Tandem Money Limited
Consolidated Annual Report and Financial Statements
for the year ended 31 December 2018

Registered Number 08628614

Tandem Money Limited

Consolidated Annual Report and Financial Statements

for the year ended 31 December 2018

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Tandem Money Limited
Group Information

Directors	Mr M J Cooper (Chairman) Mr F S Knox (Chief Executive Officer) Mr M L Amato Mr M Klimbacher Mr J J Pritchard Mr J Zagorovskis
Secretary	Mr E C Freeman
Registered Office	40 Bernard Street London WC1N 1LE
Independent Auditors	PricewaterhouseCoopers LLP 7 More London Riverside London SE1 2RT
Bankers	Barclays Bank plc NatWest Bank plc Royal Bank of Scotland Plc

Strategic Report for the year ended 31 December 2018

The Directors present their strategic report and audited consolidated Financial Statements of Tandem Money Limited for the year ended 31 December 2018. The Group accounts incorporate the results of Tandem Money Limited ('the Company') and its subsidiary undertakings, Tandem Bank Limited ('TBL') and Pariti Technologies ('Pariti').

The Strategic Report contains certain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

General Information

Tandem Money Limited is incorporated in England and Wales with the registered number of 08628614.

Principal Activities and Business Model

Tandem was founded by Matthew Cooper and Ricky Knox in 2015 as they firmly believed the UK consumer was underserved by the large incumbent retail banks and saw the sector being ripe for disruption. To capture this opportunity, the founders established Tandem as a digitally focused and customer centric UK financial services provider.

The Tandem App represents the cornerstone of our business model as it allows users to view their balances and transactions across multiple providers in one place. This functionality enables users to keep track of their finances, compare pricing, identify saving opportunities and perform product switches, all of which help them manage their everyday financial needs. Further, this aggregation of customer data helps support credit decisions, ensuring customers gain access to relevant credit propositions whilst Tandem benefits from improved risk management.

Tandem's retail proposition encompasses a range of lending products, namely credit cards, mortgages and unsecured personal loans. These products are funded by fixed term and instant access retail deposit accounts.

Business Review

On 10 January 2018, Tandem completed its acquisition of Harrods Bank Limited ('HBL') with the latter immediately renamed as Tandem Bank Limited. On completion Tandem obtained a banking licence that allowed it to raise deposits and offer banking products under the Tandem brand, gained access to HBL customers (primarily a £370m mortgage book and over £400m of customer deposits) and £80m of capital. At the close of the transaction, Tandem was 78.4% owned by Qatar Holding LLP.

Thereafter 2018 has proved a year of tangible progress with the highlights being the successful integration of the legacy TBL / HBL platforms and ongoing expansion of Tandem's retail proposition to now include a range of lending products including credit cards, mortgages and unsecured personal loans. These products are primarily funded by Tandem branded fixed term deposits. This proposition is underpinned by the Tandem App which allows users to view their balances and transactions across multiple providers in one place, identify saving opportunities and perform product switches, all of which will help them manage their everyday financial needs.

Given this period of growth and investment the Bank reported a loss. The overall pre-tax operating loss was £26.7m (2017: £23.6m). Total income increased to £7.0m (2017: £Nil) due to the expansion of TBL's lending portfolios. Operating expenses were higher than prior year at £31.1m (2017: £23.5m), with provision for bad and doubtful debts growing to £2.6m (2017: £Nil).

As at 31 December 2018 the Group had £349.9m of loans and advances to customers (2017: £0.1m), with total assets at 31 December 2018 at £510.8m (2017: £0.01m). Customer deposits as at 31 December 2018 were £385.6m (2017: £Nil).

Given the integration of TBL the Group has placed considerable importance on maintaining robust capital and liquidity positions with Core Equity Tier 1 and Leverage ratios of 32.1% and 7.2% respectively, with the Liquidity Coverage Ratio at 583% and Loans : Deposits Ratio at 90.7% at 31 December 2018.

Future Developments

In accordance with its five-year plan, Tandem's product offering will continue to expand and diversify as it works towards building a bank and financial management universe, focused on freeing users from financial stress by simplifying the process of managing their money. As the cornerstone of the business model Tandem will continue to invest in its App to help achieve these overarching objectives.

Given the dynamic and evolving nature of the financial services sector Tandem continues to assess the possibility of adding a transactional product into its customer proposition as well as expanding outside its core domestic UK market. The Executive Team and Board will continue to explore these opportunities and acknowledge any development would be subject to approval by relevant regulatory authorities.

The Group's medium term strategy is dependent on the ability to secure new capital and the directors are in active discussions with existing and potential new investors. Further details are provided in the Directors' report.

Tandem Money Limited
Strategic Report (cont.)

Key Performance Indicators ('KPIs')

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

	Year ended 31 Dec 2018	Year ended 31 Dec 2017	**Definition, method of calculation and analysis**
Total income	**£7,297k**	(£34)k	Interest received from customers, investment assets and fees, less interest payable to account holders. The increase was due to the acquisition of Tandem Bank Limited and the launch of new products in the year, credit cards and unsecured loans.
Net interest margin	**2.03%**	N/A	Net interest income/average gross receivables. Net interest margin reflects high percentage of receivables being mortgages.
Cost of risk	**0.68%**	N/A	Cost of risk primarily driven by growth in unsecured lending portfolio.
Loan to value (mortgages)	**51.6%**	N/A	Conservative LTV ratios have been maintained on the mortgage portfolio.
CET 1 Ratio	**32.1%**	N/A	CET1 ratio has performed above external and internal appetites.

Capital Management

The Prudential Regulatory Authority ('PRA') sets and monitors capital requirements for the Group. In implementing current capital requirements, the PRA requires the Group 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 2018 are £179.4m.

Principle Risks and Uncertainties

The Group in the execution of its strategy is exposed to a number of risks, some of which have been described in Note 32 of these Financial Statements. The Directors of the Group confirm they have carried out a robust assessment of the principal risks facing the Group, including those that would impact its business model, future performance, financial position, liquidity and capital.

Risk	Definition	Key Mitigating Actions
Credit Risk	The risk that a customer or counterparty is unable to honour its obligations as they fall due, resulting in an actual or potential loss exposure for the Group.	• Credit policy, incorporating prudent lending criteria, aligned with Board approved risk appetite, to effectively manage risk. • Effective credit risk sanctioning processes with independent oversight by Risk Management. • Monthly portfolio reviews to identify impairment indicators and initiate remediation activities to limit the extent of any potential loss. • Early identification of signs of stress leading to prompt action in engaging the customer. • Effective arrears and collection teams, supporting comprehensive underwriting and credit sanctioning procedures. • Maintaining prudent lending criteria with defined limits across loan to value and risk grade. • Limit concentration risk by size of total loan exposure to a borrower, specific sector, product type and / or geographic location. • Obtain suitable and sufficient security for loans where relevant.
Market Risk	The risk to earnings or capital arising from the adverse movement of market interest rates. The Group is primarily exposed to interest rate risk.	• The Group monitors exposure to repricing risk through an interest rate gap report and attempts to match the repricing characteristics of its assets with its liabilities naturally where it can. • The Group uses derivatives to manage any risk above tolerable levels. • Stress and scenario testing of risk exposures. • The Group does not have a trading book.

Operational Risk	The risk of incurring losses, or other significant impact, resulting from inadequate or failed internal processes, people or systems or from external events (including financial crime). It also includes the risk of financial loss, reputational damage, legal risk or censure from changes to existing requirements by regulatory authorities that negatively impact the Group.	• Ensure staff follow and adhere to the Operational Risk Framework. • Continued monitoring and challenge from Risk Management. • Thorough investigation and rectification of control failures. • Compliance with all applicable laws, regulations and voluntary codes / standards, focusing on achieving the best outcome for all stakeholders. • Regularly apprising Board Committees of potential risks for discussion / approval of strategies to minimise them. • Continual review of our IT environment to ensure that systems and processes can effectively support the delivery of services to customers. • Investing in cyber controls to protect against external threats to the confidentiality or integrity of electronic data, or the availability of systems.
Liquidity and Capital Risk	The risk that the Group is unable to meet its obligations as they are expected to fall due or can only do so at an exceptional cost. It also includes the risk that we have a sub-optimal amount or quality of capital, that capital is inefficiently deployed across the Group or that the Group falls below regulatory minima.	• Ensuring the Group has access to sufficient liquidity (of both amount and quality) to cover its operations over an adequate period, whilst ensuring it meets regulatory requirements for liquid assets. • Undertaking daily monitoring against a number of market and Group-specific early warning indicators and regular stress tests. • Maintaining a contingency funding plan detailing management actions and strategies available in stressed conditions. • A comprehensive capital management framework that sets and monitors capital risk appetite using several key metrics. • Close monitoring of capital and leverage ratios to ensure the Group meets current and future regulatory requirements. • Comprehensive stress testing analysis to evidence sufficient levels of capital adequacy and availability of management actions under various adverse scenarios.

Conduct Risk	The risk of causing unfair outcomes and detriment to our customers, regulatory censure and / or undermining market integrity as a result of the Group's behaviour, decision-making, activities or processes.	• Customer focused conduct strategy implemented. • Ensuring that the Conduct Risk Framework is operating effectively and is observing the required standards of market conduct. • Monitoring first line activities and assess / correct conduct risk issues if identified. • Undertaking empioyee training and awareness programmes. • Learning from past mistakes through root cause analysis.
Strategic and Business Risk	The risks that can affect our ability to achieve our corporate and strategic objectives.	• Remain focused on producing business plans and models that are aligned with the Group strategy. • Ongoing monitoring from Senior Management and Directors to ensure performance is in line with plan, with corrective action taken if deemed necessary.
Regulatory and Legal Risk	The risks of changing legislation, regulation, policies, voluntary codes of practice and their interpretation in the markets in which we operate can have a significant impact on the Group's operations, business prospects, structure, costs, capital requirements and ability to enforce contractual obligations.	• Continued investment in people, processes, training and IT to assess impact and help meet our legal and regulatory commitments. • Engage proactively with regulatory authorities and relevant industry bodies on forthcoming regulatory changes and market reviews.
Reputational Risk	The risk of an event that adversely impacts the Group's reputation, leading to lost revenue or destruction of value.	• Ensuring rigorous controls and procedures are in place to mitigate incidences of fraudulent transactions, safeguarding of customer information and conduct towards customers.

Risk Management

The Group regards effective risk management as a key element to its sustainable performance, overall value creation and its long-term success.

The role of risk management is to ensure that risk-related decisions are consistent with the Group's strategy (in line with the approved risk appetite framework) and in compliance with the standards set by regulators. The Group's enterprise-wide risk management framework provides the basis for achieving these goals.

Tandem has an established risk governance structure with active and engaged Directors supported by experienced senior management and a Risk Management function that operates independently from the lines of business, with decision-making exercised through a number of Senior Management and Board Committees.

Risk Management Framework

The Risk Management Framework ('RMF') is the collection of tools, processes and methodologies that enable the Group to identify, evaluate, monitor and control the risk it encounters. The framework outlines the means by which the Directors and Senior Management establish the Group's strategy in relation to its risk appetite and articulates how we identify, measure and manage risk. Senior Management ensure that the RMF is embedded in its day-to-day management and control activities.

The Board approves the overall RMF and sets risk appetite, both of which are designed to ensure that we manage our risks in the right way to achieve our agreed strategic objectives. It has a dedicated Risk and Audit Committee ('RAC') of independent non-executive Directors who keep the design and performance of the Group's RMF under close and regular scrutiny and interact closely with the Executive. The Board and Senior Management encourage a culture of transparency and openness to ensure that issues are escalated promptly to them where required. The Board approved RMF and risk appetite are put into effect using an enterprise-wide framework which applies to every area of the business and covers all types of risk. The framework is designed to ensure we follow a consistent approach to risk management and reporting throughout the Group, with clear ownership, so that all risks are fully understood and managed in relation to our agreed risk appetite. It includes our policies, procedures, controls and reporting.

