures, as required by CRD IV, as at 30 September 2022.

4.5 RWA Overview Table

£'000		Risk weighted exposure amounts (RWAs)		Total own funds requirements
		2022	2021	2022
1	Credit risk (excluding CCR)	33,112	307,772	2,649
2	Of which the standardised approach	33,112	307,772	2,649
3	Of which the foundation IRB (FIRB) approach			
4	Of which slotting approach			
UK 4a	Of which equities under the simple risk weighted approach			
5	Of which the advanced IRB (AIRB) approach			
6	Counterparty credit risk - CCR	-	317	-
7	Of which the standardised approach			
8	Of which internal model method (IMM)			
UK 8a	Of which exposures to a CCP			
UK 8b	Of which credit valuation adjustment - CVA	-	317	-
9	Of which other CCR			
15	Settlement risk			
16	Securitisation exposures in the non-trading book (after the cap)			
17	Of which SEC-IRBA approach			
18	Of which SEC-ERBA (including IAA)			
19	Of which SEC-SA approach			
UK 19a	Of which 1250%/ deduction			
20	Position, foreign exchange and commodities risks (Market risk)			
21	Of which the standardised approach			
22	Of which IMA			
UK 22a	Large exposures			
23	Operational risk	42,774	30,598	3,422
UK 23a	Of which basic indicator approach	42,774	30,598	3,422
UK 23b	Of which standardised approach			
UK 23c	Of which advanced measurement approach			
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)			
29	**Total**	**75,886**	**338,688**	**6,071**

5. Credit Risk

5.1 Credit Risk Overview

Credit risk is the risk of financial loss arising as a result of a borrower or counterparty failing to meet its financial obligations or as a result of the deterioration in the credit quality of the borrower or counterparty. In the event of a default, the Bank generally incurs a loss equal to the amount owed by the debtor, less any recoveries from foreclosure, liquidation of collateral, the restructuring of the debt or other recovery proceeds from the debtor net of costs.

In light of the sale of the long-term lending portfolio and the run-off of the short-term lending portfolio, the significant reduction in lending assets means there are lower aggregate levels of credit risk. The Bank continues to monitor and assess the credit risk in the remaining portfolio, both at the Credit Watchlist Group and the Executive Committee, both of which have 2nd line credit risk representation. The Credit sub-Committee, chaired by the Head of Credit Risk, holistically assesses credit risk, considering the performance of the book and the evolving macro-economic environment.

The Bank managed credit risk at origination through manual underwriting in its lending division covering short-term (bridging and development finance) under the leadership of the Chief Lending Officer.

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

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

The Bank applied detailed policy rules which assessed each application against lending policy criteria. These policy rule assessments ensured consistent decision-making and were supported by detailed manual underwriting of each case.

Prudent loan-to-value limits were applied to all lending and, in addition, for short-term bridging and development loans detailed assessments of current and predicted values of each case were 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.

Stress testing is undertaken on the lending 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 settle their account over a reasonable timeframe.

5.2 Credit Risk Exposures

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 as at 30 September 2022 is shown below.

	Credit Risk Exposures £'000
Secured by mortgages on immovable property*	29,661
Items associated with particularly high risk	2,308
Retail	-
Exposures in default	15,640
Central Government & Central Banks	555,696
Institutions	12,921
Other	1,154
Total	**617,380**

**This includes committed off-balance sheet exposures.*

All exposures are in the UK.

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

Concentration by location (£'000)	Loans and advances to Customers 30 September 2022	Loans and advances to 30 April 2021
East Anglia	4,994	91,250
East Midlands	333	21,357
Greater London and South East	29,157	374,711
North East	-	6,924
North West	2,303	38,658
Scotland	939	29,427
South West	6,253	60,627
Wales	2,240	21,117
West Midlands	1,000	49,425
Yorkshire and Humberside	-	27,950
Total	**47,219**	**721,446**

Taken from the Bank's Annual Report and Accounts for the year ended 30 September 2022.

The Bank regularly monitors the geographical distribution of lending and any potential over-exposures in specific areas.

5.3 Non-Performing Loans and Provisioning

All loans and advances to customers are secured by properties within the United Kingdom. The Bank takes security in the form of legal charges over the property against which funds are advanced and where appropriate guarantees are taken from the principal beneficiaries of the transactions being financed. Each security is valued at inception by a qualified surveyor and subsequently updated by a qualified surveyor where applicable.

Individual impairment is assessed where specific circumstances indicate that a loss is likely to be incurred. All loans without an individual impairment assessment are assessed under a modelled collective impairment approach. The model is a probability of default-based model using the Bank's historical default rates. The model discriminates based on certain risk characteristics of individual mortgages, including: LTV, arrears status, product, maturity and other risk factors such as whether or not the mortgage is in forbearance.

Further disclosures on credit risk quality are provided in Appendix 8.

5.4 Treasury Counterparty Risk

Counterparty credit risk exists where the Bank has invested in eligible securities to be held as part of its liquid asset buffer or placed cash deposits with other financial institutions.

The Bank's approach to managing counterparty credit risk is currently set out in its Liquidity Policy and Treasury Counterparty Risk and Large Exposure Policy which is reviewed on at least an annual basis.

The table below presents an analysis of the counterparty exposure class by rating agency designation as at 30 September 2022, based on Moody's long-term ratings. As at 30 September 2022, no treasury assets were past due or impaired.

Moody's rating (£'000)	Exposure value 30 September 2022	Exposure value 30 April 2021*
AA2	-	-
A1	12,667	9,101
A2	-	1,000
A3	254	254
Total	**12,921**	**10,355**

Taken from the Bank's Annual Report and Accounts for the year ended 30 September 2022.

6. Operational Risk

Operational risk is the risk of incurring losses, or other significant impact, resulting from inadequate or failed internal processes, people or systems or from external events. This includes legal risk and reputational risk.

The Bank acknowledges that in the ordinary course of business it will be subject to operational risk. The Bank has adopted an Operational Risk Management Framework ('ORMF') that consists of systems used to identify, assess, measure, manage, monitor and report operational risk. Through the adoption of an ORMF based on industry best practice, the Bank aims to ensure that the correct level of control is in place to manage its operational risk while pursuing its stated strategic objectives.

