

Tandem Money Limited

Consolidated Annual Report and Financial Statements
for the year ended 31 December 2021

Registered Number 08628614



tandem

Contents

| | |
|---|----|
| Group Information | 1 |
| Strategic Report for the year ended 31 December 2021 | 2 |
| Directors' Report for the year ended 31 December 2021 | 32 |
| Independent Auditors' Report to the Members of Tandem Money Limited | 37 |
| Consolidated Income Statement and Statement of Other Comprehensive Income for the year ended 31 December 2021 | 41 |
| Consolidated Statement of Financial Position as at 31 December 2021 | 42 |
| Consolidated Statement of Changes in Equity for the year ended 31 December 2021 | 43 |
| Consolidated Statement of Cash Flows for the year ended 31 December 2021 | 44 |
| Company Statement of Financial Position as at 31 December 2021 | 45 |
| Company Statement of Changes in Equity for the year ended 31 December 2021 | 46 |
| Notes to the Financial Statements for the year ended 31 December 2021 | 47 |

Tandem Money Limited

Group Information

| | | |
|--|--|--|
| General Information: Tandem Money Limited is incorporated in England and Wales. Registered Number: 08628614. | | |
| Directors | Paul Pester | Independent Non-Executive Director and Chair Designate |
| | Susannah Alier | Chief Executive Officer |
| | David Fisher | Senior Independent Director |
| | Matthew Donaldson | Independent Non-Executive Director |
| | Talita Ferreira | Independent Non-Executive Director |
| | Margaret Hassall | Independent Non-Executive Director |
| | David Torpey | Independent Non-Executive Director |
| | Matthew Potter | Shareholder Non-Executive Director |
| | James Scott | Shareholder Non-Executive Director |
| | Alexander Mollart | Deputy Chief Executive Officer |
| | Anthony Murphy | Chief Financial Officer |
| Company Secretary | Kathryn Firth | |
| Registered Office | Hogarth House 136 High Holborn London WC1V 6PX | |
| Independent Auditors | PricewaterhouseCoopers LLP 7 More London Riverside London SE1 2RT | |
| Bankers | Barclays Bank plc NatWest Bank plc | |

Tandem Money Limited

Strategic Report for the year ended 31 December 2021

The Directors present their Strategic Report and audited consolidated Financial Statements of Tandem Money Limited ('the Group' or 'Tandem') for the year ended 31 December 2021. The Group accounts incorporate the results of Tandem Money Limited ('TML' or 'the Company') and its subsidiaries. See Note 18 for a list of subsidiaries. The registered office for each entity is Hogarth House, 136 High Holborn, London, WC1V 6PX.

The Strategic Report may include forward-looking statements, which are based on assumptions, expectations, valuations, targets, estimates, forecasts and projections about future events. These forward-looking statements are subject to risks, uncertainties and assumptions about the Group and the environment in which it operates, including, among other things, the development of its business and strategy, trends across its industry, changes to customer behaviours and macro-economic factors, changes to law and / or the policies and practices of the Bank of England, the Prudential Regulatory Authority ('PRA'), the Financial Conduct Authority ('FCA') and / or other regulatory and governmental bodies, inflation, interest rates and changes in the liquidity, capital, funding and / or asset position of the Group.

These statements are made by the Directors in good faith based on the information available up to the time of their approval of this report and such statements should be considered with caution due to the inherent uncertainties underlying any forward-looking information.

Principal Activities and Business Model

Tandem is a digital Bank with a strategy of combining easy to access deposit products with a suite of lending products together with an App that helps customers manage their savings.

Following the acquisition of Allium Lending Group ('ALG') in August 2020, Tandem's retail proposition now includes mortgages (being a high net worth secured proposition the Group has operated since 2014) and savings alongside a range of lending products that support customers investing in their homes to become more energy efficient and environmentally friendly (via home insulation and energy efficient heating systems), whilst proactively running off legacy unsecured consumer lending portfolios including credit cards. Thereafter, in December 2020 Tandem acquired the Bank & Client ('B&C') mortgage portfolio and further complimented its revenue generating origination capabilities by entering into a forward flow relationship with Oplo Holdings Limited (thus acquiring a beneficial interest in secured 2nd charge mortgages). These products are primarily funded by fixed term deposits and a growing instant access savings account.

Business Review

2021 represented a pivotal year in the Group's development with the primary focus to accelerate the transition to a profitable business model via both organic and inorganic activities.

As such, across the year Tandem completed a number of tangible steps to support its future sustainability, including (but not limited to):

- Migrating to a new core banking platform delivering enhanced functionality and operational resilience;

Tandem Money Limited

Strategic Report for the year ended 31 December 2021

(continued)

Business Review (continued)

- Capturing material cost reductions (in part aided by re-platforming and non-core product exits) as the Group pivoted towards a clearly defined strategy with a focus on reaching profitability and scalability;
- Proactively running off 'non-core' unsecured portfolios, with these legacy portfolios representing 1% (2020: 9%) of loans and advances to customers; and
- Materially enhancing its risk management capabilities and corporate governance framework

The Group reported a reduction in its pre-tax operating loss to £19.6m (2020: £30.6m). Total income increased to £14.7m (2020: £11.2m) reflecting the acquisition of ALG and growth in core assets, albeit offset by the reducing contribution from the run-off of the unsecured loan portfolios.

The transition to higher quality loans in the shape of residential mortgages and customers improving their residential property resulted in a reduction in provisions and losses to £1.7m (2020: £6.6m). In parallel, cost reduction activities resulted in lower operating expenses compared to the previous year at £31.0m (2020: £35.2m).

As at 31 December 2021 the Group had £437.0m of loans and advances to customers (2020: £394.8m), with the increase largely attributable to growth in loans originated via ALG. Customer deposits were £771.2m (2020: £495.0m) as the Group grew its deposit base to support both organic lending activities and a planned acquisition, which at year end was subject to regulatory approval.

Total assets stood at £869.4m (2020: £616.4m), with the increase driven by growth in cash and balances at central banks due to the uplift in the deposit base.

Given the dynamic macro-economic environment, the Group continued to place considerable importance on maintaining a robust liquidity profile. The Liquidity Coverage Ratio stood at 641% (2020: 762%) and Loans to Deposits Ratio at 56.7% (2020: 79.8%) as at 31 December 2021.

- ✓ The Group had a reduction in its CET 1 ratio to 14.2% (2020: 20.5%) ahead of a significant capital raise completed in January 2022 as part of a planned acquisition. Further information related to the acquisition is provided within the Future Developments section.

External Environment

2021 was characterised by the continuation, and evolution, of the COVID-19 pandemic, alongside associated economic uncertainties with colleague well-being, being an overarching principle for the Group. Ensuring compliance with government guidance has been a key priority with Tandem maintaining a flexible, hybrid working model, recognising that there are as many colleagues nervous of travelling to work as there are those who feel better being in the office.

At the same time the banking sector continued to experience a deep transformation driven by two main forces of change, namely technology and the transition to a low carbon economy, with each bringing both challenges and opportunities for Tandem.

Tandem Money Limited

Strategic Report for the year ended 31 December 2021

(continued)

External Environment (continued)

Macro-economic Environment

In 2021, the UK economy continued its recovery from the impact of COVID-19 and lockdown restrictions, with Gross Domestic Product ('GDP') nearing pre-pandemic levels towards the end of the year. The employment market continued to remain robust, with furlough proving to be an effective tool which helped the labour market emerge in a position of strength.

UK GDP grew by over 7% in 2021, albeit not yet recovering from the pandemic-driven 9% reduction experienced in 2020. 'Lockdown' measures at the start of 2021 were largely removed by mid-year, although household spending returned slower than expected to pre-pandemic levels. The emergence of the Omicron variant in November resulted in changes to restrictions in England with further measures introduced on household mixing across the UK.

Against this backdrop, inflationary pressure began to build with the Consumer Prices Index ('CPI') ending the year significantly above the Bank of England's 2% target and at its highest point in three decades. Disrupted global supply chains have struggled to match consumers' high demand for goods as spend has been diverted; energy prices have jumped sharply due to supply disruptions, whilst the labour force size has reduced given early retirements, sickness and the return of European Union ('EU') citizens to their home countries post-Brexit.

The unparalleled depth of recession and associated speed of the recovery, alongside government support, resulted in unusual trends emerging in our core markets. Restricted spending opportunities, with incomes supported by furlough, saw household deposits increasing by a further 7.4% (after a 9.9% rise in 2020). The recovery in consumer credit began only in the second half of the year, with overall balances falling a further 1% (after a 9.5% reduction in 2020). However, the strength of deposits and declining consumer credit payments provided a platform to support house purchases, aided in part by the temporary stamp duty holiday and buyer's preference for space. As a result, house prices increased strongly, rising by approximately 10% in 2021 (after a rise of 5% in 2020).

Looking ahead the economy will be impacted by the future interest rate path, unemployment and inflation, with the latter impacted by considerable increases incorporated in the Office of Gas and Electricity Markets ('OFGEM') price cap in October 2022 (which could result in inflation rising above 10%). Weakness in real incomes is anticipated to impact spending and, with softer activity, firms may reassess their workforce plans (and subsequently unemployment may begin to increase in Q4 2022). Supply constraints are anticipated to ease through reduced bottlenecks in global markets and some recovery in UK workforce participation. With further monetary policy tightening (following interest rate rises at 5 consecutive Bank of England reviews since December 2021) and a modest widening in credit spreads, demand would be expected to slow and fall well short of the recovery in supply. Over the medium term inflation is projected to be slightly above the 2% target by 2024, before falling below the Monetary Policy Committee's ('MPC') 2% target by 2025.

As you would expect there are uncertainties with any medium term projections. The economy has been, and is continuing to be, affected by a series of major shocks (namely: BREXIT; pandemic; and increasing energy prices) alongside longer-term effects linked to an aging population. Thus, the outlook will depend on how these shocks evolve as well as the associated responses from households, businesses and financial markets.

The Board continues to monitor the macro-economic environment, including the impact of cost of living challenges on our customers and potential impacts on the Group's future profitability. The Directors are confident that even in the event of an extreme downturn, management actions can be taken which could include reducing origination volumes to ensure we operate within our regulatory requirements at all times. We continue to monitor the business mix between secured and unsecured lending, as well as our credit scoring and affordability scorecards.

Tandem Money Limited

Strategic Report for the year ended 31 December 2021

(continued)

External Environment (continued)

Other

Regulatory Change

We operate in a highly regulated market which continues to evolve. Key areas of regulatory focus include (but are not limited to): delivering good customer outcomes, in particular the FCA's current proposals for a Consumer Duty; operational resilience; financial crime; capital and liquidity management; UK's future regulatory framework following its exit from the EU; climate change; and improving diversity, equity and inclusion in financial services.

As such, we constantly monitor regulatory changes and proactively interact with our Supervisory teams at both the FCA and PRA. We implement new regulatory requirements where applicable and use our frequent engagement meetings to discuss key regulatory priorities.

Evolving Competitor Landscape

The UK has a highly competitive financial services market due to a proactive regulatory environment, a shift to digital services, and a thriving Fintech sector that is developing innovative business models on new technology.

Digital-only providers have continued to see growth in customer numbers with the largest neo-banks scaled to compete with established banks, aided by strong digital functionality and high levels of customer satisfaction. Despite this, financial sustainability remains largely unproven with those that have started to achieve profitability beginning to emulate more traditional banking models.

Nevertheless, digital-only providers continue to disaggregate vertically integrated business models by targeting profitable market components with innovative propositions. In addition, large international peers have, and will continue to, enter the UK market through new digital-only brands.

By way of response, traditional UK bank competitors have refocused on core business areas and improved their digital offerings. More diversified peers have delivered higher revenues during the pandemic compared to those with a weighting towards net interest income, although an improving rate outlook is anticipated to support these business models. These firms have also continued to accelerate restructuring exercises to offset revenue headwinds, including the ongoing reduction in branch numbers.

Climate Change

Climate change represents an inherent risk, not only from its impact on the economy and customers, but also through its potential effects on asset values, operational costs and business models as the essential transition to a net-zero economy accelerates. These risks are subject to increasing regulatory, political and societal change. Conversely, the requirement to reduce carbon emissions also means the sector has a role to play in the provision of financing.

The financial risks relating to climate change are becoming increasingly integrated into governance and risk management processes. Climate Change Risk was approved as a principal risk by the Risk Committee and Board in Q1 2022. An initial analysis has considered the inherent impacts of physical and transition risks across all of the principal risk types, while recognising that climate risk represents a new principal risk (through its transversal impact on strategy, business model, data and credit risk).

Tandem Money Limited

Strategic Report for the year ended 31 December 2021

(continued)

External Environment (continued)

Pace of Digital Adoption

The pace of digital adoption amongst customers continues to increase and a physical presence is no longer a prerequisite for customer growth. New business models based around ecosystems and networks represent new sources of scale, enabled by a supportive regulatory environment and next-gen technology.

Banks have continued to reduce branch networks in 2021, adapting to changing customer usage and have made significant investment in technology to respond to new competition and satisfy increasing customer expectations. Investment in data capability remains important, using insights to gain a better customer understanding and deliver more personalised customer interactions. For banks with significant data assets, this represents a possible competitive benefit, as well as an integral responsibility in safeguarding data against cyber threats.

Beyond this, the sector is increasing investment in new technologies that have the potential to transform customer offerings and deliver a step-change in efficiency, from the migration and simplification of legacy systems to the creation of cloud-based architecture. While many initiatives are still in their infancy and pose significant challenges in execution, successful adoption has the potential to deliver highly innovative customer propositions with a drastically reduced time to market, as well as a highly scalable, resilient and agile technology architecture at a materially lower cost. Given this backdrop the Group will ensure the necessary digital capabilities are at the forefront of both its future customer propositions and operational activities to support its anticipated growth.

Cyber Threats

Cyberattacks pose a risk, both in regards to firms' own digital estates and indirectly through third parties that support their activities. Cybercrime continues to evolve rapidly. Attacks may be from individuals or highly organised criminal groups intent on accessing funds or sensitive data, or in certain circumstances holding firms to ransom.

By way of response the Group, in line with the broader sector, will continue to invest in the development and evolution of cybersecurity controls, whilst in parallel working to protect and educate both customers and employees respectively.

Operational Resilience

To provide continuity of service for customers with minimal disruption, we continue to monitor and assess a diverse and evolving array of threats, both external (such as cyber threats) and internal, as well as developing, strengthening and adapting existing control capabilities to be able to absorb and adapt to such disruptions.

Tandem Money Limited

Strategic Report for the year ended 31 December 2021

(continued)

Future Developments

During the course of 2021, the Directors considered routes to accelerate the journey to a sustainable business model which involved consideration of potential acquisition targets. Oplo Holdings Limited, a Pollen Street Capital ('PSC') portfolio company, was identified as the preferred target and a regulatory Change in Control ('CiC') process was initiated around the middle of 2021 which ultimately culminated in the successful acquisition of Oplo in January 2022.

Transaction Rationale

Tandem standalone operated as a digital bank with a strong operating infrastructure and a retail deposit franchise. The Bank's asset origination capabilities were relatively limited, encompassing the high net worth mortgage proposition and home improvement lending proposition, with the latter following the acquisition of ALG. As such, the route to a sustainable business model with scale and robust profitability was uncertain. Oplo was a profitable consumer lender with its path to further growth constrained by a relatively high cost, wholesale funding base.

From an overarching perspective, the Directors considered that the acquisition of Oplo would deliver the following:

- **Immediate transition to operating profit and a sustainable business model** - the acquisition of Oplo, alongside the additional capital injected into the Group, delivers an enlarged, self-sustainable business on Day 1, removing any existential need to raise additional capital;
- **Reduced execution risk** - Tandem's Board approved business plan prior to the Oplo acquisition envisaged the development of an in-house 2nd charge mortgage proposition, as well as an ongoing reliance on 3rd party forward flow originations and further inorganic activities. As such, the transaction eliminated certain risks associated with building such capabilities and completing other commercial agreements;
- **Diversification** - the enlarged Group delivers a balanced portfolio across: mortgages (both 1st and 2nd charge); personal loans; car finance; and home improvement loans, thus representing significant diversification compared to the pre-existing business;
- **Scale** - one of the largest risks facing challenger / neo bank's is the lack of scale to underpin and support the investment necessary to maintain a regulated entity (across components such as risk, compliance, people and systems). The immediate transition to operating profit and accelerated route to 'scale' will permit the required and ongoing investment in the Group; and
- **People, Platform and Origination capabilities** - similar to the ALG transaction, the Oplo acquisition sees the Group inheriting the necessary capabilities to underpin its future growth aspirations

Overview of Due Diligence and Valuation Processes

The Board fully evaluated the opportunities and risks associated with the proposed Oplo acquisition, including assessment of other alternatives open to the Bank. This included conducting extensive due diligence, aided by the engagement of specialist third-parties, as follows:

- Valuation advice on the value of both Tandem and Oplo with reference to various factors including market evidence, forward business plans and alternative valuation methodologies;
- Operational due diligence across all material aspects of the Oplo activities;
- File reviews with specific focus on credit and conduct risks; and
- Legal due diligence

Tandem Money Limited

Strategic Report for the year ended 31 December 2021

(continued)

Future Developments (continued)

The Board considered the valuation of both businesses and concluded the transaction was in the best interests of all Tandem stakeholders and that the price paid was fair.

Preparation for the acquisition of Oplo

During the second half of 2021, whilst the regulatory approval remained pending, Tandem mobilised various workstreams in preparation for the transaction. This included an assessment of the Target Operating Model, and preparations for the integration of both businesses. Updates on the approach to the integration were considered by the Board, noting a fundamental principle being a Day 1 ability to govern, risk manage and operate the enlarged business in line with Board agreed risk appetite, and regulatory report for the combined entity. The integration planning coincided with the delivery of ongoing enhancements to the Group's governance framework including its approach to strategic change.

Further, the Bank raised the funding required to support the acquisition. This resulted in Tandem holding significant surplus liquidity for a period of time pending regulatory approval. The Board was kept updated on the quantum, mix and risk profile of this additional funding.

As at the date of this Annual Report, the integration programme is running to plan, with achievements to date including a smooth 'go-live', transition to operating profit and detailed prioritisation of the approach to technology transformation. During the course of 2022, the integration programme is planned to deliver a rationalised legal entity structure, all colleagues transferred to a single employing entity, enhanced operational efficiency and a transition to a single customer facing brand, namely Tandem.

Forward Strategy

Tandem's mission is to provide ***fairer and greener financial choices for the home, the car and everyday living.***

The forward strategy will be underpinned by the following:

A complementary consumer lending platform - the strategy is underpinned by leveraging the extended asset origination capability to offer a suite of products across secured assets (1st and 2nd charge mortgages), complimented by an unsecured Point-of-Sale ('POS') business that lends to prime homeowners seeking to improve their homes, personal loans and car finance. All core lending functions are performed in-house, thus eliminating dependencies on 3rd party origination. This strategy will see the Group focus on selected areas of the market where it can tailor its products to deliver sustainable risk-adjusted returns across its lending divisions.

An established digital savings business - the lending activities will be funded by a range of simple yet compelling savings products delivered through Tandem's established deposit franchise. During the course of 2022, the deposit capability will be enhanced via selective extensions to the Group's product and distribution capabilities, with these developments essential given the competitive nature of the savings market and importance to fund future growth.

Tandem Money Limited

Strategic Report for the year ended 31 December 2021

(continued)

Future Developments (continued)

A profitable digital Bank with significant scale - the Business Plan assumes ambitious but controlled scaling of the Balance Sheet. This will take place in the context of a strong risk appetite framework, including forward-looking capital and funding plans. The risk team has been strengthened with a new Chief Risk Officer ('CRO') (designate subject to regulatory approval) having joined the Group in April 2022 and ongoing focus in ensuring a robust Three Lines of Defence operating model. Focus will be on all levers of profitability, including driving efficiency and scalability across the operating model.

Tandem will continue to invest in its technology platform, recognising the ongoing pace of change and the potential for our technology to deliver a superior customer journey, support the delivery of operating efficiencies and to enhance Shareholder value. There is a clear hypothesis around the forward technology roadmap and a focus on prioritisation and delivery of required change.

