Tandem Money Limited
Pillar 3 Disclosures
31st December 2020

Contents

1. Overview

The Directors present the Pillar 3 Disclosures of Tandem Money Limited ('the Group' or 'TML' or 'the Company') for the year ended 31st December 2020. These Disclosures incorporate the results of TML, its wholly owned subsidiary, Tandem Bank Limited ('TBL' or the 'Bank') and Allium Lending Group Limited ('ALG').

Introduction

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

Following the acquisition of ALG in August 2020, Tandem's retail proposition changed to encompass mortgages and savings alongside a range of lending products that support customers investing in their homes to become more energy efficient and environmentally friendly (via home insulation and energy efficient heating systems), whilst running off legacy consumer lending portfolios. These products are funded by fixed term and instant access retail savings accounts.

The Strategic Report within the Bank's Annual Report and Financial Statements provides additional detail on the Bank's business strategy, associated risks and key ratios, which is further supplemented by these Pillar 3 Disclosures.

This document is the annual Pillar 3 report for the year ending 31st December 2020, as required under the Capital Requirements Regulation (EU) No 575 / 2013 ('CRR') Part Eight (Disclosure by Institutions) and the rules of the Prudential Regulation Authority ('PRA').

Disclosure Policy

The Board's Disclosure Policy for its Pillar 3 report is to meet all disclosure requirements in line with the requirements of the CRR.

The Pillar 3 Disclosures are published annually and in line with the publication of the Annual Report and Financial Statements. In the event of material changes to the business, risk management or capital methodology, the need for more frequent disclosures will be considered.

The disclosures, which are based on the Bank's regulatory return submissions for the year end reporting date of 31st December 2020, may differ from the Annual Report and Financial Statements, with the main differences listed below:

- Certain exposures are reported inclusive of Off-Balance Sheet exposures, including pre and post Credit Conversion Factors;
- Regulatory adjustments to Own Funds, the most material of which is the deduction of intangible assets; and
- Classification differences identified post submission of the regulatory reports, which have no material impact on key metrics

The Group's Pillar 3 Disclosures are made available through the corporate website (www.tandem.co.uk).

Internal reviews are performed by the Chief Financial Officer ('CFO'), Chief Risk Officer ('CRO'), Asset and Liability Committee ('ALCO') and the Risk and Audit Committee ('RAC'). Additionally, remuneration disclosures are reviewed by the Remuneration Committee ('RemCo'). Post completion of all reviews, the disclosures are presented to the Board for final review and approval.

Business Review

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

Further details are provided within the Strategic Report of the Annual Report and Accounts for the year ending 31st December 2020.

Scope

The PRA supervises the Group on a consolidated basis and TBL, the Group's regulated banking subsidiary, on a solo basis.

The disclosures in this document are presented on a consolidated Group basis, apart from the liquidity disclosures which are presented at the TBL solo level. There are no differences between the basis of consolidation of the Group for accounting and regulatory purposes.

No disclosures have been omitted based on materiality. The Bank has taken advantage of exemptions available based on confidentiality by electing to not disclose Material Risk Takers ('MRTs') remuneration at the business line level, which otherwise could enable individual compensation levels to be determined.

There are no current or foreseen material practical or legal impediments to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiary.

2. Risk Management

Introduction

The Group regards effective risk management as a key element to its sustainable performance and 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) and in compliance with the standards set by regulators. The Group's enterprise-wide Risk Management Framework ('RMF') provides the basis for achieving these goals.

The Group has an established risk governance structure overseen by the Board of Directors supported by an experienced Executive Team. This structure follows the principle of Three Lines of Defence and includes a Risk Management function that oversees First Line management.

The Group's Board, as the governing body, is ultimately responsible for ensuring that effective systems and controls are in place to manage risk and for exercising oversight to ensure that these are effective. Through documented policies, the Board delegates authority for day-to-day risk management to the Executive Team.

Risk Management Framework

The RMF is the collection of tools, processes and methodologies that enable the Group to identify, assess, monitor, manage and report the risks it encounters. The framework outlines the means by which the Directors and the Executive Team ensure the business operates within the Board-approved Risk Appetite.

The Board approves the overall RMF and sets a Risk Appetite which is designed to ensure that the Group manages risks appropriately in pursuit of its strategic objectives. Throughout 2020, the Board had a Risk and Audit Committee ('RAC') that reviewed the RMF and received regular reports from Management on adherence to the framework. From January 2021, the RAC has been separated into a Risk Committee ('RC') and Audit Committee ('AC') to provide ongoing focus and oversight of risk management as the business grows. Where these disclosures refer to the RAC, this should be read as referring to the RAC in place throughout 2020 and the RC and AC from 1st January 2021.

The Board and the Executive Team encourage a culture of transparency and openness to ensure that issues are escalated promptly where required. The Board approved RMF and Risk Appetite are embedded throughout the business through underlying risk management processes which cover the full universe of risks to which Tandem is exposed. This framework is designed to ensure the Group follows a consistent approach to risk management and reporting.

The RMF is reviewed, updated and approved by the Board annually.

The Board delegates authorities for risk management through the Chief Executive Officer ('CEO') and the Executive Team in a manner which is consistent with the Senior Managers Regime. The concept of individual accountability for risk management is embedded in the RMF and the Bank's culture, guiding the way all employees approach their work.

Risk Principles

The Group has implemented the following:

Risk Governance	The Group has adopted the Three Lines of Defence model. Within this approach the business (First Line) manage risk while the Risk Management Function (Second Line) provides independent oversight and challenge to the First Line. Internal Audit (Third Line) provides independent assurance to the Board that risk management arrangements, systems and controls are fit for purpose.
Defined Risk Appetite	The Board has approved the Group's Risk Appetite which is aligned to the business strategy. The Risk Appetite Statement establishes a framework for business decisions and enables the Group to identify and define the type and levels of risks it is willing to accept.
Risk Transparency and Control	The First Line has been enhanced throughout the year and continuously identifies all significant risks, reports these to the Second Line, and ensures that adequate procedures are in place to track, manage and report, with this output subject to appropriate review and governance.
Risk Management Policies	Throughout the year the Group's policies are reviewed and when required amended to maintain adherence to the Group's Risk Appetite. As at 31st December 2020 end all policies and governance procedures covering the areas identified as principal risks were in place and operating effectively.

Key Risks and Uncertainties

The Group in the execution of its strategy is exposed to a range of risks.

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

The key risks faced by the Group are summarised below:

Risk	Definition	Key Mitigation Actions
Conduct Risk	Risk of detriment to customers, markets or Tandem due to inappropriate or negligent misconduct	• Implementation and embedding of the Conduct Risk Framework • Robust policies, systems and controls relating to areas of heightened risk to customers, including (but not limited to): introduction of new products; financial promotions; affordability; vulnerability; and remuneration • Monitoring and reporting on culture, conduct and customer outcomes

		• Regular, mandatory employee training and awareness programmes • Learning from past mistakes through root cause analysis
Operational Risk	The risk of adverse impact on Tandem or its customers, whether direct or indirect, resulting from inadequate or failed processes, people and systems or from external events	• Implementation and embedding of an Operational Risk Management Framework, utilising the principle of Identify, Assess, Monitor Report • The maintenance of a Risk Register and Control Library, and associated processes including Risk and Control Self Assessments • Identification of control failures through Incident Management and thorough investigation and rectification of control failures through root cause analysis • Compliance with all applicable laws, regulations and voluntary codes / standards, focusing on achieving the best outcome for all stakeholders • Maintenance of a Compliance Universe to ensure Regulatory Risks are identified and appropriately managed, to ensure compliance with all relevant regulatory requirements • Planned enhancements to Model Risk management during 2021 to ensure co-ordinated and centralised approach
Technology & Cyber Risk	Risk of losses or other impacts resulting from disruption or damage to technology, poor implementation of software or cyber / data breaches	• Establishment of an IT Strategy to ensure Technology supports the needs of the business • Application of IT controls to ensure resilience and appropriate management of the operational IT environment • Application of information security policies supported by a governance structure and risk framework that underpins the identification, control and mitigation of cyber risks • Investing in cyber controls to protect against external threats to the confidentiality of electronic data, or the availability of systems • The establishment of resilient contingency mechanisms such as back-up, redundancy and disaster recovery • Recruitment and retention of experienced staff

