

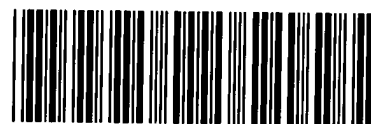


Tandem Money Limited

Consolidated Annual Report and Financial Statements
for the year ended 31 December 2020

Registered Number 08628614

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Tandem Money Limited

Group Information

Directors	Mr J J Pritchard	Chairperson
	Mr M J Cooper	Resigned 31 December 2020
	Mr M L Amato	Resigned 31 December 2020
	Mr M Klimbacher	Resigned 21 August 2020
	Mr J Zagorovskis	Resigned 21 August 2020
	Mr J W Scott	Appointed on 21 August 2020
	Mr D G Torpey	Appointed on 2 October 2020
	Mr A Murphy (Chief Financial Officer)	Appointed 9 November 2020
	Ms M G Hassall	Appointed 17 December 2020
	Mr D Fisher	Appointed 17 December 2020
	Ms T Ferreira	Appointed 26 April 2021
	Mr F S Knox	Resigned 25 May 2021
	Mr J Nieuwkoop	Appointed 26 May 2021
	Ms S L Aliker (Chief Executive Officer)	Appointed 4 June 2021
Secretary	Mr E C Freeman	
Registered Office	40 Bernard Street London WC1N 1LE	
Independent Auditors	PricewaterhouseCoopers LLP 7 More London Riverside London SE1 2RT	
Bankers	Barclays Bank plc NatWest Bank plc	

Tandem Money Limited

Strategic Report for the year ended 31 December 2020

The Directors present their Strategic Report and audited consolidated Financial Statements of Tandem Money Limited ('the Group', 'TML' or 'the Company') for the year ended 31 December 2020. Tandem's accounts incorporate the results of TML and its subsidiaries, Tandem Bank Limited ('TBL' or 'the Bank') and Allium Lending Group Limited ('ALG'). The registered office for each entity is 40 Bernard Street, London, WC1N 1LE.

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 in its operating industry, changes to customer behaviours and macro-economic factors, the repercussions of the outbreak of coronaviruses (including but not limited to the COVID-19 outbreak), 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, deflation, interest rates, changes in the liquidity, capital, funding and / or asset position of the Company, the repercussions of the UK's referendum vote to leave the European Union ('EU') and the UK's exit.

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.

General Information

TML is incorporated in England and Wales with the registered number of 08628614.

Principal Activities and Business Model

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

Following the acquisition of ALG in August 2020, Tandem's retail proposition changed to encompass mortgages 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 running off legacy consumer lending portfolios. These products are funded by fixed term and instant access savings accounts.

Business Review

2020 was an important year in the evolution of Tandem's business model following successful fundraises and the subsequent acquisition of ALG and purchase of the Bank & Client's ('B&C') mortgage portfolio (with the latter being a portfolio of approximately £100m with similar characteristics to Tandem existing mortgage assets). Further, Tandem ceased to offer credit cards and scaled back its activities in offering unsecured personal loans via third parties.

Consequently, the Group reported a reduction in its pre-tax operating loss to £30.6m (2019: £39.0m). Total income decreased to £11.2m (2019: £13.7m) reflecting the managed run-off of the unsecured personal loan and credit card portfolios.

Tandem Money Limited

Strategic Report for the year ended 31 December 2020 (continued)

Business Review (continued)

The Company's focus on managing down these portfolios resulted in a reduction in provisions and losses to £6.6m (2019 £11.2m) as Tandem retained higher quality residential mortgage portfolios. In parallel, a number of cost management activities executed throughout the year resulted in lower operating expenses compared to the previous year at £35.2m (2019: £41.5m).

As at 31 December 2020 the Company had £394.8m of loans and advances to customers (2019: £330.6m) and total assets of £616.4m (2019: £457.4m), with the growth reflecting the acquisitions of both ALG and the B&C mortgage portfolio.

Customer deposits as at 31 December 2020 were £495.0m (2019: £363.8m) as the Company grew its funding base to support both current and future lending growth.

Given the macro-economic environment Tandem placed considerable importance on maintaining a robust liquidity profile. The Liquidity Coverage Ratio stood at 762% (2019: 1,305%) and Loans to Deposits Ratio at 79.8% (2019: 90.9%) as at 31 December 2020.

Tandem remains focussed on growing its business and raising capital to underpin future growth with associated capital injections received across 2020 resulting in a 660bps increase in the Company's CET 1 Ratio to 20.5% (2019 13.9%).

Further information is provided within the Future Developments section.

External Environment

2020 was a testing year for Tandem, as it was for all other financial institutions, as the coronavirus pandemic presented extraordinary challenges for our customers and the economy as a whole. As a result the UK experienced unprecedented levels of economic contraction, whilst the UK left the EU after nearly 50 years of membership - with a trade agreement eventually reached to avoid a disorderly exit. As a UK-focused bank the direct impact of Brexit is not as significant as it is for others with large EU operations, albeit any wider economic impacts will clearly have implications on Tandem's performance.

Macro-economic Environment

The year was extraordinarily difficult for the UK economy with GDP falling by 9.9% due to the restrictions on activity necessary to contain the pandemic. Emergency action from the Government and Bank of England was key in limiting long-term damage, but the pace and extent of the recovery are uncertain.

Consumer credit fell sharply as spending was constrained, but growth in household deposits were buoyed to over 10% from 4% in 2019; whilst mortgage balance growth slowed only slightly to 3% from 3.4% in 2019. The rise in unemployment has been much less than would normally be expected for such a material fall in GDP due to Government support (via the coronavirus Job Retention Scheme and the Jobs Support Scheme). The housing market has also been more buoyant through the second half of 2020 than expected, with prices rising by almost 7% in 2020, benefiting from employment support, a temporary cut in stamp duty and unexpected households' savings.

Tandem Money Limited

Strategic Report for the year ended 31 December 2020 (continued)

External Environment (continued)

Macro-economic Environment (continued)

2021 is expected to see the start of unwinding many of these impacts as consumer spending recovers and businesses begin to pay down some of the debt accrued. Unemployment is expected to rise to a peak of c.6% as furlough support is withdrawn. Consumer credit growth is expected to remain subdued and growth in household deposits to slow sharply from its high rate of 2020.

As a direct result of the economic consequences of the pandemic we saw a reduction in the base rate, intensifying an already pro-longed low-interest rate environment that we expect to endure for some time, to help the economy recover at a time when Government and corporate debt has increased significantly.

Other

Market Dynamics

Tandem continues to operate in competitive markets, influenced in part by regulatory change and ongoing shifts in customer behaviours in accessing financial services. Digital-only providers such as ourselves have continued to grow with the pace of digital adoption continuing to accelerate in recent years.

To support our position as a UK digital bank, we have maintained our investment in technology to ensure we can continue to deliver a leading customer experience across our propositions. During the course of 2020 we initiated a core banking re-platforming (ultimately completed in Q1 2021) and we expect to further develop these systems in 2021 to improve customer services.

Political and Regulatory Change

The agreement reached between the UK and EU was encouraging as it reduced uncertainty but there is still a way to go to determine the overarching mechanics of the future trading relationship (including the framework for financial services regulation). The UK is also actively pursuing new trading relationships with other parts of the world.

We operate in a highly regulated market which continues to evolve in scope. Areas of regulatory focus include customers in vulnerable situations, climate change and financial crime as well as capital and liquidity management. We continuously monitor regulatory change, implement new requirements where applicable and have regular engagement meetings with the PRA and FCA to discuss their key priorities.

Climate Change

As the global effort to tackle climate change grows, Tandem's business strategy will evolve to support the transition to a low-carbon economy by offering lending products that allow customers to make changes to their lifestyle that may improve their impact on the environment. This was a key factor in acquiring ALG in August 2020.

Tandem Money Limited

Strategic Report for the year ended 31 December 2020 (continued)

External Environment (continued)

Technology and Innovation

Customer behaviours continue to change, and new business models emerge, through advancing technology. COVID-19 has increased our customers' reliance on technology with a further shift to digital, reinforcing the need for modern capabilities and resilient systems. Our focus is to reduce year on year cost by simplifying processes and improving our resilience, whilst helping to deliver innovative solutions for our customers.

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.

Outlook

Tandem, as with all companies across different sectors, continues to deal with a range of significant risks and uncertainties in the external economic, political and regulatory environment.

Expectations regarding the rate of economic recovery continue to change rapidly in response to government measures to limit the spread of COVID-19, expectations around the rollout of vaccines and policy measures to support the recovery.

Our Next Chapter

We regularly review our strategy in light of our changing operating environment to ensure that our focus remains the right one for our customers, shareholders and broader stakeholders. Over the past year we have considered how we can build on the Group's successful transformation, with a defining purpose further embedded in a refreshed strategy that can deliver enduring value to all our stakeholders.

Although significant uncertainties remain, specifically relating to the pandemic and the speed and efficacy of the vaccination programme, we remain confident that the Group's business model and the customer-centric nature of our strategy will permit Tandem to deliver for all of its stakeholders.

Future Developments

At the centre of Tandem's strategic activities undertaken in 2020 was the aim to build a sustainable and profitable bank. The Board understands that to build a long-term, sustainable and profitable business the Group has to consider the needs of a broad range of stakeholders.

The acquisition of both ALG and the B&C mortgage portfolio accelerated the enlarged Group's 'core' asset strategy and is in keeping with Tandem's purpose and supports the journey to profitability in a safe and sustainable manner. To support this strategic shift the Bank no longer originates unsecured personal lending sourced via agreements with third parties. As a result, the Group has a higher quality lending portfolio with reduced complexity in its operating model.

Tandem Money Limited

Strategic Report for the year ended 31 December 2020 (continued)

Future Developments (continued)

Tandem will grow its Balance Sheet via a combination of directly originated assets and those sourced from carefully chosen business partners. In doing so the Board will ensure such growth is complementary to both the strategy and Group's purpose.

Key Performance Indicators ('KPIs')

The overall progress of the Group against its targets is tracked at Board meetings. 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, combined with prior year, is summarised below:

KPI	2020	2019	Definition, method of calculation and analysis
Total income	£11,178k	£13,673k	Interest income from customers, investment assets and fees, less interest payable to account holders and other commission expenses
Loss before Tax	£30,638k	£39,011	20% decrease in loss before tax as a result of cost management activities executed throughout the year
Net interest margin ('NIM')	4.02%	4.19%	Net interest income/average gross receivables, with the NIM reflecting a high percentage of mortgage receivables 17bps decrease in NIM year on year due to unsecured lending portfolio run-off and transitioned focus to mortgages and Allium lending
Cost of risk ('CoR')	2.19%	3.10%	Average of the loan loss provision as a percentage of the total lending portfolio 91bps reduction in CoR as the Bank managed the run-off of 'non-core' lending portfolios
Loan to value ('LTV') (Mortgages)	56.0%	58.7%	Represents the total mortgage portfolio as a percentage of the total appraised value of the underlying properties
CET 1 ratio	20.5%	13.9%	Measurement of a core equity capital compared with total risk-weighted assets.
Loans to deposits ratio	79.8%	90.9%	Measurement of loans issued to customer deposits Change due to the Group's continued prioritisation of maintaining a robust funding profile

Tandem Money Limited

Strategic Report for the year ended 31 December 2020 (continued)

Section 172 Statement

The Board is responsible for the long-term success of Tandem, setting and overseeing the culture, purpose, values and strategy of the Group. The Board's understanding of stakeholders' interests is central to these responsibilities, crucial to Tandem's success and informs key aspects of its decision-making as set out in this statement.

The Company recognises the importance of engaging with stakeholders and understanding their views, to help inform its strategy and Board decision-making. Stakeholder interests are considered by the Board during its discussions and when it takes decisions. In making its decisions, the Directors consider the outcomes of relevant stakeholder engagement, as well as 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.

In accordance with the Companies Act 2006 (the 'Act'), the Directors provide this statement describing 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. This statement also provides details of how the Directors have engaged with and had regard to the interests of our key stakeholders. The Directors have acted in the way that they considered, in good faith, would be most likely to promote the success of the Group for the benefit of its members as a whole and in doing so considered the matters set out in the Act.

In line with its regulatory responsibilities, the Board also carefully considers the impact its decisions will have on Tandem's risk and control environment (and on customer outcomes). Considering a broad range of stakeholders and their relative interests is an important part of the way in which the Board makes decisions, although in having regard to those different perspectives it is not always possible to deliver everyone's desired result or necessarily achieve a positive outcome for all stakeholders.

