Zopa Bank Limited

Pillar 3 Disclosures

31 December 2020

Contents

1 Introduction

This document comprises Zopa Bank Limited's ('the Bank') Pillar 3 disclosures on capital and risk management as at 31 December 2020. The Bank is authorised by the Prudential Regulation Authority ('PRA') and regulated by the PRA and the Financial Conduct Authority ('FCA'). The document has two principal purposes:

- to provide useful information on the capital and risk profile of the Bank; and
- to meet the regulatory disclosure requirements under the Capital Requirements Regulation (EU) No. 575/2013 ("CRR"), Part 8 – Disclosure by institutions and the rules of the Prudential Regulation Authority ("PRA") set out in the Public Disclosure section of the PRA Rulebook and as the PRA has otherwise directed.

2 Summary analysis

Key ratios

A high level summary of the key capital ratios is provided below.

Key ratios

	2020	**2019**
Common Equity Tier 1 ("CET1") ratio	29.5%	25.1%
Tier 1 capital ratio	29.5%	25.1%
Total capital ratio	29.5%	25.1%
Risk weighted assets (£ million)	390.9	52.9
Leverage ratio	38.1%	54.3%
Liquidity Coverage Ratio	13,597%	10,059%

Further details on the capital ratios, risk weighted assets ('RWAs') and leverage ratio are presented in Section 6 of this document.

3 Disclosure policy

The following sets out a summary of the Bank's Pillar 3 disclosure policy, including basis of preparation, frequency, media and location, verification and risk profile disclosure. This policy is reviewed and approved by the Board Audit Committee ('BAC') on an annual basis to ensure that it remains appropriate in the light of new regulations and emerging best practice.

Basis of preparation

This document sets out the disclosures under Part VIII of the Capital Requirements Regulation (EU Regulation 575/2013, the "CRR"), which represents the Pillar 3 regulatory disclosure requirements in the UK under CRD IV. The disclosures are prepared only for the Bank.. The Bank was authorised with restrictions on 3 December 2018 and only gained its full banking licence in June 2020. No material disclosures have been omitted and nor have any disclosures been omitted from this document for confidentiality purposes.

Frequency, media and location

The Bank's policy is to publish the Pillar 3 disclosures on an annual basis. The information is published in conjunction with the Bank Annual Report & Accounts (ARA) being filed at Companies House. The Pillar 3 disclosures are published by making them available upon email request to cm@zopa.com.

The frequency of disclosure will be reviewed should there be a material change in any approach used for the calculation of capital, business structure or regulatory requirements.

Verification

The Pillar 3 disclosures were reviewed by the BAC and recommended to the Board for approval. In addition, the remuneration disclosures as detailed in Section 16 of this document were reviewed by the Nomination & Remuneration Committee ('NRC'). The Pillar 3 disclosures were approved by the Board. The disclosures are not subject to external audit, though an independent review by internal audit was performed over its completeness and adequacy against relevant regulatory requirements.

Board responsibility for risk management and disclosures

A core objective for the Bank is the effective management of risk. The responsibility for identifying and managing the principal risks rests with the Board of Directors, who are also responsible for setting the strategy, risk appetite and control framework.

In accordance with Part VIII of the CRR and the Bank's Pillar 3 disclosure policy, the Bank is required to ensure that its external disclosures portray its risk profile comprehensively. The Directors have considered the adequacy of the Pillar 3 disclosures in relation to these requirements and are satisfied that they convey the risk profile of the Bank comprehensively.

4 Regulatory capital framework

The Bank is subject to the European Union's Capital Requirements Directive ("CRD") and Capital Requirements Regulation ("CRR"). The CRR and CRD, commonly known together as "CRD IV", provide consistent capital adequacy standards for financial services companies and an associated supervisory framework across the European Union and are enforced in the UK by the PRA. CRD IV made changes to rules on corporate governance, including remuneration, and introduced standardised regulatory reporting within the EU. The framework consists of three "pillars", as summarised below:

- **Pillar 1 - Minimum capital requirements:** defines the minimum capital requirements that banks are required to hold for credit, market and operational risks.
- **Pillar 2 - Supervisory review process:** includes a requirement for firms to undertake an Internal Capital Adequacy Assessment Process ("ICAAP"). The ICAAP represents the aggregated view of the risks faced by the Bank and is used by the Board and management to understand the levels of capital required to be held over the planning horizon to cover these risks and to withstand a range of adverse stress scenarios. The ICAAP is reviewed by PRA during its Supervisory Review and Evaluation Process and is used to determine the overall capital requirements that apply to the Group and the Bank.
- **Pillar 3 - Market discipline:** aims to improve market discipline by requiring banks to publish information on their principal risks, capital structure and risk management to provide more transparency to market participants.

While the UK left the EU in January 2020, transitional arrangements in place at the reporting date (31 December 2020) meant that the CRR continued to apply to UK firms at that date.

Capital requirements

The following table provides a summary of the capital requirements applicable to the Bank, and brief details of the calculation method applied by the Bank for each element of the requirements. Further details of each aspect can be found later in this document as highlighted.

Requirement	Calculation method	Description	Requirement	Further information
Pillar 1				
Credit risk	Standardised Approach	The Bank applies the standardised method to the entire loan book and other assets. The standardised approach applies a standardised set of risk weightings to credit risk exposures.	Pillar 1 requirements (as per Article 92 of the CRR): • 4.5% of RWAs met by CET1 capital • 6.0% of RWAs met by Tier 1 capital • 8.0% of RWAs met by total capital	Section 7
Market risk	Standardised Approach	The Bank applies the standardised method to relevant assets.		Section 9
Operational risk	Basic Indicator Approach ("BIA")	The Bank applies the Basic Indicator Approach for operational risk capital requirements in accordance with CRR Article 315.		Section 10
Pillar 2				
Pillar 2a	Calculated by the PRA, based on the ICAAP submission	Percentage of RWAs.	Set by the PRA	Section 9

Requirement	Calculation method	Description	Requirement	Further information
Pillar 2b	Calculated by PRA, based on the ICAAP submission	Based on outputs of internal stress testing, PRA buffer assessment and PRA buffer requirement.	Set by the PRA and not disclosed	n/a
Buffers				
Capital conservation buffer (“CCoB”)	Expressed as a percentage of RWAs	The capital conservation buffer is part of the CRD IV combined buffer. It is held in combination with the counter-cyclical buffer and the PRA buffer to ensure the Bank can withstand an adverse market stress. The combination of the PRA buffer and the CRD IV combined buffer replaced the Capital Planning Buffer (“CPB”) effective 1 January 2016. All to be met by CET1 capital.	As at 31 December 2020 it was set by the PRA at 2.5%	n/a
Counter-cyclical Buffer (“CCyB”)	Expressed as a percentage of total Pillar 1 RWAs		As at 31 December 2020, it was set by the Financial Policy Committee (“FPC”) at 0%	n/a
PRA buffer	Expressed as a percentage of total Pillar 1 RWAs	PRA buffer, in combination with the CRD IV combined buffer is held to ensure the Group can withstand an adverse market stress. The combination of the PRA buffer and the CRD IV combined buffer replaced the Capital Planning Buffer (“CPB”) effective 1 January 2016. At 31 December 2019 the PRA buffer needs to be fully met with CET1 capital.	PRA buffer is set by the PRA	n/a

Capital resources

The following table provides a summary of the main components of the Bank's capital resources as at 31 December 2020:

Type of capital	Description	Further information
Common Equity Tier 1 ("CET1")	Comprises ordinary share capital, share premium and allowable reserves including retained earnings, after deducting intangible assets.	Quantitative disclosures can be found in Section 6

The Bank's quantitative disclosures in respect of capital reserves are provided in Section 6 of this document.

Regulatory developments affecting the Bank

CRR 2 amendments

The CRR 'Quick Fix' applied in response to the Covid-19 pandemic accelerated the implementation of certain CRR 2 amendments. These were not applicable to the Bank. The PRA is expected to set out its final rules to implement the full Basel III standards in the UK, which is due to come into force from 1 January 2022. This may result in some of the 'Quick Fix' amendments being revoked.

