

farmem

PILLAR 3

DISCLOSURES

31 December 2023



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1. Overview

Introduction

This document contains the annual Pillar 3 disclosures of Tandem Money Limited and its subsidiaries (the 'Group') for the year ended 31 December 2023, as required under the rules of the Prudential Regulation Authority ('PRA') prescribed in the Disclosure part of the PRA Rulebook for Capital Requirements Regulation ('CRR') firms.

Scope

As the Group meets the criteria to be a 'small, non-complex' firm set out in UK CRR Article (4) (145), the Group has followed the reduced Pillar 3 qualitative and quantitative disclosure requirements for small, non-complex and non-listed institutions set out in Article 433 (b) of the Disclosure part of the PRA Rulebook for CRR firms. Additional information has been provided where this is necessary to provide a full understanding of the Group's position.

Regulatory ratios are presented on a Group basis only. The same basis of consolidation is used for statutory accounting and regulatory reporting. This document is prepared in sterling which is the functional and reporting currency of the Group. Balance amounts are rounded to the nearest thousand.

No disclosures have been omitted based on materiality, confidentiality or proprietary. Specific rows and columns in the tables prescribed by the PRA have been omitted where these are not applicable to the Group.

Review and approval

The Pillar 3 disclosures are reviewed and approved by the Board following presentation by the Chief Financial Officer ('CFO'). The CFO attests that the disclosures are made in accordance with the Group's Pillar 3 Policy and appropriate internal processes, systems and controls, including reviews by relevant senior management, and Executive and Board committees.

Publication

The Pillar 3 Disclosures are published annually in line with the publication of the Annual Report and Financial Statements.

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

2. Key Metrics

Key metrics table (UK KM1) relating to capital, leverage, and liquidity:

		31 Dec '23 £'000	31 Dec '22 £'000
	AVAILABLE OWN FUNDS		
1	Common Equity Tier 1 (CET1) Capital	150,158	119,883
2	Tier 1 Capital	150,158	119,883
3	Total Capital	175,438	119,883
	RISK-WEIGHTED EXPOSURE AMOUNTS (RWEA)		
4	Total Risk Weighted Assets	931,650	790,158
	CAPITAL RATIOS (as percentage of RWEA)		
5	Common Equity Tier 1 Ratio (%)	16.1%	15.2%
6	Tier 1 Ratio (%)	16.1%	15.2%
7	Total Capital Ratio (%)	18.8%	15.2%
	ADDITIONAL OWN FUNDS REQUIREMENTS BASED ON SREP¹ (as percentage of RWEA)		
UK 7a	Additional CET1 SREP Requirements (%)	1.5%	1.5%
UK 7b	Additional AT1 SREP Requirements (%)	0.5%	0.5%
UK 7c	Additional T2 SREP Requirements (%)	0.7%	0.7%
UK 7d	Total SREP own funds requirements (%)	10.6%	10.6%
	COMBINED BUFFER REQUIREMENT (as percentage of RWEA)		
8	Capital Conservation Buffer (%)	2.5%	2.5%
9	Institution Specific Countercyclical Capital Buffer (%) ²	1.9%	1.0%
11	Combined Buffer Requirement (%)	4.4%	3.5%
UK 11a	Overall Capital Requirement (%)	15.0%	14.1%
12	CET1 available after meeting total SREP Own Funds Requirements (%) ³	12.9%	9.2%
	LEVERAGE RATIO		
13	Total Exposure Measure excluding Claims on Central Banks	1,458,860	1,401,205
14	Leverage Ratio excluding Claims on Central Banks (%)	9.8%	8.8%
	LIQUIDITY COVERAGE RATIO⁴		
15	Total High-Quality Liquid Assets (HQLA) (Weighted Value-Average)	1,786,879	329,806
UK 16a	Cash Outflows – Total Weighted Value	348,061	158,136
UK 16b	Cash Inflows – Total Weighted Value	66,597	54,989
16	Total Net Cash Outflows (Adjusted Value)	281,464	103,147
17	Liquidity Coverage Ratio (%)	636.0%	314.1%
	NET STABLE FUNDING RATIO⁵		
18	Total Available Stable Funding	3,142,854	1,447,618
19	Total Required Stable Funding	1,156,379	922,410
20	NSFR Ratio (%)	270.6%	155.5%

¹ Of which 56.25% of CET1 capital, 43.75% of AT1 capital and 25% of Tier 2 capital

