



Pillar 3 Disclosures

As at: 30 April 2021

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1. Introduction

1.1 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 April 2021. 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. Following Brexit on 31 December 2020, any reference to EU regulation is a reference to the UK version of that regulation.

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 in this report have been prepared as at 30 April 2021. They should be read in conjunction with the Annual Report and Accounts ('the Annual Report and Accounts'), approved by the Board on 5 August 2021.

1.2 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.

1.3 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.

REQUIREMENT	CALCULATION METHOD	DESCRIPTION	REQUIREMENT	FURTHER INFORMATION
PILLAR 1				
Credit Risk	Standardised Approach	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.	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	Section 4
Market Risk				Section 6
Operational Risk	Basic Indicator Approach	The Bank applies the Basic Indicator Approach for operational risk capital requirements in accordance with CRR Article 315.	- 8% of RWAs met by Total Capital	Section 5
FIRM-SPECIFIC PILLAR 2				
Pillar 2a (encompassing credit risk, operational risk, interest rate risk in the banking book, and any other risks not captured by Pillar 1)	Calculated by the PRA based on the ICAAP submission	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]	Set by the PRA and individual components are not disclosed.	n/a
PRA buffer	Calculated by the PRA based on the ICAAP submission	Based on PRA buffer assessment and PRA buffer requirements.	Set by the PRA and not disclosed.	n/a
NON-FIRM SPECIFIC BUFFERS				
Capital Conservation buffer (CCB)	Expressed as a % of RWAs	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.	2.5% during the 2020/21 financial year; it is currently still 2.5%.	n/a
Counter Cyclical buffer (CCyB)	Expressed as a % of RWAs		Set by the Financial Policy Committee ("FPC"). This fell to 0% on 11 March 2020 and remained at 0% during the 2020/21 financial year and is currently still 0%; it was 1% prior to 11 March 2020.	n/a

1.4 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 an annual basis.

1.5 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 provides short to medium-term property loans for both the development of residential dwellings and the bridging of completed properties and property portfolios, as well as regulated long-term mortgage products. All the lending activities are funded by the Bank's capital base and a range of primarily fixed period deposit products provided to individuals and Small and Medium sized Enterprises ('SMEs'). All banking activities are conducted by Masthaven Bank Limited which has no trading subsidiaries.

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 controlling 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.

A core objective for the Bank is the effective management of risk. The responsibility for identifying and managing the principal risks rests with the Bank's Board of Directors, who are also responsible for the Bank's strategy, risk appetite and control framework.

The Board considered that, as at 30 April 2021, it had in place an appropriate control environment to manage the risk profile and strategy of the Bank.

1.6 Key Ratios for the Bank

The key ratios for the Bank under CRD IV are:

	30 APRIL 2021	30 APRIL 2020
Common Equity Tier 1 (CET1) Ratio	19.4%	18.2%
Total Capital Ratio	21.4%	20.3%
Risk Weighted Assets (£'000)	£338,688	£321,406
Leverage Ratio	7.7%	6.8%
Liquidity Coverage Ratio	533%	280%

1.7 Regulatory Developments

1.7.1 BASEL IV

On 7 December 2017, the Basel Committee's oversight body, the Group of Central Bank Governors and Heads of Supervision ('GHOS'), endorsed the proposed revisions to the standardised approach to credit and operational risk, in addition to a revised leverage ratio. This has collectively been termed "Basel IV". These revisions, which are due to be implemented after March 2023 (it was previously due to be implemented on 1 January 2022 but due to the global COVID-19 pandemic, they have extended implementation by 1 year), may have a significant impact on the Bank's risk weighted assets and hence capital requirements. The UK's withdrawal from the EU has created a new legislative process for financial services legislation. For example, the current Financial Services Bill, which received Royal Assent on 29 April 2021, seeks to implement the UK's equivalent of CRR2, which implements elements of Basel standards, from 1 January 2022. The PRA has recently set out its final policy statement on these changes which Masthaven has considered and will implement in January 2022.

The PRA has also announced that it will be consulting on the remaining Basel IV changes later this year, and has set out that the implementation of the final proposals will come into effect at some point after March 2023.

1.7.2 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*.

2. Risk Management

2.1 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 Bank has made good progress with its 3-year risk maturity plan, which demonstrates the Board's commitment to support the Bank's ambition to continually mature and enhance the Board-approved Enterprise-Wide Risk Management Framework ('EWRMF') and ensure it remains appropriate for the Bank's size, nature and complexity as well as the future business strategy. This has positioned the Bank well to cope with the challenges of the COVID 19 pandemic.

2.2 Risk Framework

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

2.3 Risk Appetite

The Board risk appetite statements establish a framework for business decisions and enables Masthaven to identify and define the type and level of risks it is willing to accept in both qualitative and quantitative terms, in pursuit of its strategic goals. Risk appetite has continued to develop during 2020 and 2021, with discussion and agreement on the strategic risk objectives, supported by risk appetite pillars and limits around financial soundness, operational resilience, and regulatory confidence. The Bank's Risk Appetite is subject to ongoing and formal annual review and refresh.

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

2.4 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. Responsibility for the day-to-day management of risk rests with all employees within the Bank and in particular the 1st Line of Defence (the business). Collective oversight of these areas is provided through both 1st Line and 2nd Line committees such as the Customer and Product Committee ('CPC'), CC, ALCO, ERC and ExCO. The Credit Committee, as well as the Executive Risk Committee, is chaired by the CRO.

The CRO retains an independent reporting line to the Chair of the BRCC.

2.5 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 – 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.

2.6 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 for the year ended 30 April 2021 in addition to their roles within the Bank as at 30 April 2021 were:

NAME	ROLE	NUMBER
Ashley Machin	Non-Executive Chairman	0
Anne Gunther	Non-Executive Director	2
Michael Baker	Non-Executive Director	8
Leigh Bartlett	Executive Director	0
Elena Lieskovska	Non-Executive Director	0
Natalie Gammon	Non-Executive Director	1
Andrew Bloom*	Non-Executive Director	5
Malcolm McCaig	Non-Executive Director	5
Simon Glass	Non-Executive Director	4
Jon Hall**	Executive Director	1

*Andrew Bloom was appointed as an Executive Director on 26 June 2015 and continued in this role until 1 May 2020 when he became a non-executive director.

