Chetwood Financial Limited

Annual Report and Financial Statements for the year ended 31 March 2023

Registered number 09964966

Company information

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Registered Number

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Strategic Report

The directors present their strategic report and the audited financial statements of Chetwood Financial Limited Group (“Chetwood” or “the Group”) for the year ended 31 March 2023. Chetwood Financial Limited trade digitally as a UK regulated bank.

Review of the business

The principal activities of the Group are the provision of banking services, consumer lending and savings products. As well as lending on its own behalf, Chetwood utilises its knowledge of UK consumer asset classes to opportunistically acquire mortgage loans from third parties by way of forward flow arrangements and whole loan portfolio purchases. Chetwood owns Yobota Limited, a technology company. Yobota provides Chetwood with its core banking system.

Chetwood Financial Limited is a digital UK retail savings bank. It is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, under registration number 740551. The key financial performance indicators during the year were as follows:

	Group Year ended 31 March 2023	Group Year ended 31 March 2022
Unsecured gross loans and advances to customers (£’000)	119,116	189,478
Secured gross loans and advances to customers (£'000)	564,686	147,644
Customer deposits (£’000)	1,383,305	322,625
Net interest income (£’000)	20,492	27,213
Impairment allowance as a % of gross loans and advances to customers at amortised cost	5.5%	10.8%
Loss for the financial year (£’000)	58,148	29,753

The performance in the financial year has been disrupted by significant macro-economic uncertainty, which made it difficult for Chetwood to continue to profitably lend at scale into its core unsecured assets classes, whilst also impacting the performance of existing unsecured assets on its balance sheet. Nonetheless, action taken at the start of the year – in particular to set up an ‘originate to sell’ model for the business’s loan origination, to invest in UK mortgage valuation expertise, and to build up a healthy excess of cheap funding - enabled Chetwood to mitigate to a reasonable extent the impact of the economic downturn, by ensuring that the balance sheet was not overly weighted towards unsecured lending, whilst also ensuring that the business could take advantage of mortgage portfolio purchase opportunities as they presented themselves. Consequently, Chetwood has materially grown its balance sheet into lower credit risk secured prime buy-to-let lending, increasing gross loans and advances to customers by £346m, ending the year on £683m (2022: £337m). This includes the purchase of £292.7m of mortgage assets, purchased at an average discount to par of 9.4%, together with mortgage loans purchased by way of 3 forward flow arrangements the bank has in place (whereby it purchases to order newly completed mortgage assets).

At the year end 82.6% (2022: 43.8%) of the net loan book was secured mortgage assets. As a result, the overall provision coverage has reduced to 5.5% of gross loans held at amortised cost (2022: 10.8%), versus a coverage ratio of 35.8% (2022: 20%) against unsecured assets held at amortised cost in isolation.

This change de-risks Chetwood by weighting its balance sheet towards assets that are less susceptible to macro economic instability, whilst also providing it with a dual business model whereby it can act as both a platform originator and balance sheet aggregator across its three core lending businesses: mortgages, unsecured loans and credit cards.

The Group recognises that despite the decrease in the overall provision coverage, the risks to the performance of the unsecured book have remained heightened post Covid-19, with the current inflationary pressures within the UK economy causing further uncertainty. This is a key driver of the £25.1m impairment loss in the year (2022: £30.7m).

As a result of the balance sheet shift towards lower yielding. lower risk secured mortgage assets, net interest income fell by 24.7% to £20.5m (2022: £27.2m). At the same time customer deposits increased to £1,383m (2022: £323m) as the Group utilised its self-built SmartSave retail deposit proposition to take full advantage of the relatively cheap retail funding available, when swapped to a margin over SONIA. It also onboarded the Flagstone savings platform to enable it to diversify its funding opportunities into different savings tenors. The continued investment in growth has seen the Group make a loss after tax of £58m (2022: £29.8m).

Acknowledging the growing prominence of Treasury activity in the business plan, the Risk function has invested in increasing both capacity and capability within the second line Risk team. Furthermore, the creation of the dedicated Commercial directorate in the first line has enabled more specific segregation of first and second line of defence responsibilities with regard to credit risk. This represents a commitment from management to ensure that risk management systems, processes and resources continue to mature and are aligned to the growth of the business.

Investment in innovation has also remained at the forefront of the business model, with a focus on data and analytics capability and the technology required to support its existing loans and cards businesses, whilst also building out an organic mortgage proposition, which is on track to be launched to market during the second half of the next financial year. The Group is fortunate to have had the continuing support of its shareholders during this period, as well as the commitment of dedicated employees.

During the year, the Group has continued to consolidate its investment in its Data Science and Advanced Analytics capability, supplementing the existing capability by hiring a new Data Science Director with over 20 years’ experience of building outstanding data science functions in a number of market-leading retail lenders. We have supplemented our existing acquisitions scorecards with our first scorecard developed using purely in-house talent and data and, in parallel, have implemented a new decisioning system which should leave Chetwood well placed to react far more effectively to changes in the market and customer behaviour.

We have also implemented a number of machine learning pricing models to complement our underwriting scorecard, with these significant improvements in pricing analytics expected to drive better loan level economics for new business than achieved in previous years, for a similar credit risk profile.

Whilst the uncertain macro-economic backdrop has undoubtably slowed the business’s growth in unsecured lending in the year, the ability to utilise the downturn to grow inorganically the balance sheet through profitable mortgage portfolio acquisitions has nonetheless helped Chetwood to maintain its trajectory towards profitability in the coming years.

Future developments

The principal investor has demonstrated their continued support of the Group’s growth plans by injecting £84.6m of capital during the year and a further £47m between the balance sheet date and the date of signing. Further capital injections are anticipated in the coming year, to support growth predictions.

The Group strategy is designed to grow market share within a competitive market, whilst remaining within risk appetite. The Group expects to build lending and savings trading volumes and to launch its organic mortgage product in 2023.

The Group recognises the risks to business performance associated with the current inflationary pressures within the UK economy, which may manifest in a recession during the next financial year, and that the impact may be amplified for a business such as Chetwood, which needs further growth in its balance sheet and lending activities to reach profitability. The Group further recognises that its exposure to unsecured consumer credit may particularly be impacted by the squeeze in affordability as a consequence of the increase in the cost of living.

Risk management

The Board recognises the importance of having a robust risk culture and supports the key factors that contribute to an open and transparent environment, where knowledgeable and skilled individuals take intelligent risk decisions aligned to clear policies, in pursuit of the Group's defined strategy.

The Group is committed to delivering a robust approach to its management of risk, across all three lines of defence, and every colleague is expected to support this process. The Board has ultimate responsibility for overseeing Group's strategy, risk appetite, risk management and control frameworks.

As a business the Group takes appropriate risks in delivering products and services to its customers. The following principles underpin risk management within its business:

- Risk is taken within a defined risk appetite;
- Risk taken needs to be adequately compensated;
- Risk is factored in the overall decision-making process;
- Risk management frameworks should be dynamic and adaptable to change;
- Risk should be continuously monitored and managed; and
- Risks are considered in terms of their potential impact on customers, colleagues, the Group and the broader market.

Managing risk well is a foundation of the Group's business and underpins its ability to deliver responsible, sustainable growth. It contributes to the strength and sustainability of the Group for the future, and it supports the work the Group does today to serve its customers, shareholders, stakeholders and employees.

i) Risk Categories

Within the Group's business model, the Board has identified the following principal risk areas for regular review and management:

Risk	Description	Mitigation
Strategic Risk	The risk which can affect the Group'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 Group has a clearly defined Board-approved strategy and has assumed a corporate governance framework with a Board of experienced executive and non-executive Directors. The Board sub-committees and executive committees are in place to oversee and address strategic issues as they arise. This is supported by a business plan, Risk Appetite Statement and an experienced executive team.
Interest Rate Risk	The risk of a loss as a consequence of adverse changes in interest rates. This largely arises from a mismatch in the repricing between assets, liabilities and off-balance sheet commitments.	Treasury manage the bank's Interest Rate Risk in the Banking Book (IRRBB) through the use of natural offsets and interest rate swaps, hedging both sides of the balance sheet to a floating rate (SONIA). The Asset and Liability Committee (ALCO) monitor IRRBB through the impact on value of parallel and non-parallel interest rate shocks, and impact to NII.
Capital Risk	The risk that the Group has insufficient capital to cover regulatory requirements and/or the growth plans of the business. In order to ensure sufficient capital is maintained to support growth plans the Group is reliant on the continued support of its Investors. A complete assessment of the Group's capital requirement is contained in its Pillar 3 disclosures published as a separate document on Chetwood's website.	The Group assesses its capital requirements under an Internal Capital Adequacy Assessment Process (ICAAP), in line with its business plan and investment plan. Key metrics are monitored and regularly reviewed by the Executive Committee, through the Assets and Liability Committee (ALCO) and the Board, including its capital adequacy and its operational requirements. The principal investor has direct line of sight over the capital position through management information. In the absence of further equity funding there are other actions management can take to ensure capital remains sufficient.
Liquidity Risk	The risk that the Group is not able to meet financial obligations as they fall due or can do so only at excessive cost.	The Group assesses its liquidity requirements through the Internal Liquidity Adequacy Assessment Process (ILAAP). The end-to-end process and key metrics are overseen by the Assets and Liability Committee with escalation to Board. The Groups key source of liquidity is issuing customer deposits.
Credit Risk	The risk of financial loss arising from the borrower or a counterparty failing to meet their financial obligations to the Group in accordance with agreed terms. This risk is heightened as a result of the impact of COVID-19 and its impact on macro-economic conditions.	The Group's Board approved Credit Policy and Risk Appetite Statement describe the Group's approach to managing credit risk supported by procedures linked to a scorecard-driven customer acquisition and credit management process. Credit exposures are monitored regularly with oversight from the Credit Risk Committee as well as reporting to the Board Risk Committee and Board. The Group has enhanced its management of credit risk focusing on collections functionality, processes and forbearance arrangements for customers. There has also been focus on front-end decisioning, with the in-house developed decisioning tool.

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. This risk includes the exposure to Yobota, a Group subsidiary and provider of the underlying banking platform.	The Group has a suite of operational risk policies and procedures covering the identification, management and reporting of risks associated with technology, information security, change management, outsourcing, people, legal and financial control risks. These risks are managed through the Risk and Control Self-Assessment (RCSA) process by the first line of defence and overseen by second line of defence, which provides assurance with risk management oversight through Operational Risk. This includes oversight of the subsidiary banking platform relationship. The RCSA ensures controls remain appropriate and robust to prevent, detect and mitigate risk. Outcomes of the RCSA as well as material incidents are reported through to the executive team through the Second Line Risk Forum and escalated through to Board Risk Committee as appropriate.
Conduct Risk	The risk that decisions or behaviours lead to detrimental or poor outcomes for customers.	The Group's Conduct Risk Policy sets the framework for the fair treatment of customers as well as ensuring appropriate conduct by staff in line with the Group's expectations and the Financial Conduct Authority's (FCA's) Conduct rules. The Group has a range of measures and thresholds covering the Group's management of conduct risk across the customer journey, including through outsourced services, such as an unsecured loans collections process which is managed by CSL Ltd. The policy is supported by the Risk Appetite Statement and is reported to the Legal, Operational, Regulatory and Conduct Committee.
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.	As a relatively newly licensed Bank Chetwood is subject to close supervision by the regulator. As a result, the Group maintains frequent interaction with the Prudential Regulation Authority (PRA) and the Financial Conduct Authority. A series of policies and procedures are in place to ensure that the Group is compliant with legislation and regulations, including a programme of mandatory staff training.

Within the Operational Risk category particular attention is paid to technology/cyber risk, operational resilience and change risk. Market risk, model risk, reputational risk and financial crime are also monitored and managed within the risk appetite and management framework, which is detailed overleaf.

Environmental, Social and Governance Risk
Chetwood is committed to identifying, monitoring, managing and reporting on Environmental, Social and Governance ("ESG") risk as part of the bank's Enterprise Risk Framework. The European Banking Authority broadly defines ESG risk factors as "environmental, social and governance characteristics that could negatively impact the financial performance or solvency of an entity, sovereign or individual". This is the definition to which the Group refers when considering ESG risks across the business.

Environmental Risk
Environmental risk is monitored through the Second Line Risk Forum. Environmental risks may take the form of physical risks, transition risks or liability risks.

•Physical risks including both short and long term impacts of climate change.
•Transition risks which can arise form the uncertainty caused by the UK Government's policies and legislation on the transition to a net zero economy and societal changes to reduce the impact of climate change.
•Liability risk which is the potential for losses due to litigation against firms because of negative environmental impact.

The Group acknowledges an emerging transition risk relating to minimum energy efficiency standards for rental properties which have the potential to impact the buy-to-let mortgage market. In particular the "Minimum Energy Performance of Buildings (No. 2) Bill" which is in the early stages of parliamentary review and would see landlords required to improve the energy efficiency of rented homes to a minimum 'C' rating initially and eventually to a 'B' rating (from the current minimum 'E' rating). The Bill proposes an implementation date of 2025, progress in this area is being monitored by management.

Social Risks
Social risks include internal factors such as employee wellbeing, diversity and inclusion, health and safety and external factors such as the impact of the Covid-19 pandemic on the economy or financial inclusion and the impact on customer vulnerability.
The Group recognises the important role its products play in society and strives to be a responsible lender, treating customers fairly at all stages of the journey. Chetwood has strong corporate values relating to employee wellbeing, health and safety. The Group also contributes positively to the communities in which it is based through apprenticeship schemes and outreach work with local schools on entrepreneurship and financial education.

Governance Risks
Governance failures can have a material impact on a firm leading to legal or regulatory interventions and a reduction in brand value and reputation. The Group strives for the highest governance standards. During the year the Board Chair commissioned an independent review of governance arrangements across the firm which commented positively on the capability, control and culture across the Bank. Management continue to support the evolution of governance arrangements to ensure they keep pace with the needs of the firm, considering both internal and external factors.

ii) Risk governance and oversight

The Group's risk framework defines the systems, processes and controls by 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 Risk Committee assists the Board in overseeing the effective design and operation of the risk management framework through the review of risk-related information. Aligned to the risk categories described above, the Board approves a series of risk appetite statements which describe the extent to which the business is prepared to take risk in pursuit of its goals. The risk appetite is expressed in the form of a series of strategic risk objectives and risk appetite metrics with a limit structure in place to ensure delivery within appetite.

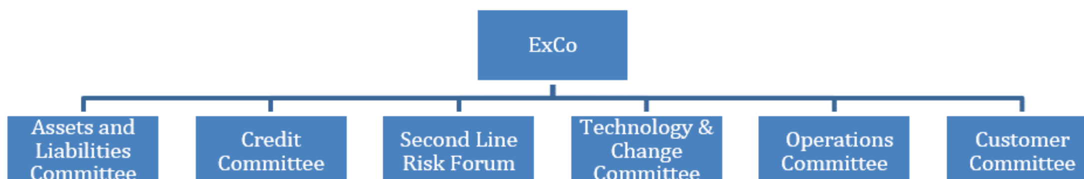
The following diagram illustrates the Group's current risk management governance structure which aligns risks with the appropriate governance committees to ensure the risks are appropriately managed within the agreed risk appetite and in accordance with the risk management framework.

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	Assets and Liability Committee (ALCO)	CRO	
Liquidity Risk	Finance	Assets and Liability Committee (ALCO)	CRO	
Market Risk	Finance	Assets and Liability Committee (ALCO)	CRO	
Credit Risk	Credit management in operational areas	Credit Risk Committee	Risk	
Operational Risk	All business areas and Technical and Operations Committee (TOC)	Second Line Risk Forum (SLRF)	Risk	
Conduct Risk	All business areas	Second Line Risk Forum (SLRF)	Compliance	
Regulatory risk	All business areas	Second Line Risk Forum (SLRF)	Compliance	
Financial Crime Risk	All business areas	Second Line Risk Forum (SLRF)	Fraud and Financial Crime	
Reputational Risk	All business areas	Second Line Risk Forum (SLRF)	Risk	

The following committees are 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.

- Board Risk Committee
- Board Audit Committee
- Remuneration and Nominations Committee
- Executive Committee (ExCo)

ExCo has established a number of sub-committees as set out in the chart below:



iii) Risk Frameworks

The Group's approach to risk management uses a number of interconnected frameworks creating an Enterprise wide Risk Management Framework (ERMF) to address the key risks to which the Group is exposed. These are identified, assessed, managed, monitored and reported to the Board Risk Committee.

The Enterprise wide Risk Management Framework comprises of:

- The Risk Appetite Statement
- A Risk Management Framework (including policies and supporting documentation) together with independent governance and oversight of risk under the Chief Risk Officer
- Articulation of the principal risks as above
- Stress testing of various scenarios

The application of the risk management frameworks includes all material risk types facing the Group and comprises as follows:

a) Risk identification & measurement

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 Group's strategic objectives, business objectives and operational processes and includes a detailed review of the risk factors that could impact Chetwood.

A regular risk review cycle is integrated into the business planning process and new product development and project management process. Xactium/ Risk Connect, a third-party risk management tool, is used as a system of record to support this process and to enable management insight and reporting.

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.

b) Risk appetite

Chetwood's Risk Appetite is formulated to support and maintain financial soundness, confidence from stakeholders and operational resilience. Chetwood's risk appetite ensures 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
- Manage the risk appetite in line with its strategic plan and direction

As a key component of the Enterprise wide Risk Management Framework, the Risk Appetite Statement (RAS) is reviewed, challenged and approved annually by the Chetwood Board. The Risk Appetite metrics were reviewed and updated in the revised RAS that was approved by Board in November 2022; at a high level Chetwood's risk appetite is encapsuled in the following statement:

"We will take risk/reward decisions to deploy our capital in areas that enable us to run an innovative digital bank being safe, sound and sustainable, delivering on our obligations to customers and key stakeholders in a reputable way."

The Risk Appetite is then set out in a number of core thresholds for each principal type of risk, with a series of management triggers and early warning indicators that ensure action is taken before thresholds are approached.

c) 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.

Key outcomes of adopting the three-line model are that Chetwood ensures ownership of risk is embedded throughout its business, and that assurance of robust risk management, control and oversight can be provided to stakeholders.

- First line of defence is 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 is the Risk Function, which is responsible for overseeing the application of the risk management framework and ensuring that the business operates within the risk appetite, limits and tolerances that have been set by the Board.

- Third line of defence is the Internal Audit function, which 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 Group has engaged PwC as internal auditor, PwC report directly to the Board audit committee.

d) Risk Testing and Planning

Stress testing seeks to determine the circumstances where failure might arise under abnormal conditions or as a consequence of the occurrence of extreme, but plausible, events, such as those seen through the 2008 financial crisis. The Group have considered stress outcomes aligned to recently published Office for Budget Responsibility and Bank of England scenarios to determine the impact on future performance.

Following management actions, it is considered the Group would be able to withstand the impact of these stresses given everything known at the time, accepting that there is ongoing uncertainty in the global, macro-economic environment considering matters such as the exit from the pandemic, the war in Ukraine and the increased cost of living within the Group's target UK customer base.

The Group uses stress testing to inform capital and liquidity planning and recovery plans. The stress testing results are subject to scrutiny through the Bank’s governance framework including engagement with internal and external subject matter experts and auditors.

Section 172(1) Statement

For the year ended 31st March 2023, the Directors provide the following statement describing how they have had regard to the matters set out in section 172(1) of The Companies Act 2006 when performing their duty to promote the success of the Group under section 172.

The Board confirms that, for the year ended 31 March 2023, it has acted to promote the success of Chetwood for the benefit of its members as a whole and continues to have due regard to the following matters laid out in S172(1) of the Companies Act 2006:

a) The likely consequences of any decision in the long-term

b) The interest of the Group's employees

c) The need to foster the Group's business relationships with suppliers, customers and others

d) The impact of the Group's operations on the community and the environment

e) The desirability of the Group maintaining a reputation for high standards of business conduct

f) The need to act fairly as between members of the Group

Customers

Chetwood's purpose is to provide financial products that make customers better off, with seamless digital journeys and clear and transparent communications and touchpoints from the beginning.

To ensure the Group provides fair products and services to meet customers' needs, Chetwood carries out extensive research with target markets, testing every touchpoint of the product. Management regularly reviews customer behaviour with the use of MI and analytics, and customer feedback and satisfaction through direct and external channels such as social media and Trustpilot. The Board recognises that positive customer outcomes are essential to Chetwood's success and has oversight of complaint volumes, outcomes and any remediation activity.

The Bank's lending business in particular is impacted by social change effecting the macro economy as seen during the Covid-19 pandemic and the current 'cost of living crisis'. The Group has tailored affordability checks to ensure lending decisions remain responsible and has forbearance measures in place to support existing customers in difficulty. The Group is an advocate of inclusive lending and actively takes measures to ensure a fair and transparent lending process.

Employees

The employees are the Group's biggest asset, maintaining a happy and engaged workforce is key to the Board and they recognise that the culture is of upmost importance. Over the year, a company-wide employee survey was completed to gain greater understanding of ways of working and general view of culture, with the results and any actions discussed with the Board.

Employees are kept fully informed of Chetwood's strategy and performance through a variety of mechanism; including all employee strategy away days and monthly all-team meetings. Through the Remuneration Committee the Board have ultimate oversight and an active role in talent management, succession plans and employee reward schemes.

Following the acquisition of Yobota Limited in early 2022, the Board had oversight of employee communication strategies and activities. Work continued throughout the year to harmonise colleague reward and other "people policies" to ensure a smooth transition to working together as one combined group, towards common goals.