The 3 lines of defence model has been adopted by the Bank as part of its sound governance practices and forms a key element in the risk operating model, used to ensure the ORMF is well embedded within the business. The first line of defence, management, is primarily responsible for the management of operational risk in accordance with stated policies, governance, agreed processes and controls. The second line of defence, the independent operational risk function, is responsible for developing and embedding the ORMF and providing independent challenge and oversight of operational risk management activities across the Bank. The third line of defence, via internal audit, is responsible for providing independent assurance to the Board on the quality and effectiveness of the operational risk management procedures and practices.

The Board is ultimately accountable for the overall risk management framework of the Bank and must oversee its effective implementation. This includes approval of the overarching Operational Risk Framework, risk appetite relating to operational risk and management of operational risk in the Bank.

Banking activities (£'000)		Relevant indicator			Own funds requirements	Risk weighted exposure amount
		30 April 2020 £'000	30 April 2021 £'000	30 September 2022 £'000		
1	Banking activities subject to basic indicator approach (BIA)	17,233	22,541	28,664	3,422	42,774

7. Market Risk

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

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

The CFO and Director of Treasury 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. Market risk exposure is overseen by ExCo and ultimately the Board.

The Bank has no exposure to FX risk, with all exposures denominated in Pounds.

7.1 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.

Prior to the sale of the long-term lending loan book the Bank monitored and managed interest rate risk through its hedging strategy as outlined in its Market Risk Policy. Interest rate exposure is overseen by ExCo on a monthly basis and managed by Treasury within approved limits. Derivatives were used to limit the extent to which the Bank was affected by changes in interest rates or other indices which affect fair values or cash flows. Derivatives were therefore used exclusively to hedge risk exposures. The principal derivatives used by the Bank were interest rate swaps, however following the sale of the long-term lending loan book these swaps were closed out. The level of interest rate risk continues to be monitored by the Treasury function in line with the Bank's Market Risk Policy.

For further details on the management of market risk see the Annual Report and Accounts.

7.2 Interest Rate Risk Sensitivity

The Bank considers a 200 basis points parallel shift to be appropriate for its core interest rate scenario testing given the current economic outlook and industry expectations.

The economic value of equity as a result, based on the net present value of cash flows discounted using the Bank of England's (GLC) yield curve would be as follows:

	£'000
NPV Sensitivity + 200 bps	1,166
NPV Sensitivity - 200 bps	(1,242)

Taken from the Bank's Annual Report and Accounts for the year ended 30 September 2022.

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

At 30 September 2022	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Non-interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Assets						
Cash and balances at Central Banks	555,696	-	-	-	-	555,696
Loans and advances to Banks	-	-	-	-	12,921	12,921
Loans and advances to customers	34,102	13,117	-	-	-	47,219
Available for sale debt securities	-	-	-	-	-	-
Other Assets	-	-	-	-	1,154	1,154
Total Assets	**589,798**	**13,117**	**-**	**-**	**14,075**	**616,990**
Liabilities						
Customer deposits	306,373	148,192	91,884	-	3,738	550,187
Long-term subordinated debt	6,327	-	-	-	-	6,327
Other liabilities	-	-	-	-	4,038	4,038
Equity	-	-	-	-	56,438	56,438
Total Liabilities	**312,700**	**148,192**	**91,884**	**-**	**64,214**	**616,990**
Interest rate sensitivity gap	277,098	(135,075)	(91,884)	-	(50,139)	-
Cumulative gap	**277,098**	**142,023**	**50,139**	**50,139**	**-**	**-**

Taken from the Bank's Annual Report and Accounts for the year ended 30 September 2022.

7.3 Interest Rate Risk in the Banking Book

Interest Rate Risk in the Banking Book (IRRBB) is the possibility that changes in interest rates will result in higher financing costs and/or reduced income from the Bank's interest-bearing financial assets and liabilities. The three main components of IRRBB that the Bank is subject to are:

- Re-pricing gap risk;
- Basis risk; and
- Option risk.

The Bank's current risk appetite for IRRBB is expressed as a policy limit for the Economic Value of Equity (EVE) at risk for +/- 200bps (2.0%) parallel shift in interest rates ("PV200"). Interest rate risk in the banking book table is provided below.

		ΔEVE		Tier 1 capital	
		30 September 2022 £'000	30 April 2021 £'000	T	T-1
010	Parallel shock up	1,166	841		
020	Parallel shock down	(1,242)	(835)		
070	**Maximum**	**1,166**	**841**		
080	**Tier 1 capital**			**56,437**	**65,820**

8. Liquidity Risk

8.1 Liquidity Risk Overview

Liquidity risk is the risk that the Bank is unable to meet its current and future financial obligations as they fall due or is only able to do so at excessive cost. In order to mitigate this risk, there is a need to always maintain sufficient liquidity resources to ensure that all liabilities can be met, as they become due.

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

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

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

Determining the appropriate mix and amount of liquidity to hold is a key decision for the Board. The Bank has continued to ensure an appropriate level of liquidity resources consistent with the Bank's Liquidity Risk Appetite throughout the accounting period, and an annual ILAAP is completed to ensure that the Bank holds sufficient liquidity. The 2022 ILAAP has been prepared against the backdrop of the Bank exiting the UK Banking market, which has significantly strengthened the Bank's liquidity position. As such a simplified ILAAP was prepared aimed at focusing on the primary liquidity challenges the Bank faces over the next 12 months and forms an important part of the Bank's overarching governance framework.

The Bank's appetite for liquidity risk is set out in its risk appetite statement within the ILAAP. This was last formally approved by the Board in October 2022 and contains the results of consolidated liquidity stress tests which reflect the reduced level of liquidity risk prevailing in the Balance Sheet as the Bank withdraws from the UK Banking Market. The Bank carries out these tests on a regular basis against the current balance sheet and latest financial projections to ensure that both actual and forecast liquidity remain within appetite.