Depending on the decision in question, the relevance of each particular stakeholder may differ, and equally the Board adopts a variety of methods of engagement with different stakeholders. The Board will sometimes engage directly with particular stakeholders on certain issues, but the number and distribution of the Group's stakeholders means that stakeholder engagement often takes place at an operational level. In addition to direct engagement with stakeholders, the Board regularly receives reports and considers information from across the organisation to help it understand the impact of Tandem's operations on, and the interests and views of, its key stakeholders.

The Group aims to create value for everyone we serve, balanced across the short and the long term – ultimately representing our sustainable impact. We think about our priority stakeholders as belonging to the following groups: customers; colleagues; regulators; suppliers; investors; communities; and the environment.

Tandem Money Limited

Strategic Report for the year ended 31 December 2020 (continued)

Section 172 Statement (continued)

Customers

During the year, the Board received regular updates on customer issues through reports from the Chief Executive Officer ('CEO') and other members of the Senior Management Team. Directors also received targeted management information on progress against customer service metrics including complaints data.

In order to support our customers financially throughout these unprecedented times, the Board supported Senior Management in making appropriate adjustments to the Group's strategy and policies. This has included decisions to support borrowers such as the implementation of payment holidays, the waiver of interest / fees and forbearance on late payments. The rationale for these changes has been to provide breathing space for customers, to appropriately reflect the impact of the pandemic on customers' income and circumstances in affordability calculations and credit decisions given the unprecedented uncertainty as a result of the pandemic.

All of this has been achieved while maintaining an appropriate risk and control environment. Through regular updates from the Board Risk and Audit Committee ('RAC') and Senior Management, the Board has closely monitored customer behaviour and ensured that the ongoing support for customers during the pandemic has been achieved while continuing to adopt a robust control framework across the longer term.

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 pandemic. Together with Senior Management, the Board has aimed to support colleagues by ensuring our working environments are as safe as possible, both for colleagues who have continued to work from our offices and for the vast majority that transitioned to remote working. For our offices this has meant the introduction of health and safety measures including (but not limited to): restricting occupation levels; enhanced hygiene measures; and social distancing. The Board has also ensured that colleagues have been provided with the necessary tools to enable the shift to remote working, including the provision of increased technological support, laptops and other home office equipment.

Tandem has around 200 colleagues, who take pride in working for an inclusive and diverse Group and, with their support, we are building a culture in which everyone feels included, empowered and inspired to do the right thing for our customers.

The Board continues to acknowledge the contribution of its people, whose commitment has enabled the Group to build a business that is focused on supporting and satisfying the needs of its customers. Tandem is proud of its diverse team and inclusive approach, with the Board 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.

Tandem Money Limited

Strategic Report for the year ended 31 December 2020 (continued)

Section 172 Statement (continued)

Colleagues (continued)

During the year, the Board reviewed periodic employee satisfaction surveys and regular reports on recruitment, attrition, training and retention.

In assessing Tandem's future strategy, the Board will take into account the lessons learnt during the pandemic and, in particular, will monitor the ability of colleagues to provide services through remote working in order to assess whether these changes could be adopted across the longer term so as to provide greater flexibility in terms of working practices for colleagues once the pandemic is over.

Regulators

The Board recognises the importance of open and continuous dialogue with our regulators. In 2020, the main focus of our regulatory engagement was inevitably on our COVID-19 response (specifically the support we were offering to our customers) and obtaining the necessary approvals for the ALG transaction; with other topics discussed by Directors with the regulators including strategy, operational resilience and the overarching risk and control framework.

The Chairperson and Executive Directors have regular meetings with the PRA and FCA. The Board also receives regular reports on regulatory matters. The Directors acknowledge and actively promote an open and transparent relationship with its regulators 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.

Tandem has zero appetite for deliberate breaches of conduct rules and regulations or from failure to have adequate systems and controls. The RAC received frequent updates on the performance of the Group's systems and controls providing a view of key areas of focus, alongside progress made 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, particularly in the current environment.

Tandem has a robust Procurement Policy in place, 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 good governance, systems and controls are in place so that the Bank 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.

Tandem Money Limited

Strategic Report for the year ended 31 December 2020 (continued)

Section 172 Statement (continued)

Suppliers (continued)

It is important to us that we work with suppliers who uphold our values. We take this seriously at the procurement stage and throughout our business relationships and we continually review the controls and performance of our suppliers on a range of issues such as data security, bribery and corruption.

Investors

The Group engages regularly with shareholders and understands 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. Taking into consideration the importance to investors of the security and soundness of the Group the Board encouraged Senior Management to ensure that lending decisions continue to be taken prudently throughout the pandemic.

Communities

We believe it is our responsibility to provide employment opportunities for those in the local area 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.

We engage with the broader community in several ways including (but not limited to): partnerships with recruitment bodies; partnerships with educational bodies; employee volunteering; charity initiatives; and fundraising.

Our colleagues play an integral part in driving our community engagement as they both nominate and choose which initiatives we support.

Environment

The Board is mindful that it is increasingly important to demonstrate responsible business behaviour with regards to the environment. We work 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.

We are committed to continuously aiming to reduce our environmental footprint, encourage responsible behaviour and are fundamentally committed to embedding this across all aspects of the Group going forward.

Tandem Money Limited

Strategic Report for the year ended 31 December 2020 (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, 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 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 PRA 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 found on Tandem's website (<https://www.tandem.co.uk/terms-and-conditions>).

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 2020.

Pillar 1 Risk Weighted Assets ('RWAs') as at 31 December 2020 are £241.2m (2019: £198.0m) (unaudited).

Tandem Money Limited

Strategic Report for the year ended 31 December 2020 (continued)

Principal Risks and Uncertainties

The Group, in the execution of its strategy, is exposed to numerous risks, some of which have been described in Note 33 of these Financial Statements.

The Directors confirm they have carried out a comprehensive assessment of the principal risks facing the Group, including those that would impact its business model, future performance, financial position, liquidity and capital.

Further, the Directors have ensured 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 a Risk Management Framework ('RMF') for this purpose and implements this through the principal of Three Lines of Defence.

The principal risks faced by the Group are summarised below:

Risk	Definition	Key Mitigation Actions
Operational Risk	The risk of adverse impact on Tandem or its customers, whether direct or indirect, resulting from inadequate or failed processes, people and systems or from external events	<ul style="list-style-type: none">• Implementation and embedding of Operational Risk Management Framework, utilising the principal of identify, assess, monitor, report• The maintenance of a Risk Register and Control Library, and associated processes including Risk and Control Self Assessments• Identification of control failures through Incident management and thorough investigation and rectification of control failures through root cause analysis• Compliance with all applicable laws, regulations and voluntary codes / standards, focusing on achieving the best outcome for all stakeholders• Maintenance of a Compliance Universe to ensure regulatory risks are identified and appropriately managed, to ensure compliance with all relevant regulatory requirements• Planned enhancements to Model Risk management during 2021 to ensure co-ordinated and centralised approach

Tandem Money Limited

Strategic Report for the year ended 31 December 2020 (continued)

Principal Risks and Uncertainties (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 Conduct Risk Framework • 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
Technology & Cyber Risk	Risk of losses or other impacts resulting from disruption or damage to technology, poor implementation of software or cyber/data breaches	<ul style="list-style-type: none"> • Establishment of an IT Strategy to ensure Technology supports the needs of the business • Application of IT controls to ensure resilience and appropriate management of the operational IT environment • Application of information security policies supported by a governance structure and risk framework that underpins the identification, control and mitigation of cyber risks • Investing in cyber controls to protect against external threats to the confidentiality of electronic data, or the availability of systems • The establishment of resilient contingency mechanisms such as back-up, redundancy and disaster recovery • Recruitment and retention of experienced staff

Tandem Money Limited

Strategic Report for the year ended 31 December 2020 (continued)

Principal Risks and Uncertainties (continued)

Risk	Definition	Key Mitigation Actions
Credit Risk	Risk of financial losses to the bank resulting from borrowers or counterparty's failure to repay a debt or meet their contractual obligations, including second order losses relating to partner retailer conduct failures	<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 oversight by Risk Management • Monthly portfolio reviews to identify impairment indicators and initiate remediation activities to limit the extent of any potential loss (including COVID-19 implications) • 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 • Oversight of partner systems and controls through regular monitoring and periodic partner reviews
Market Risk	Risk of losses arising from adverse movements in market prices, in particular, Interest Rate Risk in the Banking Book	<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

Tandem Money Limited

Strategic Report for the year ended 31 December 2020 (continued)

Principal Risks and Uncertainties (continued)

Risk	Definition	Key Mitigation Actions
Strategic & Business Risk	Risk that the business strategy is unachievable, due to errors in underlying assumptions, changes in the external environment or inability to raise capital	<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 • Ongoing monitoring from Senior Management and Board to ensure performance is in line with plan, with corrective action taken if necessary • Stress Testing and Sensitivity Analysis on Business Plans • Assessment of the risks that Tandem is exposed via its partners and introduced business, including the development of a Introducer Conduct and Risk Policy, minimum standards for the onboarding, management and exit of brokers and retailers from Tandem's panel of introducers.
Liquidity & Capital Risk	The risk that the Group is unable to meet its obligations as they are expected to fall due or can only do so at an exceptional cost. It also includes the risk that we have a sub-optimal amount or quality of capital, that capital is inefficiently deployed across the Group or that the Group falls below regulatory minima	<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 • 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) • Maintaining Liquidity Contingency Plan detailing Management actions and strategies available in stressed conditions • Close monitoring of capital and leverage ratios to ensure the Group meets current and future regulatory requirements • Comprehensive stress testing analysis to evidence sufficient levels of capital adequacy and availability of Management actions under various adverse scenarios

Tandem Money Limited

Strategic Report for the year ended 31 December 2020 (continued)

Principal Risks and Uncertainties (continued)

Risk	Definition	Key Mitigation Actions
Operational Resilience	The risk that disruption to Tandem's operational capabilities results in loss to the business and / or customer detriment	<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
Regulatory & Legal Risk	The risks of changing legislation, regulation, policies, voluntary codes of practice and their interpretation in the markets in which Tandem operate can have a 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"> Continued investment in people, processes, training and IT to assess impact and help meet our legal and regulatory commitments Appropriate policies / processes in place to decrease risk of any regulatory breach Engage proactively with regulatory authorities and relevant industry bodies
ESG and Climate Risks	<p>Climate risk is a key emerging risk for the Company, impacting our customers, our investors and our business in making the required transition towards a low carbon economy</p> <p>ESG (Environmental, Social and Governance) 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 we are taking the initial steps to incorporate climate risk into our existing Enterprise Risk Management Framework, including our policies, risk appetite, controls and disclosures Internal promotion of 'green' initiatives, as described in the "Environment" section above Focus on 'green' lending activities and assessment of Tandem's carbon print and climate impact.

Tandem Money Limited

Strategic Report for the year ended 31 December 2020 (continued)

Principal Risks and Uncertainties (continued)

Risk	Definition	Key Mitigation Actions
Reputational Risk	The risk of an event that adversely impacts the Group's reputation, leading to lost revenue or destruction of value	<ul style="list-style-type: none">Ensuring rigorous controls and procedures are in place to mitigate incidences of fraudulent transactions, safeguarding of customer information and conduct towards customers

Risk Management

The Tandem Board, as the governing body of TML and its underlying entities, is responsible for ensuring 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 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 being provided by the Third Line.

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

The role of risk management is to ensure that risk-related decisions are consistent with the Group's strategy (in line with the approved risk appetite framework) and in compliance with the standards set by regulators. The Group's 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 numerous Executive Management and Board Committees.

Tandem Money Limited

Strategic Report for the year ended 31 December 2020 (continued)

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. 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 our customers, shareholders and regulators.

The Board delegates authorities for risk management through the CEO to individuals, an approach which is consistent with the focus of the Senior Managers Regime on the principle of individual accountability. At a senior level, Management is supported in its decision-making by a committee-based governance structure. 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.

In 2020 the Board had a RAC comprised of Non-Executive Directors ('NEDs') who kept the design and performance of the Group's RMF under regular scrutiny and interacted closely with the Senior Management. From January 2021, the RAC has been separated into a Risk Committee and Audit Committee to provide ongoing focus and oversight of risk management as the business grows.

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 Risk Committee is the appointed Whistleblower's Champion, with the Director of Compliance assigned as the point of contact on whistleblowing matters.

Tandem Money Limited

Strategic Report for the year ended 31 December 2020 (continued)

Governance

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.

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

Tandem's governance is organised into two primary layers, namely the Board of Directors and the ExCo. These structures also support the principles of the Three Lines of Defence model, with appropriate independent reporting lines for the Chief Risk Officer ('CRO'), Money Laundering Reporting Officer ('MLRO'), Director of Compliance and Internal Audit. Internal Audit is currently outsourced to a third-party supplier BDO LLP.