A purpose led Bank focused on a fairer and greener future - Tandem will differentiate itself based upon its fairer and greener credentials. This will build on the Group's established capability, for example, the Bank has more than £250m of green lending, representing approximately a quarter of its Balance Sheet, which has already contributed to some 12,000 tonnes in CO2 reduction in 2021 alone. It is recognised that the journey to achieve the Government's net zero targets will involve a concerted effort by the public sectors, corporations and individuals. Our credentials are further enhanced by Oplo's focus on supporting consumers among the UK's 26 million of new mainstream borrowers, helping over 20,000 customers improve their credit scores in recent years.

Tandem will support its customers by offering greener and fairer choices. This will encompass our Tandem Impact Strategy which during 2022 will include building out fairer and greener features across our proposition, review and enhancement (where necessary) of measurement / evidence points and building out our technology capabilities to provide a superior customer journey. As part of this activity, we will also enhance our climate risk management capability recognising regulatory, investor and wider stakeholder expectations.

Building a strong and cohesive 'In Tandem' culture - every business is only as strong as its people. Our forward strategy involves extensive focus on our people with the ambition of attracting and retaining the best talent and being recognised as an employer of choice. Our aim is to offer a competitive reward proposition, extensive opportunities for personal and professional development and significant opportunities for all of our colleagues to make a difference both inside and outside the business. This will build on the combined Group's existing community initiatives including a growing tree planting programme as well as supporting the provision of financial education and awareness for young people.

We will continue to reinforce and embed our Tandem values - Together, Proactive, Fair and Enterprising. This will be linked to a performance management and reward framework which recognises that, in a high-performance culture, 'the How' behaviours are as important as delivery of 'the What'.

In summary, this is a really exciting and pivotal moment for Tandem – by combining with Oplo we are creating a Bank totally focused on helping our customers make fairer and greener financial choices. The two businesses are a great fit, bringing together a complementary range of lending and savings products, with a shared common purpose to make a difference for our customers, colleagues and the planet. There is a lot to do, but also a lot to build on with a flexible digital platform, new enlarged scale and strong operating profitability; Tandem is fantastically well-positioned to become one of the UK's leading digital Banks, a Bank which is and will make a difference.

Tandem Money Limited

Strategic Report for the year ended 31 December 2021

(continued)

Key Performance Indicators ('KPIs')

The overall progress of the Group against its targets is tracked at Board meetings. During the second half of 2021, a Balanced Scorecard was introduced in order to ensure progress across financial, risk and control, customer and people objectives. In addition to specific risks, individual strategic elements are monitored and examined monthly by the Executive Committee ('ExCo') and various Executive Sub-committees both by reference to KPIs and examining the Group's risk exposures. Performance during the year, compared with prior year, is summarised below:

| KPI | 2021 | 2020 | Definition, method of calculation and analysis |
|-----------------------------------|-----------------|----------|--|
| Total income | £14,733k | £11,178k | Interest income from customers, investment assets and fees, less interest payable to account holders and other commission expenses 32% increase as a result of full year benefit following ALG (August 2020) and B&C portfolio acquisitions (December 2020) |
| Loss before tax | £19,586k | £30,638k | 36% decrease in loss before tax as a result of core asset growth, cost management activities and improved asset quality |
| Net interest margin ('NIM') | 3.49% | 4.02% | Net interest income / average gross receivables, with the NIM reflecting a high percentage of secured receivables 53bps decrease in NIM year-on-year due to unsecured lending portfolio run-off and transition to mortgages and Allium lending (which are lower yielding) |
| Cost of risk ('CoR') | 0.41% | 2.19% | Average of the loan loss provision as a percentage of the total lending portfolio 178bps reduction in CoR as the Group managed the run-off of 'non-core' lending portfolios |
| Loan to value ('LTV') (Mortgages) | 50.0% | 56.0% | Represents the total mortgage portfolio as a percentage of the total appraised value of the underlying properties 600bps reduction reflecting the improved credit quality of the portfolio |
| CET 1 ratio | 14.2% | 20.5% | Measurement of a core equity capital compared with total risk-weighted assets 630bps reduction ahead of a significant capital raise in January 2022 as part of the Oplo acquisition (which saw the ratio rise to c.20%) |
| Loans to deposits ratio | 56.7% | 79.8% | Measurement of loans issued to customer deposits 2,310bps reduction as the Group positioned its liquidity requirements for the Oplo acquisition |

Tandem Money Limited

Strategic Report for the year ended 31 December 2021

(continued)

Capital Management

Tandem's approach to capital management is driven by strategic and organisational requirements, while also taking into account the regulatory environment in which it operates.

The Group's principal objectives when managing capital are to:

- address the expectation of the shareholders and optimise business activities to ensure return on capital targets are achieved through efficient capital management;
- ensure that the Group holds sufficient capital to cater for unexpected losses that may arise, to protect depositors and thereby support the sustainability of the Group through business cycles; and
- comply with capital supervisory requirements and related regulations

The PRA supervises the Group and receives information on the capital adequacy and sets the Group's capital requirements.

The aim of the capital adequacy regime is to promote safety and soundness in the financial system. The Group completes an annual self-assessment of risks known as the Internal Capital Adequacy Assessment Process ('ICAAP'). The ICAAP is reviewed by the PRA which culminates in the regulator setting a Total Capital Requirement on the level of capital the Group is required to hold. Tandem publishes a set of disclosures which allow market participants to assess information on that firm's capital, risk exposures and risk assessment process. These disclosures (known as Pillar 3 disclosures) can be viewed on Tandem's website (<https://www.tandem.co.uk>).

The Group maintains an adequate capital base with the aim of supporting the development of the business and to ensure it meets the Total Capital Requirement at all times. As a result, Tandem maintains capital adequacy ratios above minimum regulatory requirements. The Group's individual regulated entities complied with all of the externally imposed capital requirements to which they are subject for the year ended 2021.

Refer to Note 35 Capital Management for further details of the Group's Pillar 1 Risk Weighted Assets ('RWAs') and CET 1 ratio.

Tandem Money Limited

Strategic Report for the year ended 31 December 2021

(continued)

Risk Management

The Tandem Board, as the governing body of TML and its underlying entities, is responsible for ensuring that effective systems and controls are in place to manage risks and for exercising oversight to ensure that these are effective over time. The Board delegates authority for day-to-day risk management to the Senior Management, and by extension the first line business, and exercises oversight of these arrangements through appropriate systems of governance, MI and reporting. This is achieved through the Risk Management Framework ('RMF'), which establishes a Three Lines of Defence Model, ensuring responsibility for risk management in the First Line, responsibility for oversight, check and challenge in the second line, with assurance provided by the third line.

The Group regards effective risk management as a key element of 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 RMF 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 the various Executive Management and Board Committees.

Risk Management Framework

The RMF provides the framework for the management of risk by the business to ensure that risk exposure does not exceed Risk Appetite.

The RMF sets out how Tandem identifies, assesses, monitors and manages its risks. It is designed to protect Tandem from losses and to prevent detriment to its customers and other stakeholders and to meet all regulatory requirements. It is designed to ensure the Group follows a consistent approach to risk management and reporting, with clear ownership, so that all risks are understood and managed.

The framework is periodically reviewed, updated and approved by the Board to reflect any changes to the business and external regulations, law, corporate governance and industry best practice. This helps the Group to ensure it continues to meet its responsibilities to its customers, shareholders and regulators.

At a senior level, Management is supported in its decision-making by a committee-based governance structure. Consistent with the Senior Managers Regime, the concept of individual accountability for risk management is embedded in the RMF and Tandem's 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.

The Board has established a Risk Committee comprising Independent Non-Executive Directors ('INEDs') who keep the design and performance of the Group's RMF under regular scrutiny. The role of the Risk Committee is to support the Board in the oversight of Risk Management systems and controls and the monitoring of Tandem's Risk Profile relative to the Board-approved Risk Appetite.

Tandem Money Limited

Strategic Report for the year ended 31 December 2021

(continued)

Principal Risks and Uncertainties

The Group, in the execution of its strategy, is exposed to risks, some of which have been described in Note 34 of these Financial Statements.

The Directors are satisfied that effective systems and controls are in place to manage risks and for exercising oversight to ensure that these are effective over time. The Group has implemented and enhanced its RMF which includes a clear articulation of Risk Appetite and underlying triggers and limit framework. This is implemented through the principle of Three Lines of Defence Model.

The RMF ensures the ongoing identification, assessment, management and reporting of all material risks facing the Group, and specifically those that could impact its business model, future performance, financial position, liquidity, capital, conduct and compliance with regulatory and / or legal requirements.

Principal Risks represent the overarching risks that the Group faces which could materially impact the achievement of its strategic objectives. These risks, and their definitions are provided below:

| Risk | Definition | Key Mitigation Actions |
|-------------|--|--|
| Credit Risk | Risk of financial losses to the Group resulting from borrowers or counterparty's failure to repay a debt or meet their contractual obligations | <ul style="list-style-type: none"> • Credit policy, incorporating prudent lending criteria, aligned with Board approved risk appetite • Effective credit risk sanctioning processes with independent monitoring and risk management • Monthly monitoring and review to identify movements in key credit risk metrics for the early identification of any adverse trends to facilitate remediation activities where appropriate (including ongoing implications related to high-inflation environment and macroeconomic uncertainty) • Stress testing of credit portfolios • Effective arrears and collection teams, aiding comprehensive underwriting and credit sanctioning procedures • Limitation of concentration risk by size of total loan exposure to a borrower, specific sector, product type and / or geographic location • Obtaining suitable and sufficient security for loans where relevant |

Tandem Money Limited
Strategic Report for the year ended 31 December 2021
(continued)

| Risk | Definition | Key Mitigation Actions |
|--------------------------|--|--|
| Capital Risk | Risk that Tandem's capital resources are inadequate in relation to its assets, current liabilities and regulatory expectations, bearing no or limited capacity to absorb unexpected losses | <ul style="list-style-type: none"> • Comprehensive assessment of capital requirements through the ICAAP • Close monitoring of capital resources and leverage ratios to ensure the Group maintains adequate levels of capital on both a current and forecast basis to support delivery of the Regulatory Business Plan (RBP), while ensuring compliance with regulatory minimums at all times • Comprehensive stress testing analysis to evidence sufficient levels of capital adequacy and availability of management actions under various adverse scenarios • Undertaking daily monitoring against several market and Group-specific Early Warning Indicators ('EWIs') and regular stress tests including those on emerging or ill-defined issues (such as the impact of COVID-19) |
| Liquidity & Funding Risk | Risk that the Group is unable to meet its obligations as they are expected to fall due or can do so only at exceptional cost | <ul style="list-style-type: none"> • 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 • Dedicated Treasury team implementing robust liquidity management and monitoring, planning and reporting capabilities • Undertaking daily monitoring against several market and Group-specific EWIs and regular stress tests • Maintaining a Liquidity Contingency Plan detailing management actions and strategies available in stressed conditions |

Tandem Money Limited
Strategic Report for the year ended 31 December 2021
(continued)

| Risk | Definition | Key Mitigation Actions |
|------------------|--|---|
| Market Risk | Risk of losses arising from adverse movements in market prices | <ul style="list-style-type: none"> • Interest Rate Risk Management Policy, which sets the standards for management of Interest Rate Risk by Treasury • Ongoing monitoring of interest rate movements and their impact on the Balance Sheet • Stress testing Interest Rate Risk exposures • Hedging of Interest Rate Risk exposures to ensure these remain within Risk Appetite |
| Operational Risk | Risk of losses or impact on customers, reputation or resilience, resulting from inadequate or failed procedures, systems and controls, including those resulting from disruption or damage to technology, poor implementation of software or cyber / data breaches | <ul style="list-style-type: none"> • Implementation and embedding of Operational RMF, utilising the principal of identify, assess, monitor and report • Maintaining a Risk Register, Control Library and associated processes (including Risk and Control Self Assessments) • Identifying control failures through Incident Management and thorough investigation and rectification of control failures through root cause analysis • IT controls, ensuring resilience and appropriate management of the operational IT environment • Information security policies supported by a governance structure and risk framework that underpins the identification, control and mitigation of cyber risks • Establishing resilient contingency mechanisms such as back-up, redundancy and disaster recovery |

Tandem Money Limited
Strategic Report for the year ended 31 December 2021
(continued)

| Risk | Definition | Key Mitigation Actions |
|--------------------------------|---|--|
| Conduct Risk | Risk of detriment to customers, markets or Tandem due to inappropriate or negligent misconduct | <ul style="list-style-type: none"> • Implementation and embedding of the • Risk Framework, with a focus on Customer Outcomes • Robust policies, systems and controls relating to areas of heightened risk to customers, including (but not limited to): introduction of new products; financial promotions; affordability; vulnerability; and remuneration • Monitoring and reporting on culture, conduct and Customer Outcomes • Regular, mandatory employee training and awareness programmes • Learning from past mistakes through root cause analysis |
| Strategy & Business Model Risk | Risk that the business strategy is unachievable, due to errors in underlying assumptions, changes in the external environment and / or inadequate financial resources | <ul style="list-style-type: none"> • Board approved Strategy and Business Plan, embedded through appropriate Operational Plans and management communication and monitored via KPIs, reporting and management information ('MI') • Ongoing monitoring from Senior Management and Board to ensure performance is in line Board approved business plan, with corrective action taken if necessary • Stress Testing and Sensitivity Analysis on Business Plans • Analysis of Competitive Environment as a key input to business planning assumptions • Monitoring of Competitive Environment to identify threats to delivery of the Business Plan • Assessment of the risks that Tandem is exposed via its partners and introduced business, including the development of an Introducer Conduct and Risk Policy, minimum standards for the onboarding, management and exit of brokers and retailers from Tandem's panel of introducers |

Tandem Money Limited

Strategic Report for the year ended 31 December 2021

(continued)

Key Risk Themes

Within the Principal Risks set out above, Management and the Board additionally focused on a number of key themes through 2021, with a view to ensuring a strong and robust but also proportionate framework for the business as it grows, and responsive to the external environment.

| Risk | Rationale | Key Mitigation Actions |
|------------------------|---|---|
| Operational Resilience | The Board has focused significant time on ensuring a robust and proportionate capability is in place to safeguard the resilience of the firm as it grows, taking note of the incoming regulatory requirements on Operational Resilience to ensure compliance in line with implementation timeframes | <ul style="list-style-type: none"> • Design of an Operational Resilience Framework to align with incoming regulatory rules and guidelines • Continued strengthening of core resilience through enhancements to: technological architecture; reporting and MI; testing; and contingency planning |
| Cyber Risk | <p>As the Cyber Risk landscape continues to evolve, the Group must remain vigilant to ensure its capabilities remain fit-for-purpose as the business grows and as the external environment changes</p> <p>Through 2021, the Board has prioritised the review of Cyber Risk Management capabilities, and future development and investment plans, to ensure robust controls are in place on both a current and ongoing basis</p> | <ul style="list-style-type: none"> • Cyber Security Internal Audit Review • Management review of Group-wide Cyber capabilities • Continued execution of 2020--21 Cyber Risk enhancement plan • Development of 2021--22 Cyber Strategy and committed investment in resource and capability |

Tandem Money Limited
Strategic Report for the year ended 31 December 2021
(continued)

| Risk | Rationale | Key Mitigation Actions |
|--|--|--|
| Regulatory & Legal Risk | The impact of changing legislation, regulation, policies, voluntary codes of practice and their interpretation in the markets in which Tandem operates has the potential for significant impact on the Group's operations, business prospects, structure, costs, capital requirements and ability to enforce contractual obligations | <ul style="list-style-type: none"> • The Board has maintained its focus on these horizon risks both in terms of the changing landscape and changes to Tandem's business within the regulatory / legal context • Continued investment in people, processes, training and IT to assess the impact and help meet our legal and regulatory commitments • Appropriate policies / processes in place to maintain regulatory compliance • Engage proactively with regulatory authorities and relevant industry bodies |
| Environmental, Social and Governance ('ESG') | <p>Climate risk is a key emerging risk for the Group, impacting our customers, our investors and our business in making the required transition towards a low carbon economy</p> <p>ESG risks include climate risk, as well as risks relating to Tandem's social impact</p> | <ul style="list-style-type: none"> • As an emerging risk the Board has taken steps to incorporate Climate Risk into Tandem's existing Enterprise Risk Management Framework • Development of an ESG policy and embedding of ESG / Climate objectives within Management Balanced Scorecards • Assessment of Tandem's carbon footprint and climate impact |
| COVID-19 | Given the ongoing risk posed by COVID-19 through 2021, the Board has maintained its focus on the potential impacts of the pandemic including (but not limited to): impacts on credit performance; customer outcomes and vulnerability; operational resilience and strategy / business model risks | <ul style="list-style-type: none"> • Regular monitoring of adverse indicators of credit performance • Customer focused initiatives to ensure awareness of forbearance options and proactive approaches to limit impact on potentially vulnerable customers • Ongoing review of 'Work from Home' / hybrid working arrangements to ensure continued operational efficiency and resilience • Regular review of budgets / forecasts to assess / address potential adverse impacts on business volumes |

Tandem Money Limited
Strategic Report for the year ended 31 December 2021
(continued)

| Risk | Rationale | Key Mitigation Actions |
|-------------------|--|---|
| Reputational Risk | <p>The reputation of the Group as a 'purpose-led' business, in particular as it relates to the 'Greener and Fairer' strategy, relies upon a clear alignment to these objectives throughout the business</p> <p>The Board takes these commitments seriously and is similarly conscious of the risk of an event that adversely impacts the Group's reputation, leading to lost revenue or destruction of value</p> | <ul style="list-style-type: none"> • Robust values framework and conduct framework with a clear internal brand • Alignment of strategic objectives and priorities with key brand messages • Internal communications plan to ensure strategic alignment • Public relations strategy and brand management • Monitoring media reporting |
| Integration Risks | <p>The integration of ALG and Oplo into the broader Group could lead to heightened Operational and Regulatory Risks for the period until Integration is successfully completed</p> | <ul style="list-style-type: none"> • Structured Integration Programme ensuring all integration requirements are identified, prioritised and delivered, ensuring risks are minimised and Board oversight and regulatory compliance are maintained across the Group • Regular reporting to the Board on progress and risks relating to the Integration Programme • Enhanced Operational MI to allow early identification of any degradation of operational processes |

Tandem Money Limited

Strategic Report for the year ended 31 December 2021

(continued)

Risk Culture

Maintaining the right culture is a key component in Tandem's approach to risk management, and the promotion of good conduct and positive customer outcomes. The Board is committed to the principle of 'Tone from the Top' in support of a positive Risk Culture, where appropriate decision-making and behaviours are modelled by the Board of Directors, the ExCo and Senior Management and thereby sets the standard for Risk Culture across the organisation. This approach is further supported by Tandem's Conduct Framework, which sets out the key components that support the establishment and maintenance of a positive Risk Culture. These include (but are not limited to):

- Competence and capability, including training;
- Fitness and propriety;
- Performance management (which focuses on behaviours as well as delivery);
- Wellbeing and psychological safety;
- Incentives and remuneration;
- Management of Conflicts of Interest;
- Whistleblowing;
- Individual empowerment and accountability; and
- Openness to Challenge

Through the above mechanisms, Tandem seeks to embed a culture that supports and enables the management of risks to the business, the realisation of positive customer outcomes, and ongoing compliance with all regulatory and legal requirements.

The Board and Senior Management encourage a culture of transparency and openness to ensure that issues are escalated promptly, where required. This includes ensuring broad awareness of the Whistleblowing process with training and awareness activities for all staff members.

The Chair of the Audit Committee is the appointed Whistle-blower's Champion, with the Director of Compliance assigned as the point of contact on whistleblowing matters.

Climate Risk Disclosure and Impact

Tandem's objectives could be affected by the financial risks arising from climate change and society's response to it. This can arise via both the physical risks of climate events and the transition risks associated with the conversion to a lower carbon economy. Physical risks could impact Tandem through business disruption (either directly or at key suppliers and outsource providers) or a decline in credit quality from a material exposure to assets impacted by physical events. High transition risks emanate from exposures where a swift change in policy may cause sudden disruption, downgrades and / or the potential for stranded assets.

Work is in-progress with regards to the development of capabilities relating to Governance, RMF, Scenario analysis and Disclosures. The Risk Committee and Broad approved climate risk as a principal risk in Q1 2022 (due to its transversal impacts on strategy and business models, data and credit risk) while also embedding the management of climate risk in each of the other principal risks (with heightened focus on higher materiality areas).