Liquidity risk is managed by the CFO and Director of Treasury. Day-to-day liquidity management is the responsibility of the Treasury Department and is overseen by the risk function. Liquidity positions are monitored daily by Executive Management, monthly by ExCo and ultimately overseen by the Board.

Liquidity resources comprise assets such as funds in call accounts with systemically important UK banks and a Bank of England Reserve Account.

8.2 Liquidity Risk Drivers

As part of the ILAAP process the Bank assesses it exposure to the PRA's specified risk drivers in SS24/15. However, since the sale of the long-term lending book these risks have reduced significantly. A brief summary of the key exposures is listed below.

The Run-Off of Retail Funding

This includes an assessment of the likely run-off of different components of the retail book, considering common features such as guarantee cover, maturity, interest rate sensitivity, customer type, product type, deposit size, or the channel through which the deposits were affected.

The Bank has a plan to repay all Retail Funding by Q1 2023 and has produced detailed forecasts that show it has a sufficient level of liquidity to be able to do this. The Bank monitors the daily flows from Liquidity and Deposits to ensure the current liquidity position remains very strong and significantly above internal liquidity risk appetite measures.

The Bank has various Early Warning Indicators ("EWI's") and limits in place to ensure that the inherent risks within its Savings Book are aligned to its risk appetite and are consistent with the PRA definition of this risk, outlined above. These cover areas such as concentration exposure, maturity risk and product diversity.

Intraday Liquidity Risk

This is the risk that a firm is unable to meet its daily settlement obligations, for example, as a result of timing mismatches arising from direct and indirect membership of relevant payment or security settlement systems. Firms should ensure that they have sufficient liquidity at all times to maintain normal payment activity if:

- incoming payments are delayed by several hours or until close to the payment cut-off times;
- credit lines are withdrawn and/or require full collateralisation; or
- large individual clients default on their payments.

The Bank has limited exposure to intra-day risk as it is not a participant in the payment system and has limited exposure to transactional accounts. However, it still needs to maintain sufficient liquidity on a daily basis to mainly cover deposit and operational expense outflows. To cover this risk the Bank has agreed to hold a minimum amount of liquidity at its main clearing bank to protect against issues in the payment system. The agreed amount is based on a daily analysis of known forecast cash flows. Significant additional liquidity is available on demand in the Bank's Bank of England reserve account to cover daily outflows if required.

Off Balance Sheet Commitments

Firms should include, where appropriate, an assessment of derivative cash flows caused by maturity, exercise, repricing, margin calls, a change in the value of posted collateral, collateral substitution, sleeper collateral, and volatile market conditions.

Firms should also consider funding commitments (facilities, undrawn loans and mortgages, overdrafts and credit cards), guarantees and trade finance contracts, as well as facilities to support securitisation vehicles, including sponsored and third-party structures.

The Bank needs to maintain liquidity to cover outstanding loan offers, but since the sale of the long-term lending loan book this risk is materially reduced to only cover outstanding undrawn facilities for a few remaining loans.

8.3 Liquidity Coverage Ratio

The Liquidity Coverage Ratio ('LCR') aims to improve the resilience of banks to liquidity risks over a 30-day period. It does this by ensuring that banks have an adequate stock of unencumbered HQLA that can be converted easily and immediately into cash to meet their liquidity needs for a 30-calendar day liquidity stress scenario.

The LCR is calculated by dividing the level of the Bank's liquid assets by the total expected net cash outflows over the next 30 days in a stressed environment.

It is a regulatory requirement for the Bank to maintain LCR at a minimum of 100% ratio. The detailed rules and definitions for the calculation of the LCR are set out in the European Commission Delegated Act of 10th October 2014. The Bank's internal approach to calculating the LCR is also covered in the latest ILAAP.

As at 30 September 2022, the Bank's Liquidity Coverage Ratio was 1,988% compared to 533% in 2021.

8.4 Net Stable Funding Ratio

The NSFR metrics is the basis used for ensuring the Bank has adequate sufficient stable funding to support their business activities. The NSFR metric requires institutions to maintain a minimum amount of stable funding based on assumptions of asset liquidity. From 1 January 2022, the Bank started managing funding risk based on the PRA's NSFR simplified rules. It is a regulatory requirement for the Bank to maintain NSFR at a minimum of 100% ratio. As at 30 September 2022, the Bank's Net Stable Funding Ratio was 1420%.

9. Asset Encumbrance

As at 30 September 2022 the Bank had no encumbered assets.

10. Remuneration

10.1 Approach

This remuneration disclosure is a requirement under Article 450 of the CRR.

As a UK Dual-Regulated firm, Masthaven must comply with all relevant remuneration requirements published by the FCA, the PRA and the European Banking Authority ("EBA"), as applicable to the UK, subject to the application of proportionality. As a result of these requirements, Masthaven must establish, implement and maintain remuneration policies, procedures and practices that are consistent with and promote sound and effective risk management. Policies and procedures must be comprehensive and proportionate to the nature, scale and complexity of the firm's activities.

The PRA Remuneration Code and EBA Regulatory Technical Standards ("RTS") require firms to identify Material Risk Takers ("MRTs"), being those staff, whose activities have a material impact on the firm's risk profile and take reasonable steps to ensure MRTs understand the implications of their status.

Masthaven identified a total of 42 individuals as MRTs during the period ended 30 September 2022 (24 as at the 30 September 2022).

10.2 Decision Making

The Remuneration Committee ('RemCo') is a sub-committee of the Board and is responsible for establishing clear Remuneration Principles and standards of governance. RemCo review levels of remuneration across the firm to ensure that the firm remains competitive in attracting and retaining individuals of a high calibre, whilst also ensuring that the right behaviours are rewarded.

The Committee composition includes a Chairperson, independent Non-Executive Directors (including a Senior Independent Director) and shareholder Non-Executive Directors. The Committee meets formally twice a year, although it can meet more frequently as required. There were 12 meetings during the financial period ended 30 September 2022.

Only members of the Committee have the right to attend and vote. However, during the year the CEO, the Chief People Officer, and the CRO had standing invitations to attend to assist the Committee in its deliberations, although not at discussions relating to their own remuneration. The Company Secretarial department provided secretariat support to the Committee.