Future developments affecting the Bank

Basel IV

On 7 December 2017 the Basel Committee's oversight body, the Group of Central Bank Governors and Heads of Supervision ("GHOS"), endorsed the proposed revisions to the standardised approach to credit and operational risk, in addition to a revised leverage ratio. This has collectively been termed "Basel IV". These revisions, which are due to be implemented on 1 January 2023, may have an impact on banks' risk weighted assets and hence capital requirements.

Pillar 3

The revised Pillar III disclosure requirements were published by the Basel Committee on Banking Supervision ("BCBS") in January 2015 and revised and enhanced in March 2017. These changes will be brought into effect within the EU through a revised Capital Requirements Regulation ('CRR 2'), which also addresses the scope of various Pillar 3 requirements. The implementation date for these requirements is after the UK's departure from the EU and there is to be a separate consultation on the extent these changes will apply to UK firms, and any related implementation dates.

Response to COVID-19

The global Covid-19 pandemic presented challenges on an unprecedented scale and has had a financial impact, predominantly on impairments as provisions were adjusted to reflect the changing macroeconomic outlook, the higher expected level of defaults and the impact of payment breaks on the Bank's lending portfolios. Please refer to the Annual Report and Accounts for more information on the financial impact of the pandemic.

5 Risk management

The Bank's approach to risk

Effective risk management plays a key role in the execution of the Bank's strategy. The Board and senior management seek to ensure that the risks the Bank is taking are clearly identified, managed, monitored and reported and that the Bank's resources are capable of withstanding both expected and unexpected levels of risk performance.

Risk Management Framework

The Risk Management Framework ('RMF') sets out how the Company manages its risk and control environment. The RMF defines types of risk, identifies sources of risk, and describes how those risks are effectively identified, measured, monitored, reported, and mitigated.

Key risks

The table below defines the major Risk Types, and describes the Bank's specific risk profile against each. The risk profile is broken down into two parts: the most material risks that the Bank faces within each risk type and other, less material risks. Sections 6 to 12 describe the risk appetite, risk profile and any associated capital requirements associated with these risks.

Risk Type	Definition	Risk Profile
Credit Risk	The risk that the Bank's borrowers or other counterparties default on their loans or obligations.	<u>Material risks</u> • Consumer borrowers default on their unsecured personal loans, secured car loans or credit card loans. <u>Other risks</u> • Financial counterparties with whom the Bank holds cash deposits default, • Non-financial counterparties paid in advance for goods and services default, • Entities for which the Bank acts as a service provider fail to pay contractual charges, • Financial risks from climate change, including e.g. a potential fall in the value of existing auto collateral as part of the shift towards lower emission vehicles.
Capital Risk	The risk that the Bank has insufficient capital to support its business strategy.	<u>Material risks</u> • Credit losses exceed provisioning or capital planning assumptions. <u>Other risks</u> • Any other losses exceed provisioning or capital planning assumptions.
Market and Interest Rate Risk	The risk that the Bank experiences a loss due to changes in the market price of financial instruments, or adverse movements in interest rates that affect its banking book positions.	<u>Material risks</u> • Large unexpected change in interest rates or interest rate bases adversely impacting NIM, • Significant falls in the value of assets held in the liquid assets buffer being realised when they are sold in a stress.
Liquidity Risk	The risk that the Bank is unable to meet its obligations as they fall due.	<u>Material risks</u> • Credit card outflows exceed expectations, • Loan prepayments fall short of expectations, • Loan delinquencies exceed expectations. <u>Other risks</u> • Rollover rate of maturing deposits falls short of expectations, • Early deposit withdrawals exceed expectations, • Funding not achievable or achievable at excessive cost only, • Outflows to corporate suppliers exceed expectations.
Operational Risk	The risk that the Bank suffers losses stemming from inadequate or failed internal processes, people	<u>Material risks</u> • The Bank is exposed to external fraud attempts or cyber-attacks, • The Bank's business is severely disrupted or its systems fail,

	and systems, including fraud or risks from the impact of external events including legal risks. Operational risk includes compliance risk (the risk that the Company fails to meet its regulatory obligations) and conduct risk (the risk that the Company's actions result in poor customer outcomes).	• The Bank fails to execute its plans, products and processes against internal and external expectations, • The Bank's products fail to behave or perform as expected. Other risks • The Bank experiences a failure or defect in its performance of services for other Zopa Group entities, and is held liable for related losses, • The Bank's staff commit internal fraud, • The Bank's staff are treated unfairly or suffer injury requiring remediation, • The Bank's physical assets are damaged.
Strategic Risk	The risk of opportunity loss from the failure to optimise the earnings potential of Zopa's franchise.	Material risks • The Bank is unable to attract business because of external competitive conditions, • The Bank suffers reputational damage, making it difficult to attract or retain customers, • The Bank is unable to raise funding for growth, through deposits or capital injections, • The Bank is unable to attract and retain the talented staff required to deliver its business strategy.

Within Operational Risk, there is Conduct Risk. Conduct Risk is addressed as an overlay to the Operational risk, to reflect its critical importance and to address the fact that is managed through a number of activity-specific policies (since it arises in virtually all areas of the Bank's business).

Risk Appetite

The Board sets a 'risk appetite' for each Risk Type (plus Conduct Risk), expressing the maximum level of risk of that type that the Bank is willing to tolerate in pursuit of its business strategy. This is expressed through qualitative statements of appetite, and supporting metrics for which 'Triggers' and 'Limits' are set.

The risk appetite is implemented in the business through the three lines of defence, described below, and performance against it is monitored routinely. Breaches of Triggers or Limits are escalated to the Board, via the Board Risk Committee and the executive Risk Management Committee, and remedial actions are agreed.

Three lines of defence

Risk management is structured around three lines of defence:

1. The first line is responsible for managing all risks present in their business area and activities, abiding by standards set by second line, and reporting regularly to second line on its performance.
2. The second line sets minimum standards (described in policies) for the first line to follow in its risk management, monitors the effectiveness of first line performance, and reports regularly to the Board and the executive on this.
3. The third line of internal audit performs independent periodic checks to evaluate the effectiveness of the first two lines, and reports its findings to the Board Audit Committee.

Risk Governance

Clear ownership of all major Risk Types is established. Each Risk Type is allocated:

- A Risk Oversight Owner in the second line, responsible for overseeing the Bank's management of the Risk Type. This includes setting policies and monitoring first line's adherence to them. Risk Oversight Owners all fall under the Senior Managers and Certification Regime, and their risk management responsibilities are reflected in their Statements of Responsibilities.

- An executive-level Committee (as shown in diagram below) is responsible for executive management of the Risk Type, through regular monitoring of performance against risk appetite and other MI, and review of material decisions as prescribed by policies.

- The Risk Management Committee is the principal executive-level committee responsible for risk oversight. In 2020, the Committee met 12 times.

Executive Committee (ExCo)	Risk Management Committee	Asset and Liability Committee (ALCO)
• Implement strategy, operational performance, financial performance, monitoring and control of risk exposure	• Oversight of the Bank's risk management framework and reviewing risk management issues with regards to its risk appetite	• Responsible for liquidity, capital, funding, market and interest rate risk management

- A Board-level Committee (as shown in diagram below) is responsible for oversight of the management of the Risk Type, through monitoring of performance against risk appetite and other MI. It may also take very significant decisions relating to the Risk Type, as prescribed by policies.

- The Risk Committee is the principal Board-level committee responsible for risk oversight. In 2020, the Committee met 11 times.

Board

- Responsible for strategy and culture, determining risk appetite, delegation of powers and monitoring performance

Risk Committee	Audit Committee	Nomination and Remuneration Committee
• Responsible for oversight of Zopa's risk profile against its risk appetite, and oversight of the executive management of risks.	• Responsible for oversight of accounting policy/judgement; control environment (systems and procedures); internal and external audit plan	• Responsible for the compensation and incentive schemes, reward of senior executives and nominations to the Board

Policies and procedures

Policies, set by the second line, set out the minimum standards that the Bank must follow in its business activities to ensure that Risk Types are managed within risk appetite.

Procedures, set by the first line, set out the detailed operational steps that must be taken in first line activities to implement policies and more broadly ensure that risks are managed within appetite.

Risk management

Within the overall structure outlined, numerous risk management activities are continuously conducted for each Risk Type, in the following categories:

- **Identification and assessment** – Risks in each business area are identified and their significance assessed. Examples include: business areas identify operational risks in their processes and assess their likelihood and significance against risk appetite, the credit risk of individual borrowers and the outlook for the credit market as a whole is assessed, capital and liquidity requirements and resources, and risks around these are forecast.