The framework is periodically reviewed, updated and approved by the Board to reflect any changes in the nature of our business and external regulations, law, corporate governance and industry best practice. This helps us to ensure we continue to meet our responsibilities to our customers, shareholders and regulators. Our risk appetite and the policy framework define clear parameters within which the business must operate in order to deliver the best outcome for customers and stakeholders. The Board delegates authorities for risk management through the Chief Executive Officer (CEO') and the management hierarchy to individuals, an approach which is consistent with the focus of the Senior Managers Regime on the principle of individual accountability. At a senior level, management are supported in their decision-making by a committee-based governance structure. The concept of individual accountability for risk management is embedded in the RMF and culture at every level, and guides the way all employees approach their work, behave and make decisions. An important element of the framework is the maintenance of strong internal controls which are owned and operated by the business.

Risk Principles

As a Group we have implemented the following:

Risk Governance	The Group has adopted the 'three lines of defence' principle. Within this approach the business (first line) originate and manage risks while Risk Management and other control functions (second line) provide independent oversight and collective challenge to the first line, in addition to monitoring and controlling risk. Internal Audit (third line) provides assurance that policies, procedures, and controls are achieved by the other lines of defence. Utilising this principle, we actively seek to separate risk origination from risk oversight and risk assurance, with governance provided by formal committees.
Defined Risk Appetite	Throughout the year the Directors have developed the Group's risk appetite which is aligned to the business strategy. The Risk Appetite Statement establishes a framework for business decisions and enables the Group to identify and define the type and levels of risks it is willing to accept in both qualitative and quantitative terms, whilst further articulating the risks the business is willing to take and those it will not in its journey to achieve its strategic goals.
Risk Transparency and Control	The first line of defence has been enhanced throughout the year and continuously identifies all significant risks, ensuring that adequate procedures are in place to track, manage and report, with this output subject to appropriate review and governance.
Management Policies and Committees	Throughout the year the Group's risk policies and management committees have continuously been developed, formalised and strengthened. At the year end all policies and governance procedures encompassing the areas flagged as principal risks were in place and operating effectively.

Risk Governance

The risk governance structure below is integral to effective risk management across the Group. The Risk Management Function is appropriately represented on key committees to ensure that risk management is discussed in these meetings. This structure outlines the flow and escalation of risk information and reporting from the business to the Executive Committee and Board. Conversely, strategic direction and guidance is cascaded down from the Board and Executive Committee.

Board, Executive and Risk Committees

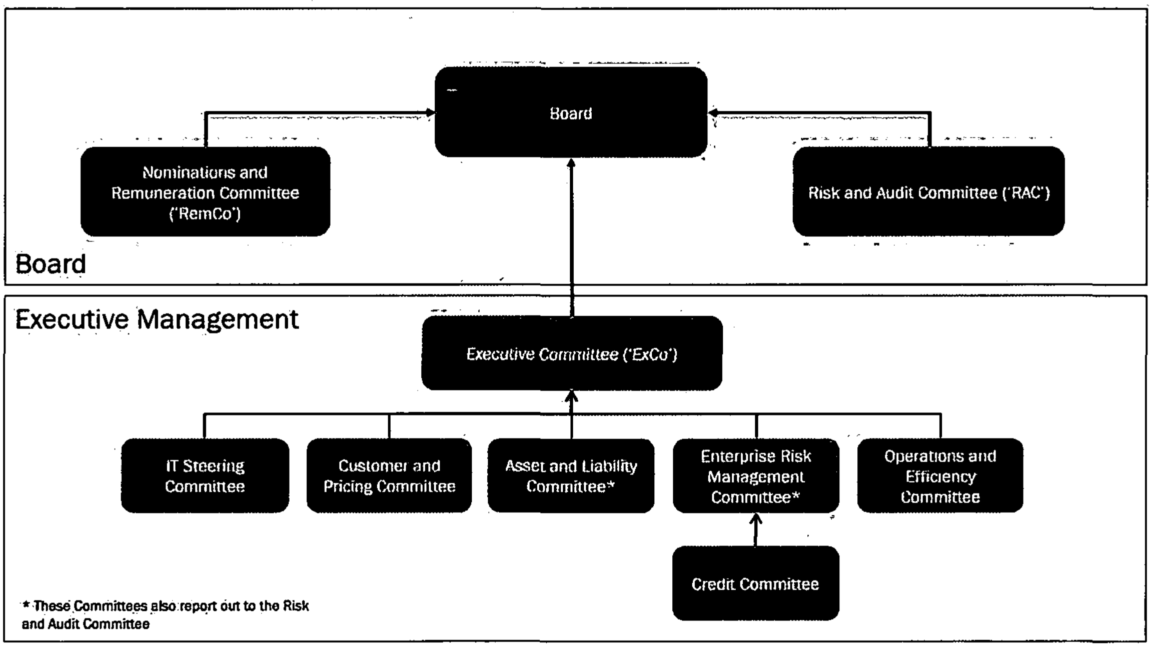
The risk governance structure (see Table 1.1) strengthens risk evaluation and management, while also positioning the Group to manage the changing regulatory environment in an efficient and effective manner. Assisted by the RAC, the Board approves the Group's overall governance, risk and control frameworks and risk appetite. The functional risk committees review and recommend risk appetite and monitor the risk profile and adherence to appetite.

In addition to the formal committee structures, Tandem has clear arrangements in place for the apportionment of accountability in line with the Senior Managers and Certification Regime ('SMCR') and appropriate delegated authority for day-to-day decision making.

Tandem's governance is organised into two primary layers, namely the Board of Directors and the Executive Committee. These structures also support the principles of the Three Lines of Defence model, with appropriate independent reporting lines for the Chief Risk Officer, Money Laundering Reporting Officer, Head of Compliance and Internal Audit (outsourced to BDO LLP).

Tandem maintains Terms of Reference for all Committees which set out the remit and authority of each Committee.

Table 1.1 - Tandem high-level committee governance structure



Board Level Governance

Board

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

Risk and Audit Committee

The RAC is responsible for ensuring the Group'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. RAC is responsible for advising the Board on the Group's Financial Statements including any related policy issues, reviewing the effectiveness of the Group's internal controls and considering management's response to findings and recommendations made in internal and external audit reviews. The Committee is responsible for reviewing and approving the internal audit plan and budget as well as reviewing annually and as necessary approving the terms of engagement put forward by the external auditors for the provision of audit services.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee ('RemCo') 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. RemCo is responsible for determining the policy and the level of remuneration for Independent Non-Executive Directors, Executive Directors and Senior Management, and for reviewing the general remuneration levels for all staff as well as reviewing Board succession planning.

The Board's policy is to set remuneration in order to attract, retain and motivate all staff. The CEO remuneration is set to encourage performance that is linked to the delivery of the Group's strategic objectives and for the benefit of shareholders. The remuneration of the CEO is further set to take into account job content and responsibilities at salary levels for similar positions in comparable financial services organisations. The CEO has a Board approved job description, which is used as a basis for the appraisal of performance carried out each year by the Chairman.

Executive Level Governance

Executive Committee

The Executive Committee ('ExCo') supports the CEO in the implementation of the strategy set by the Board and is responsible for day-to-day decision-making in relation to the management of Tandem. It is the responsibility of ExCo to ensure that the risk profile is assessed and managed within the Board approved strategic and business parameters. The sub committees of ExCo are detailed below.

Asset and Liability Committee

The Asset and Liability Committee ('ALCO') is responsible for ensuring the Balance Sheet of the Group is managed effectively ensuring compliance with capital requirements and overseeing the activities of the Treasury function in relation to the Group's market and liquidity risk management.

Enterprise Risk Management Committee

The Enterprise Risk Management Committee ('ERMC') is responsible for considering the appropriateness of risk management arrangements and practices for ensuring that Tandem stays within its risk appetite across metrics including (but not limited to): credit risk; market risk; liquidity and funding risk; operational risk; technology and cyber risk; conduct risk; and strategic and business model risk.

The ERMC is responsible for preparing ExCo recommendations and ensuring implementation in relation to risk management matters including risk appetite, risk policies and RMF.

Credit Committee

The ERMC is supplemented by the Credit Committee and is responsible for the development and effectiveness of the relevant credit risk management framework, clear description of the Group's credit risk appetite, setting of credit policy, and compliance with regulatory credit requirements. The Committee is responsible for all executive decisions relating to credit matters including approving requests for loans in accordance with delegated lending authorities, reporting on credit quality and regulatory control, and the review and management of credit exposures.

Operations and Efficiency Committee

The Operations and Efficiency Committee ('OEC') is the forum for setting priorities, resolving issues, and ensuring the premises, technology and operations are properly supporting the business needs. In addition, it is the main forum for overseeing project management, change management initiatives and conduct cost reviews on the operational infrastructure.

Information Technology Steering Committee

The Information Technology Steering Committee ('ITSC') provides oversight and governance over Tandem's IT functions, including approvals of information technology related policies, practices and applicable guidelines.

Customer and Pricing Committee

The Customer and Pricing Committee ('CPC') sets strategy and provides oversight over design, launch and management of products including new product approval, periodic product reviews and management of risk across product portfolios.

Tandem Money Limited
Strategic Report (cont.)

Risk Culture

Possessing the right culture is a key component in Tandem's approach to risk. The Group has a streamlined business model led by the ExCo that benefits from extensive knowledge of the sectors the Tandem operates in.

Through ongoing training, we continue to develop a strong risk culture that focuses on risk management at all levels. We have achieved this by empowering our staff to undertake their roles and responsibilities, whilst ensuring they remain fully focused on delivering an optimal experience and good outcomes for our customers. These activities are conducted within a business framework that demands high standards of customer service and transparency. Risk management is further enhanced through an effective performance management process which recognises and rewards appropriate behaviour while managing (and where necessary correcting) the behaviour of our employees.

Future Developments

The future operations of the Group are linked to the performance of the UK economy which will drive demand for personal lending. Given ongoing political and economic uncertainty the Directors will ensure market conditions are monitored and the Group's lending criteria evolves to reflect the underlying risk profile. Alongside this there will be continued focus on utilising the App as the cornerstone of the customer proposition.

On behalf of the Board

Mr F S Knox
Chief Executive Officer

Tandem Money Limited
Directors' Report

Directors' Report for the year ended 31 December 2018

The Directors are pleased to submit their annual report and the audited consolidated Financial Statements of Tandem Money Limited for the year ended 31 December 2018.

Directors

The Directors who served during the year and up to the date of signing the Financial Statements were:

Mr M J Cooper	Chairman
Mr F S Knox	Chief Executive Officer
Mr M L Amato	
Mr M Klimbacher	Appointed 10 January 2018
Mr J J Pritchard	Appointed 10 January 2018
Mr J Zagorovskis	Appointed 10 January 2018
Mrs H L Jackson	Resigned 28 October 2018
Mr J Maltby	Resigned 10 January 2018

In accordance with the Articles of Association, no Director is required to seek re-election.

Directors' Indemnities

The Group has made qualifying third party indemnity provisions for the benefit of its Directors during the year, and these remain in force at the date of this Report.

Directors' Interests

The following Directors in office at 31 December 2018 held an interest in the shares of the Group as at 31 December 2018:

M M L Amato
Mr M J Cooper
Mr F S Knox

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

Dividends

The Directors do not recommend a final dividend (2017: £Nil).

Capital Management

Details of capital management are provided in the Strategic Report on page 4.

Tandem Money Limited
Directors' Report (cont.)

Regulation

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

The Company is registered in England and Wales under registration number 08628614.

Future Developments and Events after the Balance Sheet Sate

Details of future developments are provided in the strategic report on page 2 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 Group's financial risk management objectives and policies are provided in the Strategic Report on page 5.

Going Concern

The Financial Statements are prepared on a going concern basis. When determining the adoption of this approach the Directors have considered a wide range of information relating to present and future conditions, including the current state of the Balance Sheet, future projections, capital resources, access to funding, ability to secure additional investment, available mitigating actions and the medium-term strategy of the business.