The Committee may take external professional advice as appropriate.

During the year the Committee undertook the following activities:

Remuneration

- Reviewed the Bank's remuneration policy and practices in the context of the strategic decision to withdraw from the UK Banking Market.
- Reviewed the Remuneration Policy (the 'Policy'), having taken into account the implications of a changing regulatory landscape and macro-economic and geopolitical outlook for remuneration.

- Oversaw the key aspects of reward for all colleagues, including directors' remuneration, and the Company's gender pay analysis notwithstanding that the Bank is currently outside the reporting requirements.
- Reviewed the principles of the annual reward view, including salaries and variable pay structures.
- Determined that remuneration outcomes for 2021 and 2022 should reflect the Bank's performance in a challenging external environment, while recognising the strategic decision to withdraw from the UK Banking Market.

Policies

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

Other areas for review

- Approved Remuneration Committee report.
- Completed annual review of the Remuneration Committee Terms of Reference.

10.3 Remuneration policy and structure – link between pay and performance

The Remuneration Policy and MRT Framework Policy ensure greater alignment between risk and individual reward, discourage excessive risk taking and short-termism, encourage more effective risk management, and support positive behaviours and a strong and appropriate conduct culture within the Bank.

During the review period, in the first half of 2022, the Bank's remuneration structure was flexibly adapted by the Remuneration Committee in parallel to, and to support, the strategic decision to withdraw from the UK Banking Market. The changes realigned Executive and senior management incentives to delivery of the strategy approved by the Board. These changes also deprioritised elements of the remuneration structure no longer relevant to a phased commercial withdrawal from all banking activities in the UK.

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

Remuneration element	Purpose and operation
Salary	Employees are paid a fixed base salary, which is normally reviewed annually at the end of the performance year (December), with any adjustments taking effect from 1 January. The level of fixed pay reflects the individual's experience, responsibilities and contribution.
Car Allowance	A fixed value car allowance may be offered to field based employee (only).
Pension	The staging date for auto enrolment was 1 October 2017 and new joiners are automatically enrolled into the bank's pension scheme unless they choose to opt out. MRT's may receive a cash allowance in lieu of a pension contribution.
Benefits	In order to provide a competitive and appropriate benefits package, employees also receive benefits including holiday allowance, life insurance and for some employees, private health cover.
Annual Discretionary Bonus	Individual payments are considered on the basis of overall performance of the Bank against a Balanced scorecard of financial and non-financial measures, business unit performance and individual performance against agreed objectives, including alignment with corporate values and behaviours, and the outcome of an independent risk adjustment process.

	RemCo approves individual bonus award amounts for MRT's. Annual bonus payments are subject to Masthaven's malus and clawback provisions
Long term incentive plan (LTIP)	From time to time, staff may be offered options to acquire shares in the Bank through the Masthaven Bank Unapproved Share Option Plan, subject to plan rules. Options shall become exercisable following admission of the Bank's shares on a stock exchange or in the event of a takeover or winding up.

For MRTs whose variable remuneration is more than a third of total remuneration, deferral applies as follows:

- For an MRT who does not perform a PRA-designated / approved SMF role, at least 40% of the variable component will be deferred over a 3 year period, payable in years 1, 2 and 3 on a pro-rata basis (no vesting until one year after the award); and
- For a PRA approved SMF role-holder, at least 40% of variable component will be deferred over a 7 year period, payable from the 4th year onwards on a pro-rata basis (with no vesting until three years after the award). The deferral timescale will apply immediately following any bonus awards made at the end of the performance year.

During the year ended 30 September 2022, no individual surpassed the threshold and hence no remuneration was subject to deferral.

10.4 Remuneration for Material Risk Takers

Aggregate remuneration expenditure in respect of MRTs was £9,713k, of which 79% represented fixed remuneration and 21% represented variable remuneration. The table below shows fixed and variable remuneration awarded to MRTs in respect of the financial period ended September 2022. For the period ending 30 September 2022 Masthaven did not have any special payments or deferred remuneration and there were no individuals being remunerated more than EUR 1m.

MRTs (£'000)	Total
Total fixed remuneration	7,633
Total variable remuneration awarded in cash	2,080
Total remuneration	9,713
Number of MRTs during the period	42

The table below shows the total remuneration awarded to MRTs in 2021/2022 broken down by business area:

£'000	Retail Bank	Central and Control Functions
Total Remuneration	1,245	8,468

Further breakdown provided below.

£'000			MB Supervisory function	MB Management function
1	Fixed remuneration	Number of identified staff	20	20
2		Total fixed remuneration	4,687	2,945
3		Of which: cash-based	4,687	2,945
9	Variable remuneration	Number of identified staff	10	19
10		Total variable remuneration	1,513	568
11		Of which: cash-based	1,513	568
17	**Total remuneration (2 + 10)**		**6,200**	**3,513**

Appendix 1: Own Funds Disclosure Template

		30 September 2022 £'000	Regulation (EU) No 575/2013 Article Reference
	Common Equity Tier 1 capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	93,075	26 (1), 27, 28, 29
	of which: ordinary share capital	93,075	EBA list 26 (3)
	of which: Instrument type 2	-	EBA list 26 (3)
	of which: Instrument type 3	-	EBA list 26 (3)
2	Retained earnings	(36,637)	26 (1) (c)
3	Accumulated other comprehensive income (and any other reserves)	-	26 (1)
3a	Funds for general banking risk	-	26 (1) (f)
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	-	486 (2)
5	Minority interests (amount allowed in consolidated CET1)	-	84
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-	26 (2)
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	56,437	Sum of rows 1 to 5a
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	-	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	-	36 (1) (b), 37
9	Empty set in the EU	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-	36 (1) (c), 38
11	Fair value reserves related to gains or losses on cash flow hedges	-	33 (1)(a)
12	Negative amounts resulting from the calculation of expected loss amounts	-	36 (1) (d), 40, 159
13	Any increase in equity that results from securitised assets (negative amount)	-	32 (1)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	33 (1) (b)
15	Defined-benefit pension fund assets (negative amount)	-	36 (1) (e), 41
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	36 (1) (f), 42
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	36 (1) (g), 44
18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	36 (1) (h), 43, 45, 46, 49 (2) (3), 79
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79
20	Empty set in the EU	-	
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	36 (1) (k)
20b	of which: qualifying holdings outside the financial sector (negative amount)	-	36 (1) (k) (i), 89 to 91
20c	of which: securitisation positions (negative amount)	-	36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258
20d	of which: free deliveries (negative amount)	-	36 (1) (k) (iii), 379 (3)
21	Deferred tax assets arising from temporary difference (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-	36 (1) (c), 38, 48 (1) (a)
22	Amount exceeding the 15% threshold (negative amount)	-	48 (1)
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	36 (1) (i), 48 (1) (b)
24	Empty set in the EU	-	
25	of which: deferred tax assets arising from temporary difference	-	36 (1) (c), 38, 48 (1) (a)