**Jon Hall stepped down from his position as Chief Commercial Officer and Deputy CEO on 26 February 2021.

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.

2.7 Risk Identification

2.7.1 Key Risk Categories

The Bank uses the following key risk categories to organise its risk management activities across the Bank:

STRATEGIC RISK	Climate Change Risk Economic, Political and Competition Risk Business Planning and Strategy Risk Governance Risk Reputational Risk
CREDIT RISK	Concentration Risk Counterparty Risk Large Exposure Risk
OPERATIONAL RISK	People Risk Change and Transformation Risk Information and Data Security and Cyber Risk Technology Risk Supplier and Outsourcing Management Risk Distribution Risk Premises and Physical Security Risk Legal Risk Payments Processing Risk Financial Reporting Risk Model Risk External Fraud Risk Internal Fraud Risk Operational Resilience Risk Process Execution Risk
MARKET RISK	Hedging Risk Basis Risk
LIQUIDITY RISK	Funding and Liquidity Risk Funds Transfer Pricing Risk
PRUDENTIAL (CAPITAL) RISK	Capital Management Risk Interest Rate Risk in the Banking Book
CONDUCT AND COMPLIANCE RSK	Regulatory Compliance Risk Financial Crime Risk Product Governance and Conduct Risk

The Bank has also assessed emerging risks and these are described further in section 2.7.2. The management of the Bank's risks is detailed below.

(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 including increasing/decreasing lending, plans for new products, enhancing infrastructure, and material changes in the external environment.

From a macroeconomic perspective, Masthaven has an ongoing process of considering the impact of COVID-19 on its customers, products, employees and suppliers which could require management action. The Bank is also starting to consider the implications of climate change on the business (see section 2.7.2 for further details). Masthaven conducts a series of severe, but plausible, macroeconomic and idiosyncratic stress tests through the ICAAP, Individual Liquidity Adequacy Assessment ("ILAAP") and Recovery Plan ('RP'), to ensure that the Bank can continue to meet its prudential objectives. These are crucial tools in the management of strategic risk. The Bank has also compiled a Solvent Wind Down Plan for the first time, a new regulatory requirement, which considers how it could wind down the business in an orderly way.

Whilst continued uncertainty prevails, potential impacts continue to be monitored and mitigated where appropriate. For further details see section 2.7.2 on emerging risks regarding COVID-19.

The Bank regularly monitors the competitive market to both understand and assess the impact of market movements, particularly in the specialist lending and challenger bank arena. This is regularly reviewed as part of the Board's annual review of strategy and risk appetite.

(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.

Masthaven is exposed to credit risk across the core markets in which it operates: first and second charge mortgages and bridging and development finance.

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.

Masthaven maintains prudent lending criteria with a Loan to value ('LTV') product risk limit at loan origination of no lending above 80% on a secured basis. There is a lending policy in place, together with a responsible lending policy and an arrears and collections policy, to support underwriting and credit sanctioning processes and procedures. There is a credit risk sanctioning processes with independent oversight by the Risk Oversight function. Specific committee and shareholder approval is also required across a range of lending criteria, including maximum exposure amounts. Although Masthaven is exposed to credit risk in connection with its treasury and liquidity assets held, credit risk appetite on treasury assets is minimal, with a heavy focus on zero risk weighted UK government assets. The Bank's Liquidity Policy sets out the approach taken on counterparty credit risk. Treasury credit exposures are reviewed monthly by ALCO against the limits set out in the Bank's Liquidity Policy. The failure of a wholesale counterparty could result in a material loss.

Over the past year, Masthaven has continued to invest heavily in the Second Line Risk Oversight function which has worked in particular to develop credit stress testing.

Section 4 of this report provides a more detailed assessment of credit risk management.

(iii) Operational Risk

Operational risk is the risk of direct or indirect loss, or of reputational damage, arising from inadequate or failed internal processes, people and systems or external events. It includes the risk of failing to effectively design, execute or deliver change.

The Bank assesses its operational risk exposure against 13 core categories:

FINANCIAL REPORTING RISK	The risk of damage to the Bank as a result of loss or failure arising from the operational risks associated with the publication of the financial statements, adherence to accounting standards, compliance with tax laws and codes, maintenance of the general ledger and management of financial resources.
REPUTATIONAL RISK	The risk of loss from damage to the Bank's reputation, in lost revenue, increased operational, capital or regulatory costs, as a consequence of the action or inaction of the bank's Board, management and staff or external agents or factors. This could include a range of events including lawsuits, fraud and regulatory sanctions.
THIRD PARTY SUPPLIER AND INTERMEDIARIES RISK	The risk of damage arising from inappropriate buying decisions (including outsourcing, off-shoring and joint ventures), setting up a contract, management of a third party and uncontrolled spend or buying, or arising from the failure of a supplier.
TECHNOLOGY RISK	The risk of damage as a result of loss or failure arising from technology services not supporting business objectives due to performance, availability and/or functionality.

