

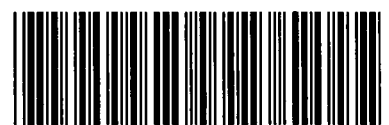


Tandem Money Limited

Consolidated Annual Report and Financial Statements
for the year ended 31 December 2019

Registered Number 08628614

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Group Information

Directors	Mr M J Cooper	(Chairman)
	Mr F S Knox	(Chief Executive Officer)
	Mr M L Amato	
	Mr M Klimbacher	Resigned on 21 August 2020
	Mr J J Pritchard	
	Mr J Zagorovskis	Resigned on 21 August 2020
	Mr J W Scott	Appointed on 21 August 2020
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 2019

The Directors present their strategic report and audited consolidated Financial Statements of Tandem Money Limited ('the Group' or 'TML' or 'the Company') for the year ended 31 December 2019. The Group accounts incorporate the results of TML and its subsidiary, Tandem Bank Limited ('TBL' or 'the Bank'). The registered offices for TML and TBL are 40 Bernard Street, London, WC1N 1LE.

The Strategic Report contains certain forward-looking statements. 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 including both economic and business risk factors, underlying any such forward-looking information.

General Information

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

Principal Activities and Business Model

TML is a customer-centric digital Bank with a strategy of combining an easy to access savings proposition and a suite of strong lending products with an App that helps customers manage their finances.

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

Tandem's retail proposition provides solutions to customers money problems, incorporating a range of lending products, namely Credit Cards, Mortgages and Unsecured Personal Loans. These products are funded by Fixed Term and Instant Access Savings Accounts.

Business Review

Following the successful acquisition and integration of Harrods Bank Limited ('HBL') in 2018, the Group nearly doubled Total Income and customer numbers in 2019, while facing a number of macroeconomic challenges.

The level of ambiguity facing UK businesses and consumers has been relatively high since the European Union (EU) Referendum (June 2016). These uncertainties increased across 2019 with no clear resolution in view, with an effectively gridlocked parliament and evidence of a weaker growth trajectory materialising.

Tandem Money Limited

Strategic Report for the year ended 31 December 2019 (continued)

Business Review (continued)

Although Tandem has grown its Total Income and expanded Net Interest Margin in 2019, the Group continued to make significant losses as it invested in its future infrastructure requirements and made provision for losses on its growing unsecured lending portfolios.

Consequently, the Group reported a pre-tax operating loss of £39.0m (2018: £26.7m). Total income increased to £13.7m (2018: £7.0m) due to the expansion of TBL's unsecured lending portfolios. Operating expenses were higher than prior year at £41.5m (2018: £31.1m), with provision expense for bad and doubtful debts growing to £11.2m (2018: £2.6m).

As at 31 December 2019 the Group had £330.6m of loans and advances to customers (2018: £349.9m), with total assets at 31 December 2019 of £457.4m (2018: £510.8m). Customer deposits as at 31 December 2019 were £363.8m (2018: £385.6m) as the Group grew customer numbers changed its Balance Sheet mix.

Given the macro-economic environment the Group placed considerable importance on maintaining a robust liquidity profile with the Liquidity Coverage Ratio (being a regulatory requirement that promotes the short-term resilience of banks by ensuring that they have sufficient high-quality liquid assets to survive a significant stress scenario) at 1,305% and Loans: Deposits Ratio at 90.9% as at 31 December 2019.

Tandem has been focussed on growing its business and raising capital to underpin its next phase of growth, albeit fundraising was inevitably delayed as investors sought clarity on market conditions and the UK's future trading relationship with the EU; nevertheless the Group signed a fundraising round in February 2020 with associated capital injections received across 2020 (Post Balance Sheet Event - for further information please refer to Note 38).

Further information is provided within the Future Developments section on how the Group will continue to grow the business going forward.

External Environment

Through 2019, the economy continued to show resilience despite the dual challenges of a decelerating domestic economy and intensifying political uncertainty. Although growth of the UK economy slowed to its weakest since the financial crisis, unemployment fell further to a 40-year low. The UK housing market remained subdued through much of the year although the election of a Government with a strong parliamentary majority appeared to begin to stimulate the market towards the end of the year.

Whilst the economic outlook appeared to be improving, in a long-term context growth was expected to remain constrained, albeit with significant risks on the horizon. Domestically, the future trading relationship with the EU remained unclear, as did the response to that lack of clarity, whilst the Coronavirus (COVID-19) outbreak moved 2020 into firmly negative territory on most indicators.

Brexit

Britain's exit from the EU in 2020 represents a major event in our nation's history with 31 January 2020 marking the end of the UK's 47-year membership. However, the transition period will continue throughout 2020, during which the UK and EU are expected to negotiate and agree the terms of future trade relationships (including non-EU countries). The exact terms of negotiations are still evolving with

Tandem Money Limited

Strategic Report for the year ended 31 December 2019 (continued)

External Environment (continued)

Brexit (continued)

the Group continuing to monitor the impact of proposed changes through the transition period and beyond.

At present, the Group does not foresee a material adverse impact on day-to-day operations. Whilst the Group is comfortable that it can manage potential outcomes, it recognises the uncertainties to the broader economy that exist post Brexit and the potential for adverse impacts to Tandem.

It is worth noting, as a Bank that raises deposits from UK savers to lend to UK retail customers, Tandem does not have to deal with the challenges of passporting or potentially having to relocate thousands of employees as some of our larger counterparts do. This creates an opportunity for us to solely focus on our proposition and deliver against our business strategy as larger competitors continue to be distracted with the challenge Brexit presents.

Over the medium to long term in response to Brexit Tandem believes the UK can position itself for growth, with the Group hopeful that the Government will continue to adopt fiscal measures to incentivise the transition to a low-carbon economy, as we look to secure the clean recovery we need given the implications of COVID-19.

COVID-19

The coronavirus pandemic (Post Balance Sheet Event - for further information please refer to Note 38) presents an unprecedented economic and social challenge which is having a significant impact across the UK and around the world. The economic outlook is clearly challenging with the longer-term outcome dependent on the severity and length of the pandemic and the mitigating impact of initiatives taken by Governments, regulators and other authorities. As a result, there are several factors associated with the pandemic that could have an adverse effect on (among other items) the future profitability, capital and liquidity of financial institutions such as TML.

Our top priority throughout the COVID-19 crisis has been the welfare of our colleagues, our customers and the communities in which we operate. We are extremely proud of how our people have worked at extraordinary pace to change the way we operate so we can continue to provide banking services for our customers, despite the impact the crisis has had on our operations and our colleagues themselves. We have been pleased with how well the Group's operational and technology infrastructure has performed within such an environment, enabling Tandem to support customers effectively across all channels with our digital banking proposition remaining fully operational throughout. We understand how hard it has been for our customers and have supported many through a range of measures including payment holidays on Credit Cards, Mortgages and Unsecured Personal Loans, noting we have also provided depositors access to their fixed term accounts without charge. Having quickly and successfully adapted our operating model as the crisis developed, we have created a safe working environment with more flexibility for our colleagues.

Tandem's financial performance will to some extent reflect the emerging current and expected future impact of the crisis, with recent reductions in base rate, lower levels of activity and higher credit losses inevitably impacting the Group in 2020 and beyond, with such impacts difficult to quantify given the significant uncertainty. Nevertheless, implementation of various Government and regulatory measures including the lower Countercyclical Capital Buffer and new Term Funding Scheme, are helpful in

Tandem Money Limited

Strategic Report for the year ended 31 December 2019 (continued)

External Environment (continued)

COVID-19 (continued)

supporting the Group's future journey.

Throughout this period, we will continue to work closely with our customers and regulators. While the Bank of England is currently forecasting some recovery, it recognises the volatility in this forecast, and Tandem is planning for a range of outcomes and will maintain capital and liquidity reserves to manage this uncertainty.

Decisive management actions to date have helped us to mitigate some of the impact this crisis could have had on our results and business operations, thus ensuring we are well positioned as the UK emerges from the lockdown.

Transition to a Green Economy

As we begin to rebuild our economy following the onset of the COVID-19 crisis, it is evident there is an opportunity to put clean energy at the heart of the UK recovery. For example, support for the development and installation of low carbon, or more efficient, gas boilers create jobs, whilst at the same time saves consumers hundreds of pounds a year while promoting the country's journey to zero emissions. Such measures alongside a series of major infrastructure programmes to upgrade the nation's housing, decarbonise transport and create a modern, flexible energy system are viewed as crucial components to the future of a greener UK.

The Chancellor Rishi Sunak delivered a strong message about the Government's support for a green recovery as part of the Summer Economic Update to Parliament in July 2020, with a £3bn package announced to stimulate the UK's green economy in the wake of the pandemic. The package represents a positive step from the Government in encouraging households to invest in improving the energy efficiency of their homes with more support under discussion.

Tandem Money Limited

Strategic Report for the year ended 31 December 2019

(continued)

Future Developments

We cannot build a long-term, sustainable, and profitable business without embracing purpose and considering the needs of a broad range of stakeholders.

Given the challenges experienced pre and post Balance Sheet date, both Tandem specific and macro-economic, the Board agreed that to build a safe, profitable and sustainable Bank, the Group requires an adjusted strategy in keeping with the customer proposition and values that have been built to date.

The new purpose of "Tandem is the green digital Bank built to benefit people and the planet", represents a natural evolution from "Tandem exists to build the good Bank". This shift allows Tandem to take an expanded view of its stakeholders and differentiate more effectively in what has always been its core vision. Further, we strongly believe that in the current climate and emphasis to put clean energy at the heart of the UK recovery this message will resonate clearly with both existing and new customers.

To that effect Tandem has received regulatory approval to acquire Allium Lending Group ('ALG'), a lending platform that combines strong heritage and robust performance with a differentiated strategy in providing loans to support customers who upgrade their existing energy systems or install new systems in the growing green energy sector (Post Balance Sheet Event - for further information please refer to Note 38). The acquisition will accelerate the enlarged Group's organic asset strategy in keeping with Tandem's purpose and ultimately support the journey to profitability in a safe and sustainable manner.

For the past six years, ALG has been helping customers transform their homes, to become more energy efficient and environmentally friendly, by financing everything from home insulation, energy efficient boilers and double glazing, to solar panels, heat pumps and home car charging stations. The acquisition will also see Tandem become the UK's first green digital Bank.

By incorporating ALG within the broader Group, Tandem will:

- Gain a well-established loan origination platform which focuses on providing finance for energy efficient home improvement products with a strong track record of originating loans with an attractive risk adjusted return driven by low credit risk and strong repayment performance;
- Obtain the relationships, people and systems to originate, underwrite and service Unsecured Personal Loans in-house in an attractive market segment with opportunities to expand;
- Identify and capture synergies by combining two complementary businesses; and
- Continue to focus on enhancing the digital customer proposition that has been at the core of Tandem's customer journey to date.