Tandem Money Limited

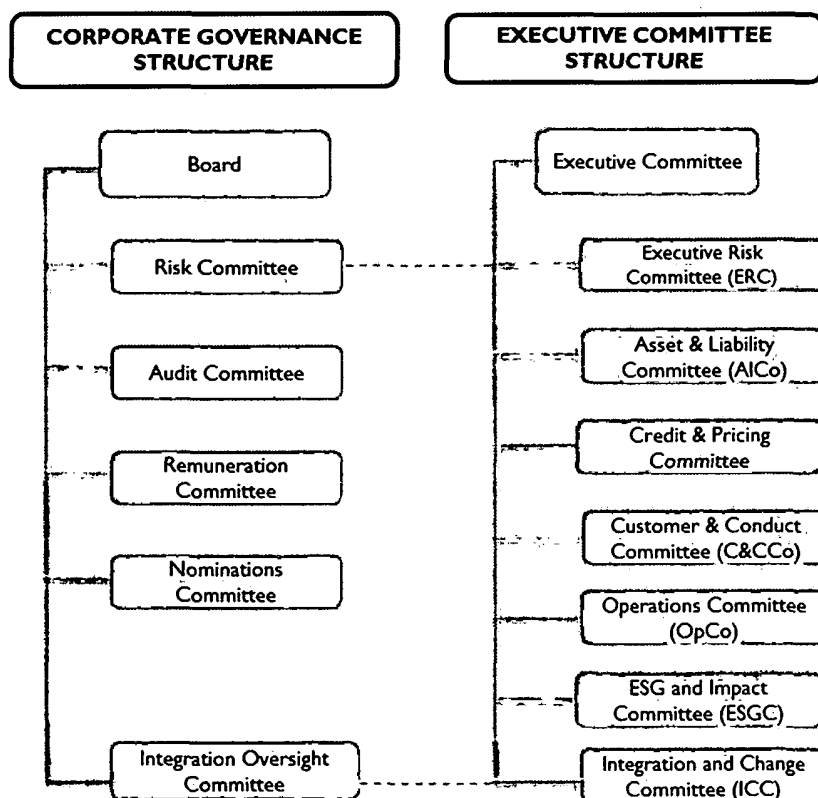
Strategic Report for the year ended 31 December 2021

(continued)

Corporate Governance

Throughout 2021 Tandem has built on its existing corporate governance framework to ensure that the Group is supported by good practice standards in line with banking best practice. Tandem ensures that both the UK Corporate Governance Code and guidance set out by the PRA are considered across governance processes and procedures. This seeks to ensure that the Group is supported by an effective framework which facilitates efficient, effective decision-making whilst also providing protection for our shareholders, customers, employees and other key stakeholders.

Tandem's governance structure* has been reorganised to support the larger Group (following the acquisition of Oplo Holdings Limited) and its key areas of risk and to ensure appropriate oversight of strategy, performance and culture. Split between the Board of Directors and the Executive Management Team, it strives to support the executive in their oversight of performance and delegations from the Board for the day-to-day management of the business.



*Governance Structure implemented following the acquisition of Oplo Holdings Limited

Tandem Money Limited

Strategic Report for the year ended 31 December 2021

(continued)

Board Composition and Changes

The Board comprises eleven Directors, being three Executive Directors, six INED's and two Shareholder Non-Executive Directors. Directors have been selected to provide a wide range of experience and skills spanning relevant technical areas and industry sectors, including financial services. Board composition is crucial in ensuring that effective challenge and debate is provided on areas including (but not limited to): company performance; strategy; and culture. The Board retains a majority independence in line with good practice.

During 2021, several changes took place on the Board. Ricky Knox, joint founder of Tandem, resigned as CEO on 25 May 2021 and was replaced by Susannah Alier on 4 June 2021. In addition, following the acquisition of Oplo Holdings Limited on 24 January 2022, Alexander Mollart (Deputy Chief Executive Officer) was appointed to the Board as an Executive Director.

Jeroen Nieuwkoop also stepped down from the Board on 24 January 2022.

In March 2022, to enhance the skills and experience of the Board, Matthew Donaldson was appointed as an INED. Following this, Matthew Potter was appointed to the Board as a Shareholder Non-Executive Director.

In April 2022, Jeffrey Pritchard highlighted his intent to retire from the Board effective 30 June 2022. On 15 June 2022, Paul Pester was appointed to the Board as an INED. Following Jeffrey Pritchard's departure on 30 June 2022, Paul Pester shall be appointed as Chair designate. Jeffrey Pritchard led Tandem through a period of significant transformation. The Directors thank Jeffrey Pritchard for his support and leadership during this time and wish him the very best for the future.

Board Roles

Responsibilities of key Board roles are summarised below:

- **Chairperson** - leads the Board and ensures its effectiveness. The Chairperson helps set the tone for the Group and supports effective communication with other Directors and Executive Management. Further the Chairperson provides leadership and facilitates relationships with shareholders, regulators and other key stakeholders;
- **Senior Independent Director ('SID')** - provides a sounding board for the Chairperson and other Directors on the Board. The SID is also a channel for communication when other normal channels (through the Chairperson or Executive Management) have failed;
- **Independent Non-Executive Directors** - provide appropriate challenge and scrutiny to management providing experience and independent judgement in discussions and decision making; and
- **Shareholder Non-Executive Directors** - ensure shareholders have appropriate input on business strategy and performance, ensuring that the views of majority shareholders are included in Board discussions

Tandem Money Limited Strategic Report for the year ended 31 December 2021 (continued)

Board Governance

Board Responsibilities

The Board of Directors are collectively responsible for the leadership, culture and long-term sustainable success of Tandem and its subsidiaries. The Board is accountable for setting the strategic direction of the Group whilst also ensuring its obligations to its customers, employees, regulators, shareholders and other key stakeholders are met.

The Board is also responsible for providing oversight and monitoring the business against the approved strategy, risk appetite and Budget, providing challenge and advice to Executive Management as required to enable Tandem to meet its strategic objectives and goals.

The Board's responsibilities include:

- Review and approval of the Annual Budget and Strategic objectives;
- Regular review of the Group's financial and operational performance against Budget and key performance measures (aligned to strategic objectives), including monthly review of capital management, funding, liquidity and cost of risk;
- Review and approval of the Group's principle risk types, risk appetite and RMF;
- Review and approval of the Group's Financial statements, Pillar 3 disclosures, ICAAP, ILAAP, Business Continuity and Resolution and Recovery Plans;
- Ensure that appropriate governance processes are in place to provide that the Board has sufficient access to information, and that the business complies with all relevant regulations, and legal requirements;
- Review and approve any changes to the Group's capital structure, acquisitions, disposals, corporate investments and capital projects;
- Annual review and approval of the delegated authorities from the Board to the CEO and Executive Management; and
- Oversight of matters to be referred to the Shareholders in line with the Shareholder Agreement dated 21 August 2020. This was revised following the acquisition of Oplo Holdings Limited on 24 January 2022

The Board delegates certain matters to Board Committees, with outputs from each Board Committee reported to the Board regularly, ensuring that the Board maintains appropriate oversight. A summary of each of these Committee activities has been included in this report (see pages 26 to 27).

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

Tandem Money Limited

Strategic Report for the year ended 31 December 2021

(continued)

Board Governance (continued)

Audit Committee

The Audit Committee has been delegated responsibility for the oversight of financial reporting processes, internal controls, compliance, external and internal audit and whistleblowing. The Audit Committee is chaired by an INED with recent and relevant financial experience. During 2021, the Audit Committee has considered and made recommendations to the Board on some of the following matters:

- Oversight of the preparations of the Annual Report and Financial Statements, including associated accounting judgements and provisions;
- Review of quarterly internal audit reports. Internal Audit report presented during the year included operational resilience, cyber security, data management, project and change, arrears, collections, forbearance management and stress testing methodology;
- Oversight of the compliance framework and the annual compliance monitoring plan;
- Review and recommendation to the Board of the annual Whistleblowing and Money Laundering Reporting Officer reports;
- Terms of engagement and fees of the External and Internal Auditors; and
- Re-appointment of the External Auditor

Risk Committee

The Risk Committee has been delegated responsibility for the oversight of risk management with particular focus on Tandem's principle risk types and associated frameworks, risk appetites and risk assessment methodology and process. The Risk Committee is chaired by the Senior Independent Director. The Risk Committee provides oversight and advice to the Board on current risk exposures and future risk strategy of the Group. During 2021, the Risk Committee considered and made recommendations to the Board on some of the following matters:

- Oversight of the Group's Risk Appetite, recommending any changes to the Board;
- Review of the revised RMF including key underlying frameworks and policies;
- Review and challenge of the overall strategic and commercial priorities for Tandem, including the assessment of risks inherent in the budget and longer-term plans, capital requirements and the robustness of stress testing;
- Oversight of the embedding of the Risk Assurance Programme and the effectiveness of controls for risk management and capital management;
- Review and recommendation of the Group's Principal Risks;
- Oversight and monitoring of the Group's risk culture; and
- Review and recommendation to the Board, for approval, of the ICAAP, ILAAP and Recovery Plan

Tandem Money Limited

Strategic Report for the year ended 31 December 2021

(continued)

Board Governance (continued)

Nomination Committee

The Nomination Committee ('NomCo') has delegated responsibility for the oversight of the Board's governance arrangements, composition, skills, independence and succession planning. The NomCo is chaired by the Chairperson. During 2021, the NomCo considered some of the following matters:

- Recruitment and recommendation of the appointment of new INEDs to the Board, including the Audit Committee Chair and the SID;
- Approval of the recommendations for recruitment to the Senior Management Team, including the CEO and CRO; and
- Review of Terms of Reference and split of responsibilities between the NomCo and Remuneration Committee ('RemCo')
- Review of proposals for changes to the Group's Target Operating Model for implementation following the acquisition of Oplo

Remuneration Committee

The RemCo has delegated responsibility for the development and review of the Remuneration Policy for the Group and level of remuneration for INEDs, Executive Directors and Senior Management, as well as reviewing / challenging proposals for workforce incentive schemes. The RemCo is chaired by an INED. During 2021, the RemCo considered some of the following matters:

- Review of Non-Executive Director Fees;
- Review and approval of remuneration (and exit arrangements) for Executive Directors and the Senior Management, including the CEO;
- Oversight of people performance, including the results of employee engagement surveys;
- Review of Remuneration Code disclosures;
- Oversight of the development of a Management Incentive Plan ('MIP') for the Group;
- Review and recommendation of the Remuneration Policy, ensuring that remuneration packages are able to attract, retain and motivate all colleagues. Remuneration for Executive Director and Senior Management is set to encourage performance that is linked to the delivery of the Group's strategic objectives and for the benefit of shareholders; and
- Review of the People and Reward Strategy in pursuit of harmonising benefits and the approach to performance and reward, following the acquisition of Oplo

Integration Oversight Committee

The Board established a special purpose committee to oversee the integration activities of the Group following the acquisition of Oplo. This Committee comprises two INEDs and the CEO.

Tandem Money Limited

Strategic Report for the year ended 31 December 2021

(continued)

Executive Governance

The CEO is supported in their role primarily through the establishment of an ExCo supported by sub-committees below the ExCo to focus on specific matters. Following the acquisition of Oplo Holdings Limited, a review was undertaken to refine the executive governance structure to ensure that the Senior Management team has robust oversight of business performance and the management of risk across the Group. An overview of how the executive governance feeds into Board governance is included on page 21.

A summary of the scope of the ExCo and its associated sub-committees is included below:

Executive Committee

The ExCo provides day-day-to-day oversight and monitoring of the operational and financial performance of Tandem. Ensuring appropriate responsibility for quarterly reviews of the Balanced Scorecard, risk considerations and fulfilment of strategic objectives. The ExCo also reviews and recommends matters to the Board and Board Committees in line with established Terms of Reference. Decisions are also made by the ExCo in line with delegated authorities from the Board.

Executive Risk Committee

The Executive Risk Committee ('ERC') is responsible for the monitoring and management of the Group's risk management arrangements and practices. Further, the committee provides particular oversight of principal risk types against risk appetite and in line with the Group's RMF. The ERC recommends some matters to the Risk Committee, where appropriate.

Asset & Liability Committee

The Asset & Liability Committee ('ALCo') is responsible for ensuring Tandem's Balance Sheet is managed effectively with consideration to liquidity, funding and capital risk. ALCo determines the appropriate use of debt and derivatives in pursuit of managing these risks in line with the Treasury Policy and risk appetite. The ALCo considers these matters at both a Group consolidated basis and at a Solo entity level.

Credit & Pricing Committee

Credit & Pricing Committee ('CPC') is responsible for the monitoring and oversight of the Group's credit pricing, credit risk management processes and portfolio performance, ensuring that Tandem remains within Board approved risk appetite. The CPC is also responsible for determining the appropriateness of the lending strategy in line with lending and credit policies ensuring compliance with regulatory credit requirements. The CPC has delegated authority for the approval of requests for loans in accordance with delegated lending authorities.

Operations Committee

The Operations Committee ('OpCo') is responsible for the monitoring of the operational performance and risk of the Group. The OpCo shall be responsible for the appropriate resourcing to ensure that the Group has the capabilities to deliver operational excellence to all key stakeholders.

Tandem Money Limited

Strategic Report for the year ended 31 December 2021

(continued)

Executive Governance (continued)

Customer & Conduct Committee

The Customer & Conduct Committee ('CCC') is responsible for the oversight of the customer experience and journey across all Tandem products, including enhancements to the customer journey, understanding customer demographics, the development of product features and management of third-party relationships. The CCC shall also monitor conduct and compliance risk for the Group.

Integration & Change Committee

The Integration & Change Committee ('ICC') is responsible for the oversight of key strategic projects and performance of change initiatives in line with the Group's strategic objectives. During 2022, the ICC will be responsible for the integration of Oplo Holdings Limited into Tandem.

ESG & Impact Committee

The ESG & Impact Committee ('ESGC') is responsible for the provision of advice and guidance in relation to Tandem's vision and strategy for environmental, social and some governance matters.

Tandem Money Limited

Strategic Report for the year ended 31 December 2021

(continued)

Section 172 Statement

As part of the Board's responsibility for the long-term success of the Group, it is important for the Directors to be considerate of all the Group's stakeholders. Understanding and considering stakeholders' interests is central to the Board's decision-making and Tandem's success, informing key aspects of its strategy and business planning. Stakeholder interests are considered by the Board at their meetings, during its discussions and, in particular, when making decisions. Directors ensure that they are considerate to any impacts of decision making on relevant stakeholders., Directors are cognisant of the need to maintain a reputation for high standards of business conduct, the need to act fairly between the members of the company and the long-term consequences of its decisions.

As a dual regulated Bank, the Board is also considerate to the risk and control environment during discussions and decision-making. Customer outcomes are at the forefront of Directors minds when considering the management of risks and controls and the Board are clear on ensuring that customers interests are protected. Directors acknowledge, that having due regard to all stakeholder perspectives may not always result in the decision-making which achieves a positive outcome for all stakeholders. Dependent on the decisions and topics in question, the relevance of each stakeholder may differ, and equally the Directors shall seek to adopt a variety of methods of engagement with stakeholders. The Board will sometimes engage directly with some stakeholders on certain issues, but the breadth and volume of the Group's stakeholders means that direct stakeholder engagement is not always practical even at an operational level it can be challenging to engage all stakeholders. Directors receive reports and consider information from across the organisation to enhance their understanding of the impact of Tandem's operations on, and the interests and views of, its key stakeholders. Included below, are statements from the Directors which seek to consider each stakeholder group in order of priority.

The statements included in this report seek to address each of the s172(1) duties required of directors in accordance with the Companies Act 2006 (the 'Act'). The Directors provide these statements to show how they have had regard to the matters set out in Section 172(1) of the Act, when performing their duty to promote the success of the Group. The Directors confirm they have acted, in good faith, to promote the success of the Group for the benefit of its members as a whole and in doing so considering all relevant stakeholders. An overview of how the Board has considered stakeholder interests during 2021 is below.

Customers

During the year, the Board received regular updates on customer issues through reports from the CEO and other members of the ExCo. Directors also received management information on progress against customer service metrics included in the Group's Balanced Scorecard.

During 2021, emerging from the pandemic the Group reviewed its strategy and purpose, repositioning the Group from the 'good green Bank' to a business focussed on greener and fairer customer outcomes. Following a review, the Board agreed to close the credit card business. The Board oversaw the run-off of the credit card business, ensuring that customer interests remained at the forefront of minds during the process. Following closure of the credit card business, the Board undertook a review of the control framework surrounding customer related activities.

Further to this a number of customer related activities were reviewed and improved through the year. This included management of customer complaints, insourcing of Tandem's outsourced customer contact centre, customer onboarding and improved self-service processes in the Tandem App. One measurement, for example, is improved Trustpilot scores.

Tandem Money Limited

Strategic Report for the year ended 31 December 2021

(continued)

Section 172 Statement (continued)

Customers (continued)

The rationale for these changes has been to ensure that the Group continues to support customer's and enhance process and procedures with regulatory and customer expectations, particularly in relation to complaints. The Group seeks to continually enhances controls and processes in relation to customer activities.

The Audit and Risk Committees respectively have continued to monitor customer related risks and controls throughout the year through reports from management and internal audit. Updates are also provided to the Audit Committee on the incoming Consumer Duty. The Board continues to be committed to ensuring that the Bank's products and offerings remain appropriate and fit for purpose for customers.

Colleagues

Our colleagues deliver the products and services that underpin the Group, thus making a critical difference to our success with our investment in them both protecting and strengthening our culture.

The Board has regarded colleagues wellbeing as being of paramount importance throughout the transition out of the pandemic and ongoing organisational change. Together with Senior Management, the Board has aimed to support colleagues by ensuring the working environment is as safe as possible, both for colleagues who have started to return to offices (where local restrictions allow) and for those who have continued to work remotely on a full or part time basis. Across our offices this has meant the continuation of health and safety measures including (but not limited to): restricting occupation levels; enhanced hygiene measures; and social distancing. The Board has continued to support colleagues on both a practical and a wellbeing basis acknowledging the level of change in working practices and from an organisational perspective. Directors receive regular updates on the workforce and associated issues.

Tandem has around 180 colleagues (pre-Oplø acquisition), who take pride in working for an inclusive and diverse Group and, with their support and input, we are developing a culture in which everyone can feel included, empowered, accountable and inspired to ensure that we are able to build a fairer and greener Bank. The contributions of Tandem's people and their commitment to the Group is acknowledged by the Board.

Tandem is proud of its diverse team and inclusive approach, with the RemCo receiving regular updates relating to gender and diversity. Tandem believes in promoting a diverse workplace in which different backgrounds, voices and perspectives underpin a stronger collective. We actively work to create an environment in which individual differences and the contributions of our people are recognised and valued.

During the year, the RemCo reviewed workforce management information and considered levels of attrition, salary benchmarking, incentive schemes and bonus structure and also supported management in the development of a renewed People and Reward Strategy.

Tandem Money Limited

Strategic Report for the year ended 31 December 2021

(continued)

Section 172 Statement (continued)

Colleagues (continued)

In assessing Tandem's future strategy and reflecting on the significant organisational change which the Group has faced (and continues to face), the Board is keen to keep the capacity and wellbeing of the workforce under close review. As such, the impact of the acquisition and ongoing integration of Oplo has been a key area of focus in Board discussions.

Directors are keen to ensure that across the entire Group employees receive the right remuneration, benefits and packages in order to retain skilled and passionate staff.

Regulators

The Board recognises the importance of maintaining an open and continuous dialogue with regulators. In 2021, the main focus of regulatory engagement was the Group's prudential risk and financial resources as well as obtaining the necessary approvals for the Oplo transaction; with other topics discussed by Directors with the regulators including strategy, the overarching risk and control framework and customer outcomes.

The Chairperson and Executive Directors have regular meetings with the PRA and FCA. The Board and its Committees also receive regular reports on a range of regulatory matters. The Directors actively promote an open and transparent relationship with its regulator's to ensure the business is aligned to the regulatory framework.

The Board are committed to complying with all relevant legislation, with regulatory compliance considered in decision-making and are mindful of the regulators approach and consideration of the Group's activities and strategy.

Tandem has zero appetite for deliberate breaches of conduct rules and regulations or from failure to have adequate systems and controls. The Risk and Audit Committees receive frequent updates on the performance of the Group's systems and controls providing a view of key areas of focus, alongside progress made in addressing any associated remediation activities.

Suppliers

The Board is mindful of the role our suppliers play in ensuring we deliver a reliable service to our customers, and of the importance of our relationships with key suppliers.