The Group provides equal employment opportunities to all people in all aspects of the employment relationship and is committed to equal employment opportunities to all employees and applicants. It is company policy to select, develop, and promote employees based on the individual's performance.

Shareholders

The Board maintains close relations with its shareholders and regular meetings take place between the ultimate majority shareholder and executives across the Group. The Board have oversight and directly approve any investment activity. The directors ensure that the Group's strategy and practices duly acknowledge the interests of shareholders.

Communities and the environment

Chetwood and its employees are active in the local communities, raising funds for various charities throughout the year. This year has also seen a drive to offer apprenticeship schemes, with apprenticeship offers made across a variety of departments, enabling Chetwood Group employees to pass on knowledge and nurture local talent.

As a digital company without branches, the Group is environmentally aware and strives to further reduce its carbon footprint by encouraging a paperless working environment and limiting travel, including supporting employees to work remotely where business needs allow, an initiative that started prior to the pandemic. The Group has a minimal environmental impact resulting from its operational activities and as a consequence of the transactions it undertakes with customers, however the directors remain diligent in seeking to identify and mitigate environment and sustainability risks as they emerge.

The Board understands Chetwood has a role to play in the climate change and sustainability agenda, recognises the risks and challenges posed by climate change and is increasingly mindful of these risks when making business decisions.

Climate change risk is the risk of loss arising from the impact of climate change on the Group's assets including physical risks related to the increased frequency of detrimental weather events, and transition risks being the potential impacts from the process of moving to a carbon neutral economy, including changes in government policy or consumer behaviour.

An ESG assessment will be undertaken in the coming year, prior to the Group entering into organic mortgage originations, to ensure climate risk and the impact of the UK economy continuing to transition to lower carbon activities is fully considered in designing the Group's future product offerings.

Regulators

Board members and executive management maintain an open and transparent dialogue with supervisory teams at both the Financial Conduct Authority and the Prudential Regulation Authority. Throughout the year these relationships have proven to be productive and supportive.

The views of the regulators are used to inform future plans and the directors review and challenge management throughout the governance framework and specifically through the annual internal capital and liquidity assessment processes.

Suppliers

The Board recognises the important role supplier relationships play in the success of Chetwood.

The management team, engage collaboratively with suppliers to discuss matters of mutual interest, address risks and look to build long-term, mutually beneficial relationships. The Board is given updates from management, as appropriate, regarding the Group's relationships with its suppliers, including with respect to any potential future new suppliers.

How stakeholder interest has influenced decision making

The Board is responsible for the long-term success of the Group. The directors have acted in good faith, in the way that they considered would be most likely to promote the success of the Group for the benefit of its shareholders, but with regard to the interests of all stakeholders and where applicable the communities and environment within which the Group entities operate.

Directors' report

The Directors present their report and audited financial statements of the Group for the year ended 31 March 2023

Directors

The Directors who held office during the period were as follows:

Mr Charles Simon Allsop
Mr Michael Bracken
Mr Alan Cook
Ms Emer Daly
Mr Christopher Daniels (resigned after the year end, 25th April 2023)
Mr Duncan Martin
Mr Andrew Mielczarek
Mr Matthew Symonds

General information

The Company is a private company, limited by shares, incorporated and domiciled in England and Wales (registered number: 09964966).

Qualifying third party indemnity provisions

The Group has put in place qualifying third party indemnity provisions for all of the directors of Chetwood Financial Limited and its subsidiaries. The indemnity provisions were in force during the whole of the financial year and at the date of approval of the financial statements, or from the date of appointment in respect of directors who joined the board during the financial year.

Dividends

No dividend was declared or paid during the current or prior periods. The directors do not recommend the payment of a final dividend for the year (2022: £nil).

Political donations and political expenditure

The Group made no political donations nor incurred any political expenditure during the current or prior period.

Events since the balance sheet date

On the 6th April 2023 Chetwood Financial Limited issued 1 share at £2.004 plus premium, total value £25m to its immediate parent entity, Shropshire Holdings Limited.

On the 10th April 2023 Chetwood Financial Limited purchased the beneficial interest in £227m of prime buy-to-let mortgages in an open market transaction.

On the 26th May 2023 Chetwood Financial Limited purchased the beneficial interest in £251.2m of prime buy-to-let mortgages in an open market transaction.

On the 27th June 2023 Chetwood Financial Limited issued 13,924,051 shares at £0.01 plus £21.9m premium, total value £22m to Alessandro Investments Limited, the immediate parent entity to Shropshire Holdings Limited.

Going concern

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons:
As at 31 March 2023 the Group had cash balances of £688m and a loss for the year of £58m. The existing investor made additional capital injections of £47m after the year end. Cash balances as at 30 June 2023 totalled £630m.

The directors have prepared base case and stressed forecasts, which consider capital requirements, funding and liquidity, for a period of at least 12 months from the date of approval of these financial statements. In assessing the going concern basis of preparation, the directors have considered a severe but plausible downside scenario, aligned to the ICAAP and elements of the Bank of England solvency test, including the assumption of no further funding from its investors and an inflation stress. This scenario is broadly consistent with the most severe downside scenario used in calculating expected credit losses. The forecasts indicate that even in this severe but plausible downside scenario the Group is able to maintain adequate capital and liquidity throughout a period of at least 12 months from the date of approval of these financial statements by making use of available management actions, including cost cutting measures and curtailing lending.

The Group is still in the growth stage and the Directors expect the Group, in the normal course of business, to require additional funding from its investors in order to continue to grow and to fulfil its business plan, until longer-term sustainable profitability is achieved. The principal investor has been consistently supportive to date, including throughout the pandemic, and has indicated that, based on the facts and circumstances they are aware of at the date of signing, it is their current intention to financially support the Group for a period of not less than 12 months from the date of approval of these financial statements. As with any Group placing reliance on its investor for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Based on the above, the going concern basis of accounting has been used to prepare these financial statements.

Matters covered in the Strategic Report

Disclosures required under S416(4) of the Companies Act 2006 are commented upon in the Strategic Report as the directors consider them to be of strategic importance to the Group.

Subsidiary audit exemption

For the year ending 31 March 2023, under section 479C of the Companies Act 2006, Chetwood Financial Limited has guaranteed all outstanding liabilities to which Yobota Limited (company number: 09949171) is subject at the end of the financial year until they are satisfied in full, which exempts Yobota Limited from the requirements of section 479A relating to the audit of individual accounts.

Disclosure of information to the auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditor is unaware; and each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

By order of the board

Andrew Mielczarek Chief
Executive Office and Director
29 August 2023

Charles (Simon) Allsop
Chief Finance Officer
29 August 2023

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic Report, the Directors' Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law they have elected to prepare the Group and parent Company financial statements in accordance with UK-adopted international accounting standards and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of the Group's profit or loss for that period. In preparing each of the Group and parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with UK-adopted international accounting standards;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

By order of the board

Andrew Mielczarek
Chief Executive Office and Director
29 August 2023

Charles (Simon) Allsop
Chief Finance Officer
29 August 2023

Independent auditor's report

to the members of Chetwood Financial Limited

1. Our opinion is unmodified

We have audited the financial statements of Chetwood Financial Limited ("the Company") for the year ended 31 March 2023 which comprise the consolidated statement of total comprehensive income, consolidated statement of financial position, company statement of financial position, consolidated statement of changes in equity, company statement of changes in equity, consolidated and company statement of cashflows, and the related notes, including the accounting policies in note 2.

In our opinion:

— the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2023 and of the Group's loss for the year then ended;

— the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;

— the parent Company financial statements have been properly prepared in accordance with UK-adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006;

— and the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors on 13 April 2017. The period of total uninterrupted engagement is for the six financial years ended 31 March 2023. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: group financial statements as a whole	£1.55m (2022:£1.3m) 1.7% (2022: 1.9%) of net assets	
Coverage	100% (2022:100%) of group net assets	
Key audit matters	**vs 2022**	
Recurring risks	Impairment of loans and receivables	◄►
	Going Concern	◄►

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

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

<table>
<tr><th></th><th>The risk</th><th>Our response</th></tr>
<tr>
<td>Impairment of loans and advances to customers – unsecured lending

(£37.8million - £23.7million unsecured loans, £14.1million credit cards; 2022: £33.3million unsecured loans only)*

Refer to page 25 (Note 2 accounting policy) and page 48 (financial disclosures).

*Prior year KAM related to unsecured loans only. In the current year, the KAM relates to unsecured loans and credit cards.</td>
<td>Subjective estimate

The measurement of expected credit losses (‘ECL’) involves significant judgements and estimates. The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Group and the Company’s estimation of ECL are:

Model estimations – Inherently judgmental modelling is used to estimate ECLs which involves determining Probabilities of Default (‘PD’), Loss Given Default (‘LGD’), and Exposures at Default (‘EAD’). The PD and LGD models used in the ECL calculation are the key drivers of the Group and Company’s ECL results and are therefore the most significant judgmental aspect of the Group and Company’s ECL modelling approach.

Post model adjustments – Adjustments to the model-driven ECL results are raised by management to address issues relating to model responsiveness or emerging trends such as cost of living. Such adjustments are inherently uncertain and significant management judgement is involved in estimating these amounts.

Significant Increase in Credit Risk (‘SICR’) – The criteria selected to identify a SICR is a key area of judgement within the Group and Company’s ECL calculation as these criteria determine whether a 12 month or lifetime provision is recorded.

Economic scenarios – IFRS 9 requires the Group and Company to measure ECL on a forward-looking basis reflecting a range of future economic conditions. Significant management judgement is applied to determining the economic scenarios used, particularly in the context of the current economic environment, and the probability weightings assigned to each economic scenario.

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

The financial statements (Note 3) disclose the sensitivity estimated by the Group and Company.

Disclosure quality
The disclosures regarding the Group and Company’s application of IFRS 9 are key to explaining the key judgements and material inputs to the IFRS 9 ECL results.</td>
<td>Our procedures included:

— Tests of detail: Key aspects of our testing involved:

• We tested the key inputs and assumptions impacting the Group and Company’s overall ECL calculation to assess their reasonableness. This included tracing a sample of input data back to source documentation and assessing the key assumptions against the Group and Company’s historical experience and external data sources.
• We performed a recalculation of the overall ECL.

— Our financial risk modelling expertise: We involved our own financial risk modelling specialists in evaluating the IFRS 9 models. We used our knowledge of the Group and Company and our experience of the industry that the Group operates in to independently assess the appropriateness of the IFRS 9 models and key components.

— Our economic scenario expertise: We involved our own economic specialists to assist us in assessing the appropriateness of the Group and Company’s methodology for determining the economic scenarios used and the probability weightings applied to them. We assessed the overall reasonableness of the economic forecasts by comparing the Group and Company’s forecasts to our own modelled forecasts.

— SICR: We assessed the effectiveness of the SICR criteria and recalculated the loans’ stage for 100% of the Company’s credit cards portfolio.

— Post model adjustments: We critically assessed the post-model adjustments including the cost of living adjustment by challenging the calculation methodology applied and critically assessing the assumptions used in determining the value of the adjustment recognised.

— Assessing transparency: We assessed the adequacy of the Group and Company’s disclosures about the degree of estimation involved in arriving at the impairment of loans and advances.

Our results
— We found the resulting estimate of Impairment of loans and advances to customers – unsecured lending, and the related disclosures to be acceptable (2022: acceptable).</td>
</tr>
</table>

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

	The risk	Our response
Going Concern *Refer to page 25 (Note 2.4: Going Concern).*	**Disclosure quality** The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and the Company. That judgement is based on an evaluation of the inherent risks to the Group and Company's business model and how those risks might affect the Group and Company's financial resources or ability to continue operations over a period of at least 12 months from the date of approval of the financial statements. The risks most likely to adversely affect the Group and Company's available financial resources over this period is the reliance on continued funding from the Group and Compay's principal investor in order to maintain sufficient regulatory capital to meet minimum regulatory capital levels over the course of the next 12 months. There are also less predictable but realistic second order impacts, such as increases to the level of impairment in loans and advances to customers. The risk for our audit is whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	We considered whether these risks could plausibly affect the liquidity and capital position of the Group in the going concern period by assessing the directors' sensitivities over the level of available financial resources indicated by the Group and Company's financial forecasts taking account of severe, but plausible, adverse effects that could arise from these risks individually and collectively. Our procedures included: **Key dependency assessment:** — We assessed management's conclusion that the Group and Company is currently dependent on the continued support of its principal investor. — We assessed whether the assumptions made in the capital forecast are realistic and achievable and consistent with our knowledge of the external economic environment and relevant matters identified in the course of our audit. — We assessed the ability and intent of the investor to provide the required support to the Group through an assessment of the financial position and liquidity of the investor and assessed their intent to meet the capital injections as they fall due. — We made direct inquiry of the Group directors and the principal investor representative to confirm the continued support. **Sensitivity analysis** — We considered sensitivities over the level of available financial resources indicated by the Group and Company's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects, such as increases to the level of impairment in loans and advances to customers, that could arise from these risks individually and collectively. **Evaluating directors' ability** — We evaluated the achievability of the actions the Directors consider they would take to improve the regulatory capital position should the risks materialise. **Assessing transparency** — We assessed the completeness and accuracy of the matters covered in the going concern disclosure, including those in the strategic report, by comparing the overall picture against our understanding of the risks. **Our results** We found the going concern disclosure without any material uncertainty to be acceptable (2022: acceptable).

We continue to perform procedures over the Yobota Valuation (Parent Company.) However, as the key audit matter was specifically over the day one fair value, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £1.55m (2022: £1.3m), determined with reference to a benchmark of Group net assets of £92.7m (2022: £66.0m), of which it represents 1.7% (2022: 1.9%).

Materiality for the Parent Company financial statements as a whole was set at £1.5m (2022: £1.3m), determined with reference to a benchmark of Company net assets, of which it represents 1.65% (2022: 1.9%).

We consider net assets to be the most appropriate benchmark as it provides a more stable measure year on year than group profit before tax.

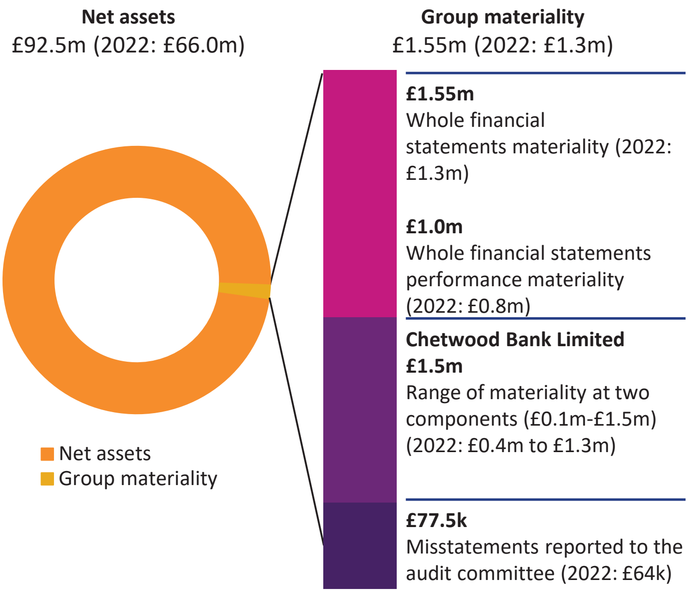
In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 65% (2022: 65%) of materiality for the financial statements as a whole, which equates to £1.0m (2022: £0.8m) for the Group and £0.98m (2022: £0.8m) for the parent Company. We applied this percentage in our determination of performance materiality based on the level of identified misstatements and control deficiencies during the prior period.

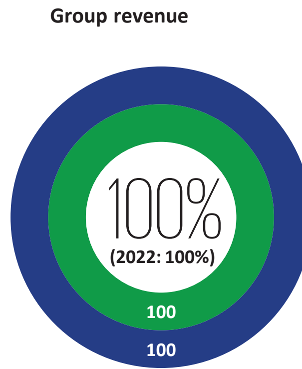
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £77.5k (2022: £64k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 2 (2022:2) reporting components, we subjected 2 (2022: 2) to full scope audits for group purposes.

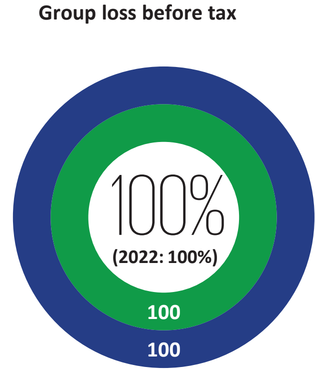
The components within the scope of our work accounted for the percentages illustrated opposite.



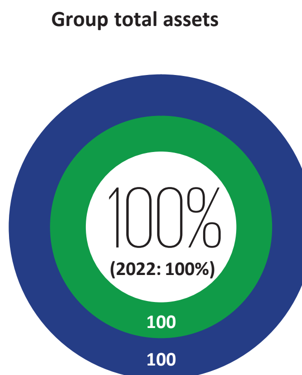
Group revenue



Group loss before tax



Group total assets



Full scope for group audit purposes 2023

Full scope for group audit purposes 2022

KPMG

4. Going concern

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

An explanation of how we evaluated management's assessment of going concern is set out in section 2 of this report.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 2.4 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee, internal audit and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's/ channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading board, audit committee, risk committee and other relevant meeting minutes.
- Considering remuneration incentive schemes and performance targets.
- Using analytical procedures to identify any unusual or unexpected relationships .
- Consultation with our own forensic professionals regarding the identified fraud risks and the design of the audit procedures planned in response to these. This involved discussion between the engagement partner and the forensic professional .

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit .

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that Group management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as impairment provisioning. On this audit we do not believe there is a fraud risk related to revenue recognition because of system driven non-complex loan interest revenue calculations involving minimal management judgement .

We identified a fraud risk related to impairment of loans and advances to customers due to the significant level of judgement in the estimate. Further detail in respect of impairment or loans and advances to customers is set out in the key audit matter disclosures in section 2 of this report.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of the Group-wide fraud risk management controls.

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included journals posted outside the normal course of business and those posted to unusual accounts.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

5. Fraud and breaches of laws and regulations – ability to detect (cont.)

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and others management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the Group's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's license to operate. We identified the following areas as those most likely to have such an effect: specific areas of regulatory capital and liquidity, conduct, money laundering and financial crime and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

5. Fraud and breaches of laws and regulations – ability to detect (cont.)

Context of the ability of the audit to detect fraud or breaches of law or regulation (cont.)

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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

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

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

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

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

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

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

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 12, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

9. The purpose of our audit work and to whom we owe our responsibilities

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

Alexander Simpson
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA
29 August 2023

Consolidated Statement of Total Comprehensive Income

	Notes	**Year ended 31 March 2023 £'000**	Year ended 31 March 2022 £'000
Interest income calculated using the effective interest rate method	**4**	**35,406**	29,755
Interest payable and similar charges	**4**	**(14,914)**	(2,542)
Net interest income		**20,492**	**27,213**
Fee and commission income	**5**	**2,731**	244
Fee and commission expense	**5**	**(718)**	(152)
Net fee and commission income		**2,013**	92
Net income/(expense) from financial instruments held at fair value through profit and loss	**6**	**(1,160)**	108
Other income		**126**	15
Total income		**21,471**	**27,428**
Administrative expenses	**7**	**(56,119)**	(30,809)
Impairment of loans and advances to customers	**8**	**(25,126)**	(30,737)
Net gain/(loss) arising from derecognition of financial assets at amortised cost	**9**	**1,727**	4,369
Loss before taxation		**(58,047)**	**(29,749)**
Taxation	**13**	**(101)**	(4)
Loss after tax and loss for the year		**(58,148)**	**(29,753)**
Other comprehensive income / (expense)			
Items that may subsequently be reclassified to profit or loss:			
Fair value (losses)/ gains on debt instruments during the year		**(178)**	(120)
Profit or (loss) of transfer in respect of maturity or sale of debt instruments		**2**	-
Total other comprehensive expense for the year		**(176)**	(120)
Total comprehensive loss for the year		**(58,234)**	**(29,873)**

All amounts relate to continuing operations.