² The UK Countercyclical Capital Buffer Rate increased in December 2022 from 0% to 1%, and to 2% in July 2023

³ CET1 ratio less the minimum amount of CET1 required to meet the total SREP own funds requirement (56.25% of Pillar 1 and Pillar 2A capital requirements)

⁴ Calculated as average of monthly liquidity positions during 2023

⁵ Calculated as average of quarterly NSFR positions during 2023

The CET 1 and Total Capital Ratios increased to 16.1% and 18.8% respectively (2022: 15.2%), continuing to be in excess of the Group's overall capital requirement of 15.0% and SREP own funds requirement of 10.6%. The increase in capital ratios was due to a £30.3 million increase in CET1 capital, following the issuance of further share capital, the issue of £20 million of Tier 2 capital and general provisions of £5.3m, offset by an increase in total risk weighted exposure amounts ('RWEAs') of £141.5 million resulting from organic business growth across the Group.

The Combined Buffer requirement reflects the increased UK Countercyclical Capital Buffer ('CCyB') rate of 2% for UK exposures applicable in July 2023 (previously 1%).

The Group remains outside the scope of the full UK Leverage Ratio Framework, which came into effect in January 2021. At 31 December 2023, the Group's leverage ratio was 9.8% (2022: 8.8%), in excess of the UK Leverage Framework minimum requirement of 3.25%.

The Group's average Liquidity Coverage Ratio ('LCR') and average Net Stable Funding Ratio ('NSFR') over the 12 months to 31 December 2023 were 636.0% and 270.6% (2022: 314.1% and 155.5%), considerably ahead of the regulatory minimums. This followed a period of strong performance in sourcing deposits that exceed the Group's immediate needs, with the excess funds invested profitably at the Bank of England.

3. Risk Weighted Exposure Amounts

The Group adopts the Standardised approach for calculating its Pillar 1 own funds requirements for credit risk, operational risk and counterparty credit risk ('CCR') including credit valuation adjustment ('CVA'). Under the UK CRR, CCR is calculated using the Original Exposure Method ('OEM').

The Pillar 1 capital own funds requirements set a minimum capital resource requirement of 8% of RWEAs for credit, counterparty, operational and CVA risks.

The table (UK OV1) below shows risk weighted exposures amounts and total own funds requirements by risk type:

		Risk Weighted Exposure Amounts (RWEA)		Total Own Funds Requirements
		31 Dec '23 £'000	31 Dec '22 £'000	31 Dec '23 £'000
1	Credit Risk (excluding CCR)	816,990	699,002	65,359
2	Of which: Standardised Approach	816,990	699,002	65,359
6	Counterparty Credit Risk (CCR)	8,096	6,168	648
7	Of which: OEM	2,204	1,550	176
UK 8b	Of which: Credit Valuation Adjustment (CVA)	5,892	4,618	471
23	Operational Risk	106,564	84,988	8,525
UK 23a	Of which: Basic Indicator Approach	106,564	84,988	8,525
	TOTAL	931,650	790,158	74,532

Total RWEAs increased by £141.5 million and the overall capital requirement (8%) by £11.3 million as set out in section 2 above.

The CCR exposure arises due to the use of derivative hedging contracts to manage interest rate risk.

The Group holds capital against operational risk under the Basic Indicator Approach, which is based on the average of the Group's income over the past three years. At 31 December 2023, the amount of capital held against operational risk increased by £1.7 million to £8.5 million (2022: £6.8 million) as a result of the organic business growth across the Group.

4. Risk Management

Effective risk management is a key element of the Group's sustainable performance, overall value creation and its long-term success.

Risk Management Strategies and Processes

Throughout 2023 Tandem has undergone significant enhancements to its Enterprise-wide Risk Management Framework ('RMF') and capability to continue to support the Group's strategy and business plan. The RMF ensures that the Group's risk management is tailored to the size, nature, complexity and strategy of the Group through appropriate governance, policies, risk objectives, risk appetite, risk identification processes, and operating models. Tandem will continue to embed, review, refine and evolve its approach to risk management in recognition of changes in the scope and scale of the business, and in line with the changing regulatory landscape.

The Board considers that as at 31 December 2023 it had in place adequate systems and controls with regard to Tandem's risk profile and strategy. Whilst risk cannot be eliminated, the Board is satisfied that the systems of internal control embedded within the RMF have worked effectively during the last financial year to identify, monitor, manage and control relevant risks.