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

During 2020 a number of additional committees were established within the committee governance structure to ensure effective oversight and management of the ALG business, following completion of the transaction. Terms of reference of existing Committees were also updated to ensure appropriate ongoing management and oversight of ALG's business performance, conduct and associated risks. Additional changes are planned to further consolidate the combined Group governance structure, ensuring it is effective and fit for purpose for management and oversight of the combined Group as the business grows.

Tandem Money Limited

Strategic Report for the year ended 31 December 2020 (continued)

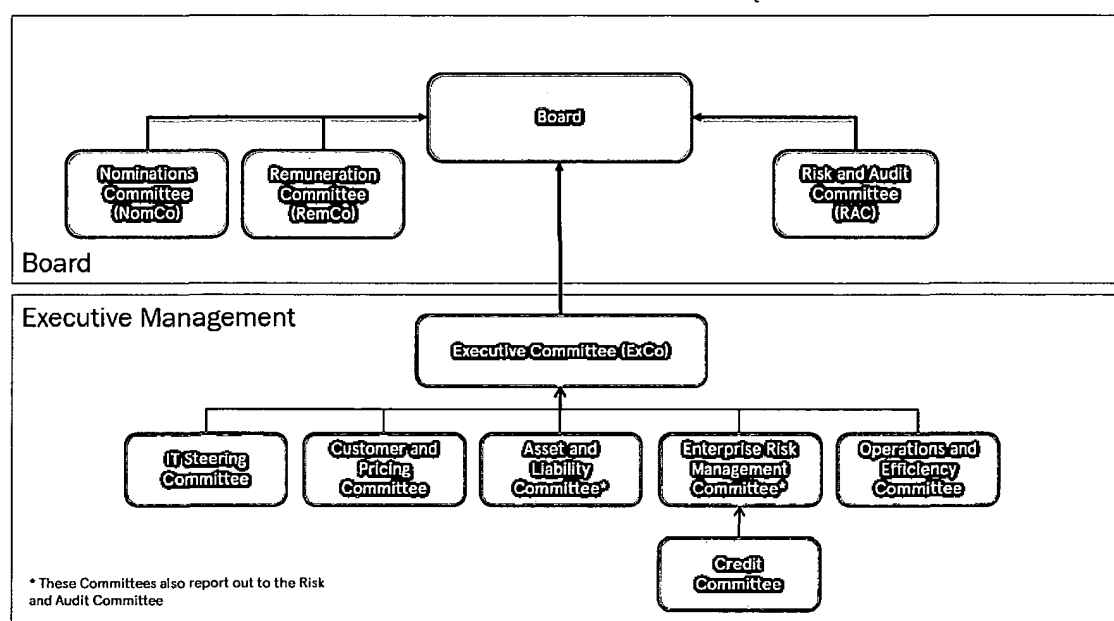
Committee Governance Structure

The Committee Structure supports effective management and Board oversight while ensuring clear lines of delegation and escalation. Assisted by the RAC, and subsequently the Risk Committee, the Board approves the Group's overall governance, risk and control frameworks and risk appetite.

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

Table 1.1 below represented the Governance Structure prior to the ALG acquisition, noting the structure evolved post August 2020 as needed to provide effective oversight of the combined business, with the current structure outlined in Table 1.2.

TABLE 1.1 – TANDEM COMMITTEE GOVERNANCE STRUCTURE – PRIOR TO ALG ACQUISITION

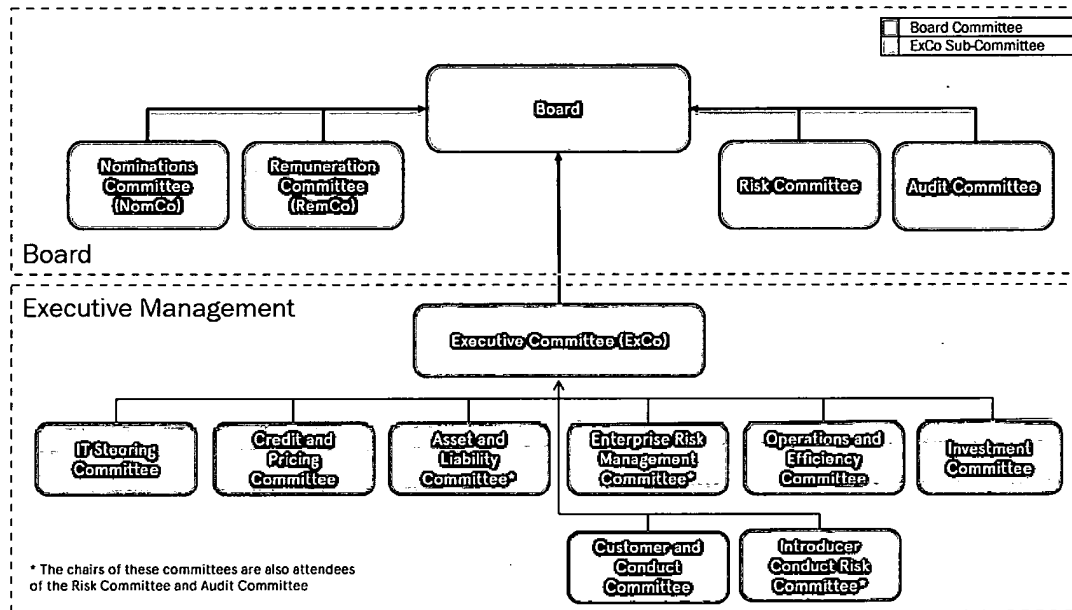


Tandem Money Limited

Strategic Report for the year ended 31 December 2020 (continued)

Committee Governance Structure (continued)

TABLE 1.2 – FUTURE TANDEM COMMITTEE GOVERNANCE STRUCTURE (FROM JAN 2021)



Tandem Money Limited

Strategic Report for the year ended 31 December 2020 (continued)

Board Level Governance

Board

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

The Board is responsible for providing oversight and control of the management of the business in accordance with the expectations of its stakeholders to achieve the business and financial objectives of the Group as set out in its strategic and operational plans.

The Board has the following responsibilities:

- Review and approve strategic and operational plans;
- Ensure that Management sets an effective risk assessment methodology (including the setting of risk appetite and tolerances) and an adequate internal control framework for the management of the risks identified;
- Ensure appropriate mechanisms are in place for the ongoing management of risk and to enable oversight of Risk and Compliance matters by the Board;
- To establish appropriate governance mechanisms that ensure that the business operates in accordance with the direction of the Board; that the Board has sufficient oversight of business performance, and that the business complies with all relevant regulations, and legal requirements;
- Review the performance of the ExCo in delivering the strategy and ensure an appropriate balance between short-term and long-term objectives;
- Review monthly capital forecasts as part of the CFO report;
- Receive reports from the Chair of RAC in relation to risk management and the adequacy of capital; and
- Approval of the ICAAP, Internal Liquidity Adequacy Assessment Plan ('ILAAP') and Recovery Plan

The Board is supported in its oversight of risk management and capital adequacy by the Risk and Audit Committees. The Board reviews and approves the terms of reference of key committees annually.

The members of the Board have been selected to provide effective challenge and oversight of the ExCo and the Bank across a range of technical areas and industry sectors, including financial services. The key principles adopted in establishing an appropriate composition are as follows:

- **Independent Non-Executive Directors (INEDS)** - INEDs provide appropriate challenge and scrutiny;
- **Executives** - represent the Senior Management who will continue to drive commercial decision making; and
- **Shareholders** - Investor Directors to ensure shareholders have appropriate input on business strategy

Tandem Money Limited

Strategic Report for the year ended 31 December 2020 (continued)

Board Level Governance (continued)

Risk and Audit Committees

The Risk and Audit Committees are sub-committees of the Board. Operating as a single committee in 2020 in line with its terms of reference, the RAC had responsibility for oversight and advice to the Board on the then current risk exposures and future risk strategy of Tandem (including strategy for capital and liquidity management).

The RAC (and going forward the separate committees) review and make recommendations to the Board on:

- Risk Appetite and Culture;
- RMF and key underlying risk management frameworks and policies;
- Effectiveness of controls in relation to risk management and capital management;
- Monitoring and assessment of the Principal Risks as defined in the RMF (i.e. Credit Risk; Market Risk; Liquidity and Funding Risk; Operational Risk; Technology and Cyber Risk; Conduct Risk; and Strategic and Business Model Risk);
- Reviewing the overall strategic and commercial priorities for Tandem in a risk management context, and assessing the risks inherent in the proposed budget and longer-term plans, their capital requirements and their robustness to stress test scenarios; and
- Reviewing and challenging the regulatory documents (i.e. ICAAP; ILAAP; and Recovery Plan) prior to making a recommendation to the Board for approval

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

Nomination Committee

The Nomination Committee ('NomCo') is appointed by the Board and seeks to ensure that the Board functions appropriately through the timely identification and nomination of members and critical functions as and when vacancies arise.

Remuneration Committee

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

The Board's policy is to set remuneration in order to attract, retain and motivate all staff. The CEO remuneration is set to encourage performance that is linked to the delivery of the Group's strategic objectives and for the benefit of shareholders.

Tandem Money Limited

Strategic Report for the year ended 31 December 2020 (continued)

Executive Level Governance

The CEO is supported in their role primarily through the establishment of an ExCo. This in turn has established several sub-committees to focus on specific matters which have certain decision-making rights delegated.

Executive Committee

The ExCo supports the CEO in the implementation of the strategy set by the Board and is responsible for day-to-day decision-making in relation to the management of Tandem. It is the responsibility of ExCo to ensure that the risk profile is assessed and managed within the Board approved strategic and business parameters.

The sub-committees of ExCo are detailed below.

Asset and Liability Committee

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

The responsibilities of the ALCO include (but are not limited to):

- Monitoring capital adequacy;
- Determining strategy in respect to Tandem's Balance Sheet assets, capital, funding and liquidity profiles;
- Regular management and oversight of Tandem's assets and liabilities in respect of Interest Rate Risk in the Banking Book;
- Development and review of treasury, asset-liability management and liquidity risk and capital adequacy Management Information;
- Ongoing development and maintenance of the assumptions used in capital and liquidity stress testing; Act as the main escalation point for the approval of any exceptions or breaches of the liquidity and capital management policies to ExCo and RAC as appropriate;
- Approving the capital investment plans of the Bank; and
- Oversight of the ICAAP and ILAAP

Tandem Money Limited

Strategic Report for the year ended 31 December 2020 (continued)

Executive Level Governance (continued)

Enterprise Risk Management Committee

The Enterprise Risk Management Committee ('ERMC') is responsible for considering the appropriateness of risk management arrangements and practices to ensure Tandem stays within its Risk Appetite across the four risk pillars, namely: Customer and Reputational; Cost and Earnings; Capital and Liquidity; and across the key Principal Risks, being:

- Credit Risk;
- Market Risk;
- Liquidity and Funding Risk;
- Operational Risk;
- Technology and Cyber Risk;
- Conduct Risk; and
- Strategic and Business Model Risk

The responsibilities of the ERMC include (but are not limited to):

Strategy, Frameworks and Policy

- Prepare recommendations in relation to risk management matters including recommendations on risk appetite, risk policies and RMFs and ensure they are implemented; and
- Ensure that risk considerations are incorporated within the strategic planning, budgeting and forecasting processes

Business Performance and Oversight

- Oversee the risk management practices and performance of each first line business unit;
- Provide oversight review and challenge stress and scenario testing;
- Monitor and review Tandem's risk profile relative to its Risk Appetite; and
- Review appropriate management information across the Principal Risks and escalate to ExCo and RAC as appropriate

Credit and Pricing Committee

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

Tandem Money Limited

Strategic Report for the year ended 31 December 2020 (continued)

Executive Level Governance (continued)

Operations and Efficiency Committee

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

Information Technology Steering Committee

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

Customer and Conduct Committee

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

Introducer Conduct Risk Committee

The Introducer Conduct Risk Committee is responsible for oversight of Allium-partnered third-party retailers, with a specific focus on monitoring the conduct of customer facing retailers and ensuring positive customer outcomes.

Tandem Money Limited

Strategic Report for the year ended 31 December 2020 (continued)

Risk Culture

Maintaining the right culture is a key component in Tandem's approach to risk, and the promotion of good conduct and positive customer outcomes. The Board is committed to a Top-Down approach to Risk Culture, where appropriate decision-making and behaviours are modelled by the Board of Directors, the ExCo and Senior Management and thereby set 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;
- 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.

