Tandem Bank Limited (Formerly Harrods Bank Limited)

Annual Report and Financial Statements

for the Period ended 31 December 2017

Registered Number 0955491

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TANDEM BANK LIMITED
Bank information

Directors	Mr M J Cooper (Chairman) Mr F S Knox (Chief Executive Officer) Mr J J Pritchard Mr J Zagorovskis Mrs H L Jackson Mr M L Amato Mr M Klimbacher
Secretary	Ms C N Valdar
Registered Office	123 Pentonville Road London N1 9LG
Auditors	Ernst and Young LLP 25 Churchill Place London E14 5EY
Bankers	Barclays Bank plc Royal Bank of Scotland plc

TANDEM BANK LIMITED – FORMERLY HARRODS BANK LIMITED
Strategic report

Strategic report for the period ended 31 December 2017

The Directors present their strategic report of Tandem Bank Limited formerly Harrods Bank Limited ("the Bank") for the 11 months ended 31 December 2017. The accounting reference date of the Bank was changed from 31 January to 31 December. This was to align with the accounting reference date of Tandem Money Limited, the new parent company (see below).

Principal activity

Tandem Bank Limited is a retail bank and this will remain the principal activity in the immediate future. The Bank provides banking services predominately to personal customers.

Business review

In March 2017, the ultimate shareholder Qatar Holdings LLC (QHC) decided to commence a sale process for the Bank. This process resulted in an agreement being signed on 7 August 2017 for the sale of the Bank to Tandem Money Limited ("Tandem"). The sale was subject to certain conditions precedent, in particular regulatory approval. The transaction was completed on 10 January 2018, which was the date that control of the Bank passed to Tandem.

2017 has been a year where the primary focus of the Bank was to maintain normal business as usual activity at a lower level whilst the sales process was going through. The Bank continued mortgage originations to the middle of the year but remained competitive on the deposit market and continued to raise and retain existing deposits to ensure a strong liquidity position was maintained.

The Bank has continued to be loss making. The overall pre-tax loss was £10.4m (January 2017: £22.1m). The prior year included a write-off of £11.0m relating to the write-off of amounts invested in the development of a core banking system that the Board determined was not likely to deliver the anticipated benefits and the project was therefore terminated.

Total income grew to £5.1m (January 2017: £4.4m) due to the continued growth in the mortgage book in the current and prior year, with the prior year also includes a one-off gain of £1.7m relating to the Bank's shares in VISA Europe. Operating expenses were lower than prior year at £14.8m (January 2017: £15.5m). Enhanced cost control and manging the cost base given reduced activities during the year was largely offset by certain one-off costs associated with the sale of the Bank incurred during the 11 months to 31 December 2017

As at 31 December 2017 the Bank had £368.9m of loans and advances to customers (31 January 2017: £338.3m), with total assets at 31 December 2017 at £492.0m (31 January 2017: £509.9m). Customer deposits as at 31 December 2017 were £407.7m (31 January 2017: £401.7m). The Bank saw outflows relating to the strategic decision to close its legacy current and notice accounts for both personal and business customers. However, the Bank managed to successfully retain its maturing savings customers through competitive rate offerings on the fixed retail deposit book together with raising new deposits as required. This ensured a strong liquidity position, well within internal and regulatory limits. The Bank has also maintained a strong capital position with Core Equity Tier 1 and Leverage ratios of 39.3% and 11.1% respectively at 31 December 2017.

TANDEM BANK LIMITED – FORMERLY HARRODS BANK LIMITED
Strategic report

Future Developments

Following the completion of the sale of the Bank to Tandem, the Bank will continue to offer its existing mortgage and savings products, together with Tandem credit cards and unsecured loans. There will be a greater focus on the digital channel particular using the Tandem App

Key performance indicators ("KPIs")

The overall progress of the Bank against its targets is monitored at Board meetings. In addition to specific risks, individual strategic elements and tactics, are monitored and examined monthly by the Executive Committee and the various Executive sub committees both by reference to KPIs and a close knowledge of the Bank's risk exposures. Performance during the year, together with prior year comparatives, is summarised below:

	Period ended 31 Dec 2017	Year ended 31 Jan 2017	**Definition, method of calculation and analysis**
Total income	**£5,111k**	£4,351k	Interest received from customers, investment assets and fees, less interest payable to account holders. The increase was due to the continued growth in the mortgage book in the current and prior year. The prior year also includes a one-off gain relating to the Bank's shares in Visa Europe of £1,667k.
Operating expenses	**£14,798k**	£15,515k	Operating expenses are the costs of running the business and include staff costs, marketing expense, premises, and depreciation. Operating expenses were lower than prior year because of enhanced cost control and managing the cost base given reduced activities during the year. This is despite certain one-off costs associated with the sale of the Bank incurred in the current period. Costs are likely to increase in 2018 with a considerable expansion in business levels following the acquisition by Tandem.
Loan to value ratio (LTV)	**50.5%**	50.4%	Total mortgages divided by total value of security held. Growth in the mortgage portfolio has been achieved whilst maintaining conservative LTV ratios.
Shareholder's funds	**£55,181k**	£41,852k	Share capital and reserves make up the total Shareholder's Funds. The shareholders have injected a further £24.0m to reserves during the year by the write-off of subordinated debt which more than offset the loss for the period.
CET 1 Ratio	**39.3%**	27.8%	Core Equity Tier 1 capital divided by the total risk weighted assets. This has improved due to the write-off of the £24m subordinated loan and the decrease of risk weighted assets with the increase in mortgage assets being offset by a reduction with respect to liquidity now held in the Bank of England Reserve Account which attracts a zero risk weight.
Leverage ratio	**11.1%**	8.0%	Share capital plus reserves divided by total assets plus risk weighted off balance sheet commitments including offered mortgages not yet drawn. The Bank has a healthy leverage ratio compared to the regulatory minimum of 3%. The increase was due to the improvement in Core Equity Tier 1 capital.
Capital surplus	**£27,961k**	£36,032k	Total capital available less capital requirements including buffers

Capital management

The Prudential Regulatory Authority (PRA) sets and monitors capital requirements for the Bank. In implementing current capital requirements, the PRA requires the Bank to maintain a prescribed level of capital with reference to risk weighted assets and the perceived risk management framework. Pillar 1 risk weighted assets ("RWAs") as at 31 December 2017 are £139.8m (31 January 2017: £148.7m). During the period, the PRA set a revised Individual Capital Guidance (ICG) requirement of 11.79% (31 January 2017: 12.10% + £1.28m) of RWAs for Pillar2A purposes. As at 31 December 2017 the total Pillar 2A capital requirement was £16.9m (31 January 2017: £19.3m). Submissions to the PRA in the year have shown that the Bank has complied with externally imposed capital requirements.

Principal risks and uncertainties

The Bank in the execution of its strategy is exposed to a number of risks, some of which have been described in note 33 of these financial statements. Through its normal operating activities, the principal risks to the Bank are credit risk, liquidity and capital risk, market risk, operational risk and reputational risk.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes compliance and conduct risk which is the risk the Bank fails to meet the requirements of legislation and regulatory requirements as defined by the PRA, FCA and any other requirements from relevant regulatory bodies. The Bank has an exposure to legacy system issues and in turn a reliance on manual processes and the Board therefore recognises that this has a potential to increase operational risk. The Risk Committee and Board are regularly apprised of potential risks and approve the management strategies to minimise them.

Credit risk

Credit risk is the risk of financial loss arising from the failure of customers or other counterparties to settle their financial obligations to the Bank as they are expected to fall due. The Bank operates a prudent approach to managing its credit risk exposure. This translates into strict eligibility criteria and conservative lending limits on metrics such as LTV ratios, loan sizes, and portfolio composition limits. Lending is supported by appropriate controls and surplus liquidity is held with investment grade counterparties. The Bank ceased lending to new customers on 30 November 2017. However, the Bank continues to service existing customers including the offer of retention products to those customers coming to the end of their initial product rate and moving into Standard variable rate. Consideration has also been given to recommencing new mortgage lending. There are a robust set of credit policies and procedures that are overseen and monitored by the Bank's Risk Committee.

Liquidity and capital risk

Liquidity and capital risk is the risk that the Bank is unable to meet its obligations as they are expected to fall due or can only do so at exceptional cost. It also includes the risk that the Bank falls below regulatory minima. The Bank manages its liquidity and capital risk by ensuring it has access to sufficient liquidity of both amount and quality to cover its operations over a 90 day period, whilst ensuring it meets regulatory requirements for liquid assets. Furthermore, the Bank will ensure that it is adequately capitalised on a 15 month forward basis. It also looks to avoid undue concentration with counterparties by actively diversifying its deposit base across product type and tenors.

Market risk

Market risk is defined as the risk that the value of the Bank's assets, liabilities, income or costs may fluctuate due to the result of adverse changes to market rates. The Bank has a low appetite for market risk, with the most significant market risk it is exposed to being interest rate risk. The interest rate risk arises from retail assets and liabilities, liquidity holdings and subordinated notes. The Bank offers lending and savings products with varying interest rate features and maturities. The Bank ceased lending to new customers on 30th November 2017. Where possible the Bank seeks to match the interest rate structure of assets and liabilities creating a natural hedge. Where this has not been possible, the Bank has entered into derivative transactions, currently interest rate swaps, to manage this risk. The Bank does not have a trading book for regulatory purposes.

Reputational risk

Reputational risk is the risk of an event that adversely impacts the Bank's reputation, leading to lost revenue or destruction of shareholder value. The Directors are aware of potential damage to confidence that could arise from bad publicity relating to failings by the Bank or the Harrods Group ("the Group") and are satisfied that there are strategies in place to deal with this. The Directors continue to focus on maintaining the safety of customers' deposits and on following policies and procedures that avoid undue risks. This includes rigorous controls and procedures to mitigate incidences of fraudulent transactions, safeguarding of customer information and conduct towards customers.

Risk governance

The Board and key committees outlined below was the governance structure in place up to the period ending 31 December 2017. This overall structure has now been redefined post the acquisition.

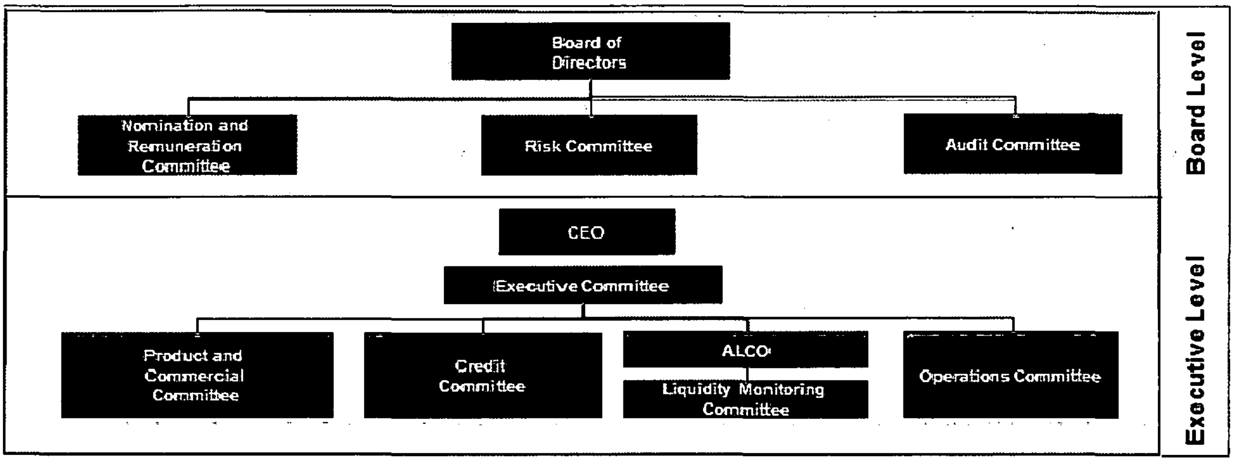
Mark Stephens resigned as Chief Executive Officer (CEO) on 31st October 2017. From 1st November 2017 to 10th January 2018 David Green was the Interim CEO. Following the acquisition, from 11th January 2018, Ricky Knox was appointed CEO of the Bank.

The Bank has a Risk Management Framework (RMF) and formal structure which manages risk across its operations, to include the Bank's risk principles and culture, governance, identification and assessment, and risk appetite statements.

The Governance and Committee structure set out below, represents the position as at 31 December 2017. Subsequent to that date, the Governance and Committee structure has been aligned to Tandem arrangements.

The below diagram outlines the relationship between the Board and the key committees:

Risk governance (continued)



Risk governance at the Bank is designed in adherence to the 'three lines of defence' model to ensure clear delineation of responsibilities between day to day operations, independent monitoring and oversight and assurance over the RMF.