The notes on pages 25 to 59 form part of these financial statements

Consolidated Statement of Financial Position

	Notes	**As at 31 March 2023 £'000**	As at 31 March 2022 £'000
ASSETS			
Cash and cash equivalents	**14**	**688,362**	74,498
Derivative financial assets	**24**	**4,565**	138
Investment in debt securities	**16**	**129,595**	4,883
Loans and advances to customers	**15**	**649,179**	302,546
Fair value adjustments on hedged assets	**25**	**(1,069)**	-
Current tax assets		**-**	64
Other Assets	**17**	**18,897**	8,620
Prepayments and accrued income	**18**	**999**	930
Property, plant and equipment	**19**	**1,246**	690
Intangible assets	**20**	**2,767**	7,669
Total assets		**1,494,541**	**400,038**
LIABILITIES			
Customer deposits	**22**	**1,383,305**	322,625
Fair value adjustments on hedged liabilities	**25**	**(3,286)**	-
Accruals and deferred income	**23**	**7,279**	6,790
Derivative financial liabilities	**24**	**6,645**	457
Provisions	**26**	**2,015**	591
Other Liabilities	**27**	**6,100**	3,582
Total liabilities		**1,402,058**	**334,045**
EQUITY			
Called up share capital	**29**	**253,297**	168,688
Share premium account	**29**	**2,851**	2,851
Capital redemption reserve	**30**	**6,247**	6,247
Other reserves	**30**	**232**	203
Retained losses		**(170,914)**	(112,766)
Merger reserve		**770**	770
Total equity		**92,483**	**65,993**
Total equity and liabilities		**1,494,541**	**400,038**

The notes on pages 25 to 59 form part of these financial statements

These financial statements were approved by the board of Directors on 29 August 2023 and were signed on its behalf

by:

Andrew Mielczarek
Chief Executive Office and Director
29 August 2023

Charles (Simon) Allsop
Chief Finance Officer
29 August 2023

Company Statement of Financial Position

	Notes	**As at 31 March 2023 £'000**	As at 31 March 2022 £'000
ASSETS			
Cash and cash equivalents	14	**687,582**	73,223
Derivative financial assets	24	**4,565**	138
Investment in Debt Securities	16	**129,595**	4,883
Loans and advances to customers	15	**649,230**	302,686
Fair value adjustments on hedged assets	25	**(1,069)**	-
Current tax assets		**-**	64
Other Assets	17	**18,928**	8,057
Prepayments and accrued income	18	**920**	726
Property, plant and equipment	19	**1,227**	525
Intangible assets	20	**637**	4,402
Investment in subsidiaries	21	**9,750**	15,003
Total assets		**1,501,365**	**409,707**
LIABILITIES			
Customer deposits	22	**1,383,305**	322,594
Fair value adjustments on hedged liabilities	25	**(3,286)**	-
Accruals and deferred income	23	**7,187**	6,221
Derivative financial liabilities	24	**6,645**	457
Provisions	26	**2,015**	591
Other Liabilities	27	**5,979**	3,157
Total liabilities		**1,401,845**	**333,020**
EQUITY			
Called up share capital	29	**253,297**	168,688
Share premium account	29	**2,851**	2,851
Other reserves	30	**232**	203
Retained losses		**(156,860)**	(95,055)
Total equity		**99,520**	**76,687**
Total equity and liabilities		**1,501,365**	**409,707**

The Company only loss after tax for the financial year amounted to £62m (2022: £29.2m). A separate income statement has not been prepared for the Company under the provisions of section 408 of the Companies Act 2006.

The notes on pages 25 to 59 form part of these financial statements.

These financial statements were approved by the board of Directors on 29 August 2023 and were signed on its behalf by:

Andrew Mielczarek
Chief Executive Office and Director
29 August 2023

Charles (Simon) Allsop
Chief Finance Officer
29 August 2023

Consolidated Statement of changes in equity

	Called-up Share Capital	Share Premium	Retained losses	Shared based payment reserve	Debt securities revaluation reserve	Merger and capital contribution reserve	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 31 March 2021	113,688	2,851	(65,823)	114	-	-	50,830
Comprehensive income:							
Loss for the period	-	-	(29,753)	-	-	-	(29,753)
Retained losses acquired on purchase of subsidiary	-	-	(17,190)	-	-	-	(17,190)
Other comprehensive income:							
Debt instruments at FVOCI	-	-	-	-	-	-	-
Net changes in fair value	-	-	-	-	(120)	-	(120)
Reclassified to income statement	-	-	-	-	-	-	-
Tax on other comprehensive income	-	-	-	-	-	-	-
Total other comprehensive income	-	-	-	-	(120)	-	(120)
Total comprehensive income	-	-	(46,943)	-	(120)	-	(47,063)
Transactions with equity holders:							
Equity-settled shared-based payment transactions	-	-	-	209	-	-	209
Issue of shares	55,000	-	-	-	-	-	55,000
Debt waiver by ultimate controlling party	-	-	-	-	-	6,247	6,247
Merger reserve arising on consolidation	-	-	-	-	-	770	770
Balance at 31 March 2022	**168,688**	**2,851**	**(112,766)**	**323**	**(120)**	**7,017**	**65,993**
Comprehensive income:							
Loss for the period	**-**	**-**	**(58,148)**	**-**	**-**	**-**	**(58,148)**
Other comprehensive income:							
Debt instruments at FVOCI							
Net changes in fair value	**-**	**-**	**-**	**-**	**(58)**	**-**	**(58)**
Reclassified to income statement	**-**	**-**	**-**	**-**	**2**	**-**	**2**
Tax on other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total other comprehensive income	**-**	**-**	**-**	**-**	**(56)**		**(56)**
Total comprehensive income	**-**	**-**	**(58,148)**	**-**	**(56)**		**(58,204)**
Transactions with equity holders:							
Equity-settled shared-based payment transactions	**-**	**-**	**-**	**85**	**-**	**-**	**85**
Issue of shares	**84,609**	**-**	**-**	**-**	**-**	**-**	**84,609**
Balance at 31 March 2023	**253,297**	**2,851**	**(170,914)**	**408**	**(176)**	**7,017**	**92,483**

Company Statement of changes in equity

	Called-up Share Capital	Share Premium	Retained losses	Shared based payment reserve	Debt securities revaluation reserve	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
As at 31 March 2021	113,688	2,851	(65,823)	114	-	50,830
Comprehensive income:						
Loss for the period	-	-	(29,232)	-	-	(29,232)
Other comprehensive income:						
Debt instruments at FVOCI	-	-	-	-	-	-
Net changes in fair value	-	-	-	-	(120)	(120)
Reclassified to income statement	-	-	-	-	-	-
Tax on other comprehensive income	-	-	-	-	-	-
Total other comprehensive income	-	-	-	-	(120)	(120)
Total comprehensive income	-	-	(29,232)	-	(120)	(29,352)
Transactions with equity holders:						
Equity-settled shared-based payment transactions	-	-	-	209	-	209
Issue of shares	55,000	-	-	-	-	55,000
Balance at 31 March 2022	**168,688**	**2,851**	**(95,055)**	**323**	**(120)**	**76,687**
Comprehensive income:						
Loss for the period	**-**	**-**	**(61,805)**	**-**	**-**	**(61,805)**
Other comprehensive income:						
Debt instruments at FVOCI						
Net changes in fair value	**-**	**-**	**-**	**-**	**(58)**	**(58)**
Reclassified to income statement	**-**	**-**	**-**	**-**	**2**	**2**
Tax on other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**
Total other comprehensive income	**-**	**-**	**-**	**-**	**(56)**	**(56)**
Total comprehensive income	**-**	**-**	**(61,805)**	**-**	**(56)**	**(61,861)**
Transactions with equity holders:						
Equity-settled shared-based payment transactions	**-**	**-**	**-**	**85**	**-**	**85**
Issue of shares	**84,609**	**-**	**-**	**-**	**-**	**84,609**
Balance at 31 March 2023	**253,297**	**2,851**	**(156,860)**	**408**	**(176)**	**99,520**

Consolidated and Company Statement of Cashflows

	Group Year ended 31 March 2023 £'000	Company Year ended 31 March 2023 £'000	Restated* Group Year ended 31 March 2022 £'000	Restated* Company Year ended 31 March 2022 £'000
Cash Flows from operating activities				
Loss after tax	**(58,148)**	**(61,805)**	(29,753)	(29,232)
Adjustments for:				
Depreciation of property, plant and equipment	**496**	**352**	322	307
Remeasurement of right-of-use asset	**(217)**	**(217)**	304	105
Amortisation of intangibles	**2,235**	**1,098**	694	610
Impairment of intangibles	**3,069**	**3,069**	-	-
Interest income on debt securities	**(1,885)**	**(1,885)**	-	-
Interest expense on financing activities	**36**	**31**	35	33
Equity-settled shared-based payment transactions	**85**	**85**	209	209
Movement in fair value of financial instruments at FVTPL	**1,761**	**1,761**	333	333
Fair value adjustment on hedged asset	**(2,217)**	**(2,217)**	-	-
Loss on disposal of property, plant and equipment	**8**	**4**	1	1
Loss on disposal of intangible assets	**-**	**-**	18	18
Movement in provision	**1,424**	**1,424**	591	591
Impairment of Yobota	**-**	**6,753**	-	-
Changes in operating assets and liabilities:				
Net increase in loans and advances to customers	**(346,633)**	**(346,542)**	(146,296)	(146,437)
(Increase)/decrease in prepayments and accrued income	**(69)**	**(194)**	(175)	(171)
Increase in other assets	**(10,277)**	**(10,871)**	(4,696)	(4,571)
(Increase)/decrease in tax asset	**64**	**64**	(19)	(19)
Increase in customer deposits	**1,060,680**	**1,060,711**	162,610	162,579
Increase/(decrease) in accruals and deferred income	**489**	**966**	1,612	2,094
Increase/(decrease) in other liabilities	**2,518**	**2,822**	1,447	1,610
Adjust operating cash flows for financing and investing activities:				
Purchase of mortgage portfolio	**-**	**-**	157,842	157,842
Net cash from operating activities	**653,419**	**655,409**	**145,079**	**145,902**
Cash flows from investing activities				
Proceeds from sale and maturity of debt securities	**11,031**	**11,031**	-	-
Acquisition of debt securities	**(135,674)**	**(135,674)**	(5,003)	(5,003)
Interest received from investing activities	**1,760**	**1,760**	-	-
Purchase of loans and advances to customers	**-**	**-**	(157,842)	(157,842)
Purchases of property, plant and equipment	**(843)**	**(843)**	(119)	(119)
Investment in Intangible assets	**(402)**	**(402)**	(1,852)	(1,852)
Purchase of Subsidiary (group net of cash acquired)	**-**	**-**	(12,903)	(15,003)
Subscription of shares in subsidiary undertaking	**-**	**(1,500)**	-	-
Net cash flows from investing activities	**(124,128)**	**(125,628)**	**(177,719)**	**(179,819)**
Cash flows generated from financing activities				
Issuance of ordinary shares	**84,609**	**84,609**	55,000	55,000
Interest paid on lease liabilities	**(36)**	**(31)**	(35)	(33)
Net cash flows from financing activities	**84,573**	**84,578**	**54,965**	**54,967**
Net cash flows for the period	**613,864**	**614,359**	**22,325**	**21,050**
Opening cash and cash equivalents	**74,498**	**73,223**	52,173	52,173
Closing cash and cash equivalents	**688,362**	**687,582**	**74,498**	**73,223**

* During the period the directors identified that cash inflows related to the sale of loans had been included in financing activities. As the cash inflow does not change borrowings or equity this should have been included within operating cash flows. As a result of the restatement to reflect the appropriate classification, net operating cashflows for FY22 have increased by £128.1m and net cash flows from financing activities has decreased by the same amount. There is no overall impact on total cash flows for the year.

The notes on pages 25 to 59 form part of these financial statements

Notes to the financial statements

1 General information

Chetwood Financial Limited is a private company limited by shares trading as a bank, incorporated and domiciled in England and Wales. Registered number 09964966, the address Ellice Way, Wrexham Technology Park, Wrexham, LL13 7YT. The nature of the Group's operations and its principal activities are set out in the strategic report. The consolidated financial statements of Chetwood Financial Limited, for the year ended 31 March 2023, comprise the results of the Company and its subsidiaries (together, the 'Group').

2 Accounting policies

2.1 Basis of preparation

The Group and Company's financial statements are prepared in accordance with UK-adopted International Accounting Standards. The financial statements have been prepared on a historical or amortised cost basis, except for investment in debt securities measured at fair value through other comprehensive income and derivative contracts and financial assets measured at fair value through profit or loss.

The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Group and Company's accounting policies (see note 3).

The Group and Company's functional and presentation currency is the pound sterling. The Group and Company's financial statements are presented in pound sterling and rounded to thousands, except when otherwise stated.

The following principal accounting policies have been applied:

2.2 Future accounting developments

The International Accounting Standards Board ("IASB") has issued a number of minor amendments to IFRSs effective from accounting periods beginning on or after 1st January 2023 (including IAS 1 *"Presentation of Financial Statements"* and IAS 8 *"Accounting Policies, Changes in Accounting Estimates and Errors"*). These amendments are not expected to have a significant impact on the Group or Company.

2.3 Basis of consolidation

The statutory consolidated Financial Statements comprise the Financial Statements of the Company and its subsidiaries (collectively, the Group) as at 31 March 2023. The subsidiaries are listed in Note 21. The Financial Statements of the Group's subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

All intra-Group balances, transactions, income and expenses are eliminated in full. No individual statement of comprehensive income or related notes are presented for the Company as permitted by Section 408 of the Companies Act 2006.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that control ceases. Subsidiaries are those entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to direct the activities that most significantly affect the entity's returns through voting rights or other contractual arrangements.

Where the Group does not control the voting rights of a securitisation entity, but the Directors have determined that the Group controls those entities, they are treated as subsidiaries and are consolidated. Control is determined to exist if the Group has the power to direct the activities of the entity and is exposed to a variable return. Securitisation structures that do not meet these criteria are not treated as subsidiaries and are excluded from the consolidated accounts. The Group has no interest in securitisation entities meeting these criteria in the current or prior year. See note 2.22 for further details.

For business combinations under common control the Group applies merger accounting, which involves measuring all acquired assets and liabilities at book value on the date of acquisition. The difference between the book value acquired and the price paid is recognised as a merger reserve within equity. On 1 March 2022 the Company acquired 100% of the share capital of Yobota Limited, from its parent company, Shropshire Holdings Limited ("Shropshire"). This transaction met the definition of a business combination under common control, Yobota remained controlled by Shropshire and the same ultimate controlling parties both before and after the transaction, accordingly the Group applied merger accounting to this combination.

2.4 Going concern

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons:
As at 31 March 2023 the Group had cash balances of £688m and a loss for the year of £58m. The existing investor made additional capital injections of £47m after the year end. Cash balances as at 30 June 2023 totalled £630m.

The directors have prepared base case and stressed forecasts, which consider capital requirements, funding and liquidity, for a period of at least 12 months from the date of approval of these financial statements. In assessing the going concern basis of preparation, the directors have considered a severe but plausible downside scenario, aligned to the ICAAP and elements of the Bank of England solvency test and including the assumption of no further equity funding from its investors. This scenario is broadly consistent with the most severe downside scenario used in calculating expected credit losses. The forecasts indicate that even in this severe but plausible downside scenario the Group is able to maintain adequate capital and liquidity throughout a period of at least 12 months from the date of approval of these financial statements by making use of available management actions, including cost cutting measures and curtailing lending.

The Group is still in the growth stage and the Directors expect the Group, in the normal course of business, to require additional funding from its investors in order to continue to grow and to fulfil its business plan, until longer-term sustainable profitability is achieved. The principal investor has been consistently supportive to date, including throughout the pandemic, and has indicated that, based on the facts and circumstances they are aware of at the date of signing, it is their current intention to financially support the Group for a period of not less than 12 months from the date of approval of these financial statements. As with any Group placing reliance on its investor for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Based on the above, the going concern basis of accounting has been used to prepare these financial statements.

2.5 Interest income and expense

Financial instruments measured at amortised cost

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

For all interest-bearing financial instruments measured at amortised cost, including loans and advances, interest income and expense is calculated using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability. The Group estimates cash flows considering all contractual terms of the financial instruments but does not consider future credit losses. The calculation includes all expected cashflows that are an integral part of the overall return, including the expected interest over the life of the loan, up-front fees, direct incremental transaction costs such as broker fees incurred on origination of the loans and the purchase price including direct fees related to the acquisition of a financial instrument or issue of the financial liability. Cashflows that are not a direct consequence of the origination of the asset or liability are not considered to be integral, such costs may include transaction fees, arrears fees or ongoing servicing fees, these are included in fee and commission income and expense.

Once a financial asset is considered to be in default, interest income is only recognised on the net lending balance after impairment. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Financial instruments measured at fair value

Loans and advances to customers held for sale are measured at fair value, accordingly interest income on such assets is calculated on an accruals basis and included in the statement of total comprehensive income within net income from financial instruments held at fair value through profit and loss, along with any changes in the fair value of the financial instruments.

Net interest income on interest based derivative instruments is included within net income from financial instruments held at fair value through profit and loss along with any changes in the fair value of the financial instruments.

2.6 Fee and commission income and expense

Fee and commission income and expense which are not an integral part of the effective interest rate are recognised in the consolidated statement of comprehensive income on an accruals basis, when the service has been provided.

Interchange income is included within fee and commission income, this represents merchant fees for credit card transactions processed through the interchange networks, the related fee retained by the merchant's processing bank is included within fee and commission expense. Interchange income is recognised at the time of the transaction.

Fees received for the provision of software platforms and loans administration services are recorded in fee and commission income and accounted for in accordance with IFRS 15 *'Revenue from Contracts with Customers',* with income recognised once the relevant service has been delivered and the benefits transferred to the customers. The income from minimum service fees receivable for provision of software platforms is initially recognised on a straight-line basis over the life of the contract, with additional income recognised on a consumption-driven basis over and above any minimum fees. Where consultancy services are provided on a fixed fee basis, income is recognised as agreed project milestones are achieved.

2.7 Gain/ Loss on derecognition of assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards or ownership of the financial asset are transferred or where the Group has no reasonable prospects of recovering any further cash flows from a financial asset.

The difference between the carrying amount of the financial assets and any consideration received is recognised as a gain or loss on derecognition in the consolidated statement of comprehensive income. For assets held at amortised cost the impact of derecognition and recoveries on non-performing assets is included in impairment of loans and advances to customers.

2.8 Employee benefits

Defined contribution pension plan

The Group operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Once the contributions have been paid the Group has no further payment obligations.

The contributions are recognised as an expense in the Consolidated Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals in the Consolidated and Company Statement of Financial Position. The assets of the plan are held separately from the Group in independently administered funds.

Share-based payment transactions

In previous years shares in Shropshire Holdings Limited, the parent company of Chetwood Financial Limited, have been awarded to senior management under a management incentive scheme. During the current year a new management incentive plan has been constructively committed to. Whilst no shares in the new scheme have been granted by the year end, the scheme will be an equity settled scheme awarding restricted shares in Alessandro Investments Limited, the immediate parent entity of Shropshire Holdings Limited.

The cost of equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at grant date and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. No expense is recognised for awards that do not ultimately vest. At each balance sheet date before vesting, the cumulative expense is calculated, representing management's best estimate of the achievement or otherwise of non-market conditions and the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous balance sheet date is recognised in the Consolidated Statement of Comprehensive Income, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified, or a new award in the same scheme is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative. Where an equity-settled award is cancelled after grant, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the profit and loss account for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value expensed.

Where grants are unissued but a constructive obligation has been created for future grants, the fair value on grant date is estimated at the point of the commitment and this value is reassessed on the grant date. In the event awards are not granted following the constructive obligation the charge is released in full once this becomes certain, as no shares have been granted, vested or will vest.

2.9 Intangible assets

Intangible assets are initially recognised when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and where it is probable that there will be future economic benefits attributable to the assets.

For internally generated intangible assets, only costs incurred during the development phase are capitalised. Any expenditure incurred in the research phase is recognised as an expense in the period in which it is incurred. Intangible assets are initially recognised at cost.

After recognition, intangible assets are measured at cost less any accumulated amortisation and impairment losses and are amortised over their estimated useful lives from the point the asset is available for use. The estimated useful lives are based on the period over which the assets are expected to generate future economic benefit for the business as follows:

- Internally generated software: 12 months to 5 years
- Other software: 5 years
- Patents and Royalties: 3 years

At each balance sheet date, the carrying amounts and remaining useful lives of intangible assets are reviewed, to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than the carrying amount, the carrying amount is impaired to the recoverable value. Intangible assets not yet available for use are reviewed annually for impairment by calculating the value-in-use, which involves estimating the future expected cash flows and comparing to the carrying value of the intangible asset.

2.10 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged on a straight-line basis to allocate the difference between the cost and expected residual value over their estimated useful lives, as follows:

Fixtures, fittings and equipment	- 5 years
Right-of-use assets	- Over the lease term
IT equipment	- 3 years
Leasehold improvements	- Over the period of lease term until break clause

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Consolidated Statement of Comprehensive Income.

2.11 Leases

The Group accounts for a contract, or a portion of a contract, as a lease when it conveys the right to use an asset for a period of time in exchange for consideration. Leases are those contracts that satisfy the following criteria:

(a) There is an identified asset;
(b) The Group obtains substantially all the economic benefits from use of the asset; and
(c) The Group has the right to direct use of the asset.

In determining whether the Group obtains substantially all the economic benefits from use of the asset, the Group considers only the economic benefits that arise from the use of the asset, not those incidental to legal ownership or other potential benefits.

In determining whether the Group has the right to direct use of the asset, the Group considers whether it directs how and for what purpose the asset is used throughout the period of use. If there are no significant decisions to be made because they are pre-determined due to the nature of the asset, the Group considers whether it was involved in the design of the asset in a way that predetermines how and for what purpose the asset will be used throughout the period of use. If the contract or portion of a contract does not satisfy these criteria, the Group applies other applicable IFRSs rather than IFRS 16.

The benefit received from leasing assets under operating leases is recognised as a right of use asset with the present value of the lease payments being recognised as a lease liability upon inception of the lease. All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

– Leases of low value assets; and
– Leases with a duration of twelve months or less

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

During the year the Group has reassessed the reasonably likely lease exit dates and remeasured the lease liability, the increase in lease liability has resulted in an equal increase in the right of use asset, in accordance with IFRS 16.

2.12 Cash and cash equivalents

Cash and cash equivalents include unrestricted balances held with central banks and demand deposits with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost.

2.13 Investment in subsidiary

Investment in subsidiary undertakings is stated at cost less any provision for impairment. Investment in subsidiary is reviewed for impairment losses at the end of each period and whenever changes in circumstances indicate that the carrying amount may not be recoverable, an impairment loss is recognised. Any such impairment loss is recognised in the Company Statement of Comprehensive Income.

2.14 Provisions and contingent liabilities

A provision is recognised when there is a present obligation as a result of a past event, it is probable that the obligation will be settled and the amount can be estimated reliably. Provisions include expected credit losses on the Group's undrawn loan commitments.

Contingent liabilities are possible obligations arising from past events or present obligations arising from past events which are either not probable or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognised but where they are material they are disclosed, unless their probability is remote.