INFORMATION AND DATA SECURITY RISK	The risk of damage to the Bank, its customers and employees as a result of loss or failure arising from the inadequate design or failure to apply appropriate security controls. This applies to the confidentiality, integrity and availability of the Bank's customers, employees or corporate data in line with corporate risk appetite or legal obligations.
FRAUD RISK	The risk of loss or damage to the Bank or its customers due to acts of fraud or dishonesty, or in relation to the misuse of information, money laundering, terrorist financing or bribery and corruption.
LEGAL RISK	The risk of loss to the Bank that is primarily caused by a defective transaction; or a claim (including a defence to a claim or a counterclaim) being made or some other event occurring which results in a liability for the Bank or other loss (for example, as a result of the termination of a contract) or failing to take appropriate measures to protect assets (for example, intellectual property) owned by the Bank or a change in law.
PREMISES & PHYSICAL SECURITY RISK	The risk of damage as a result of loss or failure arising from criminal prosecution, injury or losses arising as a consequence of a failure to ensure that premises and physical assets are fully compliant, effectively maintained and in good working order, or that they are adequately secured and protected.
PAYMENT PROCESS RISK	The risk of damage to the Bank as a result of failed or inconsistent execution or management of customer-facing processes.
BUSINESS CONTINUITY RISK	The risk that business continuity planning or event management is insufficient or not fit for purpose.
MODEL RISK	The risk of damage or loss resulting from decisions that are made, and acted upon, based upon the output of a model where the output is subsequently identified as being inaccurate due to errors or inaccuracies in the design or maintenance of the model.
CHANGE AND TRANSFORMATION RISK	The risk of loss or damage arising from the ineffective application of the change management process. The loss or damage may result in operational inefficiencies or failure to achieve the business case. This excludes variations due to strategic decision making.
PEOPLE RISK	The risk of damage to the Bank as a result of loss or failure due to an inability to recruit, develop, reward and retain the required people resources.

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 losses.

During 2020/21 a number of risks and incidents were raised but none of these were material in nature and appropriate actions were taken to mitigate the risk.

Section 5 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 proprietary market positions.

The Board approves the risk appetite for re-pricing risk and basis risk. The balance sheet is analysed monthly for both re-pricing risk and basis risk and reported against the risk appetite to ALCO on a monthly basis, with oversight provided by the BRCC.

Section 6 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 or is only able to do so at a cost premium.

Masthaven maintains a simple funding strategy, where the principal source of funding is in the form of fixed term products 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.

As mentioned under 'strategic risk' above, the Bank has conducted a series of stress tests to ensure that the Bank can continue to meet its liquidity obligations under a range of severe but plausible stress scenarios.

Section 7 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 with 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 the 5-year business plan.

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

(vii) Conduct/Regulatory Risk

Conduct Risk is the risk that Masthaven acts in a way that delivers adverse outcomes for customers and therefore not in accordance with the requirements and principles of "treating customers fairly".

Through the CPC, Masthaven ensures that it only offers products that clearly align to the relevant product literature provided to the customer and that are fully aligned with the requirements of the Bank's risk appetite. This is supported by both the quantitative and qualitative measures that are reported to the Board, the ERC and the BRCC to ensure that the Bank is operating within its risk appetite.

Employee awareness is embedded through training and related activities that include conduct rules roll out, Senior Managers' regime training and a risk awareness programme.

The scale and pace of regulatory change across the industry continues. The Board and Senior Management receive frequent updates on the areas impacting Masthaven to ensure the Bank understands the impact on the customer and its strategic objectives.

2.7.2 Emerging Risks

Emerging risks refer to those forward-looking risks whose impact and/or likelihood cannot be readily quantified and which have not yet crystallised. Although no specific capital is held for these risks, they are considered as part of the Operational Risk capital requirement.

The Bank's key emerging risks are:

(i) COVID-19

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

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

(ii) 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 ensuring that the Bank understands and mitigates the cyber risk inherent in the 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.

(iii) 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 transition risk as markets shift towards a low carbon economy. These risks may impact the ability of borrowers to meet their obligations under the loan.

The Bank continues to develop its mitigation of climate change risk within its overall EWRMF. A cross-functional working group is active in risk identification, scenario analysis, proposal development and the fulfilment of opportunities.

(iv) Transformation

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

Masthaven recognises that to be successful in a growing and competitive market it is essential that we can execute change well. The Bank continues to incrementally invest in resourcing its change team to respond to the growing needs as the Bank expands. This investment has included the creation of a new Chief Information Officer (“CIO”) role. This will remain an area of focus for the foreseeable future.

(v) Outsourcing

The Bank works extensively with the broker and intermediary network across the UK, as well as a select number of firms who assist in the delivery of our IT platform, and on whom we are reliant to meet customer needs. Failure to monitor and control the Bank’s third-party relationships could lead to customer information or critical IT services not being adequately protected or available.

During the last year the Bank has invested time and resources in understanding the scale and robustness of our critical suppliers and putting in place controls to effectively manage the risk of outsourcing, including a focus on service resilience, including via brokers and intermediaries. This is an area that will continue to receive management and Board focus due to our high dependency on third parties and new regulatory requirements.

(vi) Regulatory activity

The PRA and FCA have consolidated their approach to new Banks (SS3/21¹) and clarified expectations which has provided a clearer environment in which the Bank can evolve. The Regulators have also taken significant action across financial markets to mitigate the risks to customers from COVID 19, particularly around Mortgage Payment Deferrals. These changes have resulted in other regulatory initiatives being placed on temporary hold and consequently the scale and pace of regulatory change across 2021 and beyond is likely to result in significant effort and investment greater than the Bank has seen before.

¹ Supervisory Statement SS3/21 – Non-systemic UK banks: The Prudential Regulation Authority’s approach to new and growing banks

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

3. Capital Requirements and Resources

3.1 Prudential Risk Management

Prudential risk, as defined by Masthaven, is the risk that the Bank has insufficient capital to cover regulatory requirements and/or growth 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 efficiently utilise the capital resources in order to generate appropriate returns for shareholders. 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 including business growth plans; and
- 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 SS31/15², the PRA's Statement of Policy on Pillar 2 capital³, the European Banking Authority (EBA) guidelines on the SREP⁴ 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 test⁵. 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.

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

A key outcome from the process is to consider whether any of the scenarios are sufficiently plausible to necessitate a change to the Bank's strategy or underlying controls. The ICAAP is reviewed by the ICAAP Steering Group, the BRCC and reviewed and approved by the Board. The ICAAP is assessed by the PRA as part of its supervisory review of the Bank and is used to determine the TCR (which is Pillar 1 and Pillar 2A) and the capital buffers (CRD IV buffers and any additional firm-specific buffers) for the Bank.