Board level governance

The Board's main function is to ensure the ultimate control of the Bank rests with the Board, which is collectively responsible for the success of the Bank. The Board of Directors is responsible for setting the Bank's strategic objectives and values to ensure that the Bank's obligations to its customers, employees and its shareholders are understood and met.

Nomination and Remuneration Committee (NRC)

The NRC is appointed by the Board and seeks to ensure that the Board functions appropriately through the timely identification and nomination of members and critical functions as and when vacancies arise. The NRC is responsible for determining the policy and the level of remuneration of the Non-Executive Directors, the Executive Directors and Senior Management, and for reviewing the general pay levels for all other staff and for reviewing Board succession planning.

The Board's policy is to set remuneration levels in order to attract, retain and motivate the Chief Executive to encourage performance linked to the achievement of the Bank's strategic objectives and for the benefit of Shareholders. The remuneration of the Chief Executive is set to take into account job content and responsibilities, annually assessed individual performance and salary levels for similar positions in comparable financial services organisations. The Chief Executive has a Board approved job description, which is used as a basis for the appraisal of performance carried out each year by the Chairman.

Risk Committee

The Risk Committee is responsible for ensuring the Bank's operations are supported by a comprehensive and proportionate RMF. It reviews and monitors existing risks as well as being forward looking to anticipate future risks, reporting its conclusions to the Board.

Audit Committee

The Audit Committee is responsible for advising the Board on the Bank's financial statements including any related policy issues, reviewing the effectiveness of the Bank's internal controls and considering management's response to findings and recommendations made in external and internal audit reviews. The Committee is responsible for reviewing and approving the internal audit plan and budget as well as reviewing annually and as necessary approve the terms of engagement put forward by the Bank's External Auditors for the provision of audit services.

Executive Committee

It is the responsibility of the Executive Committee to ensure that the firm's overarching risk profile is generated and managed within the Board approved strategic and business objectives. The sub committees of the Executive Committee are detailed below.

Credit Committee

The Credit Committee is responsible for all executive decisions relating to credit matters including approving requests for loans in accordance with the delegated lending authorities, reporting on credit quality and regulatory control, and review and management of credit exposures.

Asset and Liability Committee (ALCO)

ALCO is responsible for ensuring the balance sheet of the Bank is managed effectively, in particular, ensuring compliance with capital requirements and overseeing the activities of the treasury function in relation to the Bank's market and liquidity risk management activities as well as the administration of the Bank's investment portfolio. The Liquidity Monitoring Committee is a sub-committee of ALCO. The Committee is responsible for reviewing and monitoring liquidity forecast in consideration of the pipeline of mortgages and products. In addition, mortgage and saving pipeline concerns will be considered in terms of customer service levels and potential impact on the liquidity forecast.

Operations Committee

The Operations Committee's responsibilities cover the whole of the Bank's change portfolio and delivery roadmap, within the scope of its delegated authority from ExCo as well as operational activity and performance, including Operations, Conduct and Conduct of Business, Human Resources and Information Technology.

Product and Commercial

The Product and Commercial Committee is responsible for product life cycle management of the portfolio of products and services offered by the Bank and any third party product partners.

On behalf of the Board

Mr F S Knox
Chief Executive Officer

TANDEM BANK LIMITED – FORMERLY HARRODS BANK LIMITED
Directors' report

Directors' report for the period ended 31 December 2017

The Directors are pleased to submit their annual report and the audited financial statements of Tandem Bank Limited for the period ended 31 December 2017. The accounting reference date of the Bank was changed from 31 January to 31 December. This was to align with the accounting reference date of Tandem.

Directors
The Directors who served during the year and up to the date of signing the financial statements were:

Mr R V Lovering	(appointed 1 November 2016, Chairman 28 February 2017, resigned 10 January 2018)
Mr M S J Stephens	(Chief Executive Officer, resigned 31 October 2017)
Mr J P Edgar	(resigned 15 November 2017)
Mr D Green	(Chief Financial Officer, resigned as Director 10 January 2018)
Mrs C J Hoare	(resigned 10 January 2018)
Mr J J Pritchard	(appointed 1 November 2016)
Mr H C T Strutt	(resigned 10 January 2018)
Mr J Zagorovskis	(appointed 4 November 2016)
Mr F S Knox	(Chief Executive Officer, appointed 10 January 2018)
Mr M J Cooper	(appointed Chairman 10 January 2018)
Mrs H L Jackson	(appointed 10 January 2018)
Mr M L Amato	(appointed 10 January 2018)
Mr M Klimbacher	(appointed 10 January 2018)

In accordance with the Articles of Association, no director is required to seek re-election at the forthcoming Annual General Meeting.

Directors' interests
None of the directors in office at 31 December 2017 held any interest in the shares of the Bank at that date or as at 31 January 2017.

No director has had an interest directly or indirectly at any time during the period in any contract significant to the business of the Bank.

Donations
During the financial year the Bank made charitable donations totalling £265.22 (31 January 2017: £1,093). No donations have been made and no expense has been incurred to any registered UK political party or other EU political organisation.

Share Capital and Dividends
The "A" and "B" shares of the Bank were consolidated and converted to Ordinary shares on 12 October 2017. At 31 December 2017, only Ordinary shares were in issue. There is no dividend proposed or declared for these shares. (31 January 2017: "A" voting shares £Nil and "B" shares £Nil).

Capital management
Details of capital management are provided in the strategic report on page 4.

Regulation
The Bank complies with all the requirements of its regulatory authorities, as a consequence of being authorised by the Prudential Regulatory Authority and regulated by the Financial Conduct Authority and Prudential Regulatory Authority. The Bank is also covered by the Financial Services Compensation Scheme and the Financial Ombudsman Service. The Bank is a member of UK Finance (previously The British Bankers' Association).

The Bank is registered in England and Wales under registration number 0955491.

Future developments and events after the balance sheet date
Details of future developments are provided in the strategic report on page 3 and events that have occurred after the balance sheet date can be found in note 37 of the financial statements and form part of this report by cross-reference.

Financial risk management objectives and policies
Details of the Bank's financial risk management objectives and policies are provided in the strategic report on page 4.

Going concern
The Directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

The Bank's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, as well as its exposure to credit, liquidity and cash flow risk are described in the strategic report on pages 2 to 7. On 10 January 2018, the Bank was sold as a "going concern" to Tandem.

Disclosure of information to the auditors
So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Group's auditor, each director has taken all the steps that they are obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Re-appointment of auditors
Following the purchase of the Bank by Tandem, external audit arrangements are under review.

On behalf of the Board

Mr F S Knox
Chief Executive Officer

Directors' responsibilities statement

The Directors are responsible for preparing the Strategic report, Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. The Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accountancy Practice (United Kingdom 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 company and of the profit or loss of the company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information including the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TANDEM BANK LIMITED (FORMERLY HARRODS BANK LIMITED)

Opinion

In our opinion:

- Tandem Bank Limited's financial statements (the "financial statements") give a true and fair view of the state of the company's affairs as at 31 December 2017 and of the company's loss for the period then ended;

- the company financial statements have been properly prepared in accordance with FRS 102 "The financial reporting standard applicable in UK & Ireland"; and

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

We have audited the financial statements of Tandem Bank Limited which comprise the following:

- Balance sheet as at 31 December 2017
- Income statement for the 11 month period then ended
- Statement of comprehensive income for the 11 month period then ended
- Statement of changes in equity for the 11 month period then ended
- Cash flow statement for the 11 month period then ended
- Related notes 1 to 37 to the financial statements, including a summary of significant accounting policies

The financial reporting framework that has been applied in their preparation is applicable law and FRS 102 "The financial reporting standard applicable in the UK & Ireland" as applied in accordance with the provisions 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

TANDEM BANK LIMITED
Independent auditors' report to the members of Tandem Bank Limited

Use of our report

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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	• Understatement of loan loss provisions • Improper revenue recognition – Effective Interest Rate method
Audit scope	• We performed an audit of the complete financial information of Tandem Bank Limited.
Materiality	• Overall materiality of £551,000 which represents 1% of equity.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included 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. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Understatement of loan loss provisions Specific provision: nil; prior year: £738,738 Collective provision: £240,000; prior year: £120,000 Risk of the retail mortgage portfolio loan loss specific and collective impairment provisions being understated by reference to the underlying loan quality and delinquency levels in both the lending portfolio as at the period end. We have determined this to be a key audit matter, having identified two elements of heightened risk of misstatement: • Specific provisioning – individual loan delinquencies are inappropriately assessed for impairment, leading to understatement of specific provisions. • Collective provisioning – the collective impairment provision assessment has understated the Incurred But Not Observed ("IBNO") loss estimate for the portfolio as a whole. Refer to Note 17 per the financial statements.	We confirmed our understanding of the loan loss impairment process and evaluated the design effectiveness of key controls, concluding that a substantive approach should be adopted. We performed the following procedures: We tested the accuracy of the delinquency rate in the loan portfolio by validating both performing loans and those loans in arrears or in financial difficulty, leading to forbearance. We confirmed the correct classification of loans as either performing or non-performing, and thereby included in the company's "watchlist". We verified the non-performing loans for specific provisioning adequacy by testing the underlying collateral valuations. We engaged our real-estate specialists to test the reasonableness of a sample of collateral valuations across the portfolio as at period end by agreeing it to collateral values recorded by management obtained from third party valuation firms. We engaged our specialists to independently develop a range of reasonable outcomes, based on the portfolio's probability of default and loss given default characteristics, and compared management's IBNO estimate to this range.	No material issues were noted in our audit of loan loss provisioning. We concluded that the IBNO collective impairment provision of £240,000 was within our own independently established reasonable range of £140,000 to £270,000.

Improper Revenue Recognition – Effective Interest Rate methodology EIR adjustment: £330,102; prior year: £340,470 Manipulation or adoption of inappropriate accounting policies and assumptions in relation to the Effective Interest Rate ('EIR') methodology. Specifically, there are two areas of heightened risk of misstatement that we have focused on: • Fees and costs being inappropriately included in the estimate calculation or being inappropriately estimated themselves. • Amortisation charges being incorrectly calculated over the average life of the contract. Refer to Note 3 in the financial statements.	We confirmed our understanding of the revenue recognition process and evaluated the design effectiveness of key controls, concluding that a substantive approach should be adopted. We performed the following procedures: We tested the appropriateness of the expensing or amortising fees, including Early Redemption Charges, in the EIR model and terms applied in calculating the effective interest rate. We checked management's methodology in calculating the effective interest rate for the mortgage portfolio for compliance with the requirements of FRS102. We verified the appropriateness of loan life assumptions underpinning the revenue recognition period by identifying the loan period to which the fee costs are attributed to and current prepayment rate. We recalculated a sample of loan interest accruals using the effective interest rate method. We performed analytical review over the portfolio margin to identify results outside of our expectations.	No material issues were noted in our audit of the effective interest rate methodology. We were satisfied with the appropriateness of the fees deferred and amortised over the average loan life. We noted that the average loan life assumption was reasonable in light of empirical customer experience. We were satisfied that the income recognition calculation methodology had been correctly applied in the financial statements.

Our auditor's report did not include any key audit matters in the prior year as such disclosure was not required.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the company to be £551,000 (prior year: £628,000), which is 1% (Prior Year: 1.5%) of net assets i.e., equity. The nature of the company's business is to originate mortgage lending activities, funded by savings deposits. The primary stakeholder of the financial statements, Qatar Holdings LLC, is focused on the net investment in Tandem Bank Limited. We believe net assets to be the most appropriate measurement basis for determining our materiality because the company's prime stakeholders currently focus on the net assets for decision making at this early stage of its strategy, when it is loss making.

During the course of our audit, we reassessed initial materiality and concluded it is appropriate.

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the company's overall control environment, our judgement was that performance materiality was 50% (prior year: 50%) of our planning materiality, namely £276,000 (prior year: £314,000). We have set performance materiality at this percentage due to our expectations about the likelihood of misstatements, primarily based on prior year experience.

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £27,547 (prior year: £31,389), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report, including the Strategic Report and the Directors' Report, set out on pages 2 and 8, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Independent auditors' report to the members of Tandem Bank Limited

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if; in our opinion:

- adequate accounting records have not been kept by the company; 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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the 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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit:

- in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management; and
- in respect to irregularities, considered to be non-compliance with laws and regulations, are to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements ('direct laws and regulations'), and perform other audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. We are not responsible for preventing non-compliance with laws and regulations and our audit procedures cannot be expected to detect non-compliance with all laws and regulations.

Our approach was as follows:

- We obtained a general understanding of the legal and regulatory frameworks that are applicable to the company and determined that the direct laws and regulations related to elements of company law and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').