As noted in the Strategic Report, 2018 represented a significant year of delivery for Tandem including the successful integration of Harrods Bank Limited, acquisition of Pariti Technologies Limited and rollout of the Group's initial customer proposition (including but not limited to): Tandem App; Cashback and Journey Credit Cards; Tandem branded Savings Products; and Unsecured Personal Loans. Looking ahead into 2019, Tandem expects to continue its upward trajectory in its number of registered users, further development across its product suite and the ongoing utilisation of analytical capabilities to capture the benefits of the Group's unified savings and lending propositions.

As a Group experiencing this growth the medium term strategy is dependent on the ability to secure additional new capital. There is, however, a risk that this additional capital will not be raised and that mitigating actions will not be sufficient to conserve capital and liquidity levels above regulatory minima. This material uncertainty casts significant doubt over the Bank's ability to continue as a going concern. However, the Financial Statements have been prepared on the going concern basis as the Directors have a reasonable expectation that the Groupy will raise the required capital to continue to operate for at least 12 months from the date of approval of the Financial Statements. This is based on:

- Intentions already received from an investor that they will provide additional capital, subject to relevant regulatory approvals;
- Ongoing discussions with potential new investors;
- The ability of the Group to implement mitigating actions to conserve capital and liquidity, if required; and,
- Additional support that could be received from existing shareholders

Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the directors have prepared the Group and parent company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of the profit or loss of the Group and parent company for that period. In preparing the Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and parent company and enable them to ensure that the Financial Statements comply with the Companies Act 2006.

The Directors of the ultimate parent company are responsible for the maintenance and integrity of the of the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Directors' Confirmations

The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group and parent company's position and performance, business model and strategy.

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 auditors in connection with preparing its report, of which the auditors are unaware. Having made enquiries of fellow directors and the Group's auditors, 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.

Tandem Money Limited
Directors' Report (cont.)

Re-appointment of Auditors

In accordance with s487 of the Companies Act 2006, a resolution is to be proposed at Board for reappointment of PricewaterhouseCoopers LLP as auditor of the Group.

On behalf of the Board

Mr F S Knox
Chief Executive Officer

Independent Auditors' Report to the Members of Tandem Money Limited

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion, Tandem Money Limited's group financial statements and parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Consolidated Annual Report and Financial Statements (the "Annual Report"), which comprise: the consolidated and company statements of financial position as at 31 December 2018; the consolidated income statement and statement of other comprehensive income, the consolidated and company statements of cash flows, and the consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern – Group

In forming our opinion on the group financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the group's ability to continue as a going concern. As described in note 1, the group is currently in a growth phase and requires further capital injections within the next 12 months from the date of signing these financial statements, in order to continue in business as a going concern. There is a risk that the directors will not be able to raise the necessary additional capital within the next 12 months.

These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group's ability to continue as a going concern. The group financial statements do not include the adjustments that would result if the group was unable to continue as a going concern.

Material uncertainty related to going concern - Parent company

In forming our opinion on the parent company financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the parent company's ability to continue as a going concern. As described in note 1, the company is currently in a growth phase and requires further capital injections within the next 12 months from the date of signing these financial statements, in order to continue in business as a going concern. There is a risk that the directors will not be able to raise the necessary additional capital within the next 12 months.

These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the parent company's ability to continue as a going concern. The parent company financial statements do not include the adjustments that would result if the parent company was unable to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 16, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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.

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

Use of this report

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

OTHER REQUIRED REPORTING

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Luke Hanson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

30 April 2019

Tandem Money Limited

Consolidated Income Statement and Statement of Other Comprehensive Income for the year ended 31 December 2018

	Note	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Interest receivable	2	**13,982**	-
Interest payable	3	**(6,686)**	(35)
Net Interest Income		7,296	(35)
Fees and commissions receivable		**261**	1
Fees and commissions payable		**(601)**	-
Net gains in derivatives and hedge ineffectiveness	4	**31**	-
Other operating income		**4**	-
Total Income		**6,991**	(34)
Administrative expenses	5	**(27,133)**	(20,600)
Depreciation and amortisation	18	**(3,985)**	(307)
Write-off of tangible and intangible assets	18	**-**	(2,624)
Operating Expenses		**(31,118)**	(23,531)
Provision for bad and doubtful debts	15	**(2,585)**	-
Total Operating Loss on Operating Activities before Tax		**(26,712)**	(23,565)
Tax on loss on ordinary activities	9	**99**	-
Loss for the Financial Year		**(26,613)**	(23,565)
Other Comprehensive Income			
Deferred tax movement on item of other comprehensive expense		**(99)**	
- Fair value gain/(loss) treasury assets		**(10)**	-
- Fair value gain equity shares	16	**566**	-
Loss for the year after Other Comprehensive Income		**(26,156)**	(23,565)

The Notes on pages 28 to 68 form an integral part of these statutory statements.

Tandem Money Limited
Consolidated Statement of Financial Position as at 31 December 2018
Registered Number: 08628614

	Note	2018 £'000	2017 £'000
Assets			
Cash and balances at central banks	11	**102,244**	-
Loans and advances to banks	12	**22,892**	2,515
Debt securities	13	**15,060**	-
Derivatives held for risk management	14	**215**	-
Loans and advances to customers	15	**349,890**	93
Equity shares	16	**886**	-
Intangible assets	18	**10,751**	8,241
Tangible fixed assets	18	**196**	144
Other assets	19	**5,495**	355
Prepayments and accrued income	20	**3,202**	484
		510,831	11,832
Liabilities			
Customer accounts	21	**385,615**	-
Other deposits	22	**50,482**	-
Derivatives held for risk management	14	**15**	-
Other liabilities	23	**2,127**	3,153
Accruals and deferred income	24	**4,366**	1,079
Subordinated liabilities	25	**-**	13,223
		442,605	17,455
Share Capital and Reserves			
Called up share capital	26	**214**	12
Share premium account	26	**141,238**	41,917
Other reserves	28	**3,718**	3,236
Retained reserves		**(76,944)**	(50,788)
Shareholders' funds including non-equity interests		**68,226**	(5,623)
		510,831	11,832

The Notes on pages 28 to 68 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 April 2019 by:

Mr F S Knox
Chief Executive Officer

Tandem Money Limited
Consolidated Statement of Changes in Equity for the year ended 31 December 2018

	Called up Share Capital	Share Premium Account	Available for Sale Reserve	Other Reserves	Profit and Loss Account	Total Equity
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2018	12	41,917	-	3,236	(50,788)	(5,623)
Loss for the year	-	-	-	-	(26,613)	(26,613)
Net income relating to available for sale investments	-	-	457	-	-	457
Total comprehensive income	-	-	457	-	(26,613)	(26,156)
Shares issued, net of expenses	202	99,321	-	-	-	99,523
Share-based payments	-	-	-	482	-	482
As at 31 December 2018	**214**	**141,238**	**457**	**3,718**	**(77,401)**	**68,226**
At 1 January 2017	10	38,079	-	2,437	(27,223)	13,303
Loss for the year	-	-	-	-	(23,565)	(23,565)
Shares issued, net of expenses	2	3,838	-	-	-	3,840
Share-based payments	-	-	-	799	-	799
As at 31 December 2017	**12**	**41,917**	**-**	**3,236**	**(50,788)**	**(5,623)**

The Notes on pages 28 to 68 form an integral part of these statutory statements.

Tandem Money Limited
Consolidated Statement of Cash Flows for the year ended 31 December 2018

	Note	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Cash flows from operating activities			
Loss before tax		**(26,712)**	(23,565)
Non cash items included in loss before taxation		**7,021**	3,753
Change in operating assets and liabilities		**(3,326)**	3,709
Income tax received		**828**	-
Net cash used in operating activities	30	**(22,189)**	(16,103)
Cash flows from investing activities			
Purchase of intangible assets		**(3,984)**	(4,246)
Purchase of tangible assets		**(243)**	(38)
Cash acquired on purchase of subsidiaries		**121,753**	-
Transaction costs on purchase of subsidiaries		**(1,253)**	-
Net cash generated from / (used in) investing activities		**116,273**	(4,284)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**41,760**	3,840
Payments to finance lease creditor		**-**	(4)
(Repayment)/issuance of subordinated liabilities		**(13,223)**	11,800
Net cash generated from financing activities		**28,537**	15,636
Net increase / (decrease) in cash and cash equivalents		**122,621**	(4,751)
Cash and cash equivalents at beginning of year		**2,515**	7,266
Cash and cash equivalents at the end of the year	30	**125,136**	2,515

The Notes on pages 28 to 68 form an integral part of these statutory statements.

Tandem Money Limited
Company Statement of Financial Position as at 31 December 2018
Registered Number: 08628614

	Note	2018 £'000	2017 £'000
Assets			
Loans and advances to banks	12	**560**	2,515
Loans and advances to customers	15	-	93
Investments in subsidiaries	17	**59,346**	-
Intangible assets	18	**8,548**	8,241
Tangible fixed assets	18	**196**	144
Other assets	19	**16,213**	355
Prepayments and accrued income	20	**3,139**	484
		88,002	11,832
Liabilities			
Other liabilities	23	**1,497**	3,153
Accruals and deferred income	24	**4,145**	1,079
Subordinated liabilities	25	-	13,223
		5,642	17,455
Share Capital and Reserves			
Called up share capital	26	**214**	12
Share premium account	26	**141,238**	41,917
Other reserves	28	**3,718**	3,236
Retained reserves		**(62,810)**	(50,788)
Shareholders' funds including non-equity interests		**82,360**	(5,623)
		88,002	11,832

The Company total Comprehensive Income for the year comprises only the loss of £12,022k. No Statement of Comprehensive Income has been shown for the Parent Company, as permitted by section 408 of the Companies Act 2006.

The Notes on pages 28 to 68 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 April 2019 by:

Mr F S Knox
Chief Executive Officer

Tandem Money Limited
Company Statement of Changes in Equity for the year ended 31 December 2018

	Called up Share Capital	Share Premium Account	Other Reserves	Profit and Loss Account	Total Equity
	£'000	£'000	£'000	£'000	£'000
At 1 January 2018	12	41,917	3,236	(50,788)	(5,623)
Loss for the year	-	-	-	(12,022)	(12,022)
Shares issued, net of expenses	202	99,321	-	-	99,523
Share-based payments	-	-	482	-	482
As at 31 December 2018	214	141,238	3,718	(62,810)	82,360
At 1 January 2017	10	38,079	2,437	(27,223)	13,303
Loss for the year	-	-	-	(23,565)	(23,565)
Shares issued, net of expenses	2	3,838	-	-	3,840
Share-based payments	0	-	799	-	799
As at 31 December 2017	12	41,917	3,236	(50,788)	(5,623)

The Notes on pages 28 to 68 form an integral part of these statutory statements

1. Basis of preparation

1.1 General Information and Basis of Accounting

Tandem Money Limited ('the Company') together with its subsidiaries ('the Group') are private companies incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 1.

The Financial Statements have been prepared under the historical cost convention as modified by the revaluation of financial assets at fair value through other comprehensive income and derivative financial instruments at fair value through profit or loss. The Group's Financial Statements have been prepared in accordance with Financial Reporting Standard 102 (FRS 102) as it applies to the Financial Statements of the Group for the year ended 31 December 2018.

The Financial Statements of the Group were approved for issue by the Board of Directors on 29 April 2019. The Financial Statements are prepared in sterling which is the functional currency of the Group and rounded to the nearest thousand.

Accounting policies have been applied consistently throughout the year and the preceding year.

1.2 Basis of Consolidation

The statutory consolidated Financial Statements comprise the Financial Statements of the Group and its subsidiaries as at 31 December 2018. The subsidiaries are listed in Note 17. The Financial Statements of the Group's subsidiaries are prepared for the same reporting period as the parent company using consistent accounting policies.

All intra-Group balances, transactions, income and expenses are eliminated in full.

Subsidiaries are fully consolidated from the date of their acquisition, being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities.