To support this strategic shift the Bank no longer originates Unsecured Personal Lending sourced via forward flow agreements with third parties where Tandem had limited control over the associated credit and underwriting processes.

Tandem Money Limited

Strategic Report for the year ended 31 December 2019 (continued)

Future Developments (continued)

The enlarged Tandem Group will be a green digital Bank which:

- Aims to provide solutions to customers' financial issues rather than just provide financial products;
- Generates strong risk adjusted returns to build a well-capitalised sustainable Bank;
- Operates a strong and balanced approach to credit risk and reward; and
- Operates with a conservative funding risk appetite and robust levels of liquidity.

The strategy will build a profitable Bank with lending portfolios that combine helping customers on their house buying journey with Mortgages together with solutions to help customers improve their homes by lending against home improvements, many of which will improve the customer's environmental impact.

Bespoke underwriting, complemented by advanced data capabilities, will enable the Bank to effectively assess customers' creditworthiness and loan affordability, whilst also allowing robust assessment of the value of collateral securing the loan. The Group's lending products will be funded by a range of savings solutions which help customers to save including notice and term deposits delivered through the established digital deposit franchise.

As a result, the Group will benefit from a diversified lending portfolio, whilst reducing complexity in its operating model by improving its infrastructure and control environment.

Tandem will continue to leverage its app-based technology to deliver better solutions to customer problems and optimise outcomes for the Bank such as a lower cost to income ratio over time, access to deposits at attractive rates and improve data driven decisioning.

Tandem Money Limited

Strategic Report for the year ended 31 December 2019 (continued)

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 the 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:

	31 Dec 2019	31 Dec 2018	Definition, method of calculation and analysis
Total income	£13,673k	£6,991k	Interest income from customers, investment assets and fees, less interest payable to account holders and other commission expenses. Increase in total income of 96% year on year given transition into credit card and unsecured lending products.
Net interest margin ('NIM')	4.19%	2.03%	Net interest income/average gross receivables. NIM reflects a high percentage of receivables being mortgages. 216bps increase in NIM year on year as the Bank capitalised on higher yielding credit cards and unsecured loans.
Cost of risk ('CoR')	3.10%	0.68%	Average of the loan loss provision as a percentage of the lending portfolio. As the Bank has diversified its lending into higher yielding unsecured assets there has been a requirement to increase provisions. As a result the Bank witnessed an increase in its CoR %.
Loan to value ('LTV') (Mortgages)	58.7%	51.6%	Represents the total mortgage portfolio as a percentage of the total appraised value of the underlying properties. Conservative LTV ratios have been maintained on the mortgage portfolio.
CET 1 ratio	13.9%	32.1%	Measurement of a core equity capital compared with total risk-weighted assets. There has been a decrease based on continued investment in developing Tandem's product proposition following fund raise of £25m in December 2018.
Loans to deposits ratio	90.9%	90.7%	Measurement of loans issued to customer deposits. Stable ratio as Group continued to prioritise a robust funding profile.

Tandem Money Limited

Strategic Report for the year ended 31 December 2019 (continued)

Section 172 Statement

In accordance with the Companies Act 2006 (the 'Act') (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), 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 Company, under section 172.

The Board seeks to achieve a balance between short-term goals and long-term objectives, embedding an appropriate culture and ensuring the Group is focussed on delivering good customer outcomes. The Board provides challenge to the Executive Team and management information it receives. It monitors, discusses and challenges progress in delivering strategic initiatives through committee packs, reports, enterprise-wide risk assessments and assessing metrics it receives on a regular basis on all areas, and from all stakeholders, across the Bank.

The Bank continually maintains high standards of business conduct with the Board setting clear expectations to the Executive Team. As outlined in the Conduct Framework the Group is committed to building sustainable business practices and appropriate behaviours that align to the values and overall culture of the organisation, thus avoiding poor outcomes for our stakeholders. While conduct underpins our regulatory obligations, we view the pursuit of good conduct as consistent with our purpose.

The Governance Framework of the Bank is essential to support the Directors in discharging their responsibilities with due consideration to all stakeholders. The framework includes (but is not limited to): Management Responsibilities; Terms of Reference (of the Board; Board Committees; and Executive-level Committees) and the three lines of defence model as defined in the Risk Management Framework ('RMF').

The needs of different stakeholders are always considered as well as the long-term consequences of any decision on our reputation for high standards of business conduct. It may not always be possible to provide a positive outcome for all stakeholders and at certain points the Board may have to make difficult decisions based on competing priorities. However, comprehensive engagement enables informed decision-making considering the consequences for different stakeholders. To enable and ensure stakeholder considerations are at the heart of all corporate decision-making, significant emphasis is incorporated as part of the Group's recruitment and performance management processes, whilst discussed regularly by the Board.

The Board took the interests of all stakeholders into account when agreeing on the new strategy for the Bank. In considering the new strategy the Board considered all its stakeholders and how any transformation would affect them. The Bank is a proud member of the communities we serve, with this *remaining essential to our long-term plan*. The Board is also confident that the new strategy will deliver good outcomes for employees, investors and suppliers alike and will ensure that the Bank remains compliant with the relevant rules and regulations set out by its regulators in the long term.

The Board recognises that the Bank's long-term success will depend upon engagement with and an understanding of the interest of all our stakeholders. Engaging, consulting and acting on the needs of different stakeholders is critical for the development of a culture that underpins a sustainable business.

Ultimately, the Board's principal duty is to create and deliver a sustainable business model by setting Tandem's strategy and overseeing its implementation. It has and will continue to do so with regards the interests of its primary stakeholders, namely its: customers; employees; regulators; investors; suppliers; communities and the environment.

Tandem Money Limited

Strategic Report for the year ended 31 December 2019 (continued)

Section 172 Statement (continued)

Customers

As a purpose driven Bank, we understand that long-term success is only possible with a customer-centric business model.

Customers are at the heart of our business activities, with the Bank committed to providing digital solutions incorporating high quality financial services. Our customers value solutions to their issues, delivered with high standards of customer service and fair treatment.

As a digital Bank we engage with our customers primarily through our App, but provide a number of other engagement points including (but not limited to): email, chat and calls with our Customer Service and Complaints Teams; online feedback (i.e. comment forms; surveys); Customer Focus Groups; and social media.

The Board receives updates on the treatment of existing customers, and on ensuring fair outcomes throughout the customer journey. Customer and employee feedback are incorporated into Board discussions which ultimately influences strategic decisions, including plans related to digital investment and business strategy.

At the same time, fundamental to any customer relationship is an ongoing focus on customer due diligence with the Bank maintaining strong governance and risk management procedures around financial crime.

The Board monitors the Bank's engagement with its customers through regular reports on Net Promoter Scores and the volume of customer complaints. The Chief Executive Officer ('CEO'), supported by the Compliance function, regularly reviews complaints to understand areas where we can improve how Tandem responds to and deals with customers across all areas of its business.

The Board recognises the growing trend towards digital across the financial services sector and continues to take the necessary steps to ensure the Group remains well positioned in an increasingly digital world.

Employees

A company is a function of the people employed in it, how they act and are supported in meeting the aims of customers. We believe in empowering the team to achieve the best for themselves as well as the business. We are building a friendly, open and productive workplace where staff can be themselves, are engaged and where their views are heard and considered. Our priorities consider: open and diverse culture; open communication; fair treatment; opportunities for career progression; reward; and recognition. We aim to retain our reputation as a desirable and attractive place for our people to work.

The team interact through regular meetings with Line Manager(s), staff surveys, feedback schemes (such as 'Thursday Get Togethers' where the Executive Team take turns to present to the Group and facilitate Q&A), bespoke employee forums that meet frequently and an 'open door' policy which encourages staff engagement with management.

Tandem Money Limited

Strategic Report for the year ended 31 December 2019 (continued)

Section 172 Statement (continued)

Employees (continued)

The Group has around 150 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.

Further, the Group has an established weekly employee forum that provides a platform for obtaining feedback on any issues as well as acting as a taskforce for implementing cultural initiatives. All areas of the organisation are represented to participate in discussions designed to empower our employees to embrace Tandem's values, aid motivation and underpin our commitment to do the right thing. The responsibilities of this forum include (but are not limited to): acting as a representative body for all employees on cultural issues; review of employee survey results; and proposing cultural initiatives / projects (with subsequent oversight and review).

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, but nevertheless is conscious that there is still a considerable way to go both within the Group and the wider community. The Group passionately believes in promoting a diverse workplace in which different backgrounds, voices and perspectives underpin a stronger collective. We actively work to create an environment in which individual differences and the contributions of our people are recognised and valued.

During the year, the Board reviewed periodic employee satisfaction surveys and regular reports on recruitment, attrition, training and retention, with several new employee initiatives introduced. The Board Remuneration Committee ('RemCo') reviewed the Remuneration Policy to ensure that the practices of the Group are consistent with, and promote, sound and effective risk management.

Further, when making decisions, the Board takes the impact on colleagues very seriously. They receive regular updates on colleague stress and sickness to aid decision-making. We recognise that as we grow so does the demand on our colleagues and a major factor on all decisions is the impact of increased workload on our people. We try to ensure that the roll out of new projects, such as the upgrade to our core banking platform, is timed appropriately to ensure that no undue pressure is put on employees.

Regulators

The Directors acknowledge and actively promote an open and transparent relationship with its regulators to ensure the business is aligned to the evolving regulatory framework.

The Board are committed to complying with all relevant legislation, in particular that relating to prudential and conduct regulation, with regulatory compliance considered in all Board decision-making. The Directors continue to closely monitor the status of our regulatory relationships, enhancing proactive engagement across key regulatory changes and areas of focus.

Tandem Money Limited

Strategic Report for the year ended 31 December 2019 (continued)

Section 172 Statement (continued)

Regulators (continued)

As outlined in the Group's Conduct Framework, Tandem will not engage in activities that will detract from its goals of building a 'Good Bank' with oversight practices in place to minimise the risk of customer detriment or regulatory censure. The Bank has zero appetite for deliberate breaches of conduct rules and regulations or from failure to follow governance processes or have adequate systems and controls. The Board Risk and Audit Committee ('RAC') receives frequent updates on the Group's regulatory interaction providing a view of key areas of focus, alongside progress made addressing any associated remediation activities.

During 2019 the Board and Executive Management continued to engage with our regulators through proactive meetings to discuss various key themes including (but not limited to): credit risk; operational and financial resilience; and risk reporting. Further, in line with the open and transparent approach the Group engaged proactively with its regulators (both the Financial Conduct Authority ('FCA') and Prudential Regulatory Authority ('PRA')) throughout the ALG acquisition process.

Investors

The Group engages regularly with shareholders and understands investor engagement fosters long term strategic understanding of Tandem's strategy. We perceive that key material issues for our shareholders generally include (but are not limited to): two-way communication; product and digital development; financial returns; and viability of long-term strategy.