- We obtained a general understanding of how the company complies with these legal and regulatory frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the company and UK regulatory bodies; reviewed minutes of the Board and Executive Risk Committee; and gained an understanding of the company's approach to governance, demonstrated by the Board's approval of the company's governance framework and internal control processes.

- For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

- For both direct and other laws and regulations, our procedures involved: making enquiry of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the company's methods of enforcing and monitoring compliance with such policies, inspecting significant correspondence with the FCA and PRA.

- The company operates in the banking industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur, by considering the controls that the company has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the company on 17 October 2012 to audit the financial statements for the year ending 31 January 2013 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is five years, covering the years ending 31 January 2013 to the period ending 31 December 2017.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the company and we remain independent of the Group and the company in conducting the audit.

- The audit opinion is consistent with the additional report to the audit committee

Ernst & Young LLP

Javier Faiz (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
Date 29 MARCH 2018

TANDEM BANK LIMITED

Income statement and other comprehensive income for the period ended 31 December 2017

	Note	**Period ended 31 December 2017**	Year ended 31 January 2017
		£	£
Interest receivable and similar income	3	**11,102,022**	9,061,873
Interest payable and similar expense	4	**(5,896,758)**	(6,371,032)
Net interest income		**5,205,264**	2,690,841
Fees and commissions receivable		**165,647**	251,081
Fees and commissions payable		**(214,896)**	(230,513)
Net losses on derivatives and hedge ineffectiveness	5	**29,518**	(148,213)
Other operating income	6	**(74,085)**	1,787,442
Total income		**5,111,448**	4,350,638
Administration expenses		**(14,487,608)**	(14,577,822)
Depreciation and amortisation	19	**(310,197)**	(937,219)
Operating expenses	7	**(14,797,805)**	(15,515,041)
Provision for bad and doubtful debts	17	**(114,321)**	77,249
Write-off and impairment of tangible and intangible assets	19	**(552,521)**	(11,028,366)
Total operating loss on ordinary activities before tax		**(10,353,199)**	(22,115,520)
Tax (charges)/credit on loss on ordinary activities	11	**(264,757)**	4,615,230
Loss for the financial year		**(10,617,956)**	(17,500,290)
Other comprehensive income			
Actuarial gain/(loss) on defined benefit pension plan		**(33,384)**	(283,997)
Deferred tax movement on items of other comprehensive income		**(28,913)**	43,942
Available for sale investments			
- fair value gain/(loss) treasury assets		**47,476**	(10,498)
- fair value gains Visa shares		**-**	101,639
- fair value gains transferred to the income statement		**(36,978)**	(1,667,727)
Total comprehensive loss for the year		**(10,669,755)**	(19,316,931)

The notes on pages 23 to 65 form an integral part of these statutory statements.

TANDEM BANK LIMITED
Statement of financial position as at 31 December 2017
Registered Number: 0955491

	Note	As at 31 December 2017 £	As at 31 January 2017 £
Assets employed			
Cash and balances at central banks	13	**107,863,342**	191,808
Debt securities held for liquidity purposes	14	-	127,969,802
Loans and advances to banks	15	**13,889,343**	37,365,696
Derivatives held for risk management	16	**146,144**	173,102
Loans and advances to customers	17	**368,942,974**	338,302,520
Equity shares	18	**316,259**	305,301
Intangible fixed assets	19	**210,169**	552,392
Tangible fixed assets	19	**37,448**	212,958
Other assets	20	**61,239**	4,486,985
Prepayments and accrued income	20	**570,672**	335,476
		492,037,590	509,896,040
Liabilities			
Customer accounts	21	**407,690,232**	401,665,258
Deposits from ultimate shareholder	22	**26,081,486**	39,042,269
Derivatives held for risk management	16	**86,794**	253,168
Other liabilities	23	**121,405**	296,383
Accruals and deferred income	24	**2,749,415**	2,665,207
Provisions for liabilities	25	**127,613**	62,885
Subordinated loan from ultimate shareholder	26	-	24,059,296
		436,856,945	468,044,466
Share capital and reserves			
Called up share capital	27	**20,500,100**	20,500,100
Other reserves	27	**80,051,292**	56,052,466
Retained reserves		**(45,370,747)**	(34,700,992)
Shareholders' funds including non-equity interests		**55,180,645**	41,851,574
		492,037,590	509,896,040

The notes on pages 23 to 65 form an integral part of these statutory statements.

The financial statements were approved by the Board of Directors and signed on its behalf on 29 March 2018 by:

Mr F S Knox
(Chief Executive Officer)

TANDEM BANK LIMITED

Statement of changes in equity for the period ended 31 December 2017

	Share Capital	Retained Earnings	Available for Sale Reserve	Reserves on write-off of Subordinated debt	Share Option Reserve	Total Equity
	£	£	£	£	£	£
At 1 February 2017	20,500,100	(34,690,494)	(10,498)	55,782,466	270,000	41,851,574
Loss for the year	-	(10,617,956)	-	-	-	(10,617,956)
Net income relating to available for sale investments	-	-	10,498	-	-	10,498
Actuarial losses on pension scheme	-	(33,384)	-	-	-	(33,384)
Deferred tax on items of other comprehensive income	-	(28,913)	-	-	-	(28,913)
Total comprehensive expense	**-**	**(10,680,253)**	**10,498**	**-**	**-**	**(10,669,755)**
Write down of subordinated debt (see note 26)	-	-	-	23,998,826	-	23,998,826
Adjustment to value of warrants	-	-	-	-	-	-
As at 31 December 2017	**20,500,100**	**(45,370,747)**	**0**	**79,781,292**	**270,000**	**55,180,645**

	Share Capital	Retained Earnings	Available for Sale Reserve	Reserves on write-off of Subordinated debt	Share Option Reserve	Total Equity
	£	£	£	£	£	£
At 1 February 2016	20,500,100	(16,950,149)	1,566,088	15,898,666	200,000	21,214,705
Loss for the year	-	(17,500,290)	-	-	-	(17,500,290)
Net income relating to available for sale investments	-	-	(1,576,586)	-	-	(1,576,586)
Actuarial losses on pension scheme	-	(283,997)	-	-	-	(283,997)
Deferred tax on items of other comprehensive income	-	43,942	-	-	-	43,942
Total comprehensive expense	**-**	**(17,740,345)**	**(1,576,586)**	**-**	**-**	**(19,316,931)**
Write down of subordinated debt (see note 26)	-	-	-	39,883,800	-	39,883,800
Issue of warrants	-	-	-	-	70,000	70,000
As at 31 January 2017	**20,500,100**	**(34,690,494)**	**(10,498)**	**55,782,466**	**270,000**	**41,851,574**

The notes on pages 23 to 65 form an integral part of these statutory statements

'Reserves on write-off of Subordinated debt' was previously stated as 'Capital Contribution'

TANDEM BANK LIMITED
Statement of cash flows for the period ended 31 December 2017

	Note	Period ended 31 December 2017	Year ended 31 January 2017
		£	£
Cash flows from operating activities			
Loss before tax		**(10,353,199)**	(22,115,520)
Non cash adjustment to reconcile profit before taxation		**947,522**	10,457,370
Change in operating assets and liabilities		**90,302,578**	(44,250,812)
Income tax received		**3,978,180**	2,425,288
Net cash generated from operating activities	29	**84,875,081**	(53,483,674)
Cash flows from investing activities			
Purchase of intangible assets		**(285,802)**	(829,531)
Purchase of tangible fixed assets		**(59,184)**	(144,952)
Sale of investment shares		**-**	1,273,878
Net cash from investing activities		**(344,986)**	299,395
Cash flows from financing activities			
Additional subordinated stock issued		**-**	50,000,000
Interest paid on subordinated stock		**(334,914)**	(335,578)
Net cash flows from financing activities		**(334,914)**	49,664,422
Net (decrease)/increase in cash and cash equivalents		**84,195,181**	(3,519,857)
Cash and cash equivalents at beginning of year		**37,557,504**	41,077,361
Cash and cash equivalents at the end of the year	29	**121,752,685**	37,557,504

The notes on pages 23 to 65 form an integral part of these statutory statements.

1. Accounting Policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding year.

1.1 General information and basis of accounting
Tandem Bank Limited is a Bank incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 1.

The accounting reference date of the Bank was changed from 31 January to 31 December. This was to align with the accounting reference date of Tandem.

The financial statements have been prepared under the historical costs convention and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of the Bank is considered to be GBP because that is the currency of the primary economic environment in which the Bank operates.

The following principal accounting policies have been applied:

1.2 Going concern
These financial statements are prepared on a going concern basis. This is discussed in the Directors' report, under the heading 'Going concern'.

1.3 Financial instruments recognition and de-recognition
(i) Recognition
All financial assets and liabilities are initially recognised on the date the Bank becomes a party to the contractual provisions of the instrument.

(ii) De-recognition
Financial assets are derecognised when and only when:
a) the contractual rights to the cash flows from the financial asset expire or are settled;
b) the Bank transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
c) the Bank, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

1.4 Financial assets

The Bank classifies its financial assets in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

(i) Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. These are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Subsequently they are held at amortised cost using the effective interest rate method, less provision for impairment. Loans and receivables predominantly comprise of loans and advances to customers.

(ii) Available for sale

Available for sale financial assets are debt or equity investments that are not held for trading. They comprise of treasury bills and other eligible bills as well as equity shares. They are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Subsequently, they are measured at fair value based on current quoted prices in active markets. For investments not traded in an active market, the fair value is determined using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison with similar instruments for which market observable prices exist, option pricing models and other relevant valuation models.

Interest income is recognised in the income statement using the effective interest rate method. Impairment losses are recognised in the income statement. Other fair value changes are recognised in other comprehensive income and presented as shareholders' equity in the balance sheet. On disposal, the gain or loss accumulated in equity is reclassified to the income statement.

(iii) Derivatives

Derivative financial assets classified at fair value through profit or loss comprise assets held for trading and those financial assets designated as being held at fair value through profit or loss. For certain loans and advances with fixed rates of interest, interest rate swaps have been acquired with the intention of significantly reducing interest rate risk. All derivative instruments are initially measured at fair value on the contract date and are also measured at fair value at subsequent reporting dates. Changes in fair value of any derivative instruments are recognised immediately in the income statement.

1.5 Financial liabilities

The Bank classifies its financial liabilities in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

Financial liabilities are contractual obligations to deliver cash or another financial asset. All financial liabilities (other than derivatives) are recognised initially at fair value, net of directly attributable transaction costs, and are subsequently measured at amortised cost. Financial liabilities at amortised cost are deposits from customers and intercompany as well as subordinated loans.

(i) Subordinated loans

Subordinated loan notes issued by the Bank are assessed as to whether they should be treated as equity or financial liabilities. Where there is a contractual obligation to deliver cash or other financial assets, they are treated as a financial liability and measured at amortised cost using the effective interest rate method. All subordinated notes issued by the Bank are classified as financial liabilities.

There are warrants issued at the same time as the subordinated notes which give the holder the right to subscribe for shares in the Bank. The warrants do not meet the definition of a convertible debt instrument as they can be exercised independently of the subordinated debt and are therefore classified separately. The warrants are classified as equity as they entitle the holder to a residual interest in the assets of the Bank and are included at fair value in equity at inception with no subsequent re-measurement.

1.6 Impairment of financial assets

The Bank assesses at each reporting date its assets not at fair value through profit or loss as to whether there is any objective evidence that a financial asset is impaired. A financial asset is deemed to be impaired if and only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset that has an impact on the estimated future cash flows. If any such indication exists the Bank estimates the recoverable amount of the asset versus the exposure.

An impairment loss is measured as the difference between the asset's carrying value and the present value of estimated cash flows (excluding future credit losses that have not been incurred), discounted at the asset's original effective interest rate.

(i) Loans and advances

Impairment provisions are made against individual loans when recovery is doubtful. Evidence of impairment may include: indications that the borrower is experiencing financial difficulty; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows.

For loans that are not considered to be individually impaired, a collective impairment assessment is performed to reflect the estimated amount of losses incurred on a collective basis but have yet to be individually identified. The methodology looks at the likelihood of a balance moving into an arrears status within a defined period of time and application of an appropriate loss rate. Usually this would be calculated by looking at historical loss experience updated to reflect current economic conditions. As the Bank has a portfolio predominantly made up of relatively new loans with limited arrears data, the Bank has looked at other relevant external data to calculate its collective provision. The methodology and assumptions used are regularly reviewed to reduce any differences between estimates and actual results and to refine methodology as more historical data becomes available.

