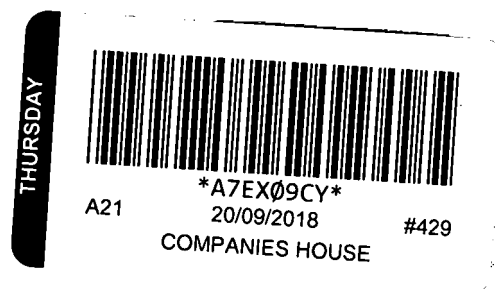


Tandem Money Limited
Annual Report and Financial Statements
for the Period ended 31 December 2017

Registered Number 08628614



Tandem Money Limited
Annual Report and Financial Statements
for the Period ended 31 December 2017
Contents

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TANDEM MONEY LIMITED

Company Information

| | |
|-----------------------------|--|
| Directors | Mr M J Cooper (Chairman) Mr F S Knox (Chief Executive Officer) Mr M Amato Mrs H L Jackson Mr M Klimbacher (appointed 10 January 2018) Mr J J Pritchard (appointed 10 January 2018) Mr J Zagorovskis (appointed 10 January 2018) Mr P Herbert (resigned 21 February 2017) Mr A Bernstrom (resigned 31 March 2017) Mr S Hulme (resigned 14 December 2017) Mr J Maltby (resigned 10 January 2018) |
| Registered Office | 123 Pentonville Road London N1 9LG |
| Independent Auditors | PricewaterhouseCoopers LLP 7 More London Riverside London SE1 2RT |
| Bankers | NatWest Bank plc 135 Bishopsgate London EC2M 3UR Barclays Bank plc 1 Churchill Place London E14 5HP |
| Solicitors | Herbert Smith Freehills LLP Exchange House Primrose Street London EC2A 2EG DAC Beachcroft LLP 100 Fetter Lane London EC4A 1BN |
| Registered Number | 08628614 (England and Wales) |

TANDEM MONEY LIMITED

Strategic Report

The Directors present their strategic report and audited financial statements of Tandem Money Limited (“TML”, and hereafter referred to as ‘the Company’) for the year ended 31 December 2017.

In 2017 the Company continued with its strategic plan to build a UK-based retail customer-champion bank, dedicated to long term relationships with its customers and to improving their financial lives. The principal activities during the year were a) the continued build and testing of the banking platform infrastructure with technology partners and associated digital channels and products in readiness for launch, and b) working with investors and regulators to enable the completion of the Harrods Bank Limited (‘HBL’) acquisition. The ongoing business will comprise the Company and HBL (together “Tandem”).

In early 2017, as reported in the previous financial statements, Nanjing Cenbest, who own a controlling interest in House of Fraser’s parent company, did not complete its funding commitments and therefore the Company was unable to complete its planned fund-raising round. As a result, the Company agreed with its regulators to voluntarily withdraw its deposit-taking licence and continue to launch to the market with a reduced product offering. On 11 April 2017 the Company received confirmation of the removal of the deposit-taking permission.

The Company raised £4.2m of equity capital and £1.8m of debt from new and existing investors between 1 January 2017 and 30 June 2017 to fund existing operations while a new source of funding was sought. Relevant alternative permissions were obtained, and the summer of 2017 saw continued development of the Tandem app and its product proposition including a credit card.

On 7 August 2017 a sale and purchase agreement was entered into with Qatar Holding LLC (“QHC”), providing the share-for-share purchase of HBL. The agreement was subject to regulatory approval. This transaction would provide the ability to launch banking products under the Tandem brand on its platform in order to achieve its aim. On 17 August 2017, associated to the agreement, an injection of £10m of debt capital from QHC and existing shareholders was received to fund existing operations until regulatory approval was obtained. On 20 December 2017, regulatory approval was received.

On 10 January 2018 the Company completed its acquisition of HBL and £15m of equity capital was injected by QHC and existing investors. From this date the Company acquired control of HBL. All but £1.8m of the subordinated debt as at that date was converted to equity in accordance with the terms of the loan agreements. HBL was renamed Tandem Bank Limited (“TBL”) and the group was able to raise deposits and offer banking products under the Tandem brand. The Company’s credit card was launched to retail customers on the open market on 7 February 2018 and the Company successfully integrated TBL’s banking operations with its own platform and application during March 2018.

Likely future developments

Tandem will continue to offer a range of credit card, mortgage and savings products to retail consumers, as well as the aggregation functionality of its app. In 2018 Tandem will consolidate its banking operations in TBL, and pursue other opportunities to deliver returns to stakeholders via innovative lending and savings products.

TANDEM MONEY LIMITED

Strategic Report

Key Performance Indicators (KPIs)

During its continued development phase during 2017 the Company has focused on cash management and capital adequacy, for which the year end balances were as follows:

| | Year ended 31 Dec 17 £'000s | Year ended 31 Dec 16 £'000s |
|---------------------------|-----------------------------------|-----------------------------------|
| Cash and cash equivalents | 2,515 | 7,266 |
| Total equity | (5,623) | 13,303 |

Adjustments are made to total equity to obtain the regulatory capital. The regulatory capital deficit was £2.5m at year end, of which the regulator was notified in advance (2016: £7.9m available regulatory capital). Subsequent to the year end, following completion of the acquisition of TBL on 10 January 2018, the regulatory capital of the Company was £12.7m, after deducting the investment in TBL.

Principal risks and uncertainties

The Company's main activities during the year comprised those required to establish and fund a fully operational financial services company. Consequently, the main source of risk to which the Company was exposed was liquidity and funding risk. During the year specific regulatory risks were also present, relating to the period during which the Company was operating with a restricted banking licence, as well as the application for approval to complete the TBL acquisition.

Liquidity and Funding Risk

To maintain liquidity and ensure that sufficient funds are available for ongoing operations and future developments, the Company uses its equity and subordinated debt capital. The capital position is closely monitored in line with the business plan to ensure that the Company has sufficient level of capital to meet regulatory minima. As well as maintaining an active programme of discussions with current and potential investors to ensure this is achieved, the Company works proactively with regulators to notify in advance any risks of non-compliance.

Following the acquisition of TBL on 10 January 2018, the Company manages and optimises its liquidity and capital across the group via joint governance structures, including the Asset and Liability Committee and the Risk and Audit Committee.

TANDEM MONEY LIMITED

Strategic Report

Regulatory Risk

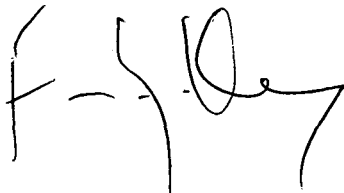
During early 2017 the Company was in an extended 'mobilisation' phase of regulatory approval as a bank, which permits banking operations subject to licence restrictions. This mobilisation period is exited once all appropriate conditions have been satisfied. One of the conditions is the raising of sufficient capital, and during this period the Company was exposed to the risk of not satisfying all the conditions for the lifting of restrictions. In April 2017 the banking licence was voluntarily withdrawn, following the failure to receive the remaining funding from House of Fraser.