Current and forecast levels of capital are monitored against the capital risk appetite approved by the Board and are reported to ALCO, the ERC, BRCC and the Board on a regular basis. The capital forecast forms an integral component of

²The Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP) | Bank of England

³Statement of Policy 'The PRA's methodologies for setting Pillar 2 capital' - July 2021 (bankofengland.co.uk)

⁴Guidelines on common procedures and methodologies for the SREP

⁵Stress testing the UK banking system: Key elements of the 2021 stress test

the annual budgeting process and is updated in line with changes to the business plan.

3.2 Capital Resources

As at 30 April 2021 and throughout the period to 30 April 2021, the Bank maintained its capital resources at a level above the minimum capital adequacy requirements and buffers. A £6m capital injection was received in January 2021.

CAPITAL RESOURCES £'000	30 APRIL 2021	30 APRIL 2020
Share Capital	85,214	79,311
Share Premium	7,861	7,861
Other Reserves	-	-
Retained Earnings	(25,431)	(23,425)
Total Capital	67,644	63,747
Regulatory adjustments to CET1 - Intangible Assets*	(1,824)	(5,188)
Total Common Equity Tier 1 (CET1) capital	65,820	58,559
Tier 2		
Subordinated Debt	6,026	6,025
Collective Provisions	763	757
Total regulatory capital	72,609	65,341

Taken from the Bank's Annual Report and Accounts for the year ended 30 April 2021.

The Bank's capital resources as at 30 April 2021 are broken down as follows:

**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 year⁶ 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 consists of 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 April 2021.

3.3 Minimum Capital Requirement

3.3.1 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 ((as defined in the CRR) 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 April 2021.

CAPITAL RESOURCES REQUIREMENT - PILLAR 1 £'000	30 APRIL 2021	30 APRIL 2020
Credit risk minimum Pillar 1 capital requirement	24,622	24,246
Operational risk Pillar 1 capital requirement	2,448	1,435
Credit valuation risk Pillar 1 capital requirement	25	31
Capital resources Pillar 1 requirement	27,095	25,712
Capital resources (See table in 3.2)	72,609	65,341
Capital resources surplus over Pillar 1 requirement	45,514	39,629

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

3.3.1.1 Credit Risk

Under the Standardised Approach for credit risk, the level of capital required against a given level of exposure to credit and concentration 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 April 2021 determined in accordance with CRD IV:

£'000	EXPOSURES 2021	RWAs 2021	PILLAR 1 CAPITAL 2021
Secured by mortgages on immovable properties*	681,723	233,147	18,651
Items associated with particularly high risk**	15,372	23,058	1,845
Retail	128	96	8
Exposures in default	42,700	44,950	3,596
Central governments or central banks	112,894	-	-
Institutions	10,355	2,071	166
Other	4,450	4,450	356
	867,622	307,772	24,622

*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:

Total Exposures per Pillar 3 (above)	867,622
Less off-balance sheet items	(16,989)
Less Collective Provisions	(763)
Add Intangibles	1,824
	851,694
Total assets per annual report and accounts	851,694

3.3.1.2 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 April 2021, this was £2.45m additional capital in Pillar 1 which equates to an additional RWA of £30.6m⁷.

3.3.1.3 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. A summary of the calculation as at 30 April 2021 is set out below:

EXPOSURE	CRR ARTICLE	EXPOSURE VALUE (£000)	OWN FUNDS REQUIREMENT (£000)	RWA (£000)
Interest rate swaps	384	375	25	317
Total RWA for CVA				317

3.3.2 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.

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 April 2021, the total Pillar 2A requirement was 3.6% of RWAs.

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.

3.4 Capital Ratios

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

CAPITAL RATIOS	30 APRIL 2021	30 APRIL 2020
Common Equity Tier 1 Ratio	19.4%	18.2%
Tier 1 Capital Ratio	19.4%	18.2%
Total Capital ratio	21.4%	20.3%
Leverage Ratio	7.7%	6.8%

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%. The Bank of England Financial Policy Committee noted in their Financial Stability Report for July 2021⁸ that they expect the CCyB to remain at 0% until at least December 2021. This is further disclosed in Appendix 3.

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 April 2021 was 7.7%. The tables in Appendix 2 summarise the leverage ratio disclosures, as required by CRD IV, as at 30 April 2021.

4. Credit Risk

4.1 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 owned by the debtor, less any recoveries from foreclosure, liquidation of collateral, the restructuring of the debt or other recovery proceeds from the debtor. Impairment provisions are included in the financial statements for losses that have been incurred at the date of the statement of financial position.

The management of credit risk is critical to the Bank's overall strategy which has embedded a comprehensive and robust risk management framework with clear lines of accountability and oversight as part of its overall governance framework.

The Bank seeks to mitigate credit risk by focusing on business sectors where it has specific expertise and through limiting concentrated exposures on larger loans or certain segments. The Bank also seeks to obtain security cover where appropriate. Each business area has its own lending policy criteria and dedicated resources which assess credit risk, supported by senior credit risk management who have oversight of lending activities. A tiered credit approval mandate framework is in place, this incorporates mandates across First Line, Second Line and ExCo (CFO, CRO and CEO) by loan amount thresholds.

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

Credit risk is overseen by the Bank's CC (chaired by the CRO), and ultimately the Board. To assist the CC in this activity, the Credit Risk Department, reporting to the CRO, monitors exposure to credit risk and provides management information to the CC on a regular basis.

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

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

Prudent LTV limits are applied to all lending. In addition, an assessment of affordability and repayment strategy is undertaken on a case-by-case basis:

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

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

The Bank acknowledges that recent levels of growth mean that a relatively large proportion of the mortgage book is new and therefore may not have had sufficient time for its performance to be established. However, low LTV limits help protect the Bank from losses. Stress testing is undertaken on the mortgage and short-term lending portfolios 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 attempt to reach a realistic and fair arrangement to allow the borrower to recover their account over a reasonable and sustainable timeframe. The Bank has a range of forbearance options which are assessed, based on the individual circumstances of the borrower, and may be used to the benefit of both the borrower and the Bank.