25a	Losses for the current financial year (negative amount)	-	36 (1) (a)
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-	36 (1) (l)
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-	36 (1) (j)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	-	Sum of rows 7 to 20a, 21, 22 and 25a to 27
29	Common Equity Tier 1 (CET1) capital	56,437	Row 6 minus row 28
	Additional Tier 1 (AT1) capital: instruments		
30	Capital instruments and the related share premium accounts	-	51, 52
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	-	486 (3)
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	-	85, 86
35	of which: instruments issued by subsidiaries subject to phase-out	-	486 (3)
36	Additional Tier 1 (AT1) capital before regulatory adjustments	-	Sum of rows 30, 33 and 34
	Additional Tier 1 (AT1) capital: regulatory adjustments		
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-	52 (1) (b), 56 (a), 57
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to artificially inflate the own funds of the institution (negative amount)	-	56 (b), 58
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56 (c), 59, 60, 79
40	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56 (d), 59, 79
41	Empty set in the EU	-	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	56 (e)
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	-	Sum of rows 37 to 42
44	Additional Tier 1 (AT1) capital	-	Row 36 minus row 43
45	Tier 1 capital (T1 = CET1 + AT1)	56,437	Sum of row 29 and row 44
	Tier 2 (T2) capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	6,327	62, 63
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	-	486 (4)
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	87, 88
49	of which: instruments issued by subsidiaries subject to phase-out	-	486 (4)
50	Credit risk adjustments	357	62 (c) & (d)
51	Tier 2 (T2) capital before regulatory adjustment	6,684	
	Tier 2 (T2) capital: regulatory adjustments		
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	63 (b) (i), 66 (a), 67
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to artificially inflate the own funds of the institution (negative amount)	-	66 (b), 68
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	66 (c), 69, 70, 79
55	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)	-	66 (d), 69, 79
56	Empty set in the EU	-	
57	Total regulatory adjustments to Tier 2 (T2) capital	-	Sum of rows 52 to 56

58	Tier 2 (T2) capital	6,684	Row 51 minus row 57
59	Total capital (TC = T1 + T2)	63,122	Sum of row 45 and row 58
60	Total risk-weighted assets	75,886	
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	74.4%	92 (2) (a)
62	Tier 1 (as a percentage of total risk exposure amount)	74.4%	92 (2) (b)
63	Total capital (as a percentage of total risk exposure amount)	83.2%	92 (2) (c)
64	Institution-specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	7%	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	2.5%	
66	of which: countercyclical buffer requirement	0%	
67	of which: systemic risk buffer requirement	-	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	-	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	51.9%	CRD 128
69	[non-relevant in EU regulation]	-	
70	[non-relevant in EU regulation]	-	
71	[non-relevant in EU regulation]	-	
	Amounts below the thresholds for deduction (before risk-weighting)		
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	36 (1) (h), 46, 45 56 (c), 59, 60 66 (c), 69, 70
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	36 (1) (i), 45, 48
74	Empty set in the EU	-	
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold, net of related tax liability where the conditions in Article 38 (3) are met)	-	36 (1) (c), 38, 48
	Applicable caps on the inclusion of provisions in Tier 2	-	
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-	62
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)		
80	- Current cap on CET1 instruments subject to phase-out arrangements	-	484 (3), 486 (2) & (5)
81	- Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	484 (3), 486 (2) & (5)
82	- Current cap on AT1 instruments subject to phase-out arrangements	-	484 (4), 486 (3) & (5)
83	- Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	484 (4), 486 (3) & (5)
84	- Current cap on T2 instruments subject to phase-out arrangements	-	484 (5), 486 (4) & (5)
85	- Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	484 (5), 486 (4) & (5)

Appendix 2: Leverage Ratio Template

Template UK LR1 - LRSum: Summary reconciliation of accounting assets and leverage ratio exposures		30 Sep 2022 £'000
1	Total assets as per published financial statements	616,990
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	-
3	(Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference)	-
4	(Adjustment for exemption of exposures to central banks)	(555,696)
5	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the total exposure measure in accordance with point (i) of Article 429a(1) of the CRR)	-
6	Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	-
7	Adjustment for eligible cash pooling transactions	-
8	Adjustment for derivative financial instruments	-
9	Adjustment for securities financing transactions (SFTs)	-
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	78
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced tier 1 capital (leverage))	-
UK-11a	(Adjustment for exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) of the CRR)	-
UK-11b	(Adjustment for exposures excluded from the total exposure measure in accordance with point (j) of Article 429a(1) of the CRR)	-
12	Other adjustments	-
13	**Total exposure measure**	**61,372**

Template UK LR2 - LRCom: Leverage ratio common disclosure		Leverage ratio exposures	
		30 September 2022 £'000	30 April 2021 £'000
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	616,990	851,694
2	Gross-up for derivatives collateral provided, where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	-	-
5	(General credit risk adjustments to on-balance sheet items)	-	-
6	(Asset amounts deducted in determining tier 1 capital (leverage))	-	-
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	616,990	851,694
Derivative exposures			
8	Replacement cost associated with SA-CCR derivatives transactions (i.e. net of eligible cash variation margin)	-	-
UK-8a	Derogation for derivatives: replacement costs contribution under the simplified standardised approach		-
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	-	375

