Tandem Money Limited

Pillar 3 Disclosures

31st December 2018

Tandem Money Limited

Pillar 3 Disclosures

31st December 2018

Contents

1. Overview

Introduction

Tandem was founded by Matthew Cooper and Ricky Knox in 2015 as they firmly believed the UK consumer was underserved by the large incumbent retail banks and saw the sector being ripe for disruption. To capture this opportunity, the founders established Tandem as a digitally focused and customer centric UK financial services provider.

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

Tandem's retail proposition encompasses a range of lending products, namely credit cards, mortgages and unsecured personal loans. These products are funded by fixed term and instant access retail deposit accounts.

On 10th January 2018, Tandem Money Limited ("the Group") completed its acquisition of Harrods Bank Limited ("HBL") with the latter immediately renamed as Tandem Bank Limited ("TBL" or "the Bank").

This document is the Group's annual Pillar 3 report for the year ending 31st December 2018, as required under the EU's Capital Requirements Regulation ("CRR") and Capital Requirements Directive ("CRD"). The figures quoted in this disclosure have been drawn from the Group's Consolidated Annual Report and Financial Statements for the year ended 31st December 2018, unless otherwise stated. The Board's Disclosure Policy for its Pillar 3 report is based on its interpretation of the requirements of the CRR and CRD. The Pillar 3 disclosures are updated annually, following publication of the Annual Report and Financial Statements.

Scope

The Prudential Regulatory Authority ("PRA") supervises the Group on a consolidated basis and receives information on the capital adequacy of, and sets capital requirements for, the Group as a whole.

The disclosures in this document are presented on a consolidated group basis and there are no differences between the basis of consolidation of the Group for accounting and regulatory purposes. Where relevant, comparative figures have been presented on an individual HBL basis since this is the first time that the Group has been required to present a Pillar 3 report on a consolidated basis. TBL, the Group's regulated banking subsidiary, also reports to the PRA on a solo basis.

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, overall value creation and its long-term success.

The role of risk management is to ensure that risk-related decisions are consistent with the Group's strategy (in line with the approved Risk Appetite) 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 with active and engaged Directors supported by experienced Senior Management and a Risk Management function that operates independently from the lines of business, with decision making exercised though a number of Senior Management and Board Committees.

Risk Management Framework

The Group's Board, as the governing body, is ultimately responsible for ensuring effective systems and controls are in place to manage risks and for the exercising oversight to ensure that these are effective over time. In practice, the Board delegates authority for day-to-day risk management to Senior Management.

The RMF articulates the framework for the management of risk by the business to ensure that risk exposure does not exceed Risk Appetite, as determined by the Board, and to enable effective oversight by the Board.

The RMF is owned by the Chief Risk Officer ("CRO") and approved by the Board, and sets out how the Group identifies, assesses, monitors and manages its risks. It is designed to protect the Group and to prevent detriment to its customers and other stakeholders.

Senior Management ensures that the RMF is embedded in its day-to-day management and control activities. The RMF is designed to ensure a consistent approach to risk management and reporting is followed throughout the Group, with clear ownership, so that all risks are fully understood and managed in relation to Risk Appetite. It includes the Group's policies, procedures, controls and reporting.

The Board approves the overall RMF and sets Risk Appetite, both of which are designed to ensure that the Group manages its risks in the right way to achieve its agreed strategic objectives. There is a dedicated Risk and Audit Committee ("RAC") of independent Non-Executive Directors which is responsible for oversight of risk management and periodic review and recommendation of the RMF and Risk Appetite to the Board. The Board and Senior Management encourage a culture of transparency and openness to ensure that issues are escalated promptly to them where required.