Subsequent to this, the Company was regulated by the Financial Conduct Authority ("FCA") only, and was required to obtain and maintain permissions commensurate with the intended and actual operations. Also, these permissions require a minimum level of regulatory capital to be held. As the Company was undergoing the process of raising investment capital, it was exposed to the risk of breaching the minimum capital requirements.

On entering into the sale and purchase agreement with Qatar Holding LLC ("QHC") on 7th August 2017, the Company was further exposed to the risk of not satisfying the requirements to obtain that approval. Regulatory approval for the transaction was received on 20 December 2017.

Tandem manages its regulatory risk via regular interactions with the FCA and, during and following its acquisition of TBL, the Prudential Regulatory Authority ("PRA"), and through its Risk and Audit Committee.

This report was approved by the board on 25 April 2018 and signed on its behalf.

A handwritten signature in black ink, appearing to read 'F-S Knox', written over a horizontal line.

Mr F S Knox

Director

TANDEM MONEY LIMITED

Directors' report

The Directors present their report and financial statements of the Company for the year ended 31 December 2017. TML is a private limited company, incorporated and domiciled in England and Wales, having its registered office in England and was authorised by the PRA and regulated by the PRA and FCA until 11 April 2017. Subsequent to this date the Company is solely authorised and regulated by the FCA. Tandem is regulated by the PRA for consolidated supervisory purposes.

Principal activity

The Company's principal activity is to provide retail financial services in the UK.

During the first quarter of 2017, the Company's activity was continuing to create the capability to provide digital-application-driven retail banking services. Subsequent to the 11 April, when the Company's banking licence was voluntarily withdrawn, the Company's principal activity was the provision of digital-application-driven retail financial services.

Business review

The Company continued during early 2017 to build the end-to-end infrastructure that enables it to challenge the incumbents in the UK banking industry, and change people's relationship with money, in line with its mission to offer services to its customers that liberate them from financial stress. During 2017 the Company made the following significant progress in readiness for the launch of its products to the public:

- Development of its co-founder population into a 'waitlist' of brand advocates, with products tested and developed with significant user input.
- The Tandem Personal Financial Guide was incorporated into the digital app and launched to the Apple App Store and the Google Play Store in Q2 2017.
- A cash-back credit card, supported by the digital app, was developed, with retail customers openly invited to the waitlist from October 2017

In March 2017 the Company was expecting a further £29m of funding, following controller approval of Nanjing Cenbest, who own a controlling interest in House of Fraser's parent company, by the UK regulator. On March 15 2017 the funding commitment from House of Fraser was withdrawn and the Company voluntarily withdrew its deposit-taking permission from the PRA. The Company amended its business plan to offer a reduced product set to customers in the short term, with the aim of re-applying for the deposit-taking permission once a follow-on funding partner had been found.

During the summer of 2017 the Company continued to develop its product proposition and work with its existing and potential new investors to source funding for ongoing and future operations. On August 7 2017 an agreement was signed for a share-for-share purchase of HBL subject to regulatory approval, and debt funding of £10.0m from new and existing investors, associated with the signing of the agreement, followed on 17 August 2017. Regulatory approval was received on 20 December 2017 and the acquisition was completed on 10 January 2018.

Financial Performance

As a result of the development and operational activities described above, the Company made a net loss for the year of £23.6m (2016: £20.4m). The cash generated by the capital raises during the year has been used primarily to continue to build the infrastructure of the Company including its digital platform and application, the development of the product proposition and brand as well as the co-founder population, and the payment of operating expenses during the year.

TANDEM MONEY LIMITED

Directors' report

Total costs incurred in the year were £23.5m (2016: £20.4m). Of this £7.7m (2016: £7.8m) was incurred as staff costs, which included £0.9m (2016: £2.1m) for employee share-based payment schemes, as the Company further developed the team's IT development capability, and adopted agile techniques to enhance product and operational delivery. A significant cost within operating expenses of £12.9m (2016: £12.5m) relates to building core banking and IT capabilities via third-party partners. During the year, IT and app development costs of £4.2m (2016: £4.7m) were capitalised as intangible assets. The cost of work to develop the Company's own banking licence (£2.1m) was written off during the year.

Total assets at the year-end were £11.8m (2016: £17.2m), including £8.2m (2016: £4.2m) of internally-developed software. Cash at bank and on hand totalling £2.5m (2016: £7.3m) was available to support the continued build of the Company pending the completion of the acquisition of TBL. Total liabilities were £17.5m (2016: £3.9m), with £11.8m of subordinated debt funding received during the year (2016: £1.4m) to support ongoing operations.

As at the year end, the Company had a regulatory capital deficit of £2.5m (2016: available capital of £7.9m). This deficit was discussed in advance with the Company's regulator, and the Company's capital became £12.7m on completion of the acquisition of TBL.

Accounting framework

The 2017 financial statements have been prepared for the first time under United Kingdom Generally Accepted Accounting Practice, Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ('FRS 102'). The Company previously applied EU-adopted International Financial Reporting Standards. The adoption of FRS 102 aligns the Company's accounting framework with that of TBL, which represents the majority of assets, liabilities, income and expenses of the combined group, and FRS 102 will be used by the group going forward. There was no financial impact from adopting FRS 102 for the first time, either at the date of transition (1 January 2016) or on reported results, and therefore no restatement of the prior period is required.

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 Amato | |
| Mrs H L Jackson | |
| Mr M Klimbacher | (appointed 10 January 2018) |
| Mr J J Pritchard | (appointed 10 January 2018) |
| Mr J Zagorovskis | (appointed 10 January 2018) |
| Mr P Herbert | (resigned 21 February 2017) |
| Mr A Bernstrom | (resigned 31 March 2017) |
| Mr S Hulme | (resigned 14 December 2017) |
| Mr J Maltby | (resigned 10 January 2018) |

Directors' interests

The following Directors in office at 31 December 2017 held an interest in the shares of the Company as at 31 December 2017:

TANDEM MONEY LIMITED

Directors' report

Mr M J Cooper
Mr F S Knox
Mr M Amato
Mrs H L Jackson
Mr P Herbert
Mr A Bernstrom
Mr S Hulme
Mr J Maltby

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

Directors' liabilities

The Company has indemnified all Directors of the Company against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third-party indemnity provision was in force during the year and at the date of the signing of the financial statements.

Dividends

The Directors do not recommend a final dividend (2016: £nil)

Financial risk management

The Directors' assessment and approach to financial risk management are detailed in Note 4 of these accounts.

Future developments and events subsequent to the reporting date

Details of future developments are provided in the Strategic Report on page 2 and events that have occurred after the balance sheet date can be found in Note 22 of the financial statements and form part of this report by cross-reference.