UK-9a	Derogation for derivatives: potential future exposure contribution under the simplified standardised approach	-	-
UK-9b	Exposure determined under the original exposure method		-
10	(Exempted CCP leg of client-cleared trade exposures) (SA-CCR)	-	-
UK-10a	(Exempted CCP leg of client-cleared trade exposures) (simplified standardised approach)	-	-
UK-10b	(Exempted CCP leg of client-cleared trade exposures) (original exposure method)	-	-
11	Adjusted effective notional amount of written credit derivatives	-	-
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
13	**Total derivatives exposures**	-	375
	Securities financing transaction exposures		
	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	-	-
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
16	Counterparty credit risk exposure for SFT assets	-	-
UK-16a	Derogation for SFTs: counterparty credit risk exposure in accordance with Articles 429e(5) and 222 of the CRR	-	-
17	Agent transaction exposures	-	-
18	**Total securities financing transaction exposures**	-	-
	Other off-balance sheet exposures		
19	Off-balance sheet exposures at gross notional amount	390	16,988
20	(Adjustments for conversion to credit equivalent amounts)	(312)	(13,590)
21	(General provisions deducted in determining tier 1 capital (leverage) and specific provisions associated associated with off-balance sheet exposures)	-	3,398
22	**Off-balance sheet exposures**	78	3,398
	Excluded exposures		
UK-22a	(Exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) of the CRR)		
UK-22b	(Exposures exempted in accordance with point (j) of Article 429a(1) of the CRR (on- and off- balance sheet))		
UK-22g	(Excluded excess collateral deposited at triparty agents)		
UK-22k	**(Total exempted exposures)**		
	Capital and total exposure measure		
23	**Tier 1 capital (leverage)**	56,437	65,820
24	Total exposure measure including claims on central banks	617,068	853,643
UK-24a	(-) Claims on central banks excluded	(555,696)	N/A
UK-24b	**Total exposure measure excluding claims on central banks**	61,372	853,643
	Leverage ratio		
25	Leverage ratio excluding claims on central banks (%)	91.9%	N/A
UK-25a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)		
UK-25b	Leverage ratio excluding central bank reserves as if the temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income had not been applied (%)		
UK-25c	Leverage ratio including claims on central banks (%)	9.15%	7.71%
26	Regulatory minimum leverage ratio requirement (%)	N/A	N/A
	Additional leverage ratio disclosure requirements - leverage ratio buffers		
27	Leverage ratio buffer (%)		
UK-27a	Of which: G-SII or O-SII additional leverage ratio buffer (%)		
UK-27b	Of which: countercyclical leverage ratio buffer (%)		

Additional leverage ratio disclosure requirements - disclosure of mean values			
28	Mean of daily values of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable		
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables		
UK-31	Average total exposure measure including claims on central banks		
UK-32	Average total exposure measure excluding claims on central banks		
UK-33	Average leverage ratio including claims on central banks		
UK-34	Average leverage ratio excluding claims on central banks		

Template UK LR3 - LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)		
		Leverage ratio exposures
		30 September 2022 £'000
UK-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**616,990**
UK-2	Trading book exposures	-
UK-3	Banking book exposures, of which:	-
UK-4	Covered bonds	-
UK-5	Exposures treated as sovereigns	555,696
UK-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	-
UK-7	Institutions	12,921
UK-8	Secured by mortgages of immovable properties	29,271
UK-9	Retail exposures	-
UK-10	Corporates	-
UK-11	Exposures in default	15,640
UK-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	3,462

Appendix 3: Requirement for a countercyclical capital buffer

The countercyclical buffer is an additional requirement introduced by CRD IV, calculated by applying a weighted average of country countercyclical buffer rates (based on the geographical distribution of relevant exposures) to the total RWAs of the Bank. The following tables disclose information relevant for the calculation of the countercyclical buffer as at 30 September 2022 in accordance with Regulation (EU) 2015/1555.

Table 1: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

	General credit exposure		Trading book exposure		Securitisation exposure		Own funds requirements				Own funds requirement weights	Countercyclical capital buffer rate
	Exposure value for SA	Exposure value for IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total		
	010	020	030	040	050	060	070	080	090	100	110	120
010 Breakdown by country:												
UK	48,763	-	-	-	-	-	30,528	-	-	30,528	100%	0%
020 Total	48,763	-	-	-	-	-	30,528	-	-	30,528	**100%**	**0%**

Table 2: Amount of institution-specific countercyclical capital buffer	
010 Total risk exposure amount (£'000)	75,886
020 Institution specific countercyclical buffer rate	0%
030 Institution specific countercyclical buffer requirement	0

Appendix 4: Capital Instruments' Main Features Template[1]

Capital instruments' main features template		Ordinary share capital 2022	Subordinated debt 2022
1	Issuer	Masthaven Bank Ltd	Masthaven Bank Ltd
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier)	N/A	N/A
2a	Public or private placement	Public	Public
3	Governing law(s) of the instrument	English	English
	Regulatory treatment		
4	Transitional CRR rules	CET 1	Tier 2
5	Post-transitional CRR rules	CET 1	Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo & consolidated	Solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	Share capital as published in Regulation (EU) No 575/2013 article 28	Tier 2 as published in Regulation (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	£85.2m	£6.026m
9	Nominal amount of instrument	£85.2m	£6m
9a	Issue price	N/A	£6m
9b	Redemption price	N/A	£6m
10	Accounting classification	Shareholders' equity	Liability - amortised cost
11	Original date of issuance	N/A	17-Oct-2017
12	Perpetual or dated	Perpetual	Dated
13	Original maturity date	No maturity	17-Oct-2027
14	Issuer call subject to prior supervisory approval	No	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	17-Oct-2022 In addition tax/regulatory call 100 per cent of nominal amount
16	Subsequent call dates, if applicable	N/A	N/A
	Coupons / dividends		
17	Fixed or floating dividend / coupon	N/A	Fixed
18	Coupon rate and any related index	N/A	12%
19	Existence of a dividend stopper	N/A	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory
21	Existence of step up or other incentive to redeem	N/A	No
22	Noncumulative or cumulative	N/A	Non-cumulative
23	Convertible or non-convertible	N/A	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	N/A	No
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Tier 2	N/A
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A
(1) 'N/A' inserted if the question is not applicable			

Note: Terms and Conditions of the Bank's capital instruments can be obtained on request.