- **Control and mitigation** – Action is taken to reduce identified risks to within appetite. Examples include: controls are implemented to reduce the likelihood and severity of operational risks, credit acceptance criteria are set to limit credit risk, and management plans for capital and liquidity are set and executed.

- **Monitoring** – Identified risks are monitored continuously by first and second-line owners to; ensure that agreed controls and mitigating actions have been implemented, verify whether outcomes are as expected, and identify instances where risk is increasing. Examples include: the effectiveness of controls around operational risks is continuously monitored, and granular credit MI is reviewed to understand risks in the loan book and how these are evolving.

- **Reporting** – The results of the Bank's risk management activities, including performance against risk appetite, are regularly reported to the relevant executive and Board-level committees.

- **Response and learning** – When risks materialise, action is taken to reduce the risk of similar events in future. Examples include: root-cause analysis of operational risk events informs changes that may be required to policies and controls, and adverse performance in particular lending segments may inform changes to credit strategy.

Stress testing

Stress testing is an important risk management tool, with specific approaches documented for the Bank's key annual assessments including the Internal Capital Adequacy Assessment Process ("ICAAP"), Internal Liquidity Adequacy Assessment Process ("ILAAP") and the Recovery Plan.

6 Capital risk

Capital risk is the risk that the Bank has insufficient capital to support its business strategy.

Risk Appetite

The Bank's Risk Appetite is set as follows:

The Bank will maintain a sufficient level and quality of capital to support its growth objectives, absorb losses under a range of severe but plausible stress scenarios, and satisfy minimum regulatory requirements at all times.

Capital risk management

Current and forecast levels of capital are monitored against the capital risk appetite approved by the Board and the capital position is reported to the Bank's Asset & Liability Committee ('ALCO'), the Risk Management Committee ('RMC'), the Board Risk Committee ('BRC') and the Board on a regular basis.

Forward-looking assessments of capital resources and requirements are produced and summarised in the ICAAP document and Capital Management Plan and agreed at Board level. The capital forecast forms an integral component of the annual budgeting process and is updated in line with changes to the business plan. The capital forecast incorporates the impact of known forthcoming regulatory changes to ensure that the Bank is well positioned to meet them when implemented.

Stress testing

As part of the Bank's ICAAP, capital stress testing is performed. The stress scenarios are used to develop an informed understanding and appreciation of the Bank's capacity and resilience to withstand shocks of varying severities. In addition, management actions are identified which could be taken in order to mitigate the impact of the stresses on the Bank's capital position.

Minimum capital requirement: Pillar 1

The Bank is subject to capital requirements under both Pillar 1 and Pillar 2. The following section provides further details of these requirements in respect of Pillar 1. The Bank's overall capital requirement under Pillar 1 is calculated by adding together the capital requirements for credit risk and operational risk (market risk was immaterial and below the minimum thresholds for inclusion).

At 31 December 2020 and throughout the financial year, the Bank complied with the capital requirements that were in force as set out by European and UK legislation and enforced by the PRA.

The following table shows the Bank's capital requirement and capital surplus under Pillar 1.

	Risk weighted assets (£m)		**Capital requirement (£m)**	
	2020	**2019**	**2020**	**2019**
Credit risk	180.9	17.6	14.5	1.4
Operational risk	210.0	21.4	16.8	1.7
BCRR [1]	-	13.9	-	1.1
Total	**390.9**	**52.9**	**31.3**	**4.2**
Capital resources			115.4	13.3
Capital resources surplus over Pillar 1 requirement			**84.1**	**9.1**

1 BCRR – As per the PRA Rulebook, a CRR firm must maintain at all times capital resources equal to or in excess of the Base Capital Resources Requirement. The Base Capital Resources Requirement RWAs are calculated as the difference between its RWAs arising from the BCRR of EUR 5m converted at the year-end exchange rate and multiplied by 12.5 less the RWAs calculated for credit risk and operational risk.

The following table shows the composition of the Bank's regulatory capital position.

Capital composition

	2020 (£m)	2019 (£m)
Common Equity Tier 1		
Share capital	192.3	54.2
Other reserves (Share Based Payments)	4.3	1.8
Retained earnings	(69.0)	(36.3)
Less: intangible assets	(12.2)	(6.4)
Total Common Equity Tier 1 capital (CET1)	**115.4**	**13.3**
Additional Tier 1	**-**	**-**
Total Tier 1 capital	**115.4**	**13.3**
Total capital resources	**115.4**	**13.3**
Risk weighted assets – Pillar 1		
Credit risk	180.9	17.6
Operational risk	210.0	21.4
BCRR	-	13.9
Total risk weighted assets	**390.9**	**52.9**
Capital ratios		
Common Equity Tier 1 ratio	29.5%	25.1%
Tier 1 capital ratio	29.5%	25.1%
Total capital ratio	29.5%	25.1%

The Bank's Tier 1 capital comprises issued share capital, accumulated accounting profits and other reserves balances.

A regulatory adjustment is required to be made to the Bank's CET1 capital in respect of intangible assets, as set out in CRD IV. For accounting purposes, items including computer software are capitalised as intangible fixed assets subject to certain criteria. Intangible assets are deducted from CET1 capital under the regulatory rules. The Bank did not have any Additional Tier 1 capital or Tier 2 capital resources as at 31 December 2020.

The Bank's Total Capital Requirement ("TCR") at 31 December 2020, as set by the PRA, was 11.18% of RWAs.

Regulatory capital requirement buffers

CRD IV buffers

The Bank is also required to hold additional capital in the form of capital buffers. 100% of the regulatory buffers must be met by CET1 capital. The Capital Conservation Buffer ('CCB') is currently set at 2.5% of RWA. The Countercyclical Capital Buffer ('CCyB') was set at 0% of RWA for the Bank's UK exposures as a result of the UK Financial Policy Committee ('FPC') decision in March 2020. This is further disclosed below:

The following tables disclose information relevant for the calculation of the counter-cyclical buffer as at 31 December 2020 in accordance with Regulation (EU) 2015/1555.

Geographical distribution of credit exposures relevant for the calculation of the counter-cyclical buffer

	General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirement				Own funds req'ts weights	Counter-cyclical buffer rate
	Exposure value for Standardised Approach (SA)	Exposure value for Internal Rating Based (IRB) approach	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Sec'n exposures	Total		
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Breakdown by country:												
UK	232.8	-	-	-	-	-	14.1	-	-	0	100.0%	0%
Total	**232.8**	**-**	**-**	**-**	**-**	**-**	**14.1**	**-**	**-**	**0**	**100.0%**	**0%**

Amount of institution specific counter-cyclical capital buffer

	Column
	£m
Total risk exposure amount	14.1
Institution specific counter-cyclical buffer rate	0%
Institution specific counter-cyclical buffer requirement	-

As per the Financial Stability Report issued in December 2019, the Financial Policy Committee ("FPC") was proposing to raise the level of the UK CCyB rate from 1% to 2% to reflect the prevalent risk environment. However, on 11th March 2020, the FPC reduced the CCyB to 0% for at least 12 months in response to the Covid-19 pandemic, so that any subsequent increase would not take effect until the end of 2022 at the earliest.

Leverage ratio

The leverage ratio introduced by CRD IV, is a non-risk-based measure that is designed to act as a supplement to risk-based capital requirements. The ratio measures the relationship between the capital resources of the Bank and its total assets. The leverage ratio is calculated by dividing Tier 1 capital resources by a defined measure of on and off-balance sheet items. The purpose of monitoring and managing this metric is to enable regulators to constrain the build-up of excessive leverage.

At present, the Bank has no minimum leverage requirement as it is currently not within the scope of the UK Leverage Framework Regime as its deposit levels are less than £50 billion. However, the Bank maintains a prudent risk appetite limit well above the minimum leverage ratio requirement.

The Bank’s leverage ratio as at 31 December 2020 was 38.1%. Common disclosure requirements for the leverage ratio have been introduced by the EBA in Implementing Technical Standard 2014/04 and updated by guidance EBA/GL/2016/11. The following tables are disclosed in accordance with this. Any blank cells in the templates have been removed from these disclosures.

