CHETWOOD
FINANCIAL LIMITED

Pillar 3 Disclosures

June 2020

Contents

1. Introduction

1.1. Overview

This document provides the Pillar 3 disclosures required of Chetwood Financial Limited as at 31 March 2020.

Chetwood Financial Limited 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 useful information on the capital and risk profile of Chetwood Financial Limited 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 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 2020. Having commenced lending in February 2018, Chetwood now has customer assets of £145m on the balance sheet as at financial year end on 31 March 2020. Chetwood's savings product SmartSave was launched in March 2019 with deposits of £211m at 31 March 2020.

Chetwood currently prepares its Financial Statements under FRS 102. Chetwood has developed an IFRS9 expected loss model that will be adopted in due course.

1.2. Summary analysis

A high-level summary of the key capital ratios for Chetwood Financial Ltd as at 31 March 2020 is provided below:

	As at 31 March 2020
Common Equity Tier 1	£50.7m
Tier 1 Ratio	30%
Total Capital Ratio	31%
Risk Weighted Assets (£m)	£171.0m
Leverage Ratio	19%

Credit Risk Weighted Assets (RWAs)
Credit Risk RWAs as at 31 March 2020 were £119.4m, made up of £112.1m customer lending, £5.5m of other assets and £1.8m lending to banks.

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.

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 have been reviewed and approved by the board of directors who are satisfied that the disclosures accurately and comprehensively describe the Company's risk profile. The disclosures are not subject to audit.

2. Risk management objectives and policies

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. Chetwood adopts an Enterprise Risk Management Framework (ERMF) which sets out the Bank's approach to the identification, assessment and management of risk.

The ERMF 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.

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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.

2.1. 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.

2.2. 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.

2.3. 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:

- 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 management;

- 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.

2.4. Risk Appetite

2.4.1. Risk Appetite Framework

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 is comprised of 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.

2.4.2. 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:

- Strategic Risk
- Capital Risk
- Liquidity Risk
- Market Risk
- Credit Risk
- Operational Risk
- Conduct Risk
- Regulatory Risk
- Financial Crime
- Reputational Risk

The risk appetite statements below describe each risk and Chetwood's appetite.

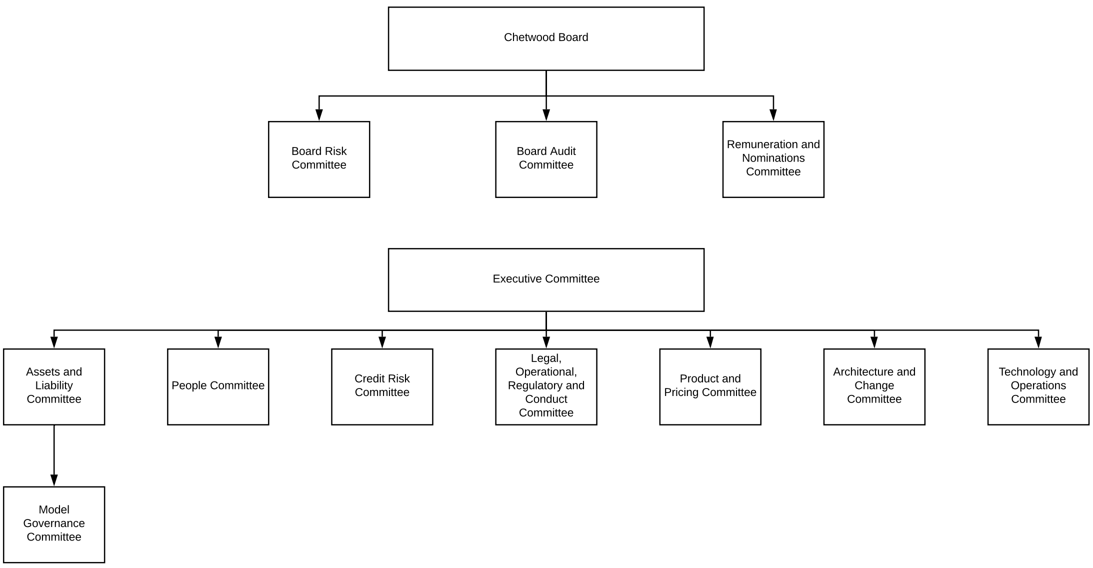
Principal Risk	Definition	Appetite
Strategic Risk	The risk which can affect Chetwood's ability to achieve its corporate and strategic objectives either through the strategy failing to respond to changes in the market, or management taking poor strategic decisions or poorly executing such decisions.	The 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 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.	The Bank has minimal appetite for regulatory enforcement and 'capacity' for the purposes of Regulatory Risk is set at a level which if identified could risk regulatory sanction.
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 minimal appetite for regulatory enforcement and 'capacity' for the purposes of Financial Crime Risk is set at a level which if identified could risk regulatory sanction.