2.15 Taxation

Taxation on the profit or loss for the year comprises current and deferred tax. Taxation is recognised in the Consolidated Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Research and Development (R&D) tax credits, are recognised as income in the period in which the R&D income is receivable.

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

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

2.16 Fair value measurement

The Group measures financial instruments, loans and advances to customers originated for sale, investments in debt securities which have been designated as FVOCI and derivatives at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transactions to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2 - valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and

Level 3 - valuation techniques where at least one input is not based on observable market data and has a significant effect on the instrument’s valuation.

2.17 Investment in debt securities

Investment in debt securities include securities held for both liquidity purposes and as a low-risk investment strategy. These assets include UK treasury bills and Residential Mortgage-Backed Securities ("RMBS"). These are non-derivatives that are designated as amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit and loss ("FVTPL") on acquisition.

Assets classified as amortised cost are initially recognised at fair value on acquisition and subsequently measured at amortised cost using the EIR method, less any impairment losses.

Assets held at FVOCI are measured at fair value with movements taken to OCI and accumulated in equity reserves, except for any impairment losses which would be recognised immediately in profit or loss. When an instrument is sold or matures, the gain or loss accumulated in equity is reclassified to profit or loss.

Assets held at FVTPL are measured at fair value with movements taken to the consolidated statement of comprehensive income. The Group has no investment in debt securities measured at FVTPL at present.

2.18 Financial Instruments

Financial assets comprise loans and advances to customers, investments in debt securities, cash and cash equivalents, derivative financial assets, amounts owed by Group undertakings, cash collateral and trade debtors.

Financial liabilities comprise customer deposits, derivative financial liabilities, amounts due to Group undertakings and trade creditors.

Financial assets and liabilities are recognised when the Group becomes party to the terms of the contract. For loans and advances this is the point at which cash is advanced to the borrower.

On initial recognition financial assets are classified into one of three categories and measured at amortised cost, fair value through other comprehensive income or fair value through profit and loss. In classifying each financial asset, the Group assesses:

- The objective of the business model In which the financial asset is held and
- Whether the contractual cash flows of the financial asset are 'solely payments of principal and interest' (SPPI).

Financial instruments measured at amortised cost

Financial assets that are held to collect contractual cash flows of solely principal and interest are measured at amortised cost. Financial assets measured at amortised cost are cash and cash equivalents, loans and advances to customers that are not held for sale, and investments in debt Securities held to collect. Interest income on financial instruments measured at amortised cost is accounted for using the effective interest method.

Financial liabilities are measured at amortised cost except for derivative financial liabilities, which are measured at fair value through profit or loss.

Financial instruments measured at fair value through other comprehensive income

Where investments in debt securities are held to collect or sell and contractual cash flows are solely principal and interest they are measured at fair value through Other Comprehensive Income. These are classified as fair value level 1 as the fair value is measured based on current, quoted bid prices in active markets for identical assets.

Interest income on such assets is recognised in the Consolidated Statement of Comprehensive Income using the effective interest rate method. Impairment provisions, should they be required are recognised in the Consolidated Statement of Comprehensive Income. Other fair value movements are recognised in Other Comprehensive Income until the disposal or maturity of such assets, at which time the gain or loss accumulated in equity is reclassified to the Consolidated Statement of Comprehensive Income.

Financial instruments measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss are recognised in the Statement of Financial Position at fair value. Fair value gains and losses together with any interest income on an accruals basis, are recognised within net income from financial instruments held at fair value in the Consolidated Statement of Comprehensive Income. Loans and advances to customers that are held for sale and all derivatives are carried at fair value through profit or loss.

Derecognition of financial assets on securitisation

When the Group sells assets into a securitisation vehicle, management considers whether the assets securitised meet the criteria to be derecognised, or should continue to be recognised by the Group. A financial asset is derecognised when the rights to the cash flows from that asset expire, or when the contractual rights to cashflows are transferred, or when the risks and rewards of the financial asset have been substantially transferred.

2.19 Impairment of financial assets

Expected credit losses are recognised, where appropriate, for all financial assets not measured at fair value through profit or loss. Expected credit losses are a probability-weighted estimate of default, adjusted to take into account possible future economic scenarios, then applied to the estimated exposure of the Group at the point of default. After taking into account any loss mitigants should default occur. The expected credit loss is measured as the difference between contractual cash flows and expected cash flows, discounted using the assets effective interest rate.

The Group classifies an account as in default when there is objective evidence that the customer is experiencing significant financial difficulty and historical data shows the customer is unlikely to pay, including where contractual payments are more than 90 days past due or upon qualitative observations including insolvency.

The Group uses a series of quantitative and qualitative criteria to determine if an account meets the definition of default, including when a borrower is more than 90 days past due and when the borrower is otherwise credit-impaired and there exists significant doubt the borrower will pay the credit obligation to the Group in full, such as insolvency, forbearance where full payment is unlikely to be received and bankruptcy. Such assessments of whether a financial asset is in default are based on historical experience and this judgement may vary over time to reflect both changes in borrowers circumstances and changes in historical experience. The Group policy does not enable cures from default status.

Subsequent to initial recognition an allowance is made for expected credit losses resulting from default events that are possible in the next 12 months.

Subsequent measurement of impairment allowance depends on the increase in the probability of an asset defaulting since initial recognition. The guidance requires assets to be classified into three stages:

Stage 1: financial assets that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For financial assets in stage 1, a 12-month expected credit loss is recognised.

Stage 2: financial assets that have shown a significant increase in credit risk from initial recognition but that are not classed as defaulted, are stage 2. For these assets allowance is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument.

Stage 3: includes assets where there is objective evidence of impairment meaning the financial asset is considered to be in default. For these assets, lifetime expected credit losses are recognised and interest income is calculated on the net carrying amount.

Where the credit risk of an asset subsequently improves the asset can be transferred back from stage 2 to stage 1, but in all cases is subject to a 30 day cure period.

An assessment of whether the credit risk has increased significantly since initial recognition considers both quantitative and qualitative factors. However, the credit risk is always deemed to have increased significantly when an asset is more than 30 days past due. The Group also deems that default occurs no later than when a payment is 90 days past due.

A loan is derecognised when the contractual rights to the cashflow have been transferred or have expired. On derecognition the difference between the carrying amount and any consideration received is recognised in the Consolidated Statement of Comprehensive Income.

Acquired loans that meet the Group’s definition of default (90 days past due or an unlikeliness to pay position) at acquisition are treated as purchased or originated credit impaired ("POCI") assets. These assets attract a lifetime expected credit loss allowance over the full term of the loan, even when these loans no longer meet the definition of default post acquisition. The Group does not originate credit-impaired loans.

Assets secured against collateral

The Group hold and look to acquire the rights to cashflows on portfolios of secured assets, these assets are serviced by third party providers. The agreement with the servicers includes the provision of all necessary collection activities, including, where necessary, repossession of collateral.

The Group's policy is to sell repossessed assets rather than use them for its internal operations, any surplus funds would be returned to the customers/obligors.

2.20 Derivatives held for risk management purposes and hedge accounting

The Group has elected to apply the hedge accounting requirements of IAS 39 Financial Instruments: Recognition and Measurement for derivatives designated as hedging instruments in qualifying hedging relationships.

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the Statement of Financial Position. The Group does not hold derivatives for trading purposes.

The Group designates certain derivatives held for risk management purposes as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis as to whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value of the respective hedged items during the period for which the hedge is designated and whether the slope of the regression line of each hedge is within a range of 80–125%.

Fair value hedges are used to hedge exposures to variability in the fair value of financial assets and liabilities, such as fixed rate mortgages and savings products, as well as unrecognised firm commitments. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Fair values are obtained by applying market rates to a discounted cash flow model. Changes in the fair value of derivatives are recognised immediately in the Statement of Comprehensive Income as they are measured at fair value through profit or loss. Changes in the fair value of the hedged item that are attributable to the hedged risk are also recognised in the Statement of Comprehensive Income. The Company has elected to, for hedged items that would otherwise be measured at cost or amortised cost, present, in a single separate line item within assets or liabilities, the gain or loss attributable to the hedged item for those repricing time periods for which the hedged item is an asset or liability respectively.

Hedge accounting is discontinued prospectively if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked. Any adjustment up to that point of discontinuation to a hedge item for which the effective interest method is used is amortised to the Statement of Comprehensive Income as part of the recalculated effective interest rate of the hedged item over its remaining life. Any hedging adjustment made previously to a hedged financial instrument for which the effective interest method is used is amortised to profit or loss by adjusting the effective interest rate of the hedged item from the date on which amortisation begins. If the hedged item is derecognised, then the adjustment is recognised immediately in profit or loss when the item is derecognised. Any gain or loss made on sale or termination of a hedging instrument is recognised immediately in the Statement of Comprehensive Income.

Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised immediately in the Statement of Comprehensive Income in the period in which they arise.

All derivative financial instruments are interest rate swaps held for risk management purposes and are all over the counter and bilaterally agreed.

By using derivative financial instruments to hedge exposures to changes in interest rates, the Company also exposes itself to credit risk of the derivative counterparty, which is not offset by the hedged item. The Company minimises counterparty credit risk in derivative financial instruments by entering into transactions with high-quality counterparties, subject to counterparty swap limits. Agreements covering subsequent collateral calls are in place with all derivative counterparties where collateral is posted to mitigate the risk of loss through counterparty failure. Collateral is provided and received in respect of any derivative financial instruments held in the form of cash where credit risk exceeds an agreed threshold.

Derivatives transactions are entered into under International Swaps and Derivatives Association (ISDA) master netting agreements. The ISDA arrangements do not meet the criteria for offsetting assets and liabilities in the Statement of Financial Position because the right of set off is enforceable only following a default event by the Company or the counterparty. In addition, the Company and its counterparties do not intend to settle obligations on a net basis.

Before fair value hedge accounting is applied by the Group, the Group determines whether an economic relationship between the hedged item and the hedging instrument exists based on an evaluation of the qualitative characteristics of these transactions and the hedged risk that is supported by quantitative analysis. The Company considers whether the critical terms of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship. The Company evaluates whether the fair value of the hedged item and the hedging instrument respond similarly to similar risks. The Company further supports this qualitative assessment by using regression analysis to assess whether the hedging instrument is expected to be and then, subsequent to this, has been highly effective in offsetting changes in the fair value of the hedged item.

The Group establishes a hedge ratio by aligning the par amount of the fixed rate mortgages or savings products and the notional amount of the interest rate swap designated as a hedging instrument. Under the Group policy, in order to conclude that a hedge relationship is effective, all of the following criteria should be met:

– The regression co-efficient (R squared), which measures the correlation between the variables in the regression, is greater than 0.96;
– The slope of the regression line is within a 0.8 - 1.25 range; and
– The statistical validity of the overall regression model (F-statistic) is greater than 0.95.

In these hedge relationships, the main sources of ineffectiveness are:

– The effect of the counterparty and the Company's own credit risk on the fair value of the hedging instruments, which is not reflected in the fair value of the hedged item attributable to the change in interest rate;
– Differences in maturities of the hedging instruments and the hedged items;
– The actual behaviour of the hedged item differs from expectations, such as early repayments or withdrawals and arrears;
– The designated rate of the hedged item is different to the swap hedging it; and
– Imperfect allocation of hedged items to the hedging instruments as the hedging instruments do not perfectly align to the asset or liability that they are hedging, which is because the swaps are taken out at an aggregated level so as to cover a portfolio of fixed rate mortgages or savings products that all have different critical terms.

There were no other sources of ineffectiveness in these hedge relationships

Both the effective and ineffective portion of fair value gain or loss on derivatives held in qualifying fair value hedging relationships and the hedging gain or loss on the hedged items that are attributable to the hedged risk are included in net income from financial instruments held at fair value through profit or loss. The fair value gain or loss on derivatives that are not are held in qualifying fair value hedging relationships are again included in net income from financial instruments held at fair value through profit or loss.

The line item in the Statement of Financial Position in which the hedged item is included is loans and advances to customers for fixed rate mortgages and customer deposits for savings products. There was no accumulated amount of fair value hedged adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses.

2.21 Secured lending book acquisition accounting

Acquired loan books are initially recognised at fair value on the purchase date. The fair value of the loan book includes any premium paid or discount received, where the transaction is an orderly transaction between unconnected market participants then IFRS 13 deems the price paid to be fair value, the price paid includes the initial consideration, the present value of any deferred consideration where applicable net of any directly attributable and incremental transaction fees incurred.

On classifying the financial assets purchased the Group assesses both the objective of the business model in which the financial asset is held and whether the contractual cash flows of the financial assets are solely payments of principal and interest. In the case of the mortgage book acquisitions in the year the Group's intention is to hold these assets to maturity to collect the cashflows, these cashflows are solely payments of principal and interest and therefore meet the SPPI test, as a result the assets have subsequently been measured at amortised cost.

Acquired loans that meet the Group's definition of default (90 days past due or an unlikeliness to pay position) at acquisition are treated as purchased or originated credit impaired ("POCI") assets. These assets attract a lifetime expected credit loss allowance over the full term of the loan, even when these loans no longer meet the definition of default post acquisition.

Estimation is required in calculating the effective interest rate of the purchased mortgage books, including assumptions on interest rates, behavioural prepayment rates and the expected losses. Each portfolio purchase price must be allocated at loan level, where the books are purchased at a discount or premium the opening loan carrying values is computed by allocating the discount or premium to par using the movements in swap margins since loan origination with any remaining balance deemed to be due to changes in risk.

The effective interest rate calculated at acquisition is not changed for subsequent changes to expected behavioural cash flows, but is updated for any change to market rates of interest. The Group monitors the actual cashflows received against the expectation and where these vary from expectation, the revised future cashflows are discounted at the original effective interest rate, with any resulting change in carrying value being taken to interest income.

2.22 Business Model

IFRS 9 requires the Group to conclude on its business model, this determines the classification of the Group's financial assets, a business model refers to how an entity manages its financial assets in order to generate cash flows. The Group does this by considering all relevant information including the annual operating plan, the objective on origination of assets and how business performance is reported to the Board.

During the year the Group has entered into a number of transaction to sell loans and advances, these transactions provide a cost-efficient funding stream to the Group. The gain or loss arising from sales undertaken has been recognised in the Consolidated Statement of Comprehensive Income. The Directors consider the Group operates a split business model, where unsecured assets are being originated both with the intention to hold to collect and the intention to sell into a legally remote securitisation vehicle over which the Group has no control.

Securitisation

The Group has created two separate portfolios to track originations to collect and to sell as distinct populations. As part of each sale the Group acts as the risk retention holder, meaning as a condition of each sale 5% of all loans otherwise eligible for sale are legally retained on the Group's balance sheet to maturity, the Group collects all income on these loans and retains all risk. The Group agrees to retain these assets and not otherwise take action to mitigate the risks inherent in their ownership for so long as the securitisation transaction remains in place and outstanding, the loans are ringfenced to ensure they cannot be included in future sales and are otherwise managed in line with all other unsecured loans. These loans are considered incidental to the business model, the intention on origination was to sell these loans, the retained loans were classified on origination as held with the primary objective of realising cash flows through sale and therefore continue to be measured at FVTPL.

The primary management judgement around the derecognition of financial assets on sale is in determining the extent to which the risks and rewards are transferred. In order to numerically assess the extent the risks and rewards are being transferred on the sale of loans and advances to Cherub Funding Limited, management completed a variability analysis prior to the initial sale, showing the residual rights to cashflows under a series of possible outcomes, including consideration of the ongoing fee for acting as a servicing agent for the assets after sale. In all cases it was determined that substantially all the risks and rewards of ownership have been transferred and the assets are derecognised accordingly on legal completion of any sale.

3 Judgements in applying accounting policies and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 2, the directors are required to make judgements that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation in applying the Group's accounting policies

The following are the key sources of estimation, that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

3.1 Expected credit loss (ECL) measurement

The calculation of the Group's ECL under IFRS 9 requires a number of judgements, assumptions and estimates. The most significant of which are:

a) ECL model estimates

Expected credit losses are the expected cash shortfalls from the contractually due amounts over the next 12-months or the expected life of a financial instrument. The impairment models multiply the probability of default (PD), loss given default (LGD) and the exposure at default (EAD) to calculate the expected credit loss. The 12-month PD is used for all assets in stage 1 and the lifetime PD is used for all other assets.

For secured lending the probability of default is modelled based on the historic data of purchased portfolios, management deem this to be materially reasonable at present given the low level of defaults experienced historically in the portfolios purchased. For the unsecured portfolio the probability of default is calculated using a term structure where, all things being equal, the probability of default reduces (and probability of survival increases) as the term on book progresses.

Due to a lack of historic trading data, industry data for customers with a similar risk profile is used in varying degrees in all models to predict customer behaviour. Going forward industry data will continue to be replaced with trading data as this becomes available.

Notwithstanding the mechanical calculation, the Group will always consider whether the process generates sufficient provision and will provide additional amounts as appropriate. In unprecedented economic conditions, it is likely that the models will be less predictive of outcomes, as the historic data used is not fully representative of the conditions. In such circumstances management carefully review all outputs and may decide to overlay the model outcome with further judgements to ensure the provision is adequate.

The following table shows the sensitivity of significant modelling estimates, being the PD and expected recoveries incorporated in the LGD calculation.

	Sensitivity in £000's PD : +5% relative	**Sensitivity in £000's PD : -5% relative**
Impact on expected credit losses	**851**	**(857)**

	Sensitivity in £000's LGD : +5% relative	**Sensitivity in £000's LGD : -5% relative**
Impact on expected credit losses	**1,817**	**(1,874)**

The exposure at default models take into account available but unutilised credit commitments, including unused credit limits on revolving credit facilities and committed mortgage drawdowns. The Group considers secured lending to be committed at the point the customer accepts the offer. Although no transfer of assets is undertaken until legal completion is confirmed, a provision is recognised against secured loans from the point of commitment, no probability of completion is factored into the calculation. The exposure at default calculation estimate also addresses increases in the utilisation of committed limits and unpaid interest and fees that the Group would ordinarily expect to the point of default, for revolving credit this involves estimating the utilisation of granted credit limits at the point of default, this is estimated using both historical experience and industry data.

In accordance with IFRS 7, the expected credit loss against off-balance sheet commitments is recognised in provisions in the Statement of Financial Position.

b) Significant increase in credit risk - judgement

In determining whether an account has demonstrated a significant increase in credit risk since origination the Group applies the following criteria:

- Quantitative measures consider severity of any change in an accounts PD from that expected at origination. The Group has segmented the unsecured portfolio into origination PD risk grades and has determined a threshold for each risk grade where a movement in excess of the threshold since origination is considered to be significant, in such case an account would be moved to stage 2. For the secured portfolio, the Group considers there to have been a significant increase in credit risk where the current PD is more than double the residual initial PD, with a minimum increase threshold of 0.1%.

- Qualitative criteria which consider whether an account has displayed behaviour that would be indicative of a significant increase in credit risk. In the case of credit card balances this includes overlimit accounts.

- Delinquency data is used to identify any accounts which are more than 30 days past due, the Group assumes all financial assets have shown a significant increase in credit risk if they are more than 30 days past due.

The Group uses up-to-date external credit bureau data in the PD determination, and as a result in most instances adverse behaviour is reflected in the quantitative measure. An account is moved back to stage 1 when it no longer meets the criteria for a period of longer than one month.

c) Economic forecasts- judgement

The calculation of ECL incorporates a probability-weighted range of possible future outcomes. The Group has identified the most significant macroeconomic factor likely to impact credit loss for the unsecured portfolio as the change in the UK unemployment rate, for the secured portfolio the most significant macroeconomic factor is the change in the house price index. For 2023 the scenarios include a base, an upside and two downside scenarios, which are all based on external forecasts. The probability weighting applied to each scenario is based on management's best estimate of the likely occurrence of each scenario. The choice of alternative scenarios and scenario weights is a judgemental assessment. The probability weightings applied to the four economic scenarios used are as follows:

	2023	**2022**
Base	40%	50%
Upside	10%	20%
Downside	40%	20%
Far Downside	10%	10%

The increase in weighting towards the downside scenario reflects a movement in risk towards the downside. The Group undertakes a regular review of economic scenarios and probability weightings applied through governance committees prior to any changes being implemented. The calculation of expected credit losses is sensitive to the forecasts and weightings used, had the weighting been 100% to the far downside scenario the impact would have been an increase in impairment losses of £2.63m.

d) Post model adjustments- judgement

Limitations in the Group's impairment models or data inputs may be identified through the ongoing assessment and validation of the output of the models. In these circumstances, management make appropriate adjustments to the allowance for impairment losses to ensure that the overall provision adequately reflects all material risks. Any such adjustments are subject to internal review and challenge to ensure amounts are appropriately calculated and that there is an agreed release criteria within a specified timeframe.

Post-Covid recovery has been recently hampered by geopolitical tensions, including the war in Ukraine, this is creating uncertainty across global markets, including high levels of inflation.

The Group is monitoring carefully the impact of the rapid increases in interest rates seen this year, the impacts of higher inflation and the associated cost of living implications for customers as a result a post-model adjustment of £1.1m (2022: £551k) has been applied for affordability stress across the unsecured portfolios, in order to account for potential impacts of the current environment that is likely to be underestimated in the modelled outcome. For the secured portfolio management have considered any affordability or refinance risk in the book, the majority of the secured portfolio has been underwritten in the last 12 months on long term fixed rate contracts in the new higher interest rate environment and having passed strenuous affordability rules, rental demand remains high and buy-to-let mortgage performance across the whole market remains robust, consequently no post-model adjustment has been applied. This is an area of management judgement and it is possible the actual outcome could vary significantly from the estimate.

e) Purchased or originated credit impaired (POCI) - judgement

Acquired loans that meet the Group’s definition of default (90 days past due or an unlikeliness to pay position) at acquisition are treated as POCI assets. These assets attract a lifetime ECL allowance over the full term of the loan, even when these loans no longer meet the definition of default post acquisition. The Group does not originate credit-impaired loans.