The RMF is periodically reviewed, updated and approved by the Board to reflect any changes in the nature of the Group's business and external regulations, law, corporate governance and industry best practice. This helps to ensure the Group continues to meet its responsibilities to customers, shareholders and regulators. The Group's Risk Appetite and the policy framework define clear parameters within which the business must operate in order to deliver the best outcome for customers and stakeholders. The Board delegates authorities for risk management through the Chief Executive Officer ("CEO") and the management hierarchy to individuals, an approach which is consistent with the focus of the Senior Managers Regime on the principle of individual accountability. At a senior level, management are supported in their decision making by a committee-based governance structure. The concept of individual accountability for risk management is embedded in the RMF and culture at every level, and guides the way all employees approach their work, behave and make decisions. An important element of the RMF is the maintenance of strong internal controls which are owned and operated by the business.

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) originate and manage risks while the Risk Management Function (Second Line) provides independent oversight and collective challenge to the First Line, in addition to monitoring and controlling risk. Internal Audit (Third Line) provides independent assurance to the Board that risk management arrangements and systems and controls are fit for purpose. Utilising this principle, the Group actively seeks to separate risk origination from risk oversight and risk assurance, with governance provided by formal committees.
Defined Risk Appetite	Throughout the year the Board has developed 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 in both qualitative and quantitative terms, whilst further articulating the risks the business is willing to take and those it will not in its journey to achieve its strategic goals.

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.
Management Policies and Committees	Throughout the year the Group's policies and management committees have continuously been enhanced, formalised and strengthened. At the year end all policies and governance procedures encompassing the areas flagged as principal risks were in place and operating effectively.

Risk Governance

The risk governance structure below is integral to effective risk management across the Group. The Risk Management function is appropriately represented on key committees to ensure that risk management is discussed in these meetings. This structure outlines the flow and escalation of risk information and reporting from the business to the Executive Committee ("ExCo") and ultimately through to Board. Conversely, strategic direction and guidance is cascaded down from the Board and ExCo.

Board, Executive and Risk Committees

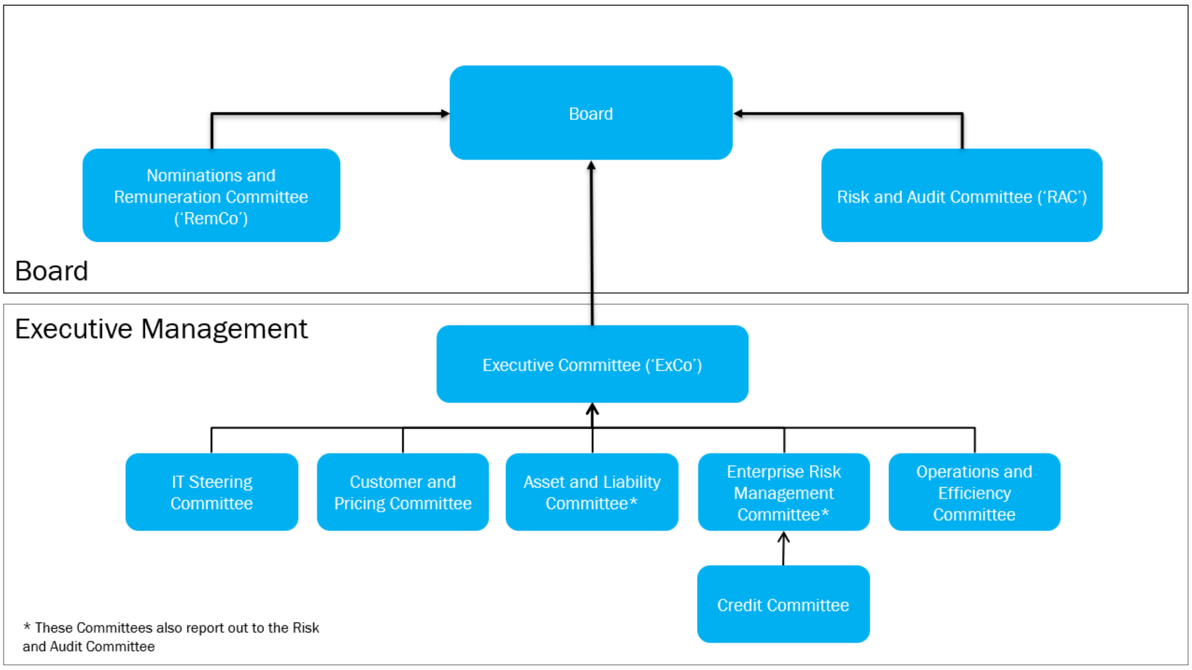
The risk governance structure (see Table 1) strengthens risk evaluation and management, while also positioning the Group to manage the changing regulatory environment in an efficient and effective manner. Assisted by the RAC, the Board approves the Group's overall governance, risk and control frameworks and Risk Appetite. The functional risk committees review and recommend Risk Appetite and monitor the risk profile and adherence to appetite.