During the year, the Board continued to monitor, through monthly committee packs, business performance versus the plan. Due to the uncertainty in the economic environment caused by UK's exit from the EU and associated implications for the Group's fund raising activities, the Board ensured, through detailed discussions and analysis on its lending portfolios, that the Bank managed its capital base in a prudent manner. Given the economic environment, liquidity management remained a key focus area for the Board during the year and at all times the Group operated with conservative liquidity buffers in place above both internal and regulatory parameters.

The Board approved the annual Budget and Medium-Term Plan during the year, in line with the Bank's strategy and business model, with the primary objective being to deliver sustainable business growth to the investors in the Bank.

Suppliers

As with any small and growing firm a number of supplier relationships are key to the success of the Bank's operations.

As a provider of digital financial services in the UK, the Bank's supply chain mainly consists of online IT-enabled services, enterprise and software service suppliers.

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 and bribery or corruption.

Tandem Money Limited

Strategic Report for the year ended 31 December 2019 (continued)

Section 172 Statement (continued)

Suppliers (Continued)

The Bank has a robust Procurement Policy in place, which serves to actively manage relationships with and the performance of all providers. Similarly, as per the Group's Conduct Framework where Tandem engages outsourcing partners, we ensure adequate governance, systems and controls are in place to ensure the Bank does not breach conduct rules or regulations due to third party failures.

Community

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; sponsorship of various community events; and fundraising.

Our employees 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 cycle to work scheme for employees.

We are committed to continuously aiming to reduce our environmental footprint and 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 2019

(continued)

Capital Management

The PRA sets and monitors capital requirements for the Group. In implementing current capital requirements, the PRA requires the Group to maintain a prescribed level of capital with reference to risk weighted assets and its RMF.

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

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 34 of these Financial Statements.

The Directors of the Group 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.

The principal risks faced by the Group are summarised below:

Risk	Definition	Key Mitigation Actions
Credit Risk	The risk that a customer or counterparty is unable to honour its obligations as they fall due, resulting in an actual or potential loss exposure for the Group.	<ul style="list-style-type: none">• Credit policy, incorporating prudent lending criteria, aligned with Board approved risk appetite, to effectively manage risk.• Effective credit risk sanctioning processes with independent oversight by Risk Management.• Monthly portfolio reviews to identify impairment indicators and initiate remediation activities to limit the extent of any potential loss (including evolving COVID-19 implications)• Early identification of signs of stress leading to prompt action in engaging the customer.• Effective arrears and collection teams, aiding comprehensive underwriting and credit sanctioning procedures.• Maintaining prudent lending criteria with defined limits across loan to value and risk grade.• Limit concentration risk by size of total loan exposure to a borrower, specific sector, product type and / or geographic location.• Obtain suitable and sufficient security for loans where relevant.

Tandem Money Limited

Strategic Report for the year ended 31 December 2019 (continued)

Principal Risks and Uncertainties (continued)

Risk	Definition	Key Mitigation Actions
Operational Risk	The risk of incurring losses, or other significant impact, resulting from inadequate or failed internal processes, people and from external events (including financial crime). It also includes the risk of financial loss, reputational damage, legal risk or censure from changes to existing requirements by regulatory authorities that negatively impact the Group.	<ul style="list-style-type: none"> • Ensure staff follow and adhere to the Operational Risk Framework. • Continued monitoring and challenge from Risk Management. • Thorough investigation and rectification of control failures. • Compliance with all applicable laws, regulations and voluntary codes / standards, focusing on achieving the best outcome for all stakeholders. • Regularly apprising Board Committees of potential risks for discussion / approval of strategies to minimise them.
Technology Risk	The risk of reputational or financial impact resulting from inadequate or failed technology. A significant disruption to IT systems, including external threats such as data confidentiality breaches or cybersecurity issues could result in an inability to perform business critical functions, regulatory censure and legal liability.	<ul style="list-style-type: none"> • Continual review of our IT environment to ensure that systems and processes can effectively support the delivery of services to customers. • Application of information security policies supported by a governance structure and risk framework that underpins the identification, control and mitigation of technology risks. • Adequacy of systems and controls in place are continuously monitored and subject to regular testing (both internally and via third parties). • Investing in cyber controls to protect against external threats to the confidentiality of electronic data, or the availability of systems.
Conduct Risk	The risk of causing unfair outcomes and detriment to our customers, regulatory censure and / or undermining market integrity as a result of the Group's behaviour, decision-making, activities or processes.	<ul style="list-style-type: none"> • Customer focused conduct strategy implemented. • Ensuring that the Conduct Risk Framework is operating effectively and is observing the required standards of market conduct. • Monitoring first line activities and assess / correct conduct risk issues if identified. • Undertaking employee training and awareness programmes. • Learning from past mistakes through root cause analysis.

Tandem Money Limited

Strategic Report for the year ended 31 December 2019 (continued)

Principal Risks and Uncertainties (continued)

Risk	Definition	Key Mitigation Actions
Strategic and Business Risk	The risks that can affect our ability to achieve our corporate and strategic objectives.	<ul style="list-style-type: none"> Remain focused on producing business plans and models that are aligned with the Group strategy. <p>Ongoing monitoring from Senior Management and Directors to ensure performance is in line with plan, with corrective action taken if deemed necessary.</p>
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 the Treasury team. Ongoing monitoring of interest rate movements and their impact on the Balance Sheet. Stress testing Interest Rate Risk exposures.
Liquidity and Capital Risk	The risk that the Group is unable to meet its obligations as they are expected to fall due or can only do so at an exceptional cost. It also includes the risk that we have a sub-optimal amount or quality of capital, that capital is inefficiently deployed across the Group or that the Group falls below regulatory minima.	<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 ('EWI') and regular stress tests including those on emerging or ill-defined issues such as the impact of COVID-19. Maintaining a Contingency Funding Plan detailing management actions and strategies available in stressed conditions. A comprehensive capital management framework that sets and monitors capital risk appetite using several key metrics. Close monitoring of capital and leverage ratios to ensure the Group meets current and future regulatory requirements. Comprehensive stress testing analysis to evidence sufficient levels of capital adequacy and availability of management actions under various adverse scenarios.

Tandem Money Limited

Strategic Report for the year ended 31 December 2019 (continued)

Principal Risks and Uncertainties (continued)

Risk	Definition	Key Mitigation Actions
Regulatory and 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. Engage proactively with regulatory authorities and relevant industry bodies on forthcoming regulatory changes and market reviews.
Integration Risk	The risk of failure in successfully integrating a business as the Group embarks on a strategy to expand in part via strategic acquisition, thus adversely impacting growth plans.	<ul style="list-style-type: none"> Considerable knowledge and expertise within the Group with regard to integrations. Proven track record of successfully integrating businesses, noting recent experience of bringing together TML and HBL. Bespoke ExCo sub-committee established to oversee the integration of both businesses, benefiting from a defined scope and representation from all relevant functions.
Climate Risk	Climate risk is a key emerging risk for the Group, impacting our customers, our investors and our business in making the required transition towards a low carbon economy.	<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. Climate change also creates opportunities for our business as customers become increasingly aware of their carbon footprint, with this trend being a supporting factor in the ALG acquisition.
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.

Tandem Money Limited

Strategic Report for the year ended 31 December 2019 (continued)

Risk Management

The Tandem Group Board, as the governing body of the Group and the underlying entities, is ultimately 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. In practice, the Board delegates authority for day-to-day risk management to the Senior Management, and by extension the first line business.

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

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

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

Tandem Money Limited

Strategic Report for the year ended 31 December 2019 (continued)

Risk Management Framework

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

The Board approves the overall RMF and sets risk appetites, both of which are designed to ensure that the Group manages its risks in the right way to achieve its agreed strategic objectives. It has a dedicated RAC comprised of Independent Non-Executive Directors ('INEDs') who keep the design and performance of the Group's RMF under close and regular scrutiny and interact closely with the Senior Management.

The Board and Senior Management encourage a culture of transparency and openness to ensure that issues are escalated promptly where required. The Board approved RMF and risk appetites are put into effect using an enterprise-wide framework which applies to every area of the business and covers all types of risk. The framework is designed to ensure the Group follows a consistent approach to risk management and reporting, with clear ownership, so that all risks are fully understood and managed in relation to its agreed risk appetite. It includes the Group's policies, procedures, controls and reporting.

The framework is periodically reviewed, updated and approved by the Board to reflect any changes our 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 risk appetite and the policy framework define clear parameters within which the business must operate in order to deliver the best outcome for customers and stakeholders.

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

Tandem Money Limited

Strategic Report for the year ended 31 December 2019 (continued)

Risk Principles

The Group has implemented the following:

Risk Governance	<p>The Group has adopted the 'three lines of defence' principle. Within this approach the business (first line) originate and manage risks while Risk Management and other control functions (second line) provide independent oversight and collective challenge to the first line, in addition to monitoring and controlling risk.</p> <p>Internal Audit (third line) provides assurance that policies, procedures and controls are achieved by the other lines of defence. Utilising this principle, the Group actively seeks to separate risk origination from risk oversight and risk assurance, with governance provided by formal committees.</p>
Defined Risk Appetite	<p>Throughout the year the Directors have continuously developed the Group's risk appetite which is aligned to the business strategy.</p> <p>The Risk Appetite Statement establishes a framework for business decisions and enables the Group to identify and define the type and levels of risks it is willing to accept in both qualitative and quantitative terms, whilst further articulating the risks the business is willing to take and those it will not in its journey to achieve its strategic goals.</p>
Risk Transparency and Control	<p>The first line of defence has been enhanced throughout 2019 and continuously identifies all significant risks, ensuring that satisfactory procedures are in place to track, manage and report, with this output subject to appropriate review and governance.</p>
Management Policies and Committees	<p>Throughout the year the Group's risk policies and Executive Committees have constantly been developed, formalised and strengthened. At the year end all policies and governance procedures encompassing the areas flagged as principal risks were in place and operating effectively.</p>

Tandem Money Limited

Strategic Report for the year ended 31 December 2019 (continued)

Risk Governance

Tandem operates its corporate governance in line with Banking best practice, considering both the UK Corporate Governance Code and recommendations of the Walker Report and Wates Principles across its proposed structures.

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'), Head of Compliance and Internal Audit. Internal Audit is currently outsourced to a third-party expert supplier BDO Financial Services.

The Board is accountable to a number of stakeholders in the establishment of a business model that delivers a prudentially safe, sustainable and secure business for the long-term and delivers fair outcomes for its customers.

The risk 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.