Once a financial asset is classified as POCI, it remains there until derecognition irrespective of its credit quality. POCI financial assets are disclosed separately from those financial assets in Stage 3

3.2 Effective interest rate (EIR) - estimate

Cost arising on the acquisition of loan assets, premium or discounts on purchase and estimated contractual changes in interest rates for loans customers are amortised through the Statement of Total Comprehensive Income over the expected life of the asset on an EIR basis. The ‘effective interest rate’ is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the EIR, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the EIR includes those transaction costs and fees paid or received and any discounts received to par when purchasing mortgage books, which are deemed to be an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

The EIR method of accounting for income recognition requires management to make a number of assumptions. In particular, management must make a significant judgement around the estimation of the expected life of loan assets. In determining the expected life of loan assets, management consider likely redemption profiles and the anticipated level of prepayments and early settlements. For revolving products, informed by market data, but in the absence of any historical observed behaviour, an estimated life of 5 years has been used.

The Group monitors the actual cash flows for each book and resets cash flows on a monthly basis, discounted at the EIR to derive a new carrying value, with changes taken to profit or loss as interest income. The EIR is adjusted where there is a movement in the reference interest rate (SONIA or base rate) affecting portfolios with a variable interest rate which will impact future cash flows. The revised EIR is the rate which exactly discounts the revised cash flows to the net carrying value of the loan portfolio.

Sensitivity analysis has been performed on the behavioural assumptions of customer prepayment across all products and increase/decrease in expected prepayments of 10% would have an impact of -/+ £731k on the EIR balance held at year end.

3.3 Investment in subsidiary undertakings - judgement

IAS 36 "Impairment of Assets" requires assets to be carried at no more than their recoverable amount; recoverable amount being the higher of the assets fair value less costs of disposal and its value in use.

On 1st March 2022 Chetwood acquired 100% of the share capital of Yobota Limited from its parent company, Shropshire Holdings Limited. The purchase was transacted for £15m, including Yobota cash balances at the acquisition date. Yobota Limited is the provider of the bank's main software. During the year the bank injected a further £1.5m into Yobota Limited, a 100% owned group subsidiary, bringing the total investment in the subsidiary to £16.5m (2022: £15m).

Since acquisition, significant changes have taken place to the Group's strategic plan, including a pivot to secured lending and a change in future intended use of the Yobota system. This, in conjunction with the materially deteriorated macro-economic environment experienced this year, means Chetwood's investment in Yobota Limited is impaired.

The impairment review considered both income and replacement cost approaches to calculate a reasonable estimate for the recoverable amount; the higher of the two being calculated to be the replacement cost of the bespoke core banking system.

Valuations of investments in subsidiaries are inherently judgemental. The income approach is akin to a value in use calculation, which involved calculating the present value of Yobota's contract with Chetwood for provision of the core banking system. The replacement cost approach involved estimating the value of the core banking system by reference to the costs that would have to be expended in order to recreate the required elements of the asset that will continue to be used by the bank through its financial plan taking into account adjustments for improvements in technology and movements in the market by way of an obsolescence factor. This approach estimated the costs to rebuild the required technology at the reporting date. Due to the change in strategic direction, brought about in part by the macro-economic environment, not all system elements would now be required to be rebuilt, which results in a decision to impair the investment by £6.75m to a carrying value of £9.75m. The valuation depends upon the future use of the system for unsecured lending, any future changes to the strategic direction of the business may impact on the carrying value.

The three main judgements within this calculation are: the time needed to rebuild the required bespoke system elements, the assumed salary costs, and the requirement for an obsolescence factor.

• The impact of changing the cost of current market rate salaries by 10%, all other variables remaining constant, would have been an £0.8m increase/decrease in carrying value.

• The impact of increasing/decreasing the time taken to complete the bespoke rebuild by 10%, all other variables remaining constant, would have been an £0.9m increase/decrease in carrying value.

• The impact of including a 5% obsolescence factor, all other variables remaining constant, would have been £0.4m.

3.4 Intangible assets - judgement

The Group capitalises the cost of internal system development where the project is expected to result in a separately identifiable asset, the project is technically feasible, the Group has the ability and sufficient resources to complete development, if future economic benefits are probable and if the Group can measure reliably the expenditure attributable to the intangible asset during its development.

The expenditure capitalised includes third party and internal employee time costs for software and system development. Capitalised costs are initially measured at cost and amortised straight-line from the date at which the system is available for use, over the period for which the developed system is expected to be in use. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on the research phase of projects, is recognised as an expense as incurred.

Intangible assets are reviewed for indicators of impairment at least annually at the balance sheet date. For intangible assets that are not yet available for use, the recoverable amount is estimated at the reporting date. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that are largely independent of the cash inflows of other assets (the cash generating unit).

An impairment loss is recognised if the carrying amount of an asset or cash generating unit exceeds its estimated recoverable amount. The calculation of recoverable amounts requires management judgements to be taken regarding the future expected benefits, allocation of assets to cash generating units and the appropriate discount rate to be used.

During the year an impairment review was undertaken on the internally developed customer facing credit card application and associated warehouse. Management have been unable to reliably measure the fair value of the application should it be sold in an orderly transaction between market participants, the technology is bespoke to the Group and any market is specialised. Therefore, in accordance with IAS 36, as it's not possible to reliably measure fair value less costs of disposal management have used the asset's value in use as its recoverable amount.

Given the significant changes to the Group's strategic plan in the year, including a pivot to secured lending, in conjunction with the materially deteriorating macro-economic environment experienced this year, a full impairment of the carrying value of £3m has been recognised in the Statement of Comprehensive Income. This is a judgement based on management's best knowledge of the market and public information available and it is possible that future events would enable management to reliably estimate a higher fair value for the technology.

At 31 March 2023 the Group had £nil (2022: nil) capitalised for assets under construction.

3.5 Fair value measurement - assets originated for sale - estimate

Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date in the most advantageous market to which the Group has access at that date.

During the year the Group originated assets with the intention to sell and made sales to Cherub Funding Limited, a remote legal entity related by common ultimate control.

In valuing these loans both for sale and at the reporting date the Group makes use of unobservable inputs classed a level 3 in the fair value hierarchy, the calculation is inherently judgemental.

To calculate the fair value the Group uses a discounted cash flow method which relies on future default and payment assumptions as well as a risk-adjusted discount rate, which is derived from market observations.

Sensitivity analysis has been performed on the risk adjusted interest rate used in the calculation and an absolute increase/decrease of 1% would have an impact of +/- £25k on the fair value asset value held at year end, an increase in the discount rate of 1% would have meant a £25k greater loss recognised for the year, a decrease of 1% in the discount rate would have meant a £25k lower loss recognised for the year.

4 Net interest income

	Group Year ended 31 March 2023	Group Year ended 31 March 2022
	£'000	£'000
Interest income		
Interest income from loans and advances to customers held at amortised cost	**26,442**	29,616
Interest income from debt securities at FVOCI	**4**	5
Interest income from debt securities at amortised cost	**2,213**	-
Interest income from banks	**6,747**	134
Total interest income calculated using the effective interest rate method	**35,406**	29,755

During the year the Group invested in £135.9m of debt securities, see note 16 for further details.

	Group Year ended 31 March 2023	Group Year ended 31 March 2022
Interest payable and similar charges		
Interest payable on customer deposits	**14,878**	2,507
Other interest payable	**36**	35
Total interest payable	**14,914**	2,542
Net interest income	**20,492**	27,213

The other interest expense of £36k (2022: £35k) arises from the unwind of lease liabilities required under IFRS 16.

5 Fee and Commission

	Group Year ended 31 March 2023	Group Year ended 31 March 2022
Fee and commission income	**£'000**	£'000
Transaction based fees	**1,182**	135
Other fee and commission income	**1,549**	109
Total fee and commission income	**2,731**	244
Fee and commission expense		
Fee and commission expense	**(718)**	(152)
Total fee and commission expense	**(718)**	(152)

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (see note 4). Transaction based fees consists of other income not considered to be integral to the effective interest rate, including interchange.

Other fee and commission income - including account servicing fees, is recognised as the related services are performed. Fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

6 Net income from financial instruments held at fair value through profit and loss

The Group has opted to hedge account for the year ended 31 March 2023

	Group Year ended 31 March 2023	Group Year ended 31 March 2022
	£'000	£'000
Fair value changes in hedged assets	**(852)**	-
Hedging of assets	**1,056**	-
Fair value of changes in hedged liabilities	**2,515**	-
Hedging of liabilities	**(2,915)**	-
Ineffective portion of hedges	**(196)**	-
Net gains/(losses) on unmatched swaps	**(439)**	(361)
Amortisation of inception adjustments	**555**	-
Fair value movement from loans and advances to customers at FVTPL	**(7,380)**	227
Net income from loans and advances to customers at FVTPL	**5,320**	143
Net income from derivatives at FVTPL	**980**	99
	(1,160)	108

The amortisation of inception adjustments relates to the amortisation of the hedging adjustments arising when hedge accounting commences, primarily on derivative instruments previously taken out against the mortgage pipeline.
Further information in relation to hedge accounting treatment can be found in note 2.20.

Further information in relation to the measurement of financial instruments can be found in note 2.18.

7 Administrative expenses

		Group Year ended 31 March 2023 £'000	Group Year ended 31 March 2022 £'000
Staff costs	11	**26,291**	17,000
Depreciation of property, plant and equipment	19	**496**	322
Amortisation of intangible assets	20	**2,235**	694
Auditors' remuneration	10	**1,803**	898
Impairment of intangible asset	20	**3,069**	-
Other administration and general expenses		**22,225**	11,895
		56,119	30,809

Other administration and general expenses includes IT and computer costs totalling £3.9m (2021: £2.1m) and £3.9m (2021: £1.3m) of consultancy fees.

8 Impairment of loans and advances to customers

	Group Year ended 31 March 2023 £'000	Group Year ended 31 March 2022 £'000
Provided in period	**27,866**	33,280
Recovery of written off amounts	**(2,740)**	(2,543)
Impairment of loans and advances to customers	**25,126**	30,737

The Group's impairment charge includes the net impact of transfers between stages, changes in loss allowance as a result of movements in the probability of default which have not resulted in a transfer between stages and the impact of write-offs and recoveries. For further information see note 32.2.

9 Net gain/(loss) arising from derecognition of financial assets

	Group Year ended 31 March 2023 £'000	Group Year ended 31 March 2022 £'000
Net gain arising from securitisation sale of financial assets measured at amortised cost	**1,727**	4,369
	1,727	4,369

The Group completed a securitisation sale of gross loans and advances held at amortised cost with a carrying value of £30.2m for proceeds of £31.9m, resulting in a realised gain on sale of £1.7m (2022: £4.4m).

10 Auditors' remuneration

	Group Year ended 31 March 2023 £'000	Group Year ended 31 March 2022 £'000
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	**1,803**	829
Fees payable to the subsidiary undertakings' auditor and its associates for the audit of the subsidiary undertakings' annual financial statements	**-**	69
	1,803	898

11 Employees

Staff costs, including directors' remuneration, were as follows:	**Group Year ended 31 March 2023 £'000**	**Company Year ended 31 March 2023 £'000**	Group Year ended 31 March 2022 £'000	Company Year ended 31 March 2022 £'000
Wages and salaries	**19,197**	**17,937**	12,159	11,722
Capitalised to intangibles	**-**	**-**	(506)	(506)
Social security costs	**2,264**	**1,727**	1,439	1,417
Pension costs	**814**	**680**	403	388
Other staff costs	**4,016**	**3,963**	3,505	3,474
	26,291	**24,307**	17,000	16,495

Included within wages and salaries above is a share-based payment charge totalling £85k (2022: £209k).

The average monthly number of employees, including the directors, during the year was as follows:

	Group Year ended 31 March 2023 £'000	**Company Year ended 31 March 2023 £'000**	Group Year ended 31 March 2022 £'000	Company Year ended 31 March 2022 £'000
Directors	**8**	**8**	8	8
Employees	**265**	**211**	166	159
	273	**219**	174	167

All employees are located in the United Kingdom and are engaged in the delivery of consumer finance products and the development of cloud-based core banking platforms.

12 Directors' remuneration

	Group Year ended 31 March 2023 £'000	Group Year ended 31 March 2022 £'000
Directors' emoluments	**1,668**	1,697
Group contributions to defined contribution pension schemes	**17**	24
	1,685	1,721

During the year retirement benefits were accruing to 2 directors (2022-3) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £482k (2022- £471k) including £nil (2022: £nil) of Group contributions paid to a defined contribution pension scheme.

The Group's parent undertaking operates an equity-settled share scheme. Overall share based payment charge for directors this financial year is £47k (2022: £39k) see note 31 for further details.

Key management compensation related wholly to the directors, who have the authority and responsibility for directing and controlling the Group's activities.

13 Taxation

Current tax	**Group Year ended 31 March 2023 £'000**	Group Year ended 31 March 2022 £'000
Total current tax expense	**101**	4
Taxation on loss on ordinary activities	**101**	4

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2022: higher than) the standard rate of corporation tax in the UK of 19% (2022: 19%). The differences are explained below:

	Group Year ended 31 March 2023 £'000	Group Year ended 31 March 2022 £'000
Loss on ordinary activities before tax	**(58,047)**	(29,749)
Tax on loss at standard UK tax rate of 19% (2021: 19%)	**(11,029)**	(5,652)
Effects of:		
Fixed asset differences	**217**	-
Expenses not deductible	**1**	189
Unrecognised deferred tax	**10,811**	5,463
Adjustments in respect of previous years	**101**	15
Research and development tax credit	**-**	(11)
Tax charge for the year	**101**	4

Based on their assessment of the timing and level of future taxable profits, the Directors have concluded that it would not be appropriate to recognise a deferred tax asset at the balance sheet date. The unrecognised Group deferred tax asset as at 31 March 2023 is £40.8m (2022: £26.6m), the unrecognised Company deferred tax asset is £36.5m (2022: £23.1m), both relating to trading losses and the impact of the IFRS 9 transition. Prior year deferred tax asset has been restated to include both the impact of the IFRS 9 transition and to reflect the full group unrecognised asset.

An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the Group's future current tax charge accordingly.

14 Cash and cash equivalents

Cash and cash equivalents for the purposes of the Cash flow statement include the following:

	Group As at 31 March 2023 £'000	**Company As at 31 March 2023 £'000**	Group As at 31 March 2022 £'000	Company As at 31 March 2022 £'000
Bank of England	**680,142**	**680,142**	66,625	66,625
Commercial banks	**8,220**	**7,440**	7,873	6,598
Total	**688,362**	**687,582**	74,498	73,223

All balances are held with institutions rated A or above by external credit reference agencies. The fair value of cash and cash equivalents is considered to be the book value, these items have a short-term maturity. The Group has assessed the balances and expected credit losses are considered to be immaterial.

15 Loans and advances to customers

	Group As at 31 March 2023	**Company As at 31 March 2023**	Group As at 31 March 2022	Company As at 31 March 2022
	£'000	**£'000**	£'000	£'000
Gross loans and advances to customers at amortised cost	**668,681**	**668,732**	320,324	320,464
Impairment allowances	**(36,905)**	**(36,905)**	(34,576)	(34,576)
Net loan receivables held at amortised cost	**631,776**	**631,827**	285,748	285,888
Loans and advances to customers at FVTPL	**17,403**	**17,403**	16,798	16,798
Total loans and advances to customers	**649,179**	**649,230**	302,546	302,686

For details of the contractual maturity see note 32.5. For details of the contractual maturity profile and the expected credit loss assessment performed on loans and advances to customers, see note 32.2.

16 Investment in debt securities

	Group As at 31 March 2023	**Company As at 31 March 2023**	Group As at 31 March 2022	Company As at 31 March 2022
Measured at FVOCI	**£'000**	**£'000**	£'000	£'000
Treasury Bills	**4,825**	**4,825**	4,883	4,883
Measured at amortised cost				
Residential mortgage-backed securities (RMBS) loan notes	**124,770**	**124,770**	-	-
	129,595	**129,595**	4,883	4,883

The Group holds debt securities both as a low-risk investment strategy and as liquid assets to meet prudential requirements. The securities are held with the intention of use on a continuing basis in the Group's activities and are classified in accordance with the Group's business model for each security.

Treasury bills are investments in UK sovereign debt, scheduled to mature in January 2024. The total historic cost of these positions is £5.0m. Treasury bills are highly rated government securities for which traded prices are readily available.

During the year the Group purchased Residential Mortgage-Backed Securities with an initial cost of £135.9m (2022: nil) for £135.7m and sold securities with an initial par value of £4m for £3.9m (2022: nil). £7.1m of principal repayments have been received during the year (2022: nil) leaving a carrying value of £124.8m (2022: nil). The RMBS investments are AAA rated, the credit risk on these securities has not significantly increased since initial recognition, they are categorised as stage 1. Given the AAA rating on these instruments the expected credit loss is immaterial.

17 Other assets

	Group As at 31 March 2023	**Company As at 31 March 2023**	Group As at 31 March 2022	Company As at 31 March 2022
	£'000	**£'000**	£'000	£'000
Amounts owed by parent undertakings	**54**	**54**	254	254
Amounts owed by subsidiary undertakings	**-**	**94**	-	-
Cash collateral	**13,455**	**13,454**	2,795	2,795
Other debtors	**5,388**	**5,326**	5,571	5,008
Total other assets	**18,897**	**18,928**	8,620	8,057

Cash collateral represents margin calls £11.5m (2022: £850k) made on derivative contracts and security deposits placed to support payment processes and customer transaction volumes. The cash collateral balance has grown during the year to support the increased volume of interest rate hedge contracts taken out.

Amounts owed by parent and subsidiary undertakings is unsecured, non-interest-bearing and repayable on demand. All amounts due from undertakings are included within Stage 1 for IFRS 9 purposes, the expected credit loss is £nil (2022: £nil).

18 Prepayments and accrued income

	Group As at 31 March 2023	**Company As at 31 March 2023**	Group As at 31 March 2022	Company As at 31 March 2022
		£'000	£'000	£'000
Prepayments	**750**	**671**	822	618
Accrued income	**249**	**249**	108	108
	999	**920**	930	726

19 Property, plant and equipment

Group	**Fixtures, Fittings and Equipment**	**IT Equipment**	**Right-of-use assets**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Costs				
As at 1 April 2022	**656**	**359**	**654**	**1,669**
Additions	**73**	**257**	**513**	**843**
Disposals	**(17)**	**(67)**	**(227)**	**(311)**
Remeasurement of the ROU asset	**-**	**-**	**217**	**217**
As at 31 March 2023	**712**	**549**	**1,157**	**2,418**
Depreciation				
As at 1 April 2022	**475**	**177**	**327**	**979**
Charge for the period	**106**	**137**	**253**	**496**
Disposals	**(10)**	**(66)**	**(227)**	**(303)**
As at 31 March 2023	**571**	**248**	**353**	**1,172**
Net Book Value at 31 March 2023	**141**	**301**	**804**	**1,246**
Net Book Value at 31 March 2022	181	182	327	690

The right-of-use assets consist of buildings leased by the Group for use in business operations. During the year the Group has reassessed the reasonably likely lease exit date and remeasured the right of use asset and lease liability in accordance with IFRS 16. Due to the changing working environment post covid, hybrid working has meant the current facilities are now deemed adequate for the future need of the business and the remeasurement of the lease reflects this.

Company	**Fixtures, Fittings and Equipment**	**IT Equipment**	**Right-of-use assets**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Costs				
As at 1 April 2022	**641**	**317**	**531**	**1,489**
Additions	**73**	**257**	**513**	**843**
Disposals	**(14)**	**(66)**	**(104)**	**(184)**
Remeasurement of the ROU asset	**-**	**-**	**217**	**217**
As at 31 March 2023	**700**	**508**	**1,157**	**2,365**
Depreciation				
As at 1 April 2022	**475**	**174**	**315**	**964**
Charge for the period	**98**	**112**	**142**	**352**
Disposals	**(9)**	**(65)**	**(104)**	**(178)**
As at 31 March 2023	**564**	**221**	**353**	**1,138**
Net Book Value at 31 March 2023	**136**	**287**	**804**	**1,227**
Net Book Value at 31 March 2022	166	143	216	525

The right-of-use assets consist of buildings leased by the Company for use in business operations. During the year the Company has reassessed the reasonably likely lease exit dates and remeasured the right of use asset and lease liability in accordance with IFRS16.

In respect of prior year

Group	Fixtures, Fittings and Equipment	IT Equipment	Right-of-use assets	Total
	£'000	£'000	£'000	£'000
Costs				
As at 1 April 2021	635	223	636	1,494
Additions	11	108	-	119
Acquisition of subsidiary undertaking at net book value	15	42	322	379
Disposals	(5)	(14)	-	(19)
Remeasurement of the ROU asset	-	-	(304)	(304)
As at 31 March 2022	656	359	654	1,669
Depreciation				
As at 1 April 2021	352	123	200	675
Charge for the period	127	68	127	322
Disposals	(4)	(14)	-	(18)
As at 31 March 2022	475	177	327	979
Net Book Value at 31 March 2022	181	182	327	690
Net Book Value at 31 March 2021	283	100	436	819

Acquisition of subsidiary undertaking at net book value relate to the purchase of Yobota Limited by the Group on 1 March 2022.