Tandem Bank Limited ('TBL') has been included in the Group Financial Statements using the purchase method of accounting. Accordingly, the Group Income Statement and Statement of Cash Flows include the results and cash flows of Tandem Bank Limited for the period from its acquisition on 10 January 2018. The purchase consideration has been allocated to the assets and liabilities on the basis of fair value at the acquisition date.

The Group Income Statement and Statement of Cash Flows also include the results and cashflows of Pariti Technologies Limited ('Pariti') for the 7 month period from its acquisition on 24 May 2018.

In the parent company Financial Statements investments in subsidiaries are accounted for at cost less impairment.

1.3 Going Concern

As stated in the Directors' Report, the Financial Statements are prepared on a going concern basis. When determining the adoption of this approach the Directors have considered a wide range of information relating to present and future conditions, including the current state of the Balance Sheet, future projections, capital resources, access to funding, ability to secure additional investment, available mitigating actions and the medium-term strategy of the business.

As a Group experiencing growth, the medium term strategy is dependent on the ability to secure additional new capital within the next 12 months. There is, however, a risk that this additional capital will not be raised and that mitigating actions will not be sufficient to conserve capital and liquidity levels above regulatory minima. This material uncertainty casts significant doubt over the Bank's ability to continue as a going concern. However, the Financial Statements have been prepared on the going concern basis as the Directors have a reasonable expectation that they will raise the required capital to continue to operate for at least 12 months from the date of approval of the Financial Statements. This is based on:

- Intentions already received from an investor that they will provide additional capital, subject to relevant regulatory approvals;
- Ongoing discussions with potential new investors;
- The ability of the Group to implement mitigating actions to conserve capital and liquidity, if required; and,
- Additional support that could be received from existing shareholders.

1.4 Significant Accounting Estimates and Judgements

(i) Impairment losses on loans and advances to customers
The allowance for impairment losses on loans and receivables is management's best estimate of losses incurred in the portfolio at the Balance Sheet date. In determining the required level of impairment provisions, the Group uses the output from statistical models. Management judgement is therefore required to assess the robustness of the outputs from these models and where necessary, make appropriate adjustments. The impairment allowances are made up of two components, those determined individually against specific assets and those determined collectively.

- *Individual*

Individual impairment allowances are established against the Group's individually significant financial assets that are deemed by management to be impaired. In particular, the Group's mortgage portfolio is reviewed on a case by case basis to determine whether recovery is doubtful. Judgement is required by management to assess matters such as the financial status of the customer and the realisable value of the security held. The actual amount of the future cash flows and their timing may differ from the assumptions made for the purposes of determining the impairment allowances and consequently there may be adjustments to these allowances over time as the circumstances of the customer become clearer.

1.4 Significant Accounting Estimates and Judgements (cont.)

(i) Impairment losses on loans and advances to customers (cont.)

- *Collective*

All financial assets that are not found to be individually impaired are collectively assessed for impairment. Collective impairment allowances are generally established for the smaller balance homogenous portfolios (i.e. the Group's unsecured retail portfolios). The collective impairment allowance is subject to estimation uncertainty and in particular judgement is required to determine the methodology and assumptions used to calculate the provision, taking into account data from the portfolio such as outcome period and levels of arrears, all of which are sensitive to changes in economic and credit conditions, including the interdependency of unemployment rates, interest rates, borrowers' behaviour and consumer bankruptcy trends. It is however inherently difficult to estimate how changes in one or more of these factors might impact the collective impairment allowance.

In addition, a collective unidentified impairment provision is made for loan losses that have been incurred but have not been separately identified at the balance sheet date. The provision is sensitive to changes in the time between the loss event and the date the impairment is specifically identified (the emergence period). Management use judgement when determining the collective unidentified impairment provision, considering data from the portfolio such as the emergence period and the outcome period all of which are sensitive to changes in economic and credit conditions.

(ii) Share-based compensation
Share options are offered to Directors and colleagues and the employee benefit expense is recognised over the vesting period subject to the vesting conditions being met. Share option plans include both equity settled and cash settled plans. The cost of the employee benefit is measured by reference to the fair value of the options on the date they are granted (for equity settled plans) or the Balance Sheet date (cash settled plans), and the number of options expected to vest.

The fair value of options is determined using valuation models that take into account the terms and conditions attached to the awards. Judgement is applied when determining the inputs to the valuation models which include the grant price and the underlying share price, reflective of adjustments for the characteristics of the underlying shares compared to shares in the Company for which an observable price exists.

(iii) Intangible assets
Intangible assets are identifiable assets controlled by the Group and from which it expects to derive future economic benefits, and which have no physical substance. Judgement is applied when estimating the useful economic life over which to amortise the assets over. The estimated useful life and amortisation method are reviewed at the end of each reporting period

1.5 Financial Instruments Recognition and De-recognition

(i) Recognition
All financial assets and liabilities are initially recognised on the date the Group becomes a party to the contractual provisions of the instrument.

1.5 Financial Instruments Recognition and De-recognition (cont.)

(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 Group transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
c) the Group, 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.

1.6 Financial Assets

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

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Group does not intend to sell immediately or in the near term. 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.

1.7 Financial Liabilities

The Group 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.

1.8 Fair Value Measurement

All financial instruments are initially recognised at fair value on the date of initial recognition and, depending on the classification of the asset or liability, may continue to be held at fair value either through profit and loss or other comprehensive income. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When independent prices are not available or if the market for a financial instrument is not active, fair values are determined by using valuation techniques. These may refer to observable market data, comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. However, some of the inputs to the techniques may be based on unobservable data, e.g. in case of unlisted securities, if there is little or no current market data available, in which case valuation adjustments are done to reflect uncertainties in fair values resulting from lack of market inputs.

1.9 Impairment of Financial Assets

The Group 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. If any such indication exists the Group 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.

1.9 Impairment of Financial Assets (cont.)

(i) Loans and advances (cont.)

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 uses a statistical model which looks at the likelihood of balances moving into arrears status within a defined period, multiplying the probability of default ('PD') by the loss given default ('LGD') and then applying an emergence period. Usually this would be calculated by looking at historical loss experience updated to reflect current economic conditions. As the Group's portfolios of assets are predominantly made up of relatively new loans with limited arrears data, the Group has also 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.

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.

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 Group 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.

1.10 Derivative Financial Instruments

The Group has entered into derivative transactions for the purpose of reducing exposures to fluctuations in interest rates. 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 Group's derivatives are covered by master netting agreements with the Group's counterparties, with any net exposures then being further covered by the payment or receipt of periodic cash margins, the Group has used a risk-free discount rate for the determination of their fair values.

1.10 Derivative Financial Instruments (cont.)

All derivatives are classified as assets where the fair value is positive and liabilities where the fair value is negative. Where cash collateral is given to mitigate the risk inherent in amounts due from the Group, it is included in loans and advances to banks.

1.11 Hedge Accounting

The Group 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. In designating financial instruments as qualifying hedge relationships, the Bank has determined that it expects the hedge to be highly effective over the life of the hedging instrument. This is assessed on an ongoing basis during the period for which the hedge is designated.

Fair value hedge accounting for portfolio hedges of interest rate risk
The Group 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 Group 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 Group 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.

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.

1.12 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.

1.13 Tangible Fixed Assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and any provisions for impairment. Historical cost includes expenditure that is directly attributable to the cost of the assets.

Depreciation is provided on all property, plant and equipment, and calculated using the straight-line method to allocate their cost, net of residual values, over their estimated useful lives, as follows:

- Leasehold improvements - Between 1 and 3 years
- Fixtures and fittings - 3 years
- Office and IT Equipment - 3 years
- Vehicles - 3 years

1.14 Intangible Assets

Intangible assets are identifiable assets controlled by the Group and from which it expects to derive future economic benefits, and which have no physical substance.

Intangible assets that are acquired or built are carried at cost less accumulated amortisation and impairment losses. Amortisation is recognised on a straight-line basis over the assets' estimated useful lives, and recorded within operating expenses in the profit and loss account once the asset is available for use. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The useful life for each class of intangible asset is as follows:

- Third party software licences - Between 1 and 10 years
- Software development costs - Between 2 and 3 years
- Regulatory licences - Between 3 and 10 years

Software development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met.

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

Research and development expenditure that do not meet these criteria above are recognised as expenses as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

1.15 Impairment of Non-Financial Assets

The Group assesses at each reporting date whether there are any indicators of impairment. If any such indication exists the Group estimates the recoverable amount of the asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group 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.

If an impairment loss is subsequently reversed, the carrying amount of the asset (or the asset's cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the profit and loss account.

1.16 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.

1.17 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.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply until the related deferred tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probably that future taxable profit will be available against which the temporary differences can be utilised.

1.18 Pensions

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.

1.19 Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in the Balance Sheet as finance lease liabilities. The interest element of the finance cost is charged to the profit and loss account over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

1.20 Share-based Payments

The Company has entered into share-based arrangements with its employees.

Employees are entitled to receive remuneration in the form of share options under the unapproved share option plan (USOP) and the joint share ownership plan (JSOP).

The USOP includes only an equity settlement element. The cost of the scheme is measured by reference to the fair value of the options on the date they are granted and the number of options expected to vest, and is recognised as an expense from the employment date with a corresponding increase in equity. The total employee benefit expense is recognised over the vesting period over which all the specified vesting conditions are to be satisfied in a stepped-vesting method with eight steps.

The JSOP is treated as cash settled and as such is measured by reference to the fair value of the options on the date they are granted and the number of options expected to vest and is then remeasured at fair value at each subsequent financial reporting date. The employee benefit expense is recognised from the vesting date with a corresponding increase in liabilities over the vesting period over which all the specified vesting conditions are to be satisfied in a stepped-vesting method. The primary vesting condition for the USOP and JSOP is continued employment with the Group over the service period.

Some senior employees are entitled to receive remuneration in the form of shares under the Employee Share Scheme (ESS) to incentivise delivering growth of the Company in the future. The ESS includes an equity settled element and a cash settled element. The cost of the equity-settled element is measured by reference to the fair value of the shares on the date they are granted and recognised as an expense from the employment date with a corresponding increase in equity. The total employee benefit expense is recognised over the vesting period over which all the specified vesting conditions are to be satisfied in a stepped-vesting method with four steps. The primary vesting condition is continued employment with the Company over the service period. The original fair value is not re-measured. The cash settled element is measured at fair value and recorded as a liability with a corresponding increase in employee benefit expense. The fair value is re-measured at each reporting date.

2. Interest Receivable

Group	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Interest receivable on:		
- Loans and advances	13,345	-
- Debt securities	667	-
Net interest payable on interest rate swaps	(30)	-
	13,982	-

3. Interest Payable

Group	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Interest payable on:		
- Customer accounts and similar expense	6,299	1
- Subordinated loan	13	34
- Wholesale deposit	264	-
Net interest payable on deposit interest rate swaps	110	-
	6,686	35

4. Net Gains on Derivatives and Hedge Ineffectiveness

Group	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Net gains on derivatives not in a hedging relationship	52	-
Hedge ineffectiveness	(21)	-
	31	-

Hedge ineffectiveness:		
Gains on hedging instruments	89	-
(Losses) on hedged items	(110)	-
	(21)	-

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5. Operating Expenses

Group	**Year ended 31 December 2018 £'000**	Year ended 31 December 2017 £'000
Staff costs	**9,722**	7,702
Amortisation of intangible assets	**3,756**	212
Impairment of intangible assets	**-**	2,624
Depreciation	**229**	95
Fees payable to the Group's auditors	**210**	60
Other administrative costs	**17,201**	12,838
	31,118	23,531

6. Auditors' Remuneration

Group	**Year ended 31 December 2018 £'000**	Year ended 31 December 2017 £'000
Audit of the Group's annual accounts	**210**	60
Other services	**-**	153
	210	213

The fees payable for the audit of the Group's annual accounts includes £150k in relation to the audit of the Company's subsidiaries (2017: £Nil).