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.	The Bank has 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.

2.5. Risk governance and oversight

Chetwood's risk governance is the architecture within which risks are identified, assessed, managed, monitored and reported. The Board looks to senior management to ensure that the risk management framework and risk governance structure is applied in practice and operates robustly.



The Board is supported by sub-committees with delegated authority.

Throughout the year the Board Risk Committee has undertaken an assessment of the principal risks facing the Company and has reviewed reports from the CRO and risk function regarding the processes for the management and mitigation of those risks. The Risk Committee confirms through its regular review of the risk profile of the Company, the adequacy and effectiveness of the Company's risk management and internal control arrangements for the year. On the basis of its own review the Board considers that it has in place adequate systems and controls with regard to the Company's profile and strategy.

2.6. Monitoring and Reporting

The monitoring and control of risk is a fundamental part of the management process. All senior management are involved in the development and implementation of a Risk Management Framework and in monitoring its application.

Risk monitoring ensures that the selected risk management approach is working effectively, the key requirements of which include:

- Monitoring risk exposures on a regular basis, with the frequency depending upon the materiality of the risk;
- Monitoring principal risks and invoking actions as necessary;
- Agreeing corrective action plans with business areas where the risk monitoring outcomes demonstrate that the risk management approach is not operating as intended;
- Risk reporting provides the Board, ExCo and senior management with an accurate, timely and clear account of the current risk exposure and helps to highlight any risks to the achievement of business objectives.

Reporting requirements for each of the principal risk categories are set out in the individual policies and standards. These are further supported by subordinate policies where necessary. Such reporting includes:

- Regular reporting of key metrics (key risk indicators etc.) and other measures for monitoring control effectiveness and risk exposures against appetite;
- Escalation and reporting of policy breaches and significant control weaknesses;
- Material issues and incidents, including near miss and loss events;
- Progress reporting on control remediation and action plans designed to bring risk exposures back within appetite.

The diagram below illustrates Chetwood's current risk management structure with committees in place to ensure that 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**
Strategic Risk	Executive Committee and Senior Managers	Executive Committee	CRO	Internal Audit
Capital Risk	Finance	Asset and Liability Committee (ALCO)	CRO	
Liquidity Risk	Finance	Asset and Liability Committee (ALCO)	CRO	
Market Risk	Finance	Asset and Liability Committee (ALCO)	CRO	
Model Risk	Finance	Model Risk Committee (delegated through ALCO)	CRO	
Credit Risk	Credit management in operational areas	Credit Risk Committee	Credit Risk	
Operational Risk	All business areas and Technical and Operations Committee (TOC)	Legal, Operational, Regulatory and Conduct Committee (LORC)	Operational Risk	
Conduct Risk	All business areas	Legal, Operational, Regulatory and Conduct Committee (LORC)	Compliance	
Regulatory Risk	All business areas	Legal, Operational, Regulatory and Conduct Committee (LORC)	Compliance	
Financial Crime Risk	All business areas	Legal, Operational, Regulatory and Conduct Committee (LORC)	Fraud and Financial Crime	
Reputational Risk	All business areas	Legal, Operational, Regulatory and Conduct Committee (LORC)	Operational Risk	

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

Architecture and Change Committee (ACC) – a sub-committee of the Executive Committee tasked with monitoring the Company's technology, change management agenda and cyber security implementation;

Product & Pricing Committee (PPC) – a sub-committee of the Executive Committee tasked with the approval of new products and review performance for existing products, together with oversight of pricing strategies.

Technology & Operations Committee (TOC)– a sub-committee of the Executive Committee, the purpose of the TOC is to monitor business performance and capacity levels across Technology and Operations within Chetwood and its suppliers.

2.7. Risk management processes

The risk management processes described below outline the key requirements for the way in which risk management is conducted across Chetwood.

The process seeks to identify the risks to which Chetwood is exposed across each of the material risk categories. The risk identification process requires in-depth knowledge of the Company's strategic objectives, business objectives and operational processes and includes a detailed review of the risk factors that could impact Chetwood. Consideration is given to the potential impact upon elements such as the balance sheet, profit and loss, customers, employees, reputation, regulators, investors and other stakeholders.

A regular risk review cycle is integrated into the business planning process, new product development and project management process.

2.7.1. Risk measurement

Risk measurement quantifies the risks to the business and allows the selection of the appropriate means to manage the risk and enables appropriate resources to be dedicated to risk management.

2.7.2. Risk Control Self-Assessment (RCSA)

The RCSA methodology is one of the key 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.

2.7.3. 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 is 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.