On behalf of the Board,



Mr J J Pritchard

Chairperson

25 June 2021

Tandem Money Limited

Directors' Report for the year ended 31 December 2020

The Directors are pleased to submit their annual report and the audited consolidated Financial Statements of TML for the year ended 31 December 2020.

Directors

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

Mr J J Pritchard	Chairperson
Mr M J Cooper	Resigned 31 December 2020
Mr M L Amato	Resigned 31 December 2020
Mr M Klimbacher	Resigned 21 August 2020
Mr J Zagorovskis	Resigned 21 August 2020
Mr J W Scott	Appointed on 21 August 2020
Mr D G Torpey	Appointed on 2 October 2020
Mr A Murphy (Chief Financial Officer)	Appointed 9 November 2020
Ms M G Hassall	Appointed 17 December 2020
Mr D Fisher	Appointed 17 December 2020
Ms T Ferreira	Appointed 26 April 2021
Mr F S Knox	Resigned 25 May 2021
Mr J Nieuwkoop	Appointed 26 May 2021
Ms S L Aliker (Chief Executive Officer)	Appointed 4 June 2021

Directors' Indemnities

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

Directors' Interests

The following Directors in office at 31 December 2020 held an interest in the shares of the Group as at 31 December 2020:

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

Tandem Money Limited

Directors' Report for the year ended 31 December 2020 (continued)

Dividends

The Directors do not recommend a final dividend (2019: £Nil).

Board Changes

A number of Board changes have been seen during the year as a result of the capital injection, term of directorship and transition to a majority independent Board.

Matt Cooper retired from the Board as Executive Chairman on 31 December 2020 having been a joint founder of Tandem and member of the Board since April 2014. Mike Amato, who had served for 5 years as a NED, resigned on 31 December 2020.

Following the appointment of James Scott as Investor Director on 21 August 2020, both Michael Klimbacher and Jevgenijs Zagorovskis stepped down. A further Investor Director was added to the Board with the appointment of Jeroen Nieuwkoop on 26 May 2021.

The transition to a majority independent Board was completed by the appointments of David Torpey (October 2020), Margaret Hassall and David Fisher (both joining in December 2020). A further appointment of an INED was affected in April 2021 with the appointment of Talita Ferreira.

From an Executive Director perspective Anthony Murphy (Chief Financial Officer) was appointed to the Board in November 2020, whilst Ricky Knox, joint founder of Tandem, resigned as Chief Executive Officer on 25 May 2021 and was replaced by Susie Alier on 4 June 2021.

Note, the appointments of Margaret Hassall, David Fisher and Susie Alier remain subject to regulatory approval, which were outstanding as at the date of this Annual Report.

Capital Management

Details of capital management are provided in the Strategic Report on page 13.

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).

TML is registered in England and Wales under registration number 08628614.

Future Developments and Events after the Balance Sheet Date

Details of Future Developments are provided in the Strategic Report on page 7 and events that have occurred after the Balance Sheet date can be found in Note 39 of the Financial Statements and form part of this report by cross-reference.

Tandem Money Limited

Directors' Report for the year ended 31 December 2020 (continued)

Financial Risk Management Objectives and Policies

Details of the Bank's financial risk management objectives and policies are provided in the Strategic Report on page 19.

Going Concern

COVID-19 continues to challenge the resilience of organisations across all sectors, thus making going concern assessments more testing and judgemental. Tandem is not isolated from this environment and faces the same issues with implications across future revenue generating activities, credit losses and ability to fundraise (including obtaining a capital injection within the 12 months from the date of signing of the financial statements). These matters result in a material uncertainty in the Group's and Parent Company's ability to continue as a going concern. Nevertheless, Tandem has delivered significant progress against its strategy including the successful acquisition and integration of ALG, subsequent purchase of the B&C mortgage portfolio, successful IT re-platforming, growth in 'core' assets and proactive run-off of the Group's 'non-core' unsecured lending portfolios, all of which underpin the Directors confidence in the business moving towards sustainable profitability.

These financial statements have been prepared on a going concern basis. This basis is dependent on maintaining adequate capital to fund the Balance Sheet and satisfy the Group's capital requirements. The Directors have considered several factors including the current and forecast performance of the Group and based on this review the Directors are confident the Group and Parent Company can operate for at least 12 months from the date these financial statements are approved.

As part of the going concern assessment, which covered the period to 25 May 2022, the Directors considered numerous factors including (but not limited to):

- Medium term business plan and available management actions to support going concern;
- Current and expected regulatory requirements;
- Tandem's liquidity and ability to navigate through various stress scenarios;
- Resilience of IT platform and operational infrastructure;
- Government and regulator intervention to support the economy and banking industry

However, in the short-term the Group will remain loss making, with COVID-19 inevitably leading to ongoing macro-economic uncertainty. This may result in negative variances versus future projections and increases the risk that Tandem will not be able to execute its business plan, which could adversely impact its ability to generate a profit and / or raise sufficient capital to satisfy future regulatory requirements, or to raise any necessary additional funding required to continue as a going concern (in the going concern assessment period).

Tandem Money Limited

Directors' Report for the year ended 31 December 2020 (continued)

Going Concern (continued)

Therefore, given these complications, the Directors acknowledge such material uncertainties cast significant doubt on Group's and Parent Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and Parent Company were unable to continue as a going concern. Nevertheless, the Directors remain confident in the Group's ability to execute its medium-term business plan and fundraise if necessary, given:

- Presence of a clear route to profitability, which will aid Tandem's journey to sustainability and underpin future fundraising activities;
- Supportive shareholder base and confidence that if the Group delivers against its strategic plan further funding will be available from both existing and new investors;
- Unprecedented support from the UK Government, regulators and central banks around the world to maintain the banking sector;
- Dedicated colleagues and Senior Management Team; and
- Ability to utilise capital remediation actions if the situation arises

Taking this all into account the Directors are confident the Group and Parent Company possesses sufficient financial resources to meet our regulatory requirements for at least 12 months and conclude it remains appropriate to continue preparing our financial statements on a going concern basis.

Directors' Responsibilities Statement

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

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the directors have prepared the Group and 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 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.

Tandem Money Limited

Directors' Report for the year ended 31 December 2020 (continued)

Directors' Responsibilities Statement (continued)

The Directors are also 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.

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

Corporate Governance Arrangements

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.

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

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

Tandem Money Limited

Directors' Report for the year ended 31 December 2020 (continued)

Disclosure of Information to the Auditors

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



Mr J J Pritchard

Chairperson

25 June 2021

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 parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's and parent company'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 Consolidated Annual Report and Financial Statements (the "Annual Report"), which comprise: the consolidated and company statements of financial position as at 31 December 2020; the consolidated and company income statement and statement of other comprehensive income, and the consolidated and company statements of changes in equity, the consolidated statements of cash flows 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.

Tandem Money Limited

Independent Auditors' Report to the Members of Tandem Money Limited (continued)

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the group's and the parent company's ability to continue as a going concern. The group and parent company are loss making and require further capital injections within twelve months from the date of signing these financial statements if the planned rate of growth continues. In order to meet regulatory requirements and to continue in business as a going concern, the group and parent company will either have to moderate its rate of growth or raise further capital. This has led to the following material uncertainties:

- The group and the parent company may not be able to obtain the required capital injections; and/or
- The group's and the parent company's plan contains specific assumptions such as capital injections, growth of the loan book, costs, provisions, capital assumptions, which if not met would give rise to breaches in regulatory capital commitments.

Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included:

- We obtained audit evidence over the initial June 2021 capital injection (£2.5m). Management's going concern model included additional substantial capital injections which is planned for later in the year;
- We obtained an understanding of management's going concern assessment and we evaluated management's methodology used in the model for appropriateness;
- We tested the mathematical accuracy of the model;
- We challenged the appropriateness of management's forecasts by assessing the material assumptions used in management's model;
- We performed a sensitivity analysis on management's model using reasonably plausible down-side alternatives;
- We used our regulatory specialists to assess the assumptions used in management's capital forecast confirming the appropriateness of the assumptions made when determining risk weighted assets and minimum capital requirements; and
- We assessed the disclosures in the Annual Report relating to going concern, including the material uncertainties, to ensure they are in compliance with the requirements of FRS 102.

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

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.

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 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

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 Regulatory 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 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 management bias in accounting estimates. 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;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the impairment provision, share based payment, conduct provision, fair value of loans and advances acquired, revenue recognition, goodwill and purchase price allocation; 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.

Tandem Money Limited

Independent Auditors' Report to the Members of Tandem Money Limited (continued)

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Mike Wallace (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
25 June 2021

Tandem Money Limited

Consolidated Income Statement and Statement of Other Comprehensive Income for the year ended 31 December 2020

	Note	Continuing Operations £'000	Discontinued Operations £'000	2020 Total £'000	Continuing Operations £'000	Discontinued Operations £'000	2019 Total £'000
Interest income	2	17,838	942	18,780	21,409	1,349	22,758
Interest expense	3	(6,578)	-	(6,578)	(8,409)	-	(8,409)
Net Interest Income		11,260	942	12,202	13,000	1,349	14,349
Fees and commissions income	4	-	546	546	-	1,364	1,364
Fees and commissions expense	4	(1,259)	(438)	(1,697)	(835)	(1,314)	(2,149)
Net gains/(losses) in derivatives and hedge ineffectiveness	5	102	-	102	(64)	-	(64)
Other operating income	6	25	-	25	173	-	173
Total Income		10,128	1,050	11,178	12,274	1,399	13,673
Administrative expenses	7	(29,163)	(3,798)	(32,961)	(31,654)	(5,000)	(36,654)
Depreciation and amortisation	7	(2,213)	-	(2,213)	(4,823)	-	(4,823)
Operating Expenses	7	(31,376)	(3,798)	(35,174)	(36,477)	(5,000)	(41,477)
Provision for bad and doubtful debts	17	(5,375)	(1,267)	(6,642)	(8,515)	(2,692)	(11,207)
Total Loss on Operating Activities before Tax		(26,623)	(4,015)	(30,638)	(32,718)	(6,293)	(39,011)
Tax gain on loss on ordinary activities	11	87	-	87	78	-	78
Loss for the Financial Year		(26,536)	(4,015)	(30,551)	(32,640)	(6,293)	(38,933)
Other Comprehensive Income/(Expense)							
Deferred tax movement on items of other comprehensive income/(expense)	11	(87)	-	(87)	(78)	-	(78)
- Fair value gain on treasury assets		30	-	30	9	-	9
- Fair value gain on equity shares		384	-	384	492	-	492
Total Comprehensive Loss for the Year		(26,209)	(4,015)	(30,224)	(32,217)	(6,293)	(38,510)

Tandem Money Limited
Consolidated Statement of Financial Position
as at 31 December 2020

	Note	2020 £'000	2019 £'000
Assets			
Cash and balances at central banks	13	149,819	65,645
Loans and advances to banks	14	17,776	24,168
Debt securities	15	28,088	24,028
Derivatives held for risk management	16	-	30
Loans and advances to customers	17	394,755	330,647
Equity shares	18	2,670	1,344
Intangible assets	20	14,091	3,772
Tangible fixed assets	20	169	253
Other assets	21	7,020	6,428
Prepayments and accrued income	22	2,050	1,103
Total Assets		616,438	457,418
Liabilities			
Customer accounts	23	494,962	363,775
Other deposits	24	50,013	55,484
Derivatives held for risk management	16	104	21
Other liabilities	25	3,976	5,054
Accruals and deferred income	26	2,531	1,786
Total Liabilities		551,586	426,120
Share Capital and Reserves			
Called up share capital	28	804	242
Share premium account	28	202,694	142,568
Warrants	28	1,391	-
Other reserves	28	5,641	3,942
Retained reserves	28	(145,678)	(115,454)
Shareholders' funds including Non-Equity interests		64,852	31,298
Total Liabilities and Equity		616,438	457,418

On behalf of the Board,



Mr J J Pritchard

Chairperson

25 June 2021

Tandem Money Limited

Consolidated Statement of Changes in Equity for the year ended 31 December 2020

	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 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 profit/(loss)	-	-	-	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
At 1 January 2019	214	141,238	-	457	3,718	(77,401)	68,226
Loss for the year	-	-	-	-	-	(38,933)	(38,933)
Net income relating to available for sale investments, net of tax	-	-	-	423	-	-	423
Total comprehensive profit/(loss)	-	-	-	423	-	(38,933)	(38,510)
Shares issued, net of expenses	28	1,330	-	-	-	-	1,358
Share-based payments	-	-	-	-	224	-	224
As at 31 December 2019	242	142,568	-	880	3,942	(116,334)	31,298

Tandem Money Limited

Consolidated Statement of Cash Flows for the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Cash flows from Operating Activities			
Loss before tax		(30,638)	(39,011)
Non-cash items included in loss before taxation		10,842	19,459
Change in operating assets and liabilities		47,103	(8,003)
Income tax received		-	875
Net cash generated from/(used in) Operating Activities	31	27,307	(26,680)
Cash flows from Investing Activities			
Purchase of intangible assets		(1,063)	(844)
Purchase of tangible assets		(51)	(198)
Cash acquired on purchase of subsidiaries		3,983	-
Sale/(purchase) of debt securities		(4,030)	(8,959)
Net cash generated from/(used in) Investing Activities		(1,161)	(10,001)
Cash flows from Financing Activities			
Proceeds from issuance of ordinary shares		51,635	1,358
Net cash generated from Financing Activities		51,635	1,358
Net increase/(decrease) in Cash and Cash Equivalents		77,781	(35,323)
Cash and cash equivalents at beginning of year		89,813	125,136
Cash and Cash Equivalents at the end of the Year	31	167,595	89,813

Prior period amounts have been amended to reflect changes in presentation and classification of the sale/(purchase) of debt securities in the current period.