Going concern

On 7 August the Company signed an agreement for a share-for-share purchase of TBL. This was accompanied by an injection of £10m of debt capital, which enabled the ongoing operations of the Company until the receipt of regulatory approval for the transaction, which was obtained on 20 December 2017.

On the 10 January 2018 as part of the conclusion of the purchase of TBL, the Company received £15m equity capital to fund the future operations of the business. While the Company had net liabilities at 31 December 2017, having considered the impact of the acquisition of TBL and injection of capital into the Company on 10 January 2018, and having reviewed business plans showing the group and Company having working capital and regulatory capital headroom for at least the twelve months following the date of signing these financial statements, the Directors believe it is appropriate to prepare the financial statements on a going concern basis.

Employment of disabled persons

The Company does not discriminate against any person on the grounds of disability.

TANDEM MONEY LIMITED

Directors' report

Statement of Directors' Responsibilities

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

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

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- 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; and;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

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

Disclosure of information to the auditors

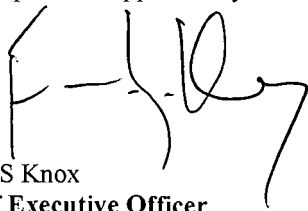
Each person who was a Director at the date of approving this report confirms that:

- (a) so far as the Director is aware there is no relevant audit information of which the Company's auditors are unaware; and
- (b) the Director has taken all the steps that the Director ought to have taken as a Director in order to make the Director aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Re-appointment of auditors

Following the purchase of TBL by the Company, external audit arrangements are under review.

This report was approved by the board on 25 April 2018 and signed on its behalf by:



Mr F S Knox
Chief Executive Officer

TANDEM MONEY LIMITED

Independent auditors' report to the members of Tandem Money Limited

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion, Tandem Money Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its 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 Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2017; the profit and loss account, the statement of cash flows, the statement 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 Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

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

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

TANDEM MONEY LIMITED

Independent auditors' report to the members of 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 2017 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 Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 8, 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 Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

TANDEM MONEY LIMITED

Independent auditors' report to the members of Tandem Money Limited

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

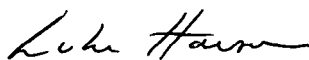
OTHER REQUIRED REPORTING

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



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

25 April 2018

TANDEM MONEY LIMITED

Profit and loss account for the year ended 31 December 2017

| | Note | 2017 £'000s | 2016 £'000s |
|---|-------|-----------------|-----------------|
| Interest payable | | <u>(35)</u> | <u>(1)</u> |
| Net interest payable | | <u>(35)</u> | <u>(1)</u> |
| Fees and commissions receivable | | <u>1</u> | <u>-</u> |
| Non-interest income | | <u>1</u> | <u>-</u> |
| Total (expense)/income | | <u>(34)</u> | <u>(1)</u> |
| Staff costs | 7 | (7,702) | (7,810) |
| Other administrative expenses | | (12,898) | (12,490) |
| Depreciation, amortisation and impairment | 10,11 | (2,931) | (68) |
| Loss before taxation | 5 | <u>(23,565)</u> | <u>(20,369)</u> |
| Tax on loss | 8 | - | - |
| Loss for the financial year | | <u>(23,565)</u> | <u>(20,369)</u> |

There were no other items of comprehensive income.

The results for the year are wholly attributable to continuing operations.

The notes on pages 16 to 39 form an integral part of these statutory statements.

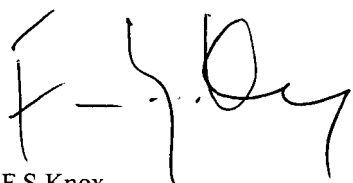
TANDEM MONEY LIMITED
Balance sheet as at 31 December 2017
Registered Number: 08628614

| | | 2017 | 2016 |
|-------------------------------------|-------------|----------------|---------------|
| Assets | Note | £'000s | £'000s |
| Cash at bank and on hand | | 2,515 | 7,266 |
| Loans and advances to customers | 9 | 93 | 2 |
| Loans and advances to banks | | - | - |
| Tangible fixed assets | 10 | 144 | 201 |
| Intangible assets | 11 | 8,241 | 6,831 |
| Prepayments and accrued income | | 484 | 2,436 |
| Other assets | 12 | 355 | 466 |
| Total assets | | 11,832 | 17,202 |
| Liabilities | | | |
| Customer accounts | | - | - 8 |
| Subordinated liabilities | 15 | 13,223 | 1,400 |
| Accruals and deferred income | | 1,079 | 1,161 |
| Other liabilities | 13 | 3,153 | 1,330 |
| Total liabilities | | 17,455 | 3,899 |
| Equity | | | |
| Called up share capital | 16 | 12 | 10 |
| Share premium account | | 41,917 | 38,079 |
| Other reserve | | 3,236 | 2,437 |
| Profit and loss account | | (50,788) | (27,223) |
| Total equity | | (5,623) | 13,303 |
| Total liabilities and equity | | 11,832 | 17,202 |

The notes on pages 16 to 39 form an integral part of these statutory statements.

The financial statements were approved by the Board of Directors and signed on its behalf on 25 April 2018

by:



Mr F S Knox
(Chief Executive Officer)

TANDEM MONEY LIMITED

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

| | Called up share capital £000's | Share premium account £000's | Other reserve £000's | Profit and loss account £000's | Total Equity £000's |
|--------------------------------|--|---------------------------------------|-------------------------|--------------------------------------|---------------------------|
| As at 1 January 2017 | 10 | 38,079 | 2,437 | (27,223) | 13,303 |
| Shares issued, net of expenses | 2 | 3,838 | - | - | 3,840 |
| Share-Based Payments | - | - | 799 | - | 799 |
| Loss for the financial year | - | - | - | (23,565) | (23,565) |
| As at 31 December 2017 | 12 | 41,917 | 3,236 | (50,788) | (5,623) |
| As at 1 January 2016 | 6 | 11,111 | 382 | (6,853) | 4,646 |
| Shares issued, net of expenses | 4 | 26,968 | - | - | 26,972 |
| Share-Based Payments | - | - | 2,055 | - | 2,055 |
| Loss for the financial year | - | - | - | (20,369) | (20,369) |
| As at 31 December 2016 | 10 | 38,079 | 2,437 | (27,223) | 13,303 |

