CHETWOOD

FINANCIAL LIMITED

Pillar 3 Disclosures

August 2021

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1 Introduction

1.1 Overview

This document provides the Pillar 3 disclosures on capital and risk management and remuneration required of Chetwood Financial Limited as at 31 March 2021.

Chetwood Financial Limited is authorised by the Prudential Regulation Authority ('PRA') and regulated by the PRA and the Financial Conduct Authority ('FCA'), registration number 740551.

The purpose of this document is 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 Prudential Regulation Authority (''PRA'') set out in the Public Disclosure section of the PRA Rulebook and as the PRA has otherwise directed

This document should be read in conjunction with the annual report and financial statements for the period ended 31 March 2021. This is the first year that Chetwood has prepared its Financial Statements in accordance with International Financial Reporting Standards ("IFRS"). The transition to IFRS involved restating comparative amounts from 1 April 2019.

1.2 Summary Analysis

A high-level summary of the key capital ratios for Chetwood Financial Ltd as at 31 March 2021 is provided below:

	31 March 2021	31 March 2020 (Restated to IFRS)
Available capital		
Common Equity Tier 1 capital	£50.6m	£42.6m
Tier 1 capital	£50.6m	£42.6m
Total capital	£50.6m	£42.6m
Risk weighted assets		
Total risk weighted assets	£179.0m	£171.0m
Capital ratios		
Common Equity Tier 1 ratio	28%	25%
Tier 1 ratio	28%	25%
Total Capital ratio	28%	25%
Leverage ratio		
Leverage ratio	23%	17%
Liquidity coverage ratio		
Liquidity coverage ratio	51,086%	68,110%

1.3 Disclosure Policy

The following sets out a summary of the Company's Pillar 3 disclosure policy, including basis of preparation, frequency, media and location, verification and risk profile disclosure.

1.3.1 Basis of Preparation

This document sets out the disclosures under Part VIII of the Capital Requirements Regulation (EU Regulation 575/2013, the "CRR"), which represents the Pillar 3 regulatory disclosure requirements in the UK under CRD IV. No material disclosures have been omitted and nor have any disclosures been omitted from this document for confidentiality purposes.

Under UK law, EU capital rules that existed on 31 December 2020 (including applicable Pillar 3 requirements) continue to apply to the Company following the end of the transition period for the UK's withdrawal from the European Union, subject to the temporary transitional powers (TTP) granted to the PRA which extend until 31 March 2022.

A number of differences exist between accounting disclosures published in accordance with International Financial Reporting Standards (IFRS) and Pillar 3 disclosures published in accordance with prudential requirements, which prevent direct comparison in a number of areas.

1.3.2 Frequency, Media and Location of Disclosures

The Company's policy is to publish the Pillar 3 disclosures on an annual basis in conjunction with the annual report and financial statements. The Pillar 3 disclosures are published on the Company's website www.chetwood.co.

The frequency of disclosure will be reviewed should there be a material change in any approach used for the calculation of capital, business structure or regulatory requirements.

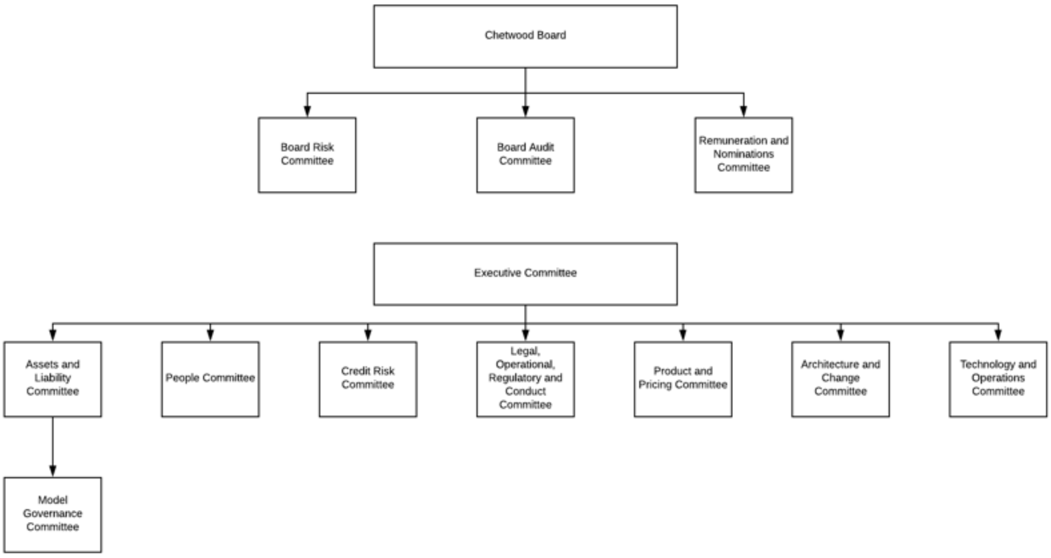
1.3.3 Verification

The Pillar 3 disclosures presented within this document are not required to be subject to an external audit. Instead, the disclosures have been reviewed and approved by the Board of directors, following attestations from Finance and Risk directors, who are satisfied that the disclosures accurately and comprehensively describe the Company's risk profile.

2 Governance

Chetwood's Board is the primary governing body and is responsible to the shareholders for delivering the strategy of the Bank. It has ultimate responsibility for setting the Bank's strategy, corporate objectives and enterprise risk management framework, taking into consideration the interests of customers and shareholders.