Credit Risk	Risk of financial losses to the bank resulting from borrowers or counterparty's failure to repay a debt or meet their contractual obligations, including second order losses relating to partner retailer conduct failures	• Credit policy, incorporating prudent lending criteria, aligned with Board approved risk appetite • Effective credit risk sanctioning processes with independent oversight by Risk Management • Monthly portfolio reviews to identify impairment indicators and initiate remediation activities to limit the extent of any potential loss (including COVID-19 implications) • Stress testing of credit portfolios • Effective arrears and collection teams, aiding comprehensive underwriting and credit sanctioning procedures • Limitation of concentration risk by size of total loan exposure to a borrower, specific sector, product type and / or geographic location • Obtaining suitable and sufficient security for loans where relevant • Oversight of partner systems and controls through regular monitoring and periodic partner reviews
Market Risk	Risk of losses arising from adverse movements in market prices, in particular, Interest Rate Risk in the Banking Book ('IRRBB')	• Interest Rate Risk Management Policy, which sets the standards for the management of Interest Rate Risk by Treasury • Ongoing monitoring of interest rate movements and their impact on the Balance Sheet • Stress testing of Interest Rate Risk exposures
Strategic & Business Model Risk	Risk that the business strategy is unachievable, due to errors in underlying assumptions, changes in the external environment or inability to raise capital	• Board approved Strategy and Business Plan, embedded through appropriate Operational Plans and management communication and monitored via Key Performance Indicators ('KPIs'), reporting and management information • Ongoing monitoring from Executive Team and Board to ensure performance is in line with plan, with corrective action taken if necessary • Stress Testing and Sensitivity Analysis on Business Plans • Assessment of the risks that Tandem is exposed via its partners and introduced business, including the development of an Introducer Conduct and Risk Policy, minimum standards for the onboarding, management and exit of brokers and retailers from Tandem's panel of introducers

Liquidity & Capital Risk	The risk that the Group is unable to meet its obligations as they are expected to fall due or can only do so at an exceptional cost. It also includes the risk that we have a sub-optimal amount or quality of capital, that capital is inefficiently deployed across the Group or that the Group falls below regulatory minima	• 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's') and regular stress tests including those on emerging or ill-defined issues (such as the impact of COVID-19) • Maintaining Liquidity Contingency Plan detailing Management actions and strategies available in stressed conditions • Close monitoring of capital and leverage ratios to ensure the Group meets current and future regulatory requirements • Comprehensive stress testing analysis to evidence sufficient levels of capital adequacy and availability of Management Actions under various adverse scenarios
Operational Resilience	The risk that disruption to Tandem's operational capabilities results in loss to the business and / or customer detriment	• Design of an Operational Resilience Framework to align with incoming regulatory rules and guidelines • Continued strengthening of core resilience through enhancements to: technological architecture; reporting and MI; testing; and contingency planning
Regulatory & Legal Risk	The risks of changing legislation, regulation, policies, voluntary codes of practice and their interpretation in the markets in which Tandem operate can have a significant impact on the Group's operations, business prospects, structure, costs, capital requirements and ability to enforce contractual obligations	• Continued investment in people, processes, training and IT to assess impact and help meet our legal and regulatory commitments • Appropriate policies / processes in place to decrease risk of any regulatory breach • Engage proactively with regulatory authorities and relevant industry bodies
ESG & Climate Risks	Climate risk is a key emerging risk for the Company, impacting our customers, our investors and our business in making the required transition towards a low carbon economy ESG (Environmental, Social and Governance) risks include climate risk, as well as risks relating to Tandem's social impact	• 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 • Focus on green lending activities and assessment of Tandem's carbon print and climate impact
Reputational Risk	The risk of an event that adversely impacts the Group's reputation, leading to lost revenue or destruction of value	• Ensuring rigorous controls and procedures are in place to mitigate incidences of fraudulent transactions, safeguarding of customer information and conduct towards customers

Risk Governance

The risk governance structure below is integral to effective risk management across the Group. The Risk Management Function is represented on key committees to ensure that risk management is discussed in these meetings. This structure outlines the flow and escalation of risk information and reporting from the business to the Executive Committee ('ExCo') and ultimately through to Board.

Board, Executive and Risk Committees

The risk governance structure (see Table 1 and 2 below) ensures strong risk evaluation and management, while also positioning the Group to adhere to current and evolving regulatory requirements. Assisted by the RAC, the Board approves the Group's overall governance, risk and control frameworks and Risk Appetite. The ExCo, supported by its sub-committees review and recommend Risk Appetite and monitor the risk profile and adherence to appetite.

In the period between ALG acquisition and transition to a "steady state" governance framework on 1st January 2021, the Group operated an interim governance framework, as ALG committees were absorbed into Tandem's committees, noting also the segmentation of the RAC into the RC and AC.

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

Tandem's governance is organised into two primary layers, namely the Board and ExCo. This structure also supports the principles of the Three Lines of Defence model, with appropriate independent reporting lines for the CRO, Money Laundering Reporting Officer ('MLRO'), Director of Compliance and Internal Audit (outsourced to BDO LLP), which all reported to the Chair of the RAC as at 31st December 2020.

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

Table 1 - Tandem high-level committee governance structure – prior to ALG acquisition