7. Employees

Group	**Year ended 31 December 2018 £'000**	Year ended 31 December 2017 £'000
Wages and salaries	**7,605**	5,990
Social security costs	**1,030**	673
Pension costs	**238**	118
Share-based payments	**849**	921
	9,722	7,702
The average number of employees, including the directors	**130**	73

8. Directors' Remuneration

Total Directors' emoluments	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Remuneration	**549**	816
Compensation for loss of office	-	406
Pension contributions	**10**	4
Share-based payments	**99**	200
	658	1,426
Highest paid Director emoluments:		
Remuneration	**280**	43
Compensation for loss of office	-	406
Pension contributions	**7**	-
Share-based payments	**70**	149
	357	598

9. Taxation

Group	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Loss on ordinary activities before taxation	**(28,415)**	(23,565)
Loss on ordinary activities before taxation multiplied by the standard rate of corporation tax of 19.00% (2017: 19.25%)	**(5,398)**	(4,536)
Expenses not deductible for tax purposes	**162**	2,938
Deferred tax not provided	**5,128**	1,598
Adjustments in respect of previous years	**(2)**	-
Tax rate changes	**11**	-
Current tax credit for the year	**(99)**	-

The standard rate of tax applied to loss on activities is 19% (31 December 2017: 19.25%). 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.

9. Taxation (cont.)

No deferred tax asset has been recognised at 31 December 2018 (31 December 2017: £Nil).

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

	Gross amount £'000	Tax effect £'000
As at 31 December 2018:		
Deductible temporary differences	**1,807**	**307**
Tax losses	**72,217**	**12,277**
As at 31 December 2017:		
Tax losses	42,214	7,176

Research and Development Tax Credit

Included in the Financial Statements are tax credits of £1,703k included within Administrative expenses (2017: £393k) relating to the Research and Development Incentive Claims scheme.

10. Dividends

There is no dividend payable for the period ended 31 December 2018 in respect of the ordinary shares. (31 December 2017: £Nil).

11. Cash and Balances at Central Banks

Group	**2018** **£'000**	2017 £'000
Bank of England Reserve account	**102,244**	-

12. Loans and Advances to Banks

Group	2018 £'000	2017 £'000
Repayable on demand	**15,258**	2,515
Encumbered cash	**7,634**	-
	22,892	2,515

Company	2018 £'000	2017 £'000
Repayable on demand	**560**	2,515

13. Debt Securities

Group	2018 £'000	2017 £'000
European Investment Bank	**15,060**	-

The above debt securities mature between 1 and 5 years. Debt securities held for liquidity purposes are classified as available for sale assets at market value.

14. Derivatives held for Risk Management

Group	2018 £'000	2017 £'000
Assets	**215**	-
Liabilities	**(15)**	-

As part of its risk management strategy, the Group holds interest rate swaps to hedge its interest rate risk arising from fixed rate exposures in its retail loan book funded by variable rate liabilities. The nominal value of the interest rate swaps as at 31 December 2018 is £23.5m. In addition, the Group also holds interest rate swaps to hedge its interest rate risk arising from variable rate exposures in its retail loan book funded by fixed rate liabilities. The nominal value of these interest rate swaps as at 31 December 2018 is £20.0m.

The Group applies fair value hedge accounting for a portfolio hedge of interest rate risk by identifying portfolios with similar repricing characteristics. The portfolios comprise of assets and liabilities. The Group 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 Group designates as the hedged item, an amount of the assets and liabilities from each portfolio that it wishes to hedge.

15. Loans and Advances to Customers

Group	2018 £'000	2017 £'000
Gross loans and advances to customers	**352,677**	93
Impairment	**(2,529)**	-
Fair value adjustment for portfolio hedged risk	**(258)**	-
	349,890	93

Remaining maturity	2018 £'000	2017 £'000
Repayable on demand	**31,095**	93
3 months or less	**177**	-
Between 3 months and 1 year	**17,934**	-
Between 1 year and 5 years	**97,422**	-
Over 5 years	**206,049**	-
	352,677	93

The Company held £Nil loans and advances to customer as at 31 December 2018 (2017: £93k).

15. Loans and Advances to Customers (cont.)

The Group's gross lending exposure before deduction of impairment provisions is analysed below:

	2018	2017
	£'000	£'000
Secured lending	269,827	-
Unsecured lending	82,850	93
	352,677	93
	%	%
Secured lending	77	
Unsecured lending	23	100
	100	100

The Group's reconciliation of impairment losses on loans and advances by class is set out below:

	Secured lending	Unsecured lending	Total
Year ended 31 December 2018	£'000	£'000	£'000
Opening balance	240	-	240
New impairment provisions less releases	210	2,079	2,289
Closing balance	450	2,079	2,529
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	4,534	2,022	6,556

A reconciliation for the Group's bad and doubtful debts per the Income Statement is set out below:

	2018	2017
	£'000	£'000
Provisions raised	(2,289)	-
Write-offs	(296)	-
Provision for bad and doubtful debts per profit and loss account	(2,585)	-

16. Equity Shares

Group	2018 £'000	2017 £'000
Equity shares	**886**	-

Equity shares as at 31 December 2018 consists of 1,189 Series B Convertible Preference shares in Visa Inc. The fair value reflects a discount for the lack of marketability and any litigation risk. There has been an increase in fair value of £566k recognised in other comprehensive income during the year (2017: £Nil).

17. Investment in Subsidiary Undertakings

The parent company has investments in the following subsidiary undertakings:

Tandem Bank Limited ('TBL')	100%
Pariti Technology Services Limited ('Pariti')	100%

The subsidiary undertakings are registered in England and Wales.

At cost	2018 £'000	2017 £'000
Tandem Bank Limited	**59,016**	-
Pariti Technologies Limited	**330**	-
	59,346	-

18. Fixed Assets

Group Intangible fixed assets	Internally Generated Software	Tandem Trademark	Computer Software	Regulatory Licences	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
As at 31 December 2017	8,396	57	-	-	8,453
Additions related to acquisition of subsidiary	-	-	211	-	211
Additions	3,660	-	-	2,395	6,055
As at 31 December 2018	**12,056**	**57**	**211**	**2,395**	**14,719**
Amortisation					
As at 31 December 2017	212	-	-	-	212
Charge	3,353	-	133	270	3,756
As at 31 December 2018	**3,565**	**-**	**133**	**270**	**3,968**
Net Book Value as at 31 December 2018	**8,491**	**57**	**78**	**2,125**	**10,751**
Net Book Value as at 31 December 2017	8,184	57	-	-	8,241

The Group's internally generated software was considered available for use from the beginning of the year.

Company Intangible fixed assets	Internally Generated Software	Tandem Trademark	Total
	£'000	£'000	£'000
Cost			
As at 31 December 2017	8,396	57	8,453
Additions	3,660	-	3,660
As at 31 December 2018	**12,056**	**57**	**12,113**
Amortisation			
As at 31 December 2017	212	-	212
Additions	-	-	-
Charge	3,353	-	3,353
As at 31 December 2018	**3,565**	**-**	**3,565**
Net Book Value as at 31 December 2018	**8,491**	**57**	**8,548**
Net Book Value as at 31 December 2017	8,184	57	8,241

In the prior year the Company fully impaired its restricted banking licence intangible asset, in addition to software licences purchased in 2016. The impairment totalled £2,624k and was recognised in the Income Statement in 2017.

18. Fixed Assets (cont.)

Group Tangible fixed assets	Leasehold Improvements	Office/IT Equipment	Fixtures and Fittings	Vehicles	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
As at 31 December 2017	16	226	43	32	317
Additions related to acquisition of subsidiary	-	27	10	-	37
Additions	65	138	41	-	244
Write-off	-	(27)	(10)	-	(37)
As at 31 December 2018	**81**	**364**	**84**	**32**	**561**
Depreciation					
As at 31 December 2017	16	129	15	13	173
Charge	65	121	37	6	229
Write-off	-	(27)	(10)	-	(37)
As at 31 December 2018	**81**	**223**	**42**	**19**	**365**
Net Book Value as at 31 December 2018	**-**	**141**	**42**	**13**	**196**
Net Book Value as at December 2017	-	97	28	19	144

Company Tangible fixed assets	Leasehold Improvements	Office/IT Equipment	Fixtures and Fittings	Vehicles	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
As at 31 December 2017	16	226	43	32	317
Additions	65	138	41	-	244
As at 31 December 2018	**81**	**364**	**84**	**32**	**561**
Depreciation					
As at 31 December 2017	16	129	15	13	173
Charge	65	94	27	6	192
As at 31 December 2018	**81**	**223**	**42**	**19**	**365**
Net Book Value as at 31 December 2018	**-**	**141**	**42**	**13**	**196**
Net Book Value as at 31 December 2017	-	97	28	19	144

19. Other Assets

Group	2018 £'000	2017 £'000
Credit card settlement balances	3,826	-
Trade receivables	194	39
Refundable deposits	293	316
Tax credit	1,125	-
Sundry debtors	57	-
	5,495	355

Company	2018 £'000	2017 £'000
Trade receivables	33	39
Refundable deposits	292	316
Tax credit	1,125	-
Intercompany	14,706	-
Sundry debtors	57	-
	16,213	355

The intercompany balance is with Tandem Bank Limited. Interest is charged on the balance in accordance with the intercompany deposit agreement at the Bank of England Base Rate less 0.05%.

20. Prepayments and Accrued Income

Group	2018 £'000	2017 £'000
Prepayments	3,139	484
Accrued income	63	-
	3,202	484

Company	2018 £'000	2017 £'000
Prepayments	3,139	484

21. Customer Accounts

Group	2018 £'000	2017 £'000
Customer accounts	385,626	-
Fair value adjustment for portfolio hedged risk	(11)	-
	385,615	-

Repayable:	2018 £'000	2017 £'000
On demand	27,497	-
Within 3 months	81,548	-
Between 3 months and 1 year	164,480	-
Between 1 and 5 years	112,101	-
	385,626	-

22. Other Deposits

Group	2018 £'000	2017 £'000
Bank of England Term Funding Scheme	50,095	-
Investor deposits	387	-
	50,482	-

Repayable:	2018 £'000	2017 £'000
On demand	387	-
Between 1 and 5 years	50,095	-
	50,482	-

23. Other Liabilities

Group	2018 £'000	2017 £'000
Trade creditors	**1,120**	2,406
Other taxes and social security costs	**285**	345
Cash settled share-based payments	**55**	55
Other liabilities	**667**	347
	2,127	3,153

Company	2018 £'000	2017 £'000
Trade creditors	**1,120**	2,406
Other taxes and social security costs	**285**	345
Cash settled share-based payments	**55**	55
Other liabilities	**37**	347
	1,497	3,153

24. Accruals and Deferred Income

Group	2018 £'000	2017 £'000
Accruals	**4,366**	890
Deferred income	**-**	189
	4,366	1,079

Company	2018 £'000	2017 £'000
Accruals	**4,145**	890
Deferred income	**-**	189
	4,145	1,079

25. Subordinated Liabilities

Group and Company	2018 £'000	2017 £'000
As at 1 January	**13,223**	1,400
Issued in the year	**-**	11,823
Repaid	**(13,223)**	-
As at 31 December	**-**	13,223

In 2018 all of the Group's subordinated liabilities were settled. £11.4m was converted to ordinary share capital on 10 January 2018 following the completion of the transaction to acquire Harrods Bank (now Tandem Bank Limited). £1.8m was repaid to the respective counterparty.

26. Called-up Share Capital

Group and Company	2018 £'000	2017 £'000
Called up ordinary share capital, issued and fully paid		
At 1 January	**12**	10
Issued as consideration for subsidiary	**86**	-
Issued for cash	**116**	1
At 31 December	**214**	12
Share premium account		
At beginning of the year	**41,917**	38,079
Issued as consideration for subsidiary	**57,677**	-
Issued for cash	**41,644**	3,838
At end of the year	**141,238**	41,917

As at 31 December 2018, the Company had 107.03m ordinary shares of £0.002 authorised and in issue (2017: 5.76 million).

During the year ended 31 December 2018, the Company issued 101.27m ordinary shares of £0.002 nominal value (2017: 0.72 million). Of the shares issued in the year, 43.43m were issued in consideration for the acquisition of HBL.