The Board is supported by a number of non-executive and executive level committees, summarised as follows:



2.1 Board Level Committees

The Board is supported by sub-committees with delegated authority, as follows:

- Board Risk Committee: oversees identification, assessment, monitoring and management of the Bank's current and potential risk exposures, including determination of risk appetite and tolerance, and comparison to risk profile. Throughout the year the Board Risk Committee has assessed the Bank's principal risks, largely based on and reports and analysis from the CRO and risk function regarding the processes and controls for the management and mitigation of those risks.
- Board Audit Committee: reviews the effectiveness of the internal financial controls and monitors the integrity of financial reporting, including oversight of internal and external audits. Delegates responsibility for identifying and managing any whistleblowing events.
- Remuneration and Nominations Committee: sets remuneration and key people policies, recruits senior Executives, plans Executive succession and considers performance and reward systems.

2.2 Executive Level Committees

In addition, the Executive Committee has established the following committees responsible for ensuring that risks are appropriately managed:

- Asset and Liability Committee (ALCO): Oversight of balance sheet management including capital and liquidity adequacy together with their attendant risks.
- Model Governance Committee (MGC): Oversight of the effective operation of the model risk framework.
- Credit Risk Committee (CRC): Oversight of credit performance and quality across lending cohorts. Reviews arrears management and provisioning policies (ahead of ratification by the BAC), and monitors performance of the out-sourced service provider of arrears management services.
- Legal, Operational, Regulatory and Conduct Committee (LORC): Oversight of effective operation of the operational risk management framework, including conduct risk.
- Architecture and Change Committee (ACC): Oversight of change and change control across the business. Prioritises and tracks status across all change projects.
- Product & Pricing Committee (PPC): Oversight of all aspects of product initiation, development, maintenance, review and pricing, with a particular emphasis on up-front and ongoing customer research and pricing strategies.
- People Committee (PC): Oversight of strategic people matters, recruitment, succession planning, remuneration, performance and HR operations.
- Technology & Operations Committee (TOC): Oversight of all aspects of operations, including capacity, stability, operational metrics and operational risk, including complaint handling. Additionally, the committee has responsibility for identification and management of Cyber Risk.

The Board looks to senior management to ensure that the risk management framework and risk governance structure are applied in practice and operate robustly.

The diagram below illustrates Chetwood's current risk management lines of defence model, in which the above committees to ensure that the principal risks are appropriately managed within the agreed risk appetite and in accordance with the requirements of the risk management framework.

Oversight	Board			
	Board Risk Committee			
Risk Category	**First Line**	**Oversight**	**Second Line**	**Third Line**
Model Risk	Finance	Model Risk Committee (delegated through ALCO)	CRO	Internal Audit
Strategic Risk	Executive Committee and Senior Managers	EXCO	CRO	
Capital Risk	Finance	ALCO	CRO	
Liquidity Risk	Finance	ALCO	CRO	
Market Risk	Finance	ALCO	CRO	
Credit Risk	Credit management in operational areas	CRC	Credit Risk	
Operational Risk	All business areas	LORC	Operational Risk	
Conduct Risk	All business areas	LORC	Compliance	
Regulatory Risk	All business areas	LORC	Compliance	
Financial Crime Risk	All business areas	LORC	Fraud and Financial Crime	

3 Risk Management

Risk is defined in Chetwood as any unexpected future event that could damage the Bank's ability to achieve its strategic, financial or overall business objectives, including damage to earnings capacity, capital positioning, business reputation, cash flows, or result in poor customer outcomes.

Risk taking is fundamental to Chetwood's business profile and hence prudent risk management, limitation and mitigation form an integral part of the Bank's governance structure.

3.1 Framework

Chetwood's approach to risk management uses a number of interconnected frameworks creating a Risk Management Framework (RMF) to address the key risks to which Chetwood is exposed. These are identified, assessed, managed, monitored and reported.

Chetwood Risk Management Strategy									
Risk Management Framework Components									
Governance	3 Lines of Defence	Risk Acceptance	Risk Function	Policies	Identification	Risk Assessment	Control Testing	Monitoring and Reporting
Risk Processes	Risk Appetite							
	Internal Capital Adequacy Assessment Process (ICAAP)							
	Internal Liquidity Adequacy Assessment Process (ILAAP)							
	Recovery Planning							

The RMF is the Bank's highest-level risk framework where the Board sets out the governance of individual risk policies, processes, skills and systems required by Chetwood to effectively manage risk, in compliance with applicable laws and regulations, in particular, the regulations set by the Prudential Regulation Authority and the Financial Conduct Authority.

The application of the risk frameworks includes all material risk types facing the Company and comprises risk management strategy, governance and escalation, risk operating model, risk management processes, monitoring and reporting and risk culture.

The responsibility for identifying and managing the risks of the business rests with the business functions. The Board has ultimate responsibility for overseeing the Company's strategy, risk appetite and control framework. The Board considers Chetwood has in place adequate risk management and controls with regard to the Company's risk profile.

3.2 Risk Culture

Underpinning the effectiveness of the ERMF is a strong risk culture which sets the tone for the Company, influencing the risk consciousness of employees as they conduct their daily activities and pursue business objectives. Chetwood's strong risk culture ensures that current and potential risks are a key consideration in all decisions and that risk management is embedded in all of our processes.