Risk Governance and Oversight

The Tandem Board, as the governing body of the Group, including its underlying entities, is responsible for ensuring that effective systems and controls are in place to manage risks and for exercising oversight to ensure that these are effective over time. The Board delegates authority for day-to-day risk management to Senior Management, and exercises oversight of these arrangements through appropriate systems of governance and reporting.

The Board has established a Risk Committee comprising Independent Non-Executive Directors ('INEDs'). The role of the Risk Committee is to support the Board in the oversight of risk management systems and controls and the monitoring of Tandem's Risk Profile relative to the Board-approved Risk Appetite.

Management has established an Executive Risk Committee ('ERC') that is responsible for the monitoring and management of the Group's risk management arrangements and practices. Further, the committee provides particular oversight of principal risk types against risk appetite and in line with the Group's RMF. The ERC recommends some matters to the Board Risk Committee, where appropriate.

The Chief Risk Officer ('CRO') is responsible for overseeing the RMF on behalf of the Board, and reports to the Chief Executive Officer. The CRO is also provided with unfettered access to the Chair of the Board and the Chair of the Board Risk Committee.

Risk Strategy and Culture

Tandem's risk strategy is to continue to create and maintain a robust risk culture and embed effective risk management practices.

The Board are committed to promoting a risk aware culture, where appropriate decision making and behaviours are modelled by the Board of Directors and Senior Management and thereby sets the standard across the organisation.

Tandem's risk culture is supported by Tandem's Conduct Risk Framework, which supports and enables the management of risks, the realisation of good customer outcomes, and ongoing compliance with all regulatory and legal requirements.

The Board and Senior Management encourage a culture of transparency and openness to ensure that issues are escalated promptly, where required. The Chair of the Audit Committee is the appointed Whistleblower Champion, with the Head of Compliance assigned as the point of contact on whistleblowing matters.

Risk Management Framework

The Board-approved Group RMF outlines Tandem’s approach to risk management and how the key risk exposures of the Group are identified, assessed and managed, ensuring that risk exposure does not exceed Risk Appetite. The framework is periodically reviewed, updated and approved by the Board to reflect any changes to the business and external regulations, law, corporate governance and industry best practice.

Risk Appetite

The Board-approved Risk Appetite defines the type and level of risks that the Group is prepared to manage in pursuit of its strategic objectives, both under normal and stressed business conditions.

Risk appetite is expressed within the Consolidated Statement of Risk Appetite, which comprises tolerances for managing each of the principal risk types with a limit structure in place to ensure delivery against appetite.

Three Lines of Defence

Tandem’s approach to risk management follows industry practice of the ‘Three Lines of Defence’ model:

First line of defence represents all business units, including the core business units and operational functions, which are all individually responsible for understanding and managing the risks in their respective areas. It contains all staff responsible for identifying and managing risk, as part of their accountability for achieving their objectives.

Second line of defence comprises the central and independent Risk and Compliance Function, led by the CRO. The function provides independent oversight and challenge of the first line of defence, the frameworks, tools and techniques to enable risk and compliance to be managed in the first line, conducts monitoring to judge how effectively they are operating, and helps to ensure consistency of definitions and measurement of risk across the Group.

Third line of defence is provided by the internal audit function. This sits outside of the risk management processes of the first and second line, with its main role being to ensure that the first two lines are operating effectively. Tasked by (and reporting to) the Audit Committee, it provides an evaluation on the effectiveness of governance, risk management and internal controls to the Board and Senior Management.

Stress Testing

Stress testing is an important risk management tool to assist the Board’s understanding of the key risks, scenarios and sensitivities that may adversely impact the financial or operational position of the Group. Stress-testing is integrated in the Group’s annual assessments, including the Internal Capital Adequacy Assessment Process (‘ICAAP’), Internal Liquidity Adequacy Assessment Process (‘ILAAP’) and the Recovery Plan (‘RP’).

The Board reviews and approves the ICAAP, ILAAP and the RP on an annual basis.

Key Risk Management Ratios

The Group monitors its risk profile through the use of key metrics, including:

- CET 1 ratio;
- Total capital ratio;
- Leverage ratio;
- Liquidity Coverage ratio;
- Net Stable Funding ratio;
- Operational risk losses;
- Levels of non-performing assets; and
- Measures of interest rate risk in the banking book (‘IRRBB’).

Material Intragroup Transactions

There were no related party or intragroup transactions materially impacting the risk profile of the consolidated group as at 31 December 2023.