Tandem has a robust Procurement Policy, which serves to actively manage relationships with and monitors the performance of all suppliers. The Group's Conduct Framework sets out the rules and guidance for management on how Tandem engages with outsourcing partners to ensure that good governance, systems and controls are in place so that the Group does not breach conduct rules or regulations due to third party failures.

The Board considered and approved the Group's Modern Slavery Act Statement, which sets out the steps that we are taking to tackle modern slavery and human trafficking within our business, supply chain and sphere of influence. It is important to the Board that suppliers uphold the same values as the Group. This is considered at the procurement stage and throughout other business relationships. Regular reviews are carried out on the controls and performance of suppliers which cover a range of issues such as data security, bribery and corruption.

Tandem Money Limited

Strategic Report for the year ended 31 December 2021

(continued)

Section 172 Statement (continued)

Investors

The Group engages regularly with its shareholders and understands that investor engagement fosters long-term strategic understanding of Tandem's strategy. This frequent engagement throughout the year keeps investors informed on the Group's progress, strategy and financial performance.

The Board is committed to achieving sustainable returns over the long-term.

Communities

The Board believe it is the responsibility of the Group to support local communities including, the provision of employment opportunities for those in the local areas of operation whilst training and developing our employees. We are committed to promoting and recognising diversity both within Tandem, and in the communities in which we operate.

Engagement with the broader community is front of mind and a number of initiatives are in place, including: partnerships with recruitment bodies; partnerships with educational bodies; employee volunteering; charity initiatives; and fundraising.

The Group's colleagues play an integral part in driving community engagement as they both nominate and choose which initiatives the Group supports.

Environment

The Board is mindful that it is increasingly important to demonstrate responsible business behaviour with regards to the environment. Directors and management will seek to reduce carbon emissions and the Group's overall environmental footprint and the creation of a sustainable business for the future.

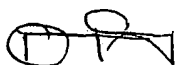
Employee directed activities include (but are not limited to): internal promotion of 'green' initiatives; promoting video and telephone conferencing systems between international functions to reduce travel; various recycling initiatives; and the cycle to work scheme for employees.

The Group is committed to continuously reduction of our environmental footprint, encourage responsible behaviour across employees and are fundamentally committed to embedding this across all aspects of the Group going forward. This is reflected in the establishment of an ESG and Impact Committee at executive level which shall oversee both internal and external initiatives for ESG across the Group.

For and on behalf of the Board,



Susannah Alier
Chief Executive Officer



Anthony Murphy
Chief Financial Officer

15 July 2022

Tandem Money Limited

Directors' Report for the year ended 31 December 2021

The Directors of the Group present their report together with the audited consolidated Financial Statements for the year ended 31 December 2021. Other information which is relevant to the Directors Report, has been referenced where relevant and have been highlighted in the below table:

| Topic | Reference |
|---|---|
| Capital Management | Strategic Report on page 11 |
| Future Developments | Strategic Report on page 7 Note 39 of the Financial Statements |
| Events Subsequent to the Reporting Date | Note 39 of the Financial Statements |
| Financial Risk Management Objectives and Policies | Strategic Report on page 12 |
| Board consideration of Section 172 duties | Strategic Report on page 28 |

Corporate Governance Statement

Tandem operates its corporate governance in line with banking best practice, considering both the UK Corporate Governance Code and the guidance set out by the PRA.

The Board has specifically considered the areas of importance highlighted in the PRA Supervisory Statement 5/16 - Corporate Governance: Board Responsibilities. The Board is accountable for, amongst other items, the setting of strategy, guiding and influencing culture as well as setting and overseeing the Risk Appetite of the firm.

Tandem Money Limited

Directors' Report for the year ended 31 December 2021 (continued)

Directors

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

| Director | Role | Date |
|-------------------|---|--|
| Paul Pester | INED (Chair Designate from 30 June 2022) | Appointed 15 June 2022 |
| Jeffrey Pritchard | Chairperson | Appointed 10 January 2018 Resigned 30 June 2022 |
| Susannah Alier | CEO | Appointed 4 June 2021 |
| David Fisher | SID | Appointed 17 December 2020 |
| Matthew Donaldson | INED | Appointed 31 March 2022 |
| Talita Ferreira | INED | Appointed 26 April 2021 |
| Margaret Hassall | INED | Appointed 17 December 2020 |
| David Torpey | INED | Appointed 2 October 2020 |
| Jeroen Nieuwkoop | Shareholder Non-Executive Director | Appointed 26 May 2021 Resigned 24 January 2022 |
| Matthew Potter | Shareholder Non-Executive Director | Appointed 31 March 2022 |
| James Scott | Shareholder Non-Executive Director | Appointed 21 August 2020 |
| Frederick Knox | Previous CEO and Executive Director | Appointed 4 March 2014 Resigned 25 May 2021 |
| Alexander Mollart | Deputy Chief Executive Officer and Executive Director | Appointed 24 January 2022 |
| Anthony Murphy | CFO and Executive Director | Appointed 9 November 2020 |

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 held an interest in the shares of the Group as at 31 December 2021:

- Anthony Murphy

Dividends

The Directors do not recommend a final dividend (2020: £Nil).

Tandem Money Limited

Directors' Report for the year ended 31 December 2021

(continued)

Employees

The Group is committed to being an equal opportunities employer and opposes all forms of discrimination. Applications from people with disabilities are considered fairly and if any employee of the Group that become disabled, effort is made to retain such employees. The Group also endeavours to provide equal opportunities in the training, promotion and general career development of disabled employees.

During 2021, to support employee engagement, a weekly 'Tandem get Together' was held via conference call and is attended by the Senior Management team, including the CEO. In addition to this, upon the acquisition of Oplo Holdings Limited, Tandem and Oplo have combined communications in a monthly magazine called 'In the Loop' which provides updates to the workforce in addition to the weekly calls and a periodic CEO blog.

Tandem also has a mechanism for all employees to ask questions directly to Senior Management via an 'Ask ExCo' tool. These questions are responded to on a regular basis and feedback is provided directly to employees and where appropriate via the 'Tandem get Together' session.

Political and Charitable Donations

The Group did not make any political or charitable donations during the year (2020: £nil).

Regulation

The Group complies with all the requirements of its regulatory authorities, given its status of being authorised and regulated by the PRA and FCA.

Qualifying deposits held by the Group are covered by the Financial Services Compensation Scheme ('FSCS') and any complaints made by customers may be referred to the Financial Ombudsman Service. The Group is a member of UK Finance (previously The British Bankers' Association).

Going Concern

In preparing the consolidated Financial Statements, the Directors must satisfy themselves that it is reasonable to adopt the going concern basis.

Although the Group remained loss making in 2021 as outlined in the Strategic Report, Tandem recorded tangible progress across the year in its transition to a sustainable business model. Following the material capital injections received in 2020 and subsequent acquisitions of both ALG and the B&C mortgage portfolio, the Group captured significant cost savings and improved asset quality across the year, ultimately contributing to a reduced Net Loss.

Further, as disclosed in both the Future Developments section of the Strategic Report and Note 39 Events Subsequent to the Reporting Date, the successful acquisition of Oplo on 24 January 2022, underpinned by additional capital injections, accelerates Tandem's journey to profitability. Post completion the enlarged Group benefits from a diversified proposition across mortgages, personal loans and car finance with capacity to grow its asset base.

Tandem Money Limited

Directors' Report for the year ended 31 December 2021

(continued)

Going Concern (continued)

As part of the Directors' consideration of the appropriateness of adopting the going concern basis, various financial projections have been considered which incorporate the acquisition of Oplo. Across these range of projections, including a plausible downside scenario, it has been concluded that no material changes to the Company / Group's activities will be required and can operate with adequate financial resources for the next 12 months, with both capital ratios and liquidity in excess of minimum regulatory requirements.

Thus, after making the necessary enquiries, the Directors have a reasonable expectation that the Company / Group has sufficient resources to continue in operational existence for a period of at least 12 months from the signing of these Financial Statements.

Statement of Directors' Responsibilities in Respect of the Financial Statements

The Directors are responsible for preparing the Consolidated 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 the 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, 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 Company and of the profit or loss of the Group and 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 Company will continue in business

The Directors are responsible for safeguarding the assets of the Group and 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's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006.

Tandem Money Limited

Directors' Report for the year ended 31 December 2021

(continued)

Directors' Confirmations

In the case of each Director in office at the date the Directors' Report is approved:

- So far as the Director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and
- They have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information

Re-appointment of Auditors

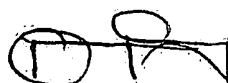
In accordance with s487 of the Companies Act 2006, a resolution is to be proposed at Board for reappointment of PricewaterhouseCoopers LLP as auditors of the Company.

On behalf of the Board



Susannah Alier
Chief Executive Officer

15 July 2022



Anthony Murphy
Chief Financial Officer

Tandem Money Limited

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 company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2021 and of the group's loss and the group's 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 Annual Report, which comprise: Consolidated and Company Statements of Financial Position as at 31 December 2021; Consolidated Income Statement and Statement of Other Comprehensive Income, Consolidated Statement of Cash Flows, and 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.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report

Tandem Money Limited

Independent auditors' report to the members of Tandem Money Limited (continued)

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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2021 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 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 Statement of directors' responsibilities in respect of the financial statements, 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 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 company or to cease operations, or have no realistic alternative but to do so.

Tandem Money Limited

Independent auditors' report to the members of Tandem Money Limited (continued)

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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to rules of the Financial Conduct Authority ("FCA"), rules of the Prudential Regulation Authority ("PRA") and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as Companies Act 2006 and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the potential for management to post fraudulent journal entries. Audit procedures performed by the engagement team included:

- Enquiries of management in relation to known or suspected instances of non-compliance with laws and regulation and fraud;
- Reviewing key correspondence with regulatory authorities including bilateral meetings held with the PRA;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the impairment provision and conduct provision where we challenged management to perform an impact assessment associated with the conduct provision; and
- Identifying and testing journal entries, in particular journal entries posted by senior management, journals posted with descriptions indicating a higher level of risk and post close journal entries.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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 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.

Tandem Money Limited

Independent auditors' report to the members of Tandem Money Limited (continued)

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 obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the 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 company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Mike Wallace (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
15 July 2022

Tandem Money Limited

Consolidated Income Statement and Statement of Other Comprehensive Income for the year ended 31 December 2021

| | Note | Continuing Operations £'000 | Discontinued Operations £'000 | 2021 Total £'000 | Continuing Operations £'000 | Discontinued Operations £'000 | 2020 Total £'000 |
|--|----------|--------------------------------|----------------------------------|------------------------|--------------------------------|----------------------------------|------------------------|
| Interest income | 2 | 20,397 | 1,029 | 21,426 | 11,543 | 7,237 | 18,780 |
| Interest expense | 3 | (6,455) | - | (6,455) | (6,578) | - | (6,578) |
| Net Interest Income | | 13,942 | 1,029 | 14,971 | 4,965 | 7,237 | 12,202 |
| Fees and commissions income | 4 | - | 11 | 11 | - | 546 | 546 |
| Fees and commissions expense | 4 | (288) | (194) | (482) | (380) | (1,317) | (1,697) |
| Net gains in derivatives and hedge ineffectiveness | 5 | 115 | - | 115 | 102 | - | 102 |
| Other operating income | 6 | 118 | - | 118 | 25 | - | 25 |
| Total Income | | 13,887 | 846 | 14,733 | 4,712 | 6,466 | 11,178 |
| Administrative expenses | | (28,039) | (852) | (28,891) | (29,163) | (3,798) | (32,961) |
| Depreciation and amortisation | | (2,154) | - | (2,154) | (2,213) | - | (2,213) |
| Operating Expenses | 7 | (30,193) | (852) | (31,045) | (31,376) | (3,798) | (35,174) |
| Provision for bad and doubtful debts | 14 | (1,023) | (682) | (1,705) | (465) | (6,177) | (6,642) |
| Loss on sale of loan portfolios | 37 | - | (569) | (569) | - | - | - |
| Write-off of equity shares | 17 | (1,000) | - | (1,000) | - | - | - |
| Loss on Operating Activities before Tax | | (18,329) | (1,257) | (19,586) | (27,129) | (3,509) | (30,638) |
| Tax credit on loss on ordinary activities | 11 | 177 | - | 177 | 87 | - | 87 |
| Loss for the Year | | (18,152) | (1,257) | (19,409) | (27,042) | (3,509) | (30,551) |
| Other Comprehensive Income/(Expense) | | | | | | | |
| Deferred tax movement on items of other comprehensive income/(expense) | 11 | (177) | - | (177) | (87) | - | (87) |
| Available for sale investments | | | | | | | |
| - Fair value gain on treasury assets | | 52 | - | 52 | 30 | - | 30 |
| - Fair value gain on equity shares | | 271 | - | 271 | 384 | - | 384 |
| Total Comprehensive Loss for the Year | | (18,006) | (1,257) | (19,263) | (26,715) | (3,509) | (30,224) |

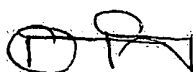
Tandem Money Limited
Consolidated Statement of Financial Position
as at 31 December 2021

| | Note | 2021 £'000 | 2020 £'000 |
|---|------|----------------|----------------|
| Assets | | | |
| Cash and balances at central banks | 12 | 360,378 | 149,819 |
| Loans and advances to banks | 13 | 18,831 | 17,776 |
| Loans and advances to customers | 14 | 437,004 | 394,755 |
| Debt securities | 15 | 30,215 | 28,088 |
| Derivatives held for risk management | 16 | 2,358 | - |
| Equity shares | 17 | 1,970 | 2,670 |
| Intangible assets | 19 | 12,331 | 14,091 |
| Tangible fixed assets | 19 | 116 | 169 |
| Other assets | 20 | 4,039 | 7,020 |
| Prepayments and accrued income | 21 | 2,185 | 2,050 |
| Total Assets | | 869,427 | 616,438 |
| Liabilities | | | |
| Deposits by banks | 22 | 39,971 | 50,013 |
| Customer accounts | 23 | 771,161 | 494,962 |
| Derivatives held for risk management | 16 | 89 | 104 |
| Other liabilities | 24 | 1,677 | 3,976 |
| Accruals and deferred income | 25 | 2,086 | 2,531 |
| Provisions for liabilities | 26 | 943 | - |
| Total Liabilities | | 815,927 | 551,586 |
| Share Capital and Reserves | | | |
| Called-up share capital | 28 | 915 | 804 |
| Share premium account | 28 | 210,671 | 202,694 |
| Warrants | 28 | 1,391 | 1,391 |
| Other reserves | 28 | 5,464 | 5,641 |
| Retained reserves | 28 | (164,941) | (145,678) |
| Shareholders' Funds including Non-Equity interests | | 53,500 | 64,852 |
| Total Liabilities and Equity | | 869,427 | 616,438 |

On behalf of the Board,



Susannah Alier
Chief Executive Officer
15 July 2022



Anthony Murphy
Chief Financial Officer

Tandem Money Limited

Consolidated Statement of Changes in Equity for the year ended 31 December 2021

| | Called-up Share Capital £'000 | Share Premium Account £'000 | Warrants £'000 | Available for Sale Reserve £'000 | Other Reserves £'000 | Profit and Loss Account £'000 | Total Equity £'000 |
|---|--|--------------------------------------|-------------------|---|----------------------------|--|--------------------------|
| At 1 January 2021 | 804 | 202,694 | 1,391 | 1,207 | 5,641 | (146,885) | 64,852 |
| Loss for the year | - | - | - | - | - | (19,409) | (19,409) |
| Gain relating to available for sale investments | - | - | - | 323 | - | - | 323 |
| Deferred tax on items of other comprehensive income | - | - | - | (177) | - | - | (177) |
| Total Comprehensive Loss for the Year | - | - | - | 146 | - | (19,409) | (19,263) |
| Shares issued, net of expenses | 111 | 7,977 | - | - | - | - | 8,088 |
| Share-based payments | - | - | - | - | (958) | - | (958) |
| Distributable reserves from employee benefit trusts | - | - | - | - | 781 | - | 781 |
| As at 31 December 2021 | 915 | 210,671 | 1,391 | 1,353 | 5,464 | (166,294) | 53,500 |
| At 1 January 2020 | 242 | 142,568 | - | 880 | 3,942 | (116,334) | 31,298 |
| Loss for the year | - | - | - | - | - | (30,551) | (30,551) |
| Gain relating to available for sale investments | - | - | - | 414 | - | - | 414 |
| Deferred tax on items of other comprehensive income | - | - | - | (87) | - | - | (87) |
| Total Comprehensive Loss for the Year | - | - | - | 327 | - | (30,551) | (30,224) |
| Shares issued, net of expenses | 562 | 60,126 | 1,391 | - | - | - | 62,079 |
| Share-based payments | - | - | - | - | 1,699 | - | 1,699 |
| As at 31 December 2020 | 804 | 202,694 | 1,391 | 1,207 | 5,641 | (146,885) | 64,852 |

Tandem Money Limited
Consolidated Statement of Cash Flows
for the year ended 31 December 2021

| | Note | 2021 £'000 | 2020 £'000 |
|---|------|----------------|----------------|
| Cash Flows from Operating Activities | | | |
| Loss before tax | | (19,586) | (30,638) |
| Non-cash items included in loss before taxation | | 5,126 | 10,902 |
| Change in operating assets and liabilities | | 220,428 | 47,043 |
| Net Cash Generated from Operating Activities | 32 | 205,968 | 27,307 |
| Cash Flows from Investing Activities | | | |
| Purchase of intangible assets | | (283) | (1,063) |
| Purchase of tangible assets | | (84) | (50) |
| Cash acquired on purchase of subsidiaries | | - | 3,983 |
| Purchase of debt securities | | (2,075) | (4,030) |
| Net Cash Used in Investing Activities | | (2,442) | (1,160) |
| Cash Flows from Financing Activities | | | |
| Proceeds from issuance of ordinary shares | | 8,088 | 51,635 |
| Net Cash Generated from Financing Activities | | 8,088 | 51,635 |
| Net Increase in Cash and Cash Equivalents | | 211,614 | 77,782 |
| Cash and cash equivalents at beginning of year | | 167,595 | 89,813 |
| Cash and Cash Equivalents at the End of the Year | 32 | 379,209 | 167,595 |

Tandem Money Limited
Company Statement of Financial Position
as at 31 December 2021

| | Note | 2021 £'000 | 2020 £'000 |
|---|------|---------------|---------------|
| Assets | | | |
| Loans and advances to banks | 13 | 997 | 243 |
| Investments in subsidiaries | 18 | 81,941 | 92,508 |
| Intangible assets | 19 | 980 | 1,299 |
| Tangible fixed assets | 19 | 91 | 141 |
| Other assets | 20 | 277 | 3,582 |
| Prepayments and accrued income | 21 | 2,152 | 1,951 |
| Total Assets | | 86,438 | 99,724 |
| Liabilities | | | |
| Other liabilities | 24 | 1,972 | 1,051 |
| Accruals and deferred income | 25 | 1,581 | 2,233 |
| Provisions for liabilities | 26 | 943 | - |
| Total Liabilities | | 4,496 | 3,284 |
| Share Capital and Reserves | | | |
| Called-up share capital | 28 | 915 | 804 |
| Share premium account | 28 | 210,671 | 202,694 |
| Warrants | 28 | 1,391 | 1,391 |
| Other reserves | 28 | 5,464 | 5,641 |
| Retained reserves | 28 | (136,499) | (114,090) |
| Shareholders' Funds including Non-Equity Interests | | 81,942 | 96,440 |
| Total Liabilities and Equity | | 86,438 | 99,724 |

The Company's Total Comprehensive Loss for the Year Ended 31 December 2021 was £22,409k (2020: £3,443k).