3.3 Risk Operating Model

Chetwood employs a 'Three Lines of Defence' model which defines clear responsibilities and accountabilities, thereby ensuring effective independent assurance over key business activities.

Line	Business Function	Description
First Line of Defence	Operational Business Unit	The Operational Business Units are responsible for identifying, assessing and managing risks and controls related to their own business line activities on a day-to-day basis. First line colleagues operate the business in accordance with the risk management framework and ensure that its requirements are translated into effective operating processes.
Second Line of Defence	Risk and Compliance Functions	Risk and Compliance functions are responsible for the development of the risk framework and supporting policy framework which sets out Chetwood's approach to managing risks, and for the provision of independent oversight and challenge. Risk reports are provided to ExCo and Board Risk Committee. Chetwood's Risk and Compliance function operates independently and reports to the Chief Risk Officer.
Third Line of Defence	Internal Audit	The Internal Audit Function provides independent assurance over the adequacy of the first- and second-line activities in relation to all aspects of the business including the effectiveness of the risk management practices and internal controls. The function is outsourced to PWC and reports directly to the Board via the Board Audit Committee.

3.4 Risk Strategy

Chetwood's risk appetite is formulated to support and maintain financial soundness, confidence from stakeholders and operational resilience. This will ensure that the following strategic risk objectives are met whilst monitoring risk from continuous change and growth:

- Fair outcomes for customers by designing and selling clear and transparent products that consistently meet customer needs;
- A positive reputation and confidence amongst all its stakeholders including customers, employees, distribution partners, investors and regulators;
- Sustainability and on-going viability through effective capital and liquidity generation and stewardship;
- Operational stability and resilience including through our third-party providers; and
- Manage the risk appetite in line with our strategic plan and direction.

Chetwood's risk strategy actively selects customers, products and policies to deliver an acceptable risk adjusted level of return.

Chetwood has adopted a selective approach to the formulation of its risk appetite, designing out risk from a number of areas of the business, thus creating headroom to deploy its risk appetite in strategically relevant parts of the business, namely credit and operational risk, directly connected with delivering smooth digital customer journeys.

Chetwood will also seek out and deploy new and innovative solutions that will help to optimise risk management, such as artificial intelligence solutions within credit assessment or 'regtech' solutions across our risk framework.

3.5 Risk Appetite

Chetwood's Risk Appetite Framework is the overarching structure through which we set individual risk appetites for each principal risk. It also sets out how we monitor performance against risk appetite.

The risk appetite framework comprises the following:

- Overarching Risk Appetite Statement. This is the primary statement outlining our approach to risk-taking in pursuit of our business strategy;
- Individual Risk Appetite Statements. The articulation of the type and level of specific risks that we are willing to take, tolerate or avoid (for each Principal Risk);
- Risk Capacity assessment metrics, limits and tolerances. The maximum level of risk we can assume before breaching constraints determined by regulatory capital or liquidity needs;
- Risk quantitative or qualitative measures that allocate our aggregate risk appetite statements to individual business activities. These may be expressed in terms of minimising (those risks we should avoid), maximising (those risks we like to take), or optimising (those risks we should tolerate and control);
- Risk Profile assessment. The point in time assessment of our risk exposures.

Alongside this definition of our risk appetite framework Chetwood recognises that to truly embed risk appetite within the organisation it is and will remain committed to hire and retain appropriately skilled people, in the right roles (and structure), which put in place processes and policies that:

- Set the strategic plan and objectives as well as the risk strategy and risk capacity;
- Articulate and cascade risk appetite statements and limits, giving due regard to stress testing outputs;
- Monitor and report risk profile versus appetite; and
- Control and correct the risk profile should it deviate from appetite and reassess the risk appetite or strategy (should the need arise) in the light of changes in the business, competitive or control environments.

A full articulation of Chetwood's Risk Appetite is provided in Annex A.

3.6 Key and Emerging Risk Register

Chetwood's key risks are current, emerged risks that have arisen across any of the risk categories and have the potential to have a material impact on the Company's financial position, reputation, or on the sustainability of the business model and which may form and crystallise within a year. 'Emerging risks' are those with potentially significant, but uncertain, outcomes which may form and crystallise beyond a one-year horizon, and which could have a material impact on Chetwood's ability to achieve its long-term strategy.

The identification and monitoring of these risks are integral to the risk management framework and informs business planning activities. It also ensures that risk strategies and activities are appropriately focused upon addressing these concerns.

3.7 Stress Testing and Scenario Analysis

Chetwood recognises the importance of stress testing as a key risk management tool.Its robust approach enables to the assessment of its potential risk profile against risk appetite under expected and stressed operating conditions. Both regulatory and in-house stress scenarios are conducted by Chetwood. Stress testing enables an informed understanding and appreciation of Chetwood's capacity and resilience to withstand and recover from shocks of varying severity. Additionally, stress testing is a key tool in assisting the business in strategic and capital planning, and is critical in assessing the capital and liquidity requirements for the Company's ICAAP and ILAAP.

Scenario analysis focuses on those events that are extreme, but plausible. The objective of scenario analysis is to determine, through qualitative means (i.e. business experience, knowledge and judgement), the potential impact of low frequency, high impact events. The results of scenario analyses are reported to the BRC and form a key input into determining whether the capital requirements that have been defined are sufficient and whether risk appetite has been set at the appropriate level. Scenario analyses based on quantitative assessments are also conducted where there is sufficient market data, such interest rate risk in the banking book (IRRBB).