Tandem Money Limited

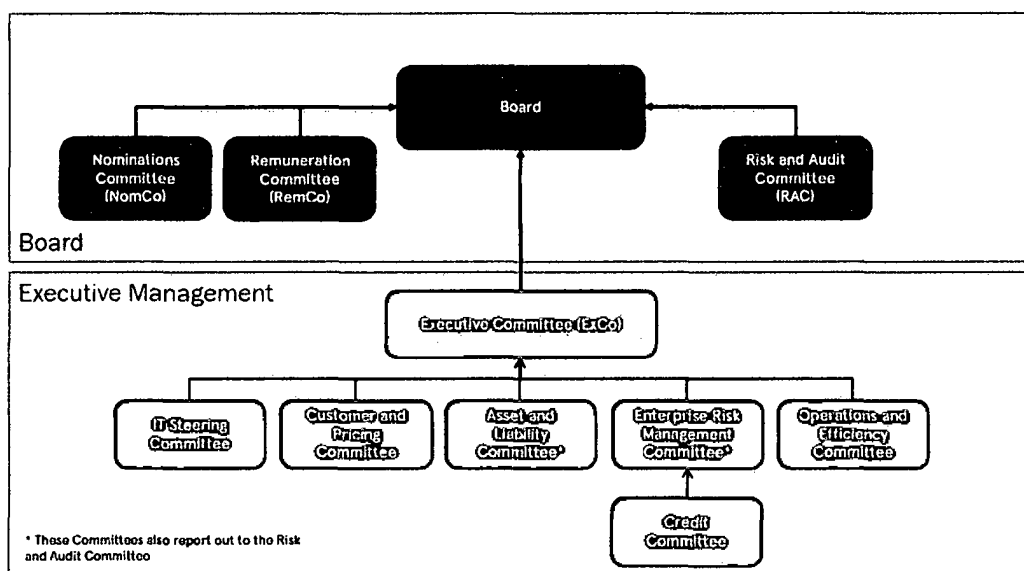
Strategic Report for the year ended 31 December 2019 (continued)

Board, Executive and Risk Committees

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

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

TABLE 1.1 - TANDEM HIGH-LEVEL COMMITTEE GOVERNANCE STRUCTURE



Tandem Money Limited

Strategic Report for the year ended 31 December 2019 (continued)

Board Level Governance

Board

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

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

The Board has the following responsibilities:

- Review and approve strategic and operational plans;
- Ensure that ExCo 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;
- Review and monitor appropriate control functions (e.g. Risk; Internal Audit; Compliance etc.) to ensure that the business operates in accordance with the policies, procedures and processes set and complies fully with all regulations, principles and rules laid down by regulators (including voluntary codes of conduct that the Group adheres to);
- 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 Chief Financial Officer ('CFO') report;
- Receive reports from the Chair of RAC in relation to risk management and the adequacy of capital; and
- Approval of the Internal Capital Adequacy Assessment Plan ('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 RAC. The Board reviews and approves the Terms of Reference of RAC, NomCo, RemCo and the ExCo.

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:

- **Independents** - 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 2019

(continued)

Board Level Governance (continued)

Risk and Audit Committee

The RAC is a sub-committee of the Board. In line with its Terms of Reference, the RAC has responsibility for oversight and advice to the Board on the current risk exposures and future risk strategy of Tandem, including strategy for capital and liquidity management, and the embedding and maintenance of a supportive culture in relation to the management of risk across the company, alongside established prescriptive rules and procedures.

The RAC therefore reviews and makes recommendations to the Board on:

- Risk appetite and culture;
- RMF (including policies, procedures, and governance);
- 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 RAC is 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 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.

Tandem Money Limited

Strategic Report for the year ended 31 December 2019 (continued)

Board Level Governance (continued)

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. The remuneration of the CEO is further set to consider job content and responsibilities at salary levels for similar positions in comparable financial services organisations. The CEO has a Board approved job description, which is used as a basis for the appraisal of performance carried out each year by the Chairman.

Executive Level Governance

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 of the Group is managed effectively ensuring compliance with capital requirements and overseeing the activities of the Treasury function in relation to the Group's market and liquidity risk management.

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;

Tandem Money Limited

Strategic Report for the year ended 31 December 2019 (continued)

Executive Level Governance (Continued)

Asset and Liability Committee (Continued)

- 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.

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 ExCo 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.

Tandem Money Limited

Strategic Report for the year ended 31 December 2019 (continued)

Executive Level Governance (Continued)

Credit Committee

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

Operations and Efficiency Committee

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

Information Technology Steering Committee

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

Customer and Pricing Committee

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

Tandem Money Limited

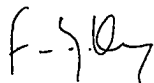
Strategic Report for the year ended 31 December 2019 (continued)

Risk Culture

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

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

On behalf of the Board,



Mr F S Knox

Chief Executive Officer

25 August 2020

Tandem Money Limited

Directors' Report for the year ended 31 December 2019

The Directors are pleased to submit their annual report and the audited consolidated Financial Statements of TML for the year ended 31 December 2019.

Directors

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

Mr M J Cooper	Chairman
Mr F S Knox	Chief Executive Officer
Mr M L Amato	
Mr M Klimbacher	Resigned 21 August 2020
Mr J J Pritchard	
Mr J Zagorovskis	Resigned 21 August 2020
Mr J W Scott	Appointed 21 August 2020

There were no appointments or resignations of Directors during the year. In accordance with the Articles of Association, no Director is required to seek re-election.

Directors' Indemnities

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

Directors' Interests

The following Directors in office at 31 December 2019 held an interest in the shares of the Group as at 31 December 2019:

M M L Amato

Mr M J Cooper

Mr F S Knox

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

Dividends

The Directors do not recommend a final dividend (2018: £Nil).

Capital Management

Details of capital management are provided in the Strategic Report on page 16.

Tandem Money Limited

Directors Report for the year ended 31 December 2019 (continued)

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.

The Group is also covered by the Financial Services Compensation Scheme ('FSCS') and 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 8 and events that have occurred after the Balance Sheet date can be found in Note 38 of the Financial Statements and form part of this report by cross-reference.

Financial Risk Management Objectives and Policies

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

Going Concern

COVID-19 is challenging 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, which results in material uncertainty in the Group's ability to continue as a going concern. Nevertheless, given some of the difficult decisions taken to date, including redundancies and changes, successful fundraisings and a change in strategic direction resulting in the acquisition of ALG and an expansion of green lending activities, the Directors are confident the business is on a clear path to profitability and sustainability.

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 anticipated COVID-19 impact. Based on this review the Directors are confident the Group can operate for at least 12 months from the date these financial statements are approved.

Tandem Money Limited

Directors Report for the year ended 31 December 2019 (continued)

Going Concern (continued)

As part of the going concern assessment the Directors considered numerous factors including (but not limited to):

- Successful fundraising activities completed across 2020, incorporating the acquisition of ALG and Change in Control post regulatory approval;
- Projected implications of COVID-19 on business performance;
- 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; and
- Government and regulator intervention to support the economy and banking industry.

However, in the short-term the Group will remain loss making, with Brexit and COVID-19 both 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 medium term plan, which could adversely impact its ability to generate a profit and / or raise sufficient capital to satisfy future regulatory requirements.

Therefore, given these complications, the Directors acknowledge such material uncertainties cast doubt on Tandem's ability 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 fundraising activities;
- Supportive shareholder base and confidence that if the Group delivers against its strategic plan further funding will be available from both existing or 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 (with the latter taking salary sacrifices to support cost management activities); and
- Ability to implement further cost reduction and capital remediation actions if the situation arises.

Taking this all into account the Directors are confident the Group 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

Directors Report for the year ended 31 December 2019 (continued)

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 Bank and parent company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the Income Statements 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 will continue in business.

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

The Directors have had regard to the need to foster the company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the company during the financial year.

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

Directors' Confirmations

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

Tandem Money Limited

Directors Report for the year ended 31 December 2019 (continued)

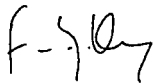
Disclosure of Information to the Auditors

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 Group's auditors, each Director has taken all the steps that they are obliged to take as a Director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Re-appointment of Auditors

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

On behalf of the Board



Mr F S Knox

Chief Executive Officer

25 August 2020

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 2019 and of the group's and the parent company's loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Consolidated Annual Report and Financial Statements (the "Annual Report"), which comprise: the consolidated and company statements of financial position as at 31 December 2019; the consolidated and company income statement and statement of other comprehensive income, the consolidated and company statements of cash flows, and the consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Tandem Money Limited

Material uncertainty related to going concern – Group and Company

In forming our opinion on the financial statements, which is not modified, we have considered the appropriateness of the disclosure made in note 1 to the financial statements which indicate that there is material uncertainty concerning both the company's and the group's ability to continue as a going concern.

The group and the company are loss making and require further capital injections within the next 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 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 company may not be able to obtain the required capital injections; or
- The group and company's strategic growth plans may not be achieved, especially in the context of the uncertainties of the COVID-19 pandemic.

We performed the following procedures in relation to going concern:

- We have obtained audit evidence over the August 2020 capital injection and we have reviewed correspondence with the regulator in relation to potential future support.
- We have obtained an understanding of management's regulatory business plan and medium term plan and we have reviewed management's methodology used in the model for appropriateness.
- We have tested the mathematical accuracy of the model.
- We have challenged the appropriateness of management's forecasts by assessing the material assumptions used in management's model.
- We have performed a sensitivity analysis on management's model using reasonably plausible down-side alternatives.
- We have used our regulatory specialists to review the assumptions used in management's capital forecast confirming the appropriateness of the assumptions made when determining risk weighted assets and minimum capital requirements.
- We have reviewed the group's correspondence with the Prudential Regulatory Authority ("PRA") outlining their approval of the capital raise transaction. We have further met with the PRA to discuss the bank's overall capital requirements and their review of the company's regulatory business plan.
- 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 IAS1.

Tandem Money Limited

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 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.

Tandem Money Limited

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 34, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Tandem Money Limited

Other Required Reporting

Companies Act 2006 exception reporting

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

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

Appointment

Following the recommendation of the risk and audit committee, we were appointed by the directors on 27 February 2019 to audit the financial statements for the year ended 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ended 31 December 2018 to 31 December 2019.