In addition to the formal committee structures, Tandem has clear 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. These structures also support the principles of the Three Lines of Defence model, with appropriate independent reporting lines for the CRO, Money Laundering Reporting Officer, Head of Compliance and Internal Audit (outsourced to BDO LLP) to the Chair of the Risk and Audit Committee.

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



Board Level Governance

Board

The Board of Directors is responsible for setting the Group's strategic objectives to ensure that the Group's obligations to its customers, employees, regulators and shareholders are understood and met.

Risk and Audit Committee

The RAC is responsible for ensuring the Group's operations are supported by a comprehensive and proportionate RMF. It reviews and monitors existing risks as well as being forward looking to anticipate future risks, reporting its conclusions to the Board. The RAC is responsible for advising the Board on the Group's Financial Statements including any related policy issues, reviewing the effectiveness of the Group's internal controls and considering management's response to findings and recommendations made as part of both internal and external audit reviews. The committee is responsible for reviewing and approving the internal audit plan and budget as well as reviewing annually and as necessary approving the terms of engagement put forward by the external auditors for the provision of audit services.

Nomination and Remuneration Committee ("RemCo")

RemCo is appointed by the Board and seeks to ensure that the Board functions appropriately through the timely identification and nomination of members and critical functions as and when vacancies arise. RemCo is responsible for determining the policy and the level of remuneration for Independent Non-Executive Directors, Executive Directors and Senior Management, and for reviewing the general remuneration levels for all staff as well as reviewing Board succession planning.

See Section 10 for further details on the Group's remuneration disclosure.

Executive Level Governance

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")

ALCO is charged by ExCo to manage the Bank's balance sheet, specifically pertaining to liquidity risk, funding risk, capital risk and non-traded market risk in the banking book. The committee shall identify, assess, manage and monitor any of the above risks and has the authority to manage these risks using debt and derivative instruments in line with the Bank's Treasury Policy. ALCO must consider the potential impact of its decisions on the Board approved business plan, and specifically the ability to meet net interest income targets, however, oversight of the Bank's performance against the plan is the remit of ExCo.

Enterprise Risk Management Committee ("ERMC")

The ERMC is responsible for considering the appropriateness of risk management arrangements and systems and controls to ensure that the Group is managed within its Risk Appetite across all principle risks:

- 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.

Credit Committee

The ERMC is supplemented by the Credit Committee and is responsible for the development and effectiveness of the credit risk management framework, clear description of the Group's credit risk appetite, setting of credit policy and compliance with regulatory requirements relating to credit. 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 ("OEC")

The OEC is the main forum for overseeing the ongoing efficiency and effectiveness of the Group's operations. It oversees project management and change management initiatives and conducts cost reviews on the operational infrastructure. It is the forum for setting priorities, resolving issues, and ensuring the premises, technology and operations are properly supporting the business needs.

Information and Technology Steering Committee ("ITSC")

The ITSC provides oversight and governance over Tandem's IT functions, including approvals of information technology related policies, practices and applicable guidelines. It oversees the fitness for purpose of the Group's IT architecture and infrastructure, and Information Security and Data Management approaches.