27. Commitments and Contingent Liabilities

The Group has no other contingent liabilities as at the end of 2018 (2017: £Nil). During in 2017 the Group retained an agreement for payment of £0.4m to a key supplier contingent on the completion of the acquisition of TBL. This was paid in January 2018 and there are no such agreements in place with any suppliers as at 31 December 2018.

As at the balance sheet date the Group had undrawn credit card balances of £71.7m (2017: £0.8m).

28. Share-based Payments

As at 31 December 2018 3 employee incentive schemes are in operation by the Group: the Joint Share Ownership plan, the Unapproved Share Option Scheme and the Employee Share Scheme. The Joint Share Ownership Plan is a new scheme approved by the Board in 2018. In addition, more options were issued under the existing Unapproved Share Option Scheme during the year.

The expense charged to the profit and loss account for each during 2018 was as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
	£'000	£'000
Joint Share Ownership Plan	**279**	-
Unapproved Share Option Scheme	**640**	958
Employee Share Scheme	**(70)**	(37)
	849	921

28. Share-based Payments (cont.)

Joint Share Ownership Plan (JSOP)

The JSOP is a new employee benefit plan put in place in the year. It involves the acquisition of joint shares whereby JSOP shares have been transferred to an Employee Benefit Trust (EBT) and the participating employees and the EBT jointly have an interest in each share. The participants are required to make a payment up front, the subscription price, for the right to the future growth in the company's value above the predetermined hurdle price. The option can be exercised only in the event of an asset or share sale for a controlling interest in the Company, at which point the participant will receive the value above the hurdle price and the value below the hurdle price will remain in the EBT to distribute at the discretion of the Nomination and Remuneration Committee. 7.38 million options have been issued to employees under the JSOP plan at a fair value as at 31 December 2018 of £0.10 per option. The subscription price per option is £0.06 with a hurdle price of £1.55.

The JSOP has a 5 year vesting schedule with 40% of the award vesting after 2 years and then a further 10% vesting every 6 months thereafter.

The awards and vesting are subject to Nomination and Remuneration Committee review every quarter which considers company and individual performance criteria together with conduct and forfeiture provisions as set out in the Remuneration Code.

The fair value of the option has been calculated as at 31 December 2018 and will be revalued at each reporting period end as this is considered to be a cash settled share based transaction. It has been estimated using a hurdle option valuation model using the following significant inputs:

Hurdle price	£1.55
Subscription price	£0.06
Share price	£1.33

Other inputs included the risk-free rate, length of hold and volatility. These inputs required management judgement to estimate the probability and timings of events taking place in the future.

28. Share-based Payments (cont.)

Unapproved Share Option Scheme (USOP)

The Company has granted options on Ordinary B shares in an unapproved share option scheme (USOP) in 2016, and has made further grants during 2017, and 2018 with eligibility determined by the board. These options are equity settled, the option gives the holder the right to acquire shares at a future date at the exercise price.

The USOP has a 4 year vesting period, in equal 6 month tranches of 12.5%. The vesting period begins on the date of employment with the Company with the exception of the options granted in 2018 where the vesting commencement date is linked with the acquisition date of TBL for certain employees. The options can be exercised only in the event of an asset or share sale for a controlling interest in the Company. The exercise price for all options issued to date is the nominal value of £0.002. Going forward for new employees it will be the prevailing share price at the date of joining the scheme.

The fair value of the option is determined at the point there was shared understanding of the terms and conditions of the award and is not re-measured. It has been estimated using the Black-Scholes valuation model based on the pricing achieved for ordinary shares at the time of issue, adjusted for post vesting transfer restrictions where applicable and using the following significant inputs:

Share price at date of grant (2018 options)	£1.33
Exercise price	£0.002

Other inputs included the risk-free rate, length of hold, volatility, however only the inputs quantified above impact the fair value materially. These inputs required management judgement to estimate the probability and timings of events taking place in the future.

The number and weighted average fair value of options outstanding as at the balance sheet date were as follows:

	2018	**2018 Weighted average fair value of option**	2017	2017 Weighted average exercise price
	No.	**£**	No.	£
Outstanding as at 1 January	**1,044,873**	**2.72**	272,061	10.64
Granted during the year	**651,105**	**1.31**	824,086	0.61
Forfeited during the period	**(80,039)**	**5.38**	(51,274)	10.64
	1,615,939	**2.02**	1,044,873	2.72

The average remaining contractual life of options outstanding as at the balance sheet date was 2 years (2017: 1 year).

28. Share-based Payments (cont.)

Employee Share Scheme (ESS)

From 23 November 2016, the Company closed the ESS to new entrants, following withdrawal by the UK Government of their support for such schemes. On entry into the scheme, ordinary shares were issued to employees following their probation period but the vesting period began from the date of employment with the Company. The fair value was determined at the point there was a shared understanding of the terms and conditions of the award, and is not re-measured. The net credit to the Income Statement in 2018 was £70k (2017: a credit of £37k). The credit in the year is a result of a greater number of leavers from the scheme than expected. Shares continue to vest on a graded vesting profile over four years, with 25% of awards vesting each year.

There are 296k shares granted under the ESS scheme as of 31 December 2018 (2017: 296k).

	Number	Weighted average fair value of share Price £
As at 31 December 2015	**30,663**	**33.00**
Granted in the period prior to 31st of May 2016	14,392	53.00
As at 31 May 2016	**45,055**	**39.39**
New shares issued due to share subdivision	180,220	10.64
As at 31 May 2016	**225,275**	**16.39**
Granted in the period after the 31st of May 2016	70,405	10.64
As at 31 December 2016	**295,680**	**15.02**

29. Operating Leases

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

Group and Company	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Less than 1 year	2,336	638
Between 1 year and 5 years	4,278	206
	6,614	844

30. Notes to the Cash Flow Statement

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

Group	2018 £'000	2017 £'000
Cash and balances at central banks	**102,244**	-
Loans and advances to banks:		
Repayable on demand	**15,258**	2,515
Cash collateral on derivatives placed with banks	**7,634**	-
	125,136	2,515

Company	2018 £'000	2017 £'000
Repayable on demand	**560**	2,515

30. Notes to the Cash Flow Statement (cont.)

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

Group	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Loss before taxation	**(26,712)**	(23,565)
Impairment movement on loans and advances to customers	**2,585**	-
Amortisation of intangible fixed assets	**3,756**	212
Depreciation	**229**	95
Write-off of tangible and intangible assets	-	2,624
Share-based payments	**482**	799
Interest accrued on subordinated debt held at amortised cost	-	23
Fair value adjustments for portfolio hedged assets	**70**	-
Fair value adjustments for portfolio hedged liabilities	**40**	-
Fair value losses on derivatives	**(141)**	-
Non-cash items included in loss before taxation	7,021	3,753
Increase in treasury bills and other eligible bills	**(15,070)**	-
(Increase)/Decrease in loans and advances to customers	**18,387**	(91)
Increase in derivative instruments	**(8)**	-
(Increase) in equity shares	**(3)**	-
(Increase)/Decrease in other assets	**(6,029)**	111
(Increase)/Decrease in prepayments and accrued income	**(2,148)**	1,952
Increase/(Decrease) in customer accounts	**2,285**	(8)
Increase/(Decrease) in other liabilities	**(1,148)**	1,827
Increase/(Decrease) in accruals and deferred income	**408**	(82)
Change in operating assets and liabilities	(3,326)	3,709
Income tax received	**828**	-
Cash used in operating activities	(22,189)	(16,103)

31. Analysis of Financial Instruments by Measurement Basis

The carrying value of the Group's financial instruments are summarised by category below:

	Group		Company	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Financial Assets				
Loans and Receivables				
Cash and balances at central banks	**102,244**	-	-	-
Loans and advances to banks	**22,892**	2,515	**560**	2,515
Loans and advances to customers	**349,890**	93	-	93
Available for Sale Securities				
Debt securities	**15,060**	-	-	-
Equity shares	**886**	-	-	-
Derivatives measured at Fair Value through Profit or Loss				
Derivatives held for risk management	**215**	-	-	-
Total Financial Assets	**491,187**	2,608	**560**	2,608
Non-Financial Assets	**19,644**	9,224	**87,442**	9,224
Total Assets	**510,831**	11,832	**88,002**	11,832
Financial Liabilities				
Derivatives measured at Fair Value through Profit or Loss				
Derivatives held for risk management	**15**	-	-	-
Liabilities at Amortised Cost				
Customer accounts	**385,615**	-	-	-
Other deposits	**50,482**	-	-	-
Other liabilities	**2,127**	3,153	**1,497**	3,153
Accruals	**4,366**	890	**4,145**	890
Subordinated liabilities	-	13,223	-	13,223
Total Financial Liabilities	**442,605**	17,266	**5,642**	17,266
Non-Financial Liabilities	-	189	-	189
Total Liabilities	**442,605**	17,455	**5,642**	17,455

The fair value of loans and receivables approximates book value given the nature of the assets and given the longer term assets are either recently issued or were fair valued as part of the acquisition of TBL in 2018. The fair value of liabilities held at amortised cost approximates fair value given they are either short term, or the interest rates charged are close to market rates at 31 December 2018.

32. Risk Management

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

32.1 Credit Risk

Credit risk is the risk of financial losses to the Group resulting from borrowers or counterparty's failure to repay a debt or meet their contractual obligations.

In line with Tandem's Risk Management Framework, overall responsibility for credit risk rests with the Board of Directors, on whose behalf the Risk and Audit Committee, oversee credit risk profile relative to the Board approved Risk Appetite. Day to day management of credit risk is delegated to Senior Management.

Management manages credit risk through the Risk Management Framework and in line with the Board approved Risk Appetite. Management has set out product level credit policies and oversees credit performance through the Credit Committee and Enterprise Risk Management Committee. The Risk and Pricing Director is responsible for the management of credit risk in the First Line of Defence, with the Chief Risk Officer (CRO) responsible for oversight of credit risk, in the Second Line of Defence.

As at 31 December 2018, the Group has undrawn credit card balances of £71.7m (31 December 2017: £0.8m), however facilities are not irrevocably committed. The maximum exposure to credit risk of other loans and advances to customers, debt securities and other financial assets on the Balance Sheet is the carrying amount.

(i) Impairment assessment

For accounting purposes, the Group uses an incurred loss approach for the recognition of impairment losses on financial assets. This means that losses can only be recognised when objective evidence of a specific loss event has been observed. Evidence of impairment may include: indications that a 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 its secured lending the Group maintains a dynamic approach to credit management with impairment 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 Group to resolve the situation. The Group will 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 Group will take steps to recover the debt using their expertise to determine optimum recovery strategy.

For its unsecured lending and any assets not considered to be individually impaired, the Group assesses allowances collectively for impairment losses. The collective assessment is made for groups of assets with similar risk characteristics and takes into account changes in economic and credit conditions, including unemployment rates, interest rates, house prices, borrowers' behaviour and consumer bankruptcy trends.

32. Risk Management (cont.)

32.1 Credit Risk (cont.)

(ii) Loans and advances to customers

Credit quality analysis:

As at 31 December 2018	Unsecured lending £'000	Secured lending £'000	Total £'000
Total gross impaired loans	2,022	4,534	6,556
Neither past due nor impaired	80,828	265,293	346,121
Total gross amount due	82,850	269,827	352,677

For unsecured lending, everything past due is classified as impaired but not all is expected to be written off. The Group holds a provision for the past due balances based on historic arrears data. For secured lending a provision is only recognised against a specific balance when objective evidence of a specific loss event has been observed.

Aging analysis:

Total gross impaired loans	2018 £'000
Less than 3 months	1,677
Past due 3 to 12 months	4,879
	6,556

The Group holds collateral against loans and advances to customers predominantly in the form of mortgages over residential and commercial real estate. The average Loan to Value (LTV) ratio for the mortgage portfolio which measures the size of advance against the value of collateral held as at the date of the advance to customers is 51.4% as at 31 December 2018.