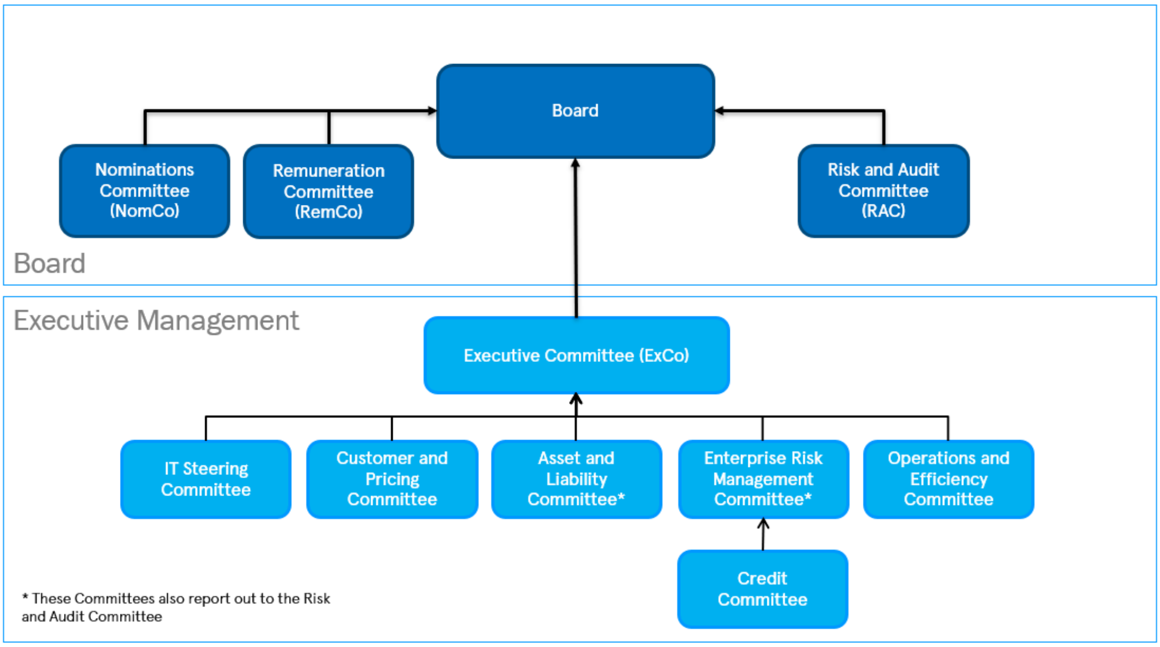
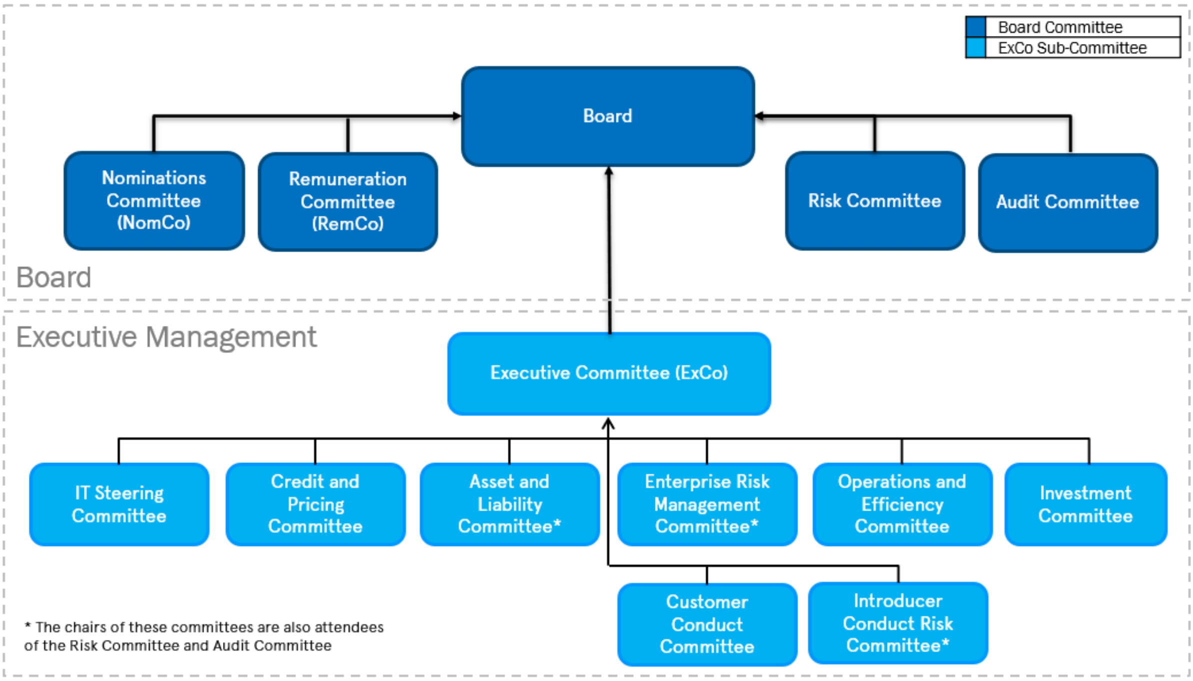


Table 2 - Tandem high-level committee governance structure – (from Jan 2021)



Board Level Governance

Board

Ultimate control of the Group rests with the Board, which is collectively responsible for the success of Tandem. The Board of Directors is responsible for approving strategy and setting the strategic objectives and to ensure that the Group's obligations to its customers, employees, regulators and shareholders are understood and met.
The Board is responsible for providing oversight and control of the management of the business in accordance with the expectations of its stakeholders to achieve the business and financial objectives of the Group as set out in its strategic and operational plans.

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

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

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 its sub-committees annually.

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

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

As at 31st December 2020, the number of other directorships held by Board Members outside of the Group, disclosed in accordance with Article 432(2) of Part 8 of the CRR, are set out below:

Director	**Position**		**Number of External Appointments**
Mr JJ Pritchard	INED Chairman		0
Mr FS Knox	Chief Executive Officer	(resigned on 25th May 2021)	6
Mr JW Scott	Investor Director	(appointed on 21st August 2020)	12
Mr D G Torpey	INED	(appointed on 2nd October 2020)	2
Mr A Murphy	CFO	(appointed on 2nd November 2020)	0
Mr D Fisher	INED	(appointed on 17th December 2020)	1
Ms M G Hassall	INED	(appointed on 17th December 2020)	12

The Board is committed to promoting a diverse and inclusive workplace in which different backgrounds, voices and perspectives underpin a stronger collective. Furthermore, the Board recognises the importance of having diverse experience and capacity to provide effective challenge across the full range of the firm's business and the opportunity to explore key business issues rigorously and that a truly diverse composition will add to its overall effectiveness and will work with all relevant stakeholders in achieving an optimal structure. The Board moved to a majority independent composition during the year and has an ongoing commitment to maintain its independence going forward.

Risk and Audit Committee

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

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

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

Further, the 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 both internal and external audit reviews. The Committee is responsible for reviewing and approving the internal audit plan and budget, as well as reviewing annually and, as necessary, approving the terms of engagement put forward by the external auditors for the provision of audit services.

Throughout 2020, the RAC met on 9 separate occasions.

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 Board members and key executive leadership appointments. This is achieved via a combination of succession planning (for Board and Executive roles) and reactively, as and when vacancies arise. An annual Fitness and Propriety review takes place for all roles within the Senior Managers and Certification Regime population.

Remuneration Committee

RemCo is responsible for determining the policy and the level of remuneration for INEDs, Executive Directors and the wider Executive Team, 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

See Section 11 for further details on the Group's remuneration disclosure.

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 Management Committee

ALCO is responsible for ensuring that 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 IRRBB;
- Development and review of treasury, asset-liability management and liquidity risk and capital adequacy Management Information;

- Ongoing development and maintenance of the assumptions used in capital and liquidity stress testing;
- Act as the main escalation point for the approval of any exceptions or breaches of the liquidity and capital management policies to ExCo and RAC as appropriate;
- Reviewing and recommending to ExCo and onward to the Board the capital plan of the Bank; and
- Oversight of the ICAAP, ILAAP and Recovery Plans

Enterprise Risk Management Committee

The Enterprise Risk Management Committee ('ERMC') is responsible for considering the appropriateness of the Group's risk management arrangements, systems and controls to ensure that the Group is managed within its Risk Appetite across all Principal Risks, including:

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

The ERMC is further responsible for preparing ExCo recommendations and ensuring implementation in relation to risk management matters including risk appetite, risk policies and RMF, as well as reviewing the Group's risk profile, on an ongoing basis, relative to the Risk Appetite. The responsibilities of the ERMC include (but are not limited to):

Strategy, Frameworks and Policy

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

Business Performance and Oversight

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

Credit and Pricing Committee

The Credit and Pricing Committee is responsible for the development and effectiveness of the credit risk management framework, clear description of the Group's credit risk appetite, setting of detailed credit strategies (within the mandate of the overarching credit risk framework as approved by the Board) 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 operations, technology and premises are properly supporting the business needs. In addition, it is the main forum for overseeing project management, change management initiatives and to conduct cost reviews on the operational infrastructure.

Information and 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, subject to delegated authority.

Customer Conduct Committee

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

Investment Committee

The purpose of the Investment Committee is to consider and provide oversight of any new forward flow arrangements and asset portfolios, divestments (full or partial) or material matters relating to the same, for the Tandem Group. The Committee will not consider any Treasury related matters.