1.6 Impairment of financial assets (continued)

Once a financial asset has been written down as a result of an impairment loss, interest income thereafter is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. If the collection of interest is considered highly unlikely and the financial asset has been fully provided for, it is credited to a suspense account and excluded from interest income in the profit and loss account. Although it continues to be charged to the customer's account, the suspense account in the balance sheet is netted against the relevant loan.

The aggregate impairment provisions which are made during the period (less amounts released and recoveries of bad debts previously written off) are charged against operating profit and are deducted from loans and advances to customers. Loans and advances to customers are written off when there is no realistic prospect of recovery.

(ii) Financial assets classified as available for sale

The Bank assesses at each reporting date whether there is objective evidence that an available for sale financial asset is impaired. In addition to the criteria for loans and advances, the assessment involves reviewing the financial circumstances (including credit worthiness), assessing the future cash flows expected to be realised and, in the case of equity shares, considering whether there has been a significant or prolonged decline in the fair value of the security below its cost.

Impairment losses on available for sale financial assets are recognised by reclassifying the losses accumulated in the available for sale reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss.

1.7 Derivative financial instruments

The Bank enters into derivative transactions for the purpose of reducing exposures to fluctuations in interest rates. They are not used for proprietary trading purposes. Derivatives are carried at fair value with movements in fair values recorded in the profit or loss. Derivative financial instruments are principally valued by discounted cash flow models using yield curves that are based on observable market data as well as valuations obtained from counterparties. As the Bank's derivatives are covered by master netting agreements with the Bank's counterparties, with any net exposures then being further covered by the payment or receipt of periodic cash margins, the Bank has used a risk-free discount rate for the determination of their fair values.

All derivatives are classified as assets where the fair value is positive and liabilities where the fair value is negative. Where there is the current legal ability and intention to settle net, then the derivative is classified as a net asset or liability as appropriate. Where cash collateral is given to mitigate the risk inherent in amounts due from the Bank, it is included in loans and advances to banks.

1.8 Hedge accounting

The Bank designates certain derivatives held for risk management as hedging instruments in qualifying hedge relationships.

At the inception of the hedge relationship, the entity documents the economic relationship between the hedging instrument and the hedged item, along with its risk management objectives and clear identification of the risk in the hedged item that is being hedged by the hedging instrument. The documentation includes how the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged items fair value attributable to the hedged risk is to be assessed as well as the causes for hedge ineffectiveness. Accordingly, the Bank makes an assessment both at inception of the hedge and on an ongoing basis, as to whether the hedging instruments are expected to be highly effective during the period for which the hedge is designated. Hedge accounting is discontinued when the Bank revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting.

Fair value hedge accounting for portfolio hedges of interest rate risk

The Bank applies fair value hedge accounting for a portfolio hedge of interest rate risk by identifying portfolios with similar repricing characteristics and whose interest rate risk it wishes to hedge. The portfolios currently comprise of assets and liabilities. The Bank then analyses each portfolio into repricing time periods based on expected repricing dates, by scheduling cash flows into the periods in which they are expected to occur. Using this analysis, the Bank designates as the hedged item, an amount from each portfolio that it wishes to hedge.

Provided that the hedge has been highly effective, changes in the fair value of derivatives are recorded in the profit and loss together with the changes in the fair value of the hedged items that are attributable to the hedged risk. The cumulative movement in the fair value of portfolio hedged items are presented separately in the balance sheet in 'Fair value adjustment for portfolio hedged risk'.

If the hedge no longer meets the criteria for hedge accounting, changes in the fair value of the hedged item attributable to the hedged risk are no longer recognised in the profit and loss. For the portfolio hedged items, the cumulative adjustment is amortised to the profit and loss using the straight-line method over the period to maturity.

1.9 Cash and balances at central banks

Cash and balances at central banks in the balance sheet comprise cash and balances at central banks and cash in hand and short-term deposits with an original maturity date of three months or less.

1.10 Intangible fixed assets

Computer Software

Computer software is stated at cost less accumulated amortisation and any accumulated impairment losses. Externally acquired software and licences are capitalised and amortised on a straight-line basis over their useful economic lives of 2 to 3 years. Costs relating to development of computer software for internal use are capitalised when the Directors are satisfied as to the technical, commercial, and financial viability of individual projects. Any development costs that do not meet these criteria are expensed as incurred. When the software is available for its intended use, these costs are amortised on a straight-line basis over their useful economic lives of 3 years. The Bank assesses the future economic benefits generated by the intangible assets to determine whether a provision is required for impairment (refer to note 1.12).

1.11 Tangible fixed assets

Tangible fixed assets are 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.

Tangible fixed assets are depreciated on a straight-line basis at rates calculated to write them off over their expected useful lives, which are between 2 and 3 years. The Bank assesses the future economic benefits generated by the tangible assets to determine whether a provision is required for impairment (refer to note 1.12).

1.12 Impairment of non-financial assets

The Bank assesses at each reporting date whether there are any indicators of impairment. If any such indication exists the Bank estimates the recoverable amount of the asset. If it is not possible to estimate the recoverable amount of the individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount is less than its carrying amount, the carrying amount of the asset is impaired and it is reduced to its recoverable amount through an impairment in profit and loss.

1.13 Leases

Lease agreements that have not transferred all the risks and rewards incidental to ownership of the asset over to the Bank and therefore do not meet the criteria of a finance lease, are treated as an operating lease. Rentals paid under operating leases are charged to the profit or loss on a straight-line basis over the period of the lease, even if the payments are not made on such a basis. The Bank does not hold any assets under finance leases, hire purchase contracts or other similar arrangements.

1.14 Interest income and expense

Interest income and expense are recognised in the income statement for all financial instruments measured at amortised cost using the effective interest rate method. This calculation takes in to account all amounts that are integral to the yield. The effective interest rate is the rate that exactly discounts the expected future cash flows over the expected life of the financial instrument to the net carrying amount of the financial asset or liability at initial recognition.

Fees and commissions that are not integral to the effective interest rate calculation are recognised in the income statement as services are provided.

Included within other operating income is commission income earned by the Bank in its capacity as an agent in the sale of gold bullion.

1.15 Taxation

Tax is recognised in the profit and loss account, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current tax income is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Bank operates and generates income.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

1.16 Pensions

During the year the Bank participated in two pension schemes but exited the Defined Benefit Scheme during the period.

Defined Contribution Scheme

The pension costs charged against profits represents the amount of the contributions payable to the scheme in respect of the accounting period.

Defined Benefit Scheme

Certain employees of the Bank were members of the Harrods Group Pension Plan under which retirement benefits are funded by contributions from the company. Payment is made to the pension trust, which is separate from the company, in accordance with calculations made periodically by consulting actuaries.

In July 2017, the Bank triggered a Section 75 debt payment in order to exit this scheme. The Section 75 debt required the Bank to make a payment which effectively extinguished the Bank's liability to the plan. This payment was made up of the Bank's share of the buy-out deficit of the Plan as at 30 April 2017 and estimated expenses associated with the cessation event. This payment, less the accounting deficit at 30 April 2017, has been charged to the profit and loss accounts under operating costs.

1.17 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

2. Significant accounting judgements, estimates and assumptions

Impairment losses on loans and advances to customers

The Bank reviews its loans and advances to customers at each balance sheet date to assess whether an impairment loss should be recorded in the profit or loss. Impairment provisions are made against advances when recovery is doubtful and this is reviewed on a case by case basis. Judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In addition, a collective impairment assessment is performed for assets not individually impaired to reflect the estimated amount of losses incurred on a collective basis but have not been individually identified. Judgement is required to determine the methodology and assumptions used to calculate the provision. These are regularly reviewed to reduce any differences between estimates and actual results.

Fair value of Visa shares and deferred cash consideration

On 21 June 2016 (transaction close date) the Bank received 1,189 Series B preferred shares in Visa Inc. in part consideration for its 1 redeemable ordinary share in Visa Europe Limited. There is also a deferred cash consideration to be received 3 years from the transaction close date. Unlike the preference shares, the rights to which remain unchanged if a bank ceases to be a VISA member, a bank only has the right to receive deferred consideration if it is a VISA member when the deferred consideration is paid. The Bank is in the process of giving up its membership of VISA following the closure of current accounts in 2017. While it is possible that the Bank will revive its membership in due course, all cards are currently issued through Mastercard and there are no definitive plans to change this. Management has therefore determined that is appropriate to write off the deferred consideration on the basis that it is unlikely to be received based on current business intentions.

The preferred shares are classified as available for sale equity shares. Judgement has been applied when valuing the shares to take account of a discount for litigation risk, a lack of marketability and any additional risk factors (refer to note 18).

Effective interest rate

The Bank is required to recognise interest earned from mortgages to be measured using the effective interest rate method. In calculating the effective interest rate of a financial instrument the Bank takes into account all amounts that are integral to the yield of a financial instrument as well as incremental transaction costs. In the case of mortgages judgement is applied in estimating the expected life of the instrument and hence the expected cash flows relating to it. The accuracy of the effective interest rate would therefore be affected by unexpected market movements resulting in altered customer behaviour and inaccuracies in the models used compared to actual outcomes.

3. Interest receivable and similar income

	Period ended 31 December 2017	Year ended 31 January 2017
	£	£
Interest receivable on loans and advances	11,035,021	8,773,998
Interest receivable on debt securities	359,082	518,061
Net interest payable on mortgage interest rate swaps	(292,081)	(230,186)
	11,102,022	9,061,873

4. Interest payable and similar expense

	Period ended 31 December 2017	Year ended 31 January 2017
	£	£
Interest payable on customer accounts and similar expense	5,644,967	5,985,678
Interest payable on subordinated loan from ultimate shareholder	284,444	385,354
Interest receivable on deposit interest rate swaps	(32,653)	-
	5,896,758	6,371,032

Included within Interest payable on customer accounts and similar expense is interest payable to the Bank's ultimate parent company Qatar Holding LLC ("QHC") of £205,580 (31 January 2017: £56,119).

5. Net losses on derivatives and hedge ineffectiveness

	Period ended 31 December 2017	Year ended 31 January 2017
	£	£
Net gains/(losses) on derivatives not in a hedging relationship	13,295	(107,765)
Hedge ineffectiveness	16,223	(40,448)
	29,518	(148,213)

	Period ended 31 December 2017	Year ended 31 January 2017
Hedge ineffectiveness	£	£
Gains on hedging instruments	42,123	27,699
(Losses) on hedged items	(25,900)	(68,147)
	16,223	(40,448)

6. Other operating income

	Period ended 31 December 2017	Year ended 31 January 2017
	£	£
Income from customers with respect to foreign exchange transactions and other foreign exchange gains	**36,350**	80,454
Commission income on sale of gold bullion	**25,569**	39,261
(Loss on write-off of Visa deferred consideration)/ Gain on disposal of Visa shares (note 18)	**(136,004)**	1,667,727
	(74,085)	1,787,442

Changes in the fair value of available for sale assets are recognised in other comprehensive income and only on disposal are the gains or losses recognised to the income statement.

7. Administrative expenses

	Period ended 31 December 2017	Year ended 31 January 2017
	£	£
Staff costs	**9,192,985**	9,243,382
Amortisation of intangible assets	**203,753**	239,426
Depreciation	**106,444**	697,793
Fees payable to the Bank's auditor	**140,941**	169,620
Other administrative costs	**5,153,682**	5,164,820
	14,797,805	15,515,041

8. Auditor's remuneration

	Period ended 31 December 2017	Year ended 31 January 2017
	£	£
Audit of the Bank's statutory financial statements	**140,941**	169,620
	140,941	169,620

9. Employees

	Period ended 31 December 2017	Year ended 31 January 2017
	£	£
Wages and salaries	**6,837,564**	8,287,227
Social security costs	**534,767**	670,186
Pension costs – defined benefit plan (note 30)	**1,616,423**	
Pension costs – defined contribution plan (note 30)	**204,231**	285,969
Staff costs	**9,192,985**	9,243,382
Average number of employees (including executive directors and contractors)	**109**	105

Staff costs are paid by Harrods Limited centrally and recharged to the Bank.

Pension costs with respect to the defined benefit plan in the period ended 31 December 2017 represented a Section 75 payment to extinguish the Bank's liability to the Harrods Group pension scheme.

10. Directors' remuneration

	Period ended 31 December 2017	Year ended 31 January 2017
Emoluments including pension contributions	**£**	£
Fees (Non-executive directors)	**264,167**	201,230
Remuneration including benefits and pension	**603,787**	326,400
	867,954	527,630

At 31 December 2017 there were no loans outstanding to directors (31 January 2017: £Nil). The maximum outstanding during the period was £Nil (31 January 2017: £Nil).