Customer and Pricing Committee ("CPC")

The CPC sets strategy and provides oversight over design, launch and management of products including new product approval, periodic product reviews and management of conduct risks across product portfolios.

Risk Culture

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

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

3. Regulatory Capital

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.

Capital Requirements

The Basel Committee on Banking Supervision ("BCBS") has a mandate to strengthen the regulation, supervision and practices of banks 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 ("RWAs"). 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. On an annual basis the Group undertakes an Internal Capital Adequacy Assessment Process ("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. The Group and its regulated subsidiary have met their minimum capital requirements, including all supervisory buffers, at all times throughout the year.

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 is being phased in at 0.625% p.a. to reach 2.5% from 1 January 2019. As of 31st December 2018 the CCB stood at 1.875% 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 0.8% at 31st December 2018. 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 2018 £'000	31 December 2017 £'000
Regulatory Capital		
CET1 Capital	**57,459**	54,970
Tier 1 Capital	**57,459**	54,970
Total Capital	**57,459**	54,970
Total Risk Weighted Assets	**192,449**	139,804
CET1 Capital Ratio	**29.9%**	39.3%
Tier 1 Capital Ratio	**29.9%**	39.3%
Total Capital Ratio	**29.9%**	39.3%
Leverage Ratio	**10.5%**	11.1%

Capital Resources

The table below summarises the composition of the Group’s regulatory capital:

	31 December 2018 £'000	31 December 2017 £'000
CET1 Capital		
Called up share capital	**214**	20,500
Share premium	**141,238**	-
Other reserves	**3,718**	80,050
Retained earnings	**(76,944)**	(45,370)
Deductions from CET1 Capital		
Intangible assets	**(10,751)**	(210)
Prudent valuation adjustment	**(16)**	-
CET1 Capital	**57,459**	54,970
Total Own Funds	**57,459**	54,970

The table below shows a reconciliation between equity and CET1 capital after deductions:

	31 December 2018 £'000	31 December 2017 £'000
Equity	**68,226**	55,180
Regulatory deductions from equity:		
Intangible assets	**(10,751)**	(210)
Prudent valuation adjustment	**(16)**	-
CET1 Capital	**57,459**	54,970

See also Appendix 2 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	Credit Risk Exposure £'000	Risk Weighted Assets £'000	Pillar 1 Requirement £'000	Average Exposure £'000
Central Governments or Central Banks	102,246	-	-	105,056
Multilateral Development Banks	15,045	-	-	7,523
Institutions	17,632	3,526	282	15,147
Corporates	2,061	2,061	165	1,031
Retail	82,146	61,609	4,929	41,078
Mortgages on Immovable Property	256,225	89,735	7,179	313,297
Exposures in Default	13,622	13,680	1,094	6,811
Equity	886	886	71	601
Other Items	9,170	9,170	734	5,163
Total Credit Risk	**499,033**	**180,667**	**14,454**	**495,707**
Counterparty Credit Risk	3,668	734	59	
Operational Risk	-	9,926	794	
Credit Valuation Adjustment	-	1,122	90	
Total Pillar 1 / RWA	**502,701**	**192,449**	**15,397**	

Exposures include undrawn commitments after the application of the 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 2018	Aaa to Aa3 CQS 1 £'000	A1 to A3 CQS 2 £'000	Total £'000
Institutions	3,668	13,964	17,632

5. Credit Risk

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

Senior Management has set out product level credit policies and oversees credit performance through the Credit Committee and ERMC. The Risk and Pricing Director is responsible for the management of credit risk in the First Line of Defence, with the CRO responsible for oversight of credit risk, in the Second Line of Defence.

Impairment of Financial Assets

The Group assesses at each reporting date its assets not at fair value through profit or loss as to whether there is any objective evidence that a financial asset is impaired. If any such indication exists the Group estimates the recoverable amount of the asset versus the exposure.