3.8 Compliance and Customer Outcome Testing

The Compliance Framework is used to provide assurance to the Board, Executive Committee (ExCo) and senior management on the adequacy of policies, procedures, systems and controls to ensure compliance with Chetwood's obligations under the regulatory system.

A risk-based compliance monitoring plan is prepared on an annual basis, outlining both the thematic and on-going monitoring activity that will be undertaken in the following 12-month period. The compliance monitoring approach considers both quantitative and qualitative metrics to provide assurance over the delivery of fair customer outcomes and focuses activity on the following key areas: customer complaints, responsible lending, arrears and collection activity, mortgage intermediary practices and financial promotions and marketing material.

The Director of Risk and Compliance reviews the monitoring plan on a quarterly basis to ensure that it remains in line with business and regulatory requirements.

4 Capital Resources

4.1 Capital Resources

The regulatory capital resources managed by the Company as at 31 March 2021 are as follows:

Capital resources	31 March 2021 ('000s)	Restated to IFRS 31 March 2020 ('000s)
Tier 1		
Ordinary share capital	£113,688	£84,688
Share premium	£2,851	£2,851
Retained earnings	(£65,823)	(£44,513)
Other reserves	£114	£41
Total Equity	£50,830	£43,067
Regulatory deductions	(£193)	(£485)
Total CET1 Capital	£50,637	£42,582
Tier 2 eligible capital	£0	£0
Total Tier 2 Capital	£0	£0
Total regulatory capital	£50,637	£42,582

Current and forecast levels of capital resources are monitored and reviewed by ALCO, the ExCo and the Board on a regular basis. The Company operated above its regulatory capital requirements throughout the period.

The reduction in regulatory deductions is driven by the change in treatment of software intangibles outlined in the EBA technical standards. The Company expects this regulatory treatment of software intangibles to reverse based on the PRA's consultation paper CP5/21, and therefore for internal planning purposes the full deduction of intangible resources continues to be made.

4.2 Capital Risk Mitigation

Chetwood's risk appetite is to avoid any situation which gives rise to capital risk, i.e. that it cannot meet its regulatory obligations. Chetwood will maintain sufficient capital to cover its Total Capital Requirement (TCR) set by its regulators, with sufficient surplus to ensure that corrective action can be implemented before capital ratios are threatened.

4.3 Key Capital Risk Metrics

The following risk appetite metrics have been approved by the Board, and monitored on an ongoing basis:

The Board has established limits and triggers for the following metrics, against which management closely assess compliance, with monthly reporting to ALCO and the Board Risk Committee.

1. Chetwood has no appetite for ever breaching TCR requirements set by the regulator and aims to have an appropriate surplus above this during normal trading conditions, as measured by capital surplus over the TCR.
2. Treasury Credit Risk. Chetwood will comply with the large exposure regime at all times, as measured by the percentage of capital held with a singly counterparty.

4.4 The Leverage Ratio

Chetwood calculates a non-risk based leverage ratio as a supplementary measure to the risk-based capital requirements. At 31 March 2021, the leverage ratio stood at 23%.

	31 March 2021 ('000s)	**31 March 2020 ('000s)**
Total assets exposures	£216,331	£258,034
Adjustments for derivative financial instruments	£44	£9
Leverage ratio exposure measure	**£216,375**	**£258,043**
On-balance sheet exposures	£216,524	£258,519
(Asset amounts deducted in determining Basel III Tier 1 capital)	-£193	-£485
Total on-balance sheet exposures (excluding derivatives and SFTs)	**£216,331**	**£258,034**
Derivative exposures		
Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	£19	£4
Add-on amounts for potential future exposure (PFE)	£25	£5
Total derivative exposures	**£44**	**£9**
Securities financing transaction exposures		
Total securities financing transaction exposures	**£0**	**£0**
Other off-balance sheet exposures		
Off-balance sheet exposure at gross notional amount	£0	£0
Off-balance sheet items	**£0**	**£0**
Capital and total exposures		
Tier 1 capital	**£50,637**	**£42,582**
Total exposures	**£216,375**	**£258,043**
Leverage ratio	**23.4%**	**16.5%**

5 Capital Requirements

5.1 Capital Risk Appetite

Capital Risk is the risk that Chetwood has insufficient capital to cover regulatory requirements and/or the growth plans of the business (which are considered key over the next 12 months). This could arise due to a depletion of capital resources as a result of the crystallization of any of the risks to which the Company is exposed, a failure to secure future capital in the growth stage, or through an increase in risk-weighted assets as a result of rule changes or economic deterioration.

The Chetwood capital management approach is to maintain sufficient and appropriate capital to cover its TCR requirements that are set by our regulators, with sufficient surplus to ensure that corrective action can be implemented before capital ratios are threatened. The Company's capital is actively managed and monitoring capital ratios is a key factor in the planning process and stress testing.

If necessary, balance sheet growth and/or costs will be constrained until such time as the Board is comfortable with the forecast capital position.

5.2 Capital Risk Management

The Company's capital planning and management approach establishes a framework for maintaining current and prospective capital at an appropriate level under various scenarios. Current and forecast levels of capital are monitored against the capital risk appetite approved by the Board and reported to ALCO, the ExCo, Board Risk Committee and the Board on a regular basis. The capital forecast forms an integral component of the annual budgeting process and is updated in line with changes to the business plan. The capital forecast incorporates the impact of known forthcoming regulatory changes to ensure that the Company is well positioned to meet them when implemented.