Mike Wallace (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
26 August 2020

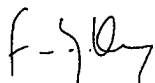
Tandem Money Limited
Consolidated Income Statement and
Statement of Other Comprehensive Income
for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Interest income	2	22,758	13,982
Interest expense	3	(8,409)	(6,686)
Net Interest Income		14,349	7,296
Fees and commissions income	4	1,364	261
Fees and commissions expense	4	(2,149)	(601)
Net (losses)/gains in derivatives and hedge ineffectiveness	5	(64)	31
Other operating income	6	173	4
Total Income		13,673	6,991
Administrative expenses	7	(36,654)	(27,133)
Depreciation and amortisation	7	(4,823)	(3,985)
Operating Expenses	7	(41,477)	(31,118)
Provision for bad and doubtful debts	17	(11,207)	(2,585)
Total Loss on Operating Activities before Tax		(39,011)	(26,712)
Tax gain on loss on ordinary activities	11	78	99
Loss for the Financial Year		(38,933)	(26,613)
Other Comprehensive Income/(Expense)			
Deferred tax movement on items of other comprehensive income/(expense)	11	(78)	(99)
Available for sale investments			
- Fair value gain/(loss) treasury assets		9	(10)
- Fair value gain on equity shares		492	566
- Fair value gains transferred to the income statement		-	-
Total Comprehensive Loss for the Year		(38,510)	(26,156)

Tandem Money Limited
Consolidated Statement of Financial Position
as at 31 December 2019

	Note	2019 £'000	2018 £'000
Assets			
Cash and balances at central banks	13	65,645	102,244
Loans and advances to banks	14	24,168	22,892
Debt securities	15	24,028	15,060
Derivatives held for risk management	16	30	215
Loans and advances to customers	17	330,647	349,890
Equity shares	18	1,344	886
Intangible assets	20	3,772	10,751
Tangible fixed assets	20	253	196
Other assets	21	6,428	5,495
Prepayments and accrued income	22	1,103	3,202
Total Assets		457,418	510,831
Liabilities			
Customer accounts	23	363,775	385,615
Other deposits	24	55,484	50,482
Derivatives held for risk management	16	21	15
Other liabilities	25	5,054	2,127
Accruals and deferred income	26	1,786	4,366
Total Liabilities		426,120	442,605
Share Capital and Reserves			
Called up share capital	29	242	214
Share premium account	29	142,568	141,238
Other reserves	29	3,942	3,718
Retained reserves	29	(115,454)	(76,944)
Shareholders' funds including Non-Equity interests		31,298	68,226
Total Liabilities and Equity		457,418	510,831

On behalf of the Board,



Mr F S Knox

Chief Executive Officer

25 August 2020

Tandem Money Limited

Consolidated Statement of Changes in Equity for the year ended 31 December 2019

	Called up Share Capital £'000	Share Premium Account £'000	Available for Sale Reserve £'000	Other Reserves £'000	Profit and Loss Account £'000	Total Equity £'000
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
At 1 January 2018	12	41,917	-	3,236	(50,788)	(5,623)
Loss for the year	-	-	-	-	(26,613)	(26,613)
Net income relating to available for sale investments, net of tax	-	-	457	-	-	457
Total comprehensive profit/(loss)	-	-	457	-	(26,613)	(26,156)
Shares issued, net of expenses	-	-	-	482	-	482
Share-based payments	202	99,321	-	-	-	99,523
As at 31 December 2018	214	141,238	457	3,718	(77,401)	68,226

Tandem Money Limited

Consolidated Statement of Cash Flows for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Cash flows from Operating Activities			
Loss before tax		(39,011)	(26,712)
Non-cash items included in loss before taxation		19,459	7,021
Change in operating assets and liabilities		(16,962)	(3,326)
Income tax received		875	828
Net cash used in Operating Activities	32	(35,639)	(22,189)
Cash flows from Investing Activities			
Purchase of intangible assets		(844)	(3,984)
Purchase of tangible assets		(198)	(243)
Cash acquired on purchase of subsidiaries		-	121,753
Transaction costs on purchase of subsidiaries		-	(1,253)
Net cash (used in)/generated from Investing Activities		(1,042)	116,273
Cash flows from Financing Activities			
Proceeds from issuance of ordinary shares		1,358	41,760
Payments to finance lease creditor		-	-
Repayment of subordinated liabilities		-	(13,223)
Net cash generated from Financing Activities		1,358	28,537
Net (decrease)/increase in Cash and Cash Equivalents		(35,323)	122,621
Cash and cash equivalents at beginning of year		125,136	2,515
Cash and Cash Equivalents at the end of the Year	32	89,813	125,136

Tandem Money Limited
Company Income Statement and
Statement of Other Comprehensive Income
for the year ended 31 December 2019

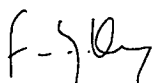
	Note	2019 £'000	2018 £'000
Interest Income		-	21
Interest Expense		(3)	(13)
Net Interest Income		(3)	8
Total Income		(3)	8
Intercompany recharge	6	21,486	15,303
Administrative expenses	7	(36,156)	(23,788)
Depreciation and amortisation	7	(4,279)	(3,545)
Operating Expenses		(18,949)	(12,030)
Impairment of investment in subsidiary	19	(35,771)	-
Total Loss on Operating Activities before Tax		(54,723)	(12,022)
Tax gain on loss on ordinary activities		-	-
Loss for the Financial Year		(54,723)	(12,022)
Total Comprehensive Loss for the Year		(54,723)	(12,022)

Tandem Money Limited

Company Statement of Financial Position as at 31 December 2019

	Note	2019 £'000	2018 £'000
Assets			
Loans and advances to banks	14	367	560
Investments in subsidiaries	19	33,577	59,346
Intangible assets	20	2,113	8,548
Tangible fixed assets	20	253	196
Other assets	21	2,518	16,213
Prepayments and accrued income	22	1,063	3,139
Total Assets		39,891	88,002
Liabilities			
Other liabilities	25	8,913	1,497
Accruals and deferred income	26	1,759	4,145
Total Liabilities		10,672	5,642
Share Capital and Reserves			
Called up share capital	29	242	214
Share premium account	29	142,568	141,238
Other reserves	29	3,942	3,718
Retained reserves	29	(117,533)	(62,810)
Shareholders' Funds including Non-Equity Interests		29,219	82,360
Total Liabilities and Equity		39,891	88,002

On behalf of the Board,



Mr F S Knox

Chief Executive Officer

25 August 2020

Tandem Money Limited

Company Statement of Changes in Equity for the year ended 31 December 2019

	Called up Share Capital £'000	Share Premium Account £'000	Other Reserves £'000	Profit and Loss Account £'000	Total Equity £'000
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
At 1 January 2018	12	41,917	3,236	(50,788)	(5,623)
Loss for the year	-	-	-	(12,022)	(12,022)
Shares issued, net of expenses	202	99,321	-	-	99,523
Share-based payments	-	-	482	-	482
As at 31 December 2018	214	141,238	3,718	(62,810)	82,360

Tandem Money Limited

Notes to the Financial Statements for the year ended 31 December 2019

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 2019. 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 August 2020. 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 2019. 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.

TBL has been included in the Group Financial Statements using the purchase method of accounting. Accordingly, the Group Income Statement and Statement of Cash Flows include the results and cash flows of TBL. The purchase consideration has been allocated to the assets and liabilities on the basis of fair value at the acquisition date.

The Prior Year Group Income Statement and Statement of Cash Flows also include the results and cash flows of Pariti for the period from its acquisition on 24 May 2018.

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 2019 (continued)

1. Basis of Preparation (continued)

1.3. Going Concern

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

However, in the short-term the Group will remain loss making, with Brexit and COVID-19 both 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 medium term plan, which could adversely impact its ability to generate a profit and / or raise sufficient capital to satisfy future regulatory requirements. Therefore, given these complications, the Directors acknowledge such material uncertainties cast doubt on Tandem's ability to continue as a going concern.

1.4. Significant Accounting Estimates and Judgements

(i) Impairment losses on loans and advances to customers

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

- Individual

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

- 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

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2019 (continued)

1. Basis of Preparation (continued)

1.4 Significant Accounting Estimates and Judgements (continued)

(I) Impairment losses on loans and advances to customers (continued)

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.

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

(II) Share-based compensation

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

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

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2019 (continued)

1. Basis of Preparation (continued)

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, 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.

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2019 (continued)

1. Basis of Preparation (continued)

1.6 Financial Assets (continued)

(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 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.

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2019 (continued)

1. Basis of Preparation (continued)

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.

For loans that are not considered to be individually impaired, a collective impairment assessment is performed to reflect the estimated amount of losses incurred on a collective basis but have yet to be individually identified. The methodology uses a statistical model which looks at the likelihood of balances moving into arrears status within a defined period, multiplying the probability of default ('PD') by the loss given default ('LGD') and then applying an emergence period. Usually this would be calculated by looking at historical loss experience updated to reflect current economic conditions. As the Group's portfolios of assets are predominantly made up of relatively new loans with limited arrears data, the Group has also looked at other relevant external data to calculate its collective provision. The methodology and assumptions used are regularly reviewed to reduce any differences between estimates and actual results and to refine methodology as more historical data becomes available.

Once a financial asset has been written down as a result of an impairment loss, interest income thereafter is recognised using the original effective interest rate on the net carrying value after deducting the impairment.

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

(II) Financial assets classified as available for sale

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

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

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2019 (continued)

1. Basis of Preparation (continued)

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 Bank has determined that it expects the hedge to be highly effective over the life of the hedging instrument. This is assessed on an ongoing basis during the period for which the hedge is designated.

Fair value hedge accounting for portfolio hedges of interest rate risk

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

Provided that the hedge has been highly effective, changes in the fair value of derivatives are recorded in the 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.

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2019 (continued)

1. Basis of Preparation (continued)

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 account once the asset is available for use. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The useful life 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.

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2019 (continued)

1. Basis of Preparation (continued)

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 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.

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.

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2019 (continued)

1. Basis of Preparation (continued)

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.

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).

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

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

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

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2019 (continued)

2. Interest Income

Group	2019	2018
	£'000	£'000
Interest Income on:		
- Loans and advances	21,829	13,345
- Debt securities	905	667
Net interest income/(expense) on mortgage interest rate swaps	24	(30)
	22,758	13,982

3. Interest Expense

Group	2019	2018
	£'000	£'000
Interest Expense on:		
- Customer accounts and similar expense	8,091	6,299
- Subordinated loan	-	13
- Wholesale deposit	376	264
Net interest (income)/expense on deposit interest rate swaps	(58)	110
	8,409	6,686

4. Fees and Commission

Group	2019	2018
	£'000	£'000
Income		
Credit card - net interchange income	1,108	304
Credit card - other fee income/(expense)	256	(55)
Current account service Income	-	12
	1,364	261
Expense		
Forward flow partner service fees	835	235
Credit card cashback	1,314	366
	2,149	601

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2019 (continued)

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

	2019 £'000	2018 £'000
Group		
Net (loss)/gain on derivatives not in a hedging relationship	(75)	52
Hedge ineffectiveness	11	(21)
	<u>(64)</u>	<u>31</u>
 Hedge ineffectiveness:		
(Loss)/Gain on hedging instruments	(141)	89
Gain/(Loss) on hedged items	152	(110)
	<u>11</u>	<u>(21)</u>

6. Other Operating Income

	2019 £'000	2018 £'000
Group		
Visa income	173	-
Foreign exchange gains	-	4
	<u>173</u>	<u>4</u>
 Company		
Intercompany Recharge	<u>21,486</u>	<u>15,303</u>

7. Operating Expenses

	2019 £'000	2018 £'000
Group		
Staff costs	9,515	9,722
Amortisation of intangible assets	4,682	3,756
Impairment of intangible assets	3,141	-
Depreciation	141	229
Fees payable to the Bank's auditor	370	210
Other administrative costs	23,628	17,201
	<u>41,477</u>	<u>31,118</u>
 Company		
Staff costs	9,067	6,975
Amortisation of intangible assets	4,138	3,353
Impairment of intangible assets	3,141	-
App costs	1,472	-
Credit card costs	4,658	-
IT cost	4,826	4,216
Rent	2,461	1,210
Depreciation	141	192
Other administrative costs	10,531	11,387
	<u>40,435</u>	<u>27,333</u>

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2019 (continued)

8. Auditors' Remuneration

	2019 £'000	2018 £'000
Group		
Audit of the Group's Financial Statements	250	210
Other services	120	-
	370	210

The fees payable for the audit of the Group's financial statements includes £180k in relation to the audit of the Company's subsidiaries (2018: £150k). Other services provided during the year by PwC relate to audit of regulatory reporting submissions.