An impairment loss is measured as the difference between the asset's carrying value and the present value of estimated cash flows (excluding future credit losses that have not been incurred), discounted at the asset's original effective interest rate.

Loans and Advances

Impairment provisions are made against individual loans when recovery is doubtful. Evidence of impairment may include:

- 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 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.

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.

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.

Credit Risk Analysis

The below table analyses impaired loans between secured and unsecured lending:

As at 31 December 2018	Unsecured Lending £'000	Secured Lending £'000	Total £'000
Total gross impaired loans	2,022	4,534	6,556
Neither past due nor impaired	80,828	265,293	346,121
Total Gross Amount Due	**82,850**	**269,827**	**352,677**

An aging analysis of gross impaired loans is set out below:

Total Gross Impaired Loans	31 December 2018 £'000
Less than 3 months	1,677
Past due 3 to 12 months	4,879
	6,556

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

Year ended 31 December 2018	Unsecured lending £'000	Secured Lending £'000	Total £'000
Opening Balance	-	240	240
New impairment provisions less releases	2,079	210	2,289
Closing Balance	**2,079**	**450**	**2,529**
Of Which Collective	871	-	871

The geographical distribution of credit exposures is shown below:

	United Kingdom £'000	Europe £'000	Rest of world £'000	Total £'000	Of which loans originated in UK or fully secured on property in the UK £'000
Central governments or central banks	102,246	-	-	102,246	-
Multilateral Development Banks	-	15,045	-	15,045	-
Institutions	17,632	-	-	17,632	-
Corporates	161	-	1,900	2,061	-
Retail	82,146	-	-	82,146	82,146
Mortgages on immovable property	143,509	26,004	86,712	256,225	256,225
Exposures in default	7,083	4,534	2,005	13,622	13,622
Equity	-	-	886	886	-
Other items	9,170	-	-	9,170	-
Total	**361,947**	**45,583**	**91,503**	**499,033**	**351,993**

The geographical split above has been prepared on the same basis as the countercyclical buffer disclosures in Appendix 1. The exposures reflect the domicile of the obligor in accordance with Regulation (EU) 1152/2014 and include undrawn commitments after the application of the applicable credit conversion factors. All the loans in the mortgage portfolio are issued from, and the property located in, the UK. Appendix 1 sets out the geographical exposure firstly by country of nationality of obligor (Table 1a) and secondly by the country of location of the lending balances and location of security (Table 1b). All Mortgages issued by Tandem Bank are in GBP and secured on property in England and Wales.

The following table summarises the residual maturity profile of the credit exposures on a contractual basis:

As at 31 December 2018	**On Demand £'000**	**Up to 1 Year £'000**	**1 to 5 Years £'000**	**Over 5 Years £'000**	**Undated £'000**	**Total £'000**
Central Governments or Central Banks	102,246	-	-	-	-	102,246
Multilateral Development Banks	-	-	15,045	-	-	15,045
Institutions	14,622	-	3,010	-	-	17,632
Corporates	2,061	-	-	-	-	2,061
Retail	18,034	1,582	62,259	271	-	82,146
Mortgages on Immovable Property	-	16,005	35,039	205,181	-	256,225
Exposures in Default	13,622	-	-	-	-	13,622
Equity	-	-	-	-	886	886
Other Items	2,905	-	-	-	6,265	9,170
Total	**153,490**	**17,587**	**115,353**	**205,452**	**7,151**	**499,033**

6. 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. The Group 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.

The Group reports liquidity under the Liquidity Coverage Ratio ("LCR") and has maintained a very strong level above the regulatory minimum, 583% as at 31st December 2018 versus the minimum regulatory requirement of 100%. All liquidity metrics are calculated daily and reported to the Liquidity Management Committee daily and ALCO if necessary. ALCO receives a full liquidity report on a monthly basis as part of the regular monthly meeting and subsequently cascaded to the Board.