Introducer Conduct Risk Committee

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

Risk Culture

Maintaining the right culture is a key component in Tandem's approach to risk management, and the promotion of good conduct and positive customer outcomes. The Board is committed to a positive top down approach to risk culture, where appropriate decision-making and behaviours are modelled by the Board of Directors, the ExCo and the wider Executive Team and thereby set the standard for risk culture across the organisation. The Group has a streamlined business model led by the ExCo that benefits from extensive knowledge of the sectors that Tandem operates in. This approach is further supported by Tandem's Conduct Framework, which sets out the key components that support the establishment and maintenance of a positive risk culture. These include (but are not limited to):

- Competence and capability, including training;
- Fitness and propriety;
- Performance management;
- Wellbeing and psychological safety;
- Incentives and remuneration;
- Management of Conflicts of Interest;
- Whistleblowing;
- Individual Empowerment and Accountability; and
- Openness to Challenge

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

Future Developments

The Group will seek to further develop its RMF, in the light of its revised strategy, managing macroeconomic and idiosyncratic challenges. The focus will remain on continuing to invest in enhancing the effectiveness of the RMF, including to ensure that robust control arrangements and enhanced stress testing capabilities are in place to support the asset acquisition strategy and the journey to profitability, as well as the embedding of the Risk Appetite Framework throughout the Bank.

The Board believes that the approach it has taken provides reasonable assurance that the risk management systems will be adequate for the strategy and profile of the Group.

3. Regulatory Capital

The Board manages the Bank's capital levels to support current and future activities, setting the Bank's risk appetite to capital and managing the capital position accordingly. In addition to reviewing monthly capital forecasts, the Board approves the regularly (usually annually) refreshed ICAAP, ensuring that appropriate forward-looking capital assessments are updated on a timely basis. The Board is supported in manging capital levels by ALCO, which has responsibility for ensuring the Balance Sheet is managed effectively, ensuring compliance with capital requirements and delivering capital adequacy management information.

Capital Resources

The Group's Own Funds consists of Common Equity Tier 1 ('CET1') Capital. This includes fully issued ordinary share capital, associated share premium and allowable other reserves and is stated after deducting intangible assets.

As at 31st December 2020, the Group held CET1 Capital that was in excess of the Total Capital Requirement and all applicable buffers set by the PRA.

Capital Requirements

The Basel Committee on Banking Supervision ('BCBS') has a mandate to strengthen the regulation, supervision and practices of Bank's worldwide with the purpose of enhancing financial stability. The Basel Framework is the full set of standards of the BCBS which consists of the following three pillars of regulation:

- Pillar 1 defines the rules for calculating the minimum capital requirements for credit, operational and market risks;
- Pillar 2 covers risk management and sets out the supervisory review process; and
- Pillar 3 which seeks to promote market discipline through regulatory disclosure requirements

Pillar 1 Capital

The minimum capital requirement is 8% of Risk Weighted Assets RWA). The Group utilises the following approaches for calculating Pillar 1 capital:

- Credit risk - Standardised Approach;
- Market risk - not applicable;
- Credit valuation adjustment risk - Standardised Approach; and
- Operational risk - Basic Indicator Approach

Pillar 2 Capital

Pillar 2 capital is held for risks that are either not captured, or not fully captured, under the Pillar 1 calculations. The Group undertakes an ICAAP, which involves a forward-looking assessment to ascertain the Pillar 2 capital requirement. Based on these results the PRA determines the Group's required capital, which includes the supervisory buffers. As at 31st December 2020, the Bank's Pillar 2A set by the PRA was 3.02%, driving a Total Capital Requirement of 11.02%. The Bank's Pillar 2B (supervisory buffer) is also set by the PRA but this is confidential and not disclosed.

Capital Buffers

The following regulatory capital buffers apply to the Group:

Capital Conservation Buffer ('CCB')

Developed to ensure that capital buffers are available during periods of stress and applies to all banks. This has been fully phased in at 2.5% since 1st January 2019. As of 31st December 2020 the CCB stood at 2.5% of RWAs.

Countercyclical Capital Buffer ('CCyB')

The CCyB is a firm specific buffer calculated as a weighted average of the buffers in effect in the jurisdictions to which banks have credit exposures. In accordance with the Regulation (EU) 1152/2014 the Group uses the place of residence of the obligor to identify the geographical location of the exposure and had a weighted average rate of 0.18% as at 31st December 2020. A breakdown of the geographical exposures as prescribed by Regulation (EU) 2015/1555 is shown in Appendix 1.

4. Capital Disclosures

Key Regulatory Metrics

	31 December 2020 £000	31 December 2019 £000
CET1 Capital	**49,340**	27,506
Total Risk Weighted Assets	**241,248**	198,006
CET1 Capital Ratio	**20.5%**	13.9%
Leverage Ratio	**7.8%**	5.6%

Composition of the Group's regulatory capital:

	31 December 2020 £000	31 December 2019 £000
CET1 Capital		
Called up Share Capital	**804**	242
Share Premium	**202,694**	142,568
Accumulated Other Comprehensive Income	**1,207**	880
Other Reserves	**5,641**	3,942
Retained Earnings	**(146,885)**	(116,334)
Deductions from CET1 Capital		
Intangible Assets	**(14,091)**	(3,772)
Prudent Valuation Adjustments	**(30)**	(20)
CET1 Capital	**49,340**	27,506
Total Own Funds	**49,340**	27,506

Reconciliation between equity and CET1 capital after deductions:

	31 December 2020 £000	31 December 2019 £000
Equity	**64,852**	31,298
Regulatory Deductions from Equity:		
Intangible Assets	**(14,091)**	(3,772)
Warrants	**(1,391)**	-
Prudent Valuation Adjustments	**(30)**	(20)
CET1 Capital	**49,340**	27,506

See also Appendix 2a for the prescribed own funds disclosure template required by Regulation (EU) 1423/2013.

Pillar 1 Capital Requirement

The following table summarises the Group's Pillar 1 requirement:

Standardised Exposure Classes	Net Value of Exposures	Risk Weighted Assets	Pillar 1 Requirement	Average Net Value of Exposures
	£000	£000	£000	£000
Central Governments or Central Banks	176,845	-	-	145,943
Multilateral Development Banks	22,068	-	-	19,777
Institutions	17,164	3,433	275	19,670
Corporates	6,604	2,604	208	4,053
Retail	136,424	95,502	7,640	122,843
Mortgages on Immovable Property	287,857	99,157	7,933	214,705
Exposures in Default	7,394	7,394	592	6,015
Associated with Higher Risk	854	1,260	101	1,216
Equity	2,670	2,670	214	1,672
Other Items	3,692	3,692	295	4,548
Total Credit Risk	**661,573**	**215,712**	**17,258**	**552,968**
Operational Risk	-	21,671	1,734	
Credit Valuation Adjustment	-	3,865	309	
Total Pillar 1 / Risk Weighted Assets	**661,573**	**241,248**	**19,301**	

Net Value of Exposures comprises On and Off-Balance Sheet exposures post provisions / impairments, before the application of applicable credit conversion factors.

Use of External Credit Assessments

The Group uses external credit ratings published by Moody's, where available, to determine risk weights for wholesale exposures. These assessments are mapped to the prescribed credit quality step using the methodology set out in Commission Implementing Regulation (EU) 2016/1799.

The table below shows the exposure values by credit quality step ('CQS') and relevant Moody's rating:

As at 31 December 2020	Aaa to Aa3 CQS 1 £000	Total £000
Institutions	17,164	17,164

5. Credit Risk

Credit risk is 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. Tandem's credit risk arises primarily through its lending activities, and also through its day-to-day treasury banking processes which result in exposures to financial institutions.