Summary reconciliation of accounting assets and leverage ratio exposures

		2020 (£m)	2019 (£m)
1	Total assets as per published financial statements	314.6	30.9
4	Adjustments for derivative financial instruments	2.0	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	0.6	-
7	Other adjustments	(13.9)	(6.4)
8	**Leverage ratio exposure**	**303.3**	**24.5**

Leverage ratio common disclosure

		2020 (£m)	2019 (£m)
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	314.6	-
2	Asset amounts deducted in determining Tier 1 capital	(13.9)	(6.4)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**300.7**	**(6.4)**
	Derivative disclosures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	1.6	-
5	Add-on amounts for PFE associated with all derivatives transactions (mark to market method)	0.4	-
11	**Total derivative exposures**	**2.0**	**-**
	Off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	6.0	-
18	(Adjustments for conversion to credit equivalent amounts)	(5.4)	-
19	**Other off-balance sheet exposures**	**0.6**	**-**
	Capital and Total Exposures		
20	**Tier 1 capital**	**115.4**	**13.3**
21	**Total leverage ratio exposures**	**303.3**	**24.5**
22	**Leverage ratio**	**38.1%**	**54.3%**
	Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully phased in	Fully phased in

Split-up of on-balance sheet exposures

		2020 (£m)	2019 (£m)
EU-1	**Total on-balance sheet exposures (excluding derivatives and SFTs), of which**	**300.7**	**24.5**
EU-2	**Trading book exposures**	**-**	**-**
EU-3	**Banking book exposures, of which:**	**-**	**-**
EU-4	Covered bonds	**-**	**-**
EU-5	Exposures treated as sovereigns	**47.8**	**0.8**
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	**-**	**-**
EU-7	Institutions	**22.2**	**2.6**
EU-8	Secured by mortgages of immovable properties	**-**	**-**
EU-9	Retail exposures	**225.1**	**16.3**
EU-10	Corporate	**-**	**-**
EU-11	Exposures in default	**0.1**	**-**
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	**5.4**	**4.8**

7 Credit risk

Credit Risk is the risk that the Bank's borrowers or other counterparties default on their loans or obligations.

The Bank focuses its lending on three business lines namely auto finance, unsecured personal loans and credit card.

Risk appetite

Overall Credit Risk

The Bank is willing to take risks that will be rewarded, maintaining losses that are acceptable in relation to financial return. It will seek to meet this objective over the economic cycle, accepting that losses in periods of stress will be significantly higher than those in benign conditions.

The Bank lends responsibly by ensuring that borrowers are creditworthy, and loans are affordable for them.

Credit Concentration Risk

The Bank aims to limit concentrations of accounts that might be disproportionally impacted under stress to ensure that credit losses are within overall Credit Risk appetite. The Bank accepts geographic concentration of accounts, restricting its lending to borrowers based in the UK.

Counterparty Credit Risk

The Bank seeks to limit counterparty credit exposures to the minimum required to support its liquidity management.

Risk management

The risk management activities relating to credit risk are summarised as follows:

- A credit scorecard is designed to assess the credit risk of loan applicants, using models trained on historic the Bank and credit bureau data.
- Minimum affordability and eligibility criteria are applied to all incoming applications.
- Regular monitoring of loan performance against expectations is performed, focusing on granular metrics across multiple loan characteristics.
- Regular monitoring of the economic and credit market environment is performed.
- Action is taken on front-book lending where portfolio performance or the economic outlook worsens versus expectations.
- Credit risk related decisions must be approved by accredited decision-makers, with their seniority determined by the materiality of the decision.
- Hard limits for counterparty credit exposures and the minimum credit quality of counterparties are established and monitored against.
- Risk appetite and other key MI are monitored by the RMC, BRC and Board at their regular meetings.

Expected Credit Losses (ECL) are provided for in line with IFRS 9. Further details regarding the allowance for ECL are disclosed in the Bank’s Annual Report and Accounts (ARA) for 2020.

Minimum capital requirement: credit risk

The Bank uses the Standardised Approach in determining the level of capital to be held for regulatory purposes. Under this approach, the Bank must set aside total capital equal to 8% of its total risk weighted assets to cover its Pillar 1 capital requirements.

The following tables show the credit risk exposures and the composition of the minimum capital requirements for credit risk.

Pillar 1 capital requirements: credit risk

31 December 2020

Exposures subject to the Standardised Approach (£m)	Credit risk exposure	Average credit risk exposure[1]	Risk weighted assets	Min. capital requirement
Central government and central banks	47.8	56.5	-	-
Institutions	22.2	16.9	4.4	0.4
Corporates	2.0	0.6	2.0	0.2
Retail	225.1	90.1	168.9	13.5
Exposures at default	0.2	0.1	0.2	0.0
Other items	5.4	5.4	5.4	0.4
Total	**302.8**	**169.6**	**180.9**	**14.5**

31 December 2019

Exposures subject to the Standardised Approach (£m)	Credit risk exposure	Average credit risk exposure[1]	Risk weighted assets	Min. capital requirement
Central government and central banks	0.8	4.0	-	-
Institutions	2.6	2.4	0.5	-
Retail	16.4	15.2	12.3	1.0
Exposures at default	-	-	-	-
Other items	4.8	4.7	4.8	0.4
Total	**24.5**	**26.3**	**17.6**	**1.4**

[1] *Average credit risk exposures calculated as the average of exposure data reported to the PRA on a quarterly basis.*

The exposures categorised within “Other items” predominantly relate to other balance sheet assets. These included fixed assets, prepayments and sundry debtors.

The table below sets out the Bank's credit risk exposures by regulatory portfolio and risk weight.

At 31 December 2020	0%	20%	75%	100%	Other risk weights	Total
	£m	£m	£m	£m	£m	£m
Central government and central banks	47.8	-	-	-	-	47.8
Financial Institutions	-	-	-	22.2	-	22.2
Corporates	-	-	-	2.0	-	2.0
Retail	-	-	225.1		-	225.1
Exposures at default	-	-	-	0.2	-	0.2
Other items	-	-	-	5.4	-	5.4
Total	**47.8**	**-**	**225.1**	**29.8**	**-**	**302.8**

At 31 December 2019	0%	20%	75%	100%	Other risk weights	Total
	£m	£m	£m	£m	£m	£m
Central government and central banks	0.8	-	-	-	-	0.8
Financial Institutions	-	2.6	-	-	-	2.6
Retail	-	-	16.4	-	-	16.4
Exposures at default	-	-	-	-	-	0
Other items	-	-	-	4.8	-	4.8
Total	**0.8**	**2.6**	**16.4**	**4.8**	**-**	**24.6**

Geographic distribution of credit risk exposures

The Bank's credit exposures all are in the UK with the exception of exposures of £0.02m in Spain. Therefore, no further geographical analysis is provided.

Credit risk exposures by industry sector

The following tables shows the total amount of credit exposures, net of provisions, including pipeline commitments, analysed by sector.

At 31 December 2020	**Financial**	**Government and public administration**	**Personal**	**Non-customer assets**	**Total**
Standardised Approach	**£m**	**£m**	**£m**	**£m**	**£m**
Central government and central banks	-	47.8	-	-	47.8
Institutions	22.2	-	-	-	22.2
Corporates	2.0	-	-	-	2.0
Retail[1]	-	-	225.4	-	225.4
Other items	-	-	-	5.4	5.4
Total	**24.2**	**47.8**	**225.4**	**5.4**	**302.8**

At 31 December 2019	**Financial**	**Government and public administration**	**Personal**	**Non-customer assets**	**Total**
Standardised Approach	**£m**	**£m**	**£m**	**£m**	**£m**
Central government and central banks	-	0.8	-	-	0.8
Institutions	2.6	-	-	-	2.6
Corporates	-	-	-	-	-
Retail[1]	-	-	16.4	-	16.4
Other items	-	-	-	4.7	4.7
Total	**2.6**	**0.8**	**16.4**	**4.7**	**24.5**

[1] *Comprises exposures to Retail customers*

Residual contractual maturity of credit risk exposures

The table below shows the Bank's exposures at 31 December 2020 and a comparison to the previous year, including off-balance sheet items, analysed by remaining contractual maturity.