2.7.4. Stress testing and scenario analysis

Chetwood recognises the importance of stress testing as a key risk management tool and its robust stress testing approach enables the Company to assess its 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 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 the scenario analysis 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 a wealth of market data, such as the assessment of the Company's interest risk in the banking book (IRRBB).

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

3. Capital Resources

3.1. 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).

Chetwood will maintain sufficient 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.

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

3.2. 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.

3.3. Capital Resources

The regulatory capital resources managed by the Company as at 31 March 2020 are as follows:

	£ '000
Share capital	84,688
Share premium	2,851
Retained earnings	(36,357)
Intangible assets	(485)
Common equity tier 1 capital	50,697
Tier 2 capital	2,138
Total regulatory capital	52,835

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.

3.4. Key capital risk mitigations

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.

3.5. 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.

3.6. The leverage ratio

At 31 March 2020, the leverage ratio stood at 19%.

4. 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 a defaulting loan. 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.

The Company uses the standardised approach 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 total financial statement position exposure as at 31 March 2020 is summarised as follows:

	As at 31 March 2020 £ '000
Cash and balances with the Bank of England	80,122
Loans and advances to banks	8,358
Investment in debt securities	30,170
Derivative financial instruments	(5)
Net loans and advances to customers	145,022
Total financial statement position exposure	263,667

All loans and advances to customers are unsecured personal loans with no collateral held as security. Of the 32,038 loans on the book at 31 March 2020, there were 1,624 which were in arrears and 1,790 in default at the reporting date. This compared to 11,351 loans on the book of which there were 377 in arrears and 277 in default at 31 March 2019.

The Company's lending portfolio (by number of accounts) falls into the following concentration by loan size:

	As at 31 March 2020
	%
£0 - £10,000	81
£10,001 - £16,000	19

4.1 Credit risk mitigation

The Company deploys a number of techniques and strategies to build a credit portfolio in line with its stated risk appetite and strategic plan. This mainly involves the use of credit scoring and policy rules together with an affordability assessment that determines an individual's ability to service the loan that has been applied for. These models will be constantly updated to reflect credit experience as the lending book grows.

5. 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 and can be relied upon.

5.1. 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.

5.2. 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 2020 was 68,110%.

The Company's Net Stable Funding Ratio (NSFR) as at the 31 March 2020 was 193%, which is above the minimum regulatory-prescribed level of 100%.

6. Strategic risk

Strategic Risk is 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.

7. 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.

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.

Chetwood considers a 200-basis points movement to be appropriate for scenario testing given the current economic outlook and industry expectations. As at the balance sheet date, 31st March 2020 the change in equity as a result of a 200-basis movement ranged between a net present value of minus 0.73% and plus 0.78% of own funds.

8. 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 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 2020 was £51.6m.

9. Conduct risk

Conduct risk is 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 risk 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.

Risk is measured through the risk management framework and no material deviations to the risk appetite have occurred during the year.

10. Regulatory risk

Regulatory risk is 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.

Risk is measured through the risk management framework and there have been no material breaches against the risk appetite metrics.

11. Financial crime risk

Financial crime is 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.

Risk is measured through the risk management framework and there have been no material breaches against the risk appetite metrics.

12. Reputational risk

Reputational risk is 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 will seek to eliminate the potential for material risk events of this nature by:

- All employees being aware of their expected behaviour 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.

Risk is measured through the risk management framework and there have been no material breaches against the risk appetite metrics.

13. Remuneration

13.1. 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.

13.2. Methods of Remuneration

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

13.2.1. Fixed Pay

Fixed pay is set at an appropriate level to attract and retain people of the required calibre and values. Fixed pay will reflect the individual's skills, experience, performance and 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.

Fixed pay is set individually, 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.

13.2.2. Variable Pay

A variable pay scheme was in place throughout the financial year ending 31st March 2020.

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 of participating members' base salary costs. This is reviewed regularly, with accruals being suspended or withheld should operating issues be encountered.

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.

Based on the prevailing macroeconomic circumstances due to the Covid-19 pandemic the decision was made by Remco to not award any variable pay for the year ended 31 March 2020.

13.2.3. Share Awards

No performance-based share awards were made at any time throughout the financial year ending 31 March 2020. 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 2020 50,045 shares were awarded of which 40,045 were outstanding at the balance sheet date.

13.3. Remuneration decision making process

Chetwood has established a remuneration committee (Remco) which comprised of 4 Non-Executive Directors. Following a review of Board Committees this has been reduced to 3 Non-Executive Directors from July 2020 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.

13.4. Remuneration for material risk takers (MRT)

As at 31 March 2020, there were 20 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	1,138	1,839
Variable	0	0
Total	1,138	1,839