In line with the Group's RMF, ultimate responsibility for credit risk rests with the Board, on whose behalf the RAC oversee the credit risk profile relative to the Board approved Risk Appetite. Day to day management of credit risk is delegated to the Executive Team.

The Executive Team has set out product level credit policies and oversees credit performance through the Credit and Pricing Committee and ERMC. The Chief Commercial Officer 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.

Impairment of Financial Assets

The Group assesses at each reporting date its assets, most of which are held at amortised cost, 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, with reference to IAS 39.

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.

Loans and Advances

Impairment provisions are made against individual loans when recovery is doubtful. Evidence of impairment may include (but is not limited to):

- indications that the borrower is experiencing financial difficulty;
- default or delinquency in interest or principal payments; and
- where observable data indicates that there is a measurable decrease in the estimated future cash flows

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 that 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 by the loss given default 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.

As accounts across Tandem's unsecured portfolios began to enter COVID-related plans from March 2020 and, as per regulatory guidance have their arrears status protected, it was deemed that Tandem should accrue an additional impairment provision for the higher risk of these accounts. Quantification of this provision accrual was achieved by calculating the delta in impairment provision between protecting an account's arrears status while on the Covid-related plan and letting impacted accounts age as per their contractual terms. A multiplier was then applied to this provision delta for the assumed amount of impairment that was expected to materialise after the plan completed and adapted as actual performance was observed during 2020.

Once a financial asset has been written down as a result of an impairment loss, interest income thereafter is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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

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

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.

Past Due Amounts

Loans are defined as past due when the borrower fails to make a payment under the contractual terms of the agreement. For unsecured lending, everything past due is classified as impaired but the full balance is not expected to be written-off. The Group holds a provision for the past due balances based on historic arrears data. For past due amounts on 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 any 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 more detail on the treatment of past due amounts, see the Notes to the Annual Report and Financial Statements.

Credit Risk Analysis

Analysis of impaired and past due loans between secured and unsecured lending:

As at 31 December 2020	**Unsecured Lending £000**	**Secured Lending £000**	**Total £000**
Total Gross Impaired Loans	22,337	-	22,337
Past Due but not Impaired Loans	-	1,689	1,689
Neither Past Due nor Impaired	116,148	268,599	384,747
Total Gross Amount Due	**138,485**	**270,288**	**408,773**

All impaired and past due loans are due from UK domiciled retail customers.

An aging analysis of Gross Impaired Loans and Past Due but not Impaired Loans is set out below:

As at 31 December 2020	**Less than 3 months £000**	**3 to 12 months £000**	**Greater than 12 months £000**	**Total £000**
Total Gross Impaired Loans	8,735	13,602	-	22,337
Past Due but not Impaired	-	-	1,689	1,689
	8,735	**13,602**	**1,689**	**24,026**
of which geographical distribution:				
United Kingdom	**8,735**	**13,602**	**1,689**	**24,026**

Reconciliation of impairment losses on loans and advances by class is set out below:

Year ended 31 December 2020	Unsecured lending £000	Secured Lending £000	Total £000
Opening Balance	8,347	-	8,347
New provisions on portfolio acquisitions	7,659	-	7,659
New Impairment Provisions less Releases	6,642	-	6,642
Amounts written-off	(8,535)	-	(8,535)
Closing Balance	**14,113**	**0**	**14,113**
Of Which General Provisions	3,994	-	3,994

Analysis of the charges for specific and general credit risk adjustments during the reporting period:

Year ended 31 December 2020	Specific £000	General £000	Total £000
Opening Balance	6,896	1,451	8,347
Charge in year	3,223	2,543	5,766
Closing Balance	**10,119**	**3,994**	**14,113**

Credit Risk exposures under the standardised approach shown by geographical region:

	United Kingdom £000	Europe (*) £000	Asia £000	North America £000	Middle East & Africa £000	Other (**) £000	Total £000	Of which loans originated in UK or fully secured on property in the UK £000
Central Governments or Central Banks	176,845	-	-	-	-	-	176,845	-
Multilateral Development Banks	-	-	-	-	-	22,068	22,068	-
Institutions	17,164	-	-	-	-	-	17,164	-
Corporates	6,604	-	-	-	-	-	6,604	-
Retail	136,424	-	-	-	-	-	136,424	-
Mortgages on Immovable Property	202,771	23,828	30,515	14,664	11,480	4,599	287,857	287,857
Exposures in Default	7,394	-	-	-		-	7,394	1,689
Associated with Higher Risk	-	-	-	-	854		854	854
Equity	-	-	-	1,660		-	1,660	-
Other Items	4,702	-	-	-		-	4,702	-
Total	**551,904**	**23,828**	**30,515**	**16,324**	**12,334**	**26,667**	**661,572**	**290,400**

* excludes the United Kingdom
**includes supranational organisation exposures

The geographical split above has been prepared on the same basis as the CCyB disclosures in Appendix 1. The exposures reflect the domicile of the obligor in accordance with Regulation (EU) 1152/2014 and comprise gross exposures less any provisions / impairments for both On and Off-Balance Sheet exposures, before the application of any Credit Conversion Factors.

All the loans in the mortgage portfolio are issued from, and the property securing the loan is located in, the UK. All Corporate exposures are with Financial counterparties.

Credit Risk Exposure and the Impact of Credit Risk Mitigation Techniques – Standardised Approach:

As at 31 December 2020	Exposures Before CCF and CRM		Exposures Post CCF and CRM			
	On Balance Sheet	Off Balance Sheet	On Balance Sheet	Off Balance Sheet	RWAs	RWA Density
	£000	£000	£000	£000	£000	£000
Central Governments or Central Banks	155,810	-	155,810	-	-	0%
Multilateral Development Banks	22,068	-	22,068	-	-	0%
Institutions	13,411	3,753	13,411	3,753	3,433	20%
Corporates	1,604	5,000	1,604	1,000	2,604	100%
Retail	123,912	12,512	123,912	3,424	95,502	75%
Mortgages on Immovable Property	267,753	20,104	262,598	4,021	99,157	37%
Exposures in Default	7,394	-	7,394	-	7,394	100%
Associated with Higher Risk	854	-	840	-	1,260	150%
Equity	2,670	-	2,670	-	2,670	100%
Other items	3,692	-	3,692	-	3,692	100%
Total	**599,168**	**41,369**	**593,999**	**12,198**	**215,712**	**36%**

Exposures are reported net of provisions / impairments. Exposures arising from the Term Funding Scheme (‘TFS’), treated as Securities Financing Transactions, treated under the Financial Collateral Comprehensive Method per CRR Art.223, are excluded.

Credit Risk Mitigation exists solely through the use of cash collateral held against loans and advances to customers, on the secured book, predominantly in the form of mortgages over residential and commercial real estate.

Breakdown of Exposures By Risk Weight, Post Credit Risk Mitigation and Credit Conversion Factor

As at 31 December 2020	Risk Weights						
Exposure Class	**0%**	**20%**	**35%**	**75%**	**100%**	**150%**	**Total**
Central Government and Central Banks	155,810						155,810
Multilateral Development Banks	22,068						22,068
Institutions		17,164					17,164
Corporates					2,604		2,604
Retail				127,336			127,336
Secured By Mortgage			257,699		8,919		266,618
Exposures in Default					7,394		7,394
Items Associated with High Risk						840	840
Equity					2,670		2,670
Other Items					3,692		3,692
Total	**177,878**	**17,164**	**257,699**	**127,336**	**25,279**	**840**	**606,196**

Exposures include both On and Off-Balance Sheet exposures, net of provisions / impairments, and post the application of Credit Risk Mitigation and Credit Conversion Factors. Exposures arising from the Term Funding Scheme, treated as Securities Financing Transactions, treated under the Financial Collateral Comprehensive Method per CRR Art.223, are excluded.