At 31 December 2020	Within 1 year	After 1 year but within 5 years	More than 5 years	Undated	Total
	£m	£m		£m	£m
Central government and central banks	47.8	-	-	-	47.8
Institutions	22.2	-	-	-	22.2
Corporates	2.0	-	-	-	2.0
Retail[1]	11.2	213.4	0.7	-	225.4
Other items	-	-	-	5.4	5.4
Total	**75.3**	**222.0**	**0.0**	**5.4**	**302.8**

At 31 December 2019	Within 1 year	After 1 year but within 5 years	More than 5 years	Undated	Total
	£m	£m		£m	£m
Central government and central banks	0.8	-	-	-	0.8
Institutions	2.6	-	-	-	2.6
Corporates	-	-	-	-	-
Retail[1]	0.3	16.1	-	-	16.4
Other items	-	-	-	4.7	4.7
Total	**3.7**	**16.1**	**-**	**4.7**	**24.5**

[1] *Comprises of exposures to Retail customers.*

The maturity of exposures is shown on a contractual basis rather than on a behavioural basis and therefore, does not include expected redemptions over the life of the exposure. As a consequence, actual maturity is likely to be materially shorter.

Credit quality – Impairment and provisions

The Bank's accounting policy for IFRS 9 impairment and provisions can be found in its annual report and accounts for 2020.

The table below provides information on the past due status of loans and advances to customers. The Bank's loan portfolio comprises unsecured personal loans, credit card loans, and loans to customers for the auto hire purchase portfolio in the form of motor vehicles. The following tables show analysis on the split of the Bank's lending and the breakdown of arrears and provisions.

Analysis of loans and advances to customers by impairment status

	2020 (£m)	2019 (£m)
Neither past due nor impaired	234.8	16.5
Past due but not impaired		
Up to 30 days	0.9	-
30-60 days	0.5	-
60-90 days	0.3	-
Over 90 days	-	-
Total Past due but not impaired	1.7	-
Impaired Assets	0.7	-
Less: specific credit risk adjustment	(11.9)	(0.2)
Net Loans and Advances	225.3	16.3

The following table summarises the movement during the year in allowances for impairment losses:

Movements in allowance for impairment losses

	Stage 1	Stage 2	Stage 3	Total
	£000	**£000**	**£000**	**£000**
ECL allowance 1 January 2020	**98**	**65**	**45**	**208**
Changes reflected in ECL				
Transfer from Stage 1 to Stage 2	(562)	3,207	-	2,645
Transfer from Stage 1 to Stage 3	(24)	-	145	121
Transfer from Stage 2 to Stage 1	210	(700)	-	(490)
Transfer from Stage 3 to Stage 1	16		(67)	(51)
New financial asset originations/purchases	10,829	325	100	11,254
Changes in PD/ LGD/ EAD	(300)	33	451	184
Changes in models/risk parameters	(180)	(109)	3	(286)
Discount Unwind	-	-	(14)	(14)
Derecognition/ maturity of financial assets	(438)	(279)	(15)	(732)
Recoveries	-	-	(23)	(23)
Net P&L charge during the period	9,551	2,477	580	12,608
Other movements with no Profit and Loss impact				
Write-offs	-	-	(163)	(163)
Transfer from Stage 2 to Stage 3	-	(467)	467	-
ECL allowance 31 December 2020	**9,649**	**2,075**	**929**	**12,653**

	Stage 1	Stage 2	Stage 3	Total
	£000	**£000**	**£000**	**£000**
ECL allowance 1 January 2019	**29**	**15**	**6**	**50**
Changes reflected in ECL				
Transfer from Stage 1 to Stage 2	(22)	144	-	122
Transfer from Stage 1 to Stage 3	-	-	15	15
Transfer from Stage 2 to Stage 1	8	(36)	-	(28)
New financial asset originations/purchases	84	4	-	88
Changes in PD/ LGD/ EAD	7	(50)	40	(3)
Changes in models/risk parameters	1	6	5	12
Discount Unwind	-	-	(1)	(1)
Derecognition/ maturity of financial assets	(9)	(9)	(10)	(28)
Recoveries	-	-	(15)	(15)
Net P&L charge during the period	69	59	34	162
Other movements with no Profit and Loss impact				
Write-offs	-	-	(19)	-
Transfer from Stage 2 to Stage 3	-	(9)	9	-
ECL allowance 31 December 2019	**98**	**65**	**30**	**212**

Forbearance

The Bank encourages borrowers who are experiencing financial difficulties to draw up an affordable payment plan to pay down their arrears over time. Payment plans may offer temporary relief in the form of reductions to contractual payments. At 31 December 2020, total outstanding balance on payment plans were £614k (31 December 2019: £17k), of which £74k were impaired (31 December 2019: nil). At 31 December 2020, the allowance for loan losses held in respect of payment plans was £287k (31 December 2019: £1k).

Credit risk mitigation: loans and advances to customers

The Bank uses a wide range of techniques to manage credit risk and avoid poor customer outcomes as part of its creditworthiness and affordability activities. These operate under the Credit and Responsible Lending Policy. Activities include gathering data (from customers, credit reference agencies and through open banking), applying universal exclusion rules, verifying income and expenditure, applying cut offs, limits and pricing using multivariate scorecards and conducting further manual checks if necessary. In addition, the Bank applied further tightening of its creditworthiness and affordability procedures through the COVID crisis. This included tightening cut offs and limits in general and more specifically for populations that have been at particular risk through the pandemic, including younger applicants, self-employed applicants and applicants working in sectors that were disproportionately affected (e.g. hospitality).

For auto loans, the risk is further mitigated by obtaining collateral against the funds advanced. Collateral held as at 31 December 2019 amounted to £21.9m (31 December 2019: £16.6m).

Lending book credit risk concentration

Concentration risk exists through having high or excessive exposures to a concentration of certain counterparties, regions or sectors.

Concentration risks from lending activities are managed and controlled through the adoption of concentration limits tailored to each business area. The Bank aims to limit concentrations of accounts that might be disproportionally impacted under stress.

Credit risk management: treasury

Credit risk exists with treasury assets where the Bank has acquired securities or placed cash deposits with other financial institutions. The credit risk of treasury assets is considered to be relatively low. No assets are held for speculative purposes or actively traded. Certain liquid assets are held as part of the Bank's liquidity buffer (see Section 8). Furthermore, no non-UK sterling risk is taken in respect of treasury instruments. Treasury credit risk is mitigated via counterparty limit setting and monitoring.

As at 31 December 2020 none of the treasury assets were past due or impaired. Credit ratings are based on the specific obligor the Bank is exposed to.

Counterparty credit limits are established for authorised counterparties and are updated on a regular basis to take account of any ratings migration and the Bank's assessment of the credit risk for the institution. The maximum exposure limit is set at higher of £7m or 25% of the Bank's regulatory capital resources, although each counterparty is assessed on individual merit. Any exposure to central banks and other public sector institutions which carry 0% risk weighting as per the Standardised Approach, are exempt from the counterparty exposure limits. Counterparty credit risk exposures for treasury asset are reported against limits to ALCO on a monthly basis.

A description of the main credit risk management techniques in place for each of the key treasury asset types is detailed below:

Treasury asset type	Description of credit risk management techniques
Cash placements	Credit risk of Bank and treasury counterparties is controlled through the treasury credit risk policy which limits the maximum exposure by entity with which the Bank can place cash deposits. All institutions need to be rated at investment grade at the time of placement.
High quality liquid assets included in the liquidity buffer	As part of the liquidity buffer, the Bank may hold a portfolio of UK sovereign securities, with the exposure to sovereign risk only.

Under the Standardised Approach to credit risk, the Bank makes use of External Credit Agencies (ECAIs) credit ratings from the main 3 credit rating agencies (Fitch, S&P, Moody's) to assess the credit risk weight of treasury exposures. Ratings published by the ECAIs are mapped to Credit Quality Steps ("CQS") according to mapping tables laid down by the European Banking Authority ("EBA"). The CQS value is then mapped to a risk weight percentage. The Bank calculates counterparty credit risk exposures using the mark to market method.

8 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its obligations as they fall due.

Risk appetite

The Bank will maintain a sufficient amount and quality of liquid resources to meet its liabilities as they fall due under a range of severe but plausible stress scenarios, and support growth objectives, satisfying minimum regulatory requirements at all times.