The notes on pages 16 to 39 form an integral part of these statutory statements

TANDEM MONEY LIMITED

Statement of cash flows for the year ended 31 December 2017

| | 2017 £000's | 2016 £000's |
|---|------------------------|------------------------|
| Cash flows from operating activities | | |
| Loss before tax | (23,565) | (20,369) |
| <u>Adjustments for:</u> | | |
| Depreciation, amortisation and impairment | 2,931 | 68 |
| Share based payments | 799 | 2,055 |
| Change in subordinated loan fair value | - | 378 |
| Interest accrued on subordinated debt held at amortised cost | 23 | - |
| | <u>(19,812)</u> | <u>(17,868)</u> |
| <u>Changes in:</u> | | |
| Prepayments and accrued income | 1,952 | (2,365) |
| Other assets | 111 | (351) |
| Net customer balances | (99) | 6 |
| Accruals and deferred income | (82) | 754 |
| Other liabilities | 1,827 | 950 |
| | <u>3,709</u> | <u>(1,006)</u> |
| Net cash used in operating activities | <u>(16,103)</u> | <u>(18,874)</u> |
| Cash flows used in investing activities | | |
| Acquisition of property, plant and equipment | (38) | (189) |
| Acquisition of intangible assets | (4,246) | (5,509) |
| Net cash used in investing activities | <u>(4,284)</u> | <u>(5,698)</u> |
| Cash flows from financing activities | | |
| Proceeds from issuance of ordinary shares | 3,840 | 26,972 |
| Payments to finance lease creditor | (4) | (4) |
| Proceeds from issuance of subordinated liabilities | 11,800 | 1,023 |
| Net cash generated from financing activities | <u>15,636</u> | <u>27,991</u> |
| Net (decrease) / increase in cash and cash equivalents | <u>(4,751)</u> | <u>3,419</u> |
| Cash and cash equivalents at beginning of year | <u>7,266</u> | <u>3,847</u> |
| Cash and cash equivalents at 31 December | <u>2,515</u> | <u>7,266</u> |

The notes on pages 16 to 39 form an integral part of these statutory statements.

TANDEM MONEY LIMITED

Notes to the financial statements

for the year ended 31 December 2017

1. Basis of preparation

The financial statements have been prepared and approved by the Board of Directors in accordance with the Companies Act 2006 on an historical cost basis, modified by revaluation of financial liabilities held at fair value through profit and loss. The financial statements have also been prepared in accordance with United Kingdom Generally Accepted Accounting Standards, including Financial Reporting Standards 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ('FRS 102'). These accounts are the first to be presented on this basis of preparation, and further details of the impact of this change in basis are included in Note 23. Accounting policies have been applied consistently; the significant accounting policies adopted are set out in Note 3.

The financial statements are presented in GBP, which is also the Company's functional currency.

Going concern

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

2. Critical accounting estimates and judgements

The preparation of the financial statements requires the use of accounting estimates and assumptions. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

Management considers that the following accounting estimates and judgements are the most material to the 2017 financial statements:

- Those relating to fair valuing share-based compensation (Note 17)
- The treatment of software and infrastructure development and the assessment of which costs meet the criteria for capitalisation as intangible assets (Note 11)
- The assessment of fair value of the subordinated loan notes as hybrid instruments on the basis of probability of exercising the embedded option under multiple scenarios (Note 15).

3. Summary of significant accounting policies

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

3.1 First time adoption

These financial statements for the year ended 31 December 2017, are the first the Company has prepared in accordance with FRS 102. For periods up to and including the year ended 31 December 2016, the Company prepared its financial statements in accordance with IFRS (International Financial Reporting Standards, as adopted by the EU). The adoption of FRS 102 aligns the Company's accounting framework with that of TBL, which represents the majority of assets, liabilities, income and expenses of the combined group, and FRS 102 will be used by the group going forward

TANDEM MONEY LIMITED

Notes to the financial statements

for the year ended 31 December 2017

Accordingly, the Company has prepared its financial statements that comply with FRS 102 applicable for periods ending on or after 31 December 2017, together with the comparative period data as at and for the year ended 31 December 2016, as described in the accounting policies. In preparing these financial statements, the Company's opening balance sheet was prepared as at 1 January 2016, the Company's date of transition to FRS 102.

The transition to FRS 102 has resulted in no adjustments to the amounts reported in the comparative period for the year ended 31 December 2016. Details of the comparison are explained in Note 23.

3.2 Interest receivable and similar income

Interest and similar income on financial assets that are classified as loans and receivables, and interest expense on financial liabilities other than those at fair value through profit or loss, are recognised in the 'interest and similar income' and 'interest and similar expense' sections of the profit and loss account using the effective interest rates of the financial assets or financial liabilities to which they relate.

3.3 Fees and commissions receivable

The majority of fee income will be commission revenue earned from third parties as the Company's customers switch third party services using the Company's application.

3.4 Financial instruments

As permitted by FRS 102, the Company has made an accounting policy choice to apply IAS 39 Financial Instruments: Recognition and Measurement to the recognition, classification and measurement, and derecognition of financial assets and liabilities and the impairment of financial assets.

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

(i) Financial Assets

The Company currently only allocates financial assets to the following IAS 39 category: loans and receivables. Management determines the classification of its financial assets at initial recognition.

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 that the Company does not intend to sell immediately or in the near term. Loans and receivables are initially recognised at fair value – which is the cash consideration to originate the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method. Loans and receivables are reported in the balances sheet as loans and advances to customers. Interest on loans is included in the profit and loss account and is reported as 'Interest income'. In the case of impairment, the impairment loss will be reported as a deduction from the carrying value of the loan and recognised in the profit and loss account as 'Impairment losses'.

TANDEM MONEY LIMITED

Notes to the financial statements

for the year ended 31 December 2017

(ii) Financial Liabilities

The Company's holdings in financial liabilities are recognised initially at fair value and then held at amortised cost except where the Company has chosen to designate the liability at fair value through profit and loss in accordance with the requirements of IAS39 relating to hybrid contracts that contain embedded derivatives. Deposits from customers are financial liabilities measured at amortised cost.

Where a financial contract contains terms and conditions that behave like a free-standing derivative, the Company applies IAS 39 to determine whether the embedded derivative should be accounted for with its host contract (a 'hybrid' instrument) or separately. The Company then assesses whether to account for the embedded derivatives separately, or whether to designate the liability in its entirety at fair value as permitted by IAS 39. Appropriate valuation techniques are applied accordingly to those elements of instruments that are required to be measured at fair value through profit and loss. Financial liabilities are derecognised when extinguished.

3.5 Capital instruments

The Company classifies a financial instrument that it issues as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms, and as equity if it evidences a residual interest in the assets of the Company after the deduction of liabilities. The components of a compound financial instrument issued by the Company are classified and accounted for separately as financial assets, financial liabilities or equity as appropriate.

Incremental costs and related tax that are directly attributable to an equity or liability transaction are deducted from the equity or liability carrying value respectively.

3.6 Fair value measurement

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

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

3.6 Other receivables

Non-financial asset receivables are recognised initially at cost and, where relevant, amortised over the period to which the service relates.

TANDEM MONEY LIMITED

Notes to the financial statements

for the year ended 31 December 2017

3.7 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes deposits held at call with financial institutions.