On behalf of the Board,



Susannah Alier
Chief Executive Officer
15 July 2022



Anthony Murphy
Chief Financial Officer

Tandem Money Limited

Company Statement of Changes in Equity for the year ended 31 December 2021

| | Called-up Share Capital £'000 | Share Premium Account £'000 | Warrants £'000 | Other Reserves £'000 | Profit and Loss Account £'000 | Total Equity £'000 |
|---|--|-----------------------------------|-------------------|----------------------------|-------------------------------------|-----------------------|
| At 1 January 2021 | 804 | 202,694 | 1,391 | 5,641 | (114,090) | 96,440 |
| Loss for the year | - | - | - | - | (22,409) | (22,409) |
| Shares issued, net of expenses | 111 | 7,977 | - | - | - | 8,088 |
| Share-based payments | - | - | - | (958) | - | (958) |
| Distributable reserves from employee benefit trusts | - | - | - | 781 | - | 781 |
| As at 31 December 2021 | 915 | 210,671 | 1,391 | 5,464 | (136,499) | 81,942 |
| | | | | | | |
| At 1 January 2020 | 242 | 142,568 | - | 3,942 | (117,533) | 29,219 |
| Profit for the year | - | - | - | - | 3,443 | 3,443 |
| Shares issued, net of expenses | 562 | 60,126 | 1,391 | - | - | 62,079 |
| Share-based payments | - | - | - | 1,699 | - | 1,699 |
| As at 31 December 2020 | 804 | 202,694 | 1,391 | 5,641 | (114,090) | 96,440 |

Tandem Money Limited

Notes to the Financial Statements for the year ended 31 December 2021

1. Basis of Preparation

1.1. General Information and Basis of Accounting

Tandem Money Limited ('TML' or 'the Company') together with its subsidiaries ('the Group') are private companies, limited by shares and 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 and Company for the year ended 31 December 2021. The Company has taken advantage of the exemption in section 408 of the Companies Act from presenting its individual profit and loss account.

The Financial Statements of the Group were approved for issue by the Board of Directors on 15 July 2022. 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 2021. The subsidiaries are listed in Note 18. 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 to obtain benefit from its activities.

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

1.3. Going Concern

In preparing the consolidated Financial Statements, the Directors must satisfy themselves that it is reasonable to adopt the going concern basis.

Although the Group remained loss making in 2021 as outlined in the Strategic Report, Tandem recorded tangible progress across the year in its transition to a sustainable business model. Following the material capital injections received in 2020 and subsequent acquisitions of both ALG and the B&C mortgage portfolio, the Group captured significant cost savings and improved asset quality across the year, ultimately contributing to a reduced Net Loss.

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2021 (continued)

1. Basis of Preparation (continued)

1.3. Going Concern (continued)

Further, as disclosed in both the Future Developments section of the Strategic Report and Note 39 Events Subsequent to the Reporting Date, the successful acquisition of Oplo on 24 January 2022, underpinned by additional capital injections, accelerates Tandem's journey to profitability. Post completion the enlarged Group benefits from a diversified proposition across mortgages, personal loans and car finance with capacity to grow its asset base

As part of the Directors' consideration of the appropriateness of adopting the going concern basis, various financial projections have been considered which incorporate the acquisition of Oplo. Across these range of projections, including a plausible downside scenario, it has been concluded that no material changes to the Company / Group's activities will be required and can operate with adequate financial resources for the next 12 months, with both capital ratios and liquidity in excess of minimum regulatory requirements.

Thus, after making the necessary enquiries, the Directors have a reasonable expectation that the Company / Group has sufficient resources to continue in operational existence for a period of at least 12 months from the signing of these Financial Statements.

1.4. Significant Accounting Estimates and Judgements

The preparation of Financial Statements requires management to make estimates and judgements about both current and future conditions. As a result of the uncertainty and subjectivity inherent in these estimates and judgements, it is possible that actual outcomes differ from those expected by management. The areas in the Financial Statements that are subject to significant levels of estimation and judgement are listed as follows:

(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. See 1.10. for impairment of Financial Assets. For further detail and sensitivity analysis refer to Note 14 and 34.1.

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2021 (continued)

1. Basis of Preparation (continued)

1.4. Significant Accounting Estimates and Judgements (continued)

- 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.

(i) Impairment Losses on Loans and Advances to Customers (continued)

- 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).

A financial asset or group of assets is impaired, and impairment losses are recognised, only if there is objective evidence as a result of one or more events that occurred after the initial recognition of the asset.

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. For further detail on loan losses and sensitivity see Note 34.1.

- Conduct Claim

Following the acquisition of GDFC Assets Limited and the Green Deal Plans unsecured lending portfolio, an additional provision was recognised to provide for a group of loans with a higher potential of conduct claims (originated pre-2016). The provision is calculated based on historical complaint acceptance rates, expected complaint flows and reduction value in claim amounts (refer to Base case below). In terms of the potential to make a contractual recovery in respect of such claims, management has applied judgement with regards to its interpretation of the likelihood of success in such a recovery.

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2021 (continued)

1. Basis of Preparation (continued)

1.4. Significant Accounting Estimates and Judgements (continued)

(i) Impairment Losses on Loans and Advances to Customers (continued)

- Conduct Claim (continued)

Sensitivity Analysis

Variable 1: The value at risk is the current outstanding balance plus any payments made by the customer and the estimated percentage that may need to be written-off as a result. Base case is 50%, 44% reflects the plans settled historically and 60% is 10% movement on base case.

| Complaint Reduction Value | £'000 |
|----------------------------------|--------------|
| As at 31 December 2021 | |
| 44% | 1,952 |
| 50% | 2,218 |
| 60% | 2,662 |

Variable 2: Takes into account all of the incoming complaints into GDFC Assets Limited's managed pipeline, how many get accepted and how many get rejected. Base case is 100%, historically this was 50%, 75% is the median.

| Complaints Accepted | £'000 |
|----------------------------|--------------|
| As at 31 December 2021 | |
| 50% | 1,795 |
| 75% | 2,007 |
| 100% | 2,218 |

(ii) Share-based Compensation

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

The fair value of the awards is determined using valuation models that take into account the terms and conditions attached to the awards. As an unlisted company judgement is applied when determining the inputs to the valuation models. The most material estimates relate to the share price of TML and the volatility rate. External sources are used to assess comparable transaction which may not fully represent the Group. For further detail please refer to Note 30.

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2021 (continued)

1. Basis of Preparation (continued)

1.4. Significant Accounting Estimates and Judgements (continued)

(iii) Goodwill and Intangible Assets

Judgement is applied when the Group considers whether intangible assets (including goodwill) are impaired. As at 31 December 2021 the carrying value of the Group's intangible assets was £12,331k (2020: £14,091k) of which £9,665k relates to goodwill (2020: £10,844k). Where an indication of impairment of goodwill is identified, the estimation of the recoverable value requires the estimation of the future cash flows from the cash generating units as well as a selection of an appropriate discount rate in order to calculate the net present value of those cash flows. Changes to the discount rate used can significantly impact the present value calculated to support the value of the goodwill in the Financial Statements. For the individual intangible assets, excluding goodwill, the expected useful lives range from 1 to 10 years. A change in the estimate will have an impact on the period over which the capitalised expenditure is amortised. For further details of intangible assets refer to Note 19.

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 as per IAS 39.

(ii) De-recognition

Financial assets are derecognised when and only when:

- the contractual rights to the cash flows from the financial asset expire or are settled; or
- the asset has been transferred

An asset is transferred if either the entity has transferred the contractual rights to receive the cash flows, or the Group has retained the contractual rights to receive the cash flows from the asset, but has assumed a contractual obligation to pass those cash flows on under an arrangement that meets the following three conditions:

- the Group has no obligation to pay amounts to the eventual recipient unless it collects equivalent amounts on the original asset;
- the Group is prohibited from selling or pledging the original asset (other than as security to the eventual recipient); and
- the Group has an obligation to remit those cash flows without material delay

Once the Group has determined that the asset has been transferred, it then determines whether or not it has transferred substantially all of the risks and rewards of ownership of the asset. If substantially all the risks and rewards have been transferred, the asset is derecognised. If substantially all the risks and rewards have been retained, derecognition of the asset is precluded.

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2021 (continued)

1. Basis of Preparation (continued)

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

(ii) De-recognition (continued)

If the Group has neither retained nor transferred substantially all of the risks and rewards of the asset, then the Group assesses whether it has relinquished control of the asset or not. If the Group does not control the asset then the asset is derecognised; however if the Group has retained control of the asset, then the Group continues to recognise the asset to the extent to which it has a continuing involvement in the asset.

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

1.6. Financial Assets

The Group classifies and measures 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 loans and advances to customers and loans and advance to banks.

(ii) Available for Sale

These comprise 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 financial assets designated as being held at fair value through profit or loss. For certain loans and advances and customer accounts 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.

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2021 (continued)

1. Basis of Preparation (continued)

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 Income Statement 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 minimal 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. 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.

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 counterparties to mitigate the risk inherent in amounts due from the Group, it is included in loans and advances to banks.

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2021 (continued)

1. Basis of Preparation (continued)

1.10. Impairment of Financial Assets

The Group assesses at each reporting date its financial 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, and adjusted on an ongoing basis when additional information is available, including the period leading up to portfolio sale events. 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 the methodology as more appropriate data becomes available.

As accounts across Tandem's unsecured portfolios began to enter Covid-related plans from March 2020 and, as per regulatory guidance, have their arrears status protected, it was deemed that Tandem should accrue additional impairment provision for the higher risk of these accounts. The provision was subsequently released during 2021 as a result of better than expected performance from the impacted accounts.

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.

Following the acquisition of GDFC Assets Limited and the Green Deal Plans unsecured lending portfolio, an additional provision was recognised to provide for a group of loans with a higher potential of conduct claims (originated pre-2016). The provision is calculated based on historical complaint acceptance rates, expected complaint flows and reduction value in claim amounts.

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2021 (continued)

1. Basis of Preparation (continued)

1.10. Impairment of Financial Assets (continued)

(i) Loans and Advances (continued)

TBL acquired beneficial ownership of a portfolio of loan accounts from Honeycomb Finance Limited (HFL) in August 2020. Some of this portfolio of accounts are undergoing review due to a larger than expected number of complaints with the Financial Ombudsman Service. A provision has been raised to cover potential redress pending conclusion of this review, with any payments expected to be managed on a case by case basis.

(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.

1.11. 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 Group 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 aims to hedge. The portfolios comprise 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 Income Statement together with the changes in the fair value of the hedged items that are attributable to the hedged risk.

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2021 (continued)

1. Basis of Preparation (continued)

1.11. Hedge Accounting (continued)

Fair Value Hedge Accounting for Portfolio Hedges of Interest Rate Risk (continued)

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 Income Statement. For the portfolio hedged items, the cumulative adjustment is amortised to the Income Statement 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 Income Statement once the asset is available for use. The estimated useful life and amortisation method are reviewed at the end of each financial year, with the effect of any changes in estimate being accounted for on a prospective basis. The useful life has been assessed based on either the length of the licence or expected code obsolescence. 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 |

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2021 (continued)

1. Basis of Preparation (continued)

1.14. Intangible Assets (continued)

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 year.

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 the Income Statement.

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 years. A reversal of an impairment loss is recognised in the Income Statement.

1.16. Provisions for Liabilities

Provisions are recognised when the following criteria are met:

- the Group has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources will be required to settle the obligation; and
- and the amount of the obligation can be estimated reliably

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2021 (continued)

1. Basis of Preparation (continued)

1.16. Provisions for Liabilities (continued)

In particular:

- restructuring provisions are recognised when the Group has a detailed, formal plan for the restructuring and has raised a valid expectation in those affected by either starting to implement the plan or announcing its main features to those affected and therefore has a legal or constructive obligation to carry out the restructuring

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as a finance cost.

1.17. Taxation

Tax is recognised in the Income Statement, 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 probable that future taxable profit will be available against which the temporary differences can be utilised.

1.18. 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 into 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 (after deduction of impairment provisions) of the financial asset or liability at initial recognition.

1.19. Fees and Commissions

Fees and commissions that are not integral to the effective interest rate calculation are recognised in the Income Statement as services are provided, where there is no obligation to provide any ongoing services as a result, these relate to transaction fee income / rebates based on usage.

1.20. Share-based Incentive Schemes

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').

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2021 (continued)

1. Basis of Preparation (continued)

1.20. Share-based Incentive Schemes (continued)

Both schemes are accounted for as equity settled. The cost of the schemes are measured by reference to the fair value of the awards on the date they are granted and the number of awards expected to vest, and is recognised as an expense from the vest commencement date with a corresponding increase in equity.

The shares in relation to the JSOP are held in an Employee Benefit Trust ('EBT') which jointly own the shares with the participant. As a special purpose entity that is classified as an intermediary payment arrangement, the EBTs are accounted for as an extension of TML's business and consolidated in the results of TML.

The primary vesting condition for the USOP and JSOP is continued employment with the Group over the service period. The employee benefit expense is recognised over the vesting period over which all the specified vesting conditions are to be satisfied.

Historically some senior employees were also entitled to receive remuneration in the form of shares under an Employee Share Scheme ('ESS'). The shares are all either fully vested or have lapsed. 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 were granted and recognised as an expense from the employment date with a corresponding increase in equity. The total employee benefit expense has been recognised over the vesting period over which all the specified vesting conditions have been 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.

1.21. Business Combinations and Goodwill

Business combinations are accounted for by applying the purchase method.

The cost of a business combination is the fair value of the consideration given, liabilities incurred or assumed and of equity instruments issued plus the costs directly attributable to the business combination.

On acquisition of a business, fair values are attributed to the identifiable assets and liabilities unless the fair value cannot be measured reliably, in which case the value is incorporated in goodwill. Intangible assets are only recognised separately from goodwill where they are separable and arise from contractual or other legal rights.

Goodwill recognised represents the excess of the fair value and directly attributable costs of the purchase consideration over the fair values to the Group's interest in the identifiable net assets and liabilities.

On acquisition, goodwill is allocated to CGU's that are expected to benefit from the combination.

Goodwill is amortised over its expected useful life which is estimated to be 10 years. Goodwill is assessed for impairment when there are indicators of impairment and any impairment is charged to the Income Statement. No reversals of impairment are recognised.

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2021 (continued)

2. Interest Income

| Group | 2021 | 2020 |
|--|---------------|---------------|
| | £'000 | £'000 |
| Interest Income on: | | |
| - Cash and balances at central banks | 234 | 180 |
| - Loans and advances to banks | 1 | 10 |
| - Loans and advances to customers | 21,267 | 18,516 |
| - Debt securities | 69 | 154 |
| Net interest expense on loan interest rate swaps | (145) | (80) |
| | 21,426 | 18,780 |

Certain prior year amounts have been amended to reflect changes in presentation and classification of interest income in the current year.

3. Interest Expense

| Group | 2021 | 2020 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Interest Expense on: | | |
| - Deposits by banks | 45 | 115 |
| - Customer accounts | 6,430 | 6,463 |
| Net interest income on deposit interest rate swaps | (20) | - |
| | 6,455 | 6,578 |

4. Fees and Commission

| Group | 2021 | 2020 |
|--------------------------------------|--------------|--------------|
| | £'000 | £'000 |
| Income | | |
| Credit card - net interchange income | - | 311 |
| Credit card - other fee income | 11 | 235 |
| | 11 | 546 |
| Expense | | |
| Forward flow partner service fees | 315 | 784 |
| Performance fees | 167 | 475 |
| Credit card cashback | - | 438 |
| | 482 | 1,697 |

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2021 (continued)

5. Net Gains on Derivatives and Hedge Ineffectiveness

| Group | 2021 £'000 | 2020 £'000 |
|---|-----------------------|-----------------------|
| Net gain on derivatives not in a hedging relationship | 78 | 96 |
| Net gain from hedge ineffectiveness | 37 | 6 |
| | 115 | 102 |
| Net gain from hedge ineffectiveness: | | |
| Gain/(loss) on hedging instruments | 2,295 | (184) |
| (Loss)/gain on hedged items | (2,258) | 190 |
| | 37 | 6 |

6. Other Operating Income

| Group | 2021 £'000 | 2020 £'000 |
|----------------------------------|-----------------------|-----------------------|
| Visa Inc. shares dividend income | 23 | 11 |
| Other income | 95 | 14 |
| | 118 | 25 |

7. Operating Expenses

| Group | 2021 £'000 | 2020 £'000 |
|--------------------------------------|-----------------------|-----------------------|
| Staff costs | 14,559 | 12,531 |
| Amortisation of intangible assets | 2,043 | 1,936 |
| Impairment of intangible assets | - | 390 |
| App costs | 62 | 218 |
| Credit card costs | 852 | 3,798 |
| IT costs | 4,956 | 5,194 |
| Rent | 1,091 | 2,366 |
| Depreciation | 111 | 277 |
| Fees payable to the Group's auditors | 974 | 748 |
| Other administrative costs | 6,397 | 7,716 |
| | 31,045 | 35,174 |

Included in staff costs is £nil expenditure related to internal costs for research and development that have not been capitalised as an intangible asset (2020: £808k (restated)).

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2021 (continued)

8. Auditors' Remuneration

| | 2021 | 2020 |
|---|------------|------------|
| Group | £'000 | £'000 |
| Audit of the Group's Financial Statements | 932 | 694 |
| Other services | 42 | 54 |
| | 974 | 748 |

The fees payable for the audit of the Group's Financial Statements includes £720k in relation to the audit of the Company's subsidiaries (2020: £540k). Other services provided during the current and prior year by the Group's auditors relate to audit of regulatory reporting submissions.

9. Employees

| | 2021 | 2020 |
|--|---------------|---------------|
| Group | £'000 | £'000 |
| Wages and salaries | 12,579 | 9,408 |
| Social security costs | 1,387 | 1,154 |
| Pension costs | 355 | 245 |
| Share-based payments | (2) | 1,617 |
| Other staff costs | 240 | 107 |
| | 14,559 | 12,531 |
| The average number of employees, including Directors | 181 | 170 |

10. Directors' Remuneration

| | 2021 | 2020 |
|----------------------------------|--------------|------------|
| Total Directors' Emoluments | £'000 | £'000 |
| Remuneration | 1,051 | 527 |
| Compensation for loss of office | 76 | - |
| Pension contributions | 17 | 14 |
| | 1,144 | 541 |
| Highest Paid Director Emoluments | | |
| Remuneration | 225 | 244 |
| Pension contributions | - | 7 |
| | 225 | 251 |

During the year, 2 Directors were participants in the Group's long-term share incentive schemes (2020: 3). 7,215k share-based payment awards were issued to Directors in 2021 (2020: nil), 2,515k of which were equity settled share based payment awards issued from the existing MIP. A further award based on a notional of 4,700k shares held by the EBT was made to one Director. No Directors exercised share options in the parent's shares during the year (2020: nil). Further details of the relevant incentive plans are outlined in Note 30.

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2021 (continued)

11. Taxation

Group

| | | |
|---|--------------|--------------|
| The taxation charge based on the loss for the year comprises: | 2021 | 2020 |
| | £'000 | £'000 |
| Current tax: | | |
| UK corporation tax | - | - |
| Adjustments with respect to prior years | - | - |
| Total current tax | - | - |
| Deferred tax: | | |
| Current year | (177) | (87) |
| Total deferred tax | (177) | (87) |
| Taxation credit on ordinary activities | (177) | (87) |
| Total deferred tax relating to items of other comprehensive income | 177 | 87 |

| | | |
|---|--------------|--------------|
| Group | 2021 | 2020 |
| | £'000 | £'000 |
| Loss on ordinary activities before taxation | (19,586) | (30,638) |

| | | |
|--|---------|---------|
| Loss on ordinary activities before taxation multiplied by the standard rate of corporation tax of 19.00% (2020: 19%) | (3,721) | (5,821) |
|--|---------|---------|

| | | |
|--|-------|-------|
| Expenses not deductible for tax purposes | 238 | 77 |
| Income not taxable | (29) | (395) |
| Utilisation of unrecognised tax losses | (177) | (87) |
| Deferred tax asset not recognised | 3,512 | 6,139 |
| Current tax credit for the year | (177) | (87) |

| | | |
|--|------------|------------|
| Standard rate of corporation tax: | 19% | 19% |
|--|------------|------------|

| | | |
|---|--------------|--------------|
| Deferred tax assets not recognised | 2021 | 2020 |
| | £'000 | £'000 |
| Tax losses | 39,787 | 29,317 |
| Short term timing differences | - | 9 |
| Fixed assets | 419 | 426 |

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2021 (continued)

11. Taxation (continued)

| Analysis of deferred tax liability / (asset) | 2021 £'000 | 2020 £'000 |
|--|---------------|---------------|
| Losses | 809 | 383 |
| Short-term timing differences | (828) | (355) |
| Fixed assets | 19 | (28) |
| Total Deferred tax (asset) /Liability | - | - |

Since 1 April 2017, the statutory rate of UK corporation tax has been 19%. The previously enacted corporation tax reduction to 17% on 1 April 2020 was cancelled in the Budget of 11 March 2020, and a resolution effecting this passed by Parliament on 17 March 2020. An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the Group's future current tax charge accordingly.