Risk Profile

The Bank's business is inherently low in liquidity risk, since it does not perform maturity transformation. The material liquidity risks the Bank faces are:

- Credit card outflows exceed expectations;
- Loan prepayments fall short of expectations;
- Loan delinquencies exceed expectations; or
- Rollover rates of maturing deposits fall short of expectations.

Retail deposits were predominantly of fixed term nature as at 31 December 2020 and did not constitute a material liquidity risk**.**

Liquidity risk management

Liquidity resources are actively managed to ensure they meet net outflow requirements, and minimum standards for asset quality. Short, medium and long-term cash flow forecasts are produced, and actual flows monitored, to inform the level of liquidity resources that must be held.

Forward-looking assessments of liquidity resources and requirements are produced, summarised in the ILAAP document and agreed at Board level. The ILAAP requires the Bank to consider all material liquidity risks in detail and to document an analysis of each key liquidity risk driver and to set a liquidity risk appetite against each of these drivers. Liquidity risks are specifically considered by the ALCO each month. Additional liquidity metrics are set as part of the ILAAP, to support minimum regulatory requirements and internal liquidity risk appetite.

Liquidity ratios

The Liquidity Coverage Ratio ("LCR") aims to improve the resilience of banks to liquidity risks over a 30-day period.

The table below shows the liquidity ratios:

	2020 **£m**	**2019** **£m**
Liquidity Coverage Ratio		
Total high-quality liquid assets (HQLA)	47.3	0.2
Total net cash outflow	0.3	-
LCR (%)	13,597	10,059

The bank has no exposure to foreign currency in respect of the liquidity buffer. The Bank's LCR was in excess of the minimum standard of 100% mandated by the PRA.

Asset encumbrance

An asset is defined as encumbered if it has been pledged as collateral against an existing liability or to support operational activities through third party banks, and, as a result, is no longer available to the Bank to secure funding, satisfy collateral needs or be sold to reduce the funding requirement. An asset is therefore categorised as unencumbered if it has not been pledged as a collateral. The Bank monitors and manages total balance sheet encumbrance.

As at 31 December 2020, the Bank has £0.1 million of encumbered assets (31 December 2019 : £0.1m) and £314.5 million of unencumbered assets (31 December 2019 : £30.8m).

The following tables present the disclosure of the encumbered and unencumbered assets based on the requirement in CRD IV and the related guidance issued by the European Banking Authority.

Template A: Encumbered and unencumbered assets

As at 31 December 2020

		Carrying amount of encumbered assets 010 £m	Fair value of encumbered assets 040 £m	Carrying amount of unencumbered assets 060 £m	Fair value of unencumbered assets 090 £m
010	Assets of the reporting institution	0.1	n/a	314.5	-
020	Loans on demand	-	-	22.1	-
030	Equity instruments	-	-	-	-
040	Debt securities	-	-	47.3	47.3
100	Loans and advances other than loans on demand	0.1	n/a	225.4	n/a
120	Other assets	-	n/a	19.7	n/a

No collateral has been received presented in liabilities as at 31 December 2020.

As at 31 December 2019

		Carrying amount of encumbered assets 010 £m	Fair value of encumbered assets 040 £m	Carrying amount of unencumbered assets 060 £m	Fair value of unencumbered assets 090 £m
010	Assets of the reporting institution	0.1	n/a	30.8	n/a
020	Loans on demand	-	-	2.5	
030	Equity instruments	-	-	-	-
040	Debt securities	-	-	0.2	-
100	Loans and advances other than loans on demand	0.1	n/a	16.4	n/a
120	Other assets	-	n/a	11.7	n/a

No collateral has been received presented in liabilities as at 31 December 2019.

9 Market and interest rate risk

Market and Interest Rate Risk is the risk that the Bank experiences a loss due to changes in the market price of financial instruments, or adverse movements in interest rates that affect its banking book position.

The Bank does not have a trading book, and as a result, does not carry out proprietary trading or hold any positions in assets or equity.

Risk appetite

The Bank does not seek to take market risk and interest rate risk in the banking book in pursuit of profit, and will only do so to support its primary business objectives.

Management of interest rate risk

Levels of Market Risk and Interest Rate Risk in the Banking Book (IRRBB) are regularly quantified and monitored against limits. Risk appetite and other key MI are monitored by ALCO, RMC, BRC and Board at their regular meetings.

The risk profile of market and interest rate risk as at 31 December 2020, and throughout 2020, continued to be within the risk appetite. The table below shows the impact of a 2% shift in the yield curve on interest income:

	2020 £m
2% shift up of the yield curve:	
As at year end	(4.6)
Average of month end positions reported to ALCO	(1.7)
2% shift down of the yield curve:	
As at year end	5.0
Average of month end positions reported to ALCO	1.9

	2019 £m
2% shift up of the yield curve:	
As at year end	(0.6)
Average of month end positions reported to ALCO	(0.5)
2% shift down of the yield curve:	
As at year end	0.6
Average of month end positions reported to ALCO	0.6

The Bank had no exposure to LIBOR.

10 Operational risk

Operational Risk is the risk that the Bank suffers losses stemming from inadequate or failed internal processes, people and systems, including fraud or risks from the impact of external events including legal risks. Operational Risk breaks down into 11 sub-types:

Operational Risk Sub-Types	**Description**
Employment practices and workplace safety	The risk of loss due to acts inconsistent with employment or health and safety law, or staff contracts, whether by failures of intent or execution.
Internal fraud	The risk of loss due to staff intentionally defrauding the Bank or customers' accounts by disingenuous transactions or claims, or by collusion with an external party.
External fraud	The risk of loss of the Bank's or customers' assets due to external theft or fraud (i.e. transaction or application fraud).
Cyber and information security	The risk of loss of the Bank's or customers' assets due to external cyber-attacks on the Bank's IT systems, or other unauthorised access to information assets.
Damage to physical assets	The risk of loss or damage to the Bank's physical assets from natural disaster or other events.
Service outage or system unavailability	The risk of loss from the disruption of business, or system failures.
Financial crime (excluding fraud)	The risk of loss due to the Bank breaching its regulatory obligations in respect of financial crime, whether through failures of intent or execution.
External rules or regulatory breach (excluding Financial crime)	The risk of loss due to the Bank misinterpreting or being negligent of its regulatory obligations.
Conduct and product design	The risk of loss due to the design of the Bank's products and customer interactions resulting in poor customer outcomes.
Model	The risk of loss due to poor model design, leading to material difference between model prediction and actual experience.
Process execution (excluding execution failures explicitly included in the other subtypes)	The risk of loss due to execution failures in the Bank's processes.

The Bank is subject to a large body of regulation, legislation and mandatory industry standards, issued by Parliament, the PRA, the FCA, HM Treasury and various accounting and audit bodies, and tax authorities. It is the responsibility of the first line to ensure compliance with these requirements. It is the responsibility of second line, under the 'External rules or regulatory breach' sub-type, to ensure that the first line demonstrates this compliance, through adequate process and control design and reporting. A comprehensive and granular log of the legal, regulatory and industry requirements to which the Bank is subject is maintained. Each distinct set of requirements is allocated a 'Rules Oversight Owner', who is responsible for second line oversight of the Bank's compliance with those requirements, and who must have the necessary expertise relating to the requirements in question. Owners are determined by the Chief Risk Officer, and recorded on the central log.

Risk appetite

The Bank seeks to control its operational risks such that adverse customer, regulatory and financial outcomes are limited to a tolerable level, as defined by the Board.

Risk Profile

The material risks that the Bank faces in relation to operational risk are:

1. Exposure to external fraud attempts or cyber attacks.
2. Business is severely disrupted or its systems fail.
3. Failure to execute its plans, products and processes against internal and external expectations.
4. Products fail to behave as customers expect, because of poor design, marketing or communication resulting in regulatory fines and/or reputational damage.
5. External firms to which the Bank outsources activities fail to treat customers fairly, and the Bank experiences increased complaints and/or remediation costs.
6. The Bank experiences a failure or defect in its performance of services for other affiliated entities, and is liable for related losses.

Operational risk management

First line process areas identify the operational risks in their activities, and assess their significance relative to risk appetite based on the Operational Risk Assessment Matrix. They are responsible for designing and implementing controls to bring risk levels within risk appetite.