3.8 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 | - | 1-3 years |
| • Fixtures and fittings | - | 3 years |
| • Office and IT Equipment | - | 3 years |
| • Vehicles | - | 3 years |

3.9 Intangible assets

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

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

- | | | |
|---------------------------------|---|------------------------|
| • Third party software licences | - | Between 1 and 10 years |
| • Software development costs | - | 5 years |

Software development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company 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 2017

3.10 Impairment of non-financial assets

At each reporting date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset (or the asset's cash generating unit) may be impaired. If there is such an indication, the recoverable amount of the asset is compared with the carrying amount of the asset. The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use. If the recoverable amount of the asset (or asset's cash generating unit) is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the profit and loss account.

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

3.11 Leases

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

3.12 Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured and are presented as current liabilities. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.13 Deferred tax

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 by the reporting date, and are expected to apply until the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

3.14 Share-based payments

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

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

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for the year ended 31 December 2017

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.

Other employees are entitled to receive remuneration in the form of share options under the unapproved share option plan (USOP). 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 primary vesting condition is continued employment with the Company over the service period.

The fair value of options at grant date is determined using valuation models that take into account the terms and conditions attached to the awards. Inputs to the valuation models include the grant price, the underlying share price at grant, which includes adjustments to reflect the characteristics of the underlying shares compared to shares in the Company for which an observable price exists. Other factors do not materially impact the fair value.

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for the year ended 31 December 2017

4. Risk Management

RISK MANAGEMENT FRAMEWORK

The Company operates a Risk Management Framework (“RMF”) which articulates the framework for the management of risk throughout the business to ensure that risk exposure does not exceed the stated Risk Appetite as determined by the Board.

To this end, the RMF defines:

- The Company’s risk strategy and appetite, and associated tolerances;
- The mechanisms that ensure the risk appetite is communicated, as appropriate, through the business;
- The mechanisms that allow appropriate management of risk within that appetite, including setting standards for the consistent identification, measurement, management, monitoring and reporting of risk exposures, as well as the flows of information that are required;
- The categories of risk to which the Company is exposed;
- The Three Lines of Defence model;
- The governance, accountabilities and reporting lines that ensure appropriate risk-based decision making and escalation;
- The flows of information that are required to monitor risk exposures; and
- Appropriate oversight mechanisms for the assurance of risk management.

The RMF has been designed for the management of the most material risks that the Company is exposed to by virtue of its business model.

The Company has assessed its risks and subdivided these into Principal Risk Categories. Each Principal Risk Category encompasses a set of risks that are similar in nature, and therefore, require a similar management approach.

The Company’s seven Principal Risk Categories are:

- Liquidity and Funding Risk
- Operational Risk
- Compliance Risk
- Credit Risk
- Market Risk
- Conduct Risk
- Strategic and Business Model Risk

The Principal Risk Categories form the top level of the Company’s Risk Taxonomy and are managed through the committee structure and ultimately by the Company’s Board.

The main source of risk to which the Company is currently exposed is Liquidity and Funding Risk, with some limited exposure to Operational Risk and Credit Risk.

TANDEM MONEY LIMITED

Notes to the financial statements

for the year ended 31 December 2017

Liquidity and Funding Risk

To maintain liquidity and ensure that sufficient funds are available for ongoing operations and future developments, the Company currently uses its equity share capital and proceeds from the issuance of subordinated debt. The capital position is closely monitored in line with the business plan to ensure that the Company has sufficient levels of capital. The Company maintains an active programme of discussions with current and potential investors to ensure this is achieved.

Operational Risk

The Company manages the risk of loss, whether direct or indirect, due to inadequate or failed internal processes or systems, human error or external events. Operational risk is monitored in the context of customer, compliance, reputational and financial impacts, using multiple risk indicators covering potential risk exposures.

Credit Risk

The Company's principal financial assets are bank balances and trade receivables. The credit risk on liquid funds is limited because the counterparties are UK banks with high credit-ratings assigned by international credit-rating agencies. For trade receivables the Company does not expect any losses from non-performance.

RISK GOVERNANCE AND OVERSIGHT

The Company has established a committee structure that enables the delegation of Board authority for decision making, to manage the business in line with the risk appetite. Within this structure the following committees fulfil an integral part of risk management activities:

Board Level Committees

- Nominations & Remuneration Committee
- Risk & Audit Committee

Management Committees

- Executive Committee
- Asset & Liability Committee
- Customer Committee
- Pricing Committee
- IT Steering Committee
- Operations and Efficiency Committee
- Enterprise Risk Management Committee

The Board is ultimately responsible for ensuring that the RMF and risk governance structure is applied in practice and operates robustly. The Risk & Audit Committee is the primary Board-level committee to receive and review risk-related information.

First line management and committees are responsible for ensuring that the risk and control environment is established and maintained in day-to-day decision-making, and that individual decisions are made in line with the agreed risk appetite. The Risk function and second line committees are responsible for assessing the adequacy and effectiveness of the first line risk governance and control framework. They ensure that risk limits

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for the year ended 31 December 2017

are set at appropriate levels to keep aggregate risks within risk appetite and that the aggregate forward-looking risk profile relative to risk appetite is effectively monitored and reported to the Risk & Audit Committee.

Effective risk management at Tandem is supported by a Three Lines of Defence model:

The first line of defence is responsible for identifying, assessing and managing risks and controls related to their own business line activities on a day-to-day basis. First line staff operate the business in accordance with the risk management framework and ensure that its requirements are translated into effective operating processes.

The second line of defence is the Risk function. They are independent from the first line and responsible for overseeing the application of the risk management framework and ensuring that the business operates within the risk appetite, limits and tolerances that have been set by the Board.

The third line of defence is the Internal Audit function, which is outsourced to a third party. They provide independent assurance over the adequacy of first and second line activities in relation to all aspects of the business, including the effectiveness of risk management practices and internal controls.

Following the acquisition of TBL the Company has integrated its committee structure with that of TBL. Once this integration is completed, the group will operate a combined group-wide risk management structure, while still maintaining individual entity-level processes and controls to the extent required.

KEY AND EMERGING RISKS

Delivery of Tandem's strategy exposes the Company to key risks, which are regularly considered by management and the Board.

The identification and monitoring of these risks is integral to our approach to risk management, and forms a cornerstone of our business planning activities, ensuring that strategies and activities are appropriately focussed on addressing these concerns.

Of the emerging risks considered, the following four are particularly pertinent to Tandem's business model:

Attracting Customers

Tandem's business plan has been developed on the principle that a significant number of customers will be attracted by the Company's app and the banking products of TBL. There is a risk that Tandem fails to stimulate enough awareness and interest in the group's products and services, either through the design of its technical solution or through its products, and does not attract the volume of business anticipated.

Considerable customer research and insight activity has been conducted to establish the market for Tandem's app and products. Tandem also has early evidence of customer interest through its co-founder population and their interest in our first product offerings.

TANDEM MONEY LIMITED

Notes to the financial statements

for the year ended 31 December 2017

Financial / Cyber-crime

The launch of a new financial services company is expected to attract the attention of those looking to perpetrate fraud, money laundering, terrorist financing and cyber-crime. Any successful attack perpetrated against Tandem has the potential to cause not only significant financial loss, but also legal and regulatory action.