During the period, remuneration including benefits and pension paid to the highest paid director amounted to £342,819 (31 January 2017: £135,862). Total pension contributions paid on behalf of directors during the period was £Nil. (31 January 2017: £5,946).

11. Tax on loss on ordinary activities

	Period ended 31 December 2017	Year ended 31 January 2017
The taxation (credit) based on the loss for the period comprises:	**£**	£
Current tax:		
UK Corporation tax	**-**	(4,135,121)
Adjustments with respect to prior years	**156,940**	(39,191)
Total current tax	**156,940**	(4,174,312)
Deferred tax:		
Timing differences in relation to fixed assets	**-**	(522,461)
Write-off of DTA	**156,612**	-
Origination and reversal of other timing differences	**(35,363)**	36,811
Impact of change in UK corporation tax on opening liability	**(13,762)**	55,229
Adjustments in respect of prior years	**330**	(10,497)
Total deferred tax	**107,817**	(440,918)
Total tax (credit) on loss on ordinary activities	**264,757**	(4,615,230)
Total deferred tax relating to items of other comprehensive income	**28,913**	(43,942)

The standard rate of tax applied to profit on ordinary activities is 19.18% (31 January 2017: 20.00%). The Finance (No 2) Act 2015 introduced a reduction in the corporation tax rate to 19% for Financial years 2017, 2018 and 2019. The Finance Act 2016 further reduces the corporation tax rate to 17% from 1 April 2020 (previously 18%). As a result, at 31 January 2017, deferred tax balances have been calculated using 17% on the basis that the assets/liabilities are expected to unwind over a number of years. This was on the basis that an agreement was in place to surrender losses to other members of the Harrods Group for consideration equal to their tax value at the time. Following the sale of the Bank on 10th January 2018, this is no longer available.

No deferred tax asset has been recognised at 31 December 2017, as a net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

The amount of net reversal of deferred tax assets and deferred tax liabilities expected to occur in the period for the next financial statements is £Nil.

The tax for the period differs from the standard rate of corporation tax in the UK of 19.18% (31 January 2017: 20.00%).

11. Tax on loss on ordinary activities (continued)

The differences are explained below:

	Period ended 31 December 2017	Year ended 31 January 2017
	£	£
Loss on ordinary activities before taxation	**(10,353,199)**	(22,115,520)
Loss on ordinary activities before taxation multiplied by the standard rate of corporation tax of 19.18% (2017: 20.00%)	**(1,985,396)**	(4,423,104)
Expenses not deductible for tax purposes	**32,324**	81,619
Gain on disposal of equity shares	-	(333,545)
Effect of group relief/other reliefs	**942,089**	(357)
Deferred Tax not provided	**1,132,232**	-
Visa share gain rolled over	-	54,618
Adjustment in respect to prior years	**157,270**	(49,690)
Impact of change in UK corporation tax rate	**(13,762)**	55,229
Current tax credit for the year	**264,757**	(4,615,230)

The deferred tax included in the balance sheet is as provided as follows:

	31 December 2017	31 January 2017
Timing differences in relation to:	£	£
Accelerated capital allowances	-	139,166
Retirement benefit obligations	-	15,974
Staff holiday pay and long service award accrual	-	9,833
Visa share gain rolled over	**(51,901)**	(51,901)
Carried forward	**51,909**	-
Reserves	-	23,657
Deferred tax asset/(liability)	-	136,729

	31 December 2017	31 January 2017
	£	£
Asset at beginning of period	**136,729**	(348,132)
Prior year adjustments	**(330)**	10,497
Movement during the year through OCI	**(28,912)**	43,942
Write-off of fixed assets	**(156,612)**	522,461
Movement during the year through Income Statement	**35,363**	(36,810)
Effect of rate change	**13,762**	(55,229)
As at period end	-	136,729

11. Tax on loss on ordinary activities (continued)

Deferred tax assets have not been recognised in respect of the following items due to uncertainty over the future profitability of the Bank.

	Gross amount	Tax effect
	£	£
31 December 2017:		
Deductible temporary differences	**2,386,561**	**405,715**
Tax losses	**6,673,328**	**1,134,466**
31 January 2017:		
Tax losses	2,825,650	480,361

12. Dividends

There is no dividend payable for the period ended 31 December 2017 in respect of the Ordinary shares. (31 January 2017: "A" shares £Nil, and "B" shares £Nil).

13. Cash and balances at central banks

	31 December 2017	31 January 2017
	£	£
Bank of England Reserve Account	**107,863,342**	-
Cash	-	191,809
	107,863,342	191,809

14. Debt securities held for liquidity purposes

	31 December 2017	31 January 2017
	£	£
Treasury bills	-	70,966,314
Money market funds	-	38,508,885
Other securities	-	18,494,603
	-	127,969,802

14. Debt securities held for liquidity purposes (continued)

	31 December 2017	31 January 2017
	£	£
Repayable on demand	-	38,508,885
Maturing in 3 months or less	-	86,449,085
Maturing between 3 months and 1 year	-	-
Maturing between 1 and 5 years	-	3,011,832
	-	127,969,802

In early March 2017, the Bank was given access to the Bank of England Sterling Monetary Framework, and therefore reduced its holdings in High Quality Liquid Securities and moved its liquidity into the Bank of England Reserve account. (refer to Note 13). These facilities offer far more flexibility in liquidity management and at that time offered a higher return. They also meet the requirements of the banks regulatory liquidity.

At 31 January 2017, debt securities held for liquidity purposes were classified as available for sale assets at market value.

15. Loans and advances to banks

	31 December 2017	31 January 2017
	£	£
Repayable on demand	**10,629,343**	33,295,696
3 months or less	-	-
Cash collateral on derivatives placed with banks	**3,260,000**	4,070,000
	13,889,343	37,365,696

16. Derivatives held for risk management

	31 December 2017	31 January 2017
	£	£
Assets	**146,144**	173,102
Liabilities	**(86,794)**	(253,168)

The above table shows derivative assets and liabilities designated in hedging relationships as at 31 December 2017.

As part of its risk management strategy the Bank executes interest rate swaps to hedge its interest rate risk arising from fixed rate exposures in its retail loan book funded by variable rate linked liabilities. The nominal value of the interest rate swaps as at 31 December 2017 is £54,500,000 (31 January 2017: £121,500,000).

16. Derivatives held for risk management (continued)

The nominal value of interest rate swaps on savings as at 31 December 2017 is £45,000,000 (31 January 2017: £Nil). These swaps hedge the Bank's interest rate risk arising from variable rate exposures in its retail loan book funded by fixed rate linked liabilities.

The Bank applies fair value hedge accounting for a portfolio hedge of interest rate risk by identifying portfolios with similar repricing characteristics and whose interest rate risk it wishes to hedge. The portfolios comprise of assets and liabilities. The Bank then analyses each portfolio into repricing time periods based on expected repricing dates, by scheduling cash flows into the periods in which they are expected to occur. Using this analysis, the Bank designates as the hedged item, an amount of the assets and liabilities from each portfolio that it wishes to hedge.

17. Loans and advances to customers

	31 December 2017	31 January 2017
	£	£
Loans and advances to customers	**369,378,237**	339,229,404
Impairment of loans and advances to customers	**(240,000)**	(858,737)
Fair value adjustment for portfolio hedged risk	**(195,263)**	(68,147)
	368,942,974	338,302,520

	31 December 2017	31 January 2017
Remaining maturity	**£**	£
Repayable on demand	**328,202**	1,717,435
3 months or less	**2,475,899**	-
Between 3 months and 1 year	**17,546,803**	3,897,001
Between 1 year and 5 years	**60,561,100**	59,011,944
Over five years	**288,466,233**	274,603,024
	369,378,237	339,229,404

The gross total of non-performing loans as at 31 December 2017 was £Nil (31 January 2017: £1,008,771). At 31 December 2017, only a collective impairment provision was held.

At 31 December 2017, the capital repayment with respect to one loan of £4,533,750 was overdue, although interest payments were up to date.

17. Loans and advances to customers (continued)

The table below details the total secured and unsecured commitments reported as a percentage of total drawn commitments.

	31 December 2017	**31 January 2017**
	%	**%**
Fully secured lending	**100**	99.6
Unsecured lending	**-**	0.4
	100.0	100.0

Movement on provision for bad and doubtful accounts:

	31 December 2017	31 January 2017
	£	£
Opening balance	**858,737**	947,515
Collective new impairment provision less releases	**120,000**	(75,525)
Interest suspended in period	**-**	56,709
Amounts written off (including suspended interest)	**(738,737)**	(69,962)
Closing balance	**240,000**	858,737

Reconciliation to provision for bad and doubtful debts per profit and loss account:

	31 December 2017	31 January 2017
	£	£
Provisions raised	**(120,000)**	(125,358)
Provisions released	**-**	195,000
Recoveries of amounts previously written off	**5,679**	7,607
Provision for bad and doubtful debts per profit and loss account	**(114,321)**	77,249

18. Equity shares

	31 December 2017	31 January 2017
	£	£
Shares in Visa Inc.	**316,259**	305,301
	316,259	305,301

Equity shares as at 31 December 2017 consists of 1,189 Series B Convertible Preference shares in Visa Inc.

On 2 November 2015 Visa Inc. signed a transaction agreement to purchase 100% of the equity shares in Visa Europe Limited. As at 31 January 2016 the Bank held one redeemable ordinary share of nominal value €10 in Visa Europe Limited with a fair value of £1,566,088. As a principal member of Visa the Bank was entitled to consideration in the form of both cash and preference shares in Visa Inc. The transaction closed on 21 June 2016 at which point the Bank received cash consideration of €1,660,181 (£1,273,878) and 1,189 Series B Preference shares in Visa Inc. with a fair value of £282,829. The share consideration is fully saleable in 12 years' time. The fair value reflects a discount for the lack of marketability and any litigation risk. The change in value during the year was due to foreign exchange rate movements which were taken to the profit & loss account.

There is also a deferred cash consideration receivable on the 3rd anniversary of the transaction closing date. Unlike the preference shares, the rights to which remain unchanged if a bank ceases to be a VISA member, a bank only has the right to receive deferred consideration if it is a VISA member when the deferred consideration is paid. The Bank is in the process of giving up its membership of VISA following the closure of current accounts in 2017. While it is possible that the Bank will revive its membership in due course, all cards are currently issued through Mastercard and there are no definitive plans to change this. Management has therefore determined that is appropriate to write off the deferred consideration on the basis that it is unlikely to be received based on current business intentions. Therefore, an amount of £136,004, previously included in other assets, was written off during the period for the Bank's share of deferred cash receivable.

19. Fixed assets

Intangible fixed assets	**Computer software**
	£
Cost	
At 31 January 2017	618,546
Additions	285,801
Write-off	(111,490)
At 31 December 2017	**792,857**
Depreciation and Amortisation	
At 31 January 2017	66,154
Charge for the year	203,754
Write-off	-
FA Impairment	312,780
At 31 December 2017	**582,688**
Net book value - At 31 December 2017	**210,169**
Net book value - At 31 January 2017	552,392

Included within Intangible assets is capitalised work in progress that is currently not being amortised of £135,888 (31 January 2017: £55,750).

Tangible fixed assets	Computer equipment	Fixtures and fittings	**Tangible fixed assets**
	£	£	**£**
Cost			
At 31 January 2017	205,166	148,349	353,515
Additions	59,184	-	59,184
Write-off	-	-	-
At 31 December 2017	**264,350**	**148,349**	**412,699**
Depreciation and Amortisation			
At 31 January 2017	69,271	71,286	140,557
Charge for the year	76,613	29,831	106,444
Write-off	-	-	-
FA Impairment	90,962	37,289	128,251
At 31 December 2017	**236,846**	**138,406**	**375,252**
Net book value - At 31 December 2017	**27,505**	**9,943**	**37,448**
Net book value - At 31 January 2017	135,895	77,063	212,958

Included within Computer equipment is capitalised work in progress that is currently not being depreciated of £Nil (31 January 2017: £Nil).

During the year the Bank has written off total assets with a new book value of £111,490 (31 January 2017: £11,028,366). The write-off was made up of amounts invested in the development of a visa debit card system which the Board determined does not fit in with the future strategy of the Bank, especially post the sale of the Bank and the project was therefore terminated.

19. Fixed assets (continued)

The original amounts capitalised were deemed to have no ongoing value and have therefore been written off. Prior year write-off amount of £11,208,366 was predominantly made up of amounts invested in the development of a core banking system. During the prior year the Board determined that continued development of this system was not likely to deliver the anticipated benefits and the project was therefore terminated. The original amounts capitalised were deemed to have no ongoing value were therefore written off.