Money market investments are made with eligible counterparties approved by the Board. ALCO reviews outstanding Treasury counterparty credit exposure on a monthly basis; any changes in credit ratings are also flagged to ALCO monthly.

4.2 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 April 2021 is shown below.

	CREDIT RISK EXPOSURES £'000
Secured by mortgages on immovable property*	681,723
Items associated with particularly high risk	15,372
Retail	128
Exposures in default	42,700
Central Government & Central Banks	112,894
Institutions	10,355
Other	4,450
	867,622

**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		
Location	Loans and advances to Customers	
	2021 £'000	2020 £'000
East Anglia	91,250	96,506
East Midlands	21,357	21,250
Greater London and South East	374,711	380,680
North East	6,924	10,749
North West	38,658	35,657
Scotland	29,427	27,401
South West	60,627	53,535
Wales	21,117	20,766
West Midlands	49,425	51,990
Yorkshire and Humberside	27,950	18,000
At 30 April	721,446	716,534

Taken from the Bank's Annual Report and Accounts for the year ended 30 April 2021.

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

4.3 Non-Performing Loans and Provisioning

Loans and advances to customers are reviewed regularly to determine if there is any evidence of impairment. The distribution of loans and advances as at 30 April 2021 by credit quality is shown below. For the purposes of reporting, 'past due but not impaired' relates to loans that are in arrears, but the loan does not meet the definition of an impaired asset as the expected recoverable amount exceeds the carrying amount. These loans are subject to close oversight.

DISTRIBUTION OF LOANS AND ADVANCES BY CREDIT QUALITY	AT 30 APRIL 2021		AT 30 APRIL 2020	
	Loans and advances to customers £'000	Loans and advances to banks £'000	Loans and advances to customers £'000	Loans and advances to banks £'000
Neither past due nor impaired*	673,268	123,249	666,439	136,523
Of which:				
Forborne	13,979	-	3,922	-
Up to date with previous arrears in past 12 months	37,364	-	3,501	-
Up to date	621,925	-	659,016	-
Past due but not impaired	-	-	-	-
Loans and receivables at amortised cost:				
- Less than 1 month	7,440	-	8,456	-
- 1 to 2 months	8,074	-	9,677	-
- 2 to 3 months	4,304	-	5,509	-
- Over 3 months	17,609	-	16,454	-
Impaired	12,979	-	11,993	-
Less: provision	(2,228)	-	(1,994)	-
	721,446	123,249	716,534	136,523

Taken from the Bank's Annual Report and Accounts for the year ended 30 April 2021.

* Impaired means as defined by IAS 39 - Where a provision has been recognised as a result of objective evidence identifying a difference between an assets carrying amount and the present value of estimated cash flows discounted at the financial asset's original effective interest rate.

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, that include: LTV, arrears status, product, maturity and other risk factors such as whether or not the mortgage is in forbearance.

The Bank continued to tighten its credit policy across multiple areas including maximum LTVs across multiple products, 2nd charge products, withdrawal of development finance and tightening acceptable income for long-term lending.

As a result of the pandemic, the Bank offered borrowers payment deferrals in Long-Term and Time Forbearance in Short-term in line with regulatory guidance. The operational focus has been on proactive customer contact throughout the pandemic including: regular vulnerable customer contact regardless of arrears status; the identification of and contact with customers who may experience a payment shock i.e. a significant increase in monthly payments post payment holidays; and regular communication with customers both in arrears or who have not needed the support available from Masthaven. In addition, the Bank undertook care calls/cohort analysis on customers who requested a payment holiday to better understand their circumstances, reasons for requesting a payment holiday, employment status and sectors, personal savings levels, and expected position at the end of the payment holiday term.

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

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

4.4 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. As part of its liquidity buffer, the Bank occasionally invests in highly rated bonds issued by the UK government with a maximum term of six months.

Treasury credit risk is managed by the setting of appropriate counterparty limits via ALCO. Exposure is monitored daily by Treasury with oversight from Risk. ALCO also review counterparty credit risk exposure on a monthly basis.

The Bank's approach to managing counterparty credit risk is currently set out in its Liquidity 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 April 2021, based on Moody's long-term ratings. As at 30 April 2021, no treasury assets were past due or impaired.

MOODY'S RATING	EXPOSURE VALUE 2021 £'000	EXPOSURE VALUE 2020 £'000
AA2	-	-
A1	-	-
A2	1,254	4,975
A3	9,101	-
BAA2	-	254
	10,355	5,229

Taken from the Bank's Annual Report and Accounts for the year ended 30 April 2021.

5. 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.

6. 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 Bank's Treasury function is responsible for managing the Bank's exposure to all aspects of market risk within the operational limits set out in the Bank's Market Risk Policy. ALCO receives regular reports on all aspects of market risk exposure, including interest rate risk and hedging activity.

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

6.1 Interest Rate Risk

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

The Bank monitors and manages interest rate risk through its hedging strategy, as outlined in its Market Risk Policy. Interest rate risk exposure is overseen by ALCO on a monthly basis and is managed by Treasury within approved limits.

Derivatives are only used to limit the extent to which the Bank will be affected by changes in interest rates or other indices which affect fair values or cash flows. Derivatives are therefore used exclusively to hedge risk exposures. The principal derivatives used by the Bank are interest rate Swaps. The Bank's forecasts and plans are stress tested to assess the impact of interest rate changes, in line with Regulatory guidance. In addition, the results of the 6 EBA outlier scenarios are reviewed each month through the ALCO.

For further details on the management of market risk see the Annual Report and Accounts for the year ended 30 April 2021.

6.2 Interest Rate Risk Sensitivity

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

The economic value of equity (EvE) 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	841
NPV Sensitivity - 200 bps	(835)

Taken from the Bank's Annual Report and Accounts for the year ended 30 April 2021.