Residual maturity profile of the credit exposures on a contractual basis:

As at 31 December 2020	On Demand £000	Less than 1 Year £000	1 to 5 Years £000	Over 5 Years £000	Undated £000	Total £000
Central Governments or Central Banks	149,791	6,019	-	-	-	155,810
Multilateral Development Banks	-	-	22,068	-	-	22,068
Institutions	13,411	-	-	-	-	13,411
Corporates	1,604	-	-	-	-	1,604
Retail	4,901	33,723	45,665	39,623	-	123,912
Mortgages on Immovable Property	314	34,358	117,032	116,049	-	267,753
Exposures in Default	-	7,394	-	-	-	7,394
Associated with Higher Risk	-	854	-	-	-	854
Equity	-	-	-	-	2,670	2,670
Other Items	3,692	-	-	-	-	3,692
Total	**173,713**	**82,348**	**184,765**	**155,672**	**2,670**	**599,168**

Credit Exposures for the purposes of disclosing the residual maturity profile comprise gross exposures less any provisions / impairments, excluding Off-Balance Sheet exposures.

Equity Exposures

The Bank has exposure to equities through its two holdings in Visa Inc and Hiber Energy Limited, both of which are accounted for on an Available for Sale basis and measured at Fair Value.

The holding in Visa Inc was acquired as part of the acquisition of Harrods Bank Limited in 2018. As at 31st December 2020, the fair value recorded in the financial statements was £1.7m. The shares are unlisted and carry a variety of conditions and provisions that are incorporated into the fair value calculations. As at 31st December 2020 the total unrealised gain on the equity holding was £1.2m.

The holding in Hiber Energy Limited was acquired as part of the Allium Lending Group acquisition in August 2020. As at 31st December 2020, the fair value recorded in the financial statements was £1.0m. There are no unrealised gains on the equity holding.

Additional detail can be found in Note 18 of the financial statements.

6. Counterparty Credit Risk

Overview

Counterparty Credit Risk is the risk that the counterparty to a transaction may default prior to the final settlement of the cash flows pertaining to that transaction. Tandem incurs Counterparty Credit Risk through balances held at other Financial Institutions to manage operational cashflows as well as derivative transactions used to mitigate interest rate risk. The Bank assigns credit limits for individual counterparties at ALCO with Treasury being responsible for ensuring that exposures remain compliant with those limits. Treasury distributes the Counterparty Credit Risk report daily to ALCO with any credit rating downgrade prompting a review of the Counterparty at the next monthly meeting. As at 31st December 2020, the Bank was unrated.

Counterparty Credit Risk Exposures

The Bank allocates capital to Counterparty Credit Risk under Pillar 1, calculated using the Mark-to-Market method laid out in Article 274 of the CRR. The following table provides the exposure value and risk weighted assets of the Bank's derivative portfolio as at 31st December 2020, after taking benefit of the legally enforceable netting agreements in place with the Banks's derivative counterparties.

Replacement Cost / Current Market Value £000s	Potential Future Credit Exposure £000s	Exposure at Default Post CRM £000s	RWAs
3,256	497	3,753	751

The net replacement cost of £3,256k includes the £3.360m of collateral provided to derivative counterparties. The gross replacement cost is £3,386k, and the gross exposure at default, post inclusion of the potential future credit exposure is £3,895k. The benefit of the netting agreements delivers a £142k reduction in exposure at default.

Collateral

The Bank ensures that all derivative counterparty relationships are governed by International Swaps and Derivatives Association ('ISDA') Master Netting Agreements with Credit Support Annexes ('CSA'). Under these contracts each Counterparty is required to post cash collateral to the other if the mark-to-market value of the derivative portfolio rises or falls below a minimum transfer amount daily. Any valuation disputes between Counterparties are managed as part of the Bank's Treasury Policy. As at 31st December 2020 the Group has provided total collateral of £3.36m to derivative counterparties.

Wrong Way Risk

Wrong way risk is defined as the risk that occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty. As the Bank currently only utilises vanilla and amortising interest rate swaps it has minimal exposure to wrong way risk.

7. Liquidity Risk

Overview

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. TBL manages liquidity on an individual basis with liquidity across the Group being managed by a central Treasury Function within the Bank. Tandem actively manages its liquidity buffer and maintains sufficient liquid resources, both as to quality and quantity, 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.

TBL reports its liquidity position under the Liquidity Coverage Ratio ('LCR') and maintains a prudent level above the regulatory minimum. As at the 31st December 2020, the Bank reported an LCR of 619%, well above the 100% regulatory minimum. All liquidity metrics are calculated and reported to ALCO members daily. ALCO also receives a full liquidity report as part of the regular monthly meeting which is subsequently cascaded to the RAC and Board.

Further detail on the Bank's LCR, as prescribed by EBA/GL/2017/01 is shown in Appendix 3.

Risk Appetite

The Bank's Liquidity and Funding Risk Appetite Statement ensures that in line with the Overall Liquidity Adequacy Rule ('OLAR'), Tandem will maintain liquidity resources which are adequate, both as to amount and quality in order to meet its requirements in a stressed environment. The Bank's Primary Risk Appetite metrics are highlighted below:

Liquidity Risk Metric	Limit	Rationale
Liquidity Coverage Ratio	Limit: > 150%	Ensure the Bank has adequate liquidity to meet its obligations over a 30-day period
Net Stable Funding Ratio ('NSFR')	Limit: > 110%	Ensures that the Bank's funding profile remains stable relative to the maturity profile of its assets
Survival Days Liquidity Surplus	Limit: > 0	Ensures Tandem always holds a buffer of Hisgh-Quality Liquid Assets ('HQLA') to maintain stressed outflows for a minimum of 45 days as those outflows pertain to Tandem's business model
Loan to Deposit Ratio	Limit: < 110%	Controls the conversion of Deposits into Loans, providing protection from excess liquidity

The ILAAP sets out Tandem's approach to liquidity and funding. The ILAAP is the process by which the Board and the Executive Team oversees its ability to operate within the Group's internal Liquidity and Funding Risk Appetite and the OLAR, including with reference to a range of stress testing scenarios. It is prepared in line with internal policies and procedures as well as the regulation on liquidity and funding risk management defined by the PRA rulebook and SS24/15.

In completing the ILAAP, Tandem's Management and Board assess:

- The adequacy of Tandem's liquidity and funding resources to cover the risks identified;
- The methodologies and assumptions applied for risk measurement and liquidity management;
- The major sources of risk to Tandem's ability to meet their liabilities as they fall due, including a review of the business against the risks outlined in Art 86 of the CRD and PRA Supervisory Statement 24/15;
- The results of the stress testing of these risks; and
- The adequacy and appropriateness of Tandem's liquidity RMF and internal governance

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

The Recovery Plan sets out the roles and responsibilities of key stakeholders under a stressed liquidity event. The plan is reviewed and approved at least annually through the Bank's governance process, specifically, ALCO, ExCo, RC and the Board and was most recently approved in March 2021.

Asset Encumbrance

The Group encumbers assets as part of its normal course of business in raising funding, primarily from accessing the Bank of England's TFS. The Bank's Risk Appetite limits the amount of Balance Sheet encumbrance tolerated to ensure that adequate levels of counterbalancing capacity are available during periods of stress. The level of asset encumbrance is monitored at ALCO and reported to the RAC on a monthly basis. Further detail on asset encumbrance, as prescribed by EBA/GL/2014/03 is shown in Appendix 4.