9. Employees

	2019 £'000	2018 £'000
Group		
Wages and salaries	8,271	7,605
Social security costs	1,075	1,030
Pension costs	231	238
Share-based payments	(199)	849
Other staff costs	137	-
	9,515	9,722
The average number of employees, including Directors	146	130

10. Directors' Remuneration

	2019 £'000	2018 £'000
Total Directors' emoluments		
Remuneration	521	549
Pension contributions	12	10
Share-based incentive scheme	87	99
	620	658
Highest paid Director emoluments:		
Remuneration	250	280
Pension contributions	8	7
Share-based incentive scheme	58	70
	316	357

The Directors of TML have a long-term share incentive scheme - total number of options receivable by Directors is 6.7m (2018: 6.7m).

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2019 (continued)

11. Taxation

The taxation charge based on the loss for the period comprises:	2019	2018
	£'000	£'000
Current tax:		
UK Corporation tax	-	-
Adjustments with respect to prior years	-	-
Total current tax	-	-
Deferred tax:		
Current Year	78	99
Total deferred tax	78	99
Taxation credit on ordinary activities	78	99
Total deferred tax relating to items of other comprehensive income	78	99
	2019	2018
	£'000	£'000
Group		
Loss on ordinary activities before taxation	(39,011)	(26,712)
Loss on ordinary activities before taxation multiplied by the standard rate of corporation tax of 19.00% (2018: 19%)	(7,412)	(5,075)
Expenses not deductible for tax purposes	13	153
Income not taxable	(125)	-
Utilisation of unrecognised tax losses	(79)	-
Effect of other reliefs	-	-
Deferred tax not provided	6,732	4,814
Visa share gain rolled over	-	-
Adjustment in respect to prior years	-	(2)
Tax rate changes	793	11
Current tax credit for the year	(78)	(99)
Standard rate of corporation tax:	19%	19%
Deferred tax assets not recognised	Gross amount	Tax effect
	£'000	£'000
As at 31 December 2019		
Deductible temporary differences	816	155
Tax losses	100,559	19,106
As at 31 December 2018		
Deductible temporary differences	1,807	307
Tax losses	72,217	12,277

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2019 (continued)

11. Taxation (continued)

Analysis of Deferred tax (asset)/liability	2019 £'000	2018 £'000
Losses	(1,236)	(1,170)
Short-term Timing Differences	318	142
Acquisition of intangibles	398	485
Fixed Assets	520	543
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. As the proposal to keep the rate at 19% had not been substantively enacted at the Balance Sheet date, its effects are not included in these financial statements. However, the overall effect of the change, had it been substantively enacted by the Balance Sheet date, would be immaterial as a result of the Group making a loss on ordinary activities before taxation.

Included in the Financial Statements are tax credits of £nil included within Administrative expenses (2018: £1,703k) relating to the Research and Development Incentive Claims scheme.

12. Dividends

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

13. Cash and Balances at Central Banks

	2019 £'000	2018 £'000
Bank of England Reserve Account	65,645	102,244

14. Loans and Advances to Banks

Group	2019 £'000	2018 £'000
Repayable on demand	18,791	15,258
3 months or less	-	-
Encumbered cash	5,377	7,634
	24,168	22,892

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.

Company	2019 £'000	2018 £'000
Repayable on demand	367	560

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2019 (continued)

15. Debt Securities

	2019	2018
Group	£'000	£'000
European Investment Bank	19,029	15,060
Treasury Bills	4,999	-
	24,028	15,060

The above debt securities mature in less than 3 months. 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 BoE term funding scheme, TML does not hold the right to sell or re-pledge this collateral.

16. Derivatives held for Risk Management

	2019	2018
Group	£'000	£'000
Assets	30	215
Liabilities	(21)	(15)

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

The 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 mature in 2021 as such are not impacted by the amendments to IAS 39 made by the 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.

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2019 (continued)

17. Loans and Advances to Customers

	2019 £'000	2018 £'000
Group		
Gross loans and advances to customers	339,113	352,677
Provision for Impairment	(8,347)	(2,529)
Fair value adjustment for portfolio hedged risk	(119)	(258)
	330,647	349,890
Remaining maturity:		
Repayable on demand	60,973	31,095
3 months or less	3,054	177
Between 3 months and 1 year	9,980	17,934
Between 1 year and 5 years	100,947	97,422
Over 5 years	164,159	206,049
	339,113	352,677

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

	2019 £'000	2018 £'000
Secured lending	227,485	269,827
Unsecured lending	111,628	82,850
	339,113	352,677
	%	%
Secured lending	67	77
Unsecured lending	33	23
	100	100

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2019 (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 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
	Secured lending £'000	Unsecured lending £'000	Total £'000
Year ended 31 December 2018			
Opening balance	240	-	240
New impairment provisions less releases	210	2,079	2,289
Amounts written-off	-	-	-
Closing balance	450	2,079	2,529
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	4,534	2,022	6,556

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

	2019 £'000	2018 £'000
Provisions raised	9,263	2,289
Write-offs	3,445	296
Recoveries of amounts previously written-off	(1,501)	-
Provision for bad and doubtful debts per Income Statement	11,207	2,585

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2019 (continued)

18. Equity Shares

	2019	2018
Group	£'000	£'000
Unlisted equity shares	1,344	886

These are valued through Fair value as these shares are unlisted and carry a variety of conditions and provisions that need to be incorporated into the fair value. A variety of inputs go into the valuation as disclosed in Note 1. The above balance includes accrued dividend of £34k (2018: £nil).

19. Investment in Subsidiaries

Company	2019	2018
At cost	£'000	£'000
Tandem Bank Limited	33,566	59,016
Pariti Technologies Limited	10	330
Tandem Money Hong Kong Limited	1	-
	33,577	59,346

All subsidiaries are wholly (100%) owned by TML. Pariti and Tandem Money Hong Kong Limited ('TMHKL') are exempt from audit by virtue of s479A of Companies Act 2006. During 2019, TML injected an additional £10m of capital into TBL. The investment in TBL was subsequently impaired by £35.8m given the decrease in Net Asset Value ('NAV') of TBL from acquisition in January 2018.

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2019 (continued)

20. Fixed Assets

Intangible Assets

Group	Internally Generated Software	Tandem Trademark	Computer Software	Regulatory Licences	Work in Progress	Total
	£'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
Net book value as at 31 December 2018	8,491	57	78	2,125	-	10,751

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

The Group's internally generated software was considered available for use from the beginning of the year. 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 AI banking platform, ADA. The average remaining amortisation period for capitalised software is 1.5 years.

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2019 (continued)

20. Fixed Assets (continued)

Intangible Assets (continued)

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
Net book value as at 31 December 2018	8,491	57	-	8,548

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

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2019 (continued)

20. Fixed Assets (continued)

Tangible assets

Group	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 1 January 2019	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
Net book value as at 31 December 2018	-	141	42	13	196
	Leasehold Improvements £'000	Office/IT Equipment £'000	Fixtures and Fittings £'000	Vehicles £'000	Total £'000
Cost					
As at 31 December 2017	16	226	43	32	317
Additions related to acquisition of subsidiary	-	27	10	-	37
Additions	65	138	41	-	244
Write-off	-	(27)	(10)	-	(37)
As at 31 December 2018	81	364	84	32	561
Depreciation					
As at 31 December 2017	16	129	15	13	173
Charge	65	121	37	6	229
Write-off	-	(27)	(10)	-	(37)
As at 31 December 2018	81	223	42	19	365
Net Book Value as at 31 December 2018	-	141	42	13	196
Net Book Value as at December 2017	-	97	28	19	144

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2019 (continued)

20. Fixed Assets (continued)

Tangible assets (continued)

Company	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-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
Net Book Value as at 31 December 2018	-	141	42	13	196

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

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2019 (continued)

21. Other Assets

	2019 £'000	2018 £'000
Group		
Credit card settlement balances	3,730	3,826
Trade receivables	180	194
Refundable deposits	395	293
R&D Tax credit	705	1,125
Sundry debtors	1,418	57
	6,428	5,495
Company		
Trade receivables	-	33
Refundable deposits	395	292
Tax credit	705	1,125
Intercompany	-	14,706
Sundry debtors	1,418	57
	2,518	16,213

The intercompany balance is with TBL and TMHKL. See Note 37 for further breakdown. Current year intercompany balance is a liability, disclosure under Note 25. Interest is charged on the balance in at the Bank of England Base Rate less 0.05%.

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2019 (continued)

22. Prepayments and Accrued Income

	2019 £'000	2018 £'000
Group		
Prepayments	1,063	3,139
Accrued income	40	63
	1,103	3,202
Company		
Prepayments	1,063	3,139

23. Customer Accounts

	2019 £'000	2018 £'000
Group		
Customer accounts	363,775	385,626
Fair value adjustment for portfolio hedged risk	-	(11)
	363,775	385,615

24. Other Deposits

	2019 £'000	2018 £'000
Group		
Bank of England Term Funding Scheme	50,095	50,095
Investor deposits	5,389	387
	55,484	50,482

Repayable:

Between 3 months and 1 year	5,389	387
Between 1 and 5 years	50,095	50,095
	55,484	50,482

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2019 (continued)

25. Other Liabilities

	2019 £'000	2018 £'000
Group		
Trade creditors	503	1,120
Other taxes and social security costs	341	285
Cash settled share-based payments	127	55
Other liabilities	4,083	667
	5,054	2,127
Company		
Trade creditors	503	1,120
Other taxes and social security costs	341	285
Cash settled share-based payments	127	55
Intercompany	7,775	-
Other liabilities	167	37
	8,913	1,497

26. Accruals and Deferred Income

	2019 £'000	2018 £'000
Group		
Accruals	1,786	4,366
Company		
Accruals	1,759	4,145

27. Subordinated Liabilities

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

28. Commitments and Contingent Liabilities

As at the Balance Sheet date the Bank had undrawn credit card balances of £127.1m (2018: £71.7m).