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 APRIL 2021	1 TO 3 MONTHS £'000	3 TO 12 MONTHS £'000	1 TO 5 YEARS £'000	MORE THAN 5 YEARS £'000	NON-INTEREST BEARING £'000	TOTAL £'000
Assets						
Cash and balances at Central Banks	112,894	-	-	-	-	112,894
Loans and advances to Banks	-	-	-	-	10,355	10,355
Loans and advances to customers	224,862	142,398	354,186	-	-	721,446
Available for sale debt securities	-	-	-	-	-	-
Other Assets	-	-	-	-	6,999	6,999
Total Assets	337,756	142,398	354,186	-	17,354	851,694
Liabilities						
Customer deposits	199,108	343,612	229,952	-	-	772,672
Long-term subordinated debt	-	-	-	6,026	-	6,026
Other liabilities	-	-	-	-	5,352	5,352
Equity	-	-	-	-	67,644	67,644
Total Liabilities	199,108	343,612	229,952	6,026	72,996	851,694
Interest rate sensitivity gap	138,648	(201,214)	124,234	(6,026)	(55,642)	-
Cumulative gap	138,648	(62,566)	61,668	55,642	-	-

Taken from the Bank's Annual Report and Accounts for the year ended 30 April 2021.

6.3 Basis Risk

Basis rate risk is the risk of losses arising from changes in the relationship between exposures to interest rates which have similar but not identical characteristics (for example, Sterling Overnight Interbank Average Rate ("SONIA") and Bank of England Base Rate ("BBR")). This risk is monitored closely, with NII sensitivity assessed through Basis risk stress-testing and reported to ALCO monthly.

7. Liquidity Risk

7.1 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 maintain sufficient liquidity resources at all times to ensure that all liabilities can be met, as they become due.

The regulatory liquidity regime requires that a firm's liquidity resources contain an adequate 'buffer' of unencumbered HQLA which can be utilised in a period of liquidity stress. This buffer of HQLA should, at least, meet net expected outflows over a 30-day stressed period. Holding sufficient liquid assets to match these outflows will result in a firm having a Liquidity Coverage Ratio ('LCR') that exceeds the regulatory minimum requirement of 100%. In addition, the Bank holds sufficient liquidity (HQLA and cash placed with other institutions), to survive a range of stress scenarios.

The liquidity risk management strategy of the Bank is documented via the ILAAP which defines and records the Bank's approach to the management of liquidity risk and compliance with the Overall Liquidity Adequacy Rule ('OLAR'). The ILAAP is complemented by a Liquidity Contingency Plan and a Recovery Plan (RP) which both identify actions that could be taken to manage both short and medium-term liquidity risks in the event of an extreme stress. The ILAAP is reviewed on a periodic basis by the PRA.

ALCO is the primary Executive Committee which oversees the management of liquidity risks under delegated authority from the Board; additional oversight is provided by the BRCC. The Bank's Treasury function is responsible for the day-to-day management of liquidity and funding. Liquidity risks are specifically considered by the ALCO each month. The Board has responsibility for setting and approving the liquidity risk management strategy and risk appetite via the ILAAP process; it then sets liquidity limits which reflect that risk appetite, ensuring that a robust liquid asset buffer is maintained at all times.

7.2 Liquidity Risk Drivers

As outlined above the Bank's liquidity risk appetite has been calibrated to ensure that it always operates above the minimum prudential requirements with sufficient contingency for unexpected stresses, whilst actively minimising the risk of holding excessive liquidity which would adversely impact the financial efficiency of the Bank's business model.

The Bank uses a range of tools to ensure that liquidity is managed appropriately. These include:

- Preparation of the ILAAP: The ILAAP is a key regulatory submission requirement and is underpinned by the liquidity risk governance structure across the Bank;
- Cashflow forecasting: Weekly cash flow forecasting is undertaken to ensure that the Bank continues to meet its risk appetite and regulatory requirements;
- Monitoring of loan repayment profiles and savings redemptions: The Bank models expected fixed rate savings rollovers and mortgage advances and redemptions based on historical information, seasonality and key future events such as repricing periods and reversion to SVR. The results form a key part of the Bank's cashflow forecasting process outlined above;
- Stress testing: Stress tests are conducted on a regular basis to identify sources of potential liquidity stress. The stress tests consider the potential impact of institution-specific, market-wide and combined alternative scenarios and were developed as part of the annual ILAAP process; and
- Liquidity MI: Liquidity MI is distributed across the Bank on a regular basis to senior management and key committees such as ALCO.

The processes above are kept under regular review and are updated as required in line with changes to regulatory requirements and changes to the Bank's business model.

7.3 Liquidity Coverage Ratio

The 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.

The detailed rules and definitions for the calculation of the LCR are set out in the European Commission Delegated Act of 10 October 2014. The Bank's internal approach to calculating the LCR is also covered in the latest ILAAP.

As at 30 April 2021, the Bank's Liquidity Coverage Ratio was 533%. The Bank made refinements to its interpretation of the LCR calculation methodology in April 2021 which resulted in an increase in its LCR.

8. Asset Encumbrance

The Bank currently has an encumbered asset as a result of the Bank entering into an interest rate swap with another financial institution. As the derivative had a negative fair value as at 30 April 2021, the Bank had pledged collateral, in the form of cash totalling £1.0m, as at 30 April 2021. Other than this the Bank has no encumbered assets. None of the collateral received by the Bank entails encumbrance. None of the financial liabilities of the Bank entails encumbrance.

9. Remuneration

9.1 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 EBA 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 36 individuals as MRTs for the year ended 30 April 2021.

9.2 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 reviews 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 13 meetings during the financial year-ended 30 April 2021.

Only members of the Committee have the right to attend and vote. However, during the year the CEO, the Chief People Officer, the CRO and the Chief Commercial Officer and Deputy CEO⁹ have attended Committee meetings by invitation when appropriate or necessary. No individual is present at discussions relating to their own remuneration. The Company Secretary department has 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 Remuneration Policy, having taken into account the changing regulatory landscape and the impact of COVID 19;
- Oversaw the key aspects of reward for all colleagues, including directors' remuneration, and the Bank's gender pay analysis;
- Reviewed the principles of the annual reward view, including salaries, and the granting of options pursuant to the Bank's Unapproved Share Option Plan; and
- Determined that remuneration outcomes for 2021 should reflect the Bank's performance in a challenging external environment, while recognising the substantial progress that has been made in delivering the Bank's transformation programme.