Appendix 5: LCR Template

UK LIQ1 - Quantitative information of LCR									
Solo Consolidation		**Total unweighted value (average)***				**Total weighted value (average)***			
UK 1a	Quarter ending on	**30 Sep 2022 £'000**	**30 Jun 2022 £'000**	**31 Mar 2022 £'000**	**31 Dec 2021 £'000**	**30 Sep 2022 £'000**	**30 Jun 2022 £'000**	**31 Mar 2022 £'000**	**31 Dec 2021 £'000**
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA)					583,469	450,185	144,234	143,457
	CASH - OUTFLOWS								
2	Retail deposits and deposits from small business customers, of which:	92,385	95,729	127,361	149,900	32,349	24,574	35,249	35,960
3	*Stable deposits*								
4	*Less stable deposits*	75,044	88,944	115,140	142,426	15,009	17,789	23,028	28,485
5	Unsecured wholesale funding								
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*								
7	*Non-operational deposits (all counterparties)*								
8	*Unsecured debt*								
9	*Secured wholesale funding*								
10	Additional requirements								
11	*Outflows related to derivative exposures and other collateral requirements*	-	277	924	859	-	277	924	859
12	*Outflows related to loss of funding on debt products*								
13	*Credit and liquidity facilities*	130	2,822	21,481	31,885	-	1,342	8,917	12,272
14	Other contractual funding obligations	4,920	7,840	6,541	8,875	-	1,035	-	-
15	Other contingent funding obligations								
16	TOTAL CASH OUTFLOWS								
	CASH - INFLOWS								
17	Secured lending (e.g. reverse repos)								
18	Inflows from fully performing exposures	12,276	16,797	14,771	13,689	10,363	14,343	10,472	10,530
19	Other cash inflows	12	171,404	73	74	12	171,404	73	74
UK-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer								

	restrictions or which are denominated in non-convertible currencies)								
UK-19b	(Excess inflows from a related specialised credit institution)								
20	TOTAL CASH INFLOWS								
UK-20a	*Fully exempt inflows*								
UK-20b	*Inflows subject to 90% cap*								
UK-20c	*Inflows subject to 75% cap*	12,289	188,200	14,844	13,763	10,376	185,746	10,545	10,603
				TOTAL ADJUSTED VALUE					
UK-21	LIQUIDITY BUFFER					583,469	450,185	144,234	143,457
22	TOTAL NET CASH OUTFLOWS					21,973	9,334	34,546	38,488
23	LIQUIDITY COVERAGE RATIO					2655%	4823%	418%	373%

**Calculated as a monthly average (total quarterly amount divided by 3 months).*

Appendix 6: NSFR Template

Net Stable Funding Ratio (Simplified) £''000s		Unweighted value by residual maturity (average)			Weighted value (average)
		No maturity	< 1yr	≥ 1yr	
Available stable funding (ASF) Items					
1	Capital items and instruments		**-**	**56,397**	**56,397**
2	*Own funds*		-	56,397	56,397
3	*Other capital instruments*				
4	Retail deposits		**454,566**	**91,884**	**500,993**
5	*Stable deposits*				
6	*Less stable deposits*		454,566	91,884	500,993
7	Wholesale funding:				
8	*Operational deposits*				
9	*Other wholesale funding*				
10	Interdependent liabilities				
11	Other liabilities:				
12	*NSFR derivative liabilities*				
13	*All other liabilities and capital instruments not included in the above categories*		7,817		-
14	**Total available stable funding (ASF)**				**557,390**
Required stable funding (RSF) Items					
15	Total high-quality liquid assets (HQLA)				
UK-15a	Assets encumbered for more than 12m in cover pool				
16	Deposits held at other financial institutions for operational purposes				
17	Performing loans and securities:		**599,904**		**22,104**
18	*Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut*		555,696		-
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*				
20	*Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:*				
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*				
22	*Performing residential mortgages, of which:*		44,208		22,104
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		29,661		14,830
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*				
25	Interdependent assets				
26	Other assets:		**17,498**		**17,128**
27	*Physical traded commodities*				
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*				
29	*NSFR derivative assets*				
30	*NSFR derivative liabilities before deduction of variation margin posted*				
31	*All other assets not included in the above categories*		17,108		17,108
32	Off-balance sheet items		390		20
33	**Total RSF**				**39,232**
34	**Net Stable Funding Ratio (%)**				1421%

Appendix 7: Reconciliation of Regulatory own funds to Audited Balance sheet

Accounting and Regulatory Balance Sheet		As at 30 September 2022 £'000
Assets - *Breakdown by asset class according to the balance sheet in the published financial statements*		
1	Cash and balances at central banks	555,696
2	Loans and advances to banks	12,921
3	Loans and advances to customers	47,219
4	Tangible fixed assets	88
5	Other assets	1,066
	Total assets	**616,990**
Liabilities - *Breakdown by liability class according to the balance sheet in the published financial statements*		
1	Customer deposits	550,187
2	Other liabilities	3,783
3	Provision for liabilities	255
4	Long-term subordinated deb	6,327
	Total liabilities	**560,552**
Shareholders' Equity		
1	Share capital	85,214
2	Share premium	7,861
3	Retained earnings	(36,637)
	Total shareholders' equity	**56,438**

Appendix 8: Credit Risk Quality

UK CR1: Performing and non-performing exposures and related provisions.