Regular reporting on control effectiveness is produced by first line and reviewed by second line, whilst numerous policies are in place to ensure business compliance with key regulatory requirements (e.g. on Financial Crime and Data Protection). Decisions with a material operational risk impact must be approved by second line.

An incident management process is in place to ensure the business recovers quickly from BAU IT incidents, and a business continuity plans are in place to ensure the business could recover within adequate timescales from a severe disruptive scenario.

Operational risk events are logged, allocated a senior owner who is responsible for remediating the event, and reported to RMC. Root-cause analysis on significant risk events must be performed.

Risk appetite (including metrics on control effectiveness and risk events) and other key MI are monitored by RMC, BRC and Board at their regular meetings.

Operational risk capital calculation approach

As at 31 December 2020, the operational risk requirement for the Bank under Pillar 1 is calculated using the Basic Indicator Approach, whereby a 15% multiplier is applied to the historical average net interest and fee income of the last three years based on audited financial statements. Given the Bank is in the early stages of full operation, there are no historic figures available for the last three years, hence the Pillar 1 capital requirement for operational risk has been calculated using the forecast operating income for the next 3 years. Under this approach, the Pillar 1 operational risk requirement was £210m as at 31 December 2020.

Covid-19

The Bank moved all staff to remote working in March 2020 and successfully operated for the majority of 2020 with full remote working of all staff without any adverse operational impacts. High levels of customer service were maintained throughout the year. In addition, over the course of 2020 Bank developed its online servicing capabilities through the website and especially the mobile app.

11 Conduct risk

The Bank defines Conduct Risk as the risk that its actions result in poor outcomes for customers.

Risk Appetite

Though technically part of Operational Risk, the Bank includes a distinct Conduct Risk Appetite in its Risk Appetite Statement, in order to ensure appropriate Board visibility and focus. This appetite expresses the limits of Conduct Risk exposure that the Bank Board is willing to accept in achieving its strategic objectives.

Conduct Risk Appetite is defined through both quantitative and qualitative Risk Metrics on customer outcomes, risk and control assessments, key risk indicators or key control indicators.

Like Operational Risk under the Risk Management Framework, Conduct Risk is typically not a risk directly taken in return for an expected reward, but exists in the natural course of the Bank's activities and cultural approach. The Bank has no appetite for customer outcomes that are poor by design, and seeks to limit unintentional poor outcomes through the appropriate management of Operational Risk.

Risk Profile

The material sources of Conduct Risk in the Bank's business are listed in the table below.

Possible sources of Conduct Risk	Potential Risk Area
Product	• Product Design / Targeting • Customer journey/ lifecycle • Distribution and marketing
Operational Processes	• Arrears management • Redress calculations • Outsourcing arrangements • Cyber and information security • Financial Crime and Fraud events
Credit	• Automated credit decisioning • Lending practices (e.g. affordability checks)
Staff conduct, Culture and Competence	• Onboarding staff • Training and competency programmes • Performance management • Remuneration and incentive schemes • Conflicts of interest

Risk management

Conduct Risk management is owned, sponsored and evidenced at the most senior levels in the Bank:

- The Bank Board sets culture, values, behaviours and standards, within the parameters set by the Group Board for the Zopa Group of companies. The culture is designed to promote good customer outcomes.

- The Bank Board promotes the adoption of culture within the Bank, and sets the Conduct Risk Appetite, against which it assesses performance every time it meets.

- The CEO is responsible for setting the tone from the top, embedding the culture set by the Bank Board.

Conduct Risk is in practice managed through the minimum standards and controls in place to manage the relevant aspects of Operational Risk under Zopa's Risk Management Framework and set out in activity-specific policies.

In addition, dedicated MI on Conduct Risk in the Bank's business activities is integrated with the Risk Management Framework, and regularly presented to the Board and senior management.

12 Strategic risk

Strategic risk is the risk of opportunity loss from the failure to optimise the earnings potential of Zopa's franchise.

Strategic risk is managed through the Bank's strategic planning process. The CEO leads the process, including ongoing analysis of the market, identification of strategic opportunities and design of detailed product proposals. The strategic plan is reviewed and approved by the Bank Board on an annual basis, and performance monitored by the Board throughout the year.

Material risks identified in relation to strategic risk are:

- The Bank is unable to attract business because of external competitive conditions.
- The Bank suffers reputational damage, making it difficult to attract or retain customers.
- The Bank is unable to raise funding for growth, through deposits or capital injections.
- The Bank is unable to attract and retain the talented staff required to deliver its business strategy

13 Governance

Full details of the Bank's corporate governance structure, including details of the names of the Bank's Directors can be found in the 2020 annual report and accounts. Recruitment to the Board of Directors is governed by the terms of reference of the NRC. The NRC evaluates skills, knowledge and experience of the Board of Directors generally and individual candidates for appointment to the Board. The Bank draws its Board and senior management team from a diverse pool with the express purpose of establishing a varied mix of skills, experience and outlook. Board members are screened for conflicts of interest and relationships with companies that do not meet our values and ethics. The Bank is committed to promoting equal opportunities in employment. As such, recruitment at all levels is without discrimination on any protected characteristic.

Principal Uncertainties

The Company has identified the following key uncertainties about events that could adversely impact the company:

Theme	Risk	Mitigation
Prolonged or worsening UK economic downturn	A prolonged and/or worsening UK macroeconomic downturn, due to a weaker than expected recovery from the COVID-19 pandemic, could result in a worse than expected credit performance	• Credit applications assessed in the light of potential stress scenarios. • Ability to flex credit policy • Regular monitoring to allow rapid response to signs of a worsening macro environment.
Major cyber or IT incident	A major cyber-attack or IT outage could prevent the Company providing its critical business services, leading to customer harm, loss of revenue and reputational damage	• Robust business continuity, disaster recovery and back-up arrangements • Ongoing information security threat monitoring, ensuring that counter-measures are up to date and effective.
Failure of a critical outsource provider or supplier	A failure or defect in an outsourced provider's performance of critical functions for the Company could cause service outages or customer detriment	• Initial and ongoing due diligence on all critical outsourcing providers including on business continuity, information security, data protection and customer treatment • Ensure service-level agreements and contracts are in place with providers together with effective monitoring to ensure services are delivered to the specified standards. • Identification and classification of important business services and impact tolerances.

The Directors believe that the Company is well positioned having obtained its full banking licence and launched its products, to continue to provide great value and service to its customers.

14 Remuneration

This remuneration disclosure is a requirement under Article 450 of the CRR. The following references the Bank's remuneration policies and practices for categories of staff whose professional activities have a material impact on the Bank's risk profile (Material Risk Takers ("MRTs")). MRTs include staff who hold Significant Management Functions ("SFs") as designated by the regulatory authorities.

The Bank's Nominations and Remuneration Committee is responsible for designing and implementing the reward structure of the Bank. The committee ensures that effective risk management is a key component of remuneration and incentive structures.

As a Bank with less than £15bn of assets, the Bank is classified as a "Level 3" firm, per PRA guidelines, with respect to proportionality of disclosures and is not subject to all remuneration requirements in the PRA Rulebook and FCA Handbook.

Approach to remuneration

The Bank's Remuneration Policy ensures that the Bank:

- sets fair and appropriate remuneration to attract, motivate and retain employees of high calibre;
- encourages behaviour consistent with the Bank's values;
- sets the right incentives, to promote and reward behaviour aligned with prudent risk management, positive customer outcomes and long-term strategy and success;
- remains compliant with regulatory and legislative requirements on remuneration;
- sets remuneration independently of gender, transgender identity or expression, ethnicity, religion or other belief, disability, sexual orientation or age or other unfair means of discrimination; and
- delivers remuneration that is affordable and appropriate.

Components of Remuneration

'Remuneration structure' refers to the overall package of compensation offered by the Bank, including base salaries, cash bonuses, overtime, options and equity, non-cash benefits, hiring bonuses, buy outs, severance packages and pensions. The Bank awards total remuneration comprising Fixed and Variable Remuneration.

Fixed Remuneration

Fixed remuneration constitutes the primary component of Remuneration. It should reflect the nature and responsibility of the position held, individual employee performance and market conditions.