Company	Fixtures, Fittings and Equipment	IT Equipment	Right-of-use assets	Total
	£'000	£'000	£'000	£'000
Costs				
As at 1 April 2021	635	223	636	1,494
Additions	11	108	-	119
Disposals	(5)	(14)	-	(19)
Remeasurement of the ROU asset	-	-	(105)	(105)
As at 31 March 2022	641	317	531	1,489
Depreciation				
As at 1 April 2021	352	123	200	675
Charge for the period	127	65	115	307
Disposals	(4)	(14)	-	(18)
As at 31 March 2022	475	174	315	964
Net Book Value at 31 March 2022	166	143	216	525
Net Book Value at 31 March 2021	283	100	436	819

The right-of-use assets consist of buildings leased by the Company for use in business operations. During the year the Company has reassessed the reasonably likely lease exit dates and remeasured the right of use asset and lease liability in accordance with IFRS16.

20 Intangible assets

Group

	Software Licences	**Patents and Royalties**	**Software development**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Costs				
As at 1 April 2022	**84**	**12**	**8,294**	**8,390**
Additions	**-**	**-**	**402**	**402**
Disposals	**-**	**(12)**	**-**	**(12)**
As at 31 March 2023	**84**	**-**	**8,696**	**8,780**
Amortisation				
As at 1 April 2022	**23**	**12**	**686**	**721**
Charge for the period	**17**	**-**	**2,218**	**2,235**
Disposals	**-**	**(12)**	**-**	**(12)**
Impairment	**-**	**-**	**3,069**	**3,069**
As at 31 March 2023	**40**	**-**	**5,973**	**6,013**
Net Book Value at 31 March 2023	**44**	**-**	**2,723**	**2,767**
Net Book Value at 31 March 2022	61	-	7,608	7,669

Company

	Software Licences	**Patents and Royalties**	**Software development**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Costs				
As at 1 April 2022	**84**	**12**	**4,986**	**5,082**
Additions	**-**	**-**	**402**	**402**
Disposals	**-**	**(12)**	**-**	**(12)**
As at 31 March 2023	**84**	**-**	**5,388**	**5,472**
Amortisation				
As at 1 April 2022	**23**	**12**	**645**	**680**
Charge for the period	**17**	**-**	**1,081**	**1,098**
Disposals	**-**	**(12)**	**-**	**(12)**
Impairment			**3,069**	**3,069**
As at 31 March 2023	**40**	**-**	**4,795**	**4,835**
Net Book Value at 31 March 2023	**44**	**-**	**593**	**637**
Net Book Value at 31 March 2022	61	-	4,341	4,402

Included within software development is the cost of developing a front-end mobile application for credit card customers. The directors consider the materially deteriorated macro-economic environment experienced this year and the resulting reduction in unsecured lending to be an indication of impairment, in accordance with IAS 36 an impairment review has been completed and an impairment of £3m has been recognised. For further details see note 3.4.

Group

	Software Licences	Patents and Royalties	Software development	Total
	£'000	£'000	£'000	£'000
Costs				
As at 1 April 2021	115	12	3,041	3,168
Additions	33	-	1,819	1,852
Acquisition of subsidiary undertaking at net book value	-	-	3,434	3,434
Disposals	(64)	-	-	(64)
As at 31 March 2022	84	12	8,294	8,390
Amortisation				
As at 1 April 2021	48	10	15	73
Charge for the period	21	2	671	694
Disposals	(46)	-	-	(46)
As at 31 March 2022	23	12	686	721
Net Book Value at 31 March 2022	61	-	7,608	7,669
Net Book Value at 31 March 2021	67	2	3,026	3,095

Acquisition of subsidiary undertaking at net book value relate to the purchase of Yobota Limited by the Group on the 1 March 2022.

Company	Software Licences	Patents and Royalties	Software development	Total
	£'000	£'000	£'000	£'000
Costs				
As at 1 April 2021	115	12	3,167	3,294
Additions	33	-	1,819	1,852
Disposals	(64)	-	-	(64)
As at 31 March 2022	84	12	4,986	5,082
Amortisation				
As at 1 April 2021	48	10	58	116
Charge for the period	21	2	587	610
Disposals	(46)	-	-	(46)
As at 31 March 2022	23	12	645	680
Net Book Value at 31 March 2022	61	-	4,341	4,402
Net Book Value at 31 March 2021	67	2	3,109	3,178

Amortisation of all classes of intangible assets is included within administrative expenses in the Statement of Other Comprehensive Income.

21 Investment in subsidiaries

Company

	2023	2022
	£'000	£'000
Carrying value at the beginning of the year	**15,003**	-
Acquisition of Yobota Limited	**-**	15,003
Investment in Yobota Limited	**1,500**	-
Impairment of investment in Yobota Limited	**(6,753)**	-
Net book value as at 31 March	**9,750**	15,003

The Company holds a 100% interest in two companies' ordinary share capital.

Yobota Limited, a Company which develops and licenses cloud-based banking platforms. The registered office is: Chetwood Financial, Ellice Way, Wrexham Technology Park, Wrexham, Wales, LL13 7YT. The issued ordinary share capital is £16,503k nominal value (2022: £15,003k).

Arrowsmiths No 1 Limited, a Company which is currently not trading. The registered office is: Chetwood Financial, Ellice Way, Wrexham Technology Park, Wrexham, Wales, LL13 7YT. The issued ordinary share capital is £100 nominal value (2022: £100).

The Group does not have restrictions on its ability to access or use its assets and settle its liabilities.

For the year ending 31st March 2023 Yobota Limited was entitled to exemption from audit under section 479A and Arrowsmiths No 1 Limited was entitled to exemption from audit under section 480 of the Companies Act 2006. The members have not required either company to obtain an audit. The Group directors acknowledge their responsibilities for complying with the requirements of the Companies Act 2006 with respect to accounting records and the preparation of accounts.

On 30 June 2022 the Company subscribed for 1,500m ordinary shares in Yobota Limited, in exchange for £1.5m cash consideration.

Following acquisition of Yobota Limited significant changes have taken place to the Group's strategic plan, including a pivot to secured lending and a change in the future intended use of the Yobota system. An impairment review has been conducted in accordance with IAS 36 *"Impairment of Assets"* resulting in a decision to impair the carrying value of the investment by £6.75m to £9.75m. For further details see note 3.3.

22 Customer deposits

The Customer Deposits Group balance of £1,383,305k (2022: £322,625k) at year ended 31 March 2023 is inclusive of £11,905k (2022: £1,520k) accrued interest on customer deposits. For maturity analysis see note 32.5.

The Customer Deposits Company balance of £1,383,305k (2022: £322,594k) at year ended 31 March 2023 is inclusive of £11,905k (2021: £1,520k) accrued interest on customer deposits. For maturity analysis see note 32.5.

Chetwood Financial Limited is a member of the Financial Services Compensation Scheme. Eligible Customer Deposits are guaranteed up to £85k per individual customer.

23 Accruals and deferred income

	Group As at 31 March 2023	**Company As at 31 March 2023**	Group As at 31 March 2022	Company As at 31 March 2022
	£'000	**£'000**	£'000	£'000
Accruals	**6,855**	**6,763**	6,312	5,743
Deferred Income	**424**	**424**	478	478
	7,279	**7,187**	6,790	6,221

Deferred income includes advanced payment from key partners such as Mastercard, to support future marketing and technology spend on the credit card proposition.

24 Derivative financial instruments

Group and Company	**Notional Amount £'000**	Fair Value of assets £'000	Fair Value of liabilities £'000
Interest rate swaps:			
As at 31 March 2023	**1,571,716**	**4,565**	**(6,645)**
Interest rate swaps:			
As at 31 March 2022	101,250	138	(457)

	Group As at 31 March 2023 £'000	Group As at 31 March 2022 £'000
Gains and losses from derivatives are as follows:		
Gains on derivative financial instruments	**3,903**	53
Losses on derivative financial instruments	**(6,201)**	(414)
Fair value gains/(loss) on derivative financial instruments	**(2,298)**	(361)

The Group uses interest rate swaps to hedge its exposure to changes in the fair values of fixed-rate deposits and fixed-rate loans and advances. Pay-floating/receive-fixed interest rate swaps are matched to fixed rate liabilities or pay fixed/receive-floating interest rate swaps are matched to fixed-rate loans and advances. The Group hedges interest rate risk only to the extent of benchmark interest rates because the changes in fair value of a fixed-rate deposit or loan are significantly influenced by changes in the benchmark interest rate. Hedge accounting is applied where economic hedging relationships meet the hedge accounting criteria (see note 25).

These derivative instruments are indexed to compounded SONIA benchmark rates. By using derivative financial instruments to hedge exposures to changes in interest rates, the Group also exposes itself to credit risk of the derivative counterparty, which is not offset by the hedged item. The Group minimises counterparty credit risk in derivative instruments by entering into transactions with high-quality counterparties whose credit rating is higher than A.

The Group has entered into an enforceable master netting agreement in relation to these derivatives. The master netting agreement does not meet the criteria for offsetting in the Group statement of financial position, in addition the Group does not intend to settle on a net basis.

At the year-end the Group has £11.5m cash collateral pledged in respect of the interest rate derivatives (2022: £850k), see note 17.

The table below profiles the maturity of nominal amounts for interest rate risk hedging derivatives based on contractual maturity:

	Total nominal	**Less than 3 months**	**3-12 months**	**1-5 years**	**More than 5 years**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
At 31 March 2023					
Derivative assets	**487,919**	**15,000**	**133,260**	**293,659**	**46,000**
Derivative liabilities	**1,083,797**	**6,135**	**733,833**	**309,829**	**34,000**
	1,571,716	**21,135**	**867,093**	**603,488**	**80,000**
Average swap rate		**2.6%**	**3.8%**	**3.7%**	**3.7%**

	Total nominal	**Less than 3 months**	**3-12 months**	**1-5 years**	**More than 5 years**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
At 31 March 2022					
Derivative assets	4,000	-	-	4,000	-
Derivative liabilities	93,250	2,000	78,000	13,250	-
	97,250	2,000	78,000	17,250	-
Average swap rate		1.5%	1.7%	1.9%	-

25 Hedge Accounting

Group	Group As at 31 March 2023	Group As at 31 March 2022
Hedged Asset	**£'000**	£'000
Current hedge relationships	**(3,321)**	-
Swap inception adjustment	**2,252**	-
Cancelled hedge relationships	**-**	-
Fair value adjustments on hedged assets	**(1,069)**	-
Hedged Liabilities		
Current hedge relationships	**5,780**	-
Swap inception adjustment	**(2,494)**	-
De-designated hedge relationships	**-**	-
Fair value adjustments on hedged liabilities	**3,286**	-

Before fair value hedge accounting is applied by the Group, the Group determines whether an economic relationship between the hedged item and the hedging instrument exists including considering whether the critical terms of the hedged item and hedging instrument closely align such that the fair value of the hedged item and the hedging instrument should be expected to respond similarly to similar risks. The Group further supports this qualitative assessment by using regression analysis to assess whether the hedging instrument is expected to be and has been highly effective in offsetting changes in the fair value of the hedged item.

Hedged assets consist solely of fixed rate mortgages, and are those assets designated to be hedging Pay fixed Rec SONIA interest rate swaps. Hedged liabilities consist solely of fixed rate deposits, and are those liabilities designated to be hedging REC fixed Pay SONIA interest rate swaps. Swap inception adjustment relates to the fair value in respect of hedged risk in relation to the hedged item prior to the item entering into a hedging relationship.

The Group adopts a de-designation/re-designation policy with the de-designation portfolio being netted within swap inception adjustments. De-designated hedge relationships are reserved for cases where the hedge effectiveness criteria is not met.

The tables below analyse the Group's portfolio fair value hedge accounting for fixed rate loans and advances to customers:

	2023		2022	
	Hedged item	**Hedging instrument**	Hedged item	Hedging instrument
Loans and advances to customers (Interest rate risk)	**£'000**	**£'000**	£'000	£'000
Nominal amount of hedge instrument	**-**	**251,000**	-	-
Carrying amount of hedged item and hedge instrument;				
- Asset	**249,924**	**2,497**	-	-
- Liability	**-**	**(1,451)**	-	-
Accumulated amount of fair value hedge adjustments on hedged items	**(1,069)**	**-**	-	-
Accumulated amount of fair value hedge adjustments for any hedge items that have ceased	**(852)**	**1,056**	-	-
Ineffectiveness for the period recognised in profit or loss	**204**	**-**	-	-
Line item in the statement of financial position where the hedging instrument is included	**Derivative financial assets/ liabilities**			
Line item in the profit or loss that includes hedge ineffectiveness	**Net income from financial instruments held at fair value through profit or loss**			

Cumulative fair value adjustments are those made to the fixed rate asset to offset the movement in fair value of the hedging instrument

The tables below analyse the Group's portfolio fair value hedge accounting for fixed rate amounts owed to retail depositors:

	2023		2022	
	Hedged item	**Hedging instrument**	Hedged item	Hedging instrument
Customer deposits (Interest rate risk)	**£'000**	**£'000**	£'000	£'000
Nominal amount of hedge instrument	**-**	**852,250**	-	-
Carrying amount of hedged item and hedge instrument;				
- Asset	**-**	**116**	-	-
- Liability	**(851,857)**	**(4,141)**	-	-
Accumulated amount of fair value hedge adjustments on hedged items	**3,286**	**-**	-	-
Accumulated amount of fair value adjustments for any hedge items that have ceased	**-**	**-**	-	-
Change in fair value used as the basis for recognising hedge ineffectiveness	**2,515**	**(2,915)**	-	-
Ineffectiveness for the period recognised in profit or loss	**(400)**	**-**	-	-
Line item in the statement of financial position where the hedging instrument is included	**Derivative financial assets/ liabilities**			
Line item in the profit or loss that includes hedge ineffectiveness	**Net income from financial instruments held at fair value through profit or loss**			

Cumulative fair value adjustments are those made to the fixed rate deposit to offset the movement in fair value of the hedging instrument

26 Provisions

Group	Undrawn loan commitments	Other provision	Total
	£'000	£'000	£'000
As at 1 April 2021	-	-	-
Charge for the year	483	108	591
Utilised during the year	-	-	-
As at 31 March 2022	483	108	591
As at 31 March 2022	**483**	**108**	**591**
Charge/(release) for the year	**1,282**	**247**	**1,529**
Utilised during the year	**-**	**(105)**	**(105)**
As at 31 March 2023	**1,765**	**250**	**2,015**

Company	Undrawn loan commitments	Other provision	Total
	£'000	£'000	£'000
As at 1 April 2021	-	-	-
Charge for the year	483	108	591
Utilised during the year	-	-	-
As at 31 March 2022	483	108	591
As at 31 March 2022	**483**	**108**	**591**
Charge for the year	**1,282**	**247**	**1,529**
Utilised during the year	**-**	**(105)**	**(105)**
As at 31 March 2023	**1,765**	**250**	**2,015**

Undrawn loan commitment provision relates to the expected credit loss on the loan commitments the Group has made to its customers for undrawn balances. As at year-end, the provision of £1,765k was categorised as £1,441k in stage 1, £324k in stage 2 and £nil in stage 3. In the prior year, the provision of £483k was categorised as £477k in stage 1, £6k in stage 2 and £nil in stage 3. In accordance with IFRS 7 the Group recognises the expected loss allowance for loan commitments, including available credit lines, as a provision. Once balances are drawn the expected credit losses are recognised as loan impairments. This provision is the Group's best estimate of expected credit losses for amounts committed but not drawn as at the year end taking into account expected customer behaviour including behavioural life of the balances and exposure at default. For further details see note 3.1. For mortgages the Group considers there to be a commitment to lend once a mortgage offer has been issued.

At 31st March 2023, the Group carried other provisions of £250k (2022: £108k) against the expected cost of making redress payments to customers in connection with potential historical affordability regulation breaches and in the prior year the expected cost of rectifying certain circumstances following a review of arrears handling activities. Prior year rectification has been completed in full during the year with an amount of £3k being released as no longer required. Current year remediation remains under investigation, but is expected to be completed in full before the next year end.

As a regulated entity, the Company maintains open and transparent dialogue with the PRA and FCA on a range of matters, the Group and Company also monitors complaints in connection with past conduct. Where appropriate, provisions are held against the costs expected to be incurred in relation to these matters and any matters arising from internal reviews. This is managements' best estimate of the cost of settling these issues, though such matters are inherently uncertain and depend on the scope of reviews required both internally and where appropriate by regulators.

27 Other Liabilities

	Group As at 31 March 2023	**Company As at 31 March 2023**	Group As at 31 March 2022	Company As at 31 March 2022
	£'000	**£'000**	£'000	£'000
Trade payables	**242**	**232**	1,534	1,488
Taxation and social security	**554**	**455**	600	385
Other payables	**4,459**	**4,447**	959	958
Lease liabilities	**845**	**845**	489	326
	6,100	**5,979**	3,582	3,157

Included within other liabilities are £nil pension contributions (2022: £nil). Included within Other payables is £2.6m (2022: nil) deferred consideration as a result of mortgage purchases transacted during the year, the deferred consideration is payable monthly and is dependant on the underlying assets both remaining open and non-defaulted.

Lease liabilities consist of leases for buildings used in operating activities. The scheduled maturities of the leases are as follows:

	Group As at 31 March 2023	**Company As at 31 March 2023**	Group As at 31 March 2022	Company As at 31 March 2022
	£'000	**£'000**	£'000	£'000
Less than one year	**243**	**243**	386	223
Between one and two years	**248**	**248**	103	103
Between two and five years	**354**	**354**	-	-
Total	**845**	**845**	489	326

During the year the Group has reassessed the reasonably likely lease exit dates and remeasured the right of use asset and lease liability in accordance with IFRS 16.

28 Classification of financial assets and financial liabilities

The following tables provide a reconciliation between line items in the Consolidated and Company statement of financial position and categories of financial instruments. See accounting policies note 2.17 and 2.18 for further detail on the classification types.

Group

2023	Note	**Derivatives at FVTPL £'000**	**Loans and advances at FVTPL £'000**	**FVOCI- Debt Instruments £'000**	**Amortised cost £'000**	**Total carrying amount £'000**
Cash and cash equivalents	14	**-**	**-**	**-**	**688,362**	**688,362**
Investment in debt securities	16	**-**	**-**	**4,825**	**124,770**	**129,595**
Loans and advances to customers	15	**-**	**17,403**	**-**	**631,776**	**649,179**
Derivative assets held for risk management	24	**4,565**	**-**	**-**	**-**	**4,565**
Other financial assets	17	**-**	**-**	**-**	**18,826**	**18,826**
Total Financial Assets		**4,565**	**17,403**	**4,825**	**1,463,734**	**1,490,527**
Customer Deposits	22	**-**	**-**	**-**	**1,383,305**	**1,383,305**
Derivative liabilities held for risk management	24	**6,645**	**-**	**-**	**-**	**6,645**
Other financial liabilities	27	**-**	**-**	**-**	**5,254**	**5,254**
Total Financial Liabilities		**6,645**	**-**	**-**	**1,388,559**	**1,395,204**

2022	Note	Derivatives at FVTPL £'000	Loans and advances at FVTPL £'000	FVOCI- Debt Instruments £'000	Amortised cost £'000	Total carrying amount £'000
Cash and cash equivalents	14	-	-	-	74,498	74,498
Investment in debt securities	16	-	-	4,883	-	4,883
Loans and advances to customers	15	-	16,798	-	285,748	302,546
Derivative assets held for risk management	24	138	-	-	-	138
Other financial assets	17	-	-	-	8,493	8,493
Total Financial Assets		138	16,798	4,883	368,739	390,558
Customer Deposits	22	-	-	-	322,625	322,625
Derivative liabilities held for risk management	24	457	-	-	-	457
Other financial liabilities	27	-	-	-	2,975	2,975
Total Financial Liabilities		457	-	-	325,600	326,057

Company

2023	Note	**Derivatives at FVTPL £'000**	**Loans and advances at FVTPL £'000**	**FVOCI- Debt Instruments £'000**	**Amortised cost £'000**	**Total carrying amount £'000**
Cash and cash equivalents	14	**-**	**-**	**-**	**687,582**	**687,582**
Investment in debt securities	16	**-**	**-**	**4,825**	**124,770**	**129,595**
Loans and advances to customers	15	**-**	**17,403**	**-**	**631,827**	**649,230**
Derivative assets held for risk management	24	**4,565**	**-**	**-**	**-**	**4,565**
Other financial assets	17	**-**	**-**	**-**	**18,855**	**18,855**
Total Financial Assets		**4,565**	**17,403**	**4,825**	**1,463,034**	**1,489,827**
Customer Deposits	22	**-**	**-**	**-**	**1,383,305**	**1,383,305**
Derivative liabilities held for risk management	24	**6,645**	**-**	**-**	**-**	**6,645**
Other financial liabilities	27	**-**	**-**	**-**	**5,254**	**5,254**
Total Financial Liabilities		**6,645**	**-**	**-**	**1,388,559**	**1,395,204**

2022	Note	Derivatives at FVTPL £'000	Loans and advances at FVTPL £'000	FVOCI- Debt Instruments £'000	Amortised cost £'000	Total carrying amount £'000
Cash and cash equivalents	14	-	-	-	73,223	73,223
Investment in debt securities	16	-	-	4,883	-	4,883
Loans and advances to customers	15	-	16,798	-	285,888	302,686
Derivative assets held for risk management	24	138	-	-	-	138
Other financial assets	17	-	-	-	7,930	7,930
Total Financial Assets		138	16,798	4,883	367,041	388,860
Customer Deposits	22	-	-	-	322,594	322,594
Derivative liabilities held for risk management	24	457	-	-	-	457
Other financial liabilities	27	-	-	-	2,767	2,767
Total Financial Liabilities		457	-	-	325,361	325,818

29 Share Capital

Group and Company

Allotted, called up and fully paid

	As at 31 March 2023			
	Number	**Nominal value**	**Share capital**	**Share premium**
	'000	**£**	**£'000**	**£'000**
Ordinary Shares	**126,384**	**2.004184**	**253,297**	**2,851**
	126,384		**253,297**	**2,851**

	As at 31 March 2022			
	Number	Nominal value	Share capital	Share premium
	'000	£	£'000	£'000
Ordinary Shares	84,168	2.004184	168,688	2,851
	84,168		168,688	2,851

During the year 42,216,398 (2022: 27,442,591) ordinary shares of £2.004 (2022: £2.004) were issued for £84.6m (2022: £55m).