5.3 Internal Capital Adequacy Assessment Process ("ICAAP")

Chetwood undertakes an ICAAP annually, which makes an assessment of all the material risks faced by the Company and determines the level of capital required to be held against each.

The ICAAP includes a number of severe but plausible stress tests developed collaboratively by Chetwood management across a series of workshops, identifying key risk factors within each of the primary risk appetite categories, exploring individual events that could trigger them, and then collating into a set of narratives, including management mitigating actions.

The ICAAP and associated stress testing is subject to detailed review by and challenge by ALCO, and during dedicated workshops with the Board Risk Committee before final approval by the Board.

5.4 Minimum Capital Requirements

Chetwood uses the standardised approach for credit risk and the basic indicator approach for operational risk in determining the level of capital to be held for regulatory purposes, which requires total capital of 8% to be set aside for its risk weighted assets under its Pillar 1 assessment.

The following table provides an overview an overview of risk weighted assets as at 31 March 2021.

	Exposure Value (£'000)	Risk Weighted Exposure Value (£'000)	Minimum capital requirements (£'000)
Credit risk (excluding counterparty credit risk)	£216,374	£126,942	£10,155
Counterparty credit risk	£450	£450	£36
Operational risk	£51,595	£51,595	£4,128
Total	£268,419	£178,987	£14,319

The following table summarises the minimum capital requirements of the Group as at 31 March 2021.

Capital requirement	'000s	%
Pillar 1	£14,319	8.00%
Pillar 2	£13,956	7.80%
Total Capital Requirement	**£28,275**	**15.80%**
Capital Conservation Buffer	£4,475	2.50%
UK Countercyclical Buffer	£0	0.00%
Total (excluding PRA buffer)	**£32,750**	**18.30%**

6 Credit Risk

Credit risk is the risk of financial loss arising from the borrower, or a counterparty, failing to meet their financial obligations to the Company in accordance with agreed terms.

The risk arises primarily from the Company's lending activities as a result of defaulting loans. Credit risk also exists with treasury assets where the Company has acquired securities or placed cash deposits with other financial institutions.

Lending products are a core aspect of Chetwood's purpose and strategy with the business model aligned to the growth in unsecured and secured RWAs. As a result, Credit is a Principal Risk that the Company likes to take.

The Company has set an overall credit risk appetite for lending activities, with expected losses factored into the budgeting and forecasting process which reflect emerging performance data and prevailing economic data. The Company recognises that actual losses may differ from forecasted or budgeted values.

6.1 Credit Exposures

6.1.1 Value, Risk Weight and Minimum Capital

The following table sets out Chetwood's credit risk exposures, risk-weighted assets and minimum capital requirements under Pillar 1 for each of the respective exposure classes as at 31 March 2021. Chetwood uses the standardised approach in determining the level of capital necessary for regulatory purposes, whereby the Pillar 1 requirement is 8% of the risk-weighted assets

	Exposure Value ('000s)	**Risk Weighted Exposure Value ('000s)**	**Minimum capital requirements ('000s)**
Central governments or central banks	£44,512	£0	£0
Institutions	£8,655	£1,731	£138
Retail	£154,827	£116,121	£9,290
Exposures in default	£1,422	£2,132	£171
Other items	£6,958	£6,958	£556
Total Credit Exposures	£216,374	£126,942	£10,155
Operational Risk	£51,595	£51,595	£4,128
Credit Value Adjustment	£450	£450	£36
Total Pillar 1 Capital requirement	£268,419	£178,987	£14,319

All loans and advances to customers are unsecured personal loans with no collateral held as security.

6.1.2 Exposures by Geography

All of Chetwood's loans are to customers resident in the UK, therefore no geographical breakdown (EU CRB-C) is provided.

6.1.3 Exposures by Industry or Counterparty Type

All of Chetwood's lending is to retail customers, there no breakdown by industry or counterparty type (EU CRB-D) is provided.

6.1.4 Exposures by Residual Maturity

The table below analyses Chetwood's exposures by residual maturity.

	<= 1 year ('000s)	>= 1 year < 5 years ('000s)	> 5 years ('000s)	Total ('000s)
Central governments or central banks	£44,512			£44,512
Institutions	£7,705		£950	£8,655
Loans and advances to customers	£46,721	£107,235	£2,293	£156,249
Other items	£6,958			£6,958
Total credit risk exposures	£105,896	£107,235	£3,243	£216,374

6.2 Credit Quality

To reflect the potential losses that might arise due to creditworthiness risk, Chetwood recognises loan loss impairments on its financial assets using a forward-looking Expected Credit Loss (ECL) model, in accordance with the requirements of IFRS 9 'Financial Instruments'. ECLs are an unbiased probability-weighted estimate of credit losses determined by evaluating a range of possible outcomes.

On initial recognition, all loans are recognised in IFRS 9 stage 1. The loan moves to stage 2 when a significant increase in credit risk (SICR) becomes evident, such as a missed payment. A loan moves to stage 3 and is deemed to have defaulted when it is 90 days in arrears or it is otherwise considered unlikely payment will be received.

The following tables provide a reconciliation of the gross carrying amount and ECL, between the start and end of the period, split by IFRS9 stage.