In its Budget held in October 2021, the UK Government announced that the banking surcharge rate will be reduced from 8% to 3% from 1 April 2023. This reduction in the banking surcharge rate was substantively enacted on 2 February 2022 and the impact on the Financial Statements would not be material so is not disclosed separately.

12. Cash and Balances at Central Banks

| | 2021 £'000 | 2020 £'000 |
|---------------------------------|---------------|---------------|
| Bank of England Reserve Account | 360,378 | 149,819 |

13. Loans and Advances to Banks

| Group | 2021 £'000 | 2020 £'000 |
|---------------------|---------------|---------------|
| Repayable on demand | 18,331 | 13,416 |
| Encumbered cash | 500 | 4,360 |
| | 18,831 | 17,776 |

Encumbered cash is cash committed to banks for collateral or lending purposes so is repayable in accordance with the original contract terms which can vary based on circumstance. The encumbered cash balance consists of collateral relating to derivative instruments of £500k (2020: £3,360k) and £nil balance relating to Mastercard collateral (2020: £1,000k).

| Company | 2021 £'000 | 2020 £'000 |
|---------------------|---------------|---------------|
| Repayable on demand | 997 | 243 |

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2021 (continued)

14. Loans and Advances to Customers

| | 2021 | 2020 |
|---|----------------|----------------|
| Group | £'000 | £'000 |
| Gross loans and advances to customers | 445,076 | 408,773 |
| Provision for impairment | (5,834) | (14,113) |
| Fair value adjustment for portfolio hedged risk | (2,238) | 95 |
| | 437,004 | 394,755 |
| Remaining maturity: | | |
| Repayable on demand | 13,966 | 5,360 |
| 3 months or less | 12,566 | 4,822 |
| Between 3 months and 1 year | 31,829 | 16,270 |
| Between 1 year and 5 years | 175,757 | 131,108 |
| Over 5 years | 210,958 | 251,213 |
| | 445,076 | 408,773 |

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

| | 2021 | 2020 |
|-------------------|----------------|----------------|
| | £'000 | £'000 |
| Secured lending | 262,182 | 270,288 |
| Unsecured lending | 182,894 | 138,485 |
| | 445,076 | 408,773 |
| | % | % |
| Secured lending | 59 | 66 |
| Unsecured lending | 41 | 34 |
| | 100 | 100 |

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2021 (continued)

14. Loans and Advances to Customers (continued)

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

| | Secured lending £'000 | Unsecured lending £'000 | Total £'000 |
|---|-----------------------------|-------------------------------|----------------|
| Year ended 31 December 2021 | | | |
| Opening balance | - | 14,113 | 14,113 |
| Provisions on sold portfolios | - | (7,158) | (7,158) |
| New impairment provisions less releases | 48 | 1,657 | 1,705 |
| Write-offs less recoveries of amounts previously written off | - | (2,826) | (2,826) |
| Closing balance | 48 | 5,786 | 5,834 |
| Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance | - | 8,443 | 8,443 |
| | | | |
| | Secured lending £'000 | Unsecured lending £'000 | Total £'000 |
| Year ended 31 December 2020 | | | |
| Opening balance | - | 8,347 | 8,347 |
| New provisions on portfolio acquisitions | - | 7,659 | 7,659 |
| New impairment provisions less releases | - | 6,642 | 6,642 |
| Amounts written-off | - | (8,535) | (8,535) |
| Closing balance | - | 14,113 | 14,113 |
| Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance | - | 22,337 | 22,337 |

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

| | 2021 £'000 | 2020 £'000 |
|---|---------------|---------------|
| Provisions released | (1,121) | (1,893) |
| Write-offs | 2,867 | 8,566 |
| Recoveries of amounts previously written-off | (41) | (31) |
| Provision for bad and doubtful debts per Income Statement | 1,705 | 6,642 |

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2021 (continued)

15. Debt Securities

| | 2021 | 2020 |
|--|---------------|---------------|
| Group | £'000 | £'000 |
| European Investment Bank | 8,052 | 8,049 |
| Treasury Bills | - | 5,998 |
| Asian Development Bank | 14,065 | 14,041 |
| European Bank for Reconstruction and Development | 3,020 | - |
| United Kingdom Gilt | 5,078 | - |
| | 30,215 | 28,088 |

Debt securities held for liquidity purposes are classified as available for sale assets at market value. All securities except the United Kingdom Gilt are held as non-cash collateral against the Bank of England Term Funding Scheme. TBL does not hold the right to sell or re-pledge this collateral.

| | 2021 | 2020 |
|--------------------------------------|---------------|---------------|
| Remaining Maturity | £'000 | £'000 |
| Maturing in 3 months or less | - | 5,998 |
| Maturing between 3 months and 1 year | 5,078 | - |
| Maturing between 1 and 5 years | 25,137 | 22,090 |
| | 30,215 | 28,088 |

16. Derivatives held for Risk Management

| | 2021 | 2020 |
|-------------|-------|-------|
| Group | £'000 | £'000 |
| Assets | 2,358 | - |
| Liabilities | (89) | (104) |

As part of its risk management strategy, the Group holds interest rate swaps to hedge its interest rate risk arising from fixed rate exposures. The interest rate swaps are valued using a discount curve based on the Sterling Overnight Index Average Rate ('SONIA').

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 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. All derivatives that would otherwise be affected by the amendments to IAS 39 made by the International Accounting Standards Board ('IASB') in their Phase 1 IBOR reliefs to mitigate risks on hedge accounting arising from uncertainty around transition from IBOR to new benchmark interest rates, matured in 2021 and as such are not impacted.

Tandem Money Limited **Notes to the Financial Statements** **for the year ended 31 December 2021 (continued)**

17. Equity Shares

| Group | 2021 £'000 | 2020 £'000 |
|----------------------|-----------------------|-----------------------|
| Visa Inc. | 1,970 | 1,670 |
| Hiber Energy Limited | - | 1,000 |
| | 1,970 | 2,670 |

Equity shares are classified as available for sale financial assets and measured at fair value.

The shares in Visa Inc. consist of series A and B Convertible Preference stock and the fair value reflects a variety of conditions and provisions including a discount for the lack of marketability and litigation risk. There has been an increase in fair value of £271k recognised in other comprehensive income during the year (2020: £327k). The total dividend income recognised in the year in relation to the Visa Inc. shares is £23k (2020: £11k).

The shares in Hiber Energy Limited are not quoted in an active market and the fair value is determined by using a revenue multiple observed in the industry, discounted to present value. On 16 August 2021, Hiber Energy Limited entered administration. As a result, an impairment of £1,000k was recognised in profit and loss during the year (2020: £nil), reducing the carrying value to zero. Subsequently, the investment was written-off at year end as no further prospect of recovery was identified. The total income recognised in the year in relation to the Hiber Energy Limited shares is £nil (2020: £nil).

18. Investments in Subsidiaries

| Company | 2021 £'000 | 2020 £'000 |
|------------------------------|-----------------------|-----------------------|
| At cost | | |
| Allium Lending Group Limited | - | - |
| Tandem Bank Limited | 81,931 | 92,498 |
| Pariti Technologies Limited | 10 | 10 |
| | 81,941 | 92,508 |

An impairment loss relating to the investment in TBL of £22,874k was recognised during the year (2020: reversal of £25,866k*). TML invested £12,309k of capital into TBL during the year (2020: £33,065k).

No impairment loss or reversal relating to the investment in ALG was recognised during the year (2020: loss of £9,250k*).

*Denotes amendments made to correct consistency errors in the prior year Financial Statements.

Wholly owned subsidiary companies

As at 31 December 2021, the Group includes the following subsidiary companies whose results are included in the consolidated Financial Statements:

| Name | Holding | Ownership Type | Nature of business |
|------------------------------|----------------|-----------------------|---|
| Tandem Bank Limited | 100% | Direct | Providing loans and deposits to consumers |
| Pariti Technologies Limited | 100% | Direct | Dormant |
| Allium Lending Group Limited | 100% | Direct | Holding company |
| GDFC Assets Limited | 100% | Indirect | Loan servicing |
| GDFC HoldCo Limited | 100% | Indirect | Holding company |
| GDFC Services PLC | 100% | Indirect | Loan servicing and origination |

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2021 (continued)

18. Investments in Subsidiaries (continued)

All subsidiaries were incorporated in the United Kingdom and have a registered office address of Hogarth House, 136 High Holborn, London, WC1V 6PX.

Pariti Technologies Limited is exempt from audit by virtue of s479A of Companies Act 2006.

19. Fixed Assets

Intangible Assets

| Group | Internally Generated Software £000 | Tandem Trademark £000 | Computer Software £000 | Regulatory Licences £000 | Work in Progress £000 | Goodwill £000 | Total £000 |
|--|---|-----------------------------|------------------------------|--------------------------------|-----------------------------|------------------|---------------|
| Cost | | | | | | | |
| As at 1 January 2021 | 1,492 | 60 | 315 | 2,395 | 204 | 11,188 | 15,654 |
| Additions | 157 | 2 | 57 | - | 67 | - | 283 |
| Transfer of Work in progress | - | - | 204 | - | (204) | - | - |
| Write-offs | - | - | - | - | - | - | - |
| As at 31 December 2021 | 1,649 | 62 | 576 | 2,395 | 67 | 11,188 | 15,937 |
| Amortisation | | | | | | | |
| As at 1 January 2021 | 225 | 28 | 23 | 943 | - | 344 | 1,563 |
| Charge | 510 | 6 | 139 | 209 | - | 1,179 | 2,043 |
| Write-offs | - | - | - | - | - | - | - |
| As at 31 December 2021 | 735 | 34 | 162 | 1,152 | - | 1,523 | 3,606 |
| Net book value as at 31 December 2021 | 914 | 28 | 414 | 1,243 | 67 | 9,665 | 12,331 |

| Group | Internally Generated Software £000 | Tandem Trademark £000 | Computer Software £000 | Regulatory Licences £000 | Work in Progress £000 | Goodwill £000 | Total £000 |
|---|---|-----------------------------|------------------------------|--------------------------------|-----------------------------|------------------|---------------|
| Cost | | | | | | | |
| As at 1 January 2020 | 4,456 | 57 | 211 | 2,395 | 557 | - | 7,676 |
| Additions related to acquisition of subsidiary | - | 3 | 315 | - | 76 | 11,188 | 11,582 |
| Additions | 935 | - | - | - | 128 | - | 1,063 |
| Transfer of Work in progress | 557 | - | - | - | (557) | - | - |
| Write-offs | (4,456) | - | (211) | - | - | - | (4,667) |
| As at 31 December 2020 | 1,492 | 60 | 315 | 2,395 | 204 | 11,188 | 15,654 |
| Amortisation | | | | | | | |
| As at 1 January 2020 | 2,935 | 22 | 211 | 736 | - | - | 3,904 |
| Charge | 1,356 | 6 | 23 | 207 | - | 344 | 1,936 |
| Write-offs | (4,066) | - | (211) | - | - | - | (4,277) |
| As at 1 January 2020 | 225 | 28 | 23 | 943 | - | 344 | 1,563 |
| Net book value as at 31 December 2020 | 1,267 | 32 | 292 | 1,452 | 204 | 10,844 | 14,091 |

Tandem Money Limited **Notes to the Financial Statements** **for the year ended 31 December 2021 (continued)**

19. Fixed Assets (continued)

Intangible Assets (continued)

| Company | Internally Generated Software £'000 | Tandem Trademark £'000 | Work in Progress £'000 | Total £'000 |
|--|--|------------------------------|------------------------------|----------------|
| Cost | | | | |
| As at 1 January 2021 | 1,492 | 60 | - | 1,552 |
| Additions | 157 | 2 | 38 | 197 |
| Transfer from work in progress | - | - | - | - |
| Write-offs | - | - | - | - |
| As at 31 December 2021 | 1,649 | 62 | 38 | 1,749 |
| Amortisation | | | | |
| As at 1 January 2021 | 225 | 28 | - | 253 |
| Charge | 510 | 6 | - | 516 |
| Write-offs | - | - | - | - |
| As at 31 December 2021 | 735 | 34 | - | 769 |
| Net book value as at 31 December 2021 | 914 | 28 | 38 | 980 |

| Company | Internally Generated Software £'000 | Tandem Trademark £'000 | Work in Progress £'000 | Total £'000 |
|--|--|------------------------------|------------------------------|----------------|
| Cost | | | | |
| As at 1 January 2020 | 4,456 | 57 | 557 | 5,070 |
| Additions | 935 | 3 | - | 938 |
| Transfer from work in progress | 557 | - | (557) | - |
| Write-offs | (4,456) | - | - | (4,456) |
| As at 31 December 2020 | 1,492 | 60 | - | 1,552 |
| Amortisation | | | | |
| As at 1 January 2020 | 2,935 | 22 | - | 2,957 |
| Charge | 1,356 | 6 | - | 1,362 |
| Write-offs | (4,066) | - | - | (4,066) |
| As at 31 December 2020 | 225 | 28 | - | 253 |
| Net book value as at 31 December 2020 | 1,267 | 32 | - | 1,299 |

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2021 (continued)

19. Fixed Assets (continued)

Intangible Assets (continued)

Group

The individual intangible assets, excluding goodwill, which are material to the Financial Statements of the Group consist of the following:

- **Internally Generated Software**

A mobile savings application allowing customers to create and manage their deposit accounts. The mobile savings application has a net book value of £521k (2020: £795k) and remaining amortisation period of 2 years (2020: 3 years).

- **Regulatory Licences**

A licence granted by the FCA and PRA allowing the Group to act as a deposit-taker in the United Kingdom. The licence has a net book value of £1,243k (2020: £1,452k) and a remaining amortisation period of 6 years (2020: 7 years)

Company

The individual intangible assets, excluding goodwill, which are material to the Financial Statements of the Company consist of the following:

- **Internally Generated Software**

A mobile savings application allowing customers to create and manage their deposit accounts. The mobile savings application has a net book value of £521k (2020: £795k) and remaining amortisation period of 2 years (2020: 3 years).

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2021 (continued)

19. Fixed Assets (continued)

Tangible Assets

| Group | Leasehold Improvements £'000 | Office and IT Equipment £'000 | Fixtures and Fittings £'000 | Vehicles £'000 | Total £'000 |
|--|------------------------------------|-------------------------------------|-----------------------------------|-------------------|----------------|
| Cost | | | | | |
| As at 1 January 2021 | 28 | 381 | 72 | 32 | 513 |
| Additions | 18 | 66 | - | - | 84 |
| Write-offs | (28) | (115) | (65) | (32) | (240) |
| As at 31 December 2021 | 18 | 332 | 7 | - | 357 |
| Accumulated Depreciation | | | | | |
| As at 1 January 2021 | 16 | 237 | 59 | 32 | 344 |
| Charge | 15 | 92 | 4 | - | 111 |
| Write-offs | (20) | (105) | (57) | (32) | (214) |
| As at 31 December 2021 | 11 | 224 | 6 | - | 241 |
| Net book value as at 31 December 2021 | 7 | 108 | 1 | - | 116 |

| Group | Leasehold Improvements £'000 | Office and IT Equipment £'000 | Fixtures and Fittings £'000 | Vehicles £'000 | Total £'000 |
|---|------------------------------------|-------------------------------------|-----------------------------------|-------------------|----------------|
| Cost | | | | | |
| As at 1 January 2020 | 28 | 318 | 72 | 32 | 450 |
| Additions related to acquisition of subsidiary | 19 | 12 | 111 | - | 142 |
| Additions | - | 51 | - | - | 51 |
| Write-offs | (19) | - | (111) | - | (130) |
| As at 31 December 2020 | 28 | 381 | 72 | 32 | 513 |
| Accumulated Depreciation | | | | | |
| As at 1 January 2020 | 6 | 128 | 36 | 27 | 197 |
| Charge | 29 | 109 | 134 | 5 | 277 |
| Write-offs | (19) | - | (111) | - | (130) |
| As at 31 December 2020 | 16 | 237 | 59 | 32 | 344 |
| Net book value as at 31 December 2020 | 12 | 144 | 13 | - | 169 |

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2021 (continued)

19. Fixed Assets (continued)

Tangible Assets (continued)

| Company | Leasehold Improvements £'000 | Office and IT Equipment £'000 | Fixtures and Fittings £'000 | Vehicles £'000 | Total £'000 |
|--|------------------------------------|-------------------------------------|-----------------------------------|-------------------|----------------|
| Cost | | | | | |
| As at 1 January 2021 | 28 | 350 | 72 | 32 | 482 |
| Additions | 18 | 62 | - | - | 80 |
| Write-offs | (28) | (115) | (65) | (32) | (240) |
| As at 31 December 2021 | 18 | 297 | 7 | - | 322 |
| Accumulated Depreciation | | | | | |
| As at 1 January 2021 | 16 | 234 | 59 | 32 | 341 |
| Charge | 15 | 85 | 4 | - | 104 |
| Write-offs | (20) | (105) | (57) | (32) | (214) |
| As at 31 December 2021 | 11 | 214 | 6 | - | 231 |
| Net Book Value as at 31 December 2021 | 7 | 83 | 1 | - | 91 |

| Company | Leasehold Improvements £'000 | Office and IT Equipment £'000 | Fixtures and Fittings £'000 | Vehicles £'000 | Total £'000 |
|--|------------------------------------|-------------------------------------|-----------------------------------|-------------------|----------------|
| Cost | | | | | |
| As at 1 January 2020 | 28 | 318 | 72 | 32 | 450 |
| Additions | - | 32 | - | - | 32 |
| Write-offs | - | - | - | - | - |
| As at 31 December 2020 | 28 | 350 | 72 | 32 | 482 |
| Accumulated Depreciation | | | | | |
| As at 1 January 2020 | 6 | 128 | 36 | 27 | 197 |
| Charge | 10 | 106 | 23 | 5 | 144 |
| Write-offs | - | - | - | - | - |
| As at 31 December 2020 | 16 | 234 | 59 | 32 | 341 |
| Net Book Value as at 31 December 2020 | 12 | 116 | 13 | - | 141 |

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2021 (continued)

20. Other Assets

| | 2021 £'000 | 2020 £'000 |
|-------------------------------------|---------------|---------------|
| Group | | |
| Credit card settlement balances | - | 8 |
| Trade receivables | 3,728 | 4,900 |
| Refundable deposits | 110 | 636 |
| Research and development tax credit | 151 | 355 |
| Sundry debtors | 50 | 1,121 |
| | 4,039 | 7,020 |
| Company | | |
| Refundable deposits | 92 | 365 |
| R&D tax credit | 151 | 355 |
| Intercompany | 12 | 1,771 |
| Sundry debtors | 22 | 1,091 |
| | 277 | 3,582 |

The intercompany balance in the current year is with GDFC Services. The intercompany balance in the prior year is with TBL. See Note 38 for further information.

Trade receivables balance relates to collection accounts held with third party servicing providers, and is primarily driven by timing differences between the repayment of the loan by the customer to the third party provider, then the return of funds cash from the third party provider to Tandem.

21. Prepayments and Accrued Income

| | 2021 £'000 | 2020 £'000 |
|----------------|---------------|---------------|
| Group | | |
| Prepayments | 2,181 | 2,026 |
| Accrued income | 4 | 24 |
| | 2,185 | 2,050 |
| Company | | |
| Prepayments | 2,152 | 1,951 |

22. Deposits by Banks

| | 2021 £'000 | 2020 £'000 |
|-------------------------------------|---------------|---------------|
| Group | | |
| Bank of England Term Funding Scheme | 39,971 | 50,013 |
| Repayable: | | |
| 3 months or less | 16,513 | 13 |
| Between 1 and 5 years | 23,458 | 50,000 |
| | 39,971 | 50,013 |

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2021 (continued)

23. Customer Accounts

| | 2021 £'000 | 2020 £'000 |
|---|----------------|----------------|
| Group | | |
| Customer accounts | 771,236 | 494,962 |
| Fair value adjustment for portfolio hedged risk | (75) | - |
| | 771,161 | 494,962 |

24. Other Liabilities

| | 2021 £'000 | 2020 £'000 |
|---------------------------------------|---------------|---------------|
| Group | | |
| Trade creditors | 331 | 1,343 |
| Other taxes and social security costs | 430 | 476 |
| Cash settled share-based payments | 64 | 69 |
| Other liabilities | 852 | 2,088 |
| | 1,677 | 3,976 |
| Company | | |
| Trade creditors | 241 | 602 |
| Other taxes and social security costs | 359 | 265 |
| Cash settled share-based payments | 64 | 69 |
| Intercompany | 963 | - |
| Other liabilities | 345 | 115 |
| | 1,972 | 1,051 |

The intercompany balance in the current year is with TBL. Refer to Note 38 for further information on intercompany balances.