Variable Remuneration

Variable Remuneration is a component of Remuneration that aims to incentivise behaviours and desired results; create an alignment between the rewards and risk exposure; and provide motivation and foster a performance driven culture.

For Material Risk Takers, performance related pay must assess performance based on:

- the performance of individuals, their business unit and the overall results of the company;
- measures directly linked to financial performance and non-financial measures such as risk awareness and management, customer experience and outcomes, team engagement, and individual behaviour as compared with the Bank's values; and
- control function input and adherence to the Bank's risk appetite and conduct rules

Non-executive directors must not receive variable pay.

The table below sets out the remuneration of the Bank's staff identified as MRTs and includes staff under the Senior Managers and Certification Regime (SMCR) and independent directors.

2020	Fixed Remuneration (£000)	Variable Remuneration (£000)	Total Remuneration (£000)
Cash based	3,013	62	**3,075**
Shares or share-linked[1] instruments	-	905	**905**
Total	**3,013**	**967**	**3,980**
Number of MRT employees			**23**

[1] For the purposes of Pillar 3 Disclosures all share-linked instruments are considered variable remuneration. The related figures disclosed, are in line with IFRS 2 to align with the cost of share-based plans recognised in the 2020 annual report and accounts.

None of the payments has been deferred. None of the staff members has received remuneration higher than £1m.

15 Disclosure omission rationale

CRR reference	High level summary	Omission rationale
441	Indicators of global systemic importance	The Bank is not classified as a G-SII
445	Exposure to market risk	The Bank does not have a trading book
452	Use of IRB approach to credit risk	The Bank assesses its Pillar 1 credit risk requirement under the Standardised Approach
454	Use of Advanced Measurement Approaches to Operational Risk	The Bank assesses its Operational risk under the Basic Indicator Approach
455	Use of internal market risk models	The Bank does not have any permissions to use internal models for exposures set out in Article 363

Appendix 1- Own Funds Disclosure Template

Own funds disclosure template		2020 (£m)	Regulation (EU) No 575/2013 article reference
Common Equity Tier 1 capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	192.3	26 (1), 27, 28, 29
	of which: ordinary share capital	192.3	EBA list 26 (3)
	of which: Instrument type 2	-	EBA list 26 (3)
	of which: Instrument type 3	-	EBA list 26 (3)
2	Retained earnings	(69.0)	26 (1) (c)
3	Accumulated other comprehensive income (and any other reserves)	4.3	26 (1)
3a	Funds for general banking risk	-	26 (1) (f)
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	-	486 (2)
5	Minority interests (amount allowed in consolidated CET1)	-	84
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-	26 (2)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**127.6**	**Sum of rows 1 to 5a**
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	(12.2)	36 (1) (b), 37, 472 (4)
9	Empty set in the EU	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-	36 (1) (c), 38
11	Fair value reserves related to gains or losses on cash flow hedges	-	33 (1) (a)
12	Negative amounts resulting from the calculation of expected loss amounts	-	36 (1) (d), 40, 159
12a	IFRS 9 transitional adjustment to CET	-	473a
13	Any increase in equity that results from securitised assets (negative amount)	-	32 (1)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	33 (1) (b)
15	Defined-benefit pension fund assets (negative amount)	-	36 (1) (e), 41
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	36 (1) (f), 42
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross-holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	36 (1) (g), 44
18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	36 (1) (h), 43, 45, 46, 49 (2) (3), 79

Own funds disclosure template		2020 (£m)	Regulation (EU) No 575/2013 article reference
18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	36 (1) (h), 43, 45, 46, 49 (2) (3), 79
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	36 (1) (I), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79
20	Empty set in the EU	-	
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	36 (1) (k)
20b	of which: qualifying holdings outside the financial sector (negative amount	-	36 (1) (k) (i), 89 to 91
20c	of which: securitisation positions (negative amount)	-	36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258
20d	of which: free deliveries (negative amount)	-	36 (1) (k) (iii), 379 (3)
21	Deferred tax assets arising from temporary difference (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount	-	36 (1) (c), 38, 48 (1) (a)
22	Amount exceeding the 15% threshold (negative amount)	-	48 (1)
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	36 (1) (i), 48 (1) (b)
24	Empty set in the EU	-	
25	of which: deferred tax assets arising from temporary difference	-	36 (1) (c), 38, 48 (1) (a)
25a	Losses for the current financial year (negative amount)	-	36 (1) (a)
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-	36 (1) (l)
27	(negative amount)	-	36 (1) (j)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(12.2)	Sum of rows 7 to 20a, 21, 22 and 25a to 27
29	**Common Equity Tier 1 (CET1) capital**	**115.4**	Row 6 minus row 28

Additional Tier 1 (AT1) capital: instruments

30	Capital instruments and the related share premium accounts	-	51, 52
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	-	486 (3)
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	-	85, 86
35	f which: instruments issued by subsidiaries subject to phase-out	-	486 (3)
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	-	Sum of rows 30, 33 and 34

	Own funds disclosure template	2020 (£m)	Regulation (EU) No 575/2013 article reference
	Additional Tier 1 (AT1) capital: regulatory adjustment		
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-	52 (1) (b), 56 (a), 57
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross-holdings with the institution designed to artificially inflate the own funds of the institution (negative amount)	-	56 (b), 58
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56 (c), 59, 60, 79
40	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56 (d), 59, 79
41	Empty set in the EU	-	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	56 (e)
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**-**	Sum of rows 37 to 42
44	**Additional Tier 1 (AT1) capital**	**-**	Row 36 minus row 43
45	**Tier 1 capital (T1 = CET1 + AT1)**	**115.44**	Sum of row 29 and row 44
	Tier 2 (T2) capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	**-**	62, 63
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	**-**	486 (4)
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party	**-**	87, 88
49	of which: instruments issued by subsidiaries subject to phase-out	**-**	486 (4)
50	Credit risk adjustment	**-**	62 (c) & (d)
51	**Tier 2 (T2) capital before regulatory adjustment**	**-**	

	Own funds disclosure template	2020 (£m)	Regulation (EU) No 575/2013 article reference
	Tier 2 (T2) capital: instruments and provisions		
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	63 (b) (i), 66 (a), 67
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross-holdings with the institutions designed to artificially inflate the own funds of the institution (negative amount)	-	66 (b), 68
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	66 (c), 69, 70, 79
55	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)	-	66 (d), 69, 79
56	Empty set in the EU	-	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	-	Sum of rows 52 to 56
58	**Tier 2 (T2) capital**	-	Row 51 minus row 57
59	**Total capital (TC = T1 + T2)**	**115.4**	Sum of row 45 and row 58
60	**Total risk-weighted assets**	**390.9**	
	Capital ratios and buffer		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	29.5%	92 (2) (a)
62	Tier 1 (as a percentage of total risk exposure amount)	29.5%	92 (2) (b)
63	Total capital (as a percentage of total risk exposure amount)	29.5%	92 (2) (c)
64	Institution-specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	7%	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	2.50%	
66	of which: countercyclical buffer requirement	0.0%	
67	of which: systemic risk buffer requirement		
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer		
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	6.3%	CRD 128
69	[non-relevant in EU regulation]	-	
70	[non-relevant in EU regulation]	-	
71	[non-relevant in EU regulation]	-	

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	Own funds disclosure template	2020 (£m)	Regulation (EU) No 575/2013 article reference
	Amounts below the thresholds for deduction (before risk-weighting)		
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	36 (1) (h), 45, 46, 56 (c), 59, 60, 66 (c), 69, 70
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	36 (1) (i), 45, 4
74	Empty set in the EU	-	
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold, net of related tax liability where the conditions in Article 38 (3) are met)	-	36 (1) (c), 38, 48
	Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap	-	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap	-	62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings based approach	-	62
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)		
80	- Current cap on CET1 instruments subject to phase-out arrangements	-	484 (3), 486 (2) & (5)
81	- Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	484 (3), 486 (2) & (5
82	-Current cap on AT1 instruments subject to phase-out arrangement	-	484 (4), 486 (3) & (5)
83	-Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	484 (4), 486 (3) & (5)
84	- Current cap on T2 instruments subject to phase-out arrangements	-	484 (5), 486 (4) & (5
85	-Amount excluded from T2 due to cap (excess over cap after redemptions and maturities	-	484 (5), 486 (4) & (5)