Tandem Money Limited
Company Income Statement and
Statement of Other Comprehensive Income
for the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Interest income		-	-
Interest expense		(11)	(3)
Net Interest Expense		(11)	(3)
Impairment reversal of investment in subsidiary		25,866	-
Other operating income	6	20,181	21,486
Total Income		46,036	21,483
Administrative expenses	7	(30,643)	(36,156)
Depreciation and amortisation	7	(1,506)	(4,279)
Operating Expenses		(32,149)	(40,435)
Impairment of investment in subsidiary	19	(9,250)	(35,771)
Impairment of intercompany balances	36	(1,194)	-
Total Profit/(Loss) on Operating Activities before Tax		3,443	(54,723)
Tax gain on profit/(loss) on ordinary activities		-	-
Profit/Loss for the Financial Year		3,443	(54,723)
Total Comprehensive Profit/(Loss) for the Year		3,443	(54,723)

Tandem Money Limited
Company Statement of Financial Position
as at 31 December 2020

	Note	2020 £'000	2019 £'000
Assets			
Loans and advances to banks	14	243	367
Investments in subsidiaries	19	92,508	33,577
Intangible assets	20	1,299	2,113
Tangible fixed assets	20	141	253
Other assets	21	3,582	2,518
Prepayments and accrued income	22	1,951	1,063
Total Assets		99,724	39,891
Liabilities			
Other liabilities	25	1,051	8,913
Accruals and deferred income	26	2,233	1,759
Total Liabilities		3,284	10,672
Share Capital and Reserves			
Called up share capital	28	804	242
Share premium account	28	202,694	142,568
Warrants	28	1,391	-
Other reserves	28	5,641	3,942
Retained reserves	28	(114,090)	(117,533)
Shareholders' Funds including Non-Equity Interests		96,440	29,219
Total Liabilities and Equity		99,724	39,891

On behalf of the Board,



Mr J J Pritchard

Chairperson

25 June 2021

Tandem Money Limited

Company Statement of Changes in Equity for the year ended 31 December 2020

	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 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
At 1 January 2019	214	141,238	-	3,718	(62,810)	82,360
Loss for the year	-	-	-	-	(54,723)	(54,723)
Shares issued, net of expenses	28	1,330	-	-	-	1,358
Share-based payments	-	-	-	224	-	224
As at 31 December 2019	242	142,568	-	3,942	(117,533)	29,219

Tandem Money Limited

Notes to the Financial Statements for the year ended 31 December 2020

1. Basis of Preparation

1.1. General Information and Basis of Accounting

Tandem Money Limited ('the Company') together with its subsidiaries ('the Group') are private companies, limited by shares and incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 3.

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 Parent for the year ended 31 December 2020. The statements are presented separately for the Parent and Group.

The Financial Statements of the Group were approved for issue by the Board of Directors on 25 June 2021. 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 2020. The subsidiaries are listed in Note 19. 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.

The Group Income Statement and Statement of Cash Flows include the results and cash flows of Tandem Bank Limited ('TBL').

The Income Statement and Statement of Cash Flows also include the results and cash flows of Allium Lending Group Limited ('ALG') for the period from its acquisition on 21 August 2020.

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

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

1. Basis of Preparation (continued)

1.3. Going Concern

As stated in the Directors' Report, these financial statements have been prepared on a going concern basis. This basis is dependent on maintaining adequate capital to fund the Balance Sheet and satisfy the Group's capital requirements. The Directors have considered several factors including the current and forecast performance of the Group and based on this review the Directors are confident the Group and Parent Company can operate for at least 12 months from the date these financial statements are approved.

As part of the going concern assessment, which covered the period to 25 May 2022, the Directors considered numerous factors including (but not limited to):

- Medium term business plan and available management actions to support going concern;
- Current and expected regulatory requirements;
- Tandem's liquidity and ability to navigate through various stress scenarios;
- Resilience of IT platform and operational infrastructure;
- Government and regulator intervention to support the economy and banking industry

However, in the short-term the Group will remain loss making, with COVID-19 inevitably leading to ongoing macro-economic uncertainty. This may result in negative variances versus future projections and increases the risk that Tandem will not be able to execute its business plan, which could adversely impact its ability to generate a profit and / or raise sufficient capital to satisfy future regulatory requirements, or to raise any necessary additional funding required to continue as a going concern (in the going concern assessment period).

Therefore, given these complications, the Directors acknowledge such material uncertainties cast significant doubt on Group's and Parent Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and Parent Company were unable to continue as a going concern. Nevertheless, the Directors remain confident in the Group's ability to execute its medium-term business plan and fundraise if necessary, given:

- Presence of a clear route to profitability, which will aid Tandem's journey to sustainability and underpin future fundraising activities;
- Supportive shareholder base and confidence that if the Group delivers against its strategic plan further funding will be available from both existing and new investors;
- Unprecedented support from the UK Government, regulators and central banks around the world to maintain the banking sector;
- Dedicated colleagues and Senior Management Team; and
- Ability to utilise capital remediation actions if the situation arises

Taking this all into account the Directors are confident the Group and Parent Company possesses sufficient financial resources to meet our regulatory requirements for at least 12 months and conclude it remains appropriate to continue preparing our financial statements on a going concern basis.

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

1. Basis of Preparation (continued)

1.4. Significant Accounting Estimates and Judgements

(i) Impairment losses on loans and advances to customers

The allowance for impairment losses on loans and receivables is Management's best estimate of losses incurred in the portfolio at the Balance Sheet date. In determining the required level of impairment provisions, the Group uses the output from statistical models. Management judgement is therefore required to assess the robustness of the outputs from these models and where necessary, make appropriate adjustments. The impairment allowances are made up of two components, those determined individually against specific assets and those determined collectively. See note 17, 32 and 33.1 for sensitivities and further detail.

- 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.

- 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 33.

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (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

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. 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.

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 might need to be written off as a result. Base case is 50%, 38% are the plans that are currently in the pipeline, and 60% is 10 % movement on base case.

Complaint reduction value	£'000
As at 31 December 2020	
38%	2,300
50%	2,996
60%	3,575

Variable 2: Takes into account of all the incoming complaints, 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 2020	
50%	1,996
75%	2,496
100%	2,996

Variable 3: Takes into account all the remaining complaints that are still eligible, within the limitation period. 6.9% is base case, 20% is worst case and 3.5% is half of base case.

Remaining complaints in limitation period	£'000
As at 31 December 2020	
3.5%	2,483
6.9%	2,996
20%	4,762

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

1. Basis of Preparation (continued)

1.4. Significant Accounting Estimates and Judgements (continued)

(ii) Share-based compensation

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

The fair value of options is determined using valuation models that take into account the terms and conditions attached to the awards. 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 29.

(iii) Goodwill and intangible assets

Annually, the Group considers whether intangible assets and/or goodwill are impaired. Where an indication of impairment is identified the estimation of recoverable value requires estimation of the recoverable value of the cash-generating units ('CGUs'). This requires estimation of future cash flows from the CGUs and also a selection of appropriate discount rates in order to calculate the net present value of those cash flows. For further detail please refer to note 20 and 38.

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:

- a) the contractual rights to the cash flows from the financial asset expire or are settled;
- b) the Group transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- c) the Group, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party

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,

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

1. Basis of Preparation (continued)

1.6. Financial Assets (continued)

(i) Loans and receivables (continued)

less provision for impairment. Loans and receivables predominantly comprise of loans and advances to customers.

(ii) Available for sale

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

Interest income is recognised in the Income Statement using the effective interest rate method. Impairment losses are recognised in the Income Statement. Other fair value changes are recognised in Other Comprehensive Income and presented as shareholders' equity in the Balance Sheet. On disposal, the gain or loss accumulated in equity is reclassified to the Income Statement.

(iii) Derivatives

For certain loans and advances with fixed rates of interest, interest rate swaps have been acquired with the intention of significantly reducing interest rate risk. All derivative instruments are initially measured at fair value on the contract date and are also measured at fair value at subsequent reporting dates. Changes in fair value of any derivative instruments are recognised immediately in the Income Statement.

1.7. Financial Liabilities

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

Financial liabilities are contractual obligations to deliver cash or another financial asset. All financial liabilities (other than derivatives) are recognised initially at fair value (net of directly attributable transaction costs) and are subsequently measured at amortised cost. Financial liabilities at amortised cost are deposits from customers and intercompany as well as subordinated loans. Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

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

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

1. Basis of Preparation (continued)

1.8. Fair Value Measurement (continued)

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. 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. Quantification of this provision accrual was achieved by calculating the delta in impairment provision between protecting an account's arrears status while on the Covid-related plan and letting impacted accounts age as per their contractual terms. A multiplier was then applied to this provision delta for the assumed amount of impairment that was expected to materialise after the plan completed and adapted as actual performance was observed during 2020.

Once a financial asset has been written down as a result of an impairment loss, interest income thereafter is recognised using the original effective interest rate on the net carrying value after deducting the impairment. The aggregate impairment provisions which are made during the period (less

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

1. Basis of Preparation (continued)

1.9. Impairment of Financial Assets (continued)

(i) Loans and advances (continued)

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.

(ii) Financial assets classified as available for sale

The Group assesses at each reporting date whether there is objective evidence that an available for sale financial asset is impaired. In addition to the criteria for loans and advances, the assessment involves reviewing the financial circumstances (including credit worthiness), assessing the future cash flows expected to be realised and, in the case of equity shares, considering whether there has been a significant or prolonged decline in the fair value of the security below its cost. Impairment losses on available for sale financial assets are recognised by reclassifying the losses accumulated in the available for sale reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss.

1.10. Derivative Financial Instruments

The Group has entered into derivative transactions for the purpose of reducing exposures to fluctuations in interest rates. Derivatives are carried at fair value with movements in fair values recorded in the profit or loss. Derivative financial instruments are principally valued by discounted cash flow models using yield curves that are based on observable market data as well as valuations obtained from counterparties. As the Group's derivatives are covered by master netting agreements with the Group's counterparties, with any net exposures then being further covered by the payment or receipt of periodic cash margins, the Group has used a risk-free discount rate for the determination of their fair values.

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

1.11. Hedge Accounting

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

At the inception of the hedge relationship, the entity documents the economic relationship between the hedging instrument and the hedged item, along with its risk management objectives and clear identification of the risk in the hedged item that is being hedged. In designating financial instruments as qualifying hedge relationships, the 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.

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

1. Basis of Preparation (continued)

1.11 Hedge accounting (continued)

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 currently comprise of assets. 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.

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 reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

1. Basis of Preparation (continued)

1.14 Intangible Assets (continued)

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

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

it is technically feasible to complete the software so that it will be available for use;

Management intends to complete the software and use or sell it;

there is an ability to use or sell the software;

it can be demonstrated how the software will generate probable future economic benefits;

adequate technical, financial and other resources to complete the development and to use or sell the software are available; and

the expenditure attributable to the software during its development can be reliably measured

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

1.15. Impairment of Non-Financial Assets

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

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

1. Basis of Preparation (continued)

1.16. 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 probably that future taxable profit will be available against which the temporary differences can be utilised.

1.17. Interest Income and Expense

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

1.18. Fees and Commission

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 fees income/rebates based on usage.

1.19. Leases

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

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other administrative expenses.