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2019 (continued)

29. Called-up Share Capital and Reserves

	2019 £'000	2018 £'000
Group		
Called up ordinary share capital		
At 1 January	214	12
Issued as consideration for subsidiary	-	86
Issued for cash	28	116
At 31 December	242	214
Share premium account		
At 1 January	141,238	41,917
Issued as consideration for subsidiary	-	57,677
Issued for cash	1,330	41,644
At 31 December	142,568	141,238
Share option reserve	3,942	3,718
Retained reserves	(115,454)	(76,944)
Company		
Called up ordinary share capital		
At 1 January	214	12
Issued as consideration for subsidiary	-	86
Issued for cash	28	116
At 31 December	242	214
Share premium account		
At 1 January	141,238	41,917
Issued as consideration for subsidiary	-	57,677
Issued for cash	1,330	41,644
At 31 December	142,568	141,238
Share option reserve	3,942	3,718
Retained reserves	(117,533)	(62,810)

As at 31 December 2019, the Company had 120.9 million ordinary shares of £0.002 authorised, fully paid up and in issue (2018: 107.03 million). During the year ended 31 December 2019, the Company issued 13.6m ordinary shares of £0.002 nominal value (2018: 101.27 million), raising £1.12m. There are no restrictions on the distribution of dividends and the repayment of capital.

9% of share capital is reserved for Share Based payments. The total number of shares options awarded under SBP schemes are 16.9m, of which 2.2m were awarded in 2019. See Note 30 for further details. No share options were exercised in 2019.

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2019 (continued)

30. Share-based Payments

As at 31 December 2019, 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 Unapproved Share Option Scheme during the year.

The expense charged to the Income Statement for each during 2019 was as follows:

	2019 £'000	2018 £'000
Joint Share Ownership Plan	(278)	279
Unapproved Share Option Scheme	130	640
Employee Share Scheme	(51)	(70)
	(199)	849

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, for the right to the future growth in the company's value above the predetermined hurdle price. The option can be exercised only in the event of an asset or share sale for a controlling interest in the Company, at which point the participant will receive the value above the hurdle price and the value below the hurdle price will remain in the EBT to distribute at the discretion of the RemCo. 13.01 million options have been issued to employees under the JSOP plan at a fair value as at 31 December 2019 of £0.00 per option. The subscription price per option is £0.06 with a hurdle price of £1.55.

The JSOP has a 5 year vesting schedule with 40% of the award vesting after 2 years and then a further 10% vesting every 6 months thereafter. The awards and vesting are subject to RemCo review every quarter which considers company and individual performance criteria together with conduct and forfeiture provisions as set out in the Remuneration Code.

The fair value of the option has been calculated as at 31 December 2019 and will be revalued at each reporting period end as this is considered to be a cash settled share-based transaction. It has been estimated using a hurdle option valuation model using the following significant inputs to the Black Scholes Model:

Hurdle price	£1.55
Subscription price	£0.06
Share price	£0.40

Other inputs included the risk-free rate, length of hold and volatility. These inputs required management judgement to estimate the probability and timings of events taking place in the future. This model has been used as it is a simple model and there aren't currently open market conditions for these shares given, they are privately held. The reduction in implied share price has resulted in a credit of £671k to the income statement. We have performed sensitivity analysis on the next page.

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2019 (continued)

30. Share-based Payments (continued)

Joint Share Ownership Plan ('JSOP') (continued)

When looking at the assumptions used for the 2019 year end, to revalue the JSOP, it is evident that the current share price used in the calculations is the significant assumption for this reporting period end. Given these are equity settled only the 2019 award is affected.

If the current Share Price was to increase to £0.50 this would result in the FV of the option being £0.05 and a debit of £237k to the Income Statement.

If the current Share Price was to decrease to £0.30 this would result in the FV of the option being £0.02 and a credit of £179k to the Income Statement.

Unapproved Share Option Scheme ('USOP')

The Company has granted options on Ordinary B shares in an USOP in 2016, and has made further grants during 2017, 2018 and 2019 with eligibility determined by the Board. These options are equity settled with the option giving the holder the right to acquire shares at a future date at the exercise price.

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

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

Share price at date of grant (2019 options) £0.40

Exercise price £1.33

Other inputs included the risk-free rate, length of hold, volatility, however only the inputs quantified above impact the fair value materially. These inputs required management judgement to estimate the probability and timings of events taking place in the future. We have performed sensitivity analysis on the key assumption, which is the share price, but this does not result in a material impact.

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

	2019		2018	
	No.	Weighted average FV of option £	No.	Weighted average FV of option £
Outstanding as at 1 January	1,615,939	2.02	1,044,873	2.72
Granted during the year	365,750	0.04	651,105	1.31
Forfeited during the period	(349,323)	1.74	(80,039)	5.38
	1,632,366	1.64	1,615,939	2.02

The average remaining contractual life of options outstanding as at the Balance Sheet date was 2 years (2018: 2 years).

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2019 (continued)

30. Share-based Payments (continued)

Employee Share Scheme ('ESS')

From 23 November 2016, the Company closed the ESS to new entrants, following withdrawal by the UK Government of their support for such schemes. On entry into the scheme, ordinary shares were issued to employees following their probation period, 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 2019 was £51k (2018: 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 295,680 shares granted under the ESS scheme as of 31 December 2019 (2018: 295,680).

	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

31. Operating Leases

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

	2019 £'000	2018 £'000
Group and Company		
Less than 1 year	2,340	2,336
Between 1 year and 5 years	2,284	4,278
	4,624	6,614

Total lease payments in 2019 were £2,492k.

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2019 (continued)

32. Notes to the Cash Flow Statement

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

	2019	2018
Group	£'000	£'000
Cash and balances at central banks	65,645	102,244
Loans and advances to banks:		
Repayable on demand	18,791	15,258
Cash collateral on derivatives placed with banks	5,377	7,634
	89,813	125,136
Company		
Repayable on demand	367	560

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

	2019	2018
Group	£'000	£'000
Loss before taxation	(39,011)	(26,712)
Impairment movement on loans and advances to customers	11,207	2,585
Amortisation of intangible fixed assets	4,682	3,756
Depreciation	141	229
Write-off of tangible and intangible assets	3,141	-
Share-based payments	224	482
Gain on sale of available for sale investments	-	-
Fair value adjustments for portfolio hedged assets	(139)	70
Fair value adjustments for portfolio hedged liabilities	11	40
Fair value losses on derivatives	192	(141)
Non-cash items included in loss before taxation	19,459	7,021
Increase in treasury bills and other eligible bills	(8,959)	(15,070)
(Increase) / Decrease in loans and advances to customers	8,175	18,387
(Increase) / Decrease in derivative instruments	(1)	(8)
(Increase) in equity shares	34	(3)
(Increase) / Decrease in other assets	(1,808)	(6,029)
(Increase) / Decrease in prepayments and accrued income	2,099	(2,148)
Increase / (Decrease) in customer accounts	(16,849)	2,285
Increase / (Decrease) in other liabilities	2,927	(1,148)
Increase / (Decrease) in accruals and deferred income	(2,580)	408
Increase / (Decrease) in provisions	-	-
Change in operating assets and liabilities	(16,962)	(3,326)
Income tax received	875	828
Cash used in operating activities	(35,639)	(22,189)

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2019 (continued)

33. Analysis of Financial Instruments by Classification Basis

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

	Loans and receivables	Available for sale securities	Derivatives measured at fair value through profit or loss	Liabilities at amortised cost	Total
31 December 2019	£'000	£'000	£'000	£'000	£'000
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

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2019 (continued)

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

	Loans and receivables	Available for sale securities	Derivatives measured at fair value through profit or loss	Liabilities at amortised cost	Total
31 December 2018	£'000	£'000	£'000	£'000	£'000
Financial assets					
Cash and balances at central banks	102,244	-	-	-	102,244
Loans and advances to banks	22,892	-	-	-	22,892
Debt securities	-	15,060	-	-	15,060
Derivatives held for risk management	-	-	215	-	215
Loans and advances to customers	349,890	-	-	-	349,890
Equity shares	-	886	-	-	886
Total financial assets	475,026	15,946	215	-	491,187
Non-financial assets					19,644
Total assets					510,831
Financial liabilities					
Customer accounts	-	-	-	385,615	385,615
Other deposits	-	-	-	50,482	50,482
Derivative held for risk management	-	-	15	-	15
Other liabilities	-	-	-	2,127	2,127
Accruals and deferred income	-	-	-	4,366	4,366
Total financial liabilities	-	-	15	442,590	442,605
Total liabilities					442,605

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 2019.

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2019 (continued)

34. Risk Management

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

34.1. Credit Risk

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

In line with Tandem's RMF, overall responsibility for credit risk rests with the Board of Directors, on whose behalf the 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 and ERM. The Risk and Pricing Director 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.

As at 31 December 2019, the Bank has undrawn credit card balances of £127.1m (31 December 2018: £71.7m), however facilities are unconditionally cancellable. The maximum exposure to credit risk of other loans and advances to customers, debt securities and other financial assets on the Balance Sheet is the carrying amount.

(i) Impairment assessment

For accounting purposes, the Group uses an incurred loss approach for the recognition of impairment losses on financial assets. This means that losses can only be recognised when objective evidence of a specific loss event has been observed. Evidence of impairment may include: indications that a borrower is experiencing financial difficulty, default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows.

For its secured lending the Group maintains a dynamic approach to credit management with impairment assessed on an individual asset basis taking into account factors such as client credit history, any changes to financial position and clients' willingness to work with the Group to resolve the situation. The Group will monitor and liaise with the customer through to remediation. During the forbearance period, if the arrears status of a customer deteriorates and there is failure to respond to correspondence to agree a revised payment arrangement plan, the Group will take steps to recover the debt using their expertise to determine optimum recovery strategy.

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

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2019 (continued)

34. Risk Management (continued)

34.1. Credit Risk (continued)

(II) Loans and advances to customers

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

Credit Quality Analysis

	Unsecured lending £'000	Secured lending £'000	Total £'000
As at 31 December 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
As at 31 December 2018			
Total gross impaired loans	2,022	4,534	6,556
Past due but not impaired	-	-	-
Neither past due nor impaired	80,828	265,293	346,121
Total gross amount due	82,850	269,827	352,677

Aging Analysis

	2019 £'000	2018 £'000
Total gross impaired loans		
Less than 3 months	4,892	1,677
Past due 3 to 12 months	6,656	4,879
	11,548	6,556
Past due but not impaired		
Past due 3 to 12 months	-	-
Past due over 12 months	6,233	-
	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 Loan to Value (LTV) ratio for the mortgage portfolio which measures the size of advance against the value of collateral held as at the date of the advance to customers is 58.7% as at 31 December 2019 (2018: 51.6%).