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

Risk Appetite

Tandem has set out its Liquidity Risk Appetite ("LRA") as follows:

- The LRA is set at the TBL level with the requirement that sufficient cash is retained in TML to meet the Group's operational expenses;
- The Bank will always hold a sufficient quantity of liquid assets to meet its obligations in normal conditions and, during 2019, for a minimum of 60 days in a stressed environment; and
- High Quality Liquid Assets will be maintained to sustain a LCR at a minimum of 150%.

In addition to the above the Group also measures the following to ensure that the Group's structural funding remains sufficient for the Group's ongoing liquidity requirements:

- Net Stable Funding Ratio is at least 100%; and
- Liquid assets will represent at least 15% of total deposits.

The Internal Liquidity Adequacy Assessment Process ("ILAAP") sets out Tandem's approach to liquidity and funding. ILAAP is the process by which Tandem's Board and Senior Management oversees and regularly assesses its ability to operate within the Group's internal LRA and the Overall Liquidity Adequacy Rule. It has been prepared in line with internal policies and procedures as well as the regulation on liquidity and funding risk management defined by the PRA rulebook for Capital.

In completing the ILAAP, Tandem's management have assessed:

- The adequacy of Tandem's liquidity and funding resources to cover the risks identified;
- The methodologies and assumptions applied for risk measurement and liquidity management;
- The major sources of risk to Tandem's ability to meet their liabilities as they fall due, including a review of the business against the risks outlined in 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 Liquidity Contingency 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 Group's governance process, specifically, ALCO, ExCo, RAC and the Board and was most recently approved as part of the Group's ILAAP (submitted in December 2018).

Collateral

The Group has entered into interest rate derivatives to hedge its lending portfolio which are supported by credit support annexes whereby if the fair value exceeds the pre-agreed level, cash collateral is required. As at 31st December 2018 the Group has provided collateral of £3,360k against its interest rate derivative portfolio.

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 Term Funding Scheme. The level of asset encumbrance is monitored at ALCO. Further detail on asset encumbrance, as prescribed by EBA/GL/2014/03 is shown in Appendix 4.

7. 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 LRSsum: Summary reconciliation of accounting assets and leverage ratio exposures **As at 31 December 2018**	**CRR Leverage ratio exposures £'000**
Total Assets as per Published Financial Statements	510,831
Adjustments for Derivative Financial Instruments	3,668
Adjustments for Securities Financing Transactions "SFTs"	36,038
Adjustment for Off-Balance Sheet Items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	9,022
Other Adjustments	(11,120)
Total Leverage Ratio Exposure	**548,439**

Table LRCom: Leverage ratio common disclosure **As at 31 December 2018**	**CRR Leverage Ratio Exposures £'000**
On-Balance Sheet Exposures (excluding derivatives and SFTs)	
On-Balance Sheet Items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	510,616
(Asset amounts deducted in determining Tier 1 Capital)	(10,905)
Total On-Balance Sheet Exposures (excluding derivatives, SFTs and fiduciary assets)	**499,711**
Derivative Exposures	
Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	3,560
Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	108
Total Derivative Exposures	**3,668**
Securities Financing Transaction Exposures	
Counterparty Credit Risk Exposure for SFT assets	36,038
Total Securities Financing Transaction Exposures	**36,038**
Other Off-Balance Sheet Exposures	
Off-Balance Sheet Exposures at Gross Notional Amount	80,968
(Adjustments for Conversion to Credit Equivalent Amounts)	(71,946)
Other Off-Balance Sheet Exposures	**9,022**
Capital and Total Exposures	
Tier 1 Capital	57,459
Total Leverage Ratio Exposures	**548,439**
Leverage Ratio	**10.5%**

Table LRSpl: Split-up of on Balance Sheet Exposures (excluding derivatives, SFTs and exempted exposures) **As at 31 December 2018**	**CRR Leverage Ratio Exposures £000**
Total On-Balance Sheet Exposures (excluding derivatives, SFTs and exempted exposures), of which:	499,711
Trading Book Exposures	-
Banking Book Exposures, of which:	499,711
Exposures treated as Sovereigns	102,246
Exposures to Regional Governments, MDB, International Organisations and PSE not treated as Sovereigns	15,045
Institutions	17,632
Secured by Mortgages of Immovable Properties	255,982
Retail Exposures	82,276
Corporate	2,061
Exposures in Default	14,413
Other Exposures (eg equity, securitisations, and other non-credit obligation assets)	10,056

The Leverage Ratio is monitored and reported to ALCO on a monthly basis. During the year the movement in the ratio reflected the changes in CET1 capital.