	Gross carrying amount/nominal amount		Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Accumulated partial write-off	Collateral and financial guarantees received	
	Performing exposures	Non-performing exposures	Performing exposures – accumulated impairment and provisions	Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		On performing exposures	On non-performing exposures
Cash balances at central banks and other demand deposits	568,617						
Loans and advances	30,350	17,789	(357)	(564)		29,993	17,226
Central banks							
General governments							
Credit institutions							
Other financial corporations							
Non-financial corporations	2,013	-	(15)	-		1,998	-
Of which SMEs	2,013	-	(15)	-		1,998	-
Households	28,337	17,789	(342)	(564)		27,995	17,226
Debt securities							
Central banks							
General governments							
Credit institutions							
Other financial corporations							
Non-financial corporations							
Off-balance-sheet exposures	390						
Central banks							
General governments							
Credit institutions							
Other financial corporations							
Non-financial corporations							
Households	390						
Total	**599,357**	**17,789**	**(357)**	**(564)**		**29,993**	**17,226**

UK CR1-A: Maturity of exposures

		Net exposure value £'000					
		On demand	**<= 1 year**	**> 1 year <= 5 years**	**> 5 years**	**No stated maturity**	**Total**
1	Loans and advances		47,609				

UK CR2: Changes in the stock of non-performing loans and advances

		Gross carrying amount £'000
010	Initial stock of non-performing loans and advances	12,992
020	Inflows to non-performing portfolios	16,370
030	Outflows from non-performing portfolios	(11,573)
060	Final stock of non-performing loans and advances	17,789

UK CQ1: Credit quality of forborne exposures

	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
	Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
			Of which defaulted	Of which impaired				
Loans and advances	2,748	3,080	3,080					
Households	*2,748*	*3,080*	*3,080*					
Total	**2,748**	**3,080**	**3,080**					

UK CQ4: Quality of non-performing exposures by geography

		Gross carrying/nominal amount (£'000)				Accumulated impairment
		Total	Of which non-performing		Of which subject to impairment	
			Total	Of which defaulted		
010	On-balance-sheet exposures	617,912	17,789	17,789	617,912	(921)
020	UK	617,912	17,789	17,789	617,912	(921)
080	**Off-balance-sheet exposures**	390				
090	UK	390				
150	**Total**	618,302	17,789	17,789	617,912	(921)

UK CQ5: Credit quality of loans and advances to non-financial corporations by industry

		Gross carrying amount (£'000)				Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		Total	Of which non-performing		Of which loans and advances subject to impairment		
			Total	Of which defaulted			
120	Real estate activities	2,013			2,013	(15)	
200	Total	2,013			2,013	(15)	

UK CQ3: Credit quality of performing and non-performing exposures by past due days

	Gross carrying amount/nominal amount (£'000)											
	Performing exposures			Non-performing exposures								
	Total	Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days	Total	Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
Cash balances at central banks and other demand deposits	568,617	568,617										
Loans and advances	30,350	28,678	1,672	17,789	-	5,105	3,303	7,246	2,135	-	-	17,789
Non-financial corporations	2,013	2,013	-	-	-	-	-	-	-	-	-	-
Of which SMEs	2,013	2,013	-	-	-	-	-	-	-	-	-	-
Households	28,337	26,665	1,672	17,789	-	5,105	3,303	7,246	2,135	-	-	17,789
Off-balance-sheet exposures	390											
Households	390											
Total	599,357	597,295	1,672	17,789	-	5,105	3,303	7,246	2,135	-	-	17,789

UK CQ6: Collateral valuation - loans and advances

	Loans and advances £'000											
	Total Loans and advances	Performing		Non-performing								
						Past due > 90 days						
		Total	Of which past due > 30 days ≤ 90 days	Total	Unlikely to pay that are not past due or are past due ≤ 90 days	Total	Of which past due > 90 days ≤ 180 days	Of which: past due > 180 days ≤ 1 year	Of which: past due > 1 years ≤ 2 years	Of which: past due > 2 years ≤ 5 years	Of which: past due > 5 years ≤ 7 years	Of which: past due > 7 years
Gross carrying amount	48,139	30,350	1,672	17,789		17,789	5,105	3,303	7,246	2,135		
Of which secured	47,406	30,350	1,672	17, 056		17, 056	5,105	3, 276	7,234	1,440		
Of which secured with immovable property	47,406	30,350	1,672	17,056		17,056	5,105	3,276	7,234	1,440		
Of which instruments with LTV higher than 60% and lower or equal to 80%	19,413	5,416		14,137		14,137						
Accumulated impairment for secured assets	(921)	(357)		(564)		(564)		(27)	(12)	(525)		

Appendix 9: Abbreviations

A
ALCO - Asset and Liability Committee
ASF – Available Stable Funding

B
BAC - Board Audit Committee
BRCC - Board Risk and Conduct Committee

C
CCB - Capital Conservation buffer
CCR - Counterparty Credit Risk
CCyB - Counter Cyclical buffer
CEO – Chief Executive Officer
CET1 - Common Equity Tier 1
CFO – Chief Financial Officer
CRD IV - Capital Requirements Directive IV
CRO – Chief Risk Officer
CRR – Capital Requirements Regulations
CVA - Credit Valuation Adjustment

E
EBA – European Banking Authority
ERC - Executive Risk Committee
EVE - Economic Value of Equity
EWI – Early Warning Indicator
ExCO - Executive Committee

F
FCA – Financial Conduct Authority
FPC - Financial Policy Committee
FRS102 - The Financial Reporting Standard applicable in the UK and Republic of Ireland
FRC – Financial Reporting Council

H
HQLA - High-quality liquid assets

I
IAS 39 - Financial Instruments: *Recognition and Measurement* (as adopted for use in the EU)
ICAAP - Internal Capital Adequacy Assessment Process
ILAAP - Individual Liquidity Adequacy Assessment
IRRBB – Interest Rate Risk in the Banking Book

L
LCR - Liquidity Coverage Ratio
LTV - Loan to value

M
MRT - Material Risk Takers

N
NSFR - Net Stable Funding Ratio

O
ORMF - Operational Risk Management Framework

P
PRA – Prudential Regulation Authority
PSE – Public Sector Entities

R
RCSA - Risk and Control Self-Assessment
RemCo - Remuneration Committee
RSF – Required Stable Funding
RTS - Regulatory Technical Standards
RWA – Risk Weighted Assets

S
SFT – Securities Financing Transaction
SMEs - Small and Medium sized Enterprises
SMF – Senior Management Function
SONIA - Sterling Overnight Interbank Average Rate
SREP - Supervisory Review and Evaluation Process

T
TCR - Total Capital Requirement

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