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 2020 (continued)

1. Basis of Preparation (continued)

1.20 Share-based Incentive Schemes (continued)

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

The JSOP has previously been accounted for as a cash settled scheme and as such the options were initially measured at their fair value at the date of grant but have then been remeasured at fair value at each subsequent financial reporting date with a liability accruing on the Statement of Financial Position. Following the capital raise and updated business plan in 2020 they have been reclassified as equity settled. The reclassification is applied prospectively with the fair value of the options measured on the date they were granted. The employee benefit expense is recognised from the vest commencement date with a corresponding increase in equity.

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.

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

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 ten 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 2020 (continued)

2. Interest Income

Group	2020 £'000	2019 £'000
Interest Income on:		
- Loans and advances	18,516	21,829
- Debt securities	344	905
Net interest (expense) / income on mortgage interest rate swaps	(80)	24
	18,780	22,758

3. Interest Expense

Group	2020 £'000	2019 £'000
Interest Expense on:		
- Customer accounts and similar expense	6,463	8,091
- Wholesale deposit	115	376
Net interest income on deposit interest rate swaps	-	(58)
	6,578	8,409

4. Fees and Commission

Group	2020 £'000	2019 £'000
Income		
Credit card - net interchange income	311	1,108
Credit card - other fee income/(expense)	235	256
	546	1,364
Expense		
Forward flow partner service fees	784	835
Performance fees	475	-
Credit card cashback	438	1,314
	1,697	2,149

5. Net Gains/(Loss) on Derivatives and Hedge Ineffectiveness

Group	2020 £'000	2019 £'000
Net gain / (loss) on derivatives not in a hedging relationship	96	(75)
Hedge ineffectiveness	6	11
	102	(64)
Hedge ineffectiveness:		
Loss on hedging instruments	(184)	(141)
Gain on hedged items	190	152
	6	11

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

6. Other Operating Income

	2020 £'000	2019 £'000
Group		
Visa income	11	173
Other income	14	-
	25	173
Company		
Intercompany recharge	20,181	21,486

Visa income in the year consists of dividend income and in the prior year consists of dividend income and a deferred cash settlement.

7. Operating Expenses

	2020 £'000	2019 £'000
Group		
Staff costs	12,531	9,515
Amortisation of intangible assets	1,936	4,682
Impairment of intangible assets	390	3,141
App costs	218	1,472
Credit card costs	3,798	5,000
IT costs	5,194	4,826
Rent	2,366	2,461
Depreciation	277	141
Fees payable to the Group's auditors	748	370
Other administrative costs	7,716	9,869
	35,174	41,477
Company		
Staff costs	11,183	9,067
Amortisation of intangible assets	1,362	4,138
Impairment of intangible assets	390	3,141
App costs	218	1,472
Credit card costs	3,752	5,000
IT costs	4,920	4,826
Rent	2,186	2,461
Depreciation	144	141
Fees payable to the Group's auditors	748	370
Other administrative costs	7,246	9,819
	32,149	40,435

Included in staff costs are £2.1m worth of Research and Development expenditure.

Certain prior period amounts have been amended to reflect changes in presentation and classification of operating expenses in the current period.

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

8. Auditors' Remuneration

Group	2020 £'000	2019 £'000
Audit of the Group's Financial Statements	694	250
Other services	54	120
	748	370

The fees payable for the audit of the Group's financial statements includes £540k in relation to the audit of the Company's subsidiaries (2019: £180k). Other services provided during the year by PwC relate to audit of regulatory reporting submissions.

9. Employees

Group	2020 £'000	2019 £'000
Wages and salaries	9,408	8,271
Social security costs	1,154	1,075
Pension costs	245	231
Share-based payments	1,617	(199)
Other staff costs	107	137
	12,531	9,515
The average number of employees, including Directors	170	146

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

10. Directors' Remuneration

	2020	2019
	£'000	£'000
Total Directors' emoluments		
Remuneration	527	521
Pension contributions	14	12
	541	533
 Highest paid Director emoluments		
Remuneration	244	250
Pension contributions	7	8
	251	258

During the year 3 Directors (2019: 2) were participants in the Group's long-term share incentive schemes.

No share awards in relation to the Group's long-term share incentive schemes were issued to Directors in 2020 (2019: 2 Directors received share awards). No Directors exercised share options in the parent's shares during the year (2019: Nil). Further details of the relevant incentive plans are outlined in Note 29.

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

11. Taxation

Group

The taxation charge based on the loss for the period comprises:

Current tax:

UK Corporation tax

Adjustments with respect to prior years

Total current tax

Deferred tax:

Current Year

Total deferred tax

Taxation credit on ordinary activities

Total deferred tax relating to items of other comprehensive income

2020

£'000

2019

£'000

-

-

-

-

-

-

(87)

(78)

(87)

(78)

(87)

(78)

87

78

2020

£'000

2019

£'000

Group

Loss on ordinary activities before taxation

(30,638)

(39,011)

Loss on ordinary activities before taxation multiplied by the standard rate of corporation tax of 19.00% (2019: 19%)

(5,821)

(7,412)

Expenses not deductible for tax purposes

77

13

Income not taxable

(395)

(125)

Utilisation of unrecognised tax losses

(87)

-

Deferred tax not recognised

6,139

6,653

Tax rate changes

-

793

Current tax credit for the year

(87)

(78)

Standard rate of corporation tax:

19%

19%

Deferred tax assets not recognised

2020

£'000

2019

£'000

As at 31 December 2020

Tax losses

29,317

19,106

Short term timing differences

9

155

Fixed assets

426

-

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

11. Taxation (continued)

Analysis of deferred tax liability / (asset)	2020 £'000	2019 £'000
Losses	383	(1,236)
Short-term timing differences	(355)	318
Acquisition of intangibles	-	398
Fixed assets	(28)	520
Total Deferred tax (asset)/Liability	-	-

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020.

In the 3 March 2021 Budget it was announced that the UK tax rate will increase to 25% (from 19%) from 1 April 2023. This will have a consequential effect on the Group's future tax charge. If this rate change had been substantively enacted at the current Balance Sheet date there would be no impact as the Group is not currently recognising deferred tax.

The Government has announced it will undertake a review of the banking surcharge and set out proposals in the autumn to ensure that the combined rate of tax on banks' profits does not increase substantially from its current level. No proposals have been announced as at the date of this report.

12. Dividends

There is no dividend payable for the period ended 31 December 2020 in respect of the ordinary shares. (31 December 2019: nil).

13. Cash and Balances at Central Banks

	2020 £'000	2019 £'000
Bank of England Reserve Account	149,819	65,645

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

14. Loans and Advances to Banks

	2020	2019
Group	£'000	£'000
Repayable on demand	13,416	18,791
Encumbered cash	4,360	5,377
	17,776	24,168

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. For the current year, £1m is related to collateral which was returned in April 2021 following the termination of Mastercard services relating to the credit card product. The remaining £3.36m is collateral on derivative instruments as referenced in Note 16 which are due to mature throughout 2021.

	2020	2019
Company	£'000	£'000
Repayable on demand	243	367

15. Debt Securities

	2020	2019
Group	£'000	£'000
European Investment Bank	8,049	19,029
Treasury Bills	5,998	4,999
Asian Development Bank	14,041	-
	28,088	24,028

The Treasury Bills mature in less than 3 months. European Investment Bank ('EIB') and Asian Development Bank ('ADB') debt securities mature between 1 and 5 years. Debt securities held for liquidity purposes are classified as available for sale assets at market value. The EIB bills are held as non-cash collateral against the Bank of England term funding scheme, TML does not hold the right to sell or re-pledge this collateral.

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

16. Derivatives held for Risk Management

Group	2020 £'000	2019 £'000
Assets	-	30
Liabilities	(104)	(21)

As part of its risk management strategy, the Group holds interest rate swaps to hedge its interest rate risk arising from fixed rate exposures in its retail loan book funded by variable rate liabilities.

The Group applies fair value hedge accounting for a portfolio hedge of interest rate risk by identifying portfolios with similar repricing characteristics. The portfolios comprise of assets and liabilities. The Group then analyses each portfolio into repricing time periods based on expected repricing dates, by scheduling cash flows into the periods in which they are expected to occur. Using this analysis, the Group designates as the hedged item, an amount of the assets and liabilities from each portfolio that it wishes to hedge. 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, mature in 2021 and as such are not impacted.

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2020 (continued)

17. Loans and Advances to Customers

	2020	2019
Group	£'000	£'000
Gross loans and advances to customers	408,773	339,113
Provision for impairment	(14,113)	(8,347)
Fair value adjustment for portfolio hedged risk	95	(119)
	394,755	330,647
	2020	2019
Remaining maturity:	£'000	£'000
Repayable on demand	5,360	60,973
3 months or less	4,822	3,054
Between 3 months and 1 year	16,270	9,980
Between 1 year and 5 years	131,108	100,947
Over 5 years	251,213	164,159
	408,773	339,113

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

	2020	2019
	£'000	£'000
Secured lending	270,288	227,485
Unsecured lending	138,485	111,628
	408,773	339,113
	%	%
Secured lending	66	67
Unsecured lending	34	33
	100	100

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

17. 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 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
 Year ended 31 December 2019			
Opening balance	450	2,079	2,529
New impairment provisions less releases	(450)	9,713	9,263
Amounts written-off	-	(3,445)	(3,445)
Closing balance	-	8,347	8,347
 Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	 -	 11,548	 11,548

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

	2020 £'000	2019 £'000
Provisions (released)/raised	(1,893)	9,263
Write-offs	8,566	3,445
Recoveries of amounts previously written-off	(31)	(1,501)
Provision for bad and doubtful debts per Income Statement	6,642	11,207

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

18. Equity Shares

	2020	2019
Group	£'000	£'000
Visa Inc.	1,670	1,344
Hiber Energy Limited	1,000	-
	2,670	1,344

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 £327k recognised in other comprehensive income during the year (2019: £423). The total income recognised in the year in relation to the Visa shares is £11k (2019: £34k).

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. The total income from this investment in the year is £nil.

19. Investments in Subsidiaries

Company	2020	2019
At cost	£'000	£'000
Allium Lending Group Limited	-	-
Tandem Bank Limited	92,498	33,566
Pariti Technologies Limited	10	10
Tandem Money Hong Kong Limited	-	1
	92,508	33,577

All subsidiaries are wholly (100%) owned by TML, both directly and indirectly, except for Tandem Money Hong Kong Limited which is no longer a subsidiary of TML. Pariti Technologies Limited is exempt from audit by virtue of s479A of Companies Act 2006. The above table represents subsidiaries which are directly owned by TML. Indirectly wholly owned subsidiaries which are included in the consolidation are as follows:

GDFC Assets Limited

GDFC HoldCo Limited

GDFC Services Limited

All subsidiaries that are wholly owned as at 31 December 2020 were incorporated in the United Kingdom, and have a registered office address of 40 Bernard Street, London, WC1N 1LE.

On 21 August 2020, TML purchased ALG for £9.25m. At the completion date the loan portfolios held by ALG were transferred to TBL and TML recognised an impairment loss in ALG of £6.66m in recognition of the transfer of value from ALG to TBL. A partial reversal of the prior year impairment loss (£35.45m) in TBL has been recognised for £24.34m. TML injected an additional £33.07m of capital into TBL during the year.

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

20. Fixed Assets

Intangible Assets

Group	Internally Generated Software	Tandem Trademark	Computer Software	Regulatory Licences	Work In Progress	Goodwill	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost							
As at 31 December 2019	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 31 December 2019	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 31 December 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

Intangible Assets

Group	Internally Generated Software	Tandem Trademark	Computer Software	Regulatory Licences	Work In Progress	Goodwill	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost							
As at 31 December 2018	12,056	57	211	2,395	-	-	14,719
Additions	287	-	-	-	557	-	844
Write-offs	(7,887)	-	-	-	-	-	(7,887)
As at 31 December 2019	4,456	57	211	2,395	557	-	7,676
Amortisation							
As at 31 December 2018	3,565	-	133	270	-	-	3,968
Charge	4,116	22	78	466	-	-	4,682
Write-offs	(4,746)	-	-	-	-	-	(4,746)
As at 31 December 2019	2,935	22	211	736	-	-	3,904
Net book value as at 31 December 2019	1,521	35	-	1,659	557	-	3,772

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

20. Fixed Assets (continued)

Intangible Assets (continued)

The Group's internally generated software was considered available for use from the beginning of 2019. Current internally generated software mainly consists of the Tandem App in addition to design, specification, build, test and implementation of the Group's banking software for mortgages and savings. Work in progress includes work on Tandem's artificial-intelligence-driven banking platform, ADA. The average remaining amortisation period for capitalised software is 0.5 years.