Gross carrying amount	Stage 1 ('000s)	Stage 2 ('000s)	Stage 3 ('000s)	Total ('000s)
31st March 2020	£129,812	£19,204	£9,289	£158,305
Capital Repayments & Write offs	-£45,780	-£4,884	-£9,305	-£59,969
Stage movements				
- Transfers to Stage 1	£7,738	-£7,659	-£79	£0
- Transfers to Stage 2	-£13,568	£13,603	-£35	£0
- Transfers to Stage 3	-£7,229	-£5,716	£12,946	£0
New Originations	£74,524	£7,516	£1,770	£83,809
31st March 2021	£145,496	£22,064	£14,585	£182,145

Expected Credit Loss	**Stage 1 ('000s)**	**Stage 2 ('000s)**	**Stage 3 ('000s)**	**Total ('000s)**
31st March 2020	£6,547	£6,541	£8,312	£21,400
Capital Repayments & Write offs	-£4,309	£2,324	-£707	-£2,692
Stage movements				
- Transfers to Stage 1	£1,813	-£1,743	-£70	£0
- Transfers to Stage 2	-£819	£850	-£31	£0
- Transfers to Stage 3	-£442	-£2,953	£3,395	£0
New Originations	£3,502	£2,130	£1,556	£7,188
31st March 2021	£6,292	£7,149	£12,455	£25,896

As summarized above, as at 31 March 2021 Chetwood recognises a loan loss impairment of £25,896k against a gross carrying amount of £182,145k, resulting in a net exposure of £156,249k, consistent with the credit risk exposures stated earlier.

6.3 Covid-19 Concessions

To address the exceptional challenges posed by Covid-19, Chetwood responded swiftly to support customers, proactively offering repayment holidays. The Company has granted 5,775 payment holidays in total to customers needing support. As at 31 March 2021, the total sum of loans and advances to customers that were on payment holiday stood at £2,580k; whilst during the year the cumulative total sum of all loans and advances that took a payment holiday equalled £25,806k.

6.4 Credit Risk Mitigation

Chetwood has made significant improvements to its credit risk assessment capabilities during the last year, establishing a Centre of Excellence for Data Science and Advanced Analytics, and implementing an in-house proprietary decisioning system, using state-of-the art technology.

This has culminated in replacement of Chetwood's initial generic loan application scorecard with a new, more predictive, scorecard incorporating Chetwood own loan performance data. Furthermore, a pipeline of additional changes is planned, which is expected to drive further improvement in new business net interest margin and risk adjusted margin than achieved in previous years, for a similar credit risk profile.

7 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk.

Chetwood utilises the Risk and Control Self-Assessment (RCSA) methodology as one of the key operational risk management processes across Chetwood. All business areas are required to complete self-assessment to identify and assess the risks to which it is exposed. The RCSA is now embedded across all of Chetwood's business areas. The activity is supported by the second line of defence through the provision of tools, training and guidance.

Chetwood's key control population, as identified through the RCSA process and managed through a GRC software system, is subject to a regular testing and attestation process to ensure that there is a robust control environment in operation.

Chetwood has adopted the Basic Indicator Approach for calculating its Pillar 1 capital requirements for Operational Risk, whereby RWAs are normally 15% of a three-year historic average of Net Interest Income (NII).

As a start-up bank experiencing high growth, Chetwood does not believe that a standard 3-year historic average of NII is appropriate, as the purely backward-looking view underestimates the current level of risk.

The total risk weighted asset requirement under this approach as at 31 March 2021 was £51.6m.

8 Market Risk

Market risk is the risk that the value of, or net income arising from, the Company's assets and liabilities changes as a result of changes to market factors, in particular interest rates, exchange rates or equity prices. The main market risk faced by the Company is interest rate risk which is the risk of loss through mismatched asset and liability positions sensitive to changes in interest rates. Interest rate risk consists of asset-liability gap risk and basis risk.

The Company's risk appetite is that Interest Rate risk is generally to be tolerated within closely observed limits, with any exposure to risk arising from exchange rate or equity prices to be kept to an absolute minimum. The risk is monitored through both earnings and value metrics, across a range of interest rate scenarios.

Chetwood will not carry out proprietary trading, although certain liquid asset investments which form part of the liquid asset buffer carry mark to market risk which will be regularly monitored. These investments are held in government securities. Chetwood does not hold foreign currency, carry out proprietary trading or hold any positions in assets or equities which are actively traded. As such, Chetwood has no Pillar 1 charge for market risk

Chetwood employs the regulatory PV200 measure, assuming an instantaneous, parallel, upwards and downwards shock in interest rates of 200 basis points. As at 31st March 2021, this would result in an impact on economic value of -£552k and +£561k.

9 Liquidity Risk

Liquidity risk is the risk that Chetwood is not able to meet its financial obligations as they fall due or can do so only at excessive cost.

The risk appetite of the Company is that this risk is to be avoided, with the Company holding excess liquidity significantly over and above its regulatory minima until such time as its cash flow forecasts and assumptions are mature.

9.1. Liquidity Risk Management

To protect the Company against liquidity risks, a liquidity buffer is maintained which is based on the liquidity needs under stress conditions. The liquidity buffer is monitored on a daily basis to ensure that sufficient liquid resources are maintained to cover all forecast cash flow movements and to support anticipated asset growth.

Through Chetwood's ILAAP process, an assessment is made on the extent of liquidity required to cover both systemic and idiosyncratic risks. The ILAAP process determines the appropriate liquidity buffer taking into account the specific nature of the future deposit base and other liquidity drivers.