In addition, post the sale of the Bank, the Bank carried out its impairment review and determined that certain intangible and tangible assets would require to be impaired as they would no longer be used following the migration in March 2018 to Tandem's systems and premises. Based on this approach a total of £441,031 (31 January 2017: £nil) was written off to the profit & loss in December 2017.

20. Other assets, prepayments and accrued income

	31 December 2017	31 January 2017
Other assets	**£**	£
Sundry debtors	**61,239**	215,135
Defined benefit pension	-	-
Corporation tax receivable	-	4,135,121
Deferred tax	-	136,729
	61,239	4,486,985

Prepayments and accrued income
Prepayments and accrued income are £570,672 (31 January 2017: £335,476) and comprise expenses paid in advance of the service being received and income that has been earned but not yet received.

21. Customer accounts

	31 December 2017	31 January 2017
	£	£
Customer accounts	407,740,930	401,665,258
Fair value adjustment for portfolio hedged risk	(50,698)	-
	407,690,232	401,665,258

	31 December 2017	31 January 2017
Repayable:	£	£
On demand	37,058,963	110,149,699
Within 3 months	78,786,642	75,716,239
Between 3 months and 1 year	200,540,972	111,010,816
Between 1 and 5 years	91,354,353	104,788,504
	407,740,930	401,665,258

Included in customer accounts at 31 December 2017 is a balance of £nil (31 January 2017: £257,864) deposited by Harrods Group companies.

22. Deposits from ultimate shareholder

	31 December 2017	31 January 2017
Repayable:	£	£
Within 3 months	13,051,693	13,019,278
Between 3 months and 1 year	13,029,793	26,022,991
	26,081,486	39,042,269

23. Other liabilities

	31 December 2017	31 January 2017
	£	£
Other liabilities	121,405	202,422
Defined benefit pension	-	93,961
Deferred tax liability	-	-
	121,405	296,383

24. Accruals and deferred income

	31 December 2017	31 January 2017
	£	£
Trade payables	78,305	148,881
Accruals	2,167,027	1,830,776
Amounts owed to fellow subsidiary	419,738	577,998
Deferred income	84,345	107,552
	2,749,415	2,665,207

Amounts owed to fellow subsidiary balances relate to recharges from Harrods Limited.

25. Provisions for liabilities

All deposit-taking institutions that are members of the UK Financial Services Compensation Scheme ("FSCS") are required to contribute to the costs of the FSCS in safeguarding the deposits of savers in financial institutions. The Bank is, and continues to be, a member of the FSCS. Contributions to the FSCS are calculated according to a prescribed formula using the retail savings balances of all deposit-taking institutions who are members of the FSCS. As at 31 December 2017, the Bank held a provision of £127,613 (31 January 2017: £62,885) with respect to the estimated FSCS levy for the period 2017. The FSCS provision is expected to be utilised in September 2018.

	31 December 2017	31 January 2017
	£	£
FSCS provision brought forward	62,885	63,262
FSCS levy paid in the year	(36,830)	(10,487)
FSCS provision made in the year	101,558	10,110
FSCS provision carried forward	127,613	62,885

26. Subordinated loan

	31 December 2017	31 January 2017
	£	£
Subordinated loan	-	24,059,296
	-	24,059,296

26. Subordinated loan (continued)

The Loan Note was written down to £nil on 21 December 2017. (Please refer to note 27 for details of the treatment of the forgiveness). The principal balance outstanding as at 31 December 2017 is £nil. (31 January 2017: £24,000,000).

27. Called up share capital and other reserves

	31 December 2017	31 January 2017
Authorised, allotted, issued and fully paid ordinary shares of £1 each	**£**	£
20,500,100 Ordinary Shares	**20,500,100**	-
100 'A' voting shares	-	100
20,500,000 'B' non-voting shares	-	20,500,000
	20,500,100	20,500,100

The "A" and "B" shares of the Bank were consolidated and converted to Ordinary shares on 12 October 2017. At 31 December 2017, 20,500,100 Ordinary shares of £1 each were in issue. The Ordinary Shares have full voting, dividend and capital distribution (including on a winding up) rights. They do not confer any right of redemption.

	31 December 2017	31 January 2017
Other reserves:	**£**	£
Reserves on write-off of Subordinated debt	**79,781,292**	55,782,466
Share option reserve	**270,000**	270,000
	80,051,292	56,052,466

In consideration for the ultimate shareholder, QHC ("Qatar Holdings LLC"), agreeing to provide lower Tier 2 capital resources to the Bank pursuant to the subordinated loan note made as of 31 July 2013, 30,000,000 warrants were initially issued to QHC on 26 November 2014. A further 50,000,000 warrants were issued on 26 May 2016 in consideration for a further £50,000,000 subordinated loan note. The facility allows for the write down (forgiveness and de-recognition) of the subordinated loan to facilitate the creation of Tier 1 capital.

The warrants provide QHC with the option to subscribe for Class C non-voting ordinary shares of the Bank at the Exercise Price of £1.00001 per Warrant Share if the subordinated loan note remains outstanding or has been repaid; or at an Exercise Price of £0.00001 per Warrant Share if the subordinated loan note has been written down. The warrants are exercisable in lots of 100,000 for a maximum subscription for purchase of 80,000,000 Class C non-voting ordinary shares. These warrants expire one year after the subordinated loan has been repaid in full by the Bank or one year after the Principal Amount of the loan has been written down to zero.

Included in other reserves is £270,000 representing the fair value of the warrants at issuance which is not revalued on an ongoing basis in accordance with applicable accounting standards.

27. Called up share capital and other reserves (continued)

To date QHC has forgiven and de-recognised £80,000,000 of the subordinated loan (31 January 2017: £56,000,000). The £80,000,000 is recognised in Other reserves, though this amount is considered to be distributable. After the write down, the strike price of the corresponding portion of the warrants has changed in line with the agreement.

On 3 January 2018 as part of the completion of the sale process (refer to Note 37), the warrants were exercised at their subscription price for a total of £800 (£0.00001 per share).

28. Operating lease commitments

	31 December 2017	31 January 2017
	£	£
Less than one year	**210,803**	461,386
One year to five years	**34,772**	379,177
Five years or more	**-**	13,186
	245,575	853,749

The table contains the total committed lease payments due over the lease term based on when the payments fall due.

Total operating lease payments recognised as an expense in the period ended 31 December 2017 is £552,258 (31 January 2017: £1,052,108).

29. Notes to the cash flow statement

For the purpose of the cash flow statement, cash and cash equivalents comprise of the following:

	31 December 2017	31 January 2017
	£	£
Cash and balances at central banks	**107,863,342**	191,808
Loans and advances to banks:		
Repayable on demand	**10,629,343**	33,295,696
Repayable in less than 3 months	**-**	-
Cash collateral on derivatives placed with banks	**3,260,000**	4,070,000
	121,752,685	37,557,504

29. Notes to the cash flow statement (continued)

Reconciliation of loss on ordinary activities before taxation to net cash flows used in operating activities

	31 December 2017	31 January 2017
	£	£
Loss before taxation	**(10,353,199)**	(22,115,520)
Impairment movement on loans and advances to customers	**114,321**	(77,249)
Amortisation of intangible fixed assets	**203,753**	239,426
Depreciation	**106,444**	697,793
Write-off of tangible and intangible assets	**552,521**	11,028,366
Gain on sale of available for sale investments	**-**	(1,579,179)
Fair value adjustments for portfolio hedged assets	**76,596**	68,147
Fair value adjustments for portfolio hedged liabilities	**(50,698)**	-
Fair value losses on derivatives	**(55,415)**	80,066
Non-cash items included in profit before taxation	**947,522**	10,457,370
(Increase)/Decrease in treasury bills and other eligible bills	**127,980,300**	(26,073,322)
(Increase)/Decrease in loans and advances to customers	**(30,881,891)**	(142,043,457)
Increase in derivative instruments	**(33,480)**	-
(Increase)/Decrease in investments	**(10,958)**	-
(Increase)/Decrease in other assets	**153,896**	105,687
(Increase)/Decrease in prepayments and accrued income	**(235,196)**	(63,636)
Increase/(Decrease) in customer and wholesale funding accounts	**(6,885,111)**	123,042,344
Increase/(Decrease) in other liabilities	**(61,263)**	499,096
Increase/(Decrease) in accruals and deferred income	**84,208**	566,850
Increase/(Decrease) in provisions	**64,728**	(377)
(Increase)/Decrease in defined benefit obligations	**127,345**	(283,997)
Change in operating assets and liabilities	**90,302,578**	(44,250,812)
Income tax received	3,978,180	2,425,288
Cash generated by operations	**84,875,081**	(53,483,674)

30. Retirement benefit liabilities

Defined contribution scheme
The Group operates a defined contribution scheme. The pension contributions paid by the Bank under the defined contribution scheme amounted to £204,231 (31 January 2017: £285,969). No pension accrual (31 January 2017: £Nil) is included in the balance sheet in relation to this scheme.

Defined benefit pension scheme
During the period the Group operated the Harrods Group Pension Plan ("the Plan"), an approved defined benefit scheme. This scheme was closed to new membership and new accruals in April 2006. The Group numbers are apportioned to the various employers participating in the scheme based on allocation to employers of individual members employed by them. The portion allocated to the Bank is 0.59% based on 30th April 2017 assessment.

The Bank made a Section 75 debt payment to the Plan in July 2017 in order to cease participating in this scheme. The Section 75 debt required the Bank to pay in £1,692,000 which effectively extinguished the Bank's liability to the plan. This payment was made up of £1,677,000 which was the Bank's share of the buy-out deficit of the Plan as at 30th April 2017 and £15,000 in respect of estimated expenses associated with the cessation event.

Calculation Basis of the Bank's Section 75 repayment:

	As at 30th April 2017 Group Plan
	£
Total Liabilities	**902,640,000**
Plan difference (approx.)	**283,958,000**
Bank Share	**0.59%**
S75 debt payment (Bank Share)	**1,677,000**
Expenses associated with exit	**15,000**
Total S75 Debt payment	**1,692,000**

The main financial assumptions (based on the market conditions as 30 April 2017) used in the Section 75 debt estimate are:

Current Pensioners	
Interest rate	**1.80% p.a.**
Post-retirement pension increases (RPI 5%)	**3.50% p.a.**
Non - Pensioners	
Pre-retirement interest rate	**1.10% p.a.**
Post-retirement interest rate	**1.50% p.a.**
Pre-retirement pension increases (CPI 5%)	**3.20% p.a.**
Post-retirement pension increases (RPI 5%)	**3.80% p.a.**

30. Retirement benefit liabilities (continued)

Reconciliation of present value of the Bank's plan liabilities:

	31 December 2017	31 January 2017
	£	£
At the beginning of the year	**3,193,471**	2,653,657
Offset of plan assets	**(3,099,510)**	-
Interest cost	-	95,617
Actuarial gains/losses	**(33,384)**	588,661
Benefits paid	-	(81,264)
S75 debt payment	**(1,677,000)**	-
Adjustments to S75 losses of calculation of liabilities	**1,616,423**	-
Transfers	-	(63,200)
Benefit obligation at end of year	**0**	3,193,471

Reconciliation of present value of the Bank's plan assets:

	31 January 2017
	£
At the beginning of the year	2,808,889
Interest income	101,835
Return on plan assets	308,362
Transfers	(66,897)
Administrative Expenses	(4,920)
Employer contribution	33,505
Benefits paid	(81,264)
Fair value of plan assets at end of year	3,099,510

30. Retirement benefit liabilities (continued)

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

	31 January 2017
Discount rate	2.85%
Inflation	3.45%
Future pension increases	2.45%
Post retirement (at age 60) mortality assumptions	
Current pensioners at retirement age - male	28.1
Current pensioners at retirement age - female	29.9
Future pensioners at retirement age - male	30.4
Future pensioners at retirement age - female	32.3

Amounts for the current and previous three periods are as follows:

	31 January 2017	31 January 2016	31 January 2015
	£'000	£'000	£'000
Defined benefit obligation	(3,193)	(2,654)	(2,943)
Scheme assets	3,099	2,809	2,882
(Deficit)/Surplus	(94)	155	(61)

31. Contingent liabilities

Total committed but undrawn facilities at the year-end were £Nil. (31 January 2017: £169,507) in respect of overdraft agreements. These commitments represent agreements to lend in the future subject to the terms and conditions of the agreement and as such the amount and timings of future cash flows are uncertain.