Policies

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

Other areas for review

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

RemCo's terms of reference were last reviewed in April 2021.

9.3 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.

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 employees (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, private health cover and life insurance.

⁹Jon Hall stepped down from his position as Chief Commercial Officer and Deputy CEO on 26 February 2021.

Annual Discretionary Bonus	<p>Individual payments were 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.</p> <p>RemCo approves individual bonus award amounts for MRT's.</p> <p>Annual bonus payments are subject to Masthaven's malus and clawback provisions.</p>
Long term incentive plan (LTIP)	<p>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.</p>

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 the 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 April 2021, no individual surpassed the threshold and hence no remuneration was subject to deferral.

9.4 Remuneration for Material Risk Takers

The table below shows fixed and variable remuneration awarded to MRTs in respect of the financial year ended April 2021.

MRTs	TOTAL £'000
Total fixed remuneration	4,860
Total variable remuneration awarded in cash	449
Total remuneration	5,309
Number of MRTs	36

Aggregate remuneration expenditure in respect of MRTs was £5,309k, of which 91.5% represented fixed remuneration and 8.5% represented variable remuneration.

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

£'000	RETAIL BANK	CENTRAL AND CONTROL FUNCTIONS
Total Remuneration	1,104	4,205

There were no individuals being remunerated more than EUR 1 million for 2020/21.

Appendix 1:

OWN FUNDS DISCLOSURE TEMPLATE

		30 APRIL 2021 £'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	0	EBA list 26 (3)
	of which: Instrument type 3	0	EBA list 26 (3)
2	Retained earnings	(25,431)	26 (1) (c)
3	Accumulated other comprehensive income (and any other reserves)	0	26 (1)
3a	Funds for general banking risk	0	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	0	486 (2)
5	Minority interests (amount allowed in consolidated CET1)	0	84
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	0	26 (2)
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	67,644	Sum of rows 1 to 5a
COMMON EQUITY TIER 1 (CET1) CAPITAL: REGULATORY ADJUSTMENTS			
7	Additional value adjustments (negative amount)	0	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	(1,824)	36 (1) (b), 37
9	Empty set in the EU	0	
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)	0	36 (1) (c), 38
11	Fair value reserves related to gains or losses on cash flow hedges	0	33 (1)(a)
12	Negative amounts resulting from the calculation of expected loss amounts	0	36 (1) (d), 40, 159
13	Any increase in equity that results from securitised assets (negative amount)	0	32 (1)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	0	33 (1) (b)
15	Defined-benefit pension fund assets (negative amount)	0	36 (1) (e), 41
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	0	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)	0	36 (1) (g), 44

		30 APRIL 2021 £'000	REGULATION (EU) NO 575/2013 ARTICLE REFERENCE
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)	0	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)	0	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79
20	Empty set in the EU	0	
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	0	36 (1) (k)
20b	of which: qualifying holdings outside the financial sector (negative amount)	0	36 (1) (k) (i), 89 to 91
20c	of which: securitisation positions (negative amount)	0	36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258
20d	of which: free deliveries (negative amount)	0	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)	0	36 (1) (c), 38, 48 (1) (a)
22	Amount exceeding the 15% threshold (negative amount)	0	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	0	36 (1) (i), 48 (1) (b)
24	Empty set in the EU	0	
25	of which: deferred tax assets arising from temporary difference	0	36 (1) (c), 38, 48 (1) (a)
25a	Losses for the current financial year (negative amount)	0	36 (1) (a)
25b	Foreseeable tax charges relating to CET1 items (negative amount)	0	36 (1) (l)
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	0	36 (1) (j)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(1,824)	Sum of rows 7 to 20a, 21, 22 and 25a to 27
29	Common Equity Tier 1 (CET1) capital	65,820	Row 6 minus row 28
ADDITIONAL TIER 1 (AT1) CAPITAL: INSTRUMENTS			
30	Capital instruments and the related share premium accounts	0	51, 52
31	of which: classified as equity under applicable accounting standards	0	
32	of which: classified as liabilities under applicable accounting standards	0	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	0	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	0	85, 86
35	of which: instruments issued by subsidiaries subject to phase-out	0	486 (3)
36	Additional Tier 1 (AT1) capital before regulatory adjustments	0	Sum of rows 30, 33 and 34

		30 APRIL 2021 £'000	REGULATION (EU) NO 575/2013 ARTICLE REFERENCE
ADDITIONAL TIER 1 (AT1) CAPITAL: REGULATORY ADJUSTMENTS			
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	0	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)	0	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)	0	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)	0	56 (d), 59, 79
41	Empty set in the EU	0	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	0	56 (e)
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	0	Sum of rows 37 to 42
44	Additional Tier 1 (AT1) capital	0	Row 36 minus row 43
45	Tier 1 capital (T1 = CET1 + AT1)	65,820	Sum of row 29 and row 44
TIER 2 (T2) CAPITAL: INSTRUMENTS AND PROVISIONS			
46	Capital instruments and the related share premium accounts	6,026	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	0	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	0	87, 88
49	of which: instruments issued by subsidiaries subject to phase-out	0	486 (4)
50	Credit risk adjustments	763	62 (c) & (d)
51	Tier 2 (T2) capital before regulatory adjustment	6,789	
TIER 2 (T2) CAPITAL: REGULATORY ADJUSTMENTS			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	0	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)	0	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)	0	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)	0	66 (d), 69, 79
56	Empty set in the EU	0	
57	Total regulatory adjustments to Tier 2 (T2) capital	0	Sum of rows 52 to 56