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2019 (continued)

34. Risk Management (continued)

34.1. Credit Risk (continued)

(ii) Loans and advances to customers (continued)

Sensitivity analysis of Loans to customers impairment provision:

Tandem's provisions for credit losses arise from its Unsecured book comprising 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 overall balance remains unchanged.

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%

* Arrears Ratio defined for Unsecured Portfolios only, as there is no provision held against the secured Mortgage book.

Similarly, Tandem's provisions are sensitive to the Loss Given Default (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 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 2019 (continued)

34. Risk Management (continued)

34.1. Credit Risk (continued)

Loan to value analysis of mortgage portfolio:

	2019 %	2018 %
< 40%	14.5	14.0
40% to 50%	7.6	8.0
50% to 60%	17.7	22.3
60% to 70%	54.4	52.4
70% to 80%	4.0	3.3
> 80%	1.8	0.0
Total	100.0	100.0

(III) Debt securities held for liquidity purposes

The Bank's Treasury Policy allows the holding of debt securities within its High-Quality Liquid Asset buffer to meet its liquidity requirement under the Bank's liquidity Risk Appetite. Additionally, the Bank 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 2019 the Bank held assets with a notional value of £24m in its SCP to collateralise its Term Funding Scheme. A breakdown of the Bank's holdings of Debt Securities is shown below:

Issuer	Rating (Moody's)	Notional Value	Mark to Market Value
European Investment Bank	Aaa	£19,000,000	£19,029,661
UK Government	Aa2	£5,000,000	£4,998,594
Total		£24,000,000	£24,028,255

34.2. Liquidity and Capital Risk

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

The Bank reports under the Liquidity Coverage Ratio ('LCR') and has maintained a very strong level above its regulatory minimum, 1,771% (unaudited) as at 31 December 2019 versus the minimum regulatory requirement of 100%. 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 2019 (continued)

34. Risk Management (continued)

34.2. Liquidity and Capital Risk (continued)

Tandem Group's LRA is stated across two dimensions as follows:

Liquidity Core Statement:

- 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;
- Tandem will always hold a sufficient quantity of liquid assets to meet its obligations for a minimum of 45 days in a stressed environment; and
- Tandem will implement practices and controls that will maintain adequate liquidity buffers needed, both in terms of quality and quantity, in order to meet its commitments as they fall due. Specifically:
 - The Net Stable Funding Ratio ('NSFR') will be maintained above 110%; and
 - High Quality Liquid Assets ('HQLAs') will be maintained to sustain an LCR of at least 150%.

The Liquidity and Funding Risk Appetite is as follows:

- Management will maintain an appropriate retail funding mix of Fixed Term and Instant Access Deposits, to appropriately manage the liquidity risk in the portfolio whilst ensuring a sensible diversification of funding;
- Management may supplement retail funding with unsecured wholesale funding up to a maximum of 5% of liabilities;
- The Bank will ensure it holds a conservative balance of liquidity within its correspondent banking relationships to cover the maximum likely negative daily settlement;
- Management will limit its exposure to concentrations of Fixed Term maturities within the next 30 days to 15% of Total Liabilities; and
- Tandem will limit its exposure to large retail deposit concentrations by capping its ten largest depositors to a total of 5% of total retail deposits.

The ILAAP sets out Tandem's approach to liquidity and funding. ILAAP is the process by which Tandem's Board and Management oversees and regularly assesses its ability to operate within internal liquidity adequacy risk appetite and the ORLA under the BIPRU. It has been prepared in line with internal policies and procedures as well as the regulation on liquidity and funding risk management defined by the PRA rulebook for Capital. In completing the ILAAP, Tandem's Senior Management have assessed:

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

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2019 (continued)

34. Risk Management (continued)

34.2. Liquidity and Capital Risk (continued)

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

The Liquidity Contingency Plan sets out the roles and responsibilities of key stakeholders under a stressed liquidity event. The plan was submitted on 31st October 2019 and is approved at least annually through the Tandem's governance process, specifically: ALCO; ExCo and the Board.

Contractual maturity analysis

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

	On demand	< 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
As at 31 December 2019	£'000	£'000	£'000	£'000	£'000	£'000	£'000
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)
As at 31 December 2018							
Non-derivative liabilities							
Customer accounts	(27,047)	(81,675)	(164,850)	(112,043)	-	-	(385,615)
Other deposits	-	-	(387)	(50,095)	-	-	(50,482)
Other liabilities	(2,127)	-	-	-	-	-	(2,127)
Accruals	(4,366)	-	-	-	-	-	(4,366)
	(33,540)	(81,675)	(165,237)	(162,138)	-	-	(442,590)
Derivative liabilities							
Fair value hedges:							
Outflow	-	(55)	-	-	-	-	(55)
Inflow	-	44	-	-	-	-	44
Net derivative cash flows	-	(15)	-	-	-	-	(15)
	(33,540)	(81,690)	(165,237)	(162,138)	-	-	(442,605)

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2019 (continued)

34. Risk Management (continued)

34.2. Liquidity and Capital Risk (continued)

Collateral

The Bank has derivatives which are supported by credit agreements whereby if the fair value exceeds the pre-agreed level, cash collateral is required to be posted. As at 31 December 2019, the Bank has provided collateral of £3.36m (2018: £3.26) against the derivatives portfolio.

34.3. Market Risk

Market risk is defined as the risk that the value of the Bank's assets, liabilities, income or costs may fluctuate due to the result of changes to market rates. The Bank's market risks include Interest Rate Risk in the Banking Book (IRRBB). The Bank does not operate a trading book and therefore has no Pillar 1 Capital charge for Market Risk.

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

The Group's primary measure used to capture interest rate risk is an analysis of the impact of changes in interest rates on the market value of the Group's assets and liabilities and on the Group's earnings.

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

Interest Rate Risk Sensitivities:

	Net present value sensitivity	
	2019	2018
	£'000	£'000
Parallel shift in yield curve		
+ 200bps	833	(160)
- 200bps	(810)	259

34.4. Operational Risk

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

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2019 (continued)

35. 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 Bank prepares an annual Internal Capital Adequacy Assessment Process document that sets out how the Bank identifies and manages the key risks, and details the capital requirements, capital resources and capital adequacy over the plan period. In addition, the Bank produces regular reports and submits the forecast capital outlook to the PRA each quarter showing current and medium-term capital requirements.

The Bank manages its capital in accordance with the capital framework policy issued by the PRA. On 17th January 2017 PRA published the policy statement setting out the new Pillar 2 capital framework and setting out the Individual Capital Guidance (ICG) and the PRA buffer for the Bank. The Bank has shown that it has complied with all externally imposed capital requirements for 2019.

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

	2019 £'000	2018 £'000
Tier 1 Capital		
Ordinary share capital	142,810	141,452
Other reserves	3,942	3,718
Retained reserves	(115,454)	(76,944)
Intangible assets	(3,772)	(10,751)
	<u>27,526</u>	<u>57,475</u>
Tier 2 Capital	<u>-</u>	<u>-</u>
Total Capital	<u>27,526</u>	<u>57,475</u>

Tandem Money Limited
Notes to the Financial Statements
for the year ended 31 December 2019 (continued)

36. 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 Bank 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.

As at 31 December 2019	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
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

As at 31 December 2018

Financial assets				
Derivatives held for risk management	-	215	-	215
Debt securities	15,060	-	-	15,060
Equity shares	-	-	886	886
	15,060	215	886	16,161
Financial liabilities				
Derivatives held for risk management	-	15	-	15
	-	15	-	15

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2019 (continued)

37. Related Party and Controlling Party

On 10 January 2018 Qatar Holding LLC ('QHC') acquired a stake in in Tandem Money Limited as part of the transaction to acquire Tandem Bank Limited (formerly Harrods Bank Limited). Under the terms of the shareholder agreement, the Directors consider that no single shareholder acting on their own had control of the Group.

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.

	2019	2018
	£000	£000
Key management personnel		
Salaries and remuneration	2,316	1,892
Social security contributions	308	262
Share-based payments	(278)	493
	2,346	2,647

During the year key Management personnel made no investments in the Company (2018: £190k), and no payments for services were received in equity in lieu of cash (2018: nil).

Included in customer accounts as at 31 December 2019 is a balance of £4.2k (2018: £5.5k) deposited by members of key management personnel and their direct relations.

Intergroup Transactions

	2019	2018
	£000	£000
Intercompany recharge		
Tandem Bank Limited		
Loan interest expense	3	21
Intercompany income	(21,511)	(15,303)
	(21,508)	(15,324)
Pariti Technologies Limited		
Intercompany expense	27	24
Intercompany balances		
Tandem Bank Limited (payable)/ receivable	(7,774)	14,685
Tandem Money Hong Kong Limited	(1)	-
	(7,775)	14,685

Tandem Money Limited

Notes to the Financial Statements

for the year ended 31 December 2019 (continued)

38. Events Subsequent to the Reporting Date

The following events have taken place between 30 December 2019 and the date of approval of these financial statements by the Board:

Brexit

The 31 January 2020 marked the end of the UK's membership of the EU and the start of the transition period (which will last for 11 months until 31 December 2020). It's possible, however, that this deadline could be extended up to a maximum final date of 21 December 2022.

During this transition period the UK effectively remains in the EU's customs union and single market and continues to obey EU rules.

At present, the Group does not foresee a material adverse impact on day-to-day operations. Whilst the Group is comfortable that it can manage potential outcomes, it recognises the uncertainties that exist post Brexit and the potential for adverse impacts to Tandem. From a broader economic perspective our Executive Management and Board will continue to monitor the situation closely as it relates to business portfolios with such impacts difficult to quantify given the significant uncertainty.

COVID-19

The coronavirus pandemic presents an unprecedented economic and social challenge which is having a significant impact across the UK and around the world. The economic outlook is clearly challenging with the longer-term outcome dependent on the severity and length of the pandemic and the mitigating impact of initiatives taken by Governments, regulators and other authorities.

Tandem's financial performance will to some extent reflect the emerging current and expected future impact of the crisis, with recent reductions in base rate, lower levels of activity and higher credit losses inevitably impacting the Group in 2020 and beyond, with such impacts difficult to quantify given the significant uncertainty.

Our Executive Management and Board will continue to monitor the situation closely as it relates to our customers, colleagues, business portfolios and broader economy.

Allium Lending Group Acquisition

Tandem received final regulatory approval to acquire ALG (a lending platform that supports customers' ability to upgrade their existing energy systems or install new products in the growing green energy sector) from its principal regulators (namely: FCA; and PRA) in August 2020. The acquisition will accelerate the enlarged Group's organic asset strategy in keeping with Tandem's purpose and ultimately support the journey to profitability in a safe and sustainable manner.

Fundraising

The Group successfully raised £57.9m from a combination of existing and new shareholders following the signing of a fundraising round (which had commenced before the Balance Sheet date) in February 2020 with associated capital injections received across 2020 in line with the receipt of necessary regulatory and Board approvals in August 2020.