Principal Risks

The Group, in the execution of its strategy, is exposed to risks. The principal risks set out below represent the overarching risks that the Group faces which could materially impact the achievement of its strategic objectives. The Directors are satisfied that there are reasonable systems and controls in place to manage risks and for exercising oversight.

Principal Risk	Definition	Principal Source of Exposure	Key Mitigation Actions
Capital Risk	Risk that Tandem's capital resources are inadequate in relation to its assets, current liabilities and regulatory expectations, bearing no or limited capacity to absorb unexpected losses.	Tandem holds capital against any risk it is or might be exposed to in pursuit of its corporate objectives.	Ongoing monitoring of capital resources and comprehensive assessment of capital requirements through the ICAAP, business plan and scenario analysis.
Credit Risk	Risk of financial losses to the Group resulting from borrower or counterparty failure to repay a debt or meet their contractual obligation.	The Group faces this risk from lending to customers in either its secured or unsecured lending portfolios and through transacting with wholesale counterparties for the purposes of treasury management.	Credit policies, incorporating prudent lending, collection and underwriting criteria, and ongoing portfolio management, monitoring and stress testing of credit risk exposures.
Liquidity & Funding Risk	Risk that the Group is unable to meet its obligations as they are expected to fall due or can do so only at exceptional cost.	Tandem faces this risk in the management of its liquidity and funding portfolios.	Ongoing management and monitoring of liquidity resources and comprehensive assessment as part of the ILAAP.
Market Risk	Risk of losses arising from adverse movements in market prices.	Market risk arises in the form of interest rate risk management of operational, financing and investment activities.	Ongoing management and monitoring of interest rate movements and their impact on the Balance Sheet, and comprehensive assessment as part of the ICAAP.
Operational Risk	Risk of losses or impact on customers, reputation or resilience, resulting from inadequate or failed procedures, systems and controls, including those resulting from disruption or damage to technology, poor implementation of software or cyber / data breaches.	Tandem faces this risk in the day-to-day management of legal and regulatory activities, people, information security, cyber, IT, transformation, business continuity, data, financial crime and financial reporting risks.	Regular assessment and updating of Risk and Control Self Assessments, and ongoing implementation of Incident and Event management and Action Management processes. Operational Risk scenarios are also subject to comprehensive assessment as part of the ICAAP.

Principal Risk	Definition	Principal Source of Exposure	Key Mitigation Actions
Business Model Risk	Risk that the business strategy is unachievable, due to errors in underlying assumptions, changes in the external environment and / or inadequate financial resources.	Tandem faces business risk from revenue volatility due to factors including macroeconomic conditions, inflexible cost base, competitors with lower cost bases and / or innovative customer propositions and failure to respond effectively to changes in customer behaviour.	Board approved strategy and business plan, embedded through appropriate operational plans and management communication and monitored via KPIs, reporting and management information ('MI').
Climate Risk	Risk that changes in climate conditions, or adjustments to support the transition to a low-carbon economy, will impact Tandem's ability to achieve its business plan or strategy and / or affect the value of Tandem's assets or liabilities.	Tandem is exposed to Climate Risk through physical, transition or greenwashing risks for the Group.	Board approved strategy focused on transition to a lower carbon lifestyle, supported by Board approved Climate Risk management framework, utilising the principal of identify, assess, monitor and report.
Conduct, Compliance and Financial Crime Risk	Risk of detriment to customers, markets or Tandem due to inappropriate, negligent or wilful misconduct, financial crime and / or failure to comply with applicable laws, regulations, principles and standards, (including second order losses relating to conduct failures of retail partners).	As a PRA and FCA regulated institution that is entrusted to help consumers reach their financial objectives, the way in which Tandem offers its products and services and conducts and controls its business can give rise to Conduct, Compliance and Financial Crime Risks.	Implementation of appropriate policies, processes, systems, and controls, that are subject to ongoing challenge, assurance and review, including appropriate reporting and management information up to and including the Board.

Key & Emerging Risks

Management and the Board additionally focused on several key themes through 2023, with a view to ensuring a strong and robust but also proportionate risk framework for the business as it grows.