8. Market Risk

Overview

Market risk is defined as the risk that the value of the Group's assets, liabilities, income or costs may fluctuate due to the result of changes to market rates. The Group's market risks include Interest Rate Risk in the Banking Book. The Group does not currently possess 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 has also historically entered into derivative transactions, currently cash collateralised interest rate swaps, to manage this risk.

The Group's primary measure used to capture interest rate risk is an analysis of the impact of changes in interest rates on the market value of the Group's assets and liabilities and on the Group's earnings. Interest rate risk limits are an expression of the Board's risk appetite and are reviewed annually as an integral part of the ICAAP under its Pillar 2 assessment.

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

Parallel shift in yield curve	**As at 31 December 2018 £'000**
+ 100bps	(661)
- 100bps	718
+ 50bps	(338)
- 50bps	352

Throughout 2018, the Group managed its interest rate risk exposure within its risk appetite limits. As at the 31st December 2018, the Group's maximum negative exposure to interest rate risk was calculated to be £0.2m.

9. Operational Risk

Operational Risk is the risk of adverse impact on the Group or its customers, whether direct or indirect, resulting from inadequate or failed processes, people and systems or from external events (including financial crime). It includes the risk of financial loss, reputational damage, legal risk or censure from regulatory authorities.

The Group has established an Operational Risk Management Framework ("ORMF") 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 mandate 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 ORMF is owned by the CRO and is approved by the Board.

10. Remuneration

Remuneration Policy

The Board's policy is to set remuneration in order to attract, retain and motivate all staff. The CEO's remuneration is set to encourage performance that is fully aligned to the delivery of the Group's strategic objectives and for the benefit of shareholders. The remuneration of the CEO is further set to take into account job content and responsibilities at salary levels for similar positions in comparable financial services organisations. The CEO has a Board approved job description, which is used as a basis for the appraisal of performance carried out each year by the Chairman.

The below table summarises the total Directors' Emoluments for the year:

Total Directors' Emoluments	**Year ended 31 December 2018 £'000**
Remuneration	549
Pension Contributions	10
Share-based Payments	99
	658
Highest paid Director Emoluments:	
Remuneration	280
Pension Contributions	7
Share-based Payments	70
	357

Senior Managers and Material Risk Takers ("MRTs")

Through the period 1st January 2018 to 31st December 2018, a total of 12 individual employees were identified as MRTs on the basis that their professional activities were deemed to pose a material impact on the firm's risk profile. This total does not include the Chairman and Non-Executive Directors.

The following table analyses the remuneration of SMFs and MRTs:

Year ended 31 December 2018	**Senior Management Functions**	**Other Material Risk Takers**	**Total**
Total remuneration (£'000)	1,644	714	2,358*
Number of Beneficiaries	7	5	12

* Certain SMFs and MRTs have received share-based payments during the year in the form of share options. This is not included in the amounts above and no options have been exercised in the year.