58	Tier 2 (T2) capital	6,789	Row 51 minus row 57
59	Total capital (TC = T1 + T2)	72,609	Sum of row 45 and row 58
60	Total risk-weighted assets	338,688	
CAPITAL RATIOS AND BUFFERS			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	19.4%	92 (2) (a)
62	Tier 1 (as a percentage of total risk exposure amount)	19.4%	92 (2) (b)
63	Total capital (as a percentage of total risk exposure amount)	21.4%	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	0%	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0%	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount) ¹⁰	9.0%	CRD 128
69	[non-relevant in EU regulation]	0	
70	[non-relevant in EU regulation]	0	
71	[non-relevant in EU regulation]	0	
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)	0	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)	0	36 (1) (i), 45, 48
74	Empty set in the EU	0	
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)	0	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)	0	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	0	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)	0	62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	0	62

¹⁰This is calculated as total available CET1 less any tier 1 & 2 shortfall required to meet capital requirements in addition to CET1 required to meet other capital requirements excluding CCB and CCyB. Without the deduction of other capital requirements, excluding CCB and CCyB, this figure would have been 16.9%.

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	0	484 (3), 486 (2) & (5)
81	- Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0	484 (3), 486 (2) & (5)
82	- Current cap on AT1 instruments subject to phase-out arrangements	0	484 (4), 486 (3) & (5)
83	- Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0	484 (4), 486 (3) & (5)
84	- Current cap on T2 instruments subject to phase-out arrangements	0	484 (5), 486 (4) & (5)
85	- Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	0	484 (5), 486 (4) & (5)

Appendix 2:

LEVERAGE RATIO TEMPLATE

TABLE LRSUM: SUMMARY RECONCILIATION OF ACCOUNTING ASSETS AND LEVERAGE RATIO EXPOSURES		30 APRIL 2021 £'000
1	Total assets as per published financial statements	851,694
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	-
4	Adjustments for derivative financial instruments	375
5	Adjustments for securities financing transactions "SFTs"	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	3,398
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	-
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	-
7	Other adjustments	(1,824)
8	Total leverage ratio exposure	853,643

TABLE LRCOM: LEVERAGE RATIO COMMON DISCLOSURE		CRR LEVERAGE RATIO EXPOSURES
ON-BALANCE SHEET EXPOSURES (EXCLUDING DERIVATIVES AND SFTS)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	851,694
2	(Asset amounts deducted in determining Tier 1 capital)	(1,824)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	849,870

DERIVATIVE EXPOSURES		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	-
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	375
EU-5a	Exposure determined under Original Exposure Method	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	Total derivative exposures (sum of lines 4 to 10)	375
SECURITIES FINANCING TRANSACTION EXPOSURES		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	Counterparty credit risk exposure for SFT assets	-
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	-
15	Agent transaction exposures	-
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	-
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	-
OTHER OFF-BALANCE SHEET EXPOSURES		
17	Off-balance sheet exposures at gross notional amount	16,988
18	(Adjustments for conversion to credit equivalent amounts)	(13,590)
19	Other off-balance sheet exposures (sum of lines 17 to 18)	3,398
EXEMPTED EXPOSURES IN ACCORDANCE WITH CRR ARTICLE 429 (7) AND (14) OF REGULATION (EU) NO 575/2013 (ON AND OFF-BALANCE SHEET)		
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off-balance sheet))	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off-balance sheet))	-
CAPITAL AND TOTAL EXPOSURES		
20	Tier 1 capital	65,820
21	Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	853,643
LEVERAGE RATIO		
22	Leverage ratio	7.7%

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 April 2021 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	744,373	-	-	-	-	-	305,702	-	-	305,702	100%	0%
020 Total	744,373	-	-	-	-	-	305,702	-	-	305,702	100%	0%

TABLE 2: AMOUNT OF INSTITUTION-SPECIFIC COUNTERCYCLICAL CAPITAL BUFFER	
	010
010 Total risk exposure amount	338,688
020 Institution specific countercyclical buffer rate	0%
030 Institution specific countercyclical buffer requirement	0

Appendix 4:

CAPITAL INSTRUMENTS' MAIN FEATURES TEMPLATE¹

CAPITAL INSTRUMENTS' MAIN FEATURES TEMPLATE (1)			
1	Issuer	Masthaven Bank Ltd	Masthaven Bank Ltd
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	N/A	N/A
3	Governing law(s) of the instrument	English	English
	Regulatory treatment		
4	Transitional CRR rules	Common Equity Tier 1	Tier 2
5	Post-transitional CRR rules	Common Equity Tier 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:

ABBREVIATIONS

GENERAL TERMS
A
ALCO - Asset and Liability Committee
B
BAC - Board Audit Committee
BRCC - Board Risk and Conduct Committee
C
CC - Credit Committee
CCB - Capital Conservation buffer
CCyB - Counter Cyclical buffer
CEO – Chief Executive Officer
CFO – Chief Financial Officer
CPC - Customer and Product Committee
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
EWRMF – Enterprise-Wide Risk Management Framework
EWI – Early Warning Indicator
ExCO - Executive Committee
EvE – Economic value of equity

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
G
GDPR - General Data Protection Regulation
GHOS - Group of Central Bank Governors and Heads of Supervision
H
HMT - Her Majesty's Treasury
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 Process
L
LCR - Liquidity Coverage Ratio
LTIP - Long term incentive plan
LTV - Loan to value
M
MRT - Material Risk Takers
MTIP - Medium term incentive plan
N
NII - Net Interest Income

O
OLAR - Overall Liquidity Adequacy Rule
ORMF - Operational Risk Management Framework
P
PRA - Prudential Regulation Authority
R
RACC - Board Risk, Audit and Compliance Committee
RemCo - Remuneration Committee
RP - Recovery Plan
RTS - Regulatory Technical Standards
RWA - Risk Weighted Assets
S
SONIA - Sterling Overnight Interbank Average Rate
SREP - Supervisory Review and Evaluation Process
SMEs - Small and Medium sized Enterprises
T
TCR - Total Capital Requirement

Masthaven Bank Ltd

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