Key & Emerging Risks	Rationale	Key Mitigations
Macroeconomic Risk	Macroeconomic conditions remained challenging given uncertainties over growth, inflation and interest rates, and ongoing geopolitical tensions.	Oversight and monitoring of actual and forecasted impacts across Tandem's loan exposures and operations, including risk modelling and collection policy and process enhancements.
Cyber Risk	The risk of cybercrime continues to remain heightened in the financial sector.	Ongoing and continuous enhancements to the Group-wide cybersecurity framework in light of an evolving threat landscape.
Regulatory Risk	Changing legislation, regulation, policies, and their interpretations in the markets in which Tandem operates has the potential for significant impact on the Group's operations, business prospects, structure, costs, financial resource requirements, and ability to enforce contractual obligations.	Maintained focus on these horizon risks, both in terms of changing landscape and changes to Tandem's business and associated impacts within the regulatory / legal context, including through ongoing engagement with the Group's regulators.

5. Remuneration

This remuneration disclosure is a requirement of the Disclosure part of the PRA Rulebook for CRR firms, as amended by Article 433 (b), such that only sections (a)-(d), (h) and (i) of Article 450(1) are required.

The disclosure covers remuneration policies and practices for categories of staff whose professional activities have a material impact on the risk profile of the Group. This includes those employees whose roles have been designated as Senior Manager Functions under the SMCR.

Remuneration Policy

The Remuneration Committee of the Board ('RemCo') is responsible for governance of remuneration on behalf of the Board. RemCo is responsible for the development and review of the Remuneration Policy for the Group, and for setting the level of remuneration for INEDs, Executive Directors and Senior Management, as well as reviewing and challenging proposals for workforce incentive schemes. The Committee, including the chair, is made up entirely of Non-Executive Directors.

The RemCo typically convenes every quarter with additional meetings scheduled when required. During the year, the Committee held four meetings in total, discussing a wide range of themes and developments across remuneration and related matters across the Group.

An external law firm (Herbert Smith Freehills) was engaged in the latest review of the Remuneration Policy.

Performance Related Remuneration

The Group believes there is a clear link between pay and performance, which when appropriately designed and delivered, can:

- Achieve an appropriate balance between risk taking and reward;
- Reward achievement of the Group's overall business objectives and values; and
- Prevent, as far as is possible, risk taking in excess of the Group's risk appetite.

Remuneration Structures

Remuneration consists of:

- Fixed pay

In order to attract, retain and motivate employees to achieve the objectives of the Group within its stated risk appetite and risk management framework, employees are paid fixed base salaries, and benefits such as holiday allowance and pension contributions. Base salary is reviewed annually and set at a level to ensure that there is not an excessive dependence on variable remuneration.

- Bonus scheme

The annual cash bonus is performance based and designed to drive and reward medium term results. It considers financial and non-financial (such as adherence to Group values and positive customer outcomes) results and metrics at Group, entity, business unit and individual level. The bonus scheme is open to all qualifying staff and is capped at 20%, 30% or 40% of annual salary depending on seniority.

- Long term management incentive plans

The Executive Directors and senior management are entitled to participate in the Group's long-term share incentive scheme, which awards share-based payments depending on the achievement of corporate objectives.

Remuneration Awarded for the Financial Year

£'000		Management Body Supervisory function (Headcount)	Management Body Management function (Headcount)	Other senior management (FTE)	Other identified staff
Fixed remuneration	Number of identified staff	10	3	14	-
	Total fixed remuneration (all cash based)	526.7	765.7	2,675.2	-
Variable remuneration	Number of identified staff	-	3	14	-
	Total variable remuneration	-	180.8	376.7	-
	Of which: cash-based	-	133.0	328.9	-
	Of which: shares or equivalent ownership interests ⁶	-	47.8	47.8	-
Total remuneration		526.7	946.5	3,051.9	-

Special Payments to Staff whose Professional Activities have a Material Impact on Tandem's Risk Profile

£'000	Management Body Supervisory function (Headcount)	Management Body Management function (Headcount)	Other senior management (FTE)	Other identified staff
Severance payments awarded during the financial year				
Severance payments awarded during the financial year - Number of identified staff	-	-	1	-
Severance payments awarded during the financial year - Total amount	-	-	129.3	-
Of which paid during the financial year	-	-	129.3	-
Of which highest payment that has been awarded to a single person	-	-	129.3	-

Deferred remuneration

No individual received any deferred remuneration for the year ended 31 December 2023 (2022: nil).

Remuneration of €1m or more per year

No individual received remuneration of the sterling equivalent of €1m or more during the year ended 31 December 2023 (2022: nil).

⁶ Valuation externally assessed using an Unrestricted Market Value model