All ordinary shares rank equally in all respects, including the right to receive all dividends and other distributions declared, made or paid on the ordinary share capital.

Share premium

The share premium account represents premiums paid above par value of share capital.

Retained losses

The retained losses account includes all current and prior period retained profits and losses.

30 Other Reserves

Group	Share based payments	Debt securities revaluation	Capital Contribution reserve	Merger Reserve	Total
	£'000	£'000	£'000	£'000	£'000
As at 1 April 2021	114	-	-	-	114
Movement in year	209	(120)	6,247	770	7,106
As at 31 March 2022	323	(120)	6,247	770	7,220
Movement in year	**85**	**(56)**	**-**	**-**	**29**
As at 31 March 2023	**408**	**(176)**	**6,247**	**770**	**7,249**

Company	Share based payments	Debt securities revaluation	Total
	£'000	£'000	£'000
As at 1 April 2021	114	-	114
Movement in year	209	(120)	89
As at 31 March 2022	323	(120)	203
Movement in year	**85**	**(56)**	**29**
As at 31 March 2023	**408**	**(176)**	**232**

The Group capital contribution reserve relates to a debt waiver granted to Yobota Limited by the Group's ultimate controlling party, prior to the acquisition by Chetwood.

The Group merger reserve arises on consolidation following the restructure of the Group. On 1 March 2022 Chetwood Financial acquired 100% of the share capital of Yobota Limited, from its parent company. Merger accounting was applied to this transaction. For further information please see note 2.3.

31 Share Based Payments

During the year, the Group's parent undertaking, Shropshire Holdings Limited, operated a management share incentive plan. In addition a new management incentive plan is in the process of being formed by the parent company of Shropshire Holdings Limited, Alessandro Investments Limited. Under both plans, restricted share units have been issued or committed to key management.

Employee share-based payment charges are a component of staff costs (Note 11), the charge reflected in the Consolidated Statement of Comprehensive Income is as follows:

	Group As at 31 March 2023	**Company As at 31 March 2023**	Group As at 31 March 2022	Company As at 31 March 2022
	£'000	**£'000**	£'000	£'000
Shropshire Holdings Limited scheme	**79**	**79**	209	209
Alessandro Investments Limited scheme	**6**	**6**	-	-
Total share-based payments	**85**	**85**	209	209

Shropshire Holdings Limited scheme

The following table summarises the movement in the number of restricted share units:

	Group As at 31 March 2023	**Company As at 31 March 2023**	Group As at 31 March 2022	Company As at 31 March 2022
Opening balance	**97,935**	**97,935**	171,935	171,935
Granted	**-**	**-**	-	-
Forfeited	**-**	**-**	(37,000)	(37,000)
Vested	**(23,935)**	**(23,935)**	(37,000)	(37,000)
Closing Balance	**74,000**	**74,000**	97,935	97,935

No restricted share units have been contractually committed to during the year but not granted by year end (2022: 162,303).

Details of the share-based scheme in operation are as follows:

The scheme is an equity-settled share-based payment scheme. Individuals included in the incentive plan were issued with 'C' class shares in Shropshire Holdings Limited, the parent company.

During the year no shares have been issued in the scheme (2022: nil). There are no performance conditions attached to shares in the scheme, the employee must remain in service to retain the shares. These shares are restricted, there is no ability to trade, the shares are only expected to deliver a return in the event of a prescribed exit event.

Alessandro Investments Limited scheme

The Group has agreed a new management incentive scheme referred to as the Alessandro Investments Limited scheme.

This scheme will be an equity-settled share-based payment scheme. Under this new management incentive plan key management will be granted 'B' class shares in Alessandro Investment Limited. The shares will be restricted, there will exist no ability to trade, the shares are only expected to deliver a return in the event of a prescribed exit event and any equity value will be contingent on exceeding a set hurdle amount on such exit. Employees must remain in service to retain the share, it is expected that employees participating in the new scheme will forfeit any rights under the Shropshire Holdings Limited scheme over the vesting period, so as employees cannot ultimately participate in both schemes. The B Shares carry no voting rights, and are not entitled to receive any dividends.

During the year no shares have been issued in the scheme (2022: nil), the scheme is not yet fully operational. The charge in the year for the scheme relates to restricted share units where a constructive obligation has been created during the year but they have not been granted by the year end (2022: nil). The number of restricted share units to be granted has not been finalised, the total fair value of the shares where a constructive obligation has been created was calculated using a modified binomial tree option pricing model, the fair value will be reassessed on grant date of these shares.

32 Risk management

32.1 Credit risk

The Group is exposed to credit risk on loans and advances to customers and other financial assets. Credit risk is the risk of financial loss arising from a customer or counterparty failing to meet their contractual obligations to the Group in accordance with agreed terms.

Credit risk is managed by the Board Risk Committee, which closely monitors the Group's credit risk profile and performance. The Group uses strict lending criteria and credit acceptance scorecards, which include a review of the applicant's credit history, to assess applications for unsecured lending.

The table below shows the financial assets subject to credit risk. The maximum credit risk exposure in the event of other parties failing to perform their obligations is considered to be the balance sheet carrying amounts, as shown in the tables below, this takes no account of any collateral held. For non-derivative off-balance sheet transactions, the maximum credit risk exposure is the contractual commitment to lend of £133.7m (2022: £10,446k).

The credit risk associated with cash and cash equivalents, investment in debt securities, derivative financial instruments and other assets is not considered to be significant.

Unsecured

	Group As at 31 March 2023	**Company As at 31 March 2023**	Group As at 31 March 2022	Company As at 31 March 2022
	£'000	**£'000**	£'000	£'000
Cash and cash equivalents	**688,362**	**687,582**	74,498	73,223
Investment in debt securities	**4,825**	**4,825**	4,883	4,883
Derivative financial assets	**4,565**	**4,565**	138	138
Other financial assets	**18,826**	**18,855**	8,493	7,930
Unsecured loans and advances to customers	**82,525**	**82,575**	154,966	155,106
Total financial statement position exposure	**799,103**	**798,402**	242,978	241,280

All the above loans and advances to customers are unsecured with no collateral held as security. The Group lends to individual customers geographically located in the United Kingdom; a further geographical breakdown is not provided as credit risk is managed on a portfolio basis.

Secured

	Group As at 31 March 2023	**Company As at 31 March 2023**	Group As at 31 March 2022	Company As at 31 March 2022
	£'000	**£'000**	£'000	£'000
Residential mortgage-backed securities (RMBS) loan notes	**124,770**	**124,770**	**-**	**-**
Secured loans and advances to customers	**566,654**	**566,654**	147,580	147,580
Total financial statement position exposure	**691,424**	**691,424**	147,580	147,580

The above secured loans and advances to customers are secured by charges over residential properties in England and Wales. The geographical distribution of the secured loans and advances to customers by gross carrying value is set out below, excluding RMBS.

	Group As at 31 March 2023	Group As at 31 March 2022
	%	%
North East England	**3.8**	0.7
North West England	**9.3**	4.2
Yorkshire and the Humber	**5.4**	2.6
East Midlands	**5.4**	2.7
West Midlands	**5.4**	3.9
East of England	**10.6**	10.4
Greater London	**34.9**	48.6
South East England	**15.2**	20.7
South West England	**6.9**	4.9
Wales	**3.1**	1.3
Total	**100**	100

32.2 Credit quality

The following tables set out information about the credit quality of unsecured loans and advances to customers.

Credit Quality	**12-month probability of default**	**Credit quality description**
Low	Lower than 5%	Up-to-date accounts which have a very high likelihood of being fully recovered
Medium	5-15%	Up-to-date accounts which have a medium likelihood of being fully recovered
High	Higher than 15%	Up-to-date accounts which may be fully recovered but where the likelihood of default is higher
Delinquent		Accounts that are up to 89 days in arrears and have not defaulted
Defaulted		Accounts that are at least 90 days in arrears, insolvent or bankrupt or otherwise credit impaired.
POCI		Accounts meeting the definition of defaulted upon purchase or origination

Stage 1: financial assets that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For financial assets in stage 1, a 12-month expected credit loss is recognised.

Stage 2: financial assets that have shown a significant increase in credit risk from initial recognition but that are not classed as defaulted, are stage 2. For these assets allowance is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument.

Stage 3: includes assets where there is objective evidence of impairment meaning the financial asset is considered to be in default. For these assets, lifetime expected credi losses are recognised and interest income is calculated on the net carrying amount.

Unsecured lending at amortised cost

Group and Company

As at 31 March 2023	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Up to date				
Risk Grade				
Low	**159**	**9**	**-**	**168**
Medium	**34,351**	**6,823**	**477**	**41,651**
High	**21,258**	**6,140**	**169**	**27,567**
	55,768	**12,972**	**646**	**69,386**
Delinquent				
Risk Grade				
Low	**-**	**2**	**-**	**2**
Medium	**15**	**2,384**	**450**	**2,849**
High	**357**	**3,863**	**111**	**4,331**
	372	**6,249**	**561**	**7,182**
Defaulted				
Risk Grade				
Low	**-**	**-**	**22**	**22**
Medium	**-**	**-**	**13,851**	**13,851**
High	**-**	**-**	**10,928**	**10,928**
	-	**-**	**24,801**	**24,801**
Total Loan receivables	**56,140**	**19,221**	**26,008**	**101,369**
Total impairment allowance	**(4,636)**	**(8,315)**	**(23,297)**	**(36,248)**
Net Loan receivables	**51,504**	**10,906**	**2,711**	**65,121**

As at 31 March 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Up to date				
Risk Grade				
Low	8,226	139	38	8,403
Medium	116,509	6,653	316	123,478
High	1,932	8,881	356	11,169
	126,667	15,673	710	143,050
Delinquent				
Risk Grade				
Low	14	15	-	29
Medium	8	226	7	241
High	9	8,771	3,832	12,612
	31	9,012	3,839	12,882
Defaulted				
Risk Grade				
Low	-	-	-	-
Medium	-	-	43	43
High	-	-	16,705	16,705
	-	-	16,748	16,748
Total Loan receivables	126,698	24,685	21,297	172,680
Total impairment allowance	(7,740)	(8,517)	(18,255)	(34,512)
Net Loan receivables	118,958	16,168	3,042	138,168

The following table explains the changes in the unsecured loans and advances between the beginning and the end of the year:

Unsecured lending at amortised cost

	Stage 1	**Stage 2**	**Stage 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
As at 31 March 2022	**126,698**	**24,685**	**21,297**	**172,680**
Originated in year	**64,980**	**4,132**	**-**	**69,112**
Sold in year	**(29,707)**	**(526)**	**(13)**	**(30,246)**
Written off in year	**(4,221)**	**(6,460)**	**(11,446)**	**(22,127)**
Additions and repayments	**(85,656)**	**(4,839)**	**2,445**	**(88,050)**
Transfer between stages:				
to stage 1	**2,995**	**(2,993)**	**(2)**	**-**
to stage 2	**(10,118)**	**10,118**	**-**	**-**
to stage 3	**(8,831)**	**(4,896)**	**13,727**	**-**
At 31 March 2023	**56,140**	**19,221**	**26,008**	**101,369**

Originated in the year includes spend on revolving credit products. Additions and repayments includes payment reversals and the impact of capitalised interest.

The following table explains the changes in the impairment losses between the beginning and the end of the year:

Unsecured lending at amortised cost

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
As at 31 March 2022	**7,740**	**8,517**	**18,255**	**34,512**
Transfer between stages:				
to stage 1	**1,028**	**(1,026)**	**(2)**	**-**
to stage 2	**(1,692)**	**1,692**	**-**	**-**
to stage 3	**(804)**	**(5,149)**	**5,953**	**-**
Total	**(1,468)**	**(4,483)**	**5,951**	**-**
Remeasurement of ECL	**1,114**	**5,747**	**7,607**	**14,468**
Provision released on sale or write off	**(4,443)**	**(4,441)**	**(13,009)**	**(21,893)**
ECL on new loans and advances to customers originated in the year	**1,693**	**2,975**	**4,493**	**9,161**
At 31 March 2023	**4,636**	**8,315**	**23,297**	**36,248**
Provision against undrawn credit commitments (note 26)	**1,090**	**527**	**-**	**1,617**

Included in the ending impairment provision is £23,737k in relation to unsecured loans (2022: £33,341k).

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
As at 31 March 2021	6,292	7,149	12,455	25,896
Transfer between stages:				
to stage 1	1,073	(1,073)	-	-
to stage 2	(1,064)	1,064	-	-
to stage 3	(663)	(3,731)	4,394	-
Total	(654)	(3,740)	4,394	-
Remeasurement of ECL	3,419	1,993	7,811	13,223
Provision released on sale or write off	(6,132)	(960)	(10,844)	(17,936)
ECL on new loans and advances to customers originated in the year	4,815	4,075	4,439	13,329
At 31 March 2022	7,740	8,517	18,255	34,512
Provision against undrawn credit commitments (note 26)	477	6	-	483

Secured lending

Credit quality of secured lending is assessed with reference to external credit scores or internally assigned risk ratings, as appropriate, taking into account the expected loss given default. These gradings represent credit quality on an absolute basis.

Group and Company

As at 31 March 2023	**Stage 1** £'000	**Stage 2** £'000	**Stage 3** £'000	**Purchased or originated credit-impaired (POCI)** £'000	**Total** £'000
Up to date					
Risk Grade					
Low	**229,792**	**2,237**	**-**	**-**	**232,029**
Medium	**284,147**	**15,958**	**-**	**-**	**300,105**
High	**24,833**	**7,348**	**-**	**-**	**32,181**
	538,772	**25,543**	**-**	**-**	**564,315**
Delinquent					
Risk Grade					
Low	**-**	**480**	**-**	**-**	**480**
Medium	**-**	**828**	**-**	**-**	**828**
High	**-**	**1,174**	**-**	**-**	**1,174**
	-	**2,482**	**-**	**-**	**2,482**
Defaulted					
Risk Grade					
Low	**-**	**-**	**229**	**-**	**229**
Medium	**-**	**-**	**-**	**-**	**-**
High	**-**	**-**	**-**	**284**	**284**
	-	**-**	**229**	**284**	**513**
Total Loan receivables	**538,772**	**28,025**	**229**	**284**	**567,310**
Total impairment allowance	**(482)**	**(154)**	**(3)**	**(17)**	**(656)**
Net Loan receivables	**538,290**	**27,871**	**226**	**267**	**566,654**

As at 31 March 2022	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired (POCI)	Total
	£'000	£'000	£'000	£'000	£'000
Up to date					
Risk Grade					
Low	90,990	-	-	-	90,990
Medium	34,299	-	-	-	34,299
High	21,113	-	-	-	21,113
	146,402	-	-	-	146,402
Delinquent					
Risk Grade					
Low	542	-	-	-	542
Medium	-	-	-	-	-
High	150	-	-	-	150
	692	-	-	-	692
Defaulted					
Risk Grade					
Low	-	-	-	268	268
Medium	-	-	-	282	282
High	-	-	-	-	-
	-	-	-	550	550
Total Loan receivables	147,094	-	-	550	147,644
Total impairment allowance	(51)	-	-	(13)	(64)
Net Loan receivables	147,043	-	-	537	147,580

The following table explains the changes in secured lending during the year:

Secured lending

	Stage 1	**Stage 2**	**Stage 3**	**Purchased or originated credit-impaired (POCI)**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
As at 31 March 2022	**147,094**	**-**	**-**	**550**	**147,644**
Purchased in the year	**499,575**	**-**	**-**	**-**	**499,575**
Repayments and redemptions	**(79,643)**	**-**	**-**	**(266)**	**(79,909)**
Transfer between stages:					
to stage 1	**-**	**-**	**-**	**-**	**-**
to stage 2	**(28,025)**	**28,025**	**-**	**-**	**-**
to stage 3	**(229)**	**-**	**229**	**-**	**-**
At 31 March 2023	**538,772**	**28,025**	**229**	**284**	**567,310**

Included within repayments and redemptions is £842k increase to the gross loan balance, being the net unwind of premiums and discounts paid on acquisition. Premiums and discounts included in the gross balance are released to the income statement over the expected life of the loans through effective interest rate accounting.

The following table explains the changes in the impairment losses during the year:

Secured lending

	Stage 1	**Stage 2**	**Stage 3**	**Purchased or originated credit-impaired (POCI)**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
As at 31 March 2022	**51**	**-**	**-**	**13**	**64**
Transfer between stages:					
to stage 1	**-**	**-**	**-**	**-**	**-**
to stage 2	**(3)**	**3**	**-**	**-**	**-**
to stage 3	**-**	**-**	**-**	**-**	**-**
Total	**48**	**3**	**-**	**13**	**64**
Remeasurement of ECL	**31**	**31**	**3**	**17**	**82**
Provision released on redemptions and repayments	**(25)**	**-**	**-**	**(13)**	**(38)**
Provision released on sale or write off	**-**	**-**	**-**	**-**	**-**
ECL on purchased loans and advances to customers in the year	**428**	**120**	**-**	**-**	**548**
At 31 March 2023	**482**	**154**	**3**	**17**	**656**
Provision against undrawn credit commitments (note 26)	**148**	**-**	**-**	**-**	**148**

On a prior year acquisition of a secured portfolio loans were categorised as POCI assets. POCI assets attract a lifetime expected credit loss allowance over the full term of the loan, even when these loans no longer meet the definition of default post acquisition. The Group does not originate credit-impaired loans.

	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired (POCI)	Total
	£'000	£'000	£'000	£'000	£'000
As at 31 March 2021	-	-	-	-	-
Transfer between stages:					
to stage 1	-	-	-	-	-
to stage 2	-	-	-	-	-
to stage 3	-	-	-	-	-
Total	-	-	-	-	-
Remeasurement of ECL					
Provision released on redemptions and repayments	-	-	-	-	-
Provision released on sale or write off	-	-	-	-	-
ECL on purchased loans and advances to customers in the year	51	-	-	13	64
At 31 March 2022	51	-	-	13	64
Provision against undrawn credit commitments (note 25)	2	-	-	-	2

On the acquisition of the secured portfolio loans were categorised as stage 1 or POCI assets. POCI assets attract a lifetime expected credit loss allowance over the full term of the loan, even when these loans no longer meet the definition of default post acquisition. The Group does not originate credit-impaired loans. The proximity of the year end to the purchase date means no significant increase in credit risk has been observed in the stage 1 portfolio since acquisition.

Loan to value analysis of mortgage portfolio

The following table compares the indexed valuation to the par value of the secured loans, excluding the impact of premiums and discounts on purchases of portfolios.

	Group and Company As at 31 March 2023	Group and Company As at 31 March 2022
	%	%
< 40 %	**3**	4
40% to <50%	**5**	3
50% to <60%	**13**	8
60% to <70%	**20**	14
70 to <80%	**56**	58
80% and greater	**3**	13
Total	**100**	100

The following tables show the Group's maximum exposure to credit risk and the impact of collateral held as security, capped at the gross exposure amount, by impairment stage

	Group and Company as at 31 March 2023		Group and Company as at 31 March 2022	
	Gross carrying amount	**Capped collateral held**	Gross carrying amount	Capped collateral held
	£'000	**£'000**	£'000	£'000
Stage 1	**538,772**	**538,772**	147,094	147,094
Stage 2	**28,025**	**28,025**	-	-
Stage 3	**229**	**229**	-	-
Purchased or originated credit-impaired (POCI)	**284**	**284**	550	550
Total	**567,310**	**567,310**	147,644	147,644

32.3 Credit quality of Cash and cash equivalents

The following tables set out information about the credit quality of cash and cash equivalents. Ratings shown below are per Fitch Ratings and Standard and Poor.

	Group As at 31 March 2023	**Company As at 31 March 2023**	Group As at 31 March 2022	Company As at 31 March 2022
	£'000	**£'000**	£'000	£'000
Cash with central banks rated:				
AA-	**680,142**	**680,142**	66,645	66,645
Cash with retail banks rated:				
A+	**7,440**	**7,440**	6,596	6,578
A	**-**	**-**	-	-
A-	**780**	**-**	1,257	-
Total	**688,362**	**687,582**	74,498	73,223

The following tables set out information about the credit quality of Derivative Financial instruments. Ratings shown below are per Fitch Ratings.

	Group As at 31 March 2023	**Company As at 31 March 2023**	Group As at 31 March 2022	Company As at 31 March 2022
	£'000	**£'000**	£'000	£'000
Carrying value of derivative financial instruments:				
A+ assets	**4,565**	**4,565**	138	138

32.4 Collateral pledged

The Group gives collateral in the form of cash in respect of derivatives and to facilitate payment settling services; such collateral has to be returned immediately on maturity of the transaction or upon cancellation of the payment settling services. As at the year-end £11.5m (2022: £850k) cash has been pledged in respect of derivative contracts (see note 24), £1.245k (2022: £1.245k) cash has been pledged to facilitate Mastercard scheme settlement and £700k (2022: £700k) has been pledged as security against BACS payments.