Tandem is deploying strong controls to monitor and authorise customer access, transactions and devices, but there remains a risk that fraudsters employ technology to directly attack the systems and networks that Tandem is using rather than individual accounts. As well as the due diligence, design and testing that has gone into building network and systems security, Tandem is operating perimeter controls to detect and prevent attempts to compromise systems.

Supplier Risk

Many of Tandem's key functions are outsourced to third party suppliers, and if any of these suppliers are unable to deliver the required functions and processes in a timely manner and in accordance with our specifications; or if third party systems fail or do not perform as expected, Tandem's activities could be severely compromised.

Tandem has designed a control framework for selection, contracting and management of outsourcing and other supplier arrangements in a way that is controlled, effective and fully compliant with all applicable regulatory requirements. Tandem is also building resilience into its third-party arrangements through appropriate monitoring and reporting, business continuity and disaster recovery arrangements.

Integration Risk

The migration of TBL's entire existing customer base onto the Company's platform was completed successfully on 17 March 2018. This exercise, however, could give rise to unexpected operational and reputational risk in the near term as processes bed down. Tandem continues to operate a rigorous post-implementation review protocol to ensure any additional risk is identified and mitigated.

TANDEM MONEY LIMITED
Notes to the financial statements
for the year ended 31 December 2017

5. Loss on ordinary activities before tax

This is stated after charging:

| | 2017 | 2016 |
|--|--------------|--------------|
| | £000's | £000's |
| Depreciation, amortisation and impairment | 2,931 | 68 |
| Share-based payments (Note 17) | 921 | 2,083 |
| Auditors' remuneration for audit of the company's financial statements | 60 | 48 |
| Auditors' remuneration for other services | 153 | - |
| | <u>4,065</u> | <u>2,199</u> |

6. Directors' emoluments

Total Directors' emoluments

| | 2017 | 2016 |
|---------------------------------|--------------|--------------|
| | £000's | £000's |
| Wages and salaries | 816 | 988 |
| Compensation for loss of office | 406 | - |
| Company pension contributions | 4 | - |
| Share-based payments | 200 | 285 |
| | <u>1,426</u> | <u>1,273</u> |

Highest paid Director emoluments

| | 2017 | 2016 |
|---------------------------------|------------|------------|
| | £000's | £000's |
| Wages and salaries | 43 | 300 |
| Compensation for loss of office | 406 | - |
| Share-based payments | 149 | 69 |
| | <u>598</u> | <u>369</u> |

3 Directors (2016: 3) received shares under the Employee Share Scheme (Note 17)

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7. Personnel Expenses

| | 2017 | 2016 |
|--------------------------------|--------------|--------------|
| | £000's | £000's |
| Wages and salaries | 5,990 | 5,108 |
| Social security contributions | 673 | 619 |
| Pension costs | 118 | - |
| Share-based payments (Note 17) | 921 | 2,083 |
| | <u>7,702</u> | <u>7,810</u> |

The average number of employees of the Company during the year was 73 (2016: 74), all of whom were employed in management, operations and administration.

8. Taxation

| | 2017 | 2016 |
|---|----------------|----------------|
| | £000's | £000's |
| Loss on ordinary activities before tax | (23,565) | (20,369) |
| Standard rate of corporation tax | 19.25% | 20.00% |
| Loss on ordinary activities multiplied by rate of corporation tax | <u>(4,536)</u> | <u>(4,074)</u> |
| <u>Effects of:</u> | | |
| Expenses not deductible | 2,938 | 89 |
| Deferred tax not recognised | 1,598 | 3,985 |
| Total tax credit | <u>-</u> | <u>-</u> |

No corporation tax liabilities are payable nor receivable from HMRC for the year (2016: £nil).

Factors affecting future tax charges

From April 2017 the UK corporation tax rate fell from 20% to 19.25%, with this rate also set for future tax years until April 2020. The rate reduction results in lower tax charges as and when the Company becomes profitable and all the carried forward trading losses are utilised.

Deferred tax

Based on their interpretation and the timing and level of existing taxable timing differences, the Directors have concluded that it would not be appropriate to recognise a deferred tax asset at the balance sheet date. Were it to be recognised, it would have an estimated value of £6,575k (2016: £5,035k). These timing differences may be recognised in the future as taxable profits arise.

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Notes to the financial statements
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Research and Development Tax Credit

The Company received £393,194 in cash during the year under the Research and Development Incentive Claims scheme for qualifying expenditure incurred during the year ended 31 December 2015. After the balance sheet date, the Company received £828,097 in cash for the year ended 31 December 2016. As the receipt of funds from a successful claim was not virtually certain by year end, this receipt was not included in the financial statements for 2017.

9. Loans and advances to customers

| | 2017 £000's | 2016 £000's |
|--|----------------|----------------|
| Unsecured Loans | 93 | 2 |
| <i>Less</i> | | |
| Impairment Allowance | - | - |
| | <u>93</u> | <u>2</u> |
| Amounts include balances repayable; | | |
| On demand | 93 | 1 |
| In no more than 3 months | - | - |
| In more than 3 months but not more than 1 year | - | 1 |
| In more than 1 year but not more than 5 years | - | - |
| In more than 5 years | - | - |
| | <u>93</u> | <u>2</u> |

At 31 December 2017 loans and advances to customers reflected amounts outstanding under commercial terms on Tandem's credit card.

No impairment was identified or charged during the year.

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Notes to the financial statements
for the year ended 31 December 2017

10. Property, plant and equipment

| | | | | | |
|------------------------|---------------------------|--------------------------|-------------------------|-----------|---------------|
| 2017 | | | | | |
| | Leasehold Improvements | Office / IT Equipment | Furniture & Fixtures | Vehicles | Total |
| Cost | £000's | £000's | £000's | £000's | £000's |
| As at 1 January 2017 | 16 | 208 | 23 | 32 | 279 |
| Additions | - | 18 | 20 | - | 38 |
| As at 31 December 2017 | 16 | 226 | 43 | 32 | 317 |
| Depreciation | | | | | |
| As at 1 January 2017 | 10 | 58 | 3 | 7 | 78 |
| Charge | 6 | 71 | 12 | 6 | 95 |
| As at 31 December 2017 | 16 | 129 | 15 | 13 | 173 |
| Net Book Value | | | | | |
| As at 31 December 2017 | - | 97 | 28 | 19 | 144 |
| 2016 | | | | | |
| Cost | | | | | |
| As at 1 January 2016 | - | 57 | - | 32 | 89 |
| Additions | 16 | 151 | 23 | - | 190 |
| Disposals | - | - | - | - | - |
| As at 31 December 2016 | 16 | 208 | 23 | 32 | 279 |
| Depreciation | | | | | |
| As at 1 January 2016 | - | 9 | - | 1 | 10 |
| Charge | 10 | 49 | 3 | 6 | 68 |
| Disposals | - | - | - | - | - |
| As at 31 December 2016 | 10 | 58 | 3 | 7 | 78 |
| Net Book Value | | | | | |
| As at 31 December 2016 | 6 | 150 | 20 | 25 | 201 |

The net carrying amount of vehicles relates to an amount that is held under finance lease.