8. Leverage

The Leverage Ratio measures the relationship between the Group's Tier 1 capital resources and its total assets after adjustments for Off Balance Sheet exposures. The ratio is monitored at ALCO and reported monthly to the Board.

The below tables follow the prescribed format specified in Regulation (EU) 2016/200:

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

As at 31 December 2020

	2020 £000	**2019 £000**
Total Assets as per Published Financial Statements	616,438	457,418
Adjustments for Derivative Financial Instruments	3,753	3,481
Adjustments for Securities Financing Transactions ('SFTs')	21,035	25,228
Adjustment for Off-Balance Sheet Items (i.e. conversion to credit equivalent amounts of Off-Balance Sheet exposures)	8,445	-
Other Adjustments	(17,479)	(5,468)
Total Leverage Ratio Exposure	**632,191**	**491,595**

Table LRCom: Leverage Ratio Common Disclosure

As at 31 December 2020	**2020 £000**	**2019 £000**
On-Balance Sheet Exposures (excluding derivatives and SFTs)		
On-Balance Sheet Items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	613,078	457,418
(Asset amounts deducted in determining Tier 1 Capital)	(14,119)	(3,792)
Total On-Balance Sheet Exposures (excluding derivatives, SFTs and fiduciary assets)	**598,959**	**453,626**
Derivative Exposures		
Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	3,256	3,369
Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	497	112
Total Derivative Exposures	**3,753**	**3,481**
Securities Financing Transaction Exposures		
Counterparty Credit Risk Exposure for SFT assets	21,035	25,228
Total Securities Financing Transaction Exposures	**21,035**	**25,228**
Other Off-Balance Sheet Exposures		
Off-Balance Sheet Exposures at Gross Notional Amount	37,616	12,660
(Adjustments for Conversion to Credit Equivalent Amounts)	(29,171)	-
Other Off-Balance Sheet Exposures	**8,445**	**12,660**
Capital and Total Exposures		
Tier 1 Capital	49,340	27,506
Total Leverage Ratio Exposures	**632,191**	**494,994**
Leverage Ratio	**7.8%**	**5.6%**

The year-on-year increase in the Leverage Ratio from 5.6% to 7.8% was driven by a combination of the increase in CET1 Capital, through additional investment in the Group, and an increase in Total Leverage Ratio Exposures driven by the acquisitions in the year, partly offset by running off legacy consumer lending portfolios, as detailed in the Strategic Report of the Annual Report and Financial Statements.

Table LRSpl: Split of On Balance Sheet Exposures (excluding derivatives, SFT's and exempted exposures) **As at 31 December 2020**	**CRR Leverage Ratio Exposures 2020 £000**	**CRR Leverage Ratio Exposures 2019 £000**
Total On-Balance Sheet Exposures (excluding derivatives, SFT's and exempted exposures), of which:	613,078	454,019
Trading Book Exposures	-	-
Banking Book Exposures, of which:	613,078	454,019
Exposures treated as Sovereigns	155,810	89,687
Exposures to Regional Governments, MDB, International Organisations and PSE not treated as Sovereigns	22,068	-
Institutions	13,411	18,873
Secured by Mortgages of Immovable Properties	267,753	217,710
Retail Exposures	123,912	102,365
Corporate	1,604	5,797
Exposures in Default	7,394	8,399
Other Exposures (e.g. equity, securitisations, and other non-credit obligation assets)	21,126	11,118

The year-on-year increase in Total On-Balance-Sheet Exposures is driven by the acquisitions during the year, partly offset by running off legacy consumer lending portfolios, as detailed in the Strategic Report of the Annual Report and Financial Statements.

9. Market Risk

Overview

Market risk is defined as the risk of losses arising from adverse movements in observable market prices. As at the 31st December 2020, the Group does not hold any positions in a trading book.

Interest Rate Risk

Interest rate risk arises from the mismatches in the repricing structure of its assets and liabilities. The Group offers lending and savings products with varying interest rate features and repricing characteristics and does not actively assume interest rate risk. Where possible the Group seeks to match the interest rate structure of assets and liabilities creating a natural hedge. The Group also enters into derivative transactions, that include cash collateralised interest rate swaps to manage interest rate 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. Interest rate risk limits are an expression of the Boards risk appetite and are reviewed annually as an integral part of the ICAAP under its Pillar 2 assessment.

The below table demonstrates the Bank's Balance Sheet value sensitivity to a reasonable possible change in interest rates (all other variables being held constant), assuming a behavioural repayment profile of its assets and liabilities.

Parallel shift in yield curve	As at 31 December 2020 £000	As at 31 December 2019 £000
+ 200bps	287	833
- 200bps	(110)	(810)

As at the 31st December 2020, the Group's maximum negative exposure to interest rate risk was calculated to be £0.1m.

Foreign Exchange Risk

Tandem does not intend to take any material FX risk defined as any exposure greater than 1% of its liabilities. Throughout 2020, no FX exposure arose that was greater than 1% of its liabilities.

10. Operational Risk

Operational Risk is 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.

The Group has established an Operational Risk Management Framework ('ORMF'), owned by the CRO and approved by the Board, which sets out specific principles and approaches for the management of operational risk and sits within the overarching RMF. The ORMF is designed to facilitate the effective management and appropriate oversight of operational risks arising from activities across the business including those arising due to outsourced activities and external events.

The ORMF mandates activities that support the identification, assessment, management and reporting of Operational Risks across the Three Lines of Defence to ensure a coherent approach across the business. The components of the ORMF include (but are not limited to):

- **The Risk and Control Self-Assessment ('RCSA')** - this is a key operational risk management process through which risks and controls are identified, assessed, and managed. The purpose of RCSAs is to ensure management maintains visibility of all material risks and ensures these are measured and managed on an ongoing basis. The outputs of RCSAs are reported to the ERMC on a regular basis providing visibility to Management of enterprise-wide risks and the status of the control environment. Oversight and challenge over the process is provided by second line, which facilitates the process through workshops or other approaches, and the final assessments support the maintenance of the Risk Register and the Control Library. The second line also oversees any agreed actions to enhance the control environment;
- **Incident Management and Loss Event Reporting** - constitutes a key operational risk process throughout the Group, providing structure to gathering and reviewing events/incidents that resulted, or may potentially result, in a business impact. Root Cause Analysis and remediation planning are core element of the process, ensuring a feedback loop of these events back into day-to-day management, as well as the continuous improvement of the operational environment in the Group; and
- **Operational Resilience -** Tandem maintains operational contingency plans (Business Continuity and Disaster Recovery) to ensure the resilience of its operations and service provision to customers. These plans are the outcome of a risk-based assessment of potential disruption scenarios and are maintained and tested on a regular basis. In line with incoming regulations related to operational resilience, Tandem is developing a dedicated Operational Resilience Framework which will provide greater assurance to its Board and other stakeholders that critical services can be recovered within impact tolerances.

11. Remuneration

The Bank's remuneration disclosures have been prepared in line with the proportionality measures set out in the Supervisory Statement on Remuneration (SS 2/17) (SS2/17 'Remuneration' December 2020 (bankofengland.co.uk)), enabling the Bank's classification as a Proportionality Level 3 Bank and the resulting disclosure requirements set out in Table D of SS 2/17.

Remuneration Policy

The Remuneration Policy is a Category 1 policy, owned by the CEO, reviewed and overseen by the RemCo, approved by the Board, and implemented by the People function. The RemCo convenes every quarter with additional meetings scheduled when required.