When required collateral is pledged it is transferred to reputable institutions, meeting all the internal requirements associated with the risk of a deposit.

32.5 Liquidity risk

Liquidity risk is the risk that the Group is not able to meet financial obligations as they fall due, or can only do so at excessive cost. To manage this risk the Group holds highly liquid assets as a buffer against expected future lending and deposit flows.

The Group's treasury function is responsible for the day-to-day management of the Group's liquidity and compliance with Board set limits. The Group undertakes regular liquidity stress tests to ensure even under stressed conditions adequate liquidity for business purposes remains and performs an annual internal liquidity adequacy assessment (ILAAP) which is comprehensively reviewed by the Board. The Group maintains a liquidity buffer of high quality liquid assets, these assets can be monetised to meet stress requirements.
The below tables show contractual maturity dates. In practice, the Group's assets or liabilities may be paid earlier or later than contractual maturity, expected behavioural lives are factored into the daily management of liquidity risk.

Contractual maturity for financial assets and liabilities are summarised as follows:

Group

2023	**On Demand**	**Up to 3 months**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**Total**
Assets	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Cash and cash equivalents	**688,362**	**-**	**-**	**-**	**-**	**688,362**
Investment in debt securities	**-**	**-**	**4,825**	**124,770**	**-**	**129,595**
Loans and advances to customers	**-**	**7,840**	**14,164**	**84,332**	**562,345**	**668,681**
Loans and advances to customers held for sale	**-**	**27**	**221**	**16,486**	**669**	**17,403**
Other financial assets	**18,826**	**-**	**-**	**-**	**-**	**18,826**
Total	**707,188**	**7,867**	**19,210**	**225,588**	**563,014**	**1,522,867**
Liabilities						
Customer deposits	**(40,841)**	**(37,857)**	**(971,994)**	**(332,613)**	**-**	**(1,383,305)**
Lease liabilities	**-**	**(59)**	**(184)**	**(602)**	**-**	**(845)**
Other financial liabilities	**-**	**(2,848)**	**(571)**	**(1,720)**	**(115)**	**(5,254)**
Total	**(40,841)**	**(40,764)**	**(972,749)**	**(334,935)**	**(115)**	**(1,389,404)**

2022	On Demand	Up to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Assets	£'000	£'000	£'000	£'000	£'000	£'000
Cash and cash equivalents	74,498	-	-	-	-	74,498
Investment in debt securities	-	-	-	4,883	-	4,883
Loans and advances to customers	-	3,846	9,806	152,066	154,606	320,324
Loans and advances to customers held for sale	-	-	240	13,895	2,663	16,798
Other financial assets	8,493	-	-	-	-	8,493
Total	82,991	3,846	10,046	170,844	157,269	424,996
Liabilities						
Customer deposits	-	(28,526)	(162,899)	(131,200)	-	(322,625)
Other financial liabilities	-	(2,975)	-	-	-	(2,975)
Total	-	(31,501)	(162,899)	(131,200)	-	(325,600)

For the maturity profile of the lease liabilities, 2022: £489k see note 27.

Company

2023	**On Demand**	**Up to 3 months**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**Total**
Assets	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Cash and cash equivalents	**687,582**	**-**	**-**	**-**	**-**	**687,582**
Investment in debt securities	**-**	**-**	**4,825**	**124,770**	**-**	**129,595**
Loans and advances to customers	**-**	**7,843**	**14,170**	**84,372**	**562,347**	**668,732**
Loans and advances to customers held for sale	**-**	**27**	**221**	**16,486**	**669**	**17,403**
Other financial assets	**18,855**	**-**	**-**	**-**	**-**	**18,855**
Total	**706,437**	**7,870**	**19,216**	**225,628**	**563,016**	**1,522,167**
Liabilities						
Customer deposits	**(40,841)**	**(37,857)**	**(971,994)**	**(332,613)**	**-**	**(1,383,305)**
Lease liabilities	**-**	**(59)**	**(184)**	**(602)**	**-**	**(845)**
Other financial liabilities	**-**	**(2,848)**	**(571)**	**(1,720)**	**(115)**	**(5,254)**
Total	**(40,841)**	**(40,764)**	**(972,749)**	**(334,935)**	**(115)**	**(1,389,404)**

2022	On Demand	Up to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Assets	£'000	£'000	£'000	£'000	£'000	£'000
Cash and cash equivalents	73,223	-	-	-	-	73,223
Investment in debt securities	-	-	-	4,883	-	4,883
Loans and advances to customers	-	3,849	9,813	152,188	154,614	320,464
Loans and advances to customers held for sale	-	-	240	13,895	2,663	16,798
Other financial assets	7,930	-	-	-	-	7,930
Total	81,153	3,849	10,053	170,966	157,277	423,298
Liabilities						
Customer deposits	-	(28,525)	(162,881)	(131,188)	-	(322,594)
Other financial liabilities	-	(2,767)	-	-	-	(2,767)
Total	-	(31,292)	(162,881)	(131,188)	-	(325,361)

The following tables show the gross contractual cash flows of the Group and Company's financial liabilities by maturity groupings. Totals in the following table differ to the preceding tables and do not agree to the statement of financial position, as the table incorporated all cash flows, on an undiscounted basis, related to both principal and future interest payments based on contractual maturities.

2023	On Demand	Up to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Customer deposits	(40,841)	(38,148)	(1,000,031)	(361,064)	-	(1,440,084)
Lease liabilities	-	(76)	(229)	(601)	-	(906)
Other financial liabilities	-	(2,852)	(602)	(2,021)	(156)	(5,631)
Total	(40,841)	(41,076)	(1,000,862)	(363,686)	(156)	(1,446,621)

32.6 Market Risk

Market risk is the risk of financial impact from movements in market prices on the value of assets and liabilities including interest rate risk which is the risk of financial loss as a result of adverse movements in interest rates.

The Group does not hold foreign currency, carry out proprietary trading or hold any positions in assets or equities which are actively traded.

The Bank is exposed to the risk that changes in interest rates at which it lends and those at which it borrows may adversely affect its net interest income and profitability. The Group seeks to match the maturity profile of assets and liabilities and uses financial instruments, such as interest rate swaps, to hedge the exposure arising from repricing gaps. The below sensitivity shows the notional annualised impact of such a change on the net interest income of the Group, based on the year-end balance sheet. The calculation assures that all relevant UK interest rates move by the same amount in parallel and that all repricing takes place at the balance sheet date, all other variables are held constant.

Impact to net interest income:

	100 basis points	(100) basis points
Interest rate shock table	£'000	£'000
2023 (increase)/decrease to NII	**2,348**	**(2,348)**
2022 (increase)/decrease to NII	1,488	(1,488)

A 1% increase in UK interest rates would increase profit before tax by £2,348k (2022:£1,488), a 1% decrease would decrease profit before tax by £2,348k (2022:£1,488).

32.7 Fair values of financial instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties.

The Group uses the following three levels of fair value hierarchy:

- Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets and liabilities.
- Level 2 valuations are those where quoted market prices are not available, or valuation techniques are used to determine fair value and the inputs are based significantly on observable market data.
- Level 3 portfolios are those where at least one input is not based on observable market data and has a significant effect on the instrument’s valuation.

Valuation techniques include discounted cash flow models, assumptions and inputs used in valuation techniques include benchmark interest rates and market pricing for similar assets. Investment in treasury bills are measured at fair value and are classified as level 1 as the fair value is measured based on current, quoted bid prices in active markets for identical assets. Derivative financial instruments are also measured at fair value using a discounted cash flows basis and are classified as level 2.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The Group uses widely recognised valuation models to determine the fair value of common and simple financial instruments, such as interest rate swaps, that use only observable market data and require little management judgement and estimation.

Fair value of financial instruments carried at amortised cost

Group

	Level 1	Level 2	Level 3	Total carrying value	Fair value
As at 31 March 2023	£'000	£'000	£'000	£'000	£'000
Financial assets					
Cash and cash equivalents	-	688,362	-	688,362	688,362
Loans and advances to customers	-	-	631,776	631,776	626,219
Investment in debt securities	-	124,770	-	124,770	125,079
Other financial assets	-	18,826	-	18,826	18,826
Total	-	831,958	631,776	1,463,734	1,458,486
Financial Liabilities					
Customer Deposits	-	-	1,383,305	1,383,305	1,376,385
Other financial liabilities	-	5,254	-	5,254	5,254
Total	-	5,254	1,383,305	1,388,559	1,381,639

As at 31 March 2022	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total carrying value £'000	Fair value £'000
Financial assets					
Cash and cash equivalents	-	74,498	-	74,498	74,498
Loans and advances to customers	-	-	285,748	285,748	287,296
Other assets	-	8,493	-	8,493	8,493
Total	**-**	82,991	285,748	368,739	370,287
Financial Liabilities					
Customer Deposits	-	-	322,625	322,625	319,424
Other financial liabilities	-	2,975	-	2,975	2,975
Total	**-**	2,975	322,625	325,600	322,399

A number of inputs required to measure the fair value of loans and advances to customers are unobservable. The fair value shown is derived from discounting expected cash flows using the current market price for lending to customers with similar credit quality. The fair value is therefore classified as level 3 in the hierarchy.

The fair value of Cash and cash equivalents is considered to be the book value, these items have a short-term maturity.

The fair value of customer deposits is estimated using discounted cash flows applying market rates for deposits of similar remaining maturities. As this involves unobservable inputs, the fair value is classified as level 3 in the hierarchy.

The fair value of all other financial instruments is considered to be materially equal to their carrying value and classified as level 2 in the fair value hierarchy. There have been no transfers between levels in the year.

Financial instruments measured at fair value - fair value hierarchy

Group and Company

As at 31 March 2023	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Loans and advances to customers	**-**	**-**	**17,403**	**17,403**
Derivative financial assets	**-**	**4,565**	**-**	**4,565**
Investment in debt securities	**4,825**	**-**	**-**	**4,825**
Total	**4,825**	**4,565**	**17,403**	**26,793**
Financial Liabilities				
Derivative financial liabilities	**-**	**6,645**	**-**	**6,645**
Total	**-**	**6,645**	**-**	**6,645**

As at 31 March 2022	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Loans and advances to customers	-	-	16,798	16,798
Derivative financial assets	-	138	-	138
Investment in debt securities	4,883	-	-	4,883
Total	4,883	138	16,798	21,819
Financial Liabilities				
Derivative financial liabilities	-	457	-	457
Total	-	457	-	457

Level 3 fair value measurements - reconciliation of level 3 assets held at fair value

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy.

Group and Company

	As at 31 March 2023 £'000	As at 31 March 2022 £'000
Loans and advances measured at FVTPL		
Balance at 1 April	**16,798**	-
Total gains or losses in profit of loss:		
Within line item:		
Net income from financial instruments held at fair value through profit and loss	**(7,380)**	227
New loan originations in the year	**97,298**	17,119
Securitisation sale of loans and advances measured at fair value: par balance sold	**(75,186)**	-
Settlements/repayments	**(14,127)**	(548)
Transfers into level 3	**-**	-
Transfers out of level 3	**-**	-
Balance at 31 March	**17,403**	16,798

The Group presents realised and unrealised gains and losses on loans and advances held at fair value in net income from financial instruments held at fair value through profit and loss. During the year loans and advances measured at FVTPL with a par value of £75.2m and accrued interest of £0.7m were sold to a legally remote securitisation vehicle for £75m, crystallising a realised loss of £0.9m.

Loans and advances are valued using a discounted cash flow methodology, the significant unobservable inputs to the model are the probability of default, loss given default, expected prepayment rates and the market discount rate. Significant increases in any of these inputs in isolation would result in lower fair values. Expected prepayment rates are derived from historical prepayment trends, probabilities of default and loss given default are derived from historical default and recovery information and adjusted for current conditions.

33 Capital management

The Company is subject to supervision by the PRA as an authorised bank. The amount of capital held is measured against the regulatory framework defined by the Capital Requirements Regulation ('CRR'). The Board manages capital levels for both current and future activities, models stress scenarios and documents its risk appetite as part of the Internal Capital Adequacy Assessment Process (ICAAP). In July 2022, Chetwood was given a solo-consolidation waiver by the PRA, allowing Chetwood to incorporate subsidiaries in the calculation of its capital requirement under CRR Article 6(1). The regulatory capital requirements are therefore calculated at a Group level only.

Current and forecast levels of capital resources are monitored and reviewed by the Board and management on a regular basis. The Group has complied with all regulatory capital requirements during the period.

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

	Group As at 31 March 2023	Group As at 31 March 2022
	£'000	£'000
Share capital	**253,297**	168,688
Share premium	**2,851**	2,851
Retained earnings	**(170,914)**	(112,766)
Other reserves	**6,479**	6,450
Deduction for intangible assets	**(2,767)**	(7,669)
Total regulatory capital	**88,946**	57,554

Common equity tier 1 (CET1) capital ratio (unaudited) for year ended 31 March 2023: 27% (2022: 29%)

34 Related parties

Parties are considered to be related if one party has the ability to control the other party, exercise significant influence over the other party, or one other party controls both.

All balances with related parties are unsecured in nature and are expected to be settled in cash or by cash equivalents. Transactions in the year are reflected through the Statement of Total Comprehensive Income.

During the year the Company undertook a number of transactions with related companies;
Chetwood Financial Limited completed the sale of gross loans and advances both measured at amortised cost and fair value, amortised cost loans with a carrying value of £29.2m and loans measured at fair value with a par value including accrued interest of £75.9m to Cherub Funding Limited during the financial year, for proceeds of £105.9m, resulting in a gain on sale of £0.8m. Cherub Funding Limited is a remote legal entity, related by common ultimate control. The sale of these assets provides the Group with a key strategic and cost-efficient funding source.

Chetwood Financial Limited remains the administrator for these assets, during the year Cherub Funding Limited paid £1.54m in servicing fees to the Group, as at the balance sheet date an amount of £122k was due to Chetwood in relation to servicing fees. All transactions have been completed on an arm's length basis.

During the financial year Chetwood Financial Limited entered into a forward flow arrangement with Enra Specialised Finance Limited, whereby the Group purchases to order newly originated mortgage assets. Enra Specialist Finance Limited is a remote legal entity, related by common ultimate control. At the balance sheet date £9.1m of secured loans and advances have been purchased on origination, a further £27.5m is within the pipeline at post offer status but not completed as at the balance sheet date. An Enra Specialised Finance Limited group company, West One Secured Loans Ltd remains the servicer of these assets, during the year Chetwood have been invoiced £95.9k in servicing and origination fees. With £4.5k remaining due at the balance sheet date. The agreement is an arms length commercial arrangement.

In Q4 Chetwood Financial Limited entered into a lease for commercial premises with a company deemed a related party due to a common person of significant influence. The transaction was enacted on a commercial basis at a market rent. The payments made during the year totalled £63.1k, with £3.1k due to be paid as at the balance sheet date.

Chetwood Financial Limited entered into a consultancy services contract with a company deemed a related party due to the entity being under the control of close family member of a person of significant influence. The transaction was undertaken on an arm's length commercial basis. The total amount invoiced for services in year was £6.3k with the full amount remaining due as at the balance sheet date.

During the previous financial year, Chetwood Financial Limited took assignment of the call rights for Precise Mortgage Funding 2017-1 PLC, a securitisation vehicle, giving the Group the rights to purchase mortgage assets with a current balance of £153.8m from the vehicle. The assignment of the call rights was from an entity under the same common ultimate control.

Group Transactions

The Group is a wholly owned subsidiary of Shropshire Holdings Limited. In the normal course of business, a number of transactions are entered into with Shropshire Holdings Limited the parent company and Yobota Limited, a company which was previously under common control and from 1st March 2022 is a direct subsidiary of Chetwood Financial Limited. The transactions below cover both the period of common control and ownership:

A summary of the outstanding balances at the year end and related income and expense for the year are set out below.

	Expenses from related party	Amounts owed by related party	Amounts owed to related party
	£'000	£'000	£'000
Shropshire Holdings Limited			
2023	**-**	**54**	**-**
2022	-	254	-
Yobota Limited			
2023	**(4,201)**	**94**	-
2022	(2,129)	**-**	71
Total			
2023	**(4,201)**	**148**	-
2022	(2,129)	254	71

During the year the Group has paid £190k (2022: £120k) expenses on behalf of its immediate parent entity, Shropshire Holdings Limited. These expenses relate to audit and other professional fees, the expense is transferred at cost.

Equity Transactions

During the year the Company issued 42,216,396 shares (2022: 27,442,591) to its parent entity, Shropshire Holdings Limited for a total injection of £85m (2022: £55m).

Other Related Party Transactions

Azzurro Associates Limited ("Azzurro") is a related party due to common ultimate control. The Group has previously completed a sale of defaulted assets to Azzurro. During the current year a number of payments received on these sold assets have been paid on to Azzurro, the total amount transferred during the year was £31k at the balance sheet date £1.7k (2022: £5k) remained due to Azzurro. The transaction was enacted on a commercial basis. No additional sale of defaulted assets to Azzurro has been undertaken during the current year.

Totally Money Limited is a related party due to the ultimate controlling parties of the Group having significant influence, the Companies maintain a commercial relationship. During the year the Group incurred expenses from Totally Money Limited of £298k (2022: £89k) in respect of referral commission, at the balance sheet date £9.5k remained due (2022: £9k).

Transactions with Key Management

Key management are defined as those persons having authority and responsibility for directing and controlling the activities of the Group, either directly or indirectly. Accordingly, these comprise the Directors of Chetwood Financial Limited and the Directors of Shropshire Holdings Limited, the immediate parent entity.

The Group provides banking services to key management and persons connected to them as follows:

Loans

The value of test loans advanced to directors totalled £nil (2022: £nil), with balances of £nil (2022: £nil) receivable at the reporting date. The maximum balance in year did not exceed the opening position.

Deposits

The balances held in SmartSave deposit accounts by Directors and related individuals were as follows:

	Group Year ended 31 March 2023	**Company Year ended 31 March 2023**	Group Year ended 31 March 2022	Company Year ended 31 March 2022
	£'000	**£'000**	£'000	£'000
As at 1 April	**-**	**-**	85	85
Deposits received during the year	**85**	**85**	-	-
Deposits repaid during the year	**-**	**-**	(85)	(85)
As at 31 March	**85**	**85**	-	-

These deposits were made in the ordinary course of business, on the same terms as those in place at the time for transactions with non-related persons.

Credit Cards

One account is currently held by Directors (2022: nil), balance of £469 (2022: £nil) remained outstanding in relation to these cards at the balance sheet date.

Directors' remuneration

See note 12 for disclosure of key management compensation.

35 Post-employment benefits

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension charge represents contributions payable by the Group to the fund and amounted to £814k (2022: £403k). Contribution's totalling £nil (2022: £nil) are outstanding to the fund at the reporting date.

36 Controlling parties

The immediate parent undertaking is Shropshire Holdings Limited, a company incorporated in Jersey, the registered office is 26 New Street, St Helier, Jersey, JE2 3RA.
The directors consider the ultimate controlling parties to be Elliott Associates L.P. and Elliott International L.P.

37 Country-by-country reporting

The Group operates in the UK only. The principal activities of the Company are the provision of consumer lending and savings products.

	Group As at 31 March 2023	**Company As at 31 March 2023**	Group As at 31 March 2022	Company As at 31 March 2022
	£'000	**£'000**	£'000	£'000
Turnover*	**20,492**	**20,379**	27,213	27,194
Loss before tax	**(58,047)**	**(61,805)**	(29,749)	(29,217)
Corporation tax paid	**(101)**	**-**	(4)	(15)
Average number of employees (FTE)	**273**	**219**	174	167

*Turnover is defined as total interest income less interest expense

The reporting obligations set out in the European Union's Capital Requirements Directive IV (CRD IV) have been implemented in the UK by Capital Requirements (Country by Country Reporting) Regulations 2013. The regulations require the Group to disclose information regarding the source of its income and location of its operations.

38 Events after the end of the reporting period

On the 06 April 2023 Chetwood Financial Limited issued 1 share at £2.004, and £25m share premium to its immediate parent entity, Shropshire Holdings Limited.

On the 10 April 2023 Chetwood Financial Limited purchased the beneficial interest in £227m of prime buy-to-let mortgages in an open market transaction.

On the 26th May 2023 Chetwood Financial Limited purchased the beneficial interest in £251.2m of prime buy-to-let mortgages in an open market transaction.
On the 27th June 2023 Chetwood Financial Limited issued 13,924,051 shares at £0.01 plus £21.9m premium, total value £22m to Alessandro Investments Limited, the immediate parent entity to Shropshire Holdings Limited.

39 Capital commitments and contingent liabilities

At 31 March 2023, the Group had no committed capital expenditure that had not been provided for (2022: £nil).

Credit commitments

At the balance sheet date undrawn credit lines and other commitments to lend were £133.7m (2022: £10,446k), this includes commitments to lend subject to completion of property purchases by customers where the case has reached post-offer stage, such funds may only be drawn subject to completion of purchase.

Contingent liabilities

As a regulated entity, the Company is subject to extensive and comprehensive regulation. The Company must comply with numerous laws and regulations, including the Consumer Credit Act. During the year matters have been identified which indicate potential breaches of affordability regulation, the Company is engaged with the FCA on this matter and a provision for managements' best estimate of the cost of settling these issues has been included in the financial statements.

Whilst the Group and Company believes there are no unidentified areas of failure to comply with laws and regulations which would have a material impact on these financial statements, there can be no guarantee that all issues have been identified.