Loan to value analysis of mortgage portfolio:

	2018 %
< 40%	14.0
40% to 50%	8.0
50% to 60%	22.3
60% to 70%	52.4
70% to 75%	3.3
Total	100.0

32. Risk Management (cont.)

32.1 Credit Risk (cont.)

(iii) Debt securities held for liquidity purposes

As at 31 December 2018 the Group held £15m with the European Investment Fund with a AAA rating. There is no impairment and no collateral is held regarding these assets.

There are no material prior year comparatives as Tandem Bank Limited hold all the balances for Loans and advances to customers which was acquired at the beginning of 2018.

32.2 Liquidity and Capital Risk

Liquidity risk is the risk that the Group 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 Group falls below regulatory minima. The Group 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 Group reports liquidity under the Liquidity Coverage Ratio and has maintained a very strong level above the regulatory minimum, 583% (unaudited) as at 31 December 2018 versus the minimum regulatory requirement of 100%. All liquidity metrics are reported to ALCO on a monthly basis and subsequently cascaded to the Board.

Tandem has set out its Liquidity Risk Appetite ('LRA') as follows:

- The LRA is set at TBL with the requirement that sufficient cash is retained in Tandem Money Limited to meet its expenses.
- Tandem Bank Limited will always hold a sufficient quantity of liquid assets to meet their obligations in normal conditions and, during 2019, for a minimum of 90 days in a stressed environment.
- High Quality Liquid Assets will be maintained to sustain a Liquidity Coverage Ratio adequately above the regulatory limit of 100%.

In addition to the above the Group also measures the following to ensure liquidity remains sufficient:

- Net stable funding ratio is at least 100%;
- Liquid assets will represent at least 15% of total deposits;

The Internal Liquidity Adequacy Assessment Process document ('ILAAP') sets out Tandem's approach to liquidity and funding. ILAAP is the process by which Tandem's Board and Management oversees and regularly assesses its ability to operate within internal liquidity adequacy risk appetite and the Overall Liquidity Adequacy Rule under the BIPRU. It has been prepared in line with internal policies and procedures as well as the regulation on liquidity and funding risk management defined by the PRA rulebook for Capital.

32. Risk Management (cont.)

32.2 Liquidity and Capital Risk (cont.)

In completing the ILAAP, Tandem's management have assessed:

- The adequacy of Tandem's liquidity and funding resources to cover the risks identified;
- The methodologies and assumptions applied for risk measurement and liquidity management;
- The major sources of risk to Tandem's ability to meet their liabilities as they fall due, including a review of the business against the risks outlined in Art 86 of the Capital Requirement Directive and SS24/15;
- The results of the stress testing of these risks; and
- The adequacy and appropriateness of the Tandem liquidity risk management framework and internal governance.

ILAAP provides a written record of the Tandem's approach to liquidity and funding, formally documents the adequacy assessment of the liquid resources in the business, in terms of both amount and quality and profile, and outlines the Group's liquidity risk management framework.

The Liquidity Contingency Plan sets out the roles and responsibilities of key stakeholders under a stressed liquidity event. The plan was submitted as part of the December 2018 ILAAP and is approved at least annually through the Tandem's governance process, specifically, Asset and Liability Committee, Executive Committee, Risk Committee and the Board.

32. Risk Management (cont.)

32.2 Liquidity and Capital Risk (cont.)

Contractual maturity analysis

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

As at 31 December 2018	On demand	< 3 months	3 to 12 months	1 to 5 years £'000	Over 5 years	Undated	Total
Non derivative assets							
Cash and balances at central banks	102,244	-	-	-	-	-	**102,244**
Loans and advances to banks	19,882	-	-	3,010	-	-	**22,892**
Debt securities held for liquidity purposes	-	33	97	15,032	-	-	**15,162**
Loans and advances to customers	29,928	5,037	32,446	149,479	226,367	(2,529)	**440,728**
Equity shares	-	-	-	-	-	886	**886**
	152,054	5,070	32,543	167,521	226,367	(1,643)	**581,912**
Derivative assets							
Fair value hedges							
Outflow	-	(41)	(123)	(221)	-	-	**(385)**
Inflow	-	52	158	287	-	-	**497**
Net derivative cash flows	-	11	35	66	-	-	**112**
	152,054	5,081	32,578	167,587	226,367	(1,643)	**582,024**
Non-derivative liabilities							
Customer accounts	(27,497)	(83,032)	(167,590)	(113,905)	-	-	**(392,024)**
Other deposits	(387)	(94)	(282)	(50,877)	-	-	**(51,640)**
Other liabilities	(2,127)	-	-	-	-	-	**(2,127)**
Accruals	(4,366)	-	-	-	-	-	**(4,366)**
	(34,377)	(83,126)	(167,872)	(164,782)	-	-	**(450,157)**
Derivative Liabilities							
Fair value hedges							
Outflow	-	(95)	-	-	-	-	**(95)**
Inflow	-	44	-	-	-	-	**44**
Net derivative cash flows	-	(51)	-	-	-	-	**(51)**
	(34,377)	(83,177)	(167,872)	(164,782)	-	-	**(450,208)**
	117,677	**(78,096)**	**(135,294)**	**2,805**	**226,367**	**(1,643)**	**131,816**

32. Risk Management (cont.)

32.2 Liquidity and Capital Risk (cont.)

Collateral

The Group 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 2018, the Group has provided collateral of £3,360k against the derivatives.

32.3 Market risk

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

(i) Interest rate risk

Interest rate risk arises from retail assets and liabilities, liquidity holdings and subordinated notes. The Group offers lending and savings products with varying interest rate features and maturities. Where possible the Group seeks to match the interest rate structure of assets and liabilities creating a natural hedge. The Group has also historically entered into derivative transactions, currently cash collateralised interest rate swaps, to manage this risk.

The Group'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 Group's assets and liabilities and on the Group's earnings. The following table demonstrates the sensitivity to a reasonable possible change in interest rates (all other variables being held constant) of the Group's profit or loss and equity.

	Net present value sensitivity	
	Year ended 31 December 2018	Period ended 31 December 2017
Parallel shift in yield curve	**£'000**	£'000
+ 100bps	**(661)**	794
- 100bps	**718**	(770)
+ 50bps	**(338)**	626
- 50bps	**352**	(643)

28. Share-based Payments (cont.)

Employee Share Scheme (ESS)

From 23 November 2016, the Company closed the ESS to new entrants, following withdrawal by the UK Government of their support for such schemes. On entry into the scheme, ordinary shares were issued to employees following their probation period but the vesting period began from the date of employment with the Company. The fair value was determined at the point there was a shared understanding of the terms and conditions of the award, and is not re-measured. The net credit to the Income Statement in 2018 was £70k (2017: a credit of £37k). The credit in the year is a result of a greater number of leavers from the scheme than expected. Shares continue to vest on a graded vesting profile over four years, with 25% of awards vesting each year.

There are 296k shares granted under the ESS scheme as of 31 December 2018 (2017: 296k).

	Number	Weighted average fair value of share Price £
As at 31 December 2015	**30,663**	**33.00**
Granted in the period prior to 31st of May 2016	14,392	53.00
As at 31 May 2016	**45,055**	**39.39**
New shares issued due to share subdivision	180,220	10.64
As at 31 May 2016	**225,275**	**16.39**
Granted in the period after the 31st of May 2016	70,405	10.64
As at 31 December 2016	**295,680**	**15.02**

29. Operating Leases

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

Group and Company	**Year ended 31 December 2018 £'000**	Year ended 31 December 2017 £'000
Less than 1 year	2,336	638
Between 1 year and 5 years	4,278	206
	6,614	844

30. Notes to the Cash Flow Statement

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

Group	**2018 £'000**	2017 £'000
Cash and balances at central banks	**102,244**	-
Loans and advances to banks:		
Repayable on demand	**15,258**	2,515
Cash collateral on derivatives placed with banks	**7,634**	-
	125,136	2,515

Company	**2018 £'000**	2017 £'000
Repayable on demand	**560**	2,515

30. Notes to the Cash Flow Statement (cont.)

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

Group	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Loss before taxation	**(26,712)**	(23,565)
Impairment movement on loans and advances to customers	**2,585**	-
Amortisation of intangible fixed assets	**3,756**	212
Depreciation	**229**	95
Write-off of tangible and intangible assets	**-**	2,624
Share-based payments	**482**	799
Interest accrued on subordinated debt held at amortised cost	**-**	23
Fair value adjustments for portfolio hedged assets	**70**	-
Fair value adjustments for portfolio hedged liabilities	**40**	-
Fair value losses on derivatives	**(141)**	-
Non-cash items included in loss before taxation	**7,021**	3,753
Increase in treasury bills and other eligible bills	**(15,070)**	-
(Increase)/Decrease in loans and advances to customers	**18,387**	(91)
Increase in derivative instruments	**(8)**	-
(Increase) in equity shares	**(3)**	-
(Increase)/Decrease in other assets	**(6,029)**	111
(Increase)/Decrease in prepayments and accrued income	**(2,148)**	1,952
Increase/(Decrease) in customer accounts	**2,285**	(8)
Increase/(Decrease) in other liabilities	**(1,148)**	1,827
Increase/(Decrease) in accruals and deferred income	**408**	(82)
Change in operating assets and liabilities	**(3,326)**	3,709
Income tax received	**828**	-
Cash used in operating activities	**(22,189)**	(16,103)

31. Analysis of Financial Instruments by Measurement Basis

The carrying value of the Group's financial instruments are summarised by category below:

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Financial Assets				
Loans and Receivables				
Cash and balances at central banks	102,244	-	-	-
Loans and advances to banks	22,892	2,515	560	2,515
Loans and advances to customers	349,890	93	-	93
Available for Sale Securities				
Debt securities	15,060	-	-	-
Equity shares	886	-	-	-
Derivatives measured at Fair Value through Profit or Loss				
Derivatives held for risk management	215	-	-	-
Total Financial Assets	491,187	2,608	560	2,608
Non-Financial Assets	19,644	9,224	87,442	9,224
Total Assets	510,831	11,832	88,002	11,832
Financial Liabilities				
Derivatives measured at Fair Value through Profit or Loss				
Derivatives held for risk management	15	-	-	-
Liabilities at Amortised Cost				
Customer accounts	385,615	-	-	-
Other deposits	50,482	-	-	-
Other liabilities	2,127	3,153	1,497	3,153
Accruals	4,366	890	4,145	890
Subordinated liabilities	-	13,223	-	13,223
Total Financial Liabilities	442,605	17,266	5,642	17,266
Non-Financial Liabilities	-	189	-	189
Total Liabilities	442,605	17,455	5,642	17,455

The fair value of loans and receivables approximates book value given the nature of the assets and given the longer term assets are either recently issued or were fair valued as part of the acquisition of TBL in 2018. The fair value of liabilities held at amortised cost approximates fair value given they are either short term, or the interest rates charged are close to market rates at 31 December 2018.

32. Risk Management

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

32.1 Credit Risk

Credit risk is the risk of financial losses to the Group resulting from borrowers or counterparty's failure to repay a debt or meet their contractual obligations.

In line with Tandem's Risk Management Framework, overall responsibility for credit risk rests with the Board of Directors, on whose behalf the Risk and Audit Committee, oversee credit risk profile relative to the Board approved Risk Appetite. Day to day management of credit risk is delegated to Senior Management.

Management manages credit risk through the Risk Management Framework and in line with the Board approved Risk Appetite. Management has set out product level credit policies and oversees credit performance through the Credit Committee and Enterprise Risk Management Committee. The Risk and Pricing Director is responsible for the management of credit risk in the First Line of Defence, with the Chief Risk Officer (CRO) responsible for oversight of credit risk, in the Second Line of Defence.

As at 31 December 2018, the Group has undrawn credit card balances of £71.7m (31 December 2017: £0.8m), however facilities are not irrevocably committed. The maximum exposure to credit risk of other loans and advances to customers, debt securities and other financial assets on the Balance Sheet is the carrying amount.