Liquidity risks are specifically considered by ALCO on at least a monthly basis.

9.2. Liquidity Ratios

Chetwood launched retail deposits to the public in March 2018 with a fixed term offering. Given the early stage of Chetwood's development and the limited value of outflows, the calculation of the Liquidity Coverage Ratio (LCR) results in a very high value. Chetwood's LCR ratio as at 31st March 2021 was 51,086%, which is above the minimum regulatory-prescribed level of 100%.

The Company's Net Stable Funding Ratio (NSFR) as at the 31 March 2020 was 146.5%, which is above the minimum regulatory-prescribed level of 100%.

10 Remuneration

10.1 Approach to Remuneration

At Chetwood our purpose is to “use technology to make customers better off”.

When recruiting, we seek people with the right values, who will generally not be motivated by short term financial gain or variable reward. Our approach to remuneration seeks to ensure that all our people are fairly rewarded and have a real stake in the future success of the firm.

For the purposes of establishing the Company’s Remuneration Policy, Chetwood has been assessed as a “proportionality level 3” firm. The policy is to set remuneration levels which are aligned with the overall Risk Appetite and to ensure that Executive Directors, Senior Management and Employees are fairly and responsibly rewarded in return for high levels of individual and business performance.

10.2 Methods of Remuneration

The following approach is adopted in establishing remuneration for Chetwood Employees and Directors.

10.2.1 Fixed Pay

Fixed pay, which comprises of base salary and other fixed pay allowances, is set at an appropriate level to attract and retain people of the required calibre and values. Fixed pay will reflect the responsibility, professional experience, technical and leadership skills required of the role, criticality or scarcity of skills, as well as the individual’s capability to perform the duties of the role within Chetwood. Chetwood will pay at or around market median pay, adjusted for local geography as appropriate, of an appropriate peer group of a similar financial size and complexity to Chetwood.

Culturally, we will continue to employ people who we believe are committed to our vision, purpose and values.

Fixed pay is set individually, taking into account the role and responsibilities and market data, a practice Chetwood expect to continue. However, as the business grows and we have more people carrying out similar roles, we will review like roles together to ensure fairness and monitor any discrimination, for example equal pay.

Further details on this approach can be found in the Annual Report & Accounts.

10.2.2 Variable Pay

A variable pay scheme was in place throughout the financial year ending 31st March 2021.

The scheme is entirely discretionary, with no decision being made on the extent of payouts until the financial performance for the period is clear and confirmed to the Board’s satisfaction.

The Annual Operating Plan includes a provision for a monthly accrual for variable pay. Annual variable pay awards are determined by both company performance against plan and employee’s individual performance measured against set objectives. Individual performance objectives (based on a balanced scorecard of metrics linked to Customer, Business, Risk and People & Culture) are developed to align with the key goals for Chetwood for the coming year. In assessing individual performance, both financial and non-financial performance measures are considered when determining variable pay.

The variable pay scheme will contain three cohorts of participants:

- Executive, defined as a member of the Executive Committee
- Leadership Group, defined as performing a key leadership position within the business, with significant levels of responsibility and accountability
- Employee, remainder of employees.

Each cohort is subject to a performance-based assessment.

10.2.3 Guaranteed Variable Pay

Guaranteed variable pay does not form part of any prospective remuneration plans. Guaranteed variable pay is only awarded in exceptional circumstances in the context of new hires and will be limited to an employee's first year of service. Such awards do not confer any rights to future remuneration and are only made within the boundaries of relevant regulatory requirements.

10.2.4 Buy-outs

In the case of any buy-out from a previous employer, Chetwood ensures that all buy-out awards made to MRTs are made in line with the UK remuneration rules and regulatory requirements.

10.2.5 Share Awards

No performance-based share awards were made at any time throughout the financial year ending 31 March 2021. Restricted shares in Shropshire Holdings Limited, the parent company of Chetwood Financial Limited are awarded to certain Executive and Senior Management positions within the company. During the year ended 31 March 2021 245,935 shares were awarded, 171,935 restricted shares were outstanding at the balance sheet date.

10.3 Remuneration Decision Making Process

Chetwood has established a remuneration committee (Remco) comprising 3 Non-Executive Directors. Following a review of Board Committees this has been increased to 4 Non-Executive Directors from May 2021 onwards. No Non-Executive Director receives any variable pay. Whilst the firm remains below 150 employees, the Remuneration Committee (Remco) will take a broad remit considering all aspects of remuneration for the whole firm. As Chetwood grows, that approach is likely to evolve with some areas of remuneration management likely to be delegated to other fora.

We will review salaries on an annual basis but will not normally carry out across the board "inflation" based pay rises. Any salary increments over 10% of base salary for staff will require approval by the CEO, any change to remuneration for Material Risk Takers (MRTs) will be approved by Remco.

Any individuals who are recruited into Chetwood with a salary in excess of £100k per annum will be approved by Remco; below this threshold decisions are made by the respective ExCo members in conjunction with the Head of People.

10.4 Remuneration for Material Risk Takers (MRT)

As at 31 March 2021, there were 22 employees, defined as Material Risk Takers, including the Bank's Executive and Non-Executive Directors, and others included under the Senior Managers and Certification Regime (SMCR).

A summary of remuneration for these employees can be seen below.