25. Accruals and Deferred Income

| | 2021 £'000 | 2020 £'000 |
|----------------|---------------|---------------|
| Group | | |
| Accruals | 2,086 | 2,531 |
| Company | | |
| Accruals | 1,581 | 2,233 |

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2021 (continued)

26. Provisions for Liabilities

| Group | Restructuring Provision £'000 | Total £'000 |
|----------------------------------|--|------------------------|
| As at 1 January 2021 | - | - |
| Additions through profit or loss | 943 | 943 |
| As at 31 December 2021 | 943 | 943 |

| Company | Restructuring Provision £'000 | Total £'000 |
|----------------------------------|--|------------------------|
| As at 1 January 2021 | - | - |
| Additions through profit or loss | 943 | 943 |
| As at 31 December 2021 | 943 | 943 |

Restructuring Provision

In December 2021, Tandem began implementing a restructuring plan in preparation for the acquisition of Oplo Holdings Limited. The provision consists of redundancy costs for impacted employees as well as expected costs related to the integration of Tandem and Oplo Holdings Limited. The amount provided for is expected to be paid in 2022.

27. Commitments and Contingent Liabilities

The Group had the following future commitments in relation to lending contracts:

| | 2021 £'000 | 2020 £'000 |
|-------------------------------|-----------------------|-----------------------|
| Commitments | | |
| Unsecured lending commitments | 24,200 | 11,360 |
| Mortgages | 4,525 | 4,104 |
| | 28,725 | 15,464 |

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2021 (continued)

28. Called-up Share Capital and Reserves

| Group | 2021 | 2020 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Called-up ordinary share capital | | |
| At 1 January | 804 | 242 |
| Issued as consideration for subsidiary | - | 62 |
| Issued for cash | 111 | 500 |
| At 31 December | 915 | 804 |
| Share premium account | | |
| At 1 January | 202,694 | 142,568 |
| Issued as consideration for subsidiary | - | 7,797 |
| Issued for cash | 7,977 | 52,329 |
| At 31 December | 210,671 | 202,694 |
| Warrants | 1,391 | 1,391 |
| Other reserves | | |
| Share options reserve | 4,683 | 5,641 |
| Distributable reserves from employee benefit trusts | 781 | - |
| | 5,464 | 5,641 |
| Retained reserves | (164,941) | (145,678) |
| Company | 2021 | 2020 |
| | £'000 | £'000 |
| Called-up ordinary share capital | | |
| At 1 January | 804 | 242 |
| Issued as consideration for subsidiary | - | 62 |
| Issued for cash | 111 | 500 |
| At 31 December | 915 | 804 |
| Share premium account | | |
| At 1 January | 202,694 | 142,568 |
| Issued as consideration for subsidiary | - | 7,797 |
| Issued for cash | 7,977 | 52,329 |
| At 31 December | 210,671 | 202,694 |
| Warrants | 1,391 | 1,391 |

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2021 (continued)

28. Called-up Share Capital and Reserves (continued)

| | 2021 £'000 | 2020 £'000 |
|--|------------------|------------------|
| Other reserves | | |
| Share options reserve | 4,683 | 5,641 |
| Distributable reserves from employee benefits trusts | 781 | - |
| | 5,464 | 5,641 |
| Retained reserves | (136,499) | (114,090) |

As at 31 December 2021, the Company had 457,513k ordinary shares of £0.002 authorised, fully paid up and in issue (2020: 402,045k). During the year ended 31 December 2021, the Company issued 55,467k ordinary shares (2020: 249,994k) of £0.002 nominal value for cash consideration of £8,088k (2020: £52,829k). During the year ended 31 December 2021, the Company issued no ordinary shares as consideration for the purchase of a subsidiary (2020: 31,104k) with a deemed value of £nil (2020: £7,797k). There are no restrictions on the distribution of dividends and the repayment of capital.

On 4 July 2019 ALG and Abundance Investment Ltd entered into a warrant instrument pursuant to which Allium issued warrants entitling the holders of such warrants to subscribe for 671.4k B Ordinary Shares in the capital of ALG. The acquisition of the entire issued share capital of ALG by the Company constitutes a Share-for-Share Sale which, in accordance with the provisions of the Original Warrant Instrument, results in the cancellation of the Original Warrants and the issue of replacement warrants in respect of shares in the Company to the holders of the Original Warrants. Accordingly, the Company, by resolution of its Directors and shareholders and with the consent of its Major Shareholders, agreed to issue warrants to subscribe for 5,506.8k Ordinary Shares in the capital of the Company on the terms set out in this Instrument.

As at 31 December 2021 15% of share capital is reserved for share-based payments). The total number of share awards outstanding under share-based payment schemes is 16,102k (2020: 11,858k), of which 7,718k were awarded in 2021 (2020: nil). No share options were exercised in 2021 (2020: nil). There are shares held in EBTs in relation to share-based award schemes. The EBTs are consolidated in the Company results and the distributable reserves form part of other reserves. See Note 30 for further details on share-based payments.

29. Dividends

There is no dividend payable for the year ended 31 December 2021 in respect of the ordinary shares. (31 December 2020: £nil).

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2021 (continued)

30. Share-based Payments

As at 31 December 2021, 3 employee incentive schemes are in operation by the Group: the JSOP, the USOP and the ESS.

The expense charged to the Income Statement for each during 2021 was as follows:

| | 2021 | 2020 |
|--------------------------------|-------|-------|
| | £'000 | £'000 |
| Joint Share Ownership Plan | 81 | 1,294 |
| Unapproved Share Option Scheme | (79) | 343 |
| Employee Share Scheme | (4) | (20) |
| | (2) | 1,617 |

Joint Share Ownership Plan

The participants of the JSOP are required to make a payment up front, the subscription price of £0.06 per option, for the right to the future growth in the company's value above a predetermined hurdle price (£1.55). The shares are held in an EBT which jointly own the shares. The awards can be redeemed only in the event of an asset or share sale for a controlling interest in the Company or an Initial Public Offering ('IPO'), 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 RemCo.

There is an Employee JSOP scheme and a Founder JSOP scheme, both of which have 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 RemCo review every quarter which considers company and individual performance criteria together with conduct and forfeiture provisions as set out in the Remuneration Code. They are classified as equity settled and the fair value of the awards calculated as at the date of grant and are not remeasured.

| | 2021 | 2020 |
|-------------------------------|---------------|---------------|
| | No. of awards | No. of awards |
| | (£'000) | (£'000) |
| Outstanding as at 1 January | 10,164 | 12,308 |
| Forfeited during the year | (2,376) | (2,144) |
| Outstanding as at 31 December | 7,788 | 10,164 |

In addition to the JSOP schemes above, in 2021 a separate award has been issued that is not part of the MIP, but is using the potential value in the EBTs representing the 'below the hurdle' value of the shares. Under the terms, the participant will receive the value from £0 to £1.55 based on a notional of 4,700k shares, providing a hurdle price of £0.29 is achieved in the event of an asset or share sale for a controlling interest in the Company or an IPO. The award has been classified as a cash settled share-based payment and the fair value of the award is calculated at each reporting date.

The fair values of the above awards have been estimated using an option valuation model as there are not currently open market conditions for these shares given they are privately held. The significant inputs are the share price and the volatility. The share price is based on the prevailing share price from the latest capital raises at the date of the valuation. The expected volatility is determined by assessing the historical volatility of listed peers to obtain an estimated 'implied' volatility at this date. Other inputs included the risk-free rate and length of hold, however these do not impact the fair value materially.

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2021 (continued)

30. Share-based Payments (continued)

Unapproved Share Option Scheme

The Company has granted options on Ordinary B shares in an USOP in 2016 and has made further grants in subsequent years with eligibility determined by the Board.

In 2020 all USOP option holders were issued with replacement options. The replacement options were over the same number of shares with the same vesting schedule. The only modifications were for options previously issued with an exercise price of £1.33, the exercise price has been reduced to £0.253 per share. These options are equity settled with the option giving the holder the right to acquire shares at a future date at the exercise price of £0.002 or £0.253 (depending on the terms when they were issued).

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 or an Initial Public Offering.

As an equity settled scheme, the fair value of the options are calculated as at the date of grant and is not re-measured. As with the JSOP awards, the fair value has been estimated using an option valuation model with the significant inputs being the share price and the volatility. The share price is based on the prevailing share price from the latest capital raises at the date of the valuation. The expected volatility is determined by assessing the historical volatility of listed peers to obtain an estimated 'implied' volatility at this date.

The number and weighted average exercise price of options outstanding as at the Balance Sheet date were as follows:

| | 2021 | | 2020 | |
|-------------------------------|---------|---------------------------------|---------|---------------------------------|
| | No. | Weighted average exercise price | No. | Weighted average exercise price |
| | ('000) | £ | ('000) | £ |
| Outstanding as at 1 January | 1,553 | 0.039 | 1,632 | 0.257 |
| Granted during the year | 3,018 | 0.174 | 1,711 | 0.056 |
| Forfeited during the year | (1,098) | 0.176 | (181) | 0.393 |
| Cancelled during the year | - | - | (1,609) | 0.239 |
| Outstanding as at 31 December | 3,473 | 0.113 | 1,553 | 0.039 |

There were no exercisable options in the year (2020: nil).

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2021 (continued)

30. Share-based Payments (continued)

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. The vesting period began from the date of employment with the Company. The fair value was determined at the grant date and is not re-measured.

All shares are now either fully vested or lapsed. There were 296k shares granted under the ESS scheme, of which 155k have lapsed.

| | 2021 No. of shares ('000) | 2020 No. of shares ('000) |
|-------------------------------|--|--|
| Outstanding as at 1 January | 141 | 143 |
| Forfeited during the year | - | (2) |
| Outstanding as at 31 December | 141 | 141 |

31. Operating Leases

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

| Group | 2021 £'000 | 2020 £'000 |
|----------------------------|---------------|---------------|
| Less than 1 year | 428 | 767 |
| Between 1 year and 5 years | - | - |
| | 428 | 767 |

| Company | 2021 £'000 | 2020 £'000 |
|----------------------------|---------------|---------------|
| Less than 1 year | 274 | 595 |
| Between 1 year and 5 years | - | - |
| | 274 | 595 |

Total lease payments made by the Group in 2021 were £1,086k (2020: £2,369k).

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2021 (continued)

32. Notes to the Cash Flow Statement

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

| | 2021 | 2020 |
|--|---------|---------|
| Group | £'000 | £'000 |
| Cash and balances at central banks | 360,378 | 149,819 |
| Loans and advances to banks: | | |
| Repayable on demand | 18,331 | 13,416 |
| Cash collateral on derivatives placed with banks | 500 | 4,360 |
| | 379,209 | 167,595 |
| Company | | |
| Repayable on demand | 997 | 243 |

Reconciliation of loss before taxation to new cash flows generated from operating activities:

| | 2021 | 2020 |
|--|-----------------|-----------------|
| Group | £'000 | £'000 |
| Loss before taxation | (19,586) | (30,638) |
| Impairment movement on loans and advances to customers | 1,705 | 6,642 |
| Amortisation of intangible fixed assets | 2,043 | 1,936 |
| Depreciation | 111 | 277 |
| Write-off of tangible and intangible assets | 26 | 390 |
| Share-based payments | (177) | 1,699 |
| Fair value adjustments for portfolio hedged assets | 2,333 | (214) |
| Fair value adjustments for portfolio hedged liabilities | (75) | - |
| Fair value gain/(loss) on derivatives | (2,373) | 112 |
| Loss on sale of loan portfolios | 569 | - |
| Write-off of equity shares | 1,000 | - |
| Unrealised foreign exchange (gain)/loss on equity shares | (36) | 60 |
| Non-cash items included in loss before taxation | 5,126 | 10,902 |
| Increase in loans and advances to customers | (46,856) | (76,119) |
| Decrease in derivative instruments | - | 1 |
| Decrease/(increase) in equity shares | 7 | (2) |
| Decrease/(increase) in other assets | 2,981 | (248) |
| Increase in prepayments and accrued income | (135) | (1,007) |
| Decrease in deposits by banks | (10,042) | (82) |
| Increase in customer accounts | 276,274 | 131,187 |
| Decrease in other deposits | - | (5,389) |
| Decrease in other liabilities | (2,299) | (1,874) |
| (Decrease)/increase in accruals and deferred income | (445) | 576 |
| Increase in provisions for liabilities | 943 | - |
| Change in operating assets and liabilities | 220,428 | 47,043 |
| Cash generated from operating activities | 205,968 | 27,307 |

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2021 (continued)

32. Notes to the Cash Flow Statement (continued)

Analysis of changes in net debt

| | At 1 Jan 2021 £'000 | Cash flows £'000 | Fair value & exchange movements £'000 | Non-cash changes £'000 | As at 31 Dec 2021 £'000 |
|--------------------------------------|------------------------|---------------------|--|---------------------------|----------------------------|
| Cash and balances at central banks | 149,819 | 210,325 | - | 234 | 360,378 |
| Loans and advances to banks | 17,776 | 1,055 | - | - | 18,831 |
| Cash and cash equivalents | 167,595 | 211,380 | - | 234 | 379,209 |
| Deposits from banks | (50,013) | 10,045 | - | (3) | (39,971) |
| Customer accounts | (494,962) | (269,844) | 75 | (6,430) | (771,161) |
| Derivatives held for risk management | - | - | (89) | - | (89) |
| Total | (377,380) | (48,419) | (14) | (6,199) | (432,012) |

Non-cash changes represent interest accrued during the year and effective interest rate adjustments.

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2021 (continued)

33. Analysis of Financial Instruments by Classification Basis

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

| 31 December 2021 | Loans and Receivables £'000 | Available for Sale Securities £'000 | Derivatives Measured at Fair Value through Profit or Loss £'000 | Liabilities at Amortised Cost £'000 | Total £'000 |
|--------------------------------------|-----------------------------------|--|--|---|----------------|
| Financial Assets | | | | | |
| Cash and balances at central banks | 360,378 | - | - | - | 360,378 |
| Loans and advances to banks | 18,831 | - | - | - | 18,831 |
| Loans and advances to customers | 437,004 | - | - | - | 437,004 |
| Debt securities | - | 30,215 | - | - | 30,215 |
| Derivatives held for risk management | - | - | 2,358 | - | 2,358 |
| Equity shares | - | 1,970 | - | - | 1,970 |
| Total Financial Assets | 816,213 | 32,185 | 2,358 | - | 850,756 |
| Non-financial assets | | | | | 18,671 |
| Total Assets | | | | | 869,427 |
| Financial Liabilities | | | | | |
| Deposits by banks | - | - | - | 39,971 | 39,971 |
| Customer accounts | - | - | - | 771,161 | 771,161 |
| Derivative held for risk management | - | - | 89 | - | 89 |
| Other liabilities | - | - | - | 1,677 | 1,677 |
| Accruals and deferred income | - | - | - | 2,086 | 2,086 |
| Provisions for liabilities | - | - | - | 943 | 943 |
| Total Financial Liabilities | - | - | 89 | 815,838 | 815,927 |
| Total Liabilities | | | | | 815,927 |

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2021 (continued)

33. Analysis of Financial Instruments by Classification Basis
(continued)

| 31 December 2020 | Loans and Receivables £'000 | Available for Sale Securities £'000 | Derivatives Measured at Fair Value through Profit or Loss £'000 | Liabilities at Amortised Cost £'000 | Total £'000 |
|--------------------------------------|-----------------------------------|--|--|---|----------------|
| Financial Assets | | | | | |
| Cash and balances at central banks | 149,819 | - | - | - | 149,819 |
| Loans and advances to banks | 17,776 | - | - | - | 17,776 |
| Loans and advances to customers | 394,755 | - | - | - | 394,755 |
| Debt securities | - | 28,088 | - | - | 28,088 |
| Derivatives held for risk management | - | - | - | - | - |
| Equity shares | - | 2,670 | - | - | 2,670 |
| Total Financial Assets | 562,350 | 30,758 | - | - | 593,108 |
| Non-financial assets | | | | | 23,330 |
| Total Assets | | | | | 616,438 |
| Financial Liabilities | | | | | |
| Deposits from banks | - | - | - | 50,013 | 50,013 |
| Customer accounts | - | - | - | 494,962 | 494,962 |
| Derivative held for risk management | - | - | 104 | - | 104 |
| Other liabilities | - | - | - | 3,976 | 3,976 |
| Accruals and deferred income | - | - | - | 2,531 | 2,531 |
| Total Financial Liabilities | - | - | 104 | 551,482 | 551,586 |
| Total Liabilities | | | | | 551,586 |

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2021 (continued)

34. 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.

34.1. 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 RMF, overall responsibility for credit risk rests with the Board of Directors, on whose behalf the Risk Committee oversee credit risk profile relative to the Board approved Risk Appetite. Day-to-day management of credit risk is delegated to Executive Management.

Management manages credit risk through the RMF 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. The Chief Commercial Officer ('CCO') is responsible for the management of credit risk in the First Line of Defence, with the CRO responsible for oversight of credit risk, in the Second Line of Defence.

(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 credit conditions, including, borrowers' payment behaviour.

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2021 (continued)

34. Risk Management (continued)

34.1. Credit Risk (continued)

(ii) Loans and Advances to Customers

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.

Credit Quality Analysis

| | Unsecured lending £'000 | Secured lending £'000 | Total £'000 |
|-------------------------------|-------------------------------|-----------------------------|----------------|
| As at 31 December 2021 | | | |
| Total gross impaired loans | 8,443 | - | 8,443 |
| Past due but not impaired | - | 13,074 | 13,074 |
| Neither past due nor impaired | 174,451 | 249,108 | 423,559 |
| Total gross amount due | 182,894 | 262,182 | 445,076 |
| As at 31 December 2020 | | | |
| Total gross impaired loans | 22,337 | - | 22,337 |
| Past due but not impaired | - | 1,786 | 1,786 |
| Neither past due nor impaired | 116,148 | 268,502 | 384,650 |
| Total gross amount due | 138,485 | 270,288 | 408,773 |

Ageing Analysis

| | 2021 £'000 | 2020 £'000 |
|-----------------------------------|---------------|---------------|
| Total gross impaired loans | | |
| Less than 3 months | 989 | 15,057 |
| Past due 3 to 12 months | 4,619 | 7,280 |
| Past due over 12 months | 2,835 | - |
| | 8,443 | 22,337 |
| Past due but not impaired | | |
| Less than 3 months | 2,737 | 97 |
| Past due 3 to 12 months | 10,337 | 1,689 |
| | 13,074 | 1,786 |

The Group holds collateral against loans and advances to customers, on the secured book, predominantly in the form of mortgages over residential and commercial real estate. The average 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 50.0% as at 31 December 2021 (2020: 56.0%).