Company	Internally Generated Software £'000	Tandem Trademark £'000	Work in Progress £'000	Total £'000
Cost				
As at 31 December 2019	4,456	57	557	5,070
Additions	935	3	-	938
Write-offs	(4,456)	-	-	(4,456)
Transfer from work in progress	557	-	(557)	-
As at 31 December 2020	1,492	60	-	1,552
Amortisation				
As at 31 December 2019	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

Company	Internally Generated Software £'000	Tandem Trademark £'000	Work in Progress £'000	Total £'000
Cost				
As at 31 December 2018	12,056	57	-	12,113
Additions	287	-	557	844
Write-offs	(7,887)	-	-	(7,887)
As at 31 December 2019	4,456	57	557	5,070
Amortisation				
As at 31 December 2018	3,565	-	-	3,565
Charge	4,116	22	-	4,138
Write-offs	(4,746)	-	-	(4,746)
As at 31 December 2019	2,935	22	-	2,957
Net book value as at 31 December 2019	1,521	35	557	2,113

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2020 (continued)

20. Fixed Assets (continued)

Tangible Assets

Group	Leasehold Improvements	Office/IT Equipment	Fixtures and Fittings	Vehicles	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
As at 31 December 2019	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 31 December 2019	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
	Leasehold Improvements	Office/IT Equipment	Fixtures and Fittings	Vehicles	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
As at 31 December 2018	81	364	84	32	561
Additions	28	148	22	-	198
Write-off	(81)	(194)	(34)	-	(309)
As at 31 December 2019	28	318	72	32	450
Accumulated Depreciation					
As at 31 December 2018	81	223	42	19	365
Charge	6	99	28	8	141
Write-off	(81)	(194)	(34)	-	(309)
As at 31 December 2019	6	128	36	27	197
Net Book Value as at 31 December 2019	22	190	36	5	253

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

20. Fixed Assets (continued)

Tangible Assets (continued)

Company	Leasehold Improvements £'000	Office/IT Equipment £'000	Fixtures and Fittings £'000	Vehicles £'000	Total £'000
Cost					
As at 31 December 2019	28	318	72	32	450
Additions	-	32	-	-	32
Write-offs	-	-	-	-	-
As at 31 December 2020	28	350	72	32	482
Accumulated Depreciation					
As at 31 December 2019	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

Company	Leasehold Improvements £'000	Office/IT Equipment £'000	Fixtures and Fittings £'000	Vehicles £'000	Total £'000
Cost					
As at 31 December 2018	81	364	84	32	561
Additions	28	148	22	-	198
Write-offs	(81)	(194)	(34)	-	(309)
As at 31 December 2019	28	318	72	32	450
Accumulated Depreciation					
As at 31 December 2018	81	223	42	19	365
Charge	6	99	28	8	141
Write-offs	(81)	(194)	(34)	-	(309)
As at 31 December 2019	6	128	36	27	197
Net Book Value as at 31 December 2019	22	190	36	5	253

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2020 (continued)

21. Other Assets

	2020 £'000	2019 £'000
Group		
Credit card settlement balances	8	3,730
Trade receivables	4,900	180
Refundable deposits	636	395
R&D tax credit	355	705
Sundry debtors	1,121	1,418
	7,020	6,428
Company		
Refundable deposits	365	395
Tax credit	355	705
Intercompany	1,771	-
Sundry debtors	1,091	1,418
	3,582	2,518

The intercompany balance is with TBL and GDFC Holdco Limited. See Note 36 for further breakdown.

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.

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2020 (continued)

22. Prepayments and Accrued Income

	2020	2019
	£'000	£'000
Group		
Prepayments	2,026	1,063
Accrued income	24	40
	2,050	1,103
Company		
Prepayments	1,951	1,063

23. Customer Accounts

	2020	2019
	£'000	£'000
Group		
Customer accounts	494,962	363,775

24. Other Deposits

	2020	2019
	£'000	£'000
Group		
Bank of England Term Funding Scheme	50,013	50,095
Investor deposits	-	5,389
	50,013	55,484
Repayable:		
Between 3 months and 1 year	13	5,389
Between 1 and 5 years	50,000	50,095
	50,013	55,484

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

25. Other Liabilities

	2020 £'000	2019 £'000
Group		
Trade creditors	1,343	503
Other taxes and social security costs	476	341
Cash settled share-based payments	69	127
Other liabilities	2,088	4,083
	3,976	5,054
Company		
Trade creditors	602	503
Other taxes and social security costs	265	341
Cash settled share-based payments	69	127
Intercompany	-	7,775
Other liabilities	115	167
	1,051	8,913

26. Accruals and Deferred Income

	2020 £'000	2019 £'000
Group		
Accruals	2,531	1,786
Company		
Accruals	2,233	1,759

27. Commitments and Contingent Liabilities

As at Balance Sheet date the Group had terminated all credit card undrawn limits (2019: £127.1m).

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

The Group is in a net asset position to cover these commitments.

	2020 £'000
Commitments	
Unsecured Lending Commitments	11,360
Mortgages	4,104
	15,464

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

28. Called-up Share Capital and Reserves

Group	2020	2019
	£'000	£'000
Called up ordinary share capital		
At 1 January	242	214
Issued as consideration for subsidiary	62	-
Issued for cash	500	28
At 31 December	804	242
Share premium account		
At 1 January	142,568	141,238
Issued as consideration for subsidiary	7,797	-
Issued for cash	52,329	1,330
At 31 December	202,694	142,568
Warrants	1,391	-
Share option reserve	5,641	3,942
Retained reserves	(145,678)	(115,454)
Company		
Called up ordinary share capital		
At 1 January	242	214
Issued as consideration for subsidiary	62	-
Issued for cash	500	28
At 31 December	804	242
Share premium account		
At 1 January	142,568	141,238
Issued as consideration for subsidiary	7,797	-
Issued for cash	52,329	1,330
At 31 December	202,694	142,568
Warrants	1,391	-
Share option reserve	5,641	3,942
Retained reserves	(114,090)	(117,533)

As at 31 December 2020, the Company had 539.4m ordinary shares of £0.002 authorised, fully paid up and in issue (2019: 120.9m). During the year ended 31 December 2020, the Company issued 384.1m ordinary shares of £0.002 nominal value (2019: 13.6m), raising £52.8m. There are no restrictions on the distribution of dividends and the repayment of capital.

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

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

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 671,356 B Ordinary Shares in the capital of ALG. The acquisition of the entire issued share capital of Allium 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, has agreed to issue warrants to subscribe for 5,506,775 Ordinary Shares in the capital of the Company on the terms set out in this Instrument

Additionally, the Company issued 31.1m ordinary shares of £0.002 nominal value, with a deemed value of £7.9m, as consideration for the purchase of ALG. There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

15% of share capital is reserved for Share Based Payments ('SBP'). The total number of share awards issued under SBP schemes is 18.5m (2019: 15.4m), of which 3.1m were awarded in 2020 (2019: 15.4m). See Note 29 for further details. No share options were exercised in 2020 (2019: nil).

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

29. Share-based Payments

As at 31 December 2020, 3 employee incentive schemes are in operation by the Group: the JSOP, the USOP and the ESS. In addition, more options were issued under the existing USOP Scheme during the year.

The expense charged to the Income Statement for each during 2020 was as follows:

	2020	2019
	£'000	£'000
Joint Share Ownership Plan	1,294	(278)
Unapproved Share Option Scheme	343	130
Employee Share Scheme	(20)	(51)
	1,617	(199)

Joint Share Ownership Plan ('JSOP')

The JSOP involves the acquisition of joint shares whereby JSOP shares have been transferred to an Employee Benefit Trust ('EBT') and the participating employees and the EBT jointly have an interest in each share. The participants are required to make a payment up front, the subscription price of £0.06, for the right to the future growth in the company's value above the predetermined hurdle price. The award can be redeemed only in the event of an asset or share sale for a controlling interest in the Company, at which point the participant will receive the value above the hurdle price and the value below the hurdle price will remain in the EBT to distribute at the discretion of the Remuneration Committee ('RemCo') 13.0m awards have been issued under the JSOP plan. The subscription price per option is £0.06 with a hurdle price of £1.55.

There is an Employee JSOP scheme which has a 5 year vesting schedule with 40% of the award vesting after 2 years and then a further 10% vesting every 6 months thereafter. There is also a Founder JSOP scheme which vests over 2 years, 50% each year. 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.

In previous accounting periods the scheme has been classified as cash settled and as such the options have been remeasured at fair value at each reporting date. During 2020 it has been reclassified as equity settled and the fair value of the options has reverted back to as at the date of grant. The fair value was estimated using a hurdle option valuation model with the following significant inputs:

Hurdle price	£1.55
Share price	£1.33
Volatility	30-31%

Other inputs included the risk-free rate and length of hold, however only the inputs quantified above impact the fair value materially. These inputs require Management judgement to estimate the probability and timings of events taking place in the future. This model has been used as there aren't currently open market conditions for these shares given they are privately held.

The share price was based on the prevailing share price from the latest capital raise at the date of reclassification to equity settled. The expected volatility was determined by assessing the historical volatility of listed peers to obtain an estimated 'implied' volatility at this date.

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

29. Share-based Payments (continued)

Unapproved Share Option Scheme ('USOP')

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.

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

Share price at date of grant (2020 options) £0.253

Other inputs included the volatility rate, risk-free rate and length of hold, however only the input quantified above impacts the fair value materially. This input requires Management judgement to estimate the probability and timings of events taking place in the future.

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

	2020		2019	
	No.	Weighted average exercise price £	No.	Weighted average exercise price £
Outstanding as at 1 January	1,632,364	0.257	1,615,939	0.002
Granted during the year	1,711,364	0.056	365,750	1.330
Forfeited during the period	(181,421)	0.393	(349,323)	0.209
Cancelled during the year	(1,609,014)	0.239	-	-
	1,553,293	0.039	1,632,366	0.257

The prior year has been restated to disclose weighted average exercise of share options in compliance with FRS 102.

The average remaining contractual life of options outstanding as at the Balance Sheet date was 1 year (2019: 2 years).

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

29. 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, but the vesting period began from the date of employment with the Company. The fair value was determined at the point there was a shared understanding of the terms and conditions of the award and is not re-measured. The net credit to the Income Statement in 2020 was £51k (2019: a credit of £70k). Shares continue to vest on a graded vesting profile over four years, with 25% of awards vesting each year. Share subdivision occurred on 31 May 2016 granting each shareholder of the ESS scheme 5 shares for each share they held.

There are 295.7k shares granted under the ESS scheme as of 31 December 2020 (2019: 295.7k).

	No.	Weighted average fair value of share Price £
Share issued to 31 May 2016	45,055	39.39
New shares issued due to share subdivision	180,220	10.64
As at 31 May 2016	225,275	16.39
Granted in the period after the 31 May 2016	70,405	10.64
As at 31 December 2016	295,680	15.02

30. Operating Leases

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

	2020 £'000	2019 £'000
Group		
Less than 1 year	767	2,340
Between 1 year and 5 years	-	2,284
	767	4,624
Company		
Less than 1 year	595	2,340
Between 1 year and 5 years	-	2,284
	595	4,624

Total lease payments in 2020 were £2,369k (2019: £2,492).

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

31. Notes to the Cash Flow Statement

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

	2020	2019
Group	£'000	£'000
Cash and balances at central banks	149,819	65,645
Loans and advances to banks:		
Repayable on demand	13,416	18,791
Cash collateral on derivatives placed with banks	4,360	5,377
	167,595	89,813
Company		
Repayable on demand	243	367

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

	2020	2019
Group	£'000	£'000
Loss before taxation	(30,638)	(39,011)
Impairment movement on loans and advances to customers	6,642	11,207
Amortisation of intangible fixed assets	1,936	4,682
Depreciation	277	141
Write-off of tangible and intangible assets	390	3,141
Share-based payments	1,699	224
Gain on sale of available for sale investments	-	-
Fair value adjustments for portfolio hedged assets	(214)	(139)
Fair value adjustments for portfolio hedged liabilities	-	11
Fair value losses on derivatives	112	192
Non-cash items included in loss before taxation	10,842	19,459
(Increase) / decrease in loans and advances to customers	(76,119)	8,175
Increase / (decrease) in derivative instruments	1	(1)
Decrease in equity shares	58	34
Increase in other assets	(248)	(1,808)
(Increase) / decrease in prepayments and accrued income	(1,007)	2,099
Increase / (decrease) in customer accounts	131,187	(16,849)
(Decrease) / increase in other liabilities	(7,345)	2,927
Increase / (decrease) in accruals and deferred income	576	(2,580)
Change in operating assets and liabilities	47,103	(8,003)
Income tax received	-	875
Cash generated / (used in) operating activities	27,307	(26,680)

Prior period amounts have been amended to reflect changes in presentation and classification of the sale/(purchase) of debt securities in the current period.