32. Analysis of financial instruments and liabilities by measurement basis

The carrying values of the Bank's financial instruments are summarised by category below:

As at 31 December 2017	Loans and receivables	Available for sale securities	Derivatives measured at fair value through profit and loss	Liabilities at amortised cost	Total
	£'000	£'000	£'000	£'000	£'000
Cash and balances at central banks	107,864	-	-	-	**107,864**
Debt securities held for liquidity purposes	-	-	-	-	-
Loans and advances to banks	13,889	-	-	-	**13,889**
Derivatives held for risk management purposes	-	-	146	-	**146**
Loans and advances to customers	368,943	-	-	-	**368,943**
Equity shares	-	316	-	-	**316**
Total financial assets	490,696	316	146	-	**491,158**
Non-financial assets					**880**
Total assets					**492,038**
Customer accounts	-	-	-	407,690	**407,690**
Deposits from ultimate shareholder	-	-	-	26,081	**26,081**
Derivatives held for risk management purposes	-	-	87	-	**87**
Other liabilities	-	-	-	121	**121**
Accruals and deferred income	-	-	-	2,749	**2,749**
Subordinated loan	-	-	-	-	-
Total financial liabilities	**-**	**-**	**87**	**436,641**	**436,729**
Non-financial liabilities					**128**
Total liabilities					**436,857**

32. Analysis of financial instruments by measurement basis (continued)

As at 31 January 2017	Loans and receivables	Available for sale securities	Derivatives measured at fair value through profit and loss	Liabilities at amortised cost	Total
	£'000	£'000	£'000	£'000	£'000
Cash and balances at central banks	192	-	-	-	**192**
Debt securities held for liquidity purposes	-	127,970	-	-	**127,970**
Loans and advances to banks	37,366	-	-	-	**37,366**
Derivatives held for risk management purposes	-	-	173	-	**173**
Loans and advances to customers	338,303	-	-	-	**338,303**
Equity shares	-	305	-	-	**305**
Total financial assets	375,861	128,275	173	-	**504,309**
Non-financial assets					**5,587**
Total assets					**509,896**
Customer accounts	-	-	-	401,665	**401,665**
Deposits from ultimate shareholder	-	-	-	39,042	**39,042**
Derivatives held for risk management purposes	-	-	253	-	**253**
Other liabilities	-	-	-	296	**296**
Accruals and deferred income	-	-	-	2,665	**2,665**
Subordinated loan	-	-	-	24,059	**24,059**
Total financial liabilities	-	-	**253**	**467,727**	**467,980**
Non-financial liabilities					64
Total liabilities					**468,044**

33. Risk management

Through its normal operations, the Bank is exposed to a number of financial risks, the most significant of which are credit risk, market risk, liquidity and capital risk and operational risk.

33.1 Credit risk

Credit risk is the risk of financial loss arising from the failure of customers or other counterparties to settle their financial obligations to the Bank as they are expected to fall due.

Overall responsibility for credit risk rests with the Board of Directors, on whose behalf the Risk Committee, monitor the lending policy. The Bank seeks to minimise credit risk through its detailed lending policy which outlines the approach to lending, risk appetite, underwriting criteria and product terms. The Chief Risk Officer (CRO) is responsible for reviewing this policy at least annually and ensuring the Bank's lending activity is aligned.

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and monitoring exposures in relation to such limits. The Bank also seeks to obtain security cover over the majority of its lending.

For loans and advances to customers the maximum exposure to credit risk includes the total committed plus the balance sheet carrying value. Total committed but undrawn facilities, relating to existing drawn lending as at 31 December 2017 was £Nil (31 January 2017: £169,507). The maximum exposure to credit risk of treasury bills and other financial assets on the balance sheet is the carrying amount.

Impairment

The Bank maintains a dynamic approach to credit management. Impairment is assessed on an individual asset basis taking into account factors such as client credit history, any changes to financial position and clients' willingness to work with the Bank to resolve the situation in adherence to the Bank's Bad and Doubtful Debts and Provisioning policy.

All customers are assigned a Facility Risk Grading (FRG) indicating the risk of default of a customer. If a customer falls into arrears, the grade is adjusted to reflect the current position. The Relationship Managers will first recommend the change in grade to Credit Risk who then review and approve the change as appropriate. The Bank will continue to monitor and liaise with the customer through to remediation. During the forbearance period, if the arrears status of a customer deteriorates and there is failure to respond to correspondence to agree a revised payment arrangement plan, the Bank will take steps to recover the debt using their expertise to determine optimum recovery strategy

For loans not considered to be individually impaired, a collective impairment assessment is performed to reflect the estimated amount of losses incurred on a collective basis but have yet to be individually identified.

33. Risk management (continued)

Credit quality analysis

Loans and advances to customers

As at 31 December 2017	Unsecured lending	Secured lending	Total
	£	£	£
Total gross impaired loans	-	-	-
Past due but not impaired	-	4,753,750	**4,753,750**
Neither past due nor impaired	8,447	364,616,040	**364,624,487**
Total gross amount due	**8,447**	**369,369,370**	**369,378,237**

As at 31 January 2017	Unsecured lending	Secured lending	Total
	£	£	£
Total gross impaired loans	858,737	270,000	**1,128,737**
Past due but not impaired	-	545,436	**545,436**
Neither past due nor impaired	362,996	337,192,235	**337,555,231**
Total gross amount due	**1,221,733**	**338,007,671**	**339,229,404**

The time bands in relation to the ageing of the past due but not impaired loans are shown below.

	31 December 2017	31 January 2017
Past due but not impaired	£	£
Less than 3 months past due	-	89,622
3 to 12 months past due	**4,533,750**	144,411
Over 12 months past due	**220,000**	311,403
Total	**4,753,750**	545,436

33. Risk management (continued)

The average Loan to Value (LTV) ratio which measures the size of advance against the value of collateral held as at the date of the advance to customers is 50.5% as at 31 December 2017 (31 January 2017: 50.4%).

Total mortgage book profile by amount drawn	31 December 2017	31 January 2017
LTV:	%	%
< 40%	**14.9**	14.8
40% to 50%	**7.6**	8.9
50% to 60%	**19.6**	16.8
60% to 70%	**52.2**	55.1
70% to 75%	**5.7**	4.4
Total	**100.0**	100.0

The Bank holds collateral against loans and advances to customers predominantly in the form of mortgages over residential and commercial real estate.

Debt securities held for liquidity purposes

The Bank invested in high quality liquid debt instruments. In March 2017, the Bank was given access to Bank of England Sterling Monetary Framework, and as such reduced its holdings in High Quality Liquid Securities and moved its liquidity in to the Bank of England Reserve account. These facilities offer far more flexibility in liquidity management. The analysis below details the credit rating of the securities as at 31 January 2017. The total amount of individually impaired debt securities held for liquidity purposes as at 31 December 2017 was £Nil (31 January 2017: £Nil). No collateral is held regarding these assets.

	31 December 2017	31 January 2017
Credit rating (Standard and Poor's)	£	£
AAA	-	57,003,488
AA	-	70,966,314
BBB	-	-
Total	-	127,969,802

33. Risk management (continued)

33.2 Liquidity and Capital Risk

Liquidity and capital risk is the risk that the Bank is unable to meet its obligations as they are expected to fall due or can only do so at exceptional cost. It also includes the risk that the Bank falls below regulatory minima. The Bank maintains sufficient liquid resources to meet all contractual, contingent and regulatory obligations and retain public confidence on both an ongoing business as usual basis and in periods of liquidity stress.

The Bank reports liquidity under the Liquidity Coverage Ratio, and has maintained a very strong level above the regulatory minimum, 1184% as at 31 December 2017 versus the minimum regulatory requirement of 100%. All liquidity metrics are reported to senior management monthly and the Board.

In early March 2017, the Bank was given access to the Bank of England Sterling Monetary Framework, and therefore reduced its holdings in High Quality Liquid Securities and moved its liquidity in to the Bank of England Reserve account (refer to Note 13). These facilities offer far more flexibility in liquidity management and at that time offered a higher return. They also meet the requirements of the banks regulatory liquidity.

The Bank ensures there is sufficient liquidity to satisfy the following requirements:

- Maintain a positive funding gap of at least 6 weeks;
- Net stable funding ratio is at least 100%;
- Liquidity coverage ratio is at least 180%;
- Liquid assets will represent at least 10% of total deposits;
- Largest 10 deposits will represent no more than 20% of total deposits;
- Short term funding ratio is at least 30%.

The Internal Liquidity Adequacy Assessment Process document (ILAAP) sets out the Bank's approach to liquidity and funding. It has been prepared in line with internal policies and procedures as well as the regulation on liquidity and funding risk management defined in the Prudential Regulation Authority (PRA) rulebook for Capital Requirements Regulation (CRR) firms and the related guidelines / policy statements. This document serves to:

- Support the Bank's liquidity review and evaluation process;
- Document and demonstrate the Bank's overall liquidity adequacy;
- Inform the Board of Directors on the ongoing assessment and quantification of the Bank's liquidity risk; the processes to manage, monitor, control and mitigate liquidity risk; and the current and future amount of liquidity required; and
- Inform the PRA on the Bank's compliance with the Overall Liquidity Adequacy Rule (OLAR) and with the ILAAP rules as well as enable the PRA to assess the Bank's compliance with these regulatory requirements more effectively.

The Liquidity Contingency Plan (LCP) sets out the roles and responsibilities of key stakeholders under a stressed liquidity event. The plan is approved at least annually through the Bank's governance process, specifically, ALCO, ExCo, Risk Committee and the Board.

33. Risk management (continued)

Contractual maturity analysis

The following table summarises the contractual maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities Loans and advances to customers are shown in accordance with their contractual maturity rather than their next interest re-pricing date.

As at 31 December 2017	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Non-derivative assets							
Cash and balances at central banks	107,863	-	-	-	-	-	**107,863**
Debt securities held for liquidity purposes	-	-	-	-	-	-	**-**
Loans and advances to banks	10,879	-	-	3,010	-	-	**13,889**
Loans and advances to customers	224	5,371	26,205	101,002	324,269	(240)	**456,831**
Equity shares	-	-	-	-	-	316	**316**
	118,966	5,371	26,205	104,012	324,269	76	**578,899**
Derivative assets							
Outflow	-	(46)	(96)	(269)	-	-	**(411)**
Inflow	-	37	85	222	-	-	**344**
Net derivative cash flows	-	(9)	(11)	(47)	-	-	**(67)**
	118,966	5,362	26,194	103,965	324,269	76	**578,832**
Non-derivative liabilities							
Customer accounts	(37,059)	(80,153)	(203,326)	(92,392)	-	-	**(412,930)**
Deposits from ultimate shareholder	-	(13,058)	(13,052)	-	-	-	**(26,110)**
Other liabilities	(121)	-	-	-	-	-	**(121)**
Accruals	(2,749)	-	-	-	-	-	**(2,749)**
Subordinated loan	-	-	-	-	-	-	**-**
	(39,929)	(93,211)	(216,378)	(92,392)	-	-	**(441,910)**
Derivative liabilities							
Outflow	-	(157)	(223)	(153)	-	-	**(533)**
Inflow	-	162	96	166	-	-	**424**
Net derivative cash flows	-	5	(127)	13	-	-	**(109)**
	(39,929)	(93,206)	(216,505)	(92,379)	-	-	**(442,019)**
Net cash flow	**79,037**	**(87,844)**	**(190,311)**	**11,586**	**324,269**	**76**	**136,813**

33. Risk management (continued)

As at 31 January 2017	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Non-derivative assets							
Cash	192	-	-	-	-	-	**192**
Debt securities held for liquidity purposes	38,509	86,489	16	3,006	-	-	**128,020**
Loans and advances to banks	34,244	-	112	3,010	-	-	**37,366**
Loans and advances to customers	864	2,356	11,025	94,248	305,139	-	**413,632**
Equity shares	-	-	-	-	-	305	**305**
	73,809	88,845	11,153	100,264	305,139	305	**579,515**
Derivative assets							
Outflow	-	(33)	(103)	(392)	-	-	**(528)**
Inflow	-	40	65	234	-	-	**339**
Net derivative cash flows	-	7	(38)	(158)	-	-	**(189)**
	73,809	88,852	11,115	100,106	305,139	305	**579,326**
Non derivative liabilities							
Customer accounts	(110,150)	(76,731)	(113,156)	(106,155)	-	-	**(406,192)**
Deposits from ultimate shareholder	-	(13,057)	(26,063)	-	-	-	**(39,120)**
Other liabilities	(296)	-	-	-	-	-	**(296)**
Accruals	(2,665)	-	-	-	-	-	**(2,665)**
Subordinated loan	-	(88)	(263)	(1,402)	(25,518)	-	**(27,271)**
	(113,111)	(89,876)	(139,482)	(107,557)	(25,518)	-	**(475,544)**
Derivative liabilities							
Outflow	-	(139)	(274)	(337)	-	-	**(750)**
Inflow	-	63	172	139	-	-	**374**
Net derivative cash flows	-	(76)	(102)	(198)	-	-	**(376)**
	(113,111)	(89,952)	(139,584)	(107,755)	(25,518)	-	**(475,920)**
Net cash flow	**(39,302)**	**(1,100)**	**(128,469)**	**(7,649)**	**279,621**	**305**	**103,406**

Collateral

The Bank has derivatives which are supported by credit agreements whereby if the fair value exceeds the pre-agreed level, cash collateral is required. As at 31 December 2017, the Bank has provided collateral of £3,260,000 (31 January 2017: £4,070,000) against the derivatives.