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

- Determining the Remuneration Policy, take into account all factors which it deems necessary including relevant legal and regulatory requirements, including the provisions and recommendations of the Remuneration Code and associated guidance;
- Aligning employee incentives with the medium to long-term business strategy and the interests of all stakeholders, including shareholders and customers;
- Consider pay and reward principles that seek to attract and retain best in class talent to enable Tandem to be a high performing organisation;
- Ensure that poor performance and / or inappropriate conduct is not rewarded;
- Provide fair and equitable remuneration across Tandem, reflecting the Bank's values and commitment to diversity and equal opportunity;
- Review the on-going appropriateness and relevance of the Remuneration Policy;
- Consider updates on staff satisfaction, turnover, retention, diversity and the gender salary gap; and
- Consider an annual independent review by the CRO to ensure compliance with the Remuneration Policy

An external law firm was engaged in the latest review of the Remuneration Policy, namely Herbert Smith Freehills

Performance Related Remuneration

Performance related remuneration is assessed using financial and non-financial criteria based on the performance of the:

- individual;
- business unit concerned;
- overall results of the firm; including the capital capacity to make any discretionary payments; and
- adherence to effective risk management.

Senior Management Functions ('SMFs') and Material Risk Takers ('MRTs')

Through the period 1st January 2020 to 31st December 2020, a total of 21 individual employees were identified as Material Risk Takers on the basis that their professional activities were deemed to pose a material impact on the firm's risk profile. The MRTs population includes those employees whose roles have been designated as Senior Manager Functions under the Senior Managers and Certification Regime.

The total remuneration costs of MRTs through 1st January 2020 to 31st December 2020 was **£2,820k**.

A breakdown of the costs by business area has not been provided due to the small number of staff in each area.

The Bank's total staff costs through 1st January 2020 to 31st December 2020 were **£12,531k**, further details of which can be located in Note 9 of the Annual Report and Financial Statements.

Appendix 1: Countercyclical Capital Buffer

Table 1 - Geographical distribution of credit exposures relevant for the calculation of the CCyB:

The geographical split of exposures in this table reflects the location of the obligor in accordance with Regulation (EU) 1152/2014. The non-UK exposures reported are mainly derived from the customer base of the mortgage portfolio, despite the loans being issued from, and the underlying security being located in, the UK.

As at 31st December 2020

Breakdown by Country	Exposure Value £000s	General Credit Exposure £000s	Own Funds Requirements Weights	CCyB Rate
UNITED KINGDOM	179,926	14,394	84.8%	0.0%
UNITED STATES OF AMERICA	6,638	531	3.1%	0.0%
MONACO	5,216	417	2.5%	0.0%
CHINA	4,241	339	2.0%	0.0%
HONG KONG	3,622	290	1.7%	1.0%
UAE	2,418	193	1.1%	0.0%
QATAR	1,013	81	0.5%	0.0%
SINGAPORE	938	75	0.4%	0.0%
SWITZERLAND	917	73	0.4%	0.0%
RUSSIA	856	68	0.4%	0.0%
IRELAND	754	60	0.4%	0.0%
SOUTH AFRICA	695	56	0.3%	0.0%
REPUBLIC OF KOREA	475	38	0.2%	0.0%
ARGENTINA	388	31	0.2%	0.0%
KENYA	386	31	0.2%	0.0%
PAKISTAN	385	31	0.2%	0.0%
TURKEY	335	27	0.2%	0.0%
OTHER	3,077	248	1.4%	
Total	**212,280**	**16,983**	**100.0%**	

Credit Exposures where the Own Funds Requirement Weight is equal to or less than 0.1% of total Own Funds Requirements were classified with a country category of 'OTHER'.

Table 2 - Amount of institution-specific CCyB:

	As at 31 December 2020 £000
Total Risk Exposure Amount	241,249
Institution specific Countercyclical Capital Buffer Rate	0.018%
Institution specific Countercyclical Capital Buffer Requirement	**44.5**

Appendix 2a: Own Funds Disclosure

		As at 31 December 2020 £000
	Common Equity Tier 1 Capital: Instruments and Reserves	
1	Capital Instruments and the Related Share Premium Accounts	203.498
2	Retained Earnings	(146,885)
3	Accumulated Other Comprehensive Income (and Other Reserves)	6,848
6	**Common Equity Tier 1 (CET1) Capital Before Regulatory Adjustments**	**63,461**
	Common Equity Tier 1 Capital: Regulatory Adjustments	
7	Additional Value Adjustments	(30)
8	Intangible Assets	(14,091)
28	**Total Regulatory Adjustments to Common Equity Tier 1 (CET1)**	**(14,119)**
29	**Common Equity Tier 1 (CET1) Capital**	**49,340**
45	**Tier 1 Capital**	**49,340**
59	**Total Capital**	**49,340**
60	**Total Risk Weighted Assets**	**241,248**
	Capital Ratios and Buffers	
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	20.5%
62	Tier 1 (as a percentage of total risk exposure amount)	20.5%
63	Total Capital (as a percentage of total risk exposure amount)	20.5%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 87 (1) (a) plus capital conservation and countercyclical buffer requirements, expressed as a percentage of risk exposure amount)	7.0%
65	of which: Capital Conservation Buffer requirement	2.5%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	12.5%

Appendix 2b: Own Funds Disclosure - Capital Instrument Features

Capital Instruments' Main Features Template

		Ordinary Shares
1	Issuer	Tandem Money Limited
2	Unique Identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement	N/A
3	Governing law(s) of the instrument	English (UK)
	Regulatory treatment	
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo / (sub-)consolidated / solo & (sub-)consolidated	Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Common Equity
8	Amounts recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 203.5m
9	Notional amount of instrument	£0.002
9a	Issue price	Various
9b	Redemption price	N/A

10	Accounting classification	Called Up Share Capital
11	Original date of issuance	Various
12	Perpetual or dated	Perpetual
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons / dividends	
17	Fixed of floating dividend / coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up of other incentive to redeem	N/A
22	Non-cumulative of cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A
36	Non-compliance transitioned features	N/A
37	If yes, specify non-compliance features	N/A

Appendix 3: Liquidity Coverage Ratio

The below table provides analysis of the Bank's Liquidity Coverage Ratio, applying simple average of month-end observations over the 12 months up to the end of each quarter.

As at 31 December 2020	**31 Dec 2020**	**30 Sep 2020**	**30 Jun 2020**	**31 Mar 2020**
Liquidity Buffer (£000)	110,452	91,526	87,406	84,215
Total Net Cash Outflows (£000)	11,360	6,811	4,268	4,727
Liquidity Coverage Ratio (%)	2,236%	2,447%	2,580%	1,977%

Appendix 4: Asset Encumbrance

The Asset Encumbrance data disclosed in the tables below are median values based on the four quarter end values reported during the year, thus they may differ from point in time disclosures in the Group's Consolidated Annual Report and Financial Statements.

See Section 7 for further comments on the importance of encumbrance to the Group.

Template A - Encumbered and Unencumbered Assets:

		Carrying Amount of Encumbered Assets £000	Fair Value of Encumbered Assets £000	Carrying Amount of Unencumbered Assets £000	Fair Value of Unencumbered Assets £000
010	**Assets of the Reporting Institution**	81,591	-	366,957	-
030	Equity Instruments	-	-	1,844	1,844
040	Debt Securities	28,574	28,574	-	-
070	of which: issued by general governments	11,021	11,021	-	-
080	of which: issued by financial corporations	17,553	17,553	-	-
120	Other Assets	-	-	15,064	-

Template C - Sources of Encumbrance:

		Matching Liabilities, Contingent Liabilities or Securities Lent £000	Assets, Collateral received and Own Debt Securities issued other than Covered Bonds and ABSs Encumbered £000
010	**Carrying Amount of Selected Financial Liabilities**	50,137	81,591