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11. Intangible assets

| 2017 | Banking Licence | Software / IT | Tandem Trademark | Internally- Generated Software | Total |
|------------------------|--------------------|------------------|---------------------|--------------------------------------|---------|
| <u>Cost</u> | £000's | £000's | £000's | £000's | £000's |
| As at 1 January 2017 | 2,072 | 552 | 57 | 4,150 | 6,831 |
| Additions | - | - | - | 4,246 | 4,246 |
| Impairment | (2,072) | (552) | - | - | (2,624) |
| As at 31 December 2017 | - | - | 57 | 8,396 | 8,453 |
| <u>Amortisation</u> | | | | | |
| As at 1 January 2017 | - | - | - | - | - |
| Charge | - | - | - | 212 | 212 |
| As at 31 December 2017 | - | - | - | 212 | 212 |
| <u>Net Book Value</u> | | | | | |
| As at 31 December 2017 | - | - | 57 | 8,184 | 8,241 |
| 2016 | | | | | |
| <u>Cost</u> | | | | | |
| As at 1 January 2016 | 1,293 | 29 | - | - | 1,322 |
| Additions | 779 | 523 | 57 | 4,150 | 5,509 |
| As at 31 December 2016 | 2,072 | 552 | 57 | 4,150 | 6,831 |
| <u>Amortisation</u> | | | | | |
| As at 1 January 2016 | - | - | - | - | - |
| Charge | - | - | - | - | - |
| As at 31 December 2016 | - | - | - | - | - |
| <u>Net Book Value</u> | | | | | |
| As at 31 December 2016 | 2,072 | 552 | 57 | 4,150 | 6,831 |

During the year the Company fully impaired its restricted banking licence intangible asset, in addition to the software licences purchased in 2016. The banking licence was not considered available for use before the date at which it was written-off, therefore only impairment rather than amortisation was charged against this asset.

As a result of business activities, components of the Company's internally-generated software intangible asset were available for use from mid-2017. Management will continue to assess the useful life of the internally generated intangible during 2018.

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Notes to the financial statements
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12. Other assets

| | 2017 | 2016 |
|---------------------|-------------------|-------------------|
| | £000's | £000's |
| Trade receivables | 39 | 91 |
| Refundable Deposits | 316 | 375 |
| | <u>355</u> | <u>466</u> |

The carrying value of other assets classed as receivables approximates fair value.

13. Other liabilities

| | 2017 | 2016 |
|---------------------------------------|---------------------|---------------------|
| | £000's | £000's |
| Trade creditors | 2,406 | 789 |
| Other taxes and social security costs | 345 | 326 |
| Cash settled share based payments | 55 | 55 |
| Finance leases (note 14) | 14 | 18 |
| Other | 333 | 142 |
| | <u>3,153</u> | <u>1,330</u> |

The carrying value of other liabilities classed as financial liabilities approximates fair value.

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14. Finance leases

The Company leases its motor vehicle (net carrying value 2017: £19k; 2016: £25k). Such assets are generally classified as finance leases as the rental period amounts to the estimated useful economic life of the asset and the Company will own the asset outright at the end of the lease term.

Future lease payments are due as follows:

| | 2017 | |
|---------------------------------|-------------------------------|-----------------|
| | Minimum Lease payments | Interest |
| | £000's | £000's |
| Not later than one year | 15 | 1 |
| Between one year and five years | - | - |
| As at 31 December 2017 | 15 | 1 |

| | 2016 | |
|---------------------------------|-------------------------------|-----------------|
| | Minimum Lease payments | Interest |
| | £000's | £000's |
| Not later than one year | 5 | 1 |
| Between one year and five years | 15 | 1 |
| As at 31 December 2016 | 20 | 2 |

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15. Subordinated liabilities

| | 2017 | 2016 |
|--------------------------------------|----------------------|---------------------|
| | £000's | £000's |
| As at 1 January | 1,400 | - |
| Issued in the year | 11,823 | 1,022 |
| Change in fair value during the year | <u>-</u> | <u>378</u> |
| As at 31 December | <u>13,223</u> | <u>1,400</u> |

During the year, the Company issued a £1.8m subordinated loan note of five years' maturity, which contains an early repayment option. Interest accumulates over the term at a rate equal to the 12-month LIBOR rate as at the date of issue plus 1%, and is payable on each anniversary. The Company has designated this subordinated loan note as amortised cost.

Also in 2017, as part of the transaction to ultimately acquire HBL, the Company issued £10.0m of subordinated convertible loan notes of three years' maturity. Pursuant to the loan agreements the entire £10.0m converted to ordinary share capital on 10 January 2018, the completion date for the acquisition of HBL. Interest would have accumulated over the term of the notes from 31 December 2017 had the notes not converted to share capital, and so no interest accrued. The Company has designated these subordinated loan note as fair value through profit and loss.

As with the subordinated loan note of £1.4m in issue as at 31 December 2016, the Company classes the £10.0m loan notes as Level 3 within the Company's fair value hierarchy, as at least one of the inputs to the valuation, that could have a significant effect on that valuation, is not based on observable market data.

The £10.0m instruments' fair value at initial measurement was the fair value of the consideration received, less associated expenses. The Company uses the income approach to determine the subsequent fair value measurement of the £1.4m and £10.0m instruments. This technique uses as inputs the instrument coupon and management's assessment of the probability of the instrument's conversion to ordinary shares over time, discounted back to the balance sheet date at the Company's cost of capital. Management's assessment of the probability of the instruments' conversion is an unobservable input, and a significant change in this value could have an impact on the valuation of the instruments, however management assess the probability of conversion at the balance sheet date as approximating 100% given conversion was considered almost certain at year end.

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16. Called-up share capital

| <u>Authorised, issued and fully paid up</u> | Number | £ |
|---|------------------|---------------|
| As at 31 December 2015 | 604,707 | 6,047 |
| Ordinary shares issued | 141,986 | 1,420 |
| Shares issued under employee share schemes | 14,392 | 144 |
| As at 31 May 2016 | 761,085 | 7,611 |
| New shares issued due to share subdivision | 3,044,340 | - |
| As at 31 May 2016 | 3,805,425 | 7,611 |
| Ordinary shares issued | 1,161,451 | 2,323 |
| Shares issued under employee share schemes | 70,405 | 141 |
| As at 31 December 2016 | 5,037,281 | 10,075 |
| Ordinary shares issued | 722,687 | 1,445 |
| As at 31 December 2017 | 5,759,968 | 11,520 |

As at 31 December 2017, the Company had issued 5,759,968 Ordinary A shares of £0.002.