33. Risk management (continued)

33.3 Market risk

Market risk is defined as the risk that the value of the Bank's assets, liabilities, income or costs may fluctuate due to the result of adverse changes to market rates. The Bank's market risks include Interest Rate Risk in the Banking Book (IRRBB) and Foreign Exchange Risk. The Bank does not have a trading book.

Interest rate risk

Interest rate risk arises from retail assets and liabilities, liquidity holdings and subordinated notes. The Bank offers lending and savings products with varying interest rate features and maturities. Where possible the Bank seeks to match the interest rate structure of assets and liabilities creating a natural hedge. Where this has not been possible, from February 2016 the Bank has entered into derivative transactions, currently cash collateralised interest rate swaps, to manage this risk.

The Bank's primary measure used to capture interest rate risk is an analysis of the impact of changes in interest rates on the market value of the Bank's assets and liabilities and on the Bank's earnings. The following table demonstrates the sensitivity to a reasonable possible change in interest rates (all other variables being held constant) of the Bank's profit or loss and equity.

Interest rate risk gap:

As at 31 December 2017	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	No specific re-pricing	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cash and balances at central banks	107,863	-	-	-	-	**107,863**
Debt securities held for liquidity purposes	-	-	-	-	-	-
Loans and advances to banks	10,879	-	-	3,010	-	**13,889**
Loans and advances to customers	153,268	27,472	44,024	141,249	2,930	**368,943**
Other assets	-	-	-	-	1,342	**1,342**
Non-derivative assets	272,010	27,472	44,024	144,259	4,272	**492,037**
Total derivative assets	79,500	-	-	20,000	-	**99,500**
Customer accounts	(115,795)	(26,769)	(173,772)	(91,354)	-	**(407,690)**
Deposits from ultimate shareholder	(13,051)	(13,030)	-	-	-	**(26,081)**
Subordinated debt	-	-	-	-	-	-
Other liabilities	-	-	-	-	(3,085)	**(3,085)**
Shareholders' funds	-	-	-	-	(55,181)	**(55,181)**
Non-derivative liabilities	(128,846)	(39,799)	(173,772)	(91,354)	(58,266)	**(492,037)**
Total derivative liabilities	(45,000)	(5,000)	(26,000)	(23,500)	-	**(99,500)**
Interest rate gap sensitivity	**177,664**	**(17,327)**	**(155,748)**	**49,405**	**(53,994)**	-

33. Risk management (continued)

As at 31 January 2017	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	No specific re-pricing	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cash and balances at central banks	192	-	-	-	-	**192**
Debt securities held for liquidity purposes	127,970	-	-	-	-	**127,970**
Loans and advances to banks	34,244	-	112	3,010	-	**37,366**
Loans and advances to customers	59,594	24,450	102,972	153,649	(2,363)	**338,302**
Other assets	-	-	-	-	6,066	**6,066**
Non-derivative assets	222,000	24,450	103,084	156,659	3,703	**509,896**
Total derivative assets	121,500	-	-	-	-	**121,500**
Customer accounts	(185,865)	(15,000)	(96,011)	(104,789)	-	**(401,665)**
Deposits from ultimate shareholder	(13,019)	(13,022)	(13,001)	-	-	**(39,042)**
Subordinated debt	(24,059)	-	-	-	-	**(24,059)**
Other liabilities	-	-	-	-	(3,278)	**(3,278)**
Shareholders' funds	-	-	-	-	(41,852)	**(41,852)**
Non-derivative liabilities	(222,943)	(28,022)	(109,012)	(104,789)	(45,130)	**(509,896)**
Total derivative liabilities	-	-	(45,000)	(76,500)	-	**(121,500)**
Interest rate gap sensitivity	**120,557**	**(3,572)**	**(50,928)**	**(24,630)**	**(41,427)**	**-**

Interest rate risk sensitivities:

	Net present value sensitivity	
	31 December 2017	31 January 2017
Parallel shift in yield curve	**£'000**	£'000
+100bps	**794**	942
-100bps	**(770)**	(936)

	Net interest income sensitivity	
	31 December 2017	31 January 2017
Parallel shift in yield curve	**£'000**	£'000
+50bps	**626**	584
-50bps	**(643)**	(439)

33. Risk management (continued)

Net interest income sensitivities have been monitored from November 2016 onwards following the implementation of new market recognised asset and liability management software.

Foreign Currency

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Whilst the majority of the Bank's customer accounts are based in the United Kingdom, some customer deposit accounts were previously not, and as a result the Bank maintains a non-trading open currency position in currencies other than Sterling.

Where possible the Bank seeks to match its customer accounts denominated in a foreign currency by holding a similar amount of foreign currency in loans and advances to bank, creating a natural hedge. The result of this is that the Bank holds net assets denominated in foreign currency as at 31 December 2017 of £11,199 (31 January 2017: £70,068) and therefore has minimal exposure to foreign exchange risk. This excludes equity shares held as available for sale.

33.4 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes compliance and conduct risk which is the risk the Bank fails to meet the requirements of legislation and regulatory requirements as defined by the PRA, FCA and any other requirements from relevant regulatory bodies. Management manages this risk through appropriate risk controls and loss mitigating actions. These actions include a combination of policies, procedures, internal controls and business continuity arrangements.

34. Capital management

The PRA sets and monitors capital requirements for the Bank. In implementing current capital requirements the PRA requires the Bank to maintain a prescribed level of capital with reference to risk weighted assets and the perceived risk management framework. The Bank prepares an annual Internal Capital Adequacy Assessment Process (ICAAP) document that sets out how the Bank identifies and manages the key risks, and details the capital requirements, capital resources and capital adequacy over the plan period. In addition the Bank produces regular reports and submits the forecast capital outlook to the PRA each quarter showing current and medium term capital requirements.

The Bank manages its capital in accordance with the capital framework policy issued by the PRA. On 17th January 2017 PRA published the policy statement setting out the new Pillar 2 capital framework and setting out the Individual Capital Guidance (ICG) and the PRA buffer for the Bank. The Bank has shown that it has complied with all externally imposed capital requirements.

The Bank's regulatory capital position as at the period end was as follow:

	31 December 2017	31 January 2017
	£	£
Tier 1 Capital		
Ordinary share capital	**20,500,100**	20,500,100
Other reserves	**80,051,292**	56,052,466
Retained reserves	**(45,370,747)**	(34,700,992)
Intangible assets	**(210,169)**	(552,392)
	54,970,476	41,299,182
Tier 2 Capital		
Subordinated loan	-	24,059,296
	-	24,059,296
	54,970,476	65,358,478

During the financial reporting year, there was a conversion of Tier 2 Capital of £24,000,000 into Tier 1 Capital as part of the arrangements relating to the sale of the Bank to Tandem.

35. Financial instruments held at fair value

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Fair value determined using quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2: Fair value determined using other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3: Fair value determined using techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

The below table provides an analysis of financial assets and liabilities held on the statement of financial position at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable.

As at 31 December 2017	Level 1	Level 2	Level 3	**Total**
	£'000	£'000	£'000	**£'000**
Financial assets				
Derivatives held for risk management	-	146	-	**146**
Debt securities	-	-	-	-
Equity share	-	-	316	**316**
	-	146	316	**462**
Financial liabilities				
Derivatives held for risk management	-	87	-	**87**
	-	87	-	**87**

As at 31 January 2017	Level 1	Level 2	Level 3	**Total**
	£'000	£'000	£'000	**£'000**
Financial assets				
Derivatives held for risk management	-	173	-	**173**
Debt securities	127,970	-	-	**127,970**
Equity share	-	-	305	**305**
	-	173	305	**128,448**
Financial liabilities				
Derivatives held for risk management	-	253	-	**253**
	-	253	-	**253**

The fair value of derivative assets and liabilities are determined using widely recognised valuation methods using only observable market data.

The fair values of debt securities are based on quoted prices in active markets.

35. Financial instruments held at fair value (continued)

The fair value of equity shares has been estimated by taking the quoted market price for the instrument into which the equity shares are ultimately convertible discounted for litigation risk and lack of marketability.

36. Related Party Transactions and Controlling Parties

As at December 2017 the Bank's immediate parent was Harrods Group (Holding) Limited, a company registered in England and Wales (registered number 05990648 and registered office 87-135 Brompton Road, Knightsbridge, London, SW1X 7XL). It is an indirect 100% subsidiary of Qatar Holding LLC, a strategic investment arm of Qatar Investment Authority, the ultimate controlling party (registered office P.O. Box 23224, Doha, Qatar). For changes in the Bank's immediate parent since the period end see Note 37.

All related party transactions were entered into on an arms length basis.

Transactions with related entities
Included in customers' current and deposit accounts at 31 December 2017 is a balance of £Nil (31 January 2017: £257,864) deposited by Harrods Group companies.

Qatar Holding LLC ("QHC")
On 26 November 2014, a £30m subordinated loan note was issued by the Bank to the parent company, QHC. On 26 May 2016 a further £50m subordinated loan note was issued under the same terms as the original loan note, increasing the principal of the original agreement. The subordinated loan has been structured in such a way that it can be converted into Tier 1 capital to ensure that the Bank is able to comply with Capital Requirements Directive (CRDIV). QHC has forgiven and derecognised a total of £24m (31 January 2017: £56m), leaving a remaining principal balance outstanding of £Nil as at 31 December 2017 (31 January 2017: £24m). Included in interest payable and similar charges is an amount of £284,444 (31 January 2017: £385,354) for interest on the subordinated loans.

On 26 October 2016 the Bank received £39m from QHC in the form of three £13m deposits repayable in three, six and nine months. As at end of 31 December 2017, £26m of balances remained on the balance sheet with one deposit of £13m repaid at its maturity date of October 2017. Interest is payable at a fixed rate based on LIBOR. The interest expensed to the profit or loss in year relating to these deposits is £205,580 (31 January 2017 £56,119).

Harrods Limited
Occupancy fees of £85,766 (31 January 2017: £101,959) were charged to the profit and loss during the period. These relate to payments made to Harrods Limited in respect of rent with respect to the Bank's branch. The Bank closed the branch early December 2017. Included in accruals and deferred income is £419,738 (31 January 2017: £577,998) relating to intercompany recharges from Harrods Limited.

Harrods Corporate Management Limited
The Bank had an agreement with Harrods Corporate Management Limited ("HCM") for the use of the Harrods registered trademarks. Under this agreement the Bank is required to pay HCM a royalty of the lesser of 2.5% of the Net Sales (subject to deductions) or 10% of EBITDA in respect of business each year. As the Bank is loss making in the current and prior year, no liability arises. This agreement was terminated on 12th January 2018 pursuant to the Sale and Purchase Agreement when the Bank was rebranded to Tandem Bank Limited.

36. Related Party Transactions and Controlling Parties (continued)

Harrods Commercial Property Limited

Occupancy fees of £245,403 (31 January 2017: £100,222) were charged to the profit and loss during the period relating to payments made to Harrods Commercial Property Limited for the lease of office premises from 29 September 2016.

Harrods Limited, Harrods Corporate Management Limited and Harrods Commercial Property Limited have the same ultimate controlling parent entity as the Bank as at 31 December 2017.

Transactions with key management personnel

Key management personnel are defined as directors plus the members of the Bank's Executive Committee.

Included in customers' current and deposit accounts at 31 December 2017 is a balance of £101,382 (31 January 2017: £120,966) deposited by members of key management personnel and their direct relations.

At 31 December 2017 there were no loans remaining (31 January 2017: £Nil) to any key management personnel. The maximum outstanding during the period to key management personnel was £Nil (31 January 2017: £Nil).

Further related party disclosures are made in note 10.

37. Subsequent events

In March 2017, the controlling shareholder decided to commence a sale process for the Bank. This process resulted in an agreement being signed on 7 August 2017 for the sale of the Bank to Tandem. The sale was subject to a number of conditions precedent, in particular regulatory approval. The transaction was completed on 10 January 2018 which was the date that control of the Bank passed to Tandem. As part of the transaction agreements, Qatar Holding LLC acquired a 78% holding in Tandem with a restriction on voting rights to 49.9%.