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

32. Analysis of Financial Instruments by Classification Basis

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

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
Debt securities	-	28,088	-	-	28,088
Derivatives held for risk management	-	-	-	-	-
Loans and advances to customers	394,755	-	-	-	394,755
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					
Customer accounts	-	-	-	494,962	494,962
Other deposits	-	-	-	50,013	50,013
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 2020 (continued)

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

	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
31 December 2019					
Financial Assets					
Cash and balances at central banks	65,645	-	-	-	65,645
Loans and advances to banks	24,168	-	-	-	24,168
Debt securities	-	24,028	-	-	24,028
Derivatives held for risk management	-	-	30	-	30
Loans and advances to customers	330,647	-	-	-	330,647
Equity shares	-	1,344	-	-	1,344
Total Financial Assets	420,460	25,372	30	-	445,862
Non-financial Assets					11,556
Total Assets					457,418
Financial Liabilities					
Customer accounts	-	-	-	363,775	363,775
Other deposits	-	-	-	55,484	55,484
Derivative held for risk management	-	-	21	-	21
Other liabilities	-	-	-	5,054	5,054
Accruals and deferred income	-	-	-	1,786	1,786
Total Financial Liabilities	-	-	21	426,099	426,120
Total Liabilities					426,120

The fair value of loans and receivables approximates book value given the nature of the assets and given the longer-term assets are either recently issued or were fair valued as part of the acquisition of TBL in 2018. The fair value of liabilities held at amortised cost approximates fair value given they are either short-term or the interest rates charged are close to market rates at 31 December 2020.

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

33. 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.

33.1. 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 RAC 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 2020 (continued)

33. Risk Management (continued)

33.1. 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 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
As at 31 December 2019			
Total gross impaired loans	11,548	-	11,548
Past due but not impaired	-	6,233	6,233
Neither past due nor impaired	100,080	221,252	321,332
Total gross amount due	111,628	227,485	339,113

Ageing Analysis

	2020 £'000	2019 £'000
Total gross impaired loans		
Less than 3 months	15,057	4,892
Past due 3 to 12 months	7,280	6,656
	22,337	11,548
Past due but not impaired		
Less than 3 months	97	-
Past due over 12 months	1,689	6,233
	1,786	6,233

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 56.0% as at 31 December 2020 (2019: 58.7%).

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

33. Risk Management (continued)

33.1. 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 of 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 (£'000s)	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.

Change in Arrears	Arrears Ratio* (%)	Provision Increase (£'000s)	Provision Increase (%)
As at 31 December 2019	6.4%	N/A	N/A
+2.5%	6.5%	110	1.5%
+5.0%	6.7%	230	3.0%
+7.5%	6.8%	340	4.5%
+10.0%	7.0%	450	6.0%

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

33.1. 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 (£'000s)	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%

% Point Increase in LGD	Balance Weighted LGD	Provision Increase (£'000s)	Provision Increase (%)
As at 31 December 2019	81.9%	N/A	N/A
2.5%	84.4%	230	3.0%
5.0%	86.9%	460	6.1%
7.5%	89.4%	680	9.1%
10.0%	91.9%	910	12.1%

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

33. Risk Management (continued)

33.1. Credit Risk (continued)

Loan to value analysis of mortgage portfolio:

	2020 %	2019 %
< 40%	16.4	14.5
40% to 50%	10.0	7.6
50% to 60%	31.7	17.7
60% to 70%	34.4	54.4
70% to 80%	7.4	4.0
> 80%	0.1	1.8
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 meet 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 2020 the Group held assets with a notional value of £28m 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 £'000s	Mark to Market Value £'000s
European Investment Group	Aaa	£8,000	£8,049
Asian Development Group	Aaa	£14,000	£14,041
UK Government	Aa3	£6,000	£5,998
Total		£28,000	£28,088

33.2. Liquidity Risk

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

The Group reports under the LCR and has maintained a very strong level above its minimum regulatory requirement of 100%, as detailed in the Strategic Report. Furthermore, the Group has managed its LCR above 100% at all times throughout 2020. All liquidity metrics are reported daily to ALCO and subsequently cascaded to the ExCo and Board on a monthly basis.

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

33. Risk Management (continued)

33.2. Liquidity Risk (continued)

Tandem Group's Liquidity Risk Appetite ('LRA') is stated across two dimensions as follows:

Liquidity Core Statement:

The Group's Liquidity & Funding Risk Appetite Statement is as follows:

- In line with the Overall Liquidity Adequacy Rule ('OLAR'), Tandem will maintain liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due; and
- Tandem will implement practices and controls that will maintain adequate liquidity buffers, both in quality and quantity, in order to be in a comfortable position to still meet its commitments in a stressed environment

The Internal Liquidity Adequacy Assessment Process ('ILAAP') sets out Tandem's approach to liquidity and funding. ILAAP is the process by which Tandem's Board and Management oversees and regularly assesses the Group's liquidity and funding risk profile. 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 the Tandem's liquidity RMF and internal governance; and
- The liquidity contingency 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

33. Risk Management (continued)

33.2. 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:

	On demand £'000	< 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	Over 5 years £'000	Undated £'000	Total £'000
As at 31 December 2020							
Non-derivative liabilities							
Customer accounts	(53,404)	(72,230)	(286,303)	(83,025)	-	-	(494,962)
Other deposits	-	(13)	-	(50,000)	-	-	(50,013)
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)
As at 31 December 2019							
Non-derivative liabilities							
Customer accounts	(26,526)	(55,237)	(133,043)	(148,969)	-	-	(363,775)
Other deposits	-	(95)	(5,389)	(50,000)	-	-	(55,484)
Other liabilities	(5,054)	-	-	-	-	-	(5,054)
Accruals	(1,786)	-	-	-	-	-	(1,786)
	(33,366)	(55,332)	(138,432)	(198,969)	-	-	(426,099)
Derivative liabilities							
Fair value hedges:							
Outflow	-	27	74	38	-	-	139
Inflow	-	(29)	(86)	(45)	-	-	(160)
Net derivative cash flows	-	(2)	(12)	(7)	-	-	(21)
	(33,366)	(55,334)	(138,444)	(198,976)	-	-	(426,120)

Tandem Money Limited

33. Risk Management (continued)

33.2. Liquidity Risk (continued)

Collateral

The Group has derivatives which are supported by credit support annexes whereby if the fair value of the netted derivative portfolio cashflows each counterparty is able to call 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 2020, the Group has provided collateral of £3.36m (2019: £3.36) against the derivatives portfolio.

33.3. Market Risk

Market risk is defined as the risk that the value of the Group's assets, liabilities, income or costs may fluctuate due to the result of changes to market rates. The Group's primary exposure to market risks include 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. In December 2020, the Board approved a new derivative hedging strategy to hedge longer tenor assets where the Group does not originate fixed rate liabilities that matched the repayment profile of these loans.

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 profit or loss and equity:

Interest Rate Risk Sensitivities:

	Net present value sensitivity	
	2020	2019
	£'000	£'000
Parallel shift in yield curve		
+ 200bps	287	833
- 200bps	-110	(810)

33.4. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes compliance and conduct risk which is the risk the 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.

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

34. Capital Management

The PRA sets and monitors capital requirements for the Bank. In implementing current capital requirements, the PRA requires the Bank to maintain a prescribed level of capital with reference to risk weighted assets and the perceived 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 Prudential Regulation Authority (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 per cent of total risk-weighted assets. At least 4.5 per cent of risk-weighted assets are required to be covered by common equity tier 1 (CET1) capital and at least 6 per cent 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 per cent 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 0.018% as at 31 December 2020, 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.

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

	2020 £'000	2019 £'000
Tier 1 Capital		
Ordinary share capital	203,498	142,810
Other reserves	5,641	3,942
Retained reserves	(145,678)	(115,454)
PVA	(30)	-
Intangible assets	(14,091)	(3,772)
	49,340	27,526
Total Capital	49,340	27,526

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

34. Capital Management (continued)

	2020 £'000
Credit Risk	214,961
Counterparty Credit Risk	751
Operational Risk	21,671
CVA	3,865
RWA	241,248
CET1 Ratio	20.5%
Capital Ratio	20.5%

35. Financial Instruments held at Fair Value

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

- Level 1: Fair value determined using quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: Fair value determined using other techniques for which 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.

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2020 (continued)

35. Financial Instruments held at Fair Value (continued)

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
As at 31 December 2020				
Financial assets				
Derivatives held for risk management	-	-	-	-
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)
As at 31 December 2019				
Financial assets				
Derivatives held for risk management	-	30	-	30
Debt securities	24,028	-	-	24,028
Equity shares	-	-	1,344	1,344
	24,028	30	1,344	25,402
Financial liabilities				
Derivatives held for risk management	-	21	-	21
	-	21	-	21

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

36. 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 period were recognised in the Income Statement within Administrative Expenses and totalled £179k. Additionally, costs of £96k were recorded as additions to Work In Progress within Intangible Assets as they related to the development of a loan servicing system during the period. As at 31 December 2020 there was an outstanding payable to SamePage Group Limited of £253k within Other Liabilities, which is 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 Ltd will originate second charge mortgages for the Group (beginning in 2021). The Group and Oplo HL Ltd are related parties due to being under the common control of Pollen Street Capital Limited.

Transactions with Key Management Personnel

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

	2020	2019
	£000	£000
Key Management Personnel		
Salaries and remuneration	1,783	2,316
Social security contributions	53	308
	1,836	2,624

During the year Key Management Personnel made no investments in the Company (2019: £nil), and no payments for services were received in equity in lieu of cash (2019: nil).

Included in customer accounts as at 31 December 2020 is a balance of £101.0k (2019: £4.2k) deposited by members of Key Management Personnel and their direct relations.

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2020 (continued)

36. Related Party and Controlling Party (continued)

Intergroup Transactions

	2020 £000	2019 £000
Intercompany income/(expense)		
Tandem Bank Limited		
Loan interest expense	(11)	(3)
Intercompany income	20,181	21,511
	20,170	21,508
Pariti Technologies Limited		
Intercompany expense	-	(27)
Intercompany balances receivable/(payable)		
Tandem Bank Limited	1,771	(7,774)
Tandem Money Hong Kong Limited	-	(1)
	1,771	(7,775)

As at 31 December 2020, TML held an intercompany receivable balance of £1,194k due from GDFC HoldCo Limited, which was fully impaired to nil.

37. Discontinued Operations

The Group began winding down its credit card portfolio in 2020. During the year credit cards contributed losses of £4,015k (2019: £6,293k)

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

38. Business Combinations

On 21 August 2020, the Group acquired control of ALG via the purchase of 100% of share capital for total consideration of £9,250,000. The share capital was purchased from existing shareholders with the issuance of additional shares and warrants in TML.

Following the acquisition of ALG, Tandem's retail proposition changed to encompass mortgages 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 running off legacy consumer lending portfolios. These products are funded by fixed term and instant access savings accounts. The goodwill of £11,187,969 arising from the acquisition is attributable to the origination and servicing platforms for the green proposition loans.

Management have estimated the useful life of the goodwill to be 10 years. The acquired platforms and lending portfolios offer a unique opportunity in the market with strong growth projected for the foreseeable future.

The following table summarises consideration paid by the Group, the fair value of assets acquired and the liabilities assumed on acquisition date.

	£'000
Share issuance (31.1m ordinary shares)	7,859
Warrant issuance (5.5m warrants)	1,391
Total consideration	9,250
Tangible fixed assets	142
Intangible fixed assets	389
Loans and advances to customers	29,472
Equity shares	1,000
Other assets	389
Cash and cash equivalents	3,983
Loan facilities	(35,601)
Other liabilities and accruals	(1,712)
Total Identifiable Net Liabilities	(1,938)
Goodwill	11,188
Total	9,250

Management have assessed the book values and have deemed that they are representative of the fair value of the assets and liabilities acquired.

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

39. Events Subsequent to the Reporting Date

The following events have taken place between 31 December 2020 and the date of approval of these financial statements by the Board:

Unsecured Loan Portfolio Disposal

On 30 April 2021 Tandem successfully concluded the sale of approximately £26.2m of 'non-core' unsecured loans originated via a forward flow commercial agreement. This disposal materially aids the run-off of this asset class and accelerates the transition to a higher quality and proportionately secured Balance Sheet given the ability to recycle these risk weighted assets via Tandem's 'core' asset strategy.

Fundraising

Following on from the successful fundraising of £57.9m received from a combination of existing and new shareholders across 2020, the Group received approximately £2.5m in June 2021.