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2021 (continued)

34. Risk Management (continued)

34.1. Credit Risk (continued)

(ii) Loans and Advances to Customers (continued)

Sensitivity Analysis of Loans to Customers Impairment Provision:

Tandem's provisions for credit losses arise from its unsecured book comprising unsecured personal loans and credit cards. Tandem's provision calculation utilises an IAS39 accounting methodology which is sensitive to the relative size of the arrears book compared to the overall balance. The table below illustrates the sensitivity of provisions to increases in arrears ratio, assuming the overall balance remains unchanged:

| Change in Arrears | Arrears Ratio* % | Provision Increase £'000 | Provision Increase % |
|------------------------|---------------------|-----------------------------|-------------------------|
| As at 31 December 2021 | 1.0% | N/A | N/A |
| +2.5% | 1.1% | 19 | 1.8% |
| +5.0% | 1.1% | 37 | 3.5% |
| +7.5% | 1.1% | 56 | 5.3% |
| +10.0% | 1.1% | 75 | 7.0% |

| Change in Arrears | Arrears Ratio* % | Provision Increase £'000 | Provision Increase % |
|------------------------|---------------------|-----------------------------|-------------------------|
| As at 31 December 2020 | 6.8% | N/A | N/A |
| +2.5% | 7.0% | 113 | 2.1% |
| +5.0% | 7.2% | 225 | 4.2% |
| +7.5% | 7.4% | 338 | 6.3% |
| +10.0% | 7.5% | 450 | 8.3% |

* Arrears Ratio defined for unsecured portfolios only, as there is no provision held against the secured mortgage book

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2021 (continued)

34. Risk Management (continued)

34.1. Credit Risk (continued)

(ii) Loans and Advances to Customers (continued)

Sensitivity Analysis of Loans to Customers Impairment Provision:

Similarly, Tandem's provisions are sensitive to the LGD assumptions. The table below illustrates the sensitivity of the year end provision position to percentage point increases in LGD, assuming overall balance remains unchanged.

| % Point Increase in LGD | Balance Weighted LGD | Provision Increase £'000 | Provision Increase % |
|--------------------------------|-----------------------------|---------------------------------|-----------------------------|
| As at 31 December 2021 | 71.5% | N/A | N/A |
| 2.5% | 74.0% | 37 | 3.5% |
| 5.0% | 76.5% | 74 | 7.0% |
| 7.5% | 79.0% | 111 | 10.5% |
| 10.0% | 81.5% | 149 | 14.0% |

| % Point Increase in LGD | Balance Weighted LGD | Provision Increase £'000 | Provision Increase % |
|--------------------------------|-----------------------------|---------------------------------|-----------------------------|
| As at 31 December 2020 | 84.2% | N/A | N/A |
| 2.5% | 86.7% | 160 | 3.0% |
| 5.0% | 89.2% | 321 | 5.9% |
| 7.5% | 91.7% | 481 | 8.9% |
| 10.0% | 94.2% | 642 | 11.9% |

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2021 (continued)

34. Risk Management (continued)

34.1. Credit Risk (continued)

Loan to Value Analysis of Mortgage Portfolio:

| | 2021 | 2020 |
|--------------|--------------|-------------|
| | % | % |
| < 40% | 23.2 | 16.4 |
| 40% to 50% | 11.2 | 10.0 |
| 50% to 60% | 24.2 | 31.7 |
| 60% to 70% | 22.6 | 34.4 |
| 70% to 80% | 16.3 | 7.4 |
| > 80% | 2.5 | 0.1 |
| Total | 100.0 | 100.0 |

(iii) Debt Securities Held for Liquidity Purposes

The Group's Treasury Policy allows the holding of debt securities within its High-Quality Liquid Asset buffer to meets its liquidity requirements under the Group's Liquidity Risk Appetite. Additionally, the Group has positioned Debt Securities within its Single Collateral Pool ('SCP') at the Bank of England to collateralise its liabilities held under the Sterling Monetary Framework.

As at 31 December 2021, the Group held assets with a notional value of £25m in its SCP to collateralise its Term Funding Scheme advance with the Bank of England. A breakdown of the Group's holdings of Debt Securities is shown below:

| Issuer | Rating (Moody's) | Notional Value £'000 | Mark to Market Value £'000 |
|--|-----------------------------|---------------------------------|---|
| European Investment Bank | Aaa | 8,000 | 8,052 |
| Asian Development Bank | Aaa | 14,000 | 14,065 |
| European Bank for Reconstruction and Development | Aaa | 3,000 | 3,020 |
| UK Government* | Aa3 | 5,000 | 5,078 |
| Total | | 30,000 | 30,215 |

*Denotes debt securities not positioned within the Group's SCP at the Bank of England

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2021 (continued)

34. Risk Management (continued)

34.2. Liquidity Risk

Liquidity risk is the risk that the Group is unable to meet its obligations as they are expected to fall due. In line with the Overall Liquidity Adequacy Rule ('OLAR'), Tandem will maintain liquidity resources which are adequate, both as to amount and quality in order to meet its requirements at all times.

The Group reports liquidity risk using the Liquidity Coverage Ratio ('LCR') and has maintained a balance of High-Quality Liquid Assets ('HQLA') to meet its minimum regulatory requirement of 100% at all times throughout 2021, as detailed in the Strategic Report.. Furthermore, Management have implemented additional liquidity and funding risk metrics to ensure that risks that are not adequately captured in the LCR are monitored and mitigated. Liquidity risk is managed by the Bank's Treasury function with executive oversight provided by ALCo. All liquidity metrics are reported daily to ALCo and subsequently cascaded to the ExCo and Board on a monthly basis.

The Internal Liquidity Adequacy Assessment Process ('ILAAP') sets out Tandem's approach to liquidity risk and its Balance Sheet funding plan. The ILAAP 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. In completing the ILAAP, Tandem's Senior Management have assessed:

- The Group's Business Model and Strategy and the ways in which the Firm incurs liquidity and funding risks through its day-to-day operations;
- 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 Article 86 of the Capital Requirement Directive and SS24/15;
- The results of the stress testing of these risks;
- The adequacy and appropriateness of Tandem's liquidity RMF and internal governance; and
- The recovery plans it has in place to manage a severe stress scenario

The Board approved its formal Recovery Plan and submitted this to the PRA on 31st March 2021 which outlined the Group's approach to managing a liquidity stress event as required by the Regulator. The Group does not operate a standalone Liquidity Contingency Plan to ensure cohesion and simplicity for Management in the event of a severe stress scenario.

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2021 (continued)

34. Risk Management (continued)

34.2. Liquidity Risk (continued)

Contractual Maturity Analysis

The following table summarises the contractual maturity profile of the cash flows of the Group's financial liabilities and derivatives, shown in accordance with their contractual maturity:

| As at 31 December 2021 | On demand £'000 | < 3 months £'000 | 3 to 12 months £'000 | 1 to 5 years £'000 | Over 5 years £'000 | Undated £'000 | Total £'000 |
|-----------------------------------|--------------------|---------------------|-------------------------|-----------------------|-----------------------|------------------|------------------|
| Non-derivative liabilities | | | | | | | |
| Deposits by banks | - | (16,513) | - | (23,458) | - | - | (39,971) |
| Customer accounts | (383,901) | (30,839) | (261,756) | (94,665) | - | - | (771,161) |
| Other liabilities | (1,677) | - | - | - | - | - | (1,677) |
| Accruals | (2,086) | - | - | - | - | - | (2,086) |
| Provisions for liabilities | (943) | - | - | - | - | - | (943) |
| | (388,607) | (47,352) | (261,756) | (118,123) | - | - | (815,838) |
| Derivative liabilities | | | | | | | |
| Fair value hedges: | | | | | | | |
| Outflow | - | (50) | (299) | - | - | - | (349) |
| Inflow | - | 77 | 183 | - | - | - | 260 |
| Net derivative cash flows | - | 27 | (116) | - | - | - | (89) |
| | (388,607) | (47,325) | (261,872) | (118,123) | - | - | (815,927) |
| As at 31 December 2020 | | | | | | | |
| Non-derivative liabilities | | | | | | | |
| Deposits by banks | - | (13) | - | (50,000) | - | - | (50,013) |
| Customer accounts | (53,404) | (72,230) | (286,303) | (83,025) | - | - | (494,962) |
| Other liabilities | (3,976) | - | - | - | - | - | (3,976) |
| Accruals | (2,531) | - | - | - | - | - | (2,531) |
| | (59,911) | (72,243) | (286,303) | (133,025) | - | - | (551,482) |
| Derivative liabilities | | | | | | | |
| Fair value hedges: | | | | | | | |
| Outflow | - | (17) | (93) | (109) | (60) | - | (279) |
| Inflow | - | 3 | 5 | 23 | 144 | - | 175 |
| Net derivative cash flows | - | (14) | (88) | (86) | 84 | - | (104) |
| | (59,911) | (72,257) | (286,391) | (133,111) | 84 | - | (551,586) |

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2021 (continued)

34. Risk Management (continued)

34.2. Liquidity Risk (continued)

Collateral

The Group has executed derivatives for commercial hedging purposes which are supported by credit support annexes. If the fair value of the netted derivative portfolio discounted cashflows increase beyond a 'Minimum Transfer Amount', each counterparty is able to request margin from the other to cover its current exposure. It is the Group's policy to post and receive only GBP cash collateral. As at 31 December 2021, the Group has provided collateral of £500k (2020: £3,360k) against its derivatives portfolio.

The Group also maintains collateral under the Sterling Monetary Framework ('SMF') which it uses to draw funding under liquidity and term funding facilities.

34.3. 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 external market prices. The Group is primarily exposed to Interest Rate Risk in the Banking Book ('IRRBB'). The Group does not operate a trading book and therefore has no Pillar 1 Capital charge for Market Risk. The Group also has a small exposure to FX risk in the form of settlement of foreign currency invoices. The Board has deemed that the Group's exposure to FX risk is immaterial.

IRRBB is the current or prospective risk to Tandem's capital and earnings, arising from adverse movements in interest rates affecting the firm's Banking Book positions. Where possible the Group seeks to match the interest rate structure of assets and liabilities creating a natural hedge. Throughout 2021, the Group has developed a derivative hedging strategy to mitigate the interest rate risk of fixed rate assets and liabilities where natural hedging was not possible.

The Group's primary measure used to capture interest rate risk is an analysis of the impact of parallel and non-parallel shifts in the yield curve on the market value of the Group's assets and liabilities and on the Group's projected 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 equity:

Interest Rate Risk Sensitivities:

| | Net present value sensitivity | |
|-------------------------------|-------------------------------|-------|
| | 2021 | 2020 |
| | £'000 | £'000 |
| Parallel shift in yield curve | | |
| + 200bps | (108) | 287 |
| - 200bps | 234 | (110) |

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2021 (continued)

34. Risk Management (continued)

34.4. 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. Senior 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.

35. Capital Management (unaudited)

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

The Bank manages its capital in accordance with the regulatory framework set out by the Capital Requirements Directive ('CRD IV') and Capital Requirements Regulation ('CRR'), as amended by the revisions to the CRD implemented in December 2020 ('CRD V') and by those provisions of the revised CRR ('CRR II') that came into force in June 2019 and December 2020. These requirements are implemented in the UK by the PRA, enhanced with additional regulation where deemed necessary by the PRA, within the PRA Rulebook.

The minimum amount of total capital, under Pillar 1 of the regulatory framework, is set at 8% of total risk-weighted assets. At least 4.5% of risk-weighted assets are required to be covered by common equity tier 1 ('CET1') capital and at least 6% of risk-weighted assets are required to be covered by tier 1 capital. The Pillar 1 requirements are supplemented by additional minimum requirements under Pillar 2A of the regulatory framework, under a firm specific requirement, termed Individual Capital Requirement ('ICR'), which is set by the PRA based on a point in time assessment and designed to capture risks not fully captured under Pillar 1. The total of these minimum regulatory requirements (Pillar 1 plus Pillar 2A) is referred to as the Total Capital Requirement ('TCR').

The Group is also required to hold a number of regulatory capital buffers which are required to be met with CET1 capital. The capital conservation buffer ('CCB') is a standard buffer of 2.5% of risk-weighted assets designed to provide for losses in the event of stress, and the countercyclical capital buffer ('CCyB'), which is time-varying and is determined by reference to buffer rates applied by the Bank of England's Financial Policy Committee ('FPC') for the individual countries where the Group has relevant credit exposures. The CCyB rate for the UK is currently set at 0% as a result of the coronavirus pandemic, leading to a CCyB rate for the Bank of 0.015% as at 31 December 2021, given the Bank's mix of country credit exposures.

At all times through the year the Bank maintained capital in excess of its minimum capital requirements.

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2021 (continued)

35. Capital Management (unaudited) (continued)

The Bank's regulatory capital position as at the year-end was as follows:

| | 2021 £'000 (unaudited) | 2020 £'000 (unaudited) |
|------------------------------|------------------------------|------------------------------|
| Tier 1 Capital | | |
| Ordinary share capital | 211,586 | 203,498 |
| Other reserves | 5,464 | 5,641 |
| Retained reserves | (164,941) | (145,678) |
| Prudent valuation adjustment | (34) | (30) |
| Intangible assets | (12,331) | (14,091) |
| | 39,744 | 49,340 |
| Total Capital | 39,744 | 49,340 |
| | | |
| | 2021 £'000 (unaudited) | 2020 £'000 (unaudited) |
| Credit risk | 249,718 | 214,961 |
| Counterparty credit risk | 673 | 751 |
| Operational risk | 26,340 | 21,671 |
| Credit valuation adjustment | 3,482 | 3,865 |
| RWA | 280,213 | 241,248 |
| | | |
| CET1 Ratio | 14.2% | 20.5% |
| Capital Ratio | 14.2% | 20.5% |

Tandem Money Limited **Notes to the Financial Statements** **for the year ended 31 December 2021 (continued)**

36. 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 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 financial assets and liabilities held on the Statement of Financial Position at fair value, categorised into levels 1 to 3 based on the degree to which the fair value is observable.

| | Level 1 | Level 2 | Level 3 | Total |
|--------------------------------------|---------------|--------------|--------------|---------------|
| | £'000 | £'000 | £'000 | £'000 |
| As at 31 December 2021 | | | | |
| Financial assets | | | | |
| Debt securities | 30,215 | - | - | 30,215 |
| Derivatives held for risk management | - | 2,358 | - | 2,358 |
| Equity shares | - | 1,204 | 766 | 1,970 |
| | 30,215 | 3,562 | 766 | 34,543 |
| Financial liabilities | | | | |
| Derivatives held for risk management | - | (89) | - | (89) |
| | - | (89) | - | (89) |
| As at 31 December 2020 | | | | |
| Financial assets | | | | |
| Derivatives debt securities | 28,088 | - | - | 28,088 |
| Equity shares | - | - | 2,670 | 2,670 |
| | 28,088 | - | 2,670 | 30,758 |
| Financial liabilities | | | | |
| Derivatives held for risk management | - | (104) | - | (104) |
| | - | (104) | - | (104) |

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2021 (continued)

37. Discontinued Operations

In 2020 the Group began winding down its credit card portfolio. In 2021, the remaining portions of the credit card portfolio were either sold, converted to other Tandem products or were written-off. During the year credit cards contributed losses of £1,391k (2020: losses of £4,015k), which included a loss on sale on a portion of the portfolio of £387k (2020: £nil).

In 2021, the Group sold a significant component of its unsecured personal loans originated via third parties portfolio. During the year this portfolio contributed profits of £134k (2020: profits of £506k), which included a loss on sale on the portfolio of £182k (2020: £nil).

38. Related Party and Controlling Party

A majority shareholding in the Group was acquired by PSC Plane (Guernsey) LP Incorporated on 21 August 2020. Prior to this, under the terms of the shareholder agreement, the Directors considered that no single shareholder acting on their own had control of the Group. PSC Plane (Guernsey) LP Incorporated is controlled by PSC Plane (Guernsey) GP Limited, a company incorporated in Guernsey and an investment vehicle of Pollen Street Capital Limited.

The largest company in which the results of the Group are consolidated is Tandem Money Limited. No other Financial Statements include the results of the Group.

Transactions with Related Parties

During the year the Group received IT platform services from SamePage Group Limited. Costs relating to the year were recognised in the Income Statement within Administrative Expenses and totalled £311k (2020: £179k). Costs of £30k were recorded as additions to Work In Progress (2020: £96k) and costs of £58k were recorded as additions to Computer Software (2020: £nil) within Intangible Assets as they related to the development of a loan servicing system during the year. As at 31 December 2021 there was an outstanding payable of £52k within Other Liabilities (2020: £253k) and an accrual of £19k (2020: £nil) within Accruals and Deferred Income relating to SamePage Group Limited, which are to be settled in cash. The Group and SamePage Group Limited are related parties due to being under the common control of Pollen Street Capital Limited.

In December 2020, the Group entered into an agreement whereby Oplo HL Limited will originate second charge mortgages for the Group (beginning in 2021). As part of the agreement, the Group incurred servicing and performances fees during the year which were recognised in the Income Statement within Fees and Commission Expenses and totalled £155k (2020: £nil). As at 31 December 2021, there was an outstanding payable of £40k relating to servicing and performance fees within Accruals and Deferred Income (2020: £nil). During the year, the Group also received interest income on unused funding balances which was recognised in the Income Statement within Interest Income and totalled £8k (2020: £nil). As at 31 December, there was an outstanding receivable within Other Assets of £21k for repayments on loans originated through the forward flow agreement which had yet to be remitted to the Group (2020: £nil). All payables and receivables between the Group and Oplo HL Limited are to be settled in cash. The Group and Oplo HL Limited are related parties due to being under the common control of Pollen Street Capital Limited. Refer to Note 39 for further developments subsequent to the reporting date relating to the Group, Oplo HL Limited and Oplo Holdings Limited (the parent of Oplo HL Limited)

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2021 (continued)

38. Related Party and Controlling Party (continued)

Transactions with Related Parties (continued)

The Group received management consulting services from PSC Service Company Limited. Costs incurred were recognised in the Income statement within Administrative Expenses and totalled 159k in 2021 (2020: £110k). As at 31 December 2021, there was nil outstanding payable relating to the management consulting services within Accruals and Deferred Income (2020: £25k). The Group and PSC Service Company are related parties due to being under the common control of Pollen Street Capital Limited.

Intergroup Transactions

| | 2021 | 2020 |
|---|---------------|---------------|
| | £000 | £000 |
| Intercompany income/(expense) | | |
| Tandem Bank Limited | | |
| Loan interest expense | (21) | (11) |
| Intercompany income | 24,953 | 20,181 |
| | 24,932 | 20,170 |
| Intercompany balances receivable/(payable) | | |
| Tandem Bank Limited | (963) | 1,771 |
| GDFC Services PLC | 12 | - |
| GDFC Holdco Limited | - | - |
| | (951) | 1,771 |

As at 31 December 2021, TML held a gross intercompany receivable balance of £1,194k due from GDFC HoldCo Limited (2020: £1,194k), which was fully impaired during the year ended 31 December 2020.

Transactions with Key Management Personnel

Key Management Personnel are defined as permanent members of the Executive Committee, including Directors for whom amounts have been separately disclosed in Notes 9 and 10.

| | 2021 | 2020 |
|---------------------------------|--------------|--------------|
| | £000 | £000 |
| Key Management Personnel | | |
| Remuneration | 2,841 | 1,783 |
| Pension Contributions | 96 | 53 |
| | 2,937 | 1,836 |

During the year Key Management Personnel made investments of £150k in the Company (2020: £nil).

Included in Customer Accounts as at 31 December 2021 is a balance of £61k deposited by members of Key Management Personnel and their direct relations (2020: £101k).

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2021 (continued)

39. Events Subsequent to the Reporting Date

Business Combination

On 24 January 2022, TML (the parent company of the Group) purchased the entire issued share capital of Oplo Holdings Limited (the parent company of the Oplo Group). The consideration for the acquisition comprised both cash consideration and share for share consideration. Accordingly, TML issued 154,202,985 Ordinary B shares of £0.002 nominal value to certain shareholders of Oplo Holdings Limited as either part or full consideration for their shares in Oplo Holdings Limited. Prior to the acquisition, funds managed by PSC provided a capital injection into TML in exchange for an allotment of 845,699,336 Ordinary B shares of £0.002 nominal value.

As a result of the acquisition, the Group has acquired net assets and liabilities with a fair value of £46,153k and recognised goodwill of £107,543k.

As part of the acquisition, TBL (a direct wholly-owned subsidiary of TML), entered into a loan sale agreement and a forward flow agreement whereby it agreed to purchase the beneficial title to loans originated and/or serviced by Oplo CF Limited, Oplo HL Limited and Oplo PL Limited (each direct wholly-owned subsidiaries of Oplo Holdings Limited).

Acquisition of Loan Portfolio

On 1 June 2022, Oplo HL Limited repurchased a portfolio of loans from Honeycomb Investment Trust PLC ('HIT') for £34,865k, which represented the fair value of the repurchased loans.

The loans were historically acquired by HIT from Oplo HL Limited pursuant to a loans sale deed dated 10 December 2019. Pursuant to that loans sale deed, Oplo HL Limited had the ability to repurchase the loans. Accordingly, Oplo HL Limited and HIT entered into a repurchase notice and confirmation of repurchase letter to effect the acquisition of the loans by Oplo HL Limited. Immediately following the acquisition, Oplo HL Limited and TBL entered into a loan sale agreement whereby TBL acquired the loans for £34,865k.

Issuance of Share Capital

On 14 July 2022, PSC Nominee 4 Limited, an existing TML shareholder, subscribed for 56,379,956 Ordinary B shares of £0.002 each in TML for cash consideration of £10,000k.