Appendix 1: Countercyclical Capital Buffer

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

As at 31 December 2018 **Breakdown by Country**	**General Credit Exposures Exposure Value £'000**	**Own Funds Requirements General Credit Exposure £'000**	**Own Funds Requirements Weights %**	**CCyB Rate %**
United Kingdom	242,071	10,308	72.8%	1.0%
USA	35,824	1,148	8.1%	0.0%
Monaco	20,561	775	5.5%	0.0%
United Arab Emirates	13,162	473	3.3%	0.0%
Hong Kong	10,224	286	2.0%	1.9%
Switzerland	5,852	164	1.2%	0.0%
Singapore	4,617	129	0.9%	0.0%
Qatar	4,003	112	0.8%	0.0%
Russia	3,069	86	0.6%	0.0%
China	2,890	81	0.6%	0.0%
Bermuda	2,143	60	0.4%	0.0%
South Africa	1,806	51	0.4%	0.0%
Saudi Arabia	1,803	50	0.4%	0.0%
Pakistan	1,754	49	0.3%	0.0%
Kuwait	1,588	44	0.3%	0.0%
Republic of Korea	1,559	44	0.3%	0.0%
Australia	1,397	39	0.3%	0.0%
Turkey	1,384	39	0.3%	0.0%
Kenya	1,154	32	0.2%	0.0%
Argentina	963	27	0.2%	0.0%
Poland	757	21	0.1%	0.0%
Sweden	659	18	0.1%	2.0%
Norway	613	17	0.1%	2.0%
Others	4,257	119	0.8%	0.0%
Total	**364,110**	**14,172**	**100.0%**	

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.

Table 1b - The below table presents the geographical location of the lending balances based on country of origination and location of security

	United Kingdom £'000	**Europe** £'000	**Rest of world** £'000	**Total** £'000
Retail	82,146	-	-	82,146
Mortgages on immovable property	256,225	-	-	256,225
Exposures in default	13,622	-	-	13,622
Total lending	**351,993**	**-**	**-**	**351,993**
Other exposures relevant for CCyB	9,331	-	2,786	12,117
Exposures relevant for CCYB	**361,324**	**-**	**2,786**	**364,110**

Table 2 - Amount of institution-specific Countercyclical Capital Buffer:

	As at 31 December 2018 £'000
Total Risk Exposure Amount	192,449
Institution specific Countercyclical Capital Buffer Rate	0.77%
Institution specific Countercyclical Capital Buffer Requirement	1,482

Appendix 2: EBA Own Funds Disclosure

		As at 31 December 2018 £'000
	Common Equity Tier 1 Capital: Instruments and Reserves	
1	Capital Instruments and the Related Share Premium Accounts	141,452
2	Retained Earnings	(76,944)
3	Accumulated Other Comprehensive Income (and Other Reserves)	3,718
6	**Common Equity Tier 1 (CET1) Capital Before Regulatory Adjustments**	**68,226**
	Common Equity Tier 1 Capital: Regulatory Adjustments	
7	Additional Value Adjustments	(16)
8	Intangible Assets	(10,751)
28	**Total Regulatory Adjustments to Common Equity Tier 1 (CET1)**	**(10,767)**
29	**Common Equity Tier 1 (CET1) Capital**	**57,459**
45	**Tier 1 Capital**	**57,459**
59	**Total Capital**	**57,459**
60	**Total Risk Weighted Assets**	**192,449**
	Capital Ratios and Buffers	
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	35.5%
62	Tier 1 (as a percentage of total risk exposure amount)	35.5%
63	Total Capital (as a percentage of total risk exposure amount)	35.5%
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)	7.1%
65	of which: Capital Conservation Buffer requirement	1.9%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	27.5%

Appendix 3: Liquidity Coverage Ratio

The below table shows the LCR using an average of month end observations over the four quarters of 2018:

	Q1 2018 £'000	Q2 2018 £'000	Q3 2018 £'000	Q4 2018 £'000
Liquidity Buffer	82,922	79,855	83,346	84,310
Total Net Cash Outflows	5,106	2,883	5,567	16,527
Liquidity Coverage Ratio (%)	2771%	3413%	1515%	593%

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 6 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**	73,015	-	425,142	-
030	Equity Instruments	-	-	316	316
040	Debt Securities	32,774	-	1,694	1,694
120	Other Assets	3,776	-	10,723	-

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**	50,000	73,015