	Senior Management ('000s)	**Other MRTs ('000s)**
Fixed	£1,540	£1,112
Variable	£279	£136
Total	**£1,819**	**£1,248**

11 Other Disclosures

Chetwood:

- has no regulatory trading book
- has no encumbered assets and has not received any collateral and associated liabilities
- has not been identified as having any global or domestic systemic importance
- has no minimum requirements for Own funds and Eligible Liabilities (MREL) above its minimum capital requirement
- does not act as a sponsor or originator in securitisations and has no resecuritisation positions

12 Annex A: Risk Appetite Statements

Chetwood has identified the following major risks and they are considered regularly through the appropriate committee and subsequently by Board Risk Committee:

Principal Risk	Definition	Appetite
Strategic Risk	The risk which can affect Chetwood's ability to achieve its corporate and strategic objectives either through the strategy failing to respond to changes in the market, or management taking poor strategic decisions or poorly executing such decisions.	The Strategic Risk appetite is measured in terms of the deviation against key performance indicators which form part of Chetwood's business plan. Overall, given the nature of the market entry embedded within the strategic plan, a level of volatility is anticipated in the early years of the business which is to be tolerated within Board set limits.
Capital Risk	The risk that Chetwood has insufficient capital to cover regulatory requirements and/or the growth plans of the business.	This risk is to be avoided. Chetwood will maintain sufficient capital to cover its ICG requirements that are set by our regulators, with sufficient surplus to ensure that corrective action can be implemented before capital ratios are threatened. If necessary, balance sheet growth and/or costs will be constrained until such time as the Board is comfortable with the forecast capital position.
Liquidity Risk	The risk that Chetwood is not able to meet financial obligations as they fall due or can do so only at excessive cost.	This risk is to be avoided, with the Bank holding excess liquidity significantly over and above its regulatory minima until such time as its cash flow forecasts and assumptions are mature and can be relied upon.
Market Risk	The risk that the value of, or net income arising from, the Company's assets and liabilities changes as a result of changes to market factors, in particular interest rates, exchange rates or equity prices.	Interest rate risk is generally to be tolerated within closely observed limits, with any exposure to risk arising from exchange rate or equity prices to be kept to an absolute minimum.
Credit Risk	The risk of financial loss arising from the borrower or a counterparty failing to meet their financial obligations to the Company in accordance with agreed terms.	Credit is a risk that the Bank likes to take and Chetwood has a higher risk appetite than main-stream banks, but not to the extent of becoming a sub-prime lender. Accordingly, our previously stated appetite threshold of not lending at rates above 39.9% APR

Principal Risk	Definition	Appetite
		still applies as a back-drop to our specific credit risk appetite metrics.
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This risk includes technology, information security, change management, outsourcing, people, legal, and financial control risks.	Chetwood accepts that operational risk cannot be fully eliminated and applies a cost/benefit approach to limit its exposure with a focus on protecting its earnings, information assets, customer service, legal and regulatory compliance, and reputation. Chetwood has minimal appetite for failures caused by inadequate systems, processes or procedures that could materially impact its ability to service customers.
Conduct Risk	The risk that products or services result in poor outcomes for customers as a result of inappropriate culture, internal practices, decision making, conflicts of interest or poor product governance.	Chetwood has absolutely minimal appetite for systemic or material conduct risk issues. It is accepted that occasionally isolated instances may occur. In these circumstances, Chetwood will resolve the issue as soon as possible, remedy any customer detriment immediately and promptly take any remedial action necessary to prevent reoccurrence.
Regulatory Risk	The failure to comply with, or effectively respond to changes in, applicable regulations, principles, codes of conduct and standards of good practice resulting in regulatory sanctions, financial loss or reputational damage.	Chetwood has absolutely minimal risk appetite for systemic or material regulatory risk issues. It is accepted that occasionally isolated breaches may occur. In these circumstances, Chetwood will resolve the issue as soon as possible, remedy any customer detriment immediately and promptly take any remedial action necessary to prevent reoccurrence.
Financial Crime	The risk of Chetwood's products, systems or assets being abused for the purposes of money laundering, terrorist financing, bribery and corruption, or fraud resulting in material financial loss, legal or regulatory sanctions or reputational damage.	Chetwood has absolutely minimal risk appetite for systemic or material financial crime risk issues. It is accepted that occasionally isolated breaches may occur. In these circumstances, Chetwood will resolve the issue as soon as possible, remedy any customer detriment immediately and promptly take any remedial action necessary to prevent reoccurrence

Principal Risk	Definition	Appetite
Reputational Risk	Defined as the potential negative consequences arising from a failure to meet the expectations and standards of our customers, investors, regulators or other counterparties during the conduct of any of our business activities. This includes not just the Company itself but all employees and other agents acting for, or otherwise associated with, Chetwood.	At Chetwood, our purpose is to "use technology to make people better off". As a result, we naturally have a minimal appetite for reputational risk. We have zero tolerance for headline risk associated with unacceptable business practices, privacy breaches, and internal fraud. We will seek to eliminate the potential for material risk events of this nature by: ● All employees being aware of their expected behaviours under the Code of Conduct; ● Not knowingly engaging in any activity or association where foreseeable reputational damage to Chetwood has been identified; ● Identifying and assessing reputational risk events with the Board and establishing clear mitigating plans and actions; and ● Maintaining open and transparent relationships with regulators and other key stakeholder groups.