During the year ended 31 December 2017, the Company issued 722,687 Ordinary A shares of £0.002 nominal value.

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17. Share-based payments

As at 31 December 2017 two employee incentive schemes remained in operation by the Company: the Employee Share Scheme and the Unapproved Share Option Scheme. The expense charged to the profit and loss account for each during 2017 was as follows:

| | 2017 £'000s | 2016 £'000s |
|--------------------------------|----------------|----------------|
| Employee Share Scheme | (37) | 1474 |
| Unapproved Share Option Scheme | 958 | 963 |
| | <u>921</u> | <u>2,437</u> |

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. Existing participants continued to gain benefit during the year. On entry into the scheme, B 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 profit and loss account in 2017 was £37k (2016: a charge of £1,474k). Shares continue to vest on a graded vesting profile over four years, with 25% of awards vesting each year. The credit in the year is a result of a greater number of leavers from the scheme than expected.

During 2017 no new shares were issued nor re-purchased by the Company. All ESS shares were Ordinary B Shares, and were further designated B1/B2/B3/B4, corresponding with the level of seniority of the employee, and the number of shares issued. On 10 January 2018, following the completion of the acquisition of TBL, the Ordinary A and B shares were re-designated Ordinary shares.

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| | Number | Average Fair Value Share Price £ |
|-------------------------|----------------|---|
| As at 31 December 2016 | 295,680 | 15.02 |
| Granted during the year | - | - |
| As at 31 December 2017 | <u>295,680</u> | <u>15.02</u> |

| | Number | Average Fair Value Share Price £ |
|--|----------------|---|
| As at 31 December 2015 | 30,663 | 33.00 |
| Granted in the period prior to 31st of May 2016 | 14,392 | 53.00 |
| As at 31 May 2016 | <u>45,055</u> | <u>39.39</u> |
| New shares issued due to share subdivision | 180,220 | 10.64 |
| As at 31 May 2016 | <u>225,275</u> | <u>16.39</u> |
| Granted in the period after the 31st of May 2016 | 70,405 | 10.64 |
| As at 31 December 2016 | <u>295,680</u> | <u>15.02</u> |

Unapproved Share Option Scheme

The Company granted options on Ordinary B shares in an unapproved share option scheme (USOP) in 2016, and made further grants during 2017, with eligibility continuing to be determined by the board. These options can be exercised by holders by exchanging cash at the exercise price for the same number of ordinary shares as options held, only in the event of an asset or share sale for a controlling interest in the Company. The four-year vesting period of the options, consisting of eight six-month tranches, began on the date of employment with the Company. The fair value of £0.6071 was determined at the point there was a shared understanding of the terms and conditions of the award and is not re-measured. The fair value of options was estimated using the Black-Scholes valuation model based on the pricing achieved for Ordinary A shares at the time of issue, adjusted for post-vesting transfer restrictions, and using the following significant inputs:

| | |
|---|---------|
| Share price at date of grant | £0.6071 |
| Exercise price | £0.002 |
| Discount for post-vesting transfer restrictions | 30% |

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

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

| | Number | Average Fair Value Share Price £ |
|-------------------------------|------------------|---|
| As at 31 December 2016 | 272,075 | 10.64 |
| Granted during the year | 773,312 | 0.61 |
| As at 31 December 2017 | 1,045,387 | 3.22 |

| | Number | Fair Value Option Price £ |
|-------------------------------|----------------|---------------------------------|
| As at 31 December 2015 | - | - |
| Granted during the year | 272,075 | 10.64 |
| As at 31 December 2016 | 272,075 | 10.64 |

The average remaining contractual life of options outstanding as at the balance sheet date was 1.0 years (2016: 2.7 years).

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18. Related-party transactions

| | 2017 | 2016 |
|---------------------------------|--------------|--------------|
| | £000's | £000's |
| <u>Key management personnel</u> | | |
| Salaries and remuneration | 3,004 | 2,101 |
| Social security contributions | 399 | 277 |
| Share-based payments | 1,130 | 779 |
| | <u>4,533</u> | <u>3,157</u> |

Key management personnel are defined as those on the Executive Committee, including any Directors for whom amounts have been separately disclosed in Note 6 of the accounts.

During the year key management personnel made no investments in the Company (2016: 375k), and provided services for which payments were received in equity in lieu of cash of £25k (2016: £177k).

19. Commitments and contingent liabilities

During 2017 the Company retained an agreement for payment of £0.4m (2016: £0.4m) to a key supplier contingent on the completion of the acquisition of TBL. As at the end of 2016 this liability was contingent on product sales volumes.

The Company has no other contingent liabilities as at the end of 2017 (2016: £0.9m).

As at the balance sheet date the Company had undrawn credit card balances of £0.8m.

20. Operating leases

The Company leases its premises under cancellable operating leases expiring within 2019. Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

| | 2017 | 2016 |
|---------------------------------|-------------|--------------|
| | £000's | £000's |
| Not later than one year | 638 | 1,501 |
| Between one year and five years | 206 | 1,029 |
| | <u>844</u> | <u>2,530</u> |
| As at 31 December 2017 | | |

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21. Controlling party

At 31 December 2017 there was no one controlling party. For events subsequent to this date see Note 22.

22. Events subsequent to the reporting date

On 10 January 2018 the Company completed its acquisition of TBL and £15m of equity capital was injected from QHC and existing investors. In addition to this, all but £1.8m of the subordinated debt as at that date was converted to equity in accordance with the terms of the loan agreements. From this date the Company acquired control of TBL. QHC acquired a 78% holding in the Company as part of the share-for-share purchase, with a restriction on voting rights to 49.9% (with such condition subject to variation in certain circumstances). Under the terms of the shareholder agreement, including the restriction on QHC's voting rights to 49.99%, the Directors consider that no single shareholder acting on their own had control of the Company.

On 26 February 2018 Tandem transferred legal title to its credit card receivables to TBL.

On 14 March 2018 Tandem acquired Pariti, a money management app Company, subject to regulatory approval.

23. Adoption of UK GAAP and the transition to FRS 102

The previous financial statements for the year ended 31 December 2016 were prepared in accordance with IFRS. Following this, management considered the accounting framework to be applied and determined FRS 102 (issued on 14 March 2013) provided the most suitable accounting framework to reflect the management of the Company's business. This is the first year that the Company has presented its financial statements under FRS 102 issued by the Financial Reporting Council. The last financial statements under IFRS were for the period from 1 January 2016 to 31 December 2016 and the date of transition to FRS 102 is the beginning of that period i.e. 1 January 2016. As a consequence of adopting FRS 102 there have been no significant changes to the recognition, measurement or classification of any items.

No material changes to any assets or liabilities, profit or equity as at 1 January 2016 or 31 December 2016 were required as a result of the transition to FRS 102.