(i) Impairment assessment

For accounting purposes, the Group uses an incurred loss approach for the recognition of impairment losses on financial assets. This means that losses can only be recognised when objective evidence of a specific loss event has been observed. Evidence of impairment may include: indications that a 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 its secured lending the Group maintains a dynamic approach to credit management with impairment 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 Group to resolve the situation. The Group will 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 Group will take steps to recover the debt using their expertise to determine optimum recovery strategy.

For its unsecured lending and any assets not considered to be individually impaired, the Group assesses allowances collectively for impairment losses. The collective assessment is made for groups of assets with similar risk characteristics and takes into account changes in economic and credit conditions, including unemployment rates, interest rates, house prices, borrowers' behaviour and consumer bankruptcy trends.

32. Risk Management (cont.)

32.1 Credit Risk (cont.)

(ii) Loans and advances to customers

Credit quality analysis:

As at 31 December 2018	Unsecured lending £'000	Secured lending £'000	Total £'000
Total gross impaired loans	2,022	4,534	6,556
Neither past due nor impaired	80,828	265,293	346,121
Total gross amount due	82,850	269,827	352,677

For unsecured lending, everything past due is classified as impaired but not all is expected to be written off. The Group holds a provision for the past due balances based on historic arrears data. For secured lending a provision is only recognised against a specific balance when objective evidence of a specific loss event has been observed.

Aging analysis:

Total gross impaired loans	2018 £'000
Less than 3 months	1,677
Past due 3 to 12 months	4,879
	6,556

The Group holds collateral against loans and advances to customers predominantly in the form of mortgages over residential and commercial real estate. The average Loan to Value (LTV) ratio for the mortgage portfolio which measures the size of advance against the value of collateral held as at the date of the advance to customers is 51.4% as at 31 December 2018.

Loan to value analysis of mortgage portfolio:

	2018 %
< 40%	14.0
40% to 50%	8.0
50% to 60%	22.3
60% to 70%	52.4
70% to 75%	3.3
Total	100.0

32. Risk Management (cont.)

32.1 Credit Risk (cont.)

(iii) Debt securities held for liquidity purposes

As at 31 December 2018 the Group held £15m with the European Investment Fund with a AAA rating. There is no impairment and no collateral is held regarding these assets.

There are no material prior year comparatives as Tandem Bank Limited hold all the balances for Loans and advances to customers which was acquired at the beginning of 2018.

32.2 Liquidity and Capital Risk

Liquidity risk is the risk that the Group 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 Group falls below regulatory minima. The Group 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 Group reports liquidity under the Liquidity Coverage Ratio and has maintained a very strong level above the regulatory minimum, 583% (unaudited) as at 31 December 2018 versus the minimum regulatory requirement of 100%. All liquidity metrics are reported to ALCO on a monthly basis and subsequently cascaded to the Board.

Tandem has set out its Liquidity Risk Appetite ('LRA') as follows:

- The LRA is set at TBL with the requirement that sufficient cash is retained in Tandem Money Limited to meet its expenses.
- Tandem Bank Limited will always hold a sufficient quantity of liquid assets to meet their obligations in normal conditions and, during 2019, for a minimum of 90 days in a stressed environment.
- High Quality Liquid Assets will be maintained to sustain a Liquidity Coverage Ratio adequately above the regulatory limit of 100%.

In addition to the above the Group also measures the following to ensure liquidity remains sufficient:

- Net stable funding ratio is at least 100%;
- Liquid assets will represent at least 15% of total deposits;

The Internal Liquidity Adequacy Assessment Process document ('ILAAP') sets out Tandem's approach to liquidity and funding. ILAAP is the process by which Tandem's Board and Management oversees and regularly assesses its ability to operate within internal liquidity adequacy risk appetite and the Overall Liquidity Adequacy Rule under the BIPRU. It has been prepared in line with internal policies and procedures as well as the regulation on liquidity and funding risk management defined by the PRA rulebook for Capital.

32. Risk Management (cont.)

32.2 Liquidity and Capital Risk (cont.)

In completing the ILAAP, Tandem's management have assessed:

- The adequacy of Tandem's liquidity and funding resources to cover the risks identified;
- The methodologies and assumptions applied for risk measurement and liquidity management;
- The major sources of risk to Tandem's ability to meet their liabilities as they fall due, including a review of the business against the risks outlined in Art 86 of the Capital Requirement Directive and SS24/15;
- The results of the stress testing of these risks; and
- The adequacy and appropriateness of the Tandem liquidity risk management framework and internal governance.

ILAAP provides a written record of the Tandem's approach to liquidity and funding, formally documents the adequacy assessment of the liquid resources in the business, in terms of both amount and quality and profile, and outlines the Group's liquidity risk management framework.

The Liquidity Contingency Plan sets out the roles and responsibilities of key stakeholders under a stressed liquidity event. The plan was submitted as part of the December 2018 ILAAP and is approved at least annually through the Tandem's governance process, specifically, Asset and Liability Committee, Executive Committee, Risk Committee and the Board.

32. Risk Management (cont.)

32.2 Liquidity and Capital Risk (cont.)

Contractual maturity analysis

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

As at 31 December 2018	On demand	< 3 months	3 to 12 months	1 to 5 years £'000	Over 5 years	Undated	Total
Non derivative assets							
Cash and balances at central banks	102,244	-	-	-	-	-	**102,244**
Loans and advances to banks	19,882	-	-	3,010	-	-	**22,892**
Debt securities held for liquidity purposes	-	33	97	15,032	-	-	**15,162**
Loans and advances to customers	29,928	5,037	32,446	149,479	226,367	(2,529)	**440,728**
Equity shares	-	-	-	-	-	886	**886**
	152,054	5,070	32,543	167,521	226,367	(1,643)	**581,912**
Derivative assets							
Fair value hedges							
Outflow	-	(41)	(123)	(221)	-	-	**(385)**
Inflow	-	52	158	287	-	-	**497**
Net derivative cash flows	-	11	35	66	-	-	**112**
	152,054	5,081	32,578	167,587	226,367	(1,643)	**582,024**
Non-derivative liabilities							
Customer accounts	(27,497)	(83,032)	(167,590)	(113,905)	-	-	**(392,024)**
Other deposits	(387)	(94)	(282)	(50,877)	-	-	**(51,640)**
Other liabilities	(2,127)	-	-	-	-	-	**(2,127)**
Accruals	(4,366)	-	-	-	-	-	**(4,366)**
	(34,377)	(83,126)	(167,872)	(164,782)	-	-	**(450,157)**
Derivative Liabilities							
Fair value hedges							
Outflow	-	(95)	-	-	-	-	**(95)**
Inflow	-	44	-	-	-	-	**44**
Net derivative cash flows	-	(51)	-	-	-	-	**(51)**
	(34,377)	(83,177)	(167,872)	(164,782)	-	-	**(450,208)**
	117,677	**(78,096)**	**(135,294)**	**2,805**	**226,367**	**(1,643)**	**131,816**

32. Risk Management (cont.)

32.2 Liquidity and Capital Risk (cont.)

Collateral

The Group 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 2018, the Group has provided collateral of £3,360k against the derivatives.

32.3 Market risk

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

(i) Interest rate risk

Interest rate risk arises from retail assets and liabilities, liquidity holdings and subordinated notes. The Group offers lending and savings products with varying interest rate features and maturities. Where possible the Group seeks to match the interest rate structure of assets and liabilities creating a natural hedge. The Group has also historically entered into derivative transactions, currently cash collateralised interest rate swaps, to manage this risk.

The Group'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 Group's assets and liabilities and on the Group's earnings. The following table demonstrates the sensitivity to a reasonable possible change in interest rates (all other variables being held constant) of the Group's profit or loss and equity.

	Net present value sensitivity	
	Year ended 31 December 2018	Period ended 31 December 2017
Parallel shift in yield curve	**£'000**	£'000
+ 100bps	**(661)**	794
- 100bps	**718**	(770)
+ 50bps	**(338)**	626
- 50bps	**352**	(643)

32. Risk Management (cont.)

32.4 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 Group 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.

33. Capital Management

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

The Group 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 Group. The Group has shown that it has complied with all externally imposed capital requirements for 2018.

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

	2018	2017
	£'000	£'000
Tier 1 Capital		
Ordinary share capital	**141,452**	41,929
Other reserves	**3,718**	3,236
Retained reserves	**(76,944)**	(50,788)
Intangible assets	**(10,751)**	(8,241)
	57,475	(13,864)
Tier 2 Capital	**-**	13,223
	57,475	(641)

Capital as at 31 December 2017 did not include the reserves of TBL.

34. Financial Instruments held at Fair Value

The Group 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; or

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 Group 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 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Group	**£'000**	**£'000**	**£'000**	**£'000**
Financial assets				
Debt securities	**15,060**	**-**	**-**	**15,060**
Derivatives held for risk management	**-**	**215**	**-**	**215**
Equity share	**-**	**-**	**886**	**886**
	15,060	**215**	**886**	**16,161**
Financial liabilities				
Derivatives held for risk management	**-**	**15**	**-**	**15**
	-	**15**	**-**	**15**

There is no prior year comparative table as the Company had no subsidiaries as at 31 December 2017 and has no assets held on the Statement of Financial Position at fair value.

35. Acquisition of Subsidiaries

Acquisition of Tandem Bank Limited (formerly Harrods Bank Limited)

On 10 January 2018 Tandem Money Limited acquired the whole share capital and voting rights of Tandem Bank Limited (formerly Harrods Bank Limited) for a consideration of £59,016k. The consideration comprised of £57,763k in equity instruments and £1,253k acquisition costs.

	Book value at acquisition £'000	Fair value adjustment £'000	Fair value at acquisition £'000
Cash and balances at central banks	107,863	-	107,863
Loans and advances to banks	13,889	-	13,889
Loans and advances to customers	368,943	1,889	370,832
Intangible assets	210	2,072	2,282
Other assets	1,132	-	1,132
Customer accounts and other deposits	(433,772)	-	(433,772)
Accruals and other liabilities	(3,164)	-	(3,164)
	55,101	3,961	59,062
Consideration			59,016
Net assets acquired			(59,062)
Negative goodwill			(45)

On acquisition of Tandem Bank Limited an intangible asset separate from goodwill has been recognised for the banking licence acquired as part of the transaction. Mortgage assets acquired were adjusted to market value. Fair value adjustments against other balances were not considered material and no adjustments were made for these items.

The negative goodwill of £45k has been fully written off to the income statement in 2018.

Acquisition of Pariti Technologies Limited

On 24 May 2018 Tandem Money Limited acquired the whole share capital of Pariti Technologies for a consideration of £330k. The book value of the assets of Pariti Technologies Limited at that date was £6k. The remainder of the purchase price has been allocated to intangible assets and a fair value adjustment of £324k has been made to intangible assets in the consolidated accounts. There is no goodwill or negative goodwill resulting from the acquisition.

Recognised in the Income Statement for 2018 is a loss of £12,022k relating to subsidiaries acquired during the year.

36. Related Party and Controlling Party

On 10 January 2018 Qatar Holding LLC ('QHC') acquired a 78% holding in Tandem Money Limited as part of the transaction to acquire Tandem Bank Limited (formerly Harrods Bank Limited). Under the terms of the shareholder agreement, including the restriction on QHC's voting rights to 49.99%, the Directors consider that no single shareholder acting on their own had control of the Group. As at 31 December 2018 QHC had a 60.15% holding in Tandem Money Limited.

Transactions with key management personnel

Key management personnel are defined as permanent members of the Executive Committee, including any Directors for whom amounts have been separately disclosed in Note 8 of the accounts.

	2018	2017
Key management personnel	**£000's**	£000's
Salaries and remuneration	**1,892**	3,004
Social security contributions	**262**	399
Share-based payments	**493**	1,130
	2,647	4,533

During the year key management personnel made investments in the Company of £190k (2017: £Nil), and no payments for services were received in equity in lieu of cash (2017: £25k).

Included in customer accounts as at 31 December 2018 is a balance of £5.5k (31 December 2017: £Nil) deposited by members of key management personnel and their direct relations.

37. Events Subsequent to the Reporting Date

The Group monitors events after the Balance Sheet date. There have been no material